GRANT SAMUEL

Endace Limited

Independent Advisers Report on the Takeover Offer by Emulex Corporation

December 2012

Grant Samuel confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Grant Samuel has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

LEVEL 31, VERO CENTRE, 48 SHORTLAND STREET, PO BOX 4306, AUCKLAND 1140
T: +64 9 912 7777 F: +64 9 912 7788
WWW.GRANTSAMUEL.CO.NZ

Table of Contents

Glossary

Term	Definition
Emulex	Emulex Corporation
Endace	Endace Limited
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FY	The financial year ended
Offer	the Emulex Offer
Packet	Data Packet is a basic unit of communication over a digital network
DAG Card	Data Acquisition and Generation Card
AIM	London Stock Exchange's Alternative Investment Market
R&D	Research & Development
VWAP	Volume weighted average share price

1. Terms of the Emulex Offer

1.1 Background

On 6 December 2012 El Dorado Research Ventures Limited, a wholly-owned subsidiary of Emulex Corporation (**Emulex**), a United States company listed on the New York Stock Exchange, announced that it would make a full offer under the Takeovers Code for all of the equity securities in Endace Limited (**Endace**) at a price of £5 per share and for the options £5 less the conversion price payable per option (the **Emulex Offer**). The Emulex Offer will be made to Endace shareholders and optionholders on 20 December 2012 and remains open for acceptance until 19 January 2013, unless extended.

Endace was founded in New Zealand in 2001 and today it operates out of offices in New Zealand, USA, Australia and the United Kingdom. Endace listed on the Alternative Investment Market **(AIM)** of the London Stock Exchange in June 2005. The rules governing the AIM market deem that the main country of operation is determined by where the largest proportion of the asset base for that particular company is located. As the largest proportion of Endace's assets are based in New Zealand, Endace's main country of operation for the purposes of the AIM Rules is deemed to be New Zealand. In the context of the New Zealand market, Endace is defined as a Code Company by the rules and regulations of the New Zealand Takeovers Code. Code Companies are those entities that have 50 shareholders or more. As at 30 November 2012, Endace had approximately 200 shareholders.

1.2 Details of the Emulex Offer

The Emulex Offer is for all of the Ordinary Shares in Endace and all the options on issue. The consideration offered for each Ordinary Share is £5 in cash (**the Offer Price**). The consideration for each option is the Offer Price of £5 less the exercise price payable by the holder to convert the option to a share pursuant to the terms of issue for the relevant option.

The Emulex Offer is conditional upon a range of conditions including:

- acceptances received for the Emulex Offer meet or exceed 90% of the fully diluted number of issued shares in Endace;
- Emulex obtaining all consents required under the Overseas Investment Act 2005 and Overseas Investment Regulations 2005 for the acquisition of Endace;
- no dividends, bonuses or other payments of distributions including share buy backs have been or will be declared, paid or made;
- no further shares, convertible securities, other securities of any nature (including options, rights or interests in any ordinary shares) have been issued or agreed to be issued by Endace;
- Endace must not undertake or commit to any capital expenditure or divestment over NZ$0.5 million unless approved by Emulex;
- there is no alteration to the constitutional documents of Endace or to any trust deed under which any securities have been issued;
- no liquidator, receiver, or statutory manager is appointed in respect of the Endace;
- there not having occurred any events or circumstances which when aggregated with all other events, changes of circumstances that have occurred, mean that the overall impact is or could reasonably be expected to be material to Endace;
- there not being any challenge to the validity or unencumbered ownership of any of the software, copyright, trademarks or other intellectual property purportedly owned by Endace and material to the conduct of the business except as fully and fairly disclosed in writing to Emulex prior to the notice date;
- consent received from Altera Corporation on terms that are reasonable in respect of their software licence agreement with Endace in relation to the change of control of Endace;
- receipt of:
  - consents to assignment and waiver of applicable claw-back terms being obtained from the Ministry of Business Innovation and Employment (**MBIE**) concerning both: (a) the Technology Development Grant

issued by Ministry of Science and Innovation on 9 February 2011 for a three year term commencing 1 October 2010 and ending 30 September 2013 and (b) the Technology for Business Growth Grant, issued by the Foundation for Research, Science, and Technology initially for a 20 month term from 22 June 2010 ending 21 February 2012, but extended by variation letter to 21 February 2013, made to Endace; and

  - confirmation from the MBIE that Endace, when owned by Emulex, remains eligible to receive additional grants from the Government of New Zealand after the closing date of the Emulex Offer in amounts and on terms similar to those received by Endace prior to the closing date of the Emulex Offer;

- a certificate by the Chief Financial Officer or Chief Executive Officer of Endace is provided to Emulex that confirms that as at 31 December 2012:

  - the Endace Group taken as a whole had no Debt (hereinafter defined);
  - the Endace Group taken as a whole had net cash of at least $US4 million in its bank account; and

  as at the Closing Date:

  - the Endace Group taken as a whole had no Debt (hereinafter defined); and
  - there had been no material variations to the contingent liabilities of the Endace Group from those as at 31 October 2012 as disclosed to the Offeror.

Other than the conditions relating to the Overseas Investment office approval, any conditions of the Emulex Offer may be waived by Emulex at its discretion. As would be expected, most of the conditions are included to protect Emulex against any substantial change in the form and operations of Endace or the markets it operates in while the Offer is open for acceptance.

Certain shareholders of Endace have entered into lock-up agreements to sell their shares into the Emulex offer when it is made. The shareholders that have entered into lock-up agreements (separately) are Mr Ian Graham, Marlborough Special Situations Fund and Herald Investment Trust Plc, collectively holding 17.08% of the fully diluted share capital of Endace.

1.3 Requirements of the Takeovers Code

The Takeovers Code came into effect on 1 July 2001, replacing the New Zealand Stock Exchange Listing Rules and the Companies Amendment Act 1993 requirements governing the conduct of company takeover activity in New Zealand. The Takeovers Code seeks to ensure that all shareholders are treated equally and, on the basis of proper disclosure, are able to make informed decisions on shareholding transactions that may impact on their own holdings.

Endace is a ***Code Company*** for the purposes of the Takeovers Code. Rule 6 of the Takeovers Code, the fundamental rule, states that a person (along with its associates) who holds or controls:

(a) no voting rights, or less than 20% of the voting rights, in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company;

(b) 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company.

Rule 7 of the Takeovers Code sets out the ***exceptions*** to the fundamental rule. Rule 7 states that a person may become the holder or controller of an increased percentage of the voting rights in a code company under the following circumstances:

(a) ***by an acquisition under a full offer***;

(b) by an acquisition under a partial offer;

(c) by an acquisition by the person of voting securities in the Code Company or in any other body corporate from one or more other persons if the acquisition has been approved by an ordinary resolution of the Code Company in accordance with the code;

(d) by an allotment to the person of voting securities in the Code Company or in any other body corporate if the allotment has been approved by an ordinary resolution of the Code Company in accordance with the code;

(e) if: (i) the person holds or controls more than 50%, but less than 90%, of the voting rights in the Code Company; and

(ii) the resulting percentage held by the person does not exceed by more than 5 the lowest percentage of the total voting rights in the Code Company held or controlled by the person in the 12-month period ending on, and inclusive of, the date of the increase;

(f) if the person already holds or controls 90% or more of the voting rights in the Code Company.

The Takeovers Code specifies the responsibilities and obligations for both Emulex as bidder and Endace as a target. Endace's response to the Emulex Offer, known as a Target Company Statement, must contain the information prescribed in the Second Schedule of the Takeovers Code, and is to include or be accompanied by an Independent Adviser's Report (or summary thereof).

2. Scope of the Report

2.1 Purpose of the Report

The Directors of Endace have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Adviser's Report to comply with the Takeovers Code in respect of the Emulex Offer. Grant Samuel is independent of Endace and Emulex and has no involvement with, or interest in, the outcome of the Emulex Offer.

Rule 21 of the Takeovers Code requires the Independent Adviser to report on the merits of an offer. The term "merits" has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term "merit", it suggests that "merits" include both positives and negatives in respect of a transaction.

A copy of this report will accompany the Target Company Statement to be sent to all Endace shareholders. This report is for the benefit of the shareholders and optionholders of Endace. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Emulex Offer. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined at Appendix E.

2.2 Basis of Evaluation

Grant Samuel has evaluated the Emulex Offer by reviewing the following factors:

- the estimated value range of Endace and the price of the Emulex Offer when compared to that estimated value range;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Endace shares in the absence of the Emulex Offer;
- any advantages or disadvantages for Endace shareholders of accepting or rejecting the Emulex Offer;
- the current trading conditions for Endace;
- the timing and circumstances surrounding the Emulex Offer;
- the attractions of Endace's business; and
- the risks of Endace's business.

2.3 Approach to Valuation

Grant Samuel has estimated the value range of Endace with reference to its full underlying value. In Grant Samuel's opinion the price to be paid under a full takeover should reflect the full underlying value of the company. The support for this opinion is two fold:

- the Takeovers Code's compulsory acquisition provisions apply when the threshold of 90% of voting rights has been reached. In this instance, the Takeovers Code seeks to avoid issues of premiums or discounts for minority holdings by providing that a class of shares is to be valued as a whole with each share then being valued on a pro rata basis. In other words, a minority shareholder is to receive its share of the full underlying value. Grant Samuel believes that the appropriate test for fairness under a full or partial takeover offer where the offeror will gain control is the full underlying value, prorated across all shares. The rationale for this opinion is that it would be inconsistent for one group of minority shareholders, those selling under compulsory acquisition, to receive a different price under the same offer from those who accepted the offer earlier; and
- under the Takeovers Code the acquisition of more than 20% of voting rights in a "code" company can only be made under an offer to all shareholders unless the shareholders otherwise give approval. As a result, a controlling shareholding (generally accepted to be no less than 40% of the voting rights) cannot be transferred without the acquirer making an offer on the same terms and conditions to all shareholders (unless shareholders consent). Prior to the introduction of the Takeovers Code some market commentators held the view that where a major shareholder had a controlling shareholding, any control premium attached only to that shareholding. One of the core foundations of the Takeovers Code is that all shareholders be treated equally. In this context, any control premium is now available to all shareholders under a takeover offer (in a scenario where an offeror will gain control), regardless of the size of their shareholding or the size of the offeror's shareholding at the time the offer is made.

Accordingly, Grant Samuel is of the opinion that not only because shares acquired under a compulsory acquisition scenario will receive a price equivalent to full underlying value, but because the control premium is now available to all shareholders, the share price under either a full or partial takeover offer where the offeror will gain control should be within or exceed the prorated full underlying valuation range of the company.

Endace has been valued at fair market value, which is defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary. For the avoidance of doubt, appendices A to E form part of this report.

3. Overview of the Network Monitoring Industry

3.1 Background

The first networking products evolved in the early 1980s, closely following the introduction of the personal computer. Organisations initially adopted data networks to connect a limited number of users within close proximity, allowing users to share simple, common services, such as file servers and printers. These networks were called local area networks (**LANs**). The introduction of network applications, such as email, produced the need to connect users into enterprise wide networks. Outside enterprises, users began connecting over wide area networks (**WANs**).

The Internet progressively matured from an academic research project into a global network of public and private networks interconnected using Internet Protocol (**IP**). IP traffic continues to grow, driven by increasing numbers of new users, connected devices and internet transactions. The result of the widespread use of IP is a continually growing network that carries a large and increasing amount of data traffic. As the use of data and networks grows, and becomes more mobile and remote, there is an increasing need for governments, businesses and telecommunications companies to monitor, manage, and record the information being transmitted to, from or within their organisations. The emergence of cloud computing, data mobility, progressively increasing data speeds and cyber crime has made the role of data tracking more technical and complicated. To service this market, an industry dedicated to network security and monitoring has evolved. The spectrum of network monitoring products spans hardware, software and policies adopted by a network administrator to prevent, monitor and record unauthorised access, misuse, modification or denial of a computer network and associated network resources. The broad categories of network security products are summarised in the table below:

Network Monitoring - Products

Product Type	Description
Security Access	Authentication of the user and what and when that user can access on the network
Firewalls	Enforces access policies but not expected to identify potentially harmful data content
Anti-Virus Software	Used to help detect and inhibit the action of worms and Viruses
Network Security	Products such as those made by Endace for recording, capturing and analysing data flow

3.2 Markets

The key markets for the network monitoring industry include:

- ***Network Management***

  Network management products allow users to measure traffic load, traffic mix, packet loss and delay issues. This type of information allows ISP's, telecommunication companies and businesses to identify faults or delay issues, improve service quality and employ or develop their networks more efficiently. The time taken to identify network issues can be expensive and unproductive.

- ***Network Security***

  Network security products include intrusion detection systems, firewalls, authentication systems and virus detection and filtering. Products that have the ability to analyse and record information can perform 'needle in haystack' searched for corrupt, illegal or critical information. Other products monitor the entire security suite and look for intrusions or system weaknesses.

- ***Compliance Applications***

  Compliance continues to be a significant issue for many corporations, with investment going into systems to ensure they meet prescribed standards. The consequences of non-compliance include both financial fines and reputational damage.

- ***Cyber Security Monitoring***

  The supply of high end network monitoring equipment to a range of Government Intelligence Agencies.

4. Profile of Endace

4.1 Background

The Endace Group was formed in 2001 following the successful commercialisation of a research project on high speed network measurements that had commenced in 1996 at the University of Waikato School of Computing and Mathematical Sciences.

Endace's original network security product was the Data Acquisition and Generation (**DAG**) card, which provided the ability to capture 100% of network packets being carried through high-speed networks. The first DAG cards date back to 1996 when Professors Ian Graham and John Cleary of the University of Waikato School of Computing and Mathematical Sciences began research in simulating and measuring data on high speed networks. At the time, conventional measurement equipment was considered too expensive and the research team had to create their own network measurement equipment by reprogramming a network interface card. This was the first experimental DAG card. The research team continued to refine the DAG technology and commercial production followed.

Endace continued to expand as awareness of the product range increased. By 2005, while still headquarted in New Zealand, the company had sales of US$6.5 million, but needed cash to keep funding research and development (**R&D**) and the sustained growth of the business, including the need to invest in and set up a direct sales force. It was also apparent that a number of shareholders (including the University of Waikato) wished to realise a proportion of their investment in Endace. The management and Board of Endace sought to identify a listing solution that would meet all these objectives, a task that culminated in the listing of Endace on the London Stock Exchange's AIM in June 2005.

Before selecting the AIM, Endace evaluated listing prospects in the US, Singapore, Australia, and New Zealand. Endace's Directors considered that the AIM would yield a better value proposition for Endace shareholders than comparative international markets (noting that Endace was at that time too small for the NASDAQ). The decision to list on AIM was not without controversy, as certain market commentators, including the head of NZX, questioned why a relatively small New Zealand technology company would wish to list on an overseas market. The AIM market is flexible, recognised as having less regulation and no requirements for minimum capitalisation or number of shares issued. More than 3000 international companies have joined the AIM since its launch in 1995. A resulting criticism of AIM is that because of the absence of such rigour, many companies listed in AIM fail, resulting in investor losses.

Lack of liquidity is a frustration for many companies listed on the AIM, including Endace. Some of the key investors in the AIM market are funds managers that specialise in small-capitalisation stocks. Endace management observe that with only approximately 200 shareholders and very few share trades per month, the Endace share price can be very volatile.

Since listing, Endace has grown at a modest pace, while the increase in the demand for networks and supporting network products has been extreme. Endace now has sales of approximately US$40 million per annum and it competes in a market dominated by substantially larger US businesses. It is portrayed by some competitors and potential partners (the network infrastructure suppliers) as not having the requisite critical mass. This market dynamic ensures that Endace must partner with smaller network businesses despite having what is regarded by many as a technologically superior product.

In early 2012, Endace appointed an investment bank to undertake a strategic review of the business. The timing of the review was perhaps inopportune, as British Government budget cuts squeezed Endace's revenue stream and prompted the company to lower its profit guidance for the year to 31 March 2012. The existence of the strategic review was public knowledge, and a range of selected prospective investors or acquirors were approached during the process. Endace was not necessarily seeking a sale of the company, but rather the identification of a partner to facilitate the Endace technology being presented to a wider market, or the same market with more credibility. Emulex was aware of Endace prior to the strategic review, but in any event participated in the process.

4.2 Products

The market for DAG Cards is largely limited to technologically sophisticated customers. To make DAG technology more accessible to a wider market, Endace added both hardware and software to create a plug-in system. The customer base for the Endace system now includes any entity that is running a high speed data network and has identified a need for data security, analysis or storage. A summary of the Endace product range today is set out below:

Endace – Product Range

Product	Description
Endace DAG Cards	Initial Endace product still regarded as best- in- class network interface controllers.
Endace ODE	Ultra high performance open platform for hosting third party applications.
Endace Systems	Fully managed, multi-application capable Network Monitoring and Recording systems.

With the new spectrum of products, Endance is progressively evolving from being a specialised technology company to being a vendor of network security systems. Endace Vision, launched in 2012, enables the user to index, search, retrieve and display data packets from across an array of Endace probes. Endace Extreme is the most recent product in the system range, and provides the customer with the capability to capture all packets on a 100 Gbps link and deliver them to multiple 10 Gbps probe interfaces for recording and analysis. The evolution of the product range into systems allows Endace to not only charge higher selling prices per unit, but critically to introduce and benefit from a network support charge which is an added value service that can be sold to customers. The split of Endace sales by product is summarised in the table below:

Endace – sales by product (%)

Product	Year ended 31 March 2012	6 months ended 30 Sept 2012
Systems	47%	44%
Cards	28%	32%
Support	17%	19%
Accessories Support	8%	5%
Total	**100%**	**100%**

4.3 Customers

The Endace customer base comprises four main groupings or end markets:

- telecommunications;
- enterprise;
- government; and
- other.

The progressive shift into systems and plug-and-play hardware and platforms has been successful in enabling Endace to expand its customer base. Traditionally reliant on the government security entities as key customers, Endace has moved strongly into the enterprise market. During the 6 months to 30 September 2012, the sales split by end user was as follows:

Endace – sales split by end user type (%)

Type of customer	Year end 31 March 2012	6 months ended 30 Sept 2012
Government	17%	42%
Enterprise	49%	31%
Telecommunications	23%	25%
Other (Reseller/OEM)	11%	2%
Total	**100%**	**100%**

The US market accounts for approximately 60% of sales, with Europe/Middle East accounting for 30%, and the remaining 10% from Asia/Pacific. In early 2012, the Endace marketing function was relocated to Sunnyvale in California, close to the main US customer base.

4.4 Competition

Endace competes with a range of other network security companies. These include:

Endace – Competitors

Company	Location	Annual Revenue	Description
Netscout	Massachusetts, USA	US$315m	Netscout was founded in 1984. The company is a provider of network performance management solutions, including the sniffer and nGenius packet flow recorder products, which compete directly with Endace. The company is listed on the NASDAQ and has a market capitalisation of approximately US$1 billion, on sales of approximately US$315 million, and EBIT of approximately US$80 million.
Riverbed Technology	San Francisco, California, USA	US$730m	Riverbed Tecnnology was founded in 2002. It specialises in improving network performance and networked applications. The flagship product is the Steelhead Appliance, which is a WAN specific product. The company is listed on the NASDAQ and has a market capitalisation of approximately US$2.6 billion, on sales of approximately US$730 million, and adjusted EBITDA of approximately US$200 million.
Niksun	New Jersey, USA	n/a	Niksun is a privately owned company that was founded in 1997, that delivers real time, forensics based network security and performance solutions. The flagship brand is the NetDetector line of products. In 2010 Niksun acquired competitor Sandstorm Enterprises.
Network Instruments	Minnesota, USA	n/a	Network Instruments is a privately owned company that was founded in 1994, and develops software and hardware solutions for analysing and managing network performance. The flagship product of Network Instruments is the Observer range.
Solera Networks	Utah, USA	n/a	Solera Networks was founded in 2004 and is a privately owned company that develops network deep packet capture and stream to storage technology that captures and stores all data.

4.5 Grants

Endace benefits from two types of grant provided by the Ministry of Business Innovation and Employment department of New Zealand. Endace's total grant funding recieved in the year to 31 March 2012 was US$2.4 million and is forecast to be a similar amount in the year to 31 March 2013.

Technology Development Grant

The Technology Development Grant is a direct reimbursement of eligible or qualifying R&D costs. Through this grant, Endace receives reimbursement for approximately 20% of its eligible R&D expenditure. The Technology Development Grant contributions, when received, are treated as revenue for accounting purposes by Endace.

Technology for Business Growth Grant

The Technology for Business Growth grants are project based (awarded project by project for qualifying projects), based on the credentials of the individual project. Grant income (from the Technology for Business grant) for costs that are on the profit and loss are treated as other income, in the same way as the Technology Development Grant. However, Grant Income relating to eligible costs which have been capitalised are taken to the balance sheet and credited against the value of the capitalised asset. This treatment reduces the value of the amortisation expense when the project is released.

4.6 Manufacturing

All manufacturing of Endace products is done under contract by third parties. The DAG cards are manufactured by GPC in New Zealand, and the systems are manufactured by NEI in Massachusets, USA. Endace currently manufactures and sells approximately 3,000 DAG cards per annum and 500 systems per annum.

4.7 Financial Performance

The financial performance of Endace for the years ended 31 March 2008 to 31 March 2012, together with the forecast for the year ending 31 March 2013, are shown in the table below:

Endace – Financial Performance (US$ 000's)

Year ended 31 March	2008	2009	2010	2011	2012	2013F
Revenue	24,211	30,384	31,017	38,367	41,150	46,000
Cost of sales	(7,077)	(8,784)	(11,177)	(12,838)	(11,078)	(11,693)
Gross margin (as reported)	17,134	21,600	19,840	25,529	30,072	34,307
Selling and administration	(9,043)	(12,091)	(13,076)	(16,252)	(19,420)	(24,265)
Research and development	(4,232)	(5,006)	(5,955)	(6,510)	(9,330)	(10,039)
Technology development grants	531	272	70	511	1,638	2,557
Operating Earnings	**4,390**	**4,775**	**879**	**3,278**	**2,960**	**2,560**
Capitalised development costs	1,571	2,147	2,502	3,276	4,440	4,135
EBITDA	**5,961**	**6,922**	**3,381**	**6,554**	**7,400**	**6,695**
Depreciation & amortisation	(1,454)	(2,177)	(3,674)	(4,108)	(5,233)	(5,753)
EBIT	**4,507**	**4,745**	**(293)**	**2,446**	**2,167**	**942**
Net interest	(11)	(11)	(74)	(18)	24	-
Profit before Tax	**4,496**	**4,734**	**(367)**	**2,428**	**2,191**	-
Tax	(1,059)	(1,985)	491	(270)	(418)	-
Net Profit after Tax	**3,437**	**2,749**	**124**	**2,158**	**1,773**	-

The tables below show depreciation and amortisation and the movements in Capitalised Development Costs:

Depreciation and Amortisation	2008	2009	2010	2011	2012	2013F
Capitalised development costs amortised	246	574	1,521	1,931	2,473	2,926
R&D depreciation	858	1,008	1,337	1,310	1,632	1,546
S&A depreciation & amortisation	350	595	816	867	1,128	1,281
Total Depreciation & Amortisation	**1,454**	**2,177**	**3,674**	**4,108**	**5,233**	**5,753**

Capitalised Development Costs						
Transfer from P&L	1,571	2,147	2,502	3,276	4,440	4,135
Less Government Grant				(246)	(695)	(670)
R&D costs capitalised	**1,571**	**2,147**	**2,502**	**3,030**	**3,745**	**3,465**
Opening balance	262	1,587	3,160	4,141	5,234	6,222
R&D costs capitalised	1,571	2,147	2,502	3,030	3,745	3,465
Amortisation	(246)	(574)	(1,521)	(1,931)	(2,473)	(2,926)
Disposals	-	-	-	(6)	(284)	-
Balance at end of year	**1,587**	**3,160**	**4,141**	**5,234**	**6,222**	**6,761**

The following points should be taken into consideration when reviewing the table above:

- Investment in R&D for the 6 months to 30 September 2012 was 24.6% of revenue, and tends to track at between 20-25% of revenue in each 12 month financial period. The investment in R&D is critical to sustaining existing engineering and for new product development projects. Endace benefits from R&D funding it receives from New Zealand Government grant initiatives from the MBIE. The two current Grants provide for the reimbursement of up to NZ$10.6m of eligible R&D expenditure over a three year period ending September 2013. The first grant is a *Technology for Business Growth Grant* and reimburses 50% of the business costs associated with a series of major product developments and has enabled Endace to accelerate a number of significant projects. The second grant is a *Technology Development Grant* that funds 20% of eligible R&D expenses incurred not covered by the first grant. The two grants combined have contributed US$1.0m of Other Income and US$1.5m of cash benefit in the 6 months to September 2012. Both grant contracts contain “recovery of funds clauses” which provide the MBIE with the power to request the repayment of some or all of the funding should the company enter into an arrangement which “materially reduces the benefit to New Zealand anticipated by the original proposals”. If Emulex is successful in acquiring Endace, the MBIE would be reasonably expected to review whether the grant funding to Endace should be repaid or ceased going forward. The MBIE may be satisfied that the change of ownership has little bearing on the provision of the grants, especially if the physical R&D function for Endace is maintained in New Zealand;
- Endace has produced strong and rising gross margins over time. The highest margin products continue to be for DAG Cards, reflecting the limited costs associated with maintaining that product;
- Endace’s push to develop strong relationships with channel partners is working. In the 6 months to 30 September 2012, revenues generated via Endace’s channel partners represented approximately 41% of invoiced sales, up from 27% for the same period in 2011;
- System sales combined with recognised support income for the 6 months to 30 September 2012 represented 63% of total revenue (2011: 59%). This increase reflects the successful growth of the systems business and the ability to secure renewals of existing support contracts;
- In recent months, Endace has progressed to the commercial release of the EndaceAccess 100Gbps monitoring platform. This is an industry first and demonstrates the technological leadership for which Endace is renowned and is an important addition to the product portfolio;
- The transfer of the marketing function to Sunnyvale, California was undertaken in 2012;
- Endace reports in US$, being the major sales currency. However the bulk of the cost base of Endace is incurred in NZ$, as the R&D function and Head Office is located in New Zealand. The transfer of the marketing function to

California has reduced the size of the NZ$ cost base. Any strengthening of the US$ results in a decrease in the US$ equivalent of NZ$ incurred costs. Endace's hedging policy is centred on providing cover for Endace's NZ$ cost base;

- The forecast for the year to 31 March 2013 is comprised of actual results for the first 6 months together with revised forecasts for the second six months based on expected operating expenditure including updated headcount plans currently being implemented;
- Despite an improved gross margin percentage on higher forecast sales, overall earnings for 2013 are expected to decline from the previous year due to increased selling and administration expenses primarily as a consequence of the establishment of the California marketing office, and an increase in the R&D expenses;
- Expenditure on R&D has remained relatively flat over the last six years at around 20% of sales revenue; and
- Unamortised R&D expenditure has increased from US$1.6 million in 2008 to a forecast of US$6.8 million in 2013.

4.8 Financial Position

The financial position of Endace as at 31 March 2012 and 30 September 2012 is outlined in the table below:

Endace – Financial Position (US$ 000's)

As at	31 March 2012	30 Sept 2012
Cash & cash equivalents	5,441	4,339
Trade and other receivables	11,869	12,989
Inventories & other	4,093	3,246
Current Assets	**21,403**	**20,574**
Property, plant and equipment	6,105	5,856
Intangibles	13,878	13,633
Deferred tax	1,551	1,777
Non-current assets	**21,534**	**21,266**
Total assets	**42,937**	**41,840**
Trade and other payables	(6,393)	(6,261)
Deferred income	(4,577)	(3,621)
Income tax payable	(106)	-
Current liabilities	**(11,076)**	**(9,882)**
Deferred tax liabilities and deferred income	(562)	(598)
Non-current liabilities	**(562)**	**(598)**
Total liabilities	**(11,638)**	**(10,480)**
Net assets	**31,299**	**31,360**

The following points are relevant when considering the above table:

- Endace retains positive cash balances and no debt; and
- Intangibles comprise goodwill on acquisition of subsidiary company Applied Watch Technology LLC in 2007 and unamortised R&D expenditure.

4.9 Cash Flows

The cash flows for Endace for the years ended 31 March 2010, 2011 and 2012 are shown in the table below:

Endace – Cash Flows (NZ$ millions)

Period	Year to 31 March 2010	Year to 31 March 2011	Year to 31 March 2012
Profit after tax	**124**	**2,158**	**1,773**
Depreciation and amortisation	3,674	4,133	5,233
Net share option compensation charge	746	436	270
Other non cash	(1,713)	326	(238)
Changes in working capital	2,099	2,733	(901)
Cash from operations	**4,930**	**9,786**	**6,137**
Less investment in fixed assets	(2,164)	(2,218)	(3,543)
Purchases of software and IP	(319)	(116)	(427)
Capitalised product development (net of grants)	(2,502)	(3,053)	(3,556)
Proceeds from exercise of share options	13	113	596
Net cash flow	**(42)**	**(4,512)**	**(793)**

In reviewing the above table the following should be considered:

- The Grant income is substantial and important to the cash flow of Endace; and
- Operating cashflow (profit plus depreciation and amortisation less expenditure on fixed assets and capitalised product development) has been negative in two of the last three financial years.

4.10 Capital Structure and Ownership

As of 20 November 2012 Endace had 15,220,068 shares on issue held by approximately 200 shareholders. The Company's top 20 shareholders are shown in the table below:

Endace – Top 20 Shareholders[1] as at 20 November 2012

Shareholder	Shares (000s)	%
BlackRock Investment Mgt (UK)	2,261	14.9%
Ian David Greenwood Graham and Mary Agnes Lehar-Graham	1,134	7.4%
Sophrosyne Capital	1,089	7.2%
Richardson Trustee Limited	995	6.5%
Selwyn Pellett, Denise Suzanne Wallwork and Frances Valintine	897	5.9%
Marlborough Special Situations Fund	685	4.5%
Herald Investment Management	660	4.3%
Majedie Asset Management	645	4.2%
Legal & General Investment Mgt	569	3.7%
Threadneedle Asset Mgt	510	3.4%
M&G Investments	509	3.3%
Compass HTV	380	2.5%
Ignis Managed Funds	342	2.2%
Mr M Rowan and Mrs KJ Rowan	323	2.1%
Electricity Supply Pension Scheme	279	1.8%
Crest Clearing Account	266	1.7%
Aviva Investors Managed Funds	260	1.7%
Framlington UK Smaller Companies	215	1.4%
SVM Asset Management	206	1.4%
AXA Framlington Monthly Income Fund	185	1.2%
Top 20 Shareholders	**12,410**	**81.5%**
Other Shareholders	**2,810**	**18.5%**
Total	**15,220**	**100.0%**
Option holders	**1,793**	
Total securities on issue	**17,013**	

Institutional holders primarily control Endace's shareholding with the top ten institutions holding approximately 58%. The company holds no shares in treasury.

As at 22 November 2012 Endace had 1,793,426 share options on issue. The share options have been granted to employees at the discretion of Directors. The options confer no rights in respect of capital, distribution or voting, other than the right to acquire Endace shares. There are 25 classes of option on issue, each with varying expiry dates and exercise prices. The vesting of the options is conditional on the option holder being employed at the date of vesting for each class of option. There are approximately 100 current and former Endace employees that hold options from one or more option classes. A summary of the option classes on issue as at 22 November 2012 is set out below:

1 The Shareholders are defined as the beneficial owners of the share as per the register.

Endace Options

Option Class	Number of Endace Shares over with Endace Options remaining outstanding	Exercise Price per Endace Share	Notional Proceeds (£000's)
1	1,548	£0.012	0
2	168,852	£1.045	176
3	132,666	£1.195	159
4	55,000	£1.41	78
5	83,107	£1.685	140
6	6,500	£1.895	12
7	19,000	£1.93	37
8	48,750	£1.95	95
9	73,500	£1.99	146
10	443,953	£2.00	888
11	8,500	£2.02	17
12	141,500	£2.20	311
13	17,000	£2.52	43
14	5,500	£2.53	14
15	120,500	£2.58	311
16	30,000	£3.34	100
17	2,750	£3.44	9
18	50,000	£3.54	177
19	7,000	£3.72	26
20	66,500	£4.27	284
21	122,800	£4.29	527
22	85,000	£4.37	371
23	90,000	£4.60	414
24	8,500	£5.34	45 *out of the money*
25	5,000	£5.50	28 *out of the money*
Total	**1,793,426**		**£4,336**

Under the terms of the Endace Share Scheme pursuant to which the options are granted, if a takeover of 50% or more of Endace's voting shares or if substantially all of the business is sold, then all the options listed above become exercisable. The final cut-off date for the exercise of the Endace options is 10 days after the takeover or business sale occurs, failing which unexercised Endace Options will expire and automatically be cancelled. If a takeover or business sale is not successful, the Endace options remain in place on their existing terms and conditions. In the context of the Emulex Offer, if the offer is successful then the options will become exercisable. In that circumstance the price paid by Emulex for the Options is the Offer Price of £5 less the conversion price payable by the Option holder to convert the option to an Endace share, as the "time value" of the options has been effectively removed.

4.11 Share Price Performance

The following table provides the volume of Endace shares traded, the price ranges and the volume weighted average prices over the past 12 months:

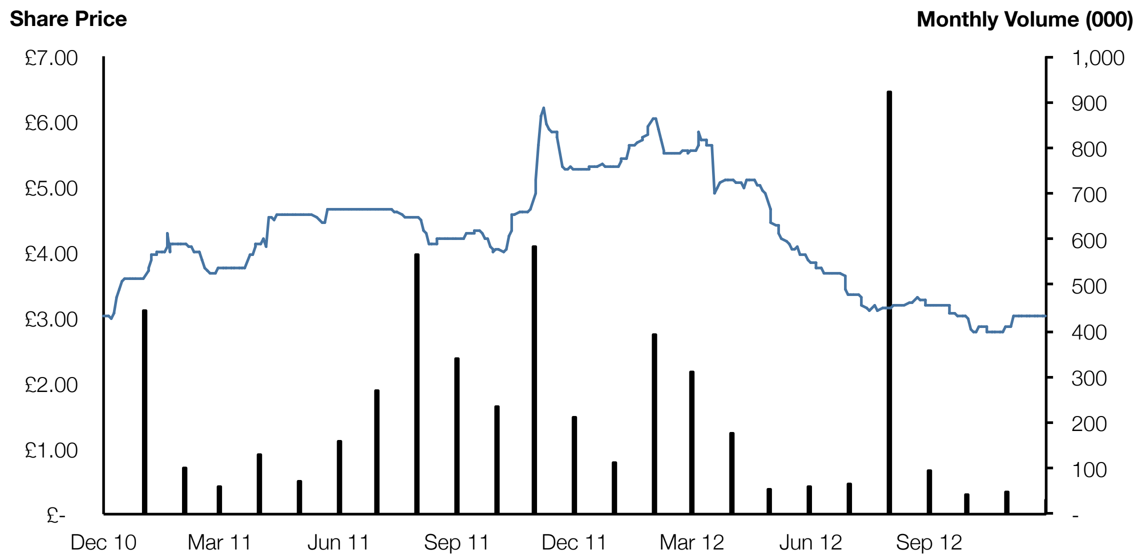
Endace – Share Trading Summary

Time period	Low (£)	High (£)	VWAP (£)	Volume (000s)
1 months	2.85	3.03	3.00	29
3 months	2.78	3.20	2.98	118
6 months	2.78	3.90	3.18	1,204
12 months	2.78	6.05	4.27	2,314

Endace's share price has been volatile over the last two years, influenced to a significant extent by a low level of liquidity. The monthly volume of shares traded peaked in July 2012 at 0.9 million shares, of which 0.8 million was traded on a single day. The volume of shares traded in July 2012 represented approximately 6% of the shares available. The volume of shares traded as a percentage of the number of shares available over this period is approximately 1.7% a month, which is significantly lower than the level of liquidity of the comparable companies listed on the NASDAQ which have averaged 30% over the last twelve months.

Over the last two years the share price has ranged from a high of £6.20 in November 2011 to a low of £2.78 in October 2012.

Endace – Share price performance over the last two years



Endace – Share price performance relative to the S&P 500 Technology Index

5. Profile of Emulex

5.1 Background

Emulex is publicly listed on the New York Stock Exchange and has a market capitalisation of almost US$600 million. The company was founded in 1979 and is now regarded as the leader in converged networking solutions, supplying Original Equipment Manufacturers (**OEMs**) with componentry for servers, networks and data centre storage devices. Emulex employs in excess of 1,000 staff worldwide.

The converged networking solutions industry is highly competitive and subject to rapid and frequent technological developments, evolving industry standards and changing customer requirements. As a result, Emulex invests significantly in research and development activities with state-of-the-art research and development centres in seven locations across India and the US. Emulex's research and development expenditure for the year ended 30 June 2012 were in excess of US$163 million.

5.2 Operations

Emulex's product portfolio includes fibre channel host bus adapters, 10Gb ethernet network interface cards, ethernet-based converged network adapters, controllers, embedded bridges and switches, integrated baseboard management controllers and connectivity management solutions. Emulex's network connectivity products provide server input/output (**I/O**) and target storage array connectivity to create networks for enterprise and cloud data centres. Emulex provides a range of I/O management software as well as device installation and management software solutions. In addition, the company provides network solutions specifically designed for the financial/trading market and for use in network analytics and security.

Emulex's OEM customers include Cisco, Dell, EMC, Fujitsu, Hitachi, Hitachi Data Systems, HP, Huawei, IBM, NEC, NetApp and Oracle. Its products are also sold through various distribution channels, such as value added resellers, systems integrators, industrial distributors, and direct market resellers.

5.3 Financial Profile

A brief financial profile of Emulex is outlined below:

Emulex Financial Profile (US$ millions)

Year end 30 June	**2010**	**2011**	**2012**
Revenue	399.2	452.5	501.8
Gross profit	*265.6*	*285.3*	*317.2*
Gross margin (%)	*66%*	*63%*	*63%*
EBITDA	**52.7**	**39.1**	**77.7**
EBIT	**6.0**	**(24.6)**	**29.1**
Net operating profit after tax	23.6	(83.6)	(11.1)
Operating cash flow	62.0	29.9	79.0
Net cash flow	(45.3)	(117.7)	69.9
Total assets	689.5	702.8	713.0
Total liabilities	98.3	114.1	137.9
Net assets	591.2	588.7	575.1

Source: Capital IQ and Emulex Financial Reports

The net operating losses for the 2011 and 2012 financial years were in part the result of US$59 million and US$10 million of unusual items respectively including costs associated with the acquisition of ServerEngines and litigation settlements, damages and sunset period royalties payable to Broadcom Corporation.

6. Valuation of Endace

6.1 Summary

Grant Samuel's valuation of the equity in Endace is US$105.9m – US$118.1m, equivalent to £3.90-£4.34 per share as summarised below:

Endace – Valuation Summary

US$ million except where otherwise stated	Low	High
Enterprise value	94.0	106.2
Add Cash	5.0	5.0
Notional Cash from options	6.9	6.9
Equity value	**105.9**	**118.1**
Fully diluted shares on issue (million) including in the money options	17.0	17.0
Value per share (US$)	**6.23**	**6.95**
Value per share (GBP) @ GBP/US$ 1.60	**3.90**	**4.34**

This valuation range is an overall judgement having regard to market evidence, current equity market multiples and economic conditions and certain specific attributes of Endace. The valuation represents the estimated full underlying value of Endace assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Endace shares to trade on the AIM in the absence of a takeover offer or proposal similar in nature to the Emulex Offer.

Grant Samuel makes the following comments in respect of the valuation above:

Earnings

Grant Samuel has reviewed the FY2013 forecast and discussed the assumptions underpinning it with management. The FY2013 forecast represents a significant reduction in earnings from the results for the year ended 31 March 2012, reflecting in part:

- Endace has traded below budget for the 7 months to 31 October 2012;
- the assumptions supporting the revenue and cost forecasts for the remaining five months of the financial year ending 31 March 2013 are considered robust, although it must be recognised that revenues are lumpy and accordingly the actual results for the year could vary materially from the forecasts;
- current forward orders for DAG cards and systems only provide a limited guidance of forecast earnings;
- Endaces' operating earnings have been declining despite an increased gross margin percentage, due in part to increased expenditure on research and development, which has yet to translate into a meaningful increase in earnings; and
- Earnings are forecast to increase over the next three financial years as sales of higher margin Endace systems increase from 34% of revenue to more than half of revenue in FY2015. The forecast increase in sales of Endace systems and support services is expected to restore Endace to satisfactory levels of profitability.

Number of shares on issue

Endace has 1,793,426 options on ordinary shares on issue. The options have been issued in 25 separate classes, each with differing exercise prices, resulting periods and exercise periods that need to be met before an exercise can occur. However, if the Emulex Offer is successful the Board of Endace has the right to accelerate the exercise date of all the options on issue and require the options to be exercised, regardless of the required share price hurdle or time to vesting or exercise.

As most of the exercise price thresholds are below the Emulex Offer price of £5 per share, most of the options are "in the money". Emulex is required by the Takeovers Code to commission an independent report to compare the consideration and terms offered for the different classes of options and to opine as to the fairness and reasonableness of the consideration and terms as between the different classes. The Independent Report writer concluded that as the difference between its assessment of the value of the options and the offer price for the options was nil, the offer was deemed fair and reasonable as between the different tranches of options. As the offer for the share options is based off the price of the Emulex offer of £5 per ordinary share, the Independent Reporter also concluded that the offer for the options in comparison with the offer for the ordinary shares is fair and reasonable.

The Directors of Endace have exercised its discretion under the option scheme rules to make all options exercisable if the Emulex takeover offer is successful. Accordingly, Grant Samuel has increased the number of shares on issue for valuation purposes by 1,793,426, and applied the notional proceeds from the exercise of those options to cash. The notional proceeds from the exercise of all options is £4.34 million, or US$6.94 million.

Net debt for valuation purposes

The net cash for valuation purposes as at 30 November 2012 was US$5 million. The cash proceeds from the notional exercise of the options have been treated separately.

6.2 Preferred Methodology

Overview

Grant Samuel's valuation of Endace has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of Endace is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Endace could be expected to trade on the share market. Shares in a listed company normally trade at a discount of 15% - 25% to the underlying value of the company as a whole, but the extent of the discount (if any) depends on the specific circumstances of each company.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved. A detailed description of each of these methodologies is outlined at Appendix C.

Preferred Approach

Grant Samuel's valuation of Endace represents an overall judgement having considered the value outcomes of the business using different valuation methodologies including capitalisation of earnings and multiples of revenue, after taking into consideration market evidence. Investors in technology companies often utilise an implied multiple of revenue as a valuation benchmark.

6.3 Multiple Analysis

Implied Multiples

Grant Samuel estimates the value of Endace on an ungeared basis to be in the range of US$94.0 – US$106.2 million. This range implies the following multiples:

Endace - Implied Multiples

	Valuation Range	
	Low	**High**
Revenue multiple – year ended 31 March 2012 (historic)	2.3	2.6
Revenue multiple – year ended 31 March 2013 (forecast)	2.0	2.3
Multiple of EBITDA – year ended 31 March 2012 (historic)	12.7	14.3
Multiple of EBITDA – year ended 31 March 2013 (forecast normalised) [2]	14.9	16.8
Multiple of EBITDA – year ended 31 March 2012 (historic adjusted) [3]	31.7	35.7
Multiple of EBITDA – year ended 31 March 2013 (forecast normalised adjusted) [3]	43.6	49.2

The multiples of revenue are consistent with the multiples implied by the share prices of comparable companies and recent transactions in the sector. The majority of comparable companies tend to expense research and development in the year it is incurred. The adjusted EBITDA multiples for Endace reflect this accounting treatment and are above those of comparable companies and transactions. An explanation regarding interpreting the above multiples is included at Appendix D.

[2] Normalised for receipt of research and development tax rebate relating to a prior period.

[3] Assumes that research and development is written off in the year it is incurred.

Transactions in the IT Monitoring and Security Industry

The valuation of Endace has been considered having regard to the earnings multiples implied by the price at which broadly comparable companies and businesses have changed hands. A selection of relevant transactions over the last five years is set out below:

Recent Transaction Evidence

Date	Target	Acquirer	Implied Enterprise Value (millions)	Revenue Multiple[4]		EBITDA Multiple[5]	
				Historical	Forecast	Historical	Forecast
Pending	Opnet	Riverbed	US$900	5.0	4.4	26.6	19.0
Nov-12	ONPATH	NetScout	US$$40	3.6	na	na	na
Aug-12	BreakingPoint	Ixia	US$$160	4.4	3.4	na	na
Jun-12	Anure	Ixia	US$145	3.6	2.4	21.6	na
Apr-12	LogLogic	TIBCO	US$130	3.3	na	na	na
Apr-12	MU Dynamics	Spirent	US$40	2.8	2.2	na	na
Mar-12	SonicWALL	Dell	US$1,250	4.8	na	na	na
Feb-12	Blue Coat Systems	Thoma Bravo & others	US$897	2.0	1.7	10.9	11.7
Dec-11	InfoVista	Thoma Bravo	US$54	1.2	1.2	9.1	7.4
Jul-11	DynaTrace	Compuware	US$231	8.9	5.8	na	na
Oct-10	ArcSight	Hewlett-Packard	US$1,503	7.7	6.4	59.4	32.9
Oct-10	Nimsoft	CA	US$353	6.5	na	na	na
Jul-10	SonicWALL	Thoma Bravo	US$507	2.4	2.2	16.6	11.0
Nov-09	Gomez	Compuware	US$295	6.3	na	na	na
Nov-09	NetQoS	CA	US$200	3.6	na	na	na
Nov-08	Secure Computing	McAfee	US$500	2.0	1.9	na	13.4
Jun-08	Packeteer, Inc.	Blue Coat Systems	US$194	1.3	1.2	na	14.5
Nov-07	Network General	NetScout Systems	US$206	1.5	na	na	na
Apr-07	SafeNet	Vector Capital	US$550	1.9	na	33.5	13.0
Minimum				***1.2***	***1.2***	***9.1***	***7.4***
Maximum				***8.9***	***6.4***	***59.4***	***32.9***
Median				***3.6***	***2.2***	***21.6***	***13.2***
Median (exc Outliers)				***2.6***	***2.1***	***13.8***	***12.4***
Average				***3.8***	***3.0***	***25.4***	***15.4***

Source: *Media reports, company announcements, annual reports and presentations.*

Brief descriptions of the transactions included above are provided in Appendix A. Each transaction has its own unique set of circumstances. As such it is often very difficult to identify trends or draw any meaningful conclusions.

[4]Represents implied enterprise value divided by Revenue.

[5] Normalised for receipt of Technology Grant relating to a prior period.

Share Market Evidence

The valuation of Endace has been considered in the context of the share market ratings of selected listed Australasian and international companies with operations in IT Monitoring and Security. While none of these companies is precisely comparable to Endace, the share market data provides some framework within which to assess the valuation of Endace.

Share Market Ratings of Selected Listed Companies[6]

Company	Market Capitalisation (US$ millions)	Revenue Multiple[7] (times)		EBITDA Multiple[8] (times)	
		Historic	Forecast	Historic	Forecast
Endace (pre-offer price)	**73.2**	**1.7**	**1.5**	**9.3**	**10.9**
Endace (Emulex offer price)	**121.3**	**2.8**	**2.5**	**15.8**	**18.5**
Compuware	1,993.8	2.0	2.0	9.3	9.5
Fortinet	3,195.6	5.7	4.7	19.5	18.0
F5 Networks	7,405.4	4.5	4.0	11.3	9.7
Ixia	1,102.0	3.7	2.8	15.3	11.1
NetScout Systems	1,050.0	2.8	2.5	10.5	8.9
Riverbed Technology	2,754.7	2.9	2.5	9.8	8.1
Sourcefire	1,481.3	7.8	5.9	44.1	29.5
Minimum		***2.0***	***2.0***	***9.3***	***8.1***
Maximum		***7.8***	***5.9***	***44.1***	***29.5***
Median (exc outliers)		***2.9***	***2.5***	***10.5***	***9.5***
Average (exc outliers)		***3.2***	***2.7***	***11.2***	***9.5***
S&P 500 Information Technology Sector Index		***2.2***			

Source: Grant Samuel analysis[9]

A description of each of the companies above is set out in Appendix B. When observing the table above the following points should be noted:

- the multiples are based on closing share prices as at 30 November 2012. The share prices, and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole;
- the companies selected have varying financial year ends. The data presented above is the most recent annual historical result plus the subsequent forecast year;
- the multiples for Endace above have been calculated on a undiluted basis;
- Netscout and Riverbed are considered by Endace's management as direct competitors; and
- there are considerable differences between the operations and scale of the comparable companies when compared with Endace. In addition, care needs to be exercised when comparing multiples of New Zealand companies with internationally listed companies. Differences in regulatory environments, share market and broader economic conditions, taxation systems and accounting standards hinder comparisons.

[6] The companies selected have a variety of year ends. The financial information presented in the Historic column corresponds to the most recent actual annual result. The forecast column corresponds to the forecast for the subsequent year.

[7] Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by Revenue.

[8] Represents gross capitalisation divided by EBITDA.

[9] Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

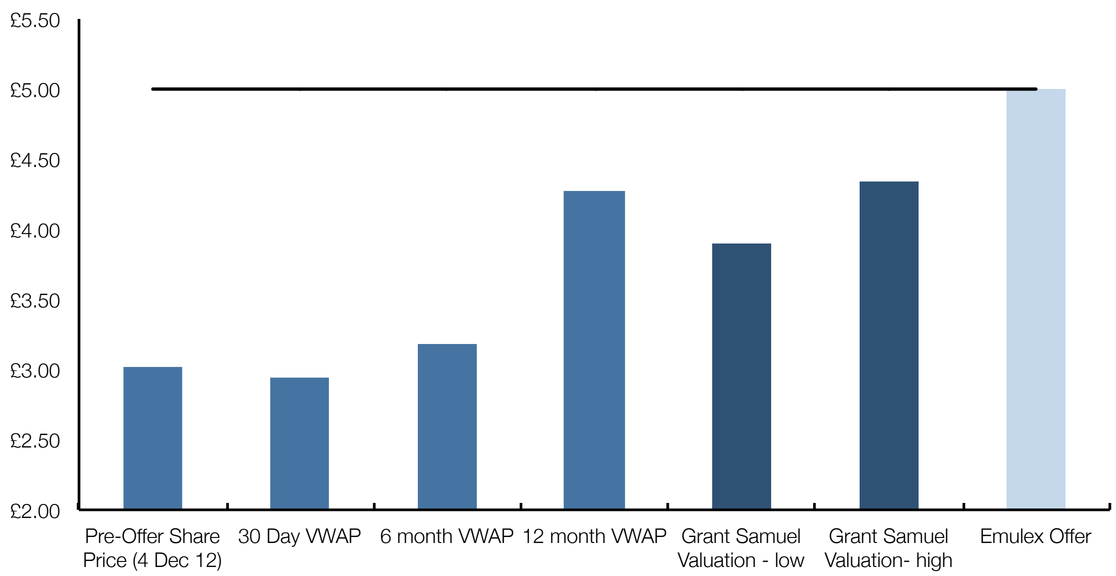
7. Merits of the Emulex Offer Full Takeover

7.1 The Value of the Emulex Offer

The value of the Emulex offer can be assessed with reference to a number of factors:

- ***Grant Samuel's assessment of the value of Endace.*** In Grant Samuel's opinion the full underlying value of Endace shares is in the range of £3.90 – £4.34 per share as set out in Section 6. The full underlying value is the price a person or entity would be expected to pay to acquire the company as a whole and, accordingly, includes a premium for control. The Offer price is £5 per share. The offer price is above valuation range assessed by Grant Samuel.
- ***the premium implied by the Emulex Offer.*** The Emulex Offer represents a premium of approximately 65.6% relative to the closing price of £3.02 per share on 4 December 2012 being the trading day prior to the announcement of the Emulex Offer and a premium of 69.5% over the volume weighted average share price (VWAP) over the 30 trading days prior to the announcement. Over the longer term the Emulex Offer represents a 57.2% premium to the 6-month VWAP and a 17.1% premium to the 12-month VWAP.

Comparison of the Emulex Offer Price with the Valuation Range and the Pre-Offer Endace Share Prices



- ***comparable company and comparable transaction data.*** The Emulex Offer implies historical and forecast revenue multiples of 3.0 and 2.7 times respectively and historical and forecast EBITDA multiples of 16.7 and 19.6 times respectively for year ending 31 March 2013. Grant Samuel's analysis suggests the multiples implied by the Emulex Offer is broadly in line with multiples paid for controlling shareholdings in comparable companies.

7.2 Rationale for the Offer / Timing and circumstances surrounding the Offer

Emulex is a leader in converged networking solutions, and provides OEM's with connectivity for servers, networks and storage devices within the data centre. While Emulex is substantially larger than Endace, with a market capitalisation of approximately US$600 million, it is small relative to other network security companies such as Netscout, Riverbed, and Solera. Emulex competes with these companies with its storage area network products (using fibre channel technology) and increasingly with Ethernet, as that technology continues to become the benchmark in both storage and WAN networks. Emulex has identified the Endace products and R&D capability as a way for it to differentiate its Ethernet product.

For Endace, Emulex's strong relationships with OEM's and channel partners is major attraction. Endace's primary current obstacle to gaining credibility with OEM's and channel partners is its small size. The proposed transaction is accordingly being represented as being mutually beneficial to both Endace and Emulex.

7.3 Factors affecting the outcome of the Offer

Likelihood of Emulex increasing its Offer price or extending the offer close date

There are two permissible variations to the key terms of the Emulex Offer:

- Emulex may choose to extend its Offer period. The Emulex Offer is due to close on 19 January 2013. Under the rules of the Takeovers Code the latest date to which the Emulex Offer may be extended is 90 days after the date on which the Offer opens. If Emulex chooses to waive its minimum acceptance condition the Offer is able to be extended for a further 60 days under rule 24B of the Takeovers Code; and
- Emulex may choose to increase its Offer price. If Emulex increases its Offer price while its current Offer is still open the increased price will be available to all Endace shareholders even if they have already accepted the £5 per share Offer. This will not apply if Emulex makes a further takeover offer at a higher price after the current Offer has closed, in which case the higher price would only be available to shareholders that did not accept the current Emulex Offer.

Likelihood of alternative offers

- The Emulex Offer was announced on 6 December 2012. To date no alternative offers have been forthcoming. While the emergence of the Emulex offer is not a direct consequence of the strategic review conducted by Endace in 2012, the process was considered comprehensive. Approximately 40 companies were approached, and it would have been apparent to those companies that offers for Endace would have been invited. More detailed discussions eventuated with selected parties, but none progressed to any form of offer being made. Given the occurrence of the recent strategic review, it is less likely that a competing offer to the Emulex offer will emerge;
- Certain shareholders in Endace have entered into lock-up agreements to sell their shares into the Emulex offer, when it is made, representing 17.08% of the issued shares in Endace. The Board of Endace has recommended the Emulex Offer to shareholders and Mark Rowan and John Scott, both of whom are Directors of Endace, have confirmed that they will use all reasonable efforts to accept or procure the acceptance of the Emulex in respect of the 323,459 and 131,110 shares they own respectively. The Endace Directors have confirmed that they are supportive of the Emulex Offer and that they shall recommend to shareholders that they accept the offer;
- if Emulex declares its Offer unconditional at a percentage shareholding of more than 50% but less than 90%, any party wishing to make a partial offer for over 20% of Endace would require the approval of Endace shareholders by way of an ordinary resolution which would require the support of Emulex. Any subsequent takeover offer for 100% of Endace would require Emulex to sell its shareholding in Endace to the new offeror for the full takeover to be successful. Importantly, in the event Emulex subsequently chose to sell its shareholding in Endace to a third party it could only do so with the approval, by way of ordinary resolution, of Endace shareholders not associated with Emulex.

Other factors

- the Emulex offer has the support of the majority of significant shareholders;
- since the Emulex offer was announced the Endace share price has traded below the offer price;
- the Emulex Offer is conditional on Emulex receiving OIO consent for the acquisition. OIO consent is unfortunately a slow process and whether consent will be given is uncertain. If the OIO does not approve the acquisition of Endace by Emulex, the Emulex Offer will lapse and Emulex will not acquire any shares in Endace. Although under the Overseas Investment Act Emulex could, if it wished, acquire up to 25% of Endace without OIO approval, the Takeovers Code would prevent this action as it prohibits the acquisition of more than 20% but less than 50% of a company without shareholder approval;
- the lock-in agreements do not confer any additional benefits on the locked-in shareholders than are available to all other Endace shareholders. In fact the lock-in agreements have the effect of reducing the flexibility available to the locked-in shareholders who have only limited ability to terminate the lock-in agreements in the event Emulex does not make its Offer or does not apply for consent from the OIO within the required timeframe. Provided Emulex makes its Offer on the intended terms and applies to the OIO within the required timeframe, the locked-in shareholders must accept the Emulex Offer. They do not have the ability to accept alternative proposals or to retain their shareholding in Endace; and

- there is no need for shareholders to accept the Offer early. The closing date for the Offer is 19 January 2013. This date can be extended by Emulex by giving no less than 14 days notice of such an extension. Not accepting the Emulex Offer or holding out until near the time the Emulex Offer closes may cause the Offer price to be increased. However, there is no certainty that the Offer price will be increased and Emulex may simply elect for the offer to lapse.

7.4 Potential Outcomes of the Emulex Offer

Emulex acquires 100% of Endace

Emulex is seeking to acquire 100% of the shares in Endace. The Emulex Offer is conditional on receiving sufficient acceptances to take its shareholding in Endace to 90% or more of the shares on issue. If Emulex receives acceptances that take its shareholding in Endace to 90% or more the Emulex Offer will be unconditional and:

- Emulex has stated that it intends to acquire the remaining shares in Endace using the compulsory acquisition provisions of the Takeovers Code. The compulsory acquisition provisions give Emulex the right to compulsorily acquire the remaining Endace shares on issue upon the 90% acceptance threshold being reached; and
- Endace will be de-listed from AIM and become a wholly owned subsidiary of Emulex.

Emulex receives acceptances of more than 50% but less than 90% of Endace

The implications of Emulex receiving sufficient acceptances to take its shareholding in Endace to more than 50% but less than 90% by the date on which the Emulex Offer closes are as follows:

- if Emulex chooses not to waive its 90% minimum acceptance condition, Emulex will not acquire any shares in Endace and Endace will remain a public company listed on the AIM;

If Emulex chooses to waive its 90% minimum acceptance condition and declares the Offer unconditional then:

- Emulex must acquire all Endace shares accepted into the Offer;
- Endace will continue to be listed on the AIM with Emulex as a cornerstone majority shareholder with a shareholding of more than 50% but less than 90%;
- If Emulex receives acceptances gaining it a shareholding of 75% or more it will procure that Endace applies to the London Stock Exchange for the listing on the AIM market to be cancelled. This will make trading of remaining Endace shares very difficult. Endace will remain subject to the New Zealand Takeovers Code for a period of 12 months following the delisting from AIM;
- Emulex will have effective control over the day-to-day operations of Endace. Emulex has indicated if the takeover is successful that it wishes to retain the management of Endace and for the business to operate as a stand-alone entity. If the 100% takeover is not achieved, Emulex will control the company but will not be able to amalgamate Endance into its own operations. Remaining minority shareholders will have limited influence over the day-to-day operations of Endace, although that is arguably already the case today;
- Emulex will be entitled to appoint new directors to the board of Endace and would almost certainly effect those appointments;
- by virtue of its majority shareholding Emulex would control the outcome of any ordinary resolution put to shareholders;
- once Emulex has control of Endace it can determine such matters as dividend policy, capital expenditure and funding mix. These may have an impact on the earnings of the business. At a shareholding of more than 50% but less than 90% Emulex may prevent a dividend being paid preferring profits to be re-invested in expanding the business;
- if Emulex acquires a shareholding of 75% or more it will be able to control the outcome of special resolutions such as those required to change the constitution or approve a major transaction;
- it is likely that shares in Endace will trade below the Offer price of £5. Even in the absence of a substantial shareholding being acquired by Emulex, Endace shares are relatively thinly traded. As it has periodically in the past, this may suppress the Endace share price. The closer the Emulex shareholding gets to 90% the lower the liquidity of Endace shares will be;

- if the Offer is declared unconditional at a shareholding of more than 50% but less than 90%, Emulex cannot acquire any further shares in Endace for a period of twelve months without making another formal takeover offer for all or some of the remaining shares in the company, or without shareholder approval. However, from twelve months after the Emulex Offer closes, Emulex will be able to utilise the "creep" provisions of the Takeovers Code to purchase up to a further 5% of Endace per annum;
- the Takeovers Code permits Emulex to extend its Offer close date to 20 March 2013. If Emulex declares the offer unconditional as to the minimum level of acceptances, the Offer close date can be extended for a further 60 days (beginning on the date on which the offer became unconditional as to acceptances) to allow further time for Emulex to try and reach its 90% target. This has the effect of Emulex being able to delay the close of its Offer for a period of approximately 5 months;
- Endace shareholders who choose not to accept the Offer have either decided they want to retain their investment in Endace for the longer term, or are expecting that Emulex will make another offer at a higher price. There is no certainty regarding the ongoing performance of Endace or that a subsequent offer from Emulex will be forthcoming if it does not acquire 100% of Endace. The risks and benefits associated with an investment in Endace are outlined at Section 7.5 below; and
- Emulex has not provided any indication, and nor does it have to, as to whether or not it is likely to waive its 90% minimum acceptance threshold. Grant Samuel considers it unlikely that Emulex would waive its 90% acceptance condition. Unless Emulex receives acceptances of at least 75%, Endace would remain listed on AIM, with all the cost, reporting and scrutiny associated with that, and not give Emulex total control over the business. Importantly, Emulex is listed on the NYSE, and it is unlikely that it would wish to be the major shareholder in another business listed on the AIM.

Emulex does not receive acceptances of more than 50% of Endace

If Emulex receives acceptances of less than 50% of the shares in Endace the Offer will lapse and no shares will be acquired by Emulex. As stated above, Grant Samuel considers that the more likely outcome is that Emulex will achieve the 90% acceptance threshold or it will not acquire any shares in Endace, regardless of the level of acceptances below 90%.

7.5 An investment in Endace

As with any equity investment there are risks associated with the market in which the company operates. The risks associated with an investment in Endace include:

- Endace has been listed on the AIM for 7 years. Trading in the shares is infrequent, and there is a high degree of illiquidity attaching to the stock. In the absence of a significant increase in the earnings and a consequent increase in the market capitalisation of Endace, this situation is unlikely to change;
- By comparison to its competitors Endace is a small company and its size has inhibited its ability to promote its product range to the major OEM's and channel partners. It lacks the market presence, track record, and financial capacity to command product positioning in major networking contracts or builds. This lack of penetration with major channel partners is a significant and frustrating growth constraint for Endace;
- Endace needs quality R&D engineers to continually enhance, expand and innovate the product base. To attract and retain this calibre of resource requires Endace to provide a stimulating, challenging and well funded environment. If Endace were to constrain its R&D investment for financial or strategic reasons, the engineering skill base would be expected to quickly dissipate. Technology and innovation businesses such as Endace that do not continually invest in R&D often have a high failure rate. The government research and development grants are critical to the support of Endace's R&D function;
- Endace competes against larger businesses in a technological market that is fast moving and continually evolving. In order to adequately compete, Endace must be well funded and attract and retain high calibre management. A common incentive tool is for companies to issue options to key management. AIM has given guidance that total options issued (converted or outstanding) should not exceed 10% of the fully diluted capital. At the present time Endace's converted and outstanding options are equivalent to 15% of the fully diluted capital. Accordingly, Endace is likely to have difficulty in issuing further tranches of options which could become an issue with existing and new employees; and

- Endace has enjoyed success in selling into UK, Australia and NZ, but has been (relative to its competitors) less successful in selling into the large US market. Despite this, 60% of Endace sales are in the US and management see significant potential to increase sales. Part of the challenge is attributed to Endace (correctly) being perceived as a non US-entity. Endace has sought to address this issue by relocating its sales and marketing function to California. However, this may only prove to be a partial solution. Ownership by Emulex would solve this perception issue for Endace and significantly improve its in-market credibility.

The benefits and opportunities associated with an investment in Endace include:

- Since its inception, Endace has been able to develop and market network security products that have been sought by governments, telecommunications companies, and increasingly, businesses. If Endace can secure greater channel partner distribution or OEM acceptance, the growth opportunities for the business are significant;
- Endace's progressive shift from solely DAG cards to being a provider of systems has been successful. As the awareness of the product in the enterprise market expands, the sales opportunities showed increase; and
- Endace enjoys strong margins as a consequence of its efficient and advanced R&D function, but also because of the market demand setting the pricing for Endace and equivalent network security and monitoring products.

7.6 Acceptance or Rejection of the Emulex Offer

Acceptance or rejection of the Emulex Offer is a matter for individual shareholders and optionholders based on their own view as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders and optionholders will need to consider these consequences and, if appropriate, consult their own professional adviser(s).

11 December 2012

Grant Samuel + Associates

Appendix A – Recent Transaction Evidence

A brief description of each of the transactions listed in Section 6 is outlined below:

Opnet /Riverbed

In October 2012, Riverbed entered into an agreement to acquire OPNET from its shareholders for approximately US$990 million. Opnet shareholders will receive for each Opnet share they own, US$36.55 in cash and 0.2774 of a share of Riverbed common stock. As a result of this announced transaction, Opnet's trading multiple reflects a takeover premium of approximately 30%. The consensus from analysts is that it is unlikely that a competing bid will emerge as the likely bidders all have existing solutions comparable to Opnet's product offering. Over the last five years Opnet has demonstrated consistent revenue and earnings growth, which was, at the time of the announced transaction, forecast to continue. Opnet is a provider of software products and related services for managing applications and networks. Opnet's products address: application performance management; network performance management; and network research and development. OPNET's main segment application performance management is viewed as synergistic to Riverbed. The other segment, Network Performance Management competes with Riverbed's Cascade. Opnet's trading multiple reflects a takeover premium of approximately 30% to its prevailing share price.

ONPATH / NetScout

In November 2012, NetScout Systems completed the acquisition of ONPATH for approximately US$40 million. ONPATH develops, engineers, and builds physical layer switches. The company also offers a software solution that provides management and monitoring from local or remote locations. NetScout announced that it will maintain ONPATH's test automation business as a new business unit and will integrate the ONPATH network-monitoring switch and system management products into its nGenius family. The transaction implied a historical revenue multiple of 3.6 times.

BreakingPoint / Ixia

In August 2012, Ixia completed the acquisition of BreakingPoint for approximately US$160 million. This acquisition of BreakingPoint enabled Ixia to provide an end-to-end solution for monitoring, testing, and optimising converged networks. BreakingPoint's solutions provide visibility into emerging threats and applications, along with advance insight into the resiliency of an organisation's IT infrastructure under operationally relevant conditions and malicious attacks. The historical and forecast revenue multiples implied by the transaction were 4.4 and 3.4 times respectively.

Anue / Ixia

In June 2012, Ixia completed the acquisition of Anue for approximately US$145 million. Anue's solutions provides network operators the visibility into network traffic in real-time. The acquisition of Anue strengthened Ixia's position in validating next-generation networks and applications running over wireless access infrastructure, cloud environments, and converged data centres. Management have forecast strong growth in Anue's revenue and earnings as a result of the transaction. The historical and forecast revenue multiples implied by the transaction were 3.6 and 2.4 times respectively.

LogLogic / TIBCO

In April 2012, TIBCO Software acquired LogLogic for US$130 million. LogLogic is a provider of scalable log and security management platforms. The acquisition will expand TIBCO's product range and provide customers with the ability to proactively monitor real-time events and assess risks. The transaction implied a historical revenue multiple of 3.3 times.

MU Dynamics / Spirent

In April 2012, Spirent acquired MU Dynamics for approximately US$40 million. Mu Dynamics is a security testing pioneer, offering innovative solutions that enable faster, higher quality deployments of applications, including Cloud based applications. Spirent is a global leader in test and measurement within development labs, communication networks and IT organisations. The transaction implied a forecast revenue multiple of 2.2 times.

SonicWALL / Dell

In May 2012, Dell completed the acquisition of SonicWALL from Thoma Bravo and others for approximately US$1.3 billion. SonicWALL specialises Unified Threat Management and its security software portfolio complements Dell's Infrastructure and end-to-end advanced threat protection solutions. The transaction implied a historical revenue multiple of 4.8 times.

Blue Coat Systems / Thoma Bravo and others

An investor group led by Thoma Bravo completed the acquisition of the Nasdaq listed Blue Coat Systems from a group of shareholders on 15 February 2012 for approximately US$897 million. The offer represented a premium of 62% over the 60 day trailing average for the period ended 8 December 2011. Blue Coat Systems is a provider of Web security and WAN optimisation solutions. Blue Coat offers solutions that provide visibility, acceleration and security required to optimise and secure the flow of information to any user, on any network, anywhere. The historical and forecast revenue multiples implied by the transaction were 2.0 and 1.7 times respectively.

InfoVista /Thoma Bravo

In March 2012, Thoma Bravo completed the acquisition of the remaining 32.7% shareholding in the French listed InfoVista for approximately US$54 million. The offer price was relatively in line with the share price at the time the transaction was announced. InfoVista is a provider of service performance assurance software solutions for IP-based network and application services including a unified network performance management and application performance management platform. The historical and forecast revenue multiples implied by the transaction were 1.2 and 1.2 times respectively.

dynaTrace / Compuware

In July 2011, Compuware Corporation acquired dynaTrace from Bay Partners and other shareholders for approximately US$231 million. dynaTrace provides application performance management solutions. The company provides: production operators and business owners with insights into the experience and behavior of various users from any device for various transactions; performance testers and QA operators with visibility into how applications behave under load and spots regressions; and software architects and development managers with application performance management solutions for engineering and various development processes. The historical and forecast revenue multiples implied by the transaction were 4.6 and 3.7 times respectively.

ArcSight / Hewlett-Packard

In October 2010, Hewlett-Packard announced that it had completed the acquisition of ArcSight for circa US$1.5 billion. Arcsight sells security information and event management software, a subset of enterprise security devoted to logging and analysing behaviour on a network to find and prevent cyber-threats. The offer represented a premium of 70% over the share price one month prior to announcement of the transaction. The strategic rationale for the transaction was for ArcSight to be integrated into Hewlett-Packard's IT operations management portfolio allowing organisations to converge millions of events across IT operations and security. At the time of the transaction, due to an increase in cybercrime and the need to diversify revenue, the large US IT players were acquiring IT security companies (e.g Intel acquiring McAfee). The historical and forecast revenue multiples implied by the transaction were 7.7 and 6.4 times respectively.

Nimsoft / CA

In March 2010 CA completed the acquisition of Nimsoft for circa US$353 million. Nimsoft is a provider of IT performance and availability monitoring solutions for emerging enterprises and Managed Service Providers. The acquisition extends CA's product portfolio and CA plans to leverage its channels to grow Nimsoft in international markets where CA expects cloud computing and hosted/managed services to play a central role in business development. Nimsoft will operate as a standalone business unit within CA's Cloud Products & Solutions Business Line. The transaction implied a historical revenue multiple of 4.8 times.

SonicWALL / Thoma Bravo

In July 2010 an investor group led by Thoma Bravo completed the acquisition of NASDAQ listed SonicWALL. The offer represented a premium of 29% over the share price one week prior to announcement of the transaction. As noted above, Dell acquired SonicWALL in 2012. The historical and forecast revenue multiples implied by the transaction were 2.4 and 2.2 times respectively.

Gomez / Compuware

In November 2009, Compuware acquired Gomez for circa US$295 million from Dolphin Equity Partners. Gomez was involved in Web application experience management, providing an on-demand platform that organisations use to optimise the performance, availability, and quality of their Web and mobile applications. The strategic rationale for the acquisition was to address the challenges of network expansion (from a local enterprise network to the internet). The historical revenue multiple implied by the transaction was 6.3 times.

NetQoS / CA

In November 2009, CA completed the acquisition of NetQoS for approximately US$200 million. NetQoS provides network performance management products and services to manage network infrastructure for application performance. NetQoS extended CA's capabilities in the areas of Application Performance Management and Network and System Management. The historical revenue multiple implied by the transaction was 3.6 times.

Secure Computing / McAfee

In November 2008 McAfee completed the acquisition of NASDAQ listed Secure Computing Corporation for approximately US$500 million. The offer represented a premium of 32% over the share price one month prior to announcement of the transaction. Secure Computing is a provider of enterprise gateway security, delivering a set of solutions that help customers protect their critical Web, email and network assets. The historical and forecast revenue multiples implied by the transaction were 2.0 and 1.9 times respectively.

Packeteer / Blue Coat Systems

In June 2008 Blue Coat Systems completed the acquisition of NASDAQ listed Packeteer. The offer represented a premium of 34% over the share price one month prior to announcement of the transaction. The acquisition of Packeteer enables Blue Coat to provide an even more comprehensive WAN Application Delivery solution. The acquisition also adds the PacketShaper product and technologies to the Blue Coat product portfolio. PacketShaper offers industry application classification and traffic shaping capabilities enabling users to have greater visibility and control of network traffic. The historical and forecast revenue multiples implied by the transaction were 1.3 and 1.2 times respectively.

Network General / NetScout Systems

In November 2007, NetScout Systems completed the acquisition of Network General from Silver Lake Partners and TPG for approximately US$206 million. Network General was a provider of IT management solutions designed to integrate and simplify troubleshooting and management across IT domains, assuring the delivery of IT services. The Network General portfolio consists of software solutions and intelligent appliances that proactively monitors and manage elements of IT infrastructure performance including network devices, applications, and servers. The historical revenue multiple implied by the transaction was 1.5 times.

SafeNet / Vector Capital

In April 2007 Vector Capital completed the acquisition of NASDAQ listed SafeNet for approximately US$550 million. The offer represented a premium of 13% over the share price one month prior to announcement of the transaction. SafeNet is a provider of data protection. SafeNet's data-centric approach focuses on the protection of high value information throughout its lifecycle, from the data center to the cloud. SafeNet's customers across commercial enterprises and government agencies trust SafeNet to protect and control access to sensitive data, manage risk, ensure compliance, and secure virtual and cloud environments. The historical and forecast revenue multiples implied by the transaction were 1.9 and 1.8 times respectively.

Appendix B – Comparable Listed Companies

A brief description of each of the companies listed in Section 6 is outlined below:

Compuware

Compuware provides software, experts and best practices to ensure applications work well and deliver business value. Compuware solutions address application performance across the Enterprise and the Internet. Compuware has recently expanded its product portfolio through the acquisition of dyanTrace and Gomez. Compuware's revenue and earnings growth has been relatively flat over the last three years and limited growth is forecast due to the decline it is Mainframe business. This decline is offset by growth in its Application Performance Monitoring business.

Fortinet

Fortinet is a worldwide provider of network security appliances and unified threat management. Fortinet's products and subscription services provide integrated protection against dynamic security threats while simplifying the IT security infrastructure. Included in Fortinet's product portfolio are the FortiAnalyzer and FortiManager product lines that enable end-customers to manage the system configuration and security functions of multiple devices from a centralised console. This is combined with FortiAnalyzer, which enables the collection, analysis and archiving of content and log data generated by Fortinet's products. Over the last five years Fortinet has achieved strong revenue and earnings growth.

F5 Networks

F5 Networks is a provider of Application Delivery Networking technology that optimises the delivery of network-based applications and the security, performance and availability of servers, data storage devices and other network resources. The core of its Application Delivery Networking technology is its Traffic Management Operating System that enables products to inspect and modify traffic flows to and from servers at network speed and supports a broad and growing array of functions that enhance the security, performance and availability of applications. Over the last five years F5 Networks has averaged approximately 21% and 28% year on year revenue and EBITDA growth respectively.

Ixia

Ixia provides converged IP network validation and network visibility solutions. Equipment manufacturers, service providers, enterprises, and government agencies use Ixia's solutions to design, verify, and monitor a broad range of wired, Wi-Fi, and 3G/LTE equipment and networks. Recently Ixia acquired Anue to expand into network assurance and applications performance management (see Appendix A for more detail). The company has forecast strong growth due to investment in 4G/LTE, smart phone penetration, network traffic growth and growth in Ethernet based infrastructure.

NetScout Systems

NetScout Systems specialises in Unified Service Delivery Management enabling comprehensive end-to-end network and application assurance. NetScout has packet-flow technology that provides real-time network and application performance intelligence enabling unified assurance of the network, applications and users. More than 90 percent of the Fortune 100 enterprise companies and 148 service providers in 46 countries around the world use NetScout's nGenius Service Assurance Solution. The nGenius solution enables, real-time visibility into network, application and service performance to provide operational intelligence.

Riverbed

Established in 2004, Riverbed provides solutions to problems associated with information technology performance across WANs in the United States and internationally. It primarily offers products, which enable its customers to improve the performance of their applications and access to their data across WANs, as well as supports its services platform. Since its IPO in 2006, Riverbed has grown its revenue and earnings significantly. From 2006 to 2012, Riverbed's revenue has grown from US$90 million to US$800 million. Excluding the acquisition of Opnet, analysts have forecast Riverbed's revenue to continue grow at a rate of approximately 15% year on year.

Sourcefire

Sourcefire delivers cyber security technologies. Its portfolio of solutions enables commercial enterprises and government agencies worldwide to manage and minimise cyber security risks. Sourcefire provides produces and services to some of the world's largest financial institutions, defence contractors, IT companies, telecommunication companies as well as US government agencies. Sourcefire has achieved strong revenue growth over the last three years, which is forecast to continue at similar rates.

Appendix C – Valuation Methodology Descriptions

1. Capitalisation of Earnings

Capitalisation of earnings or cash flows is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the share market. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable earnings is being valued Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between the parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better adjust for differences in relative capital intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The usual approach is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the share market. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and share market prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

2. Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate, which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessity involve a substantial element of judgment. In addition, even where cash flow forecasts are available the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a “de facto” cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions need to be made as to the expected future performance of the business operations.

3. Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in Endace’s case.

4. Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a “cross check” of the result determined by a capitalised earnings valuation or by discounting cash flows, but in some industries rules of thumb can be the primary basis on which buyers determine prices. In the technology sector, implied revenue multiples are a commonly used reference point. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Appendix D – Interpretation of Multiples

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of controlling the interests in similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by share market investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
  - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
  - strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
  - the company's own performance and growth trajectory;
  - rationalisation or synergy benefits available to the acquirer;
  - the structural and regulatory framework;
  - investment and share market conditions at the time, and
  - the number of competing buyers for a business;
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall share market levels and rating between countries, economic factors (economic growth, inflation, interest rates), market structure (competition etc) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or share market levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were cost reduction opportunities or synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these cost reductions and/or synergies the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings;
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:
  - EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a

better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and

- businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

Appendix E – Qualifications, Declarations and Consents

1. Qualifications

The Grant Samuel group of companies provides corporate advisory services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Simon Cotter, BCom, MAppFin, F Fin, and Christopher Smith, BCom, PGDipFin, MAppFin. Each has a significant number of years of experience in relevant corporate advisory matters.

2. Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the directors, management and advisers of Endace. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Endace. However in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

The time constraints imposed by the Takeovers Code are tight. This timeframe restricts the ability to undertake a detailed investigation of Endace. In any event, an analysis of the merits of the offer is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of Endace. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Endace. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cash flows of Endace prepared by the management of Endace. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cash flows for Endace. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Endace is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Endace, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Endace, other than as publicly disclosed.

3. Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Emulex Offer. Grant Samuel expressly disclaims any liability to any Endace security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Target Company Statement issued by Endace and has not verified or approved any of the contents of the Target Company Statement. Grant Samuel does not accept any responsibility for the contents of the Target Company Statement (except for this report).

4. Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Endace or Emulex that could affect its ability to provide an unbiased opinion in relation to the Emulex Offer. Grant Samuel had no part in the formulation of the Emulex Offer. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Emulex Offer. Grant Samuel will receive no other benefit for the preparation of this report. Grant Samuel considers itself to be independent for the purposes of the Takeovers Code.

5. Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Endace and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Endace and contained within this report is sufficient to enable Endace security holders to understand all relevant factors and make an informed decision in respect of the Emulex Offer. The following information was used and relied upon in preparing this report:

Publicly Available Information

- Annual reports for Endace for the years ended 31 March 2011 and 2012;
- Management presentation of half year results to 30 September 2011 and 2012; and
- other information on the network security sector and publicly listed companies with operations comparable to Endace including annual reports, financial results and brokers reports.

Non Public Information

- management forecast for the year to 31 March 2013;
- management presentation to parties involved in the strategic review, dated April 2012;
- CEO and CFO reports for the 12 months to October 2012;
- Questions and Answers in relation to the due diligence process undertaken by Emulex on Endace;
- Draft Target Company Statements and offer documentation.
- Draft Rule 22 Report; and
- Interviews and meetings with Endace management and Directors.

6. Declarations

Endace has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Endace has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Endace are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the directors and executive management of Endace. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7. Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Target Company Statement to be sent to security holders of Endace. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.