

## **PART 5**

### **TARGET COMPANY STATEMENT**

in relation to a takeover offer by El Dorado Research Ventures Limited, an indirect wholly-owned subsidiary of Emulex Corporation

**Date** 21 December 2012

**Contents**

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**Letter from Chairman of Independent Board..... 55**

**Target Company Statement (Takeovers Code disclosures) ..... 58**

**Appendix 1: Independent Adviser’s Report..... 80**

**Appendix 2: Class Report..... 124**

**Appendix 3: Endace’s half-yearly report for the six months ended  
30 September 2012 ..... 140**

# Letter from Chairman of Independent Board

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Dear Shareholder and Optionholder

On 6 December 2012, Endace Limited received a Takeover Notice from a subsidiary of Emulex Corporation, a US company listed on the New York Stock Exchange, in which Emulex states its intention to make a cash offer for the entire issued (and to be issued) share capital of this company at GBP 5.00 per share. We have now received a formal offer from Emulex and that offer is being sent to all shareholders and optionholders, together with a Target Company Statement in response to Emulex's offer. This letter forms part of that Statement.

The Target Company Statement includes certain statutory disclosures required by the New Zealand Takeovers Code and an Independent Adviser's Report, prepared by Grant Samuel. You should read that Report and the Target Company Statement carefully before reaching a decision whether to accept the offer.

## Key features of the offer

- A price of GBP 5.00 cash per share, representing (together with the price payable for options) approximately GBP 80.7 million, or NZ\$157 million, for the entire company.
- A minimum acceptance condition of 90%, meaning that Emulex must receive acceptances of 90% or more from Endace's shareholders for the takeover to proceed (this condition can be waived at the discretion of Emulex).
- A cash price for each option calculated as GBP 5.00 less the relevant exercise price payable by the optionholder to convert that option to a share.
- The offer is conditional on consent from the Overseas Investment Office.

The full terms and conditions of the offer are contained in Emulex's Offer Document which accompanies the Target Company Statement. You should read that document in its entirety and if you have any questions you should seek the assistance of a lawyer or financial adviser.

## Background to the offer

Endace is a New Zealand company whose network data capture technology grew out of a research project in the 1990s at University of Waikato, Hamilton directed by Dr Ian Graham, at that time Dean of the School of Computing and Mathematical Sciences. Once it became apparent that the resulting DAG ("Data Acquisition and Generation") cards had a commercial application, Endace Technology Limited was founded in 2001 and sales developed rapidly. By June 2005 the need for external capital was met by successfully floating Endace Limited on the AIM section of the London Stock Exchange at a price of GBP 1.62 per share; at that point some 65% of Endace's equity was taken up by London-based shareholders.

The past seven-and-a-half years as a public company have seen some remarkable achievements for Endace. We have built a top-tier and loyal client base, to whom our sales have grown approximately tenfold, we have established offices in the US, Europe and Australia, we have increased our headcount approximately fourfold and our total number of employees now stands at 188. The core of our platform and appliance solutions today remains the ability to capture and then analyse data on networks at high speeds with zero packet loss. In 2005, we offered DAG cards which achieved this at significantly less than 1Gb/second. Today our solutions perform the same task at up to 100Gb/second, a feat unmatched by any of our competitors. As one who has been involved in Endace since the AIM float, I am enormously proud of the company's progress.

Nonetheless, it has become clear to your Board that the further development of Endace as an independent company will be subject to many challenges, not least in the United States, by far the largest current and prospective market for our offerings. In recent years we have been investing heavily in the development of our own sales and support channels and the task is by no means complete. For this reason we decided some time ago to consider whether the future of the company might be better served as part of a larger technology organisation, with its own distribution and

improved access to markets which we have found difficult to penetrate. As a relatively small independent technology company competing in a large and growing market, joining forces with Emulex makes excellent sense.

#### **Founders and major shareholder support**

The three founders of Endace – Dr Ian Graham, Selwyn Pellett and Neil Richardson – are supportive of the offer; Ian Graham and his family interests have committed to accept the offer immediately.

The Board's other directors who are shareholders – myself, Mark Rowan and Mike Riley – have stated that we will accept the offer.

Endace's institutional shareholders in London and elsewhere have indicated strong support for the offer and a number have already entered into irrevocable agreements to accept the offer.

#### **The Board's recommendations and the Independent Directors' intentions – ACCEPT**

Ian Graham is today Chairman of Endace and remains a substantial shareholder in the company. By virtue of this shareholding, he is deemed non-independent and in order to consider the Emulex offer we constituted an independent Sub-Committee of which I am the Chair and whose membership comprises all five of the independent directors. This Sub-Committee is charged with advising the full Board on the merits of the Emulex offer.

**Subject to there being no higher offer for us to consider, it is the unanimous recommendation of the Board of Endace – which has been advised in this by the independent Sub-Committee – that the offer from Emulex should be accepted by all shareholders and optionholders, as indeed all the Directors who have personal share or option holdings in the company are doing in connection with these holdings.**

#### **Assessment of the offer**

In reaching this conclusion, we have considered the following main aspects of the offer:

1. ***The offer price***

Emulex have offered GBP 5.00 per share, representing a 65% premium to the closing price immediately before Emulex announced its intention to make the offer. By almost every valuation metric, this is a good offer and is 15% above the top end of the range calculated by the independent advisers, Grant Samuel.

2. ***The consideration***

Emulex will purchase Endace's shares and options for cash.

3. ***Emulex as a future owner of Endace***

Your Board believes that Emulex will be an excellent owner of Endace. They have taken a great deal of trouble to understand and validate our technology, to work out how they will harness it in the future and to create a road map for their own product offerings in which Endace plays a major role. Furthermore, with its existing distribution channels in the US and elsewhere, Emulex is better placed to develop sales of Endace products than we are as a relatively small independent and non-US entity.

4. ***Prospects for Endace's employees***

Emulex plans to maintain Endace's brand, and have made it clear that they place great value on Endace's employees around the world. In particular, Emulex have made commitments to maintain and grow Endace's R&D operations in New Zealand, and support Endace's strategy to create an International Centre of Excellence for Intelligent Network Monitoring and Recording in New Zealand.

5. **Support from shareholders**

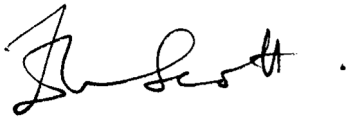
The Emulex offer has already attracted indications of support from our shareholders, several of whom have entered into commitments to accept the offer.

6. **Recent shareholder changes**

Your attention is drawn to the fact that Elliot International, L.P., Liverpool Limited Partnership ("Elliott") has recently acquired a 9.65 per cent. stake in Endace. Elliott and its affiliates collectively are also the largest shareholder in Emulex Corporation.

The Offer closes on 29 January 2013, but you are encouraged to submit your acceptance promptly upon receipt of the offer document which accompanies this Target Company Statement. Initial indications from shareholders indicate strong support for the offer from Emulex and I invite all shareholders and optionholders to signify their acceptance at their earliest convenience.

Yours faithfully

A handwritten signature in black ink, appearing to read "John Scott", followed by a period.

John Scott

# Target Company Statement (Takeovers Code disclosures)

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## 1. Date

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This target company statement (**Target Company Statement**) is dated 21 December 2012.

## 2. Offer

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- 2.1 This Target Company Statement relates to a full takeover offer (the **Offer**) by Emulex to purchase all of:
- (a) the ordinary shares (**Endace Shares**) in Endace for a purchase price of GBP 5.00 per Endace Share, payable in cash;
  - (b) the options to acquire Endace Shares (**Endace Options**) issued to employees or directors of Endace or any of its subsidiaries pursuant to the Endace Share Scheme for a purchase price payable in cash. The purchase price payable for an Endace Option is GBP 5.00 less the relevant exercise price payable by the Optionholder to convert that Endace Option to an Endace Share pursuant to the terms of that Endace Option.<sup>1</sup>
- 2.2 The terms of the Offer are set out in the offer document dated 21 December 2012 (the **Offer Document**), which accompanies this Target Company Statement.

## 3. Target company

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The name of the target company is Endace Limited.

## 4. Directors of Endace

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The names of the directors of Endace are:

- (a) Dr. Ian David Greenwood Graham;
- (b) Mr. John Philip Henry Schomberg Scott;
- (c) Mr. Mark Terrence Giles;
- (d) Mr. Michael Desmond Riley;
- (e) Mr. Mark Derrick Ranulph Rowan;
- (f) Mr. Clayton Gordon Wakefield; and
- (g) Mr. Simon Baxter Wilson.

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<sup>1</sup> If the exercise price payable by an Optionholder to convert an Endace Option to an Endace Share pursuant to the terms of that Endace Option is equal to, or greater than, £5.00, the purchase price payable for that Endace Option is zero.

## 5. Ownership of equity securities of Endace

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- 5.1 Schedule 1 to this Target Company Statement sets out the number and the percentage of equity securities of any class of Endace held or controlled by each director or senior officer<sup>2</sup> of Endace (a **Director** or **Senior Officer**, respectively) or their associates. Except as set out in Schedule 1 to this Target Company Statement, no other Director or Senior Officer or their associates holds or controls equity securities of any class of Endace.
- 5.2 Schedule 2 to this Target Company Statement sets out the number and the percentage of equity securities of any class of Endace held or controlled by any other person holding or controlling 5% or more of the class, to the knowledge of Endace. Except as set out in Schedule 2 to this Target Company Statement, to the knowledge of Endace, no other person holds or controls 5% or more equity securities of any class of Endace.
- 5.3 Schedule 3 to this Target Company Statement sets out the number of equity securities of Endace that have, during the two-year period ending on the date of this Target Company Statement, been issued to the Directors, Senior Officers or their associates, together with the price at which any such equity securities were issued.
- 5.4 No Director, Senior Officer or his or her associates has, during the two-year period ending on the date of this Target Company Statement, obtained a beneficial interest under any employee share scheme or other remuneration arrangement.<sup>3</sup>

## 6. Trading in Endace equity securities

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- 6.1 Details of the acquisition or disposition of equity securities of Endace during the six-month period ending on 19 December 2012 (being the latest practicable date before the date of this Target Company Statement) by Directors, Senior Officers or their associates and any person holding or controlling 5% or more of equity securities of any class of Endace are set out in Schedule 4.
- 6.2 Except as set out in Schedule 4, no Director, Senior Officer or associate of a Director or Senior Officer or, to the knowledge of Endace, any person holding or controlling 5% or more of equity securities of any class of Endace has acquired or disposed of equity securities of Endace during the six-month period ending on 19 December 2012 (being the latest practicable date before the date of this Target Company Statement).

## 7. Acceptance of Offer

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- 7.1 The Directors and Senior Officers listed in the table below have advised that they (or their associates) intend to accept the Offer in respect of the number of equity securities of Endace listed in that table.<sup>4</sup>

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<sup>2</sup> The Senior Officers for the purposes of this Target Company Statement are: Michael Riley (Chief Executive Officer), Stuart Wilson (Chief Technology Officer), Spencer Greene (Senior VP Product Management and Marketing), Neil Livingston (Chief Product Officer), Chris Komatas (VP Operations), Michael Kelley (VP Global Services) and Kate Parsons (Chief Financial Officer).

<sup>3</sup> Directors and Senior Officers are not regarded in this Target Company Statement as obtaining such a beneficial interest as a result of holding Endace Options. Rather, Endace Options held by Directors and Senior Officers are included in Schedule 1 to this Target Company Statement and Schedule 3 to this Target Company Statement.

<sup>4</sup> None of Mark Giles, Clayton Wakefield and Simon Wilson, holds any equity securities of Endace.

Name	Description	Class of equity security	Number of equity securities
Ian Graham <sup>5</sup>	Director	Endace Shares	1,133,705
John Scott	Director	Endace Shares	131,110
Michael Riley	Director and Senior Officer (Chief Executive Officer)	Endace Shares	2 <sup>6</sup>
		Option Class 3	95,000
		Option Class 4	55,000
		Option Class 10	443,953
Mark Rowan	Director	Endace Shares	323,459 <sup>7</sup>
Stuart Wilson	Senior Officer (Chief Technology Officer)	Endace Shares	10,000
		Option Class 3	25,000
		Option Class 5	83,107
		Option Class 20	40,000
Neil Livingston	Senior Officer (Chief Product Officer)	Option Class 15	100,000
Chris Komatas	Senior Officer (VP Operations)	Option Class 18	50,000
		Option Class 21	50,000
Michael Kelley	Senior Officer (VP Global Services)	Option Class 9	30,000
		Option Class 12	20,000
Kate Parsons	Chief Financial Officer	Option Class 13	5,000
		Option Class 19	5,000
		Option Class 23	90,000

- 7.2 Each of Dr. Ian Graham and Mr. Michael Riley has entered into an agreement with Emulex in relation to his intention to accept the Offer, which agreements are described in paragraphs 13.2 and 13.3 below.
- 7.3 Each of Mr. John Scott and Mr. Mark Rowan has provided certain confirmations to Emulex in relation to his intention to accept the Offer, which confirmations are described in paragraph 13.4 below.

## 8. Ownership of equity securities of Emulex Corporation

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None of Endace, any Director, any Senior Officer or any of their associates holds or controls any equity securities of Emulex Corporation.

## 9. Trading in equity securities of Emulex Corporation

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None of Endace, any Director, any Senior Officer or any of their associates has acquired or disposed of any equity securities of Emulex Corporation during the six-month period before 19 December 2012 (being the latest practicable date before the date of this Target Company Statement).

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<sup>5</sup> Held jointly with Mary Agnes Lehar-Graham.

<sup>6</sup> One of the two Endace Shares is held by Jenny Riley, an associate of Michael Riley.

<sup>7</sup> 50,000 of the Endace Shares are held by Katharine Rowan, an associate of Mark Rowan.



## 10. Arrangements between Emulex and Endace

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- 10.1 Except as set out in paragraphs 10.2 to 10.4 below, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Emulex or any associate of Emulex and Endace or any related company of Endace, in connection with, in anticipation of, or in response to, the Offer.

### **Emulex intentions for Endace**

- 10.2 Emulex has advised Endace of its intentions to ensure business continuity for Endace. The following outlines Emulex's intentions (as outlined by Emulex in the Offer Document):
- (a) to retain and enhance the existing Endace brand and businesses in New Zealand;
  - (b) to support and enhance the direction of Endace's existing business strategy;
  - (c) to retain Endace's office in New Zealand;
  - (d) to support the employment policies of Endace and to exert its best efforts to retain its key personnel consistent with business needs;
  - (e) to retain in New Zealand the existing Endace research and development activities, including the promotion of Endace in New Zealand as an International Centre of Excellence for ongoing research and development into Intelligent Network Monitoring and Recording; and
  - (f) to retain and respect the organisational culture, history and achievements of Endace.

### **Mutual Confidentiality and Exclusivity Agreement**

- 10.3 Emulex Corporation and Endace entered into a Mutual Confidentiality and Exclusivity Agreement dated 17 September 2012, as amended by the Addendum to that agreement dated 5 November 2012, under which:

- (a) Endace agreed to disclose information for the purposes of Emulex Corporation evaluating the proposal to purchase the Endace Shares; and
- (b) Emulex Corporation agreed not to disclose any such information,

and which contained various exclusivity commitments. These exclusivity commitments have expired.

### **Letter Agreement**

- 10.4 Emulex Corporation, Endace and the Independent Board entered into a Letter Agreement dated 6 December 2012 under which:

- (a) in consideration for Emulex sending the Takeover Notice, Endace agrees not to solicit or initiate an alternative proposal, subject to the Directors being able to comply with legal and fiduciary obligations, including responding to an alternative proposal and engaging with a person making a *bona fide* alternative proposal;
- (b) the Independent Board confirms that:
  - (i) it is supportive of the Offer; and
  - (ii) subject to the Offer Price being within or above the valuation range of the Independent Adviser's Report, they shall recommend to the Shareholders that they accept the Offer;
- (c) in the event that a Competing Offer is made, the Independent Board has granted Emulex the right to "match" the higher offer before ceasing to recommend the Offer to shareholders;

- (d) in the event that:
  - (i) a Competing Offer is made:
    - (A) during the Offer Period; or
    - (B) within three months of closure of the Offer Period,and the Competing Offer is declared unconditional; or
  - (ii) there is a material breach of the Letter Agreement,

Endace agrees to reimburse Emulex Corporation for its reasonable costs and expenses incurred by Emulex Corporation in connection with the Offer. Any such amount payable may be set off against monies payable by Emulex to Endace under Rule 49(2) of the Takeovers Code, and the amount to be reimbursed by Endace, after the setting off, is agreed to be U.S.\$1,000,000;

- (e) Emulex Corporation is obliged to use all reasonable endeavours to procure the satisfaction of conditions relating to consent under the Overseas Investment Act 2005 and from the New Zealand Science and Innovation Group of the Ministry of Business Innovation and Employment in respect of certain financial grants; and
- (f) each member of the Independent Board agrees to resign from Endace and its related companies within three business days of the consideration under the Offer having been first sent to Shareholders.

## **11. Relationship between Emulex, and directors and officers of Endace**

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- 11.1 Except for the agreement summarised in paragraph 10.4 above, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Emulex or any associates of Emulex, and any Director, Senior Officer or any director or senior officer of any related company of Endace (including any payment or other benefit proposed to be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office) in connection with, in anticipation of, or in response to, the Offer.
- 11.2 No Director or Senior Officer is also a director or senior officer of Emulex or any related company of Emulex.

## **12. Agreement between Endace, and directors and officers of Endace**

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- 12.1 Except as set out in paragraphs 12.2 and 12.3 below, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Endace or any related company of Endace, and any Director, Senior Officer or their associates or any director or senior officer of any related company of Endace, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Offer.

### **Appointment Letter as Non-Executive Director**

- 12.2 Endace and Mr. Simon Wilson entered into an Appointment Letter as Non-Executive Director of Endace dated 14 June 2012 under which Mr. Wilson is entitled to a termination payment on a change of control of Endace occurring during the period in which he remains a Director equal to 50% of his annual fee rate, which rate is currently US\$60,000.

### **Company Sale Incentive Letter**

- 12.3 Endace and Mr. Spencer Green entered into a Company Sale Incentive Letter dated 3 May 2012 under which if there is a successful sale of Endace in its entirety, Mr. Green is entitled to a sale incentive calculated as the Offer Price less GBP 4.45, multiplied by 100,000 (which equals GBP 55,000).

## **13. Interests of directors and officers of Endace in contracts of Emulex or related company**

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- 13.1 Except as set out in paragraphs 13.2 to 13.4 below, no Director, Senior Officer or any of their associates has an interest in any contract to which Emulex, or any related company of Emulex, is a party.

### **Dr. Ian Graham Lock-Up Agreement**

- 13.2 Emulex, and Dr. Ian Graham and Mrs. Mary Agnes Lehar-Graham (together, the **Grahams**) entered into a Lock-Up Agreement dated 6 December 2012 under which:
- (a) Emulex, subject to paragraph 13.2(b) below, agrees to make the Offer, by 21 December 2012;
  - (b) the Grahams agree not to dispose or deal in their Endace Shares otherwise than as contemplated in the Lock-Up Agreement;
  - (c) the Grahams agree to accept the Offer once made; and
  - (d) the obligation to accept the Offer is conditional on the Offer Price being not below the bottom of the valuation range of the Independent Adviser's Report.

### **Mr. Michael Riley Lock-Up Agreement**

- 13.3 Emulex and Mr. Michael Riley entered into a Lock-Up Agreement dated 6 December 2012 under which:
- (a) Emulex, subject to paragraph 13.3(b) below, agrees to make the Offer, by 21 December 2012;
  - (b) Mr. Riley agrees not to dispose or deal in his Endace Options otherwise than as contemplated in the Lock-Up Agreement;
  - (c) Mr. Riley agrees to accept the Offer once made; and
  - (d) the obligation to accept the Offer is conditional on the Offer Price being not below the bottom of the valuation range of the Independent Adviser's Report.

### **Letters from Mr. John Scott and Mr. Mark Rowan**

- 13.4 Each of Mr. John Scott and Mr. Mark Rowan has confirmed by letter to the board of Emulex that he will use all reasonable efforts to accept or procure acceptance of the Offer for 131,110 Endace Shares and 323,459 Endace Shares, respectively, subject to:
- (a) the Offer Price being not below the bottom of the valuation range of the Independent Adviser's Report;
  - (b) the Offer being completed before 31 March 2013; and
  - (c) no other *bona fide* offer being received in excess of the Offer Price.

## 13A. Interests of Endace's substantial security holders in material contracts of Emulex or related company

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13A.1 Except as set out in paragraph 13A.2 below, no person who, to the knowledge of the Directors or the Senior Officers, holds or controls 5% or more of any class of equity securities of Endace has an interest in any material contract to which Emulex, or any related company of Emulex, is a party.

### **Hargreave Hale Institutional Irrevocable Undertaking Deed**

13A.2 Hargreave Hale Limited (on behalf of Marlborough Fund Managers) (**Hargreave Hale**) provided to Emulex an Institutional Irrevocable Undertaking Deed dated 5 December 2012 under which:

- (a) Hargreave Hale agrees not to dispose or deal in its Endace Shares otherwise than as contemplated in the Institutional Irrevocable Undertaking Deed;
- (b) Hargreave Hale agrees to accept the Offer once made; and
- (c) the obligation to accept the Offer is conditional on Emulex making the Offer by 21 December 2012 and there being no superior offer (in particular, an offer for all the Endace Shares with an offer price at least 10% greater than the Offer).

## 14. Additional information

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In the opinion of the Directors, no additional information, within the knowledge of Endace, is required to make the information in the Offer Document correct or not misleading.

## 15. Recommendation

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### **Independent Board**

- 15.1 The board of Directors has appointed a committee of directors (the **Independent Board**) to attend to all matters associated with the Offer. That committee comprises Mr. John Scott, Mr. Mark Giles, Mr. Mark Rowan, Mr. Clayton Wakefield and Mr. Simon Wilson.
- 15.2 Dr. Ian Graham, as the holder or controller, together with his associates, of 1,133,705 Endace Shares, has a potential conflict of interest in respect of the Offer and therefore is not a member of the committee.
- 15.3 Mr. Michael Riley, being the Chief Executive Officer of Endace, also has a potential conflict of interest in respect of the Offer, and therefore is not a member of the committee.
- 15.4 Subject to there being no higher offer for the board of Directors to consider, it is the unanimous recommendation of the board of Directors, which has been advised in this by the Independent Board, that the Offer should be accepted by all Shareholders and Optionholders. In reaching this conclusion, the board of Directors has considered the following main aspects of the Offer:

### **The Offer Price**

- (a) Emulex has offered GBP 5.00 per Endace Share, representing a 65% premium to the closing price immediately before Emulex announced its intention to make the Offer. By almost every valuation metric, this is a good offer and is 15% above the top end of the range calculated by the independent advisers, Grant Samuel.

### **The consideration**

- (b) Emulex will purchase the Endace Shares for cash.

**Emulex as a future owner of Endace**

- (c) The board of Directors believes that Emulex will be an excellent owner of Endace. Emulex has taken a great deal of trouble to understand and validate Endace's technology, to work out how Emulex will harness it in the future and to create a road map for Emulex's own product offerings in which Endace plays a major role. Furthermore, with Emulex's existing distribution channels in the United States and elsewhere, Emulex is better placed to develop sales of Endace products than Endace is as a relatively small independent and non-United States entity.

**Prospects for Endace's employees**

- (d) Emulex plans to maintain Endace's brand, and has made it clear that Emulex places immense value on Endace's employees around the world. In particular, Emulex has made commitments to maintain and grow Endace's research and development operations in New Zealand, and support Endace's strategy to create an International Centre of Excellence for Intelligent Network Monitoring and Recording in New Zealand.

**Support from shareholders**

- (e) The Offer has already attracted indications of support from Shareholders, several of whom have entered into commitments to accept the Offer.

**16. Actions of Endace**

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- 16.1 Except for the arrangements summarised in paragraphs 10 and 12, there are no material agreements or arrangements (whether legally enforceable or not) of Endace or its related companies entered into as a consequence of, in response to, or in connection with, the Offer.

**No negotiations underway**

- 16.2 There are no negotiations underway as a consequence of, in response to, or in connection with, the Offer that relate to, or could result in:
- (a) an extraordinary transaction, such as a merger, amalgamation or reorganisation, involving Endace or any of its related companies;
  - (b) the acquisition or disposition of material assets by Endace or any of its related companies;
  - (c) an acquisition of equity securities by, or of, Endace or any related company of Endace; or
  - (d) any material change in the equity securities on issue, or policy relating to distributions, of Endace.

**17. Equity securities of Endace**

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**Endace Shares**

- 17.1 There are currently 15,220,068 Endace Shares on issue. These are fully paid. Subject to certain conditions in Endace's constitution, each Share confers on the holder the right to:
- (a) an equal share in the distribution of surplus assets of Endace on a per Endace Share basis;
  - (b) participate in certain further issues of equity securities by Endace;
  - (c) an equal share in dividends authorised by the board of Directors on a per Endace Share basis; and

- (d) cast one vote on a show of hands (in respect of all Endace Shares held by the relevant Shareholder), or one vote on a poll (for each Endace Share held), at a meeting of the Shareholders on any resolution, including any resolution to:
  - (i) appoint or remove a director or auditor;
  - (ii) alter Endace's constitution;
  - (iii) approve a major transaction;
  - (iv) approve an amalgamation of Endace under section 221 of the Companies Act 1993; and
  - (v) put Endace into liquidation.

### **Endace Options**

- 17.2 There are currently 1,789,769 Endace Options on issue. The options confer no rights in respect of capital, distributions or voting, other than the right to acquire Endace Shares which, if acquired, will have the rights attaching to Endace Shares referred to in paragraph 17.1 above. The material terms of the Endace Options are set out in Schedule 5.

## **18. Financial information**

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- 18.1 Each person to whom the Offer is made is entitled to obtain from Endace a copy of Endace's most recent annual report (being the annual report for the year ended 31 March 2012) by making a written request to:

The Company Secretary  
 Endace Limited  
 Level 2, Building A  
 The Millennium Building  
 Phase 2  
 600 Great South Road  
 Ellerslie  
 Auckland 1051  
 New Zealand

- 18.2 A copy of the annual report is also available on Endace's website at [www.endace.com](http://www.endace.com).
- 18.3 A copy of Endace's most recent half-yearly report since the annual report referred to in paragraph 18.1 above, (being the half-yearly report for the six months ended 30 September 2012), is appended to this Target Company Statement as Appendix 3.
- 18.4 No interim report has been issued by Endace since the issue of the half-yearly report referred to in paragraph 18.3 above.
- 18.5 Other than as set out in Endace's most recent half-yearly report, there have been no material changes in the financial or trading position, or prospects, of Endace since its 31 March 2012 annual report.
- 18.6 Other than as set out elsewhere in this Target Company Statement, or as contained in the Independent Adviser's Report or the Class Report:
- (a) there have been no known material changes in the financial or trading position, or prospects, of Endace since the 31 March 2012 annual report; and
  - (b) there is no other information about the assets, liabilities, profitability and financial affairs of Endace that could reasonably be expected to be material to the making of a decision by Shareholders or Optionholders to accept or reject the Offer.

## 19. Independent advice on merits of Offer

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Grant Samuel is the independent adviser who has provided a report under Rule 21 of the Takeovers Code (the **Independent Adviser's Report**). A copy of the Independent Adviser's Report is appended to this Target Company Statement as Appendix 1.

### 19A. Different classes of securities

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19A.1 The Takeovers Code requires Emulex to obtain a report from an independent adviser to certify that the consideration and terms offered for the Endace Options are fair and reasonable in comparison with the consideration and terms offered for Endace Shares and as between classes of Endace Options.

19A.2 Emulex has obtained an independent adviser's report under Rule 22 of the Takeovers Code from Taylor Duignan Barry Limited (the **Class Report**). A copy of the Class Report is appended to this Target Company Statement as Appendix 2.

## 20. Asset valuations

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No information provided in this Target Company Statement refers to a valuation of any asset of Endace.

## 21. Prospective financial information

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21.1 The Independent Adviser's Report contains prospective financial information in relation to Endace. The principal assumptions on which the prospective financial information is based are set out in the Independent Adviser's Report.

21.2 Other than the prospective financial information referred to in paragraph 21.1 above, this Target Company Statement does not refer to any other prospective financial information about Endace.

## 22. Sales of unquoted equity securities under Offer

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22.1 The Endace Options are not quoted on AIM.

22.2 No Endace Options have been disposed of during the 12 month period ending on 19 December 2012 (being the latest practicable date before the date of this Target Company Statement) other than the forfeiture of 126,000 Endace Options following the relevant Optionholders leaving the employment of the Endace group. No consideration was paid in respect of these Endace Options.

## 23. Market prices for quoted equity securities under Offer

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23.1 The Endace Shares are quoted on AIM.

23.2 The closing price on AIM of Endace Shares on:

- (a) 19 December 2012, being the latest practicable working day before the date on which this Target Company Statement was sent by Endace, was GBP 4.80; and
- (b) 5 December 2012, being the last day on which AIM was open for business before the Notice Date, was GBP 3.025.

- 23.3 The highest and lowest closing market prices of Endace Shares on AIM (and the relevant dates) during the six months before the Notice Date, were as follows:
- (a) the highest closing market price was GBP 3.80 (on 11 June 2012); and
  - (b) the lowest closing market price was GBP 2.775 (on each of 5 October 2012 and 8 October 2012).
- 23.4 During the six month period before the Notice Date, Endace did not issue any equity securities, make any changes to any equity securities on issue or make any distributions that could have affected the market prices of Endace Shares referred to in paragraphs 23.2 and 23.3 above.
- 23.5 There is no other information about the market price of the equity securities of Endace that would reasonably be expected to be material to the making of a decision by holders of such equity securities to accept or reject the Offer.

## 24. Other information

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- 24.1 The following information is considered by Endace to be information that could reasonably be expected to be material to the making of a decision by the holders of equity securities of Endace as to whether to accept or reject the Offer, and the timing of the giving of any acceptance:
- (a) the terms of the Offer state that, once given, acceptances may not be withdrawn by acceptors unless Emulex fails to pay acceptors in accordance with the Takeovers Code;
  - (b) if Emulex increases the price of the Offer, Emulex must provide the increased price to all holders of equity securities of Endace whose equity securities are acquired under the Offer, whether or not the holder accepted the Offer before or after the price was increased; and
  - (c) the board of Directors has, on 27 November 2012, exercised its discretion under the Scheme Rules to alter the period during which an Optionholder may exercise some or all of its Endace Options where a Takeover or Business sale is proposed to occur. In particular, the board of Directors has resolved that, if a Takeover or Business sale occurs:
    - (i) all Standard Endace Options become exercisable (to the extent not already exercisable); and
    - (ii) the final cut-off date for the exercise of all Endace Options (i.e., both Accelerated Endace Options and Standard Endace Options) is the date falling 10 days after the Takeover or Business sale occurs<sup>8</sup>, failing which unexercised Endace Options will expire and automatically be cancelled.

## 25. Approval of this Target Company Statement

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- 25.1 The contents of this Target Company Statement have been approved by the Independent Board, which has been delegated with authority by the board of Directors to do so.
- 25.2 As disclosed in paragraph 15, the other Directors (Dr. Ian Graham and Mr. Michael Riley) are not members of the Independent Board because each of them has a potential conflict of interest in respect of the Offer. As a result, they have not formally approved this Target Company Statement.

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<sup>8</sup> In the context of the Offer, a Takeover occurs on the date on which the Offer becomes unconditional.



## 26. Interpretation

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26.1 In this Target Company Statement:

**Accelerated Endace Options** has the meaning given to it in Schedule 5;

**AIM** means the AIM market in London operated by London Stock Exchange plc;

**Business sale** means substantially all of Endace's business is purchased by a third party (or a group of associated third parties) not associated with persons who are shareholders prior to the purchase;

**Class Report** has the meaning given to it in paragraph 19A.2 of this Target Company Statement;

**Competing Offer** means a cash offer at a price greater than the Offer Price;

**Directors** means the directors of Endace;

**Endace** means Endace Limited, a company incorporated in New Zealand with company number 1517930 and having its registered office at Level 2, Building A, The Millennium Building, Phase 2, 600 Great South Road, Ellerslie, Auckland 1051, New Zealand;

**Endace Share Scheme** means the Endace Limited Employee Share Scheme No. 1 established on 23 December 2004, as amended from time to time;

**Emulex** means El Dorado Research Ventures Limited, a company incorporated in New Zealand with company number 4116578 and having its registered office at Level 7, 36 Brandon Street, Wellington 6011, New Zealand;

**Emulex Corporation** means Emulex Corporation, a company incorporated in the State of Delaware and having its principal executive offices at 3333 Susan Street, Costa Mesa, California, United States;

**GBP** means pounds sterling;

**Independent Adviser's Report** has the meaning given to it in paragraph 19 of this Target Company Statement;

**Independent Board** has the meaning given to it in paragraph 15 of this Target Company Statement;

**Notice Date** means 6 December 2012, being the date on which Endace received the Takeover Notice;

**Offer** means the full takeover offer by Emulex to purchase all of:

- (a) the Endace Shares for a purchase price of GBP 5.00 per Endace Share, payable in cash; and
- (b) the Endace Options for a purchase price payable in cash (with the purchase price payable for an Endace Option being GBP 5.00 less the relevant exercise price payable by the Optionholder to convert that Endace Option to an Endace Share pursuant to the terms of that Endace Option<sup>9</sup>);

**Offer Document** means the offer document dated 21 December 2012, being Parts 1 to 4 of the document accompanying this Target Company Statement;

**Offer Period** means the offer period (as defined in the Takeovers Code) of the Offer;

**Offer Price** means the offer price of GBP 5.00 per Endace Share pursuant to the Offer;

**Option Class** means a class of Endace Options, each as described in Schedule 5;

**Optionholders** means the holders of Endace Options that are the subject of the Offer by Emulex;

**Scheme Rules** has the meaning given to it in Schedule 5;

**Shareholders** means the holders of Endace Shares that are the subject of the Offer by Emulex;

**Standard Endace Options** has the meaning given to it in Schedule 5;

**Takeover** means 50% or more of Endace's voting shares are purchased by a third party (or a group of associated third parties) not associated with persons who are shareholders prior to the purchase;

**Takeovers Act** means the New Zealand Takeovers Act 1993;

**Takeovers Code** means the New Zealand Takeovers Code approved by the Takeovers Code Approval Order 2000 (as amended);

**Takeover Notice** means the notice given by Emulex to Endace pursuant to rule 41 of the Takeovers Code; and

**US\$** means United States dollars.

26.2 Words and expressions defined in the Takeovers Act or the Takeovers Code and not otherwise defined in this Target Company Statement have the same meaning when used in this Target Company Statement.

## 27. Certificate

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To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by Endace under the Takeovers Code.

### SIGNATURES



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John Scott  
Director



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Clayton Wakefield  
Director



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Michael Riley  
Chief Executive Officer



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Kate Parsons  
Chief Financial Officer

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<sup>9</sup> If the exercise price payable by an Optionholder to convert an Endace Option to an Endace Share pursuant to the terms of that Endace Option is equal to, or greater than, GBP 5.00, the purchase price payable for that Endace Option is zero.

## Schedule 1: Equity securities of any class of Endace held or controlled by Directors and Senior Officers (paragraph 5.1)<sup>10</sup>

Name	Description	Class of equity security or total Options	Number of equity securities held or controlled	Percentage of class or total number of Options <sup>11</sup>
Ian Graham <sup>12</sup>	Director	Endace Shares	1,133,705	7.45%
John Scott	Director	Endace Shares	131,110	0.86%
Michael Riley	Director and Senior Officer (Chief Executive Officer)	Endace Shares	2 <sup>13</sup>	0.00%
		Option Class 3	95,000	71.61%
		Option Class 4	55,000	100%
		Option Class 10	443,953	100%
		Total Options	593,953	33.19%
Mark Rowan	Director	Endace Shares	323,459 <sup>14</sup>	2.13%
Stuart Wilson	Senior Officer (Chief Technology Officer)	Endace Shares	10,000	0.07%
		Option Class 3	25,000	18.84%
		Option Class 5	83,107	100%
		Option Class 20	40,000	60.15%
		Total Options	148,107	8.28%
Neil Livingston	Senior Officer (Chief Product Officer)	Option Class 15	100,000	82.99%
		Total Options	100,000	5.59%
Chris Komatas	Senior Officer (VP Operations)	Option Class 18	50,000	100%
		Option Class 21	50,000	40.72%
		Total Options	100,000	5.59%
Michael Kelley	Senior Officer (VP Global Services)	Option Class 9	30,000	40.82%
		Option Class 12	20,000	14.13%
		Total Options	50,000	2.79%
Kate Parsons	Senior Officer (Chief Financial Officer)	Option Class 13	5,000	29.41%
		Option Class 19	5,000	71.43%
		Option Class 23	90,000	100%
		Total Options	100,000	5.59%

<sup>10</sup> This information is taken from responses to questionnaires circulated to Directors and Senior Officers by Endace.

<sup>11</sup> Rounded to two decimal places where necessary.

<sup>12</sup> Held jointly with Mary Agnes Lehar-Graham.

<sup>13</sup> One of the two Endace Shares is held by Jenny Riley, an associate of Michael Riley.

<sup>14</sup> 50,000 of the Endace Shares are held by Katharine Rowan, an associate of Mark Rowan.

**Schedule 2: Persons (other than Directors and Senior Officers) holding or controlling more than 5% of equity securities of any class of Endace (paragraph 5.2)<sup>15 16</sup>**

Name	Description	Class of equity security or total Options	Number of equity securities held or controlled	Percentage of class or total number of Options <sup>17</sup>
BlackRock Investment Management (UK) Limited	Holder or controller of more than 5% of Endace Shares	Endace Shares	2,261,133	14.86%
Elliott International L.P., Liverpool Limited Partnership <sup>18</sup>	Holder or controller of more than 5% of Endace Shares	Endace Shares	1,468,500	9.65%
Richardson Trustee Limited	Holder or controller of more than 5% of Endace Shares	Endace Shares	994,739	6.54%
Selwyn Lyall Pellett, Denise Suzanne Wallwork and Frances Valintine	Holder or controller of more than 5% of Endace Shares	Endace Shares	896,982	5.89%
Hargreave Hale Limited	Holder or controller of more than 5% of Endace Shares	Endace Shares	815,250 <sup>19</sup>	5.36%
Jeremy Stringer	Holder or controller of more than 5% of Option Class 1	Option Class 1	516 <sup>20</sup>	100%
		Option Class 20	3,000	4.51%
		Option Class 21	2,000	1.63%
		Total Options	5,516	0.31%
Neil Hopkins	Holder or controller of more than 5% of Option Class 2	Endace Shares	1	0.00%
		Option Class 2	168,852	100%
		Total Options	168,852	9.43%
David Earl	Holder or controller of more than 5% of Option Class 3	Endace Shares	30,069	0.20%
		Option Class 3	10,000	7.54%
		Option Class 21	5,000	4.07%
		Total Options	15,000	0.84%
Gary Woods	Holder or controller of more than 5% of Option Class 6	Option Class 6	6,500	100%
		Total Options	6,500	0.36%
Amie Stariha	Holder or controller of more than 5% of Option Class 7	Option Class 7	5,000	26.32%
		Total Options	5,000	0.28%

<sup>15</sup> The information relating to BlackRock Investment Management (UK) Limited, Richardson Trustee Limited, Selwyn Lyall Pellett, Denise Suzanne Wallwork and Frances Valintine, and Hargreave Hale Limited was provided by or on behalf of the named persons in response to questionnaires circulated by Endace after receipt of the Takeover Notice.

<sup>16</sup> The information relating to holders or controllers of more than 5% of an Option Class is taken from responses to questionnaires circulated by Endace to persons believed by Endace, to the best of its knowledge, to be such holders or controllers.

<sup>17</sup> Rounded to two decimal places where necessary.

<sup>18</sup> This information is taken from form TR-1: Notification of Major Interest in Shares provided by Elliott Capital Advisors, L.P. to Endace on 19 December 2012.

<sup>19</sup> 805,000 Endace Shares are held by Hargreave Hale Limited for and on behalf of Marlborough Fund Managers. The remaining 10,250 Endace Shares are held by Hargreave Hale Limited for and on behalf of discretionary account holders.

<sup>20</sup> Jeremy Stringer's options in Option Class 1 convert into 1,548 shares.

Name	Description	Class of equity security or total Options	Number of equity securities held or controlled	Percentage of class or total number of Options <sup>17</sup>
Edward Statham	Holder or controller of more than 5% of Option Class 7	Option Class 7	1,000	5.26%
		Total Options	1,000	0.06%
Glen Carpenter	Holder or controller of more than 5% of Option Class 7	Option Class 7	6,000	31.58%
		Option Class 21	1,600	1.30%
		Total Options	7,600	0.42%
Ian Dredge	Holder or controller of more than 5% of Option Class 7	Option Class 7	5,000	26.32%
		Total Options	5,000	0.28%
Kent Gordon	Holder or controller of more than 5% of Option Class 7	Option Class 7	1,000	5.26%
		Total Options	1,000	0.06%
Jeff Brown	Holder or controller of more than 5% of Option Class 8	Option Class 8	37,500	78.13%
		Total Options	37,500	2.10%
Max Allen	Holder or controller of more than 5% of Option Class 8	Option Class 8	3,000	6.25%
		Total Options	3,000	0.17%
Babak Jafari	Holder or controller of more than 5% of Option Class 9	Option Class 9	4,000	5.44%
		Total Options	4,000	0.22%
Gary Gruber	Holder or controller of more than 5% of Option Class 9	Option Class 9	10,000	13.61%
		Total Options	10,000	0.56%
James Barrett	Holder or controller of more than 5% of Option Class 9	Option Class 9	5,000	6.80%
		Total Options	5,000	0.28%
John Attala	Holder or controller of more than 5% of Option Class 9	Option Class 9	10,000	13.61%
		Total Options	10,000	0.56%
John Russell	Holder or controller of more than 5% of each of Option Class 9 and Option Class 13	Option Class 9	7,000	9.52%
		Option Class 13	8,000	47.06%
		Total Options	15,000	0.84%
Neil Templeman	Holder or controller of more than 5% of Option Class 9	Option Class 9	4,000	5.44%
		Total Options	4,000	0.22%
Ching-Hua Yang	Holder or controller of more than 5% of Option Class 11	Option Class 11	1,000	15.09%
		Total Options	1,000	0.06%
Steve Baechle	Holder or controller of more than 5% of Option Class 11	Option Class 11	5,625	84.91%
		Total Options	5,625	0.31%
Jason Moore	Holder or controller of more than 5% of each of Option Class 12 and Option Class 21	Option Class 12	85,000	60.07%
		Option Class 21	10,000	8.14%
		Total Options	95,000	5.31%
Tim Nichols	Holder or controller of more than 5% of each of Option Class 12 and Option Class 15	Option Class 12	30,000	21.20%
		Option Class 15	20,000	16.60%
		Total Options	50,000	2.79%
Marjonel Montejo	Holder or controller of more than 5% of Option Class 13	Option Class 13	1,000	5.88%
		Total Options	1,000	0.06%
Andrew Summers	Holder or controller of more than 5% of Option Class 14	Option Class 14	4,000	72.73%
		Total Options	4,000	0.22%

Name	Description	Class of equity security or total Options	Number of equity securities held or controlled	Percentage of class or total number of Options <sup>17</sup>
Justin Wang	Holder or controller of more than 5% of Option Class 14	Option Class 14	500	9.09%
		Total Options	500	0.03%
Kevin Slade	Holder or controller of more than 5% of Option Class 14	Option Class 14	500	9.09%
		Total Options	500	0.03%
Suparna Mukherji	Holder or controller of more than 5% of Option Class 14	Option Class 14	500	9.09%
		Total Options	500	0.03%
Christopher Tomlinson	Holder or controller of more than 5% of Option Class 16	Option Class 16	5,000	16.67%
		Total Options	5,000	0.28%
Jeffrey Paine	Holder or controller of more than 5% of Option Class 16	Option Class 16	25,000	83.33%
		Total Options	25,000	1.40%
Tom Jones	Holder or controller of more than 5% of Option Class 17	Option Class 17	1,250	45.45%
		Total Options	1,250	0.07%
Tom Leahy	Holder or controller of more than 5% of Option Class 17	Option Class 17	1,500	54.55%
		Option Class 21	3,500	2.85%
		Total Options	5,000	0.28%
Julie Davis	Holder or controller of more than 5% of Option Class 19	Option Class 19	2,000	28.57%
		Total Options	2,000	0.11%
Barry Shaw	Holder or controller of more than 5% of Option Class 20	Endace Shares	770	0.00%
		Option Class 20	4,000	6.02%
		Option Class 21	2,000	1.63%
		Total Options	6,000	0.34%
Phil Dean	Holder or controller of more than 5% of Option Class 20	Option Class 20	15,000	22.56%
		Option Class 21	1,200	0.98%
		Total Options	16,200	0.91%
Sander Lommertzen	Holder or controller of more than 5% of Option Class 21	Option Class 21	10,000	8.14%
		Total Options	10,000	0.56%
Martha Wu	Holder or controller of more than 5% of Option Class 22	Option Class 22	5,000	5.88%
		Total Options	5,000	0.28%
Robert Atherton	Holder or controller of more than 5% of Option Class 22	Option Class 22	40,000	47.06%
		Total Options	40,000	2.23%
Sri Ganeshan Sundralingam	Holder or controller of more than 5% of Option Class 22	Option Class 22	40,000	47.06%
		Total Options	40,000	2.23%
Andrew Weisman	Holder or controller of more than 5% of Option Class 24	Option Class 24	2,000	23.53%
		Total Options	2,000	0.11%
Boanerges Bruno	Holder or controller of more than 5% of Option Class 24	Option Class 24	5,000	58.82%
		Total Options	5,000	0.28%
Chris Bone	Holder or controller of more than 5% of Option Class 24	Option Class 24	1,500	17.65%
		Option Class 21	1,500	1.22%
		Total Options	3,000	0.17%
Andrew Harsant	Holder or controller of more than 5% of Option Class 25	Option Class 25	5,000	100%
		Total Options	5,000	0.28%

### Schedule 3: Issues of equity securities of Endace to Directors or Senior Officers during the previous two years (paragraph 5.3)<sup>20</sup>

Name	Description	Class of equity security	Number of equity securities issued	Issue price per equity security	Date of issue
John Scott	Director	Endace Shares issued upon exercise of 21,605 options <sup>21</sup>	21,605	GBP 1.62	10 June 2011
Mark Rowan	Director	Endace Shares issued upon exercise of 61,729 options <sup>22</sup>	61,729	GBP 1.62	6 June 2011
Michael Kelley	Senior Officer	Endace Options Class 12	20,000	Not applicable	12 August 2010
		Endace Options Class 9	30,000	Not applicable	9 November 2010
Kate Parsons	Senior Officer	Endace Options Class 13	5,000	Not applicable	10 February 2011
		Endace Options Class 23	90,000	Not applicable	22 August 2011

<sup>20</sup> This information is taken from responses to questionnaires circulated to Directors and Senior Officers by Endace.

<sup>21</sup> These options were issued on 22 May 2006 pursuant to a matching share option scheme entered into by Endace and John Scott. Under this scheme, John Scott subscribed 21,605 shares at GBP 1.62 (being the price at which Endace's initial placement of shares was made) (the **Placing Price**) and became entitled to options over 21,065 shares, vesting over three years with an exercise price equal to the Placing Price.

<sup>22</sup> These options were issued on 22 May 2006 pursuant to a matching share option scheme entered into by Endace and Mark Rowan. Under this scheme, Mark Rowan subscribed 61,729 shares at the Placing Price and became entitled to options over 61,729 shares, vesting over three years with an exercise price equal to the Placing Price.

## Schedule 4: Trading in equity securities of Endace during the previous six months (paragraph 6)

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### Part A: Acquisitions or disposals of equity securities of Endace during the previous six months by Directors and Senior Officers<sup>23</sup>

None

### Part B: Acquisitions or disposals of equity securities of Endace during the previous six months by persons (other than Directors and Senior Officers) holding or controlling 5% or more of equity securities of any class of Endace<sup>24</sup>

Name	Description	Class of equity security	Acquisition or disposal	Number of equity securities	Date	Consideration per equity security
Hargreave Hale Limited	Holder or controller of more than 5% of Endace Shares	Endace Shares	Disposal	19,000	Not disclosed	GBP 3.075
Elliott International, L.P., Liverpool Limited Partnership	Holder or controller of more than 5% of Endace Shares	Endace Shares	Acquisition	1,468,500	17 December 2012	GBP 4.75

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<sup>23</sup> This information is taken from responses to questionnaires circulated to Directors and Senior Officers by Endace.

<sup>24</sup> This information is taken from responses to questionnaires circulated by Endace to persons believed by Endace, to the best of its knowledge, to hold or control 5% or more of equity securities of any class of Endace, information publicly-available on the Endace section of AIM's website and form TR-1: Notification of Major Interest in Shares provided by Elliott Capital Advisors, L.P. to Endace on 19 December 2012.



## Schedule 5: Material terms of Endace Options (paragraph 17.2)

The terms on which Endace Options are granted are set out in the rules of the Endace Share Scheme, as most recently amended by an Endace board resolution of 15 September 2010 (the **Scheme Rules**). There are two sections to the Scheme Rules: the “Accelerated Section”, pursuant to which Endace Options are granted to certain directors or senior management of Endace (or any of its subsidiaries) (**Accelerated Endace Options**) and the “Standard Section”, pursuant to which Endace Options are granted to certain employees of Endace (or any of its subsidiaries) (**Standard Endace Options**). The principal difference under the Scheme Rules between Accelerated Endace Options and Standard Endace Options is that:

- (a) if a Takeover, Business sale or other equivalent transaction occurs, Accelerated Endace Options become exercisable (to the extent not already exercisable); and
- (b) if a Takeover, Business sale or other equivalent transaction occurs, Standard Endace Options that have not become exercisable remain so.

All Endace Options issued prior to 20 September 2007 were Accelerated Endace Options.

Notwithstanding this principal difference, the board of Directors has, on 27 November 2012, exercised its discretion under the Scheme Rules to alter the period during which an Optionholder may exercise some or all of its Endace Options where a Takeover or Business sale is proposed to occur. In particular, the board of Directors has resolved that, if a Takeover or Business sale occurs:

- (a) all Standard Endace Options become exercisable (to the extent not already exercisable); and
- (b) the final cut-off date for the exercise of all Endace Options (i.e., both Accelerated Endace Options and Standard Endace Options) is the date falling 10 days after the Takeover or Business sale occurs<sup>25</sup>, failing which unexercised Endace Options will expire and automatically be cancelled.

As at 19 December 2012 (being the latest practicable date before the date of this Target Company Statement), the following Endace Options are on issue:

Option Class	Number of Endace Shares over which Endace Options remain outstanding	Exercise price per Endace Share
1	1,548	GBP 0.0012
2	168,852	GBP 1.045
3	132,666	GBP 1.195
4	55,000	GBP 1.41
5	83,107	GBP 1.685
6	6,500	GBP 1.895
7	19,000	GBP 1.93
8	48,000	GBP 1.95
9	73,500	GBP 1.99
10	443,953	GBP 2.00
11	6,625	GBP 2.02
12	141,500	GBP 2.20

<sup>25</sup> In the context of the Offer, a Takeover occurs on the date on which the Offer becomes unconditional.

Option Class	Number of Endace Shares over which Endace Options remain outstanding	Exercise price per Endace Share
13	17,000	GBP 2.52
14	5,500	GBP 2.53
15	120,500	GBP 2.58
16	30,000	GBP 3.34
17	2,750	GBP 3.44
18	50,000	GBP 3.54
19	7,000	GBP 3.72
20	66,500	GBP 4.27
21	122,800	GBP 4.29
22	85,000	GBP 4.37
23	90,000	GBP 4.60
24	8,500	GBP 5.34
25	5,000	GBP 5.50
<b>Total</b>	<b>1,790,801</b>	

The following material terms are common to both Accelerated Endace Options and Standard Endace Options (except as described in paragraph 8 below).

1. Each Endace Option confers the right to acquire one Endace Share<sup>26</sup> (subject to adjustments considered by the board of Directors to be equitable on the occurrence of a reconstruction of Endace's share capital).
2. Each Endace Share allotted on the exercise of an Endace Option ranks equally in all respects with all other Endace Shares on issue and will be freely transferable.
3. Endace Options do not participate in dividends, issues of equity capital, capital having an element of equity, securities convertible into equity capital or similar instruments.
4. Endace Options carry no voting rights.
5. Endace Options cannot be transferred unless specifically approved in writing by the board of Directors. In this context, the board of Directors has, on 27 November 2012, resolved that the transfer of Endace Options by the relevant Optionholder to Emulex pursuant to the Offer is approved.
6. The exercise price for each Endace Option is based on a three month trailing average share price of Endace, prior to the grant date.<sup>27</sup>
7. For each Endace Option issued:
  - (a) prior to 11 October 2010, if the relevant Optionholder decides to exercise Endace Options, that Optionholder must exercise all of the Endace Options that are exercisable at that time; and
  - (b) on or after 11 October 2010, if the relevant Optionholder decides to exercise Endace Options, that Optionholder must exercise all of the Endace Options within a tranche that are exercisable at that time. If an Optionholder holds Endace Options from different tranches and those tranches of Endace Options are exercisable, that Optionholder can elect to exercise all the Endace Options within one tranche or all the Endace Options

<sup>26</sup> However, each Endace Option forming Option Class 1 confers the right to acquire three Endace Shares.

<sup>27</sup> However, each Endace Option forming Option Class 1 has an exercise price of 0.12 pence.

within each of the tranches. An Optionholder cannot exercise some (and not all) of the Endace Options within a tranche.

8. If an Optionholder ceases to be employed for whatever reason by Endace of any subsidiary of Endace then any Endace Options that have not become exercisable prior to the date on which that Optionholder ceases to be employed will automatically be cancelled. Endace Options that have become exercisable prior to the date on which that Optionholder ceases to be employed<sup>28</sup> must be exercised within 90 days (in the case of Accelerated Endace Options) and 30 days (in the case of Standard Endace Options) of the date of cessation of employment, after which date the Endace Options are cancelled.

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<sup>28</sup> Other than any Endace Option forming Option Classes 1 to 6, or 10.