EXHIBIT 4
(Part 1)

cutting through complexity™

Project Tesla

Due diligence assistance

DRAFT

August 9, 2011

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August 9, 2011

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Meeta Sunderwala
Hewlett–Packard Company
3000 Hanover Street
Palo Alto, CA 94304

Dear Meeta;

We have not yet completed our engagement to assist Hewlett-Packard Company ("Client" or "you") in performing due diligence of Autonomy Corporation plc ("Target") in accordance with the terms of our statement of work dated August 3, 2011 and the related Master Service Agreement as amended on January 13, 2011, including its Standard Terms and Conditions. This report reflects our findings to date based on the data provided in the data room and limited telephone meetings with management and it will be updated as further data and access is provided.

Objective

The objective of our engagement was to assist you with your assessment of the risks and opportunities of your proposed investment in Target. Our work was conducted using an electronic data room and telephone discussions with Target management. The primary scope of our engagement was to obtain, read, make inquiries concerning, and comment on information that you and Target provided to us, directed toward those business activities and related financial data that you identified as important to your investment decision.

Basis of information

The statement of work describes the procedures we were to perform; a summary of those procedures is included as an appendix to this report. Those procedures were selected by you and were limited in nature and extent to those that you determined best fit your needs. We make no representation regarding the sufficiency for your purposes of the procedures you selected, and those procedures will not necessarily disclose all significant matters about Target or reveal errors in the underlying information, instances of fraud, or illegal acts, if any. We have indicated in our report any instances in which procedures you requested could not be performed. This report was prepared by us on the basis that you provided us with all relevant information you received concerning Target. You have agreed to review promptly this draft of our report to confirm that the procedures we performed were consistent with those requested by you, and to advise us on a timely basis of any additional procedures you would like us to perform or areas you would like us to address.

The procedures we performed do not constitute an audit, examination or review in accordance with standards established by the American Institute of Certified Public Accountants ("AICPA"), and we have not otherwise verified the information we obtained or presented in this report. Also, any procedures we performed with respect to Target's internal control over financial reporting were substantially less in scope than an examination of internal control conducted in accordance with Statements on Standards for Attestation Engagements issued by the AICPA. Therefore, we express no opinion or any other form of assurance on the Target's internal control over financial reporting or on the information presented in our report, and make no representations concerning its accuracy or completeness. Furthermore, we have not compiled, examined, or applied other procedures in accordance with Statements on Standards for Attestation Engagements issued by the AICPA to prospective information contained in this document and, accordingly, express no opinion or any other form of assurance or representations concerning the accuracy, completeness or presentation format of such prospective information. There will usually be differences between projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

Our procedures concentrated on the financial, tax, and customer contract information contained in the electronic data room.

Specific Target officers and management interviewed included: Andrew Kanter, Chief Operating Officer and General Counsel, Sushovan Hussain, Chief Financial Officer and Stephen Chamberlain, Vice President of Finance.

The data included in this report was obtained from you and Target on or before August 9, 2011. Since many aspects of the proposed transaction with Target have either not been finalized or are not yet documented, changes may occur that materially affect the financial and other information we received and reported to you. We have no obligation to update our report or to revise the information contained herein to reflect events and transactions occurring subsequent to August 9, 2011. We have not reviewed a draft of this report with Target management for the purpose of confirming the factual accuracy of the information we presented.

We presented our interim findings to you in various phone conversations throughout the course of our work. Because of its special nature, this report is not suited for any purpose other than to assist you in your evaluation of Target and, as such and as agreed in the SOW, is restricted for your internal use only.

Please contact Andy Gersh at 650-404-3025, Richard Hanley at 650-404-4602 or Rusty Thomas at 650-404-5008 if you have any questions or comments on this report. We look forward to continuing to provide service to Hewlett-Packard Company in the future.

Firm signature to be inserted in Final Report

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Glossary of terms

$m	U.S. dollars in millions
AEHL	Target Europe Holdings Ltd. (UK)
ANAH	Target NA Holdings, Inc. (U.S.)
APIC	Additional paid-in capital
ASC	Accounting Standards Codification
ASP	Average selling price
CUP	Comparable uncontrolled price
DSO	Days sales outstanding
DTA	Deferred tax assets
DTL	Deferred tax liabilities
E&Y	Ernst & Young
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EBT	Employee Benefit Trust
EITF	Emerging Issues Task Force
ETR	Effective tax rate
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation
FY	Fiscal year ended December 31, 20XX
G&A	General and administrative
GAAP	Generally accepted accounting principles
GM	Gross margin
H1 201X	6 months ended June 30, 20XX
HMRC	Her majesty's revenue and customs
HP	Hewlett-Packard
IAS	International Accounting Standards
IDOL	Intelligent Data Operating Layer
IFRS	International Financial Reporting Standards
IFRIC	IFRS Interpretations Committee Update
Interwoven	Interwoven, Inc.
IP	Intellectual property
IRC	Internal Revenue Code of 1986, as amended
IRM	Iron Mountain
IRS	Internal Revenue Service
LLC	Limited liability company
LLC 1	Target TS1 LLC
LLC 2	Target TS2 LLC

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Glossary of terms

Term	Definition
Management	Target's management
MFN	Most favored nation
NIC	National Insurance Contributions
NOL	Net operating loss
OEM	Original equipment manufacturer
OM	Operating margin
PAYE	Pay As You Earn
PCS	Post contract support
PP&E	Property, plant and equipment
PPA	Purchase price accounting
PS	Professional services
PSM	Profit Split Method
PwC	Pricewaterhouse Coopers
Q1'XX	3 months ended March 31, 20XX
Q2'XX	3 months ended June 30, 20XX
Q3'XX	3 months ended September 30, 20XX
Q4'XX	3 months ended December 31, 20XX

Term	Definition
R&D	Research & development
ROW	Rest of world
S&M	Sales and marketing
SaaS	Software-as-a-service
SOL	Statute of limitations
Target	The Autonomy Group
TNMM	Transactional net margin method
TP	Transfer pricing
U.K.	United Kingdom
U.S.	United States
U.S. Group	U.S. federal consolidated group with common parent, Autonomy NA Holdings, Inc.
U.K. parent	Autonomy plc (U.K.)
U.K. Plan	U.K. discretionary option scheme 1996
VAR	Value-added reseller
VSOE	Vendor-specific objective evidence
WHT	Withholding tax

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Executive
summary

Executive summary

Headlines

Due diligence process	▪ Due diligence comprised telephone discussions with management and access to very limited proprietary financial and tax information. The majority of findings and observations are based on oral representations from management and reading published financial information. ▪ This acquisition is under the remit of the U.K. City Code on Takeovers and Mergers ("the Code"). The rules in the Code regarding treatment of bidders frequently results in very limited information being provided prior to a transaction closing. The data and access provided to us during due diligence was very limited but was comparable with other acquisitions involving large U.K. publicly traded companies
Historical revenue growth	▪ Target reported organic revenue growth 2009 to 2010 and H1 2010 to H1 2011 of 12% for the consolidated business and 17% for the core IDOL business (excluding services and deferred revenue roll-out) in both periods. This is a decline from organic revenue growth of 16% and14% in total revenue and 22% and 24% for IDOL for the periods 2008 to 2009 and H1 2009 to H1 2010, respectively. Immediate future organic revenue growth should be supported by the contribution from the acquired Iron Mountain business.
Revenue recognition	▪ Target recognizes revenue in accordance with IFRS. The majority of Target's revenue recognition policies appear to be consistent with U.S. GAAP and HP policies. However, there are some policy differences related to extended payment terms, sales to VARs, and potentially fair value analysis. ▪ The differences could not be quantified but should only have a short term impact on your GAAP model revenue recognition (i.e. through FY13) as you institute the necessary processes and reporting around contracting to be consistent with your revenue recognition model.
Balance sheet and debts	▪ Target has almost $900 million of outstanding debt that will need to be repaid at Closing. There is a make whole provision in the debt and the total debt repayment costs (convertible, bank debt, and accrued interest) may be about $1.35 billion. ▪ There is a change in control provision in a soccer sponsorship arrangement which extends the sponsorship arrangement through the 2012/2013 season (minimum of $18 million). There is also a cash payment in January 2012 of $9 million for the 2011/2012 season. Target may have employee change in control obligations but these amounts were not disclosed to us. ▪ Target has deferred revenue at June 30, 2011 of $193 million. In acquisition accounting this balance will be fair valued. Our preliminary estimate is that the fair value may be about $60 million. About 95% of the balance will be recognized in FY12. Target has $272 million of committed backlog at June 30, 2011. This backlog will be recognized as revenue over three to five years. Our initial estimate is that an amortizable asset will be recorded in connection with this backlog of about $75 million. The intangible asset will be amortized as an operating expense. The net contribution to operating income is estimated to be about $197 million. ▪ The fair value of Target's investment in Blinkx is currently about $25 million less than the book value ($95 million). ▪ Target is currently negotiating a net working capital adjustment in connection with the Iron Mountain acquisition. Target may recover up to $20 million of consideration if it prevails in its claim.
Taxation	▪ Target's management represented that the 2011 effective tax rate is projected to approximate 26%, comprised primarily of a mix of U.S. and U.K. income subject to statutory rates, net of R&D credit benefits in both countries and the benefit of an intercompany financing arrangement. ▪ Target's transfer pricing policy relating to its U.S. acquisitions may be challenged by the IRS. In addition, there may be some other miscellaneous tax exposures. The range of exposures appears to be around $30 million. Any transfer pricing assessments sustained by the IRS could conceivably be mitigated through competent authority proceedings between the U.S. and U.K. tax authorities, as contemplated by the U.S.-U.K. Income Tax Treaty. ▪ Target acquired or generated approximately $389 million of U.S. NOLs, of which approximately $76 million were subject to permanent limitation under IRC section 382. Management has represented all available losses were to be utilized by 2011.

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Executive summary

Overview

Target is a provider of enterprise search and knowledge management software that allows companies to more efficiently manage and process data.

Target was founded in 1996 and has dual headquarters in Cambridge, United Kingdom and San Francisco, California.

Target has acquired four companies from 2009 through H1'11.

Target
Revenue: FY10: $870m
Operating income: FY10: $316m
Employees: as of July 2011: 2,621

Americas
Revenue: FY10 $592m
Operating income: FY10 $196m
Headcount as of July 2011: 1,812

Rest of World
Revenue: FY10 $278m
Operating income: FY10 $117m
Headcount as of July 2011: 809

Products

License	Cloud	OEM	Services	Deferred revenue release
FY10: $252m	FY10: $190m	FY10: $133m	FY10: $41m	FY10: $256m

Markets

Power: Provides infrastructure that enables an organization to manage and process its data, independently of where it is stored or created.

Protect: Allows companies to prepare for changes in regulatory environments have implications across all sectors.

Promote: Enables implementation of a meaning-based marketing solution, as well as leveraging a firm's online business model.

Customers

Power: Samsung, Shell, AT&T, Philips, Nissan, U.S. Department of Homeland Security, McDonalds, Verizon Wireless

Protect: New York Stock Exchange, U.S. Securities and Exchange Commission, Citigroup, Chevron, MGM Grand

Promote: Safeway, Allstate, Symantec, Boeing, Proctor and Gamble, FedEx, NBA, GE, Hilton

Note: Target's presentation of operating income by region excludes $3.5 million of restructuring costs and $6.6 million of FX gains ($3.1 million difference).
Source: Annual reports and unaudited management information

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Executive summary

Summary income statements

Target has experienced significant growth in the last three years. The growth is a combination of acquisitions (principally Interwoven) and organic growth.

Management stated that it expects the organic growth rate to remain around 15% for the next few years.

Income statements - reported results

$m	2008	2009	2010	H1 2010	H1 2011
Revenue	503.2	739.7	870.4	415.3	476.0
Cost of revenue	(45.0)	(87.7)	(111.5)	(51.9)	(58.6)
Intangible amortization	(19.5)	(49.7)	(57.3)	(29.4)	(29.1)
Gross profit	438.7	602.3	701.6	334.0	388.3
Research and development	(78.4)	(98.8)	(114.8)	(55.5)	(71.8)
Sales and marketing	(135.2)	(170.8)	(204.1)	(93.5)	(111.3)
General and administrative	(42.6)	(60.6)	(69.4)	(34.5)	(37.4)
Other	4.0	0.1	3.1	(0.4)	(0.2)
Operating income	**186.5**	**272.2**	**316.4**	**150.1**	**167.6**
Net interest income/(expense)	1.4	(5.8)	(32.8)	(13.2)	(20.3)
Other	(2.2)	(0.3)	(1.4)	(0.7)	(0.4)
Tax	(54.0)	(74.5)	(64.9)	(34.2)	(37.8)
Net income	**131.7**	**191.6**	**217.3**	**102.1**	**109.1**

Source: Annual reports, unaudited management information

Target has made a number of acquisitions. A significant portion of the revenue growth is due to acquisition. Management estimates the underlying organic growth to be about 15% to 17% 2008 to 2010.

Target capitalizes R&D expenses in accordance with IAS 38. Post-acquisition, it is likely that the majority of this expense will not qualify for capitalization under U.S. GAAP. The net impact of this policy to operating margins is about 2%.

Income statements - adjusted for intangible amortization

$m	2008	2009	2010	H1 2010	H1 2011
Revenue	503.2	739.7	870.4	415.3	476.0
Cost of revenue	(45.0)	(87.7)	(111.5)	(51.9)	(58.6)
Gross profit	458.2	651.9	758.9	363.4	417.4
Gross margin	*91.1%*	*88.1%*	*87.2%*	*87.5%*	*87.7%*
Research and development	(85.0)	(114.6)	(135.9)	(64.8)	(82.0)
Sales and marketing	(135.2)	(170.8)	(204.1)	(93.5)	(111.3)
General and administrative	(42.6)	(60.6)	(69.4)	(34.5)	(37.4)
Other	5.1	0.9	6.6	0.2	6.0
Operating income	**200.6**	**306.8**	**356.0**	**170.8**	**192.8**
Operating margin	*39.9%*	*41.5%*	*40.9%*	*41.1%*	*40.5%*
Net interest income/(expense)	1.4	(5.8)	(32.8)	(13.2)	(20.3)
Other	(2.2)	(0.3)	(1.4)	(0.7)	(0.4)
Tax	(54.0)	(74.5)	(64.9)	(34.2)	(37.8)
Net income	**145.8**	**226.2**	**256.9**	**122.8**	**134.3**

Source: Annual reports, unaudited management information

Target has maintained a consistent gross margin since 2009. Target expects the gross margin to decline slightly in the future with the growth in the hosting business.

Management stated it integrates its acquisitions very soon after each transaction closes and that it is able to secure synergies and maintain its operating margins.

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Executive summary

Summary balance sheets and cash flows

Target has convertible debt and bank debt of about $850 million. There is a make-whole provision in the convertible debt and the repayment cost for all the debt is around $1.35 billion.

Target generates approximately $200 million of free cash flow per year.

Balance sheets

$m	Dec 31, 2009	Dec 31, 2010	Jun 30, 2011
Assets			
Cash and equivalents	242.8	1,060.6	736.2
Accounts receivable	230.2	267.6	299.8
Other current assets	45.7	62.6	74.6
Current assets	518.7	1,390.8	1,110.7
PP&E, net	33.9	42.6	84.9
Investments	16.6	68.6	98.1
Goodwill and other intangibles	1,686.3	1,762.3	2,153.5
Deferred tax assets	24.0	16.3	19.2
Total assets	**2,279.6**	**3,280.6**	**3,466.4**
Liabilities			
Bank debt	197.5	145.2	66.1
Convertible debt	-	681.8	715.7
Accounts payable	14.9	23.4	19.7
Other current liabilities	63.4	60.9	92.8
Taxes payable	43.3	33.2	41.3
Deferred revenue	173.5	177.7	192.8
Deferred taxes	85.1	91.1	104.3
Total liabilities	577.8	1,213.3	1,232.6
Net assets	**1,701.8**	**2,067.2**	**2,233.7**

Source: Annual reports, unaudited management information

The majority (about 90%) of the cash is in the U.K. and is unrestricted. Cash is held at banks with no or limited withdrawal notification periods.

Target has a $25 million bad debt reserve against aged receivables greater than one year. Receivables are reserved on a specific basis.

The majority of investments comprises a 14% interest in a public entity, Blinkx Plc. Management stated there are no restrictions around the disposition of this investment. The remaining investments (about $5 million) comprise investments in two private companies.

The convertible debt is repayable upon a change in control. The repayment includes a make-whole provision plus accrued interest.

The initial estimate of fair value of deferred revenue is about $60 million. The majority (96%) of deferred revenue should be recognized within one year.

Cash flow statement

$m	2009	2010	H1 2011
Cash from operating activities	**245.9**	**293.1**	**156.2**
Capitalized software development costs	(24.7)	(38.6)	(21.2)
Capital expenditure	(34.4)	(59.7)	(24.3)
Free cash flows	**186.8**	**194.8**	**110.7**

Source: Annual reports, unaudited management information

Free cash flow after interest and tax is estimated to be slightly more than $200 million in 2011. About 70% of the cash is generated in the U.S.

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Executive summary

Summary of acquisitions

Target stated that it rapidly integrates each acquisition and replaces the acquired companies technology platform with its IDOL technology.

Acquisition history

	Year	Net consideration ($m)	Description of acquired business
Iron Mountain Digital	2011	401	Archiving, eDiscovery and online backup
MicroLink	2010	55	Reseller targeting U.S. state and federal government accounts
CA Information Governance	2010	19	Meaning based governance
Interwoven	2009	630	Content management solutions
Meridio	2007	10	Records management
Zantaz	2007	375	E-mail archiving and e-discovery/compliance provider
Verity	2005	500	Business search and process management software

Source: Annual reports, unaudited management information

Target is negotiating a working capital arrangement with Iron Mountain. Target's claim is about $20 million.

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Executive summary

Key findings – 1

Item No.	Status	Brief Description of Issue	Potential Actions	Cost Estimate ($m) Financial Implications	Closure Date & Owner
		Status This report reflects our due diligence assistance findings through August 9, 2011. To date, diligence has comprised telephone question and answer meetings with management and access to very limited internal Target finance and tax information. The limited provision of data is not unusual in acquisitions of U.K. public companies. The lack of information has limited the analysis we could perform and consequently our findings and quantification of potential due diligence issues. We will update our analysis and findings to the extent further information and data is provided.			

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Executive summary

Key findings – 2

Item No.	Status	Brief Description of Issue	Potential Actions	Cost Estimate ($m) Financial Implications	Closure Date & Owner
		Revenue recognition Target records revenue in accordance with IFRS. Management represented that this is generally consistent with U.S. GAAP. Based on our limited discussions with management and data provided we believe there may be differences which could impact the historical growth rate and the timing of revenue recognition post-closing. The potential differences identified are: ▪ Extended payment terms: Target may recognize revenue even if the payment terms extend beyond one year. Under HP policy, for customers with payment terms in excess of 90 days, revenue is deferred until it is collected. ▪ Warranties: Target may be offering non-standard warranty arrangements. Target may not have VSOE of fair value to separate this element. ▪ Sell in vs. sell through: Target recognizes revenue for license sales upon sell-in to its VARs rather than on a sell-through basis to end customers. ▪ Other undelivered elements: Target's contracts can be extremely complex. In many cases there appear to be undelivered elements, e.g. services, training, products. It is unclear how Target has accounted for these elements and whether it has VSOE of fair value for each element. ▪ Multi-year PCS: In limited cases, customers have initial PCS terms that are for three years or more with subsequent renewals detailed in the contract for one year. In these cases, as the aggregate renewal term is less than the initial PCS period, the stated PCS rate may not be considered substantive for purposes of establishing fair value. ▪ MFN: Management represented it has provided one customer with MFN terms. Management did not indicate whether these terms were retroactive or prospective. ▪ Platform transfer rights: Management indicated that one customer has been provided with platform transfer rights. However, it has not evaluated the impact this may have on revenue recognition for this arrangement. Management represented it has VSOE of fair value for PCS, hosting, and services. There is a risk that post-acquisition, Target's VSOE studies are insufficient for your purposes which could result in some elements being recognized on a ratable basis.	When data becomes available, consider the U.S GAAP differences on historical growth rates and the potential impact on revenue recognition in immediate post-acquisition period. Detailed analysis of Target's revenue recognition policies and VSOE studies post-closing.		

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Executive summary

Key findings – 3

Item No.	Status	Brief Description of Issue		Potential Actions	Cost Estimate ($m) Financial Implications	Closure Date & Owner
		Organic growth rates – core business (IDOL) Revenue ($m): 700, 600, 500, 400, 300, 200, 100, -; Organic growth rate (%): 30%, 25%, 20%, 15%, 10%, 5%, 0% 2009, 2010, H1'10, H1'11; 22%, 17%, 24%, 17% Organic revenue; Acquired revenue; Organic growth Source: Information provided by management **Organic growth rates – overall business** Revenue ($m): 1,000, 800, 600, 400, 200, -; Organic growth rate (%): 20%, 16%, 12%, 8%, 4%, 0% 2009, 2010, H1'10, H1'11; 16%, 12%, 14%, 12% Acquired revenue; Organic revenue; Organic growth Source: Information provided by management	■ Target's organic growth rate has declined in both its core business and overall business. The recent growth rate for the IDOL business is 17% and for the overall business 12%. The growth rate in H2 2011 and 2012 will benefit from the Iron Mountain acquisition. ■ Target includes the results of its acquisitions in its organic growth calculation immediately after acquisition. Target takes this approach since, post-acquisition, it replaces the acquired companies products with Target's core IDOL technology. As such, management represented that it does not track performance by product or class of customer post-acquisition and it is not possible to compare the performance of the acquired companies to the existing business. ■ It is possible that the acquired companies has a disproportionate impact on growth rates and that prospectively, Target may need to continue making acquisitions to maintain its growth rate. ■ Management stated that growth rates were not impacted by one-time transactions but it was not prepared to provide customer data to validate this statement.	Consider the current growth rate and impact of the Iron Mountain acquisition in your financial model.		

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Executive summary

Key findings – 4

Item No.	Status	Brief Description of Issue	Potential Actions	Cost Estimate ($m) Financial Implications	Closure Date & Owner
		Transactions with HP Target stated that HP is a significant customer. The data provided suggested sales to HP exceeded $10 million in the period 2006 to 2010. Post-acquisition, this revenue will be eliminated in consolidation. Profit is unaffected.			
		Transactions with competitors Target has OEM agreements with various of your competitors (e.g. IBM and Oracle). We have been provided with some of these agreements and we are in the process of reading the terms. The termination rights in these agreements appear to favor the OEM customer. The financial terms of the agreements and revenue associated with each customer are redacted and the loss of one or more of these companies as customers on the results or their ability to compete in the market cannot be quantified.			
		Accounting policy differences We noted potential U.S. GAAP/IFRS accounting differences related to: ▪ Acquisition accounting: Target's methodology for valuing intangible assets, particularly deferred revenue is different than under U.S. GAAP. Target does not write-down deferred revenue in purchase accounting but records it at the acquired company's book value. Under U.S. GAAP and HP's accounting policy, deferred revenue is adjusted to fair value in acquisition accounting. This typically results in the book value of the deferred revenue at the date of acquisition being written-down. ▪ Capitalization of R&D expenses: Target capitalizes more cost than is permitted under U.S. GAAP. The net impact is $21 million in 2010. ▪ Stock compensation expense: Target uses the graded method for valuing stock options. We understand that HP uses the ratable method. The impact on historical results is less than $5 million per year.			

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Executive summary

Key findings – 5

Item No.	Status	Brief Description of Issue	Potential Actions	Cost Estimate ($m) Financial Implications	Closure Date & Owner
		Deferred revenue acquisition accounting adjustment			

Deferred revenue acquisition accounting adjustment

- Target has $193 million of deferred revenue at June 30, 2011. The balance at closing is estimated to be a similar amount.
- Management did not provide detailed information to support the fair value estimate. As such, we have based the calculation on aggregate data and market comparables.
- The gross margin used in the calculation is 85%. Management did not provide an estimate for the gross margin on PCS and hosting revenue but stated that it may be lower than the aggregate margin of 88%.

Deferred revenue - indicative fair value estimate	
$m	**June 30, 2011**
Deferred revenue	193
Less: deferred license revenue	(5)
Carrying value of deferred revenue	188
Less: Estimated write-down	(127)
Fair value of deferred revenue	**60**
% Write-Down	-66.1%

Source: Information provided by management

Target management's estimate of the portion of deferred revenue related to software licenses that have been delivered.

This comprises both deferred PCS and hosting revenue. Management could not provide an estimate of the margin on each component but stated that it was lower than the aggregate margin. For purposes of this estimate we have assumed an 85% gross margin compared to an aggregate margin of 87%.

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Executive summary

Key findings – 6

Item No.	Status	Brief Description of Issue	Potential Actions	Cost Estimate ($m) Financial Implications	Closure Date & Owner
		Commit backlog – indicative fair value estimate ■ Target has $272 million of committed backlog at June 30, 2011 (contracted revenue that has not been delivered and for which cash has not been collected. Under acquisition accounting this intangible asset must be fair valued and amortized as an expense over the period the backlog is recognized as revenue. ■ Management stated that the backlog related to SaaS and hosting sales and would be recognized over three to five years. For purposes of our indicative estimate, we assumed it would be recognized evenly over four years. ■ A significant component of the calculation is the contributory asset charge. Data is required from Target to accurately estimate this charge. We have based our estimate of the charge on comparable software company acquisitions. Depending on the synergy component in your valuation, the contributory asset charge could increase which would reduce the value of your backlog intangible asset.			

Indicative estimate of commit backlog intangible asset

$m	30-Jun-11
Reported commit	465
Less deferred revenue	(193)
Backlog	**272**
Estimated intangible asset	**75**

Source: Information provided by management

This intangible asset is recorded on the balance sheet in acquisition accounting and is amortized to expense over the period the backlog is recognized. This is a preliminary estimate and will change once Target provides additional data.

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Executive summary

Key findings – 7

Item No.	Status	Brief Description of Issue	Potential Actions	Cost Estimate ($m) Financial Implications	Closure Date & Owner
		Commitments and contingencies ▪ Management has identified the following non-customer commitments and contingencies. Where possible, we have tried to estimate the potential amounts: – Tottenham Hotspur soccer sponsorship: Management stated that there is a change in control clause in its soccer sponsorship arrangement with Tottenham Hotspur soccer team. A change in control extends the sponsorship arrangement through the 2012/2013 U.K. soccer season. The minimum cost of extending the arrangement appears to be $18 million. We were not provided with the complete agreement and it is possible the cost could increase depending on the success of the soccer team in international competitions. – Management would not disclose employee bonus, incentive compensation, or other payments that may arise upon a change in control. – Target has a number of outstanding legal cases. Management estimated that the cost for employee litigation may be up to $3 million and commercial litigation around $2.5 million. Management has three outstanding patent litigation claims but it did not quantify the potential exposure for these cases. – Management stated it makes no royalty payments for third party software embedded in its technology. – Based on the 2010 financial statements, Target may have operating lease commitments of approximately $60 million. The leases appear to extend through at least 2018. – Management stated its purchase commitments for IT contracts, trade shows, marketing, and other sponsorship arrangements is minimal. – Target has submitted a claim for a net working capital adjustment arising from the Iron Mountain acquisition. The amount of the claim may be up to $20 million.			

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Executive summary

Key findings – 8

Item No.	Status	Brief Description of Issue	Potential Actions	Cost Estimate ($m) Financial Implications	Closure Date & Owner
		Tax due diligence The scope of the diligence performed was severely limited by the inadequate access to information and personnel. Our scope was therefore limited only to publicly available documents and the limited information posted in the data room. The data room information was limited to summaries of TP studies, summary IRC section 382 study reviews by a third party and U.S. and U.K. tax opinions on a specific implemented tax structure. During the course of our diligence, we did not speak to Target's external tax advisors. While numerous requests to speak with the tax advisors were made, as of the date of this report, all requests were denied. Additionally, because we were provided a limited amount of tax information and documentation, we were unable to investigate other tax matters such as state, local, VAT, etc. We recommend that these areas be investigated as part of the next phase of diligence.			
		Recommended next steps In the next phase of diligence we recommend: ■ A call with the U.S. Group tax advisors regarding the current tax profile of the U.S. Group, including audit history, status and any results from the closing of any audits. ■ A call with the U.K. tax advisors regarding the current tax profile of the U.K., including audit history, status, and results of closing audits. ■ Analysis of U.S. and U.K. entity attributes including R&D tax credits and NOLs. ■ Analysis of the PwC IRC section 382 limitation studies to validate the outcomes of the revised studies based on PwC assumptions. ■ Analysis of the tax provision, ETR, and DTA/DTL balances. ■ Analysis of employee taxes, property taxes, unclaimed property, VAT, state and local tax liabilities such as state income, franchise, gross receipts, sales and use tax, etc.			

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Executive summary

Key findings – 9

Item No.	Status	Brief Description of Issue	Potential Actions	Cost Estimate ($m) Financial Implications	Closure Date & Owner
		U.S. taxation –U.S. transfer pricing Based on limited information and corresponding assumptions, as of the drafting of this report, we estimate the U.S. transfer pricing tax liability exposure is approximately $30 million including interest and penalties. The potential exposure could be largely mitigated through competent authority proceedings between the I.R.S. and U.K. tax authorities. If such proceedings were successful, then Target's reserve of approximately $7 million for transfer pricing appears reasonable. However, please note, there is always uncertainty regarding a successful competent authority outcome and as such, the uncertainty should be considered in assessing the associated risk.			
		U.K. taxation – ETR The Target's ETR is expected to generally align to the mix of U.K. and U.S. income subject to respective statutory rates. Target has benefitted from a financing structure and R&D tax credits but the associated tax benefit to Target is partially mitigated by the high tax rates in the U.S. While the majority of the Target's sales are invoiced by the U.S. Group, the transfer pricing strategy shifts the majority of profits to the U.K. by reason of the primary IP ownership residing in the U.K. In contrast the Target's ETR for the year ended December 31, 2010 was 23%, which is significantly below the U.K. statutory rate of 28%. This was predominantly due to the utilization of previously unrecognized NOLs (tax effect $(25.5 million)). Management forecast an ETR of approximately 26% for FY11, which is in line with the reduced U.K. statutory rate.			

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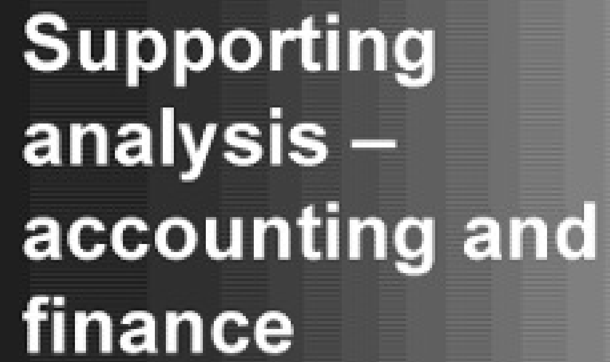
Supporting
analysis –
accounting and
finance

Supporting analysis

Income statements

Presented are Target's IFRS results. See the next page for a description of potential adjustments you could consider in your cash flow and U.S. GAAP model.

Income statements - IFRS results

$m	2008	2009	2010	H1 2010	H1 2011
Revenue	503.2	739.7	870.4	415.3	476.0
Cost of revenue	(45.0)	(87.7)	(111.5)	(51.9)	(58.6)
Intangible amortization	(19.5)	(49.7)	(57.3)	(29.4)	(29.1)
Gross profit	438.7	602.3	701.6	334.0	388.3
Research and development	(78.4)	(98.8)	(114.8)	(55.5)	(71.8)
Sales and marketing	(135.2)	(170.8)	(204.1)	(93.5)	(111.3)
General and administrative	(42.6)	(60.6)	(69.4)	(34.5)	(37.4)
Other	4.0	0.1	3.1	(0.4)	(0.2)
Operating income	**186.5**	**272.2**	**316.4**	**150.1**	**167.6**
Net interest income/(expense)	1.4	(5.8)	(32.8)	(13.2)	(20.3)
Other	(2.2)	(0.3)	(1.4)	(0.7)	(0.4)
Tax	(54.0)	(74.5)	(64.9)	(34.2)	(37.8)
Net income	**131.7**	**191.6**	**217.3**	**102.1**	**109.1**

Source: Annual reports, unaudited management information

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Supporting analysis

Quality of earnings

Presented are potential quality of earnings adjustments that you could consider in your valuation model.

We have included the capitalized R&D expense and reversed the amortization expense since under U.S. GAAP it is unlikely that much, if any, of these costs could be capitalized.

Quality of earnings

$m	2008	2009	2010	H1 2010	H1 2011
Net income	131.7	191.6	217.3	102.1	109.1
Tax	54.0	74.5	64.9	34.2	37.8
Net interest (income)/expense	(1.4)	5.8	32.8	13.2	20.3
Loss from associates	2.2	0.3	1.8	0.7	0.4
Profit on disposal of investment	-	-	(0.4)	-	-
Depreciation	14.1	16.2	14.0		
Amortization	24.3	64.9	85.6	53.1	54.9
Capitalized R&D expenses	(11.2)	(24.7)	(38.5)	(16.3)	(21.2)
EBITDA	**213.7**	**328.6**	**377.5**	**186.9**	**201.3**
Other potential items for consideration					
Stock compensation	5.5	7.2	6.0	2.8	4.6
Restructuring expenses	1.2	0.8	3.5	0.6	6.3
	220.4	**336.6**	**386.9**	**190.2**	**212.2**

Source: Annual reports, unaudited management information

This QofE analysis includes potential adjustments identified during field work and unusual or non-recurring items. These potential adjustments to EBITDA are not deemed to be all-inclusive and are based on information provided by Management. Further analysis could uncover additional adjustments to EBITDA.

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Supporting analysis

Revenue recognition – delivery models (1)

Target has a variety of revenue arrangements including license, PS, PCS, and hosting. In some case the PS component may be significant and potentially contract accounting could apply. Management stated it has fair value for its PCS, PS, and hosting arrangements and that it is able to separate these elements for revenue recognition purposes. Based on the contracts we read there appear to be multiple variations on the products being offered and there is a risk that under U.S. GAAP Target does not have VSOE of fair value for each element. If this is the case then in some arrangements revenue may have to be deferred until PCS is the remaining undelivered element or recognized under the subscription method.

Delivery models - background

- Target segregated its business into three markets (Power, Protect and Promote). As the products within each market operate from the same software platform (IDOL), Target "virtually" brands and markets the same technology across several vertical markets with the same delivery models across each market .
- For delivery models that include PCS and PS, management represented that it has VSOE of fair value for these elements regardless of sales channel or delivery model.
  - For PCS, management stated it establishes VSOE based on stand-alone renewals using the bell-shaped-curve method. Arrangements with PCS priced at rates below fair value are allocated arrangement consideration to the low end of the fair value range.
  - For PS, management represented that it establishes VSOE based on stated rates in its contracts and that it rarely sells PS on a stand-alone basis. In addition, third party partners such as VARs and resellers can perform these services.

Delivery models

- *On-premise and Appliance:* Target sells its software as a license, which is installed on-premise and runs on hardware owned by its customers. These arrangements include first year PCS and can also include PS (training, implementation or installation and consulting) as well as hardware.
  - Target primarily sells perpetual software licenses for its on-premise solutions. However, it has also sold term licenses. Target recognizes license revenue upon delivery of the software.
  - PCS revenue is recognized ratably over the term, which is usually one year but Target has sold multi-year PCS to customers.
  - PS revenue is recognized as services are delivered or when complete depending on whether the arrangement is time and materials or fixed fee.
  - In limited situations, Target will ship its software pre-installed on hardware to its customers. Target recognizes revenue for the hardware in conjunction with the software license, when it is delivered.
- *Hosted :* Target sells its software as a hosted service that can be accessed via the internet and is installed on Target's servers that are dedicated to the specific customer (i.e., single tenant). These arrangements are comprised of a license to use the software via the internet (usage based, pay as you go) over a specific term (usually three to five years). Some customers also have the option to take possession of the software, converting the arrangement into an on-premise solution.
  - These arrangements are priced based on usage (i.e., amount of data, number of searches, number of log-ins, etc.) and will usually include a minimum usage amount. Revenue for these arrangements are recognized on a monthly basis, when invoiced.
  - See the on-premise discussion regarding when the customer has taken possession of the license and the arrangement includes a license fee and PCS.

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Supporting analysis

Revenue recognition – delivery models (2)

Delivery models (continued)

- *Cloud (SaaS):* Target sells its software using the SaaS model, where the product can be accessed via the internet and the data is stored and potentially co-mingled with other customers on Target's servers (i.e., multi-tenant). These arrangements are comprised of a license to use the service via the internet (usage based, pay as you go) over a specific term (usually three to five years). In these cases, the customer does not have the option to take possession of the software license.
  - These arrangements are priced based on usage (i.e., amount of data, number of searches, number of log-ins, etc.) and will usually include a minimum usage amount. Revenue for these arrangements are recognized on a monthly basis, when invoiced.
  - Management indicated that it also charges set-up fees, which it recognizes once customer set-up has been completed. Set-up can include data migration and other tasks in order to bring a customer on-line.
- *OEM:* Target licenses its technology to third parties that embed it into their software. These arrangements are comprised of an upfront licensing fee, PCS and royalties that are paid on a quarterly basis and reported one quarter in arrears. Target recognizes the license fee upfront, PCS over the service term and royalties one quarter in arrears, as reports are received.

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Supporting analysis

Revenue recognition – U.S. GAAP considerations

There is a risk that Target's revenue recognition may differ from U.S. GAAP and HP's policies. At this stage, no data has been provided to validate there are differences and to quantify the differences, if any.

Management represented it establishes VSOE of fair value for PCS on its product sales based on renewal rates for existing customers using the bell-shaped-curve approach. Management performs the analysis on a quarterly basis and it is evaluated annually using the last four quarters of data.

- Management did not provide us with the basis of preparation of its VSOE studies using this approach (i.e., using the median, average or a stated rate as the midpoint for the analysis or what was its acceptable range of deviation from the midpoint).
- Target segments renewals between its two regions (i.e., U.S. and rest of world) and that the midpoint is 15% of license for the U.S. and 18% of license for rest of world. However, it does not segment its population of renewals by sales channel, product or service level.
- Management indicated that it limits the population of renewals included in the analysis to those greater than $100,000 and renewals fall within the range from the midpoint over 90% of the time.
- Management's calculation of fair value may be different from HP's policy. Accordingly, there is a risk that post-acquisition, Target's VSOE studies for PCS would be insufficient for your purposes, which could result in some arrangements being recognized on a ratable basis.
- We understand that your auditors may provide a grace-period post acquisition to allow your revenue recognition team time to perform a more rigorous analysis using the industry accepted calculation methodology (i.e., establishing the median as the midpoint, using the industry standard deviation range of ±15% of the median and further segmentation of the population).

Based on our limited discussions with management and data provided we believe there may be other differences which could impact the historical growth rate and the timing of revenue recognition immediately post-closing. The potential differences identified are:

- *Extended payment terms:* Target may recognize revenue for certain arrangements even if the payment terms extend beyond one year. We understand that you will generally defer revenue related to arrangements with payment terms that extend beyond 90 days.
- *Sell in vs. sell through:* Target recognizes revenue for license sales upon sell-in to its VARs rather than on a sell-through basis to end customers.
- *Other undelivered elements:* Management does not prepare a VSOE analysis for the other undelivered elements in its arrangements, which include hosting, PCS for hosted arrangements and PS. Rather, management bases fair value for PCS using the fair value rates set for its software licenses. Fair value for PS and hosting is based on stated rates in its contracts (per day for PS and by volume or transaction for hosting), which management indicated was priced within a fairly close range.
- *Multi-year PCS:* In limited cases, customers have initial PCS terms that are for three years or more with subsequent renewals detailed in the contract for one year. In these cases, as the aggregate renewal term is less than the initial PCS period, the stated PCS rate may not be considered substantive for purposes of establishing fair value.
- *MFN:* Management represented it has provided one customer with MFN terms. Management did not indicate whether these terms were retroactive or prospective.
- *Platform transfer rights:* Management indicated that one customer has been provided with platform transfer rights. However, it has not evaluated the impact this may have on revenue recognition for this arrangement.

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Supporting analysis

Organic growth rates

We have presented management's basis for its organic revenue growth calculation. We do not have some of the minor changes associated with foreign exchange; however, the impact does not change the calculated organic growth rates.

Management stated that it immediately integrates acquisitions into its existing business and that it is not possible to track the organic growth of its products post-acquisition. We have not been provided with revenue by product to validate this statement.

Additionally, we have not been provided with customer data to determine if the organic growth is due to a class of customer or may be more one-time in nature (e.g. revenue from BP).

Organic growth rate - overall business

$m	2009	2010	H1'10	H1'11
Reported revenue	740	870	415	476
Foreign exchange	-	4	-	(2)
Acquired revenue	(158)	(8)	(3)	(11)
Organic revenue	**581**	**866**	**412**	**464**
Prior period adjustment	-	36	36	-
Organic growth	*16%*	*12%*	*14%*	*12%*

Source: Information provided by management

Organic growth rate - core business

$m	2009	2010	H1'10	H1'11
Reported revenue	490	574	267	324
Foreign exchange	-	4	-	(2)
Acquired revenue	(68)	-	-	(10)
Organic revenue	**422**	**578**	**267**	**313**
Prior period adjustment	-	4	4	-
Organic growth	*22%*	*17%*	*24%*	*17%*

Source: Information provided by management

The tables above presents management's calculation of its organic growth rates. The calculation of these growth figures are based on the organic revenue less the total revenue from the prior period (which includes other adjustments depending on the timing of an acquisition). Details of these adjustments include:

2009

- Management's calculation of its organic growth rate excludes revenue attributed to the Interwoven acquisition. For the overall business, this is all of Interwoven's pre-acquisition revenue (license, PCS and services). For Target's core business, it only includes Interwoven's license sales.

2010 and H1'10

- Target acquired MicroLink and CA's Information Governance division in Q1 and Q2 2010, respectively. Management represented that neither of these acquisitions generated IDOL product sales (services and deferred revenue only). Management adjusted sales related to services ($8 million and $3 million in 2010 and H1'10, respectively) for these acquisitions.
- Management recorded an adjustment to the 2009 base results in order to add back Interwoven revenue for the pre-acquisition stub period from January 1, 2009 to March 16, 2009 ($36 million for the overall business and $4 million for Target's core business).

H1'11

- This adjustment pertains to the Iron Mountain Digital assets acquisition, which contributed approximately $9.6 million of revenue during the period as well as a foreign exchange loss of $1.6 million. As Iron Mountain Digital sales are largely SaaS related, the adjustment was applicable to both the overall business as well as the core IDOL business.
  - The overall business also includes a $1 million adjustment related to deferred revenue releases related to the CA acquisition.

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Supporting analysis

Revenue

Cloud revenue is growing at a significantly faster rate than the historical license business.

It appears that many customers are purchasing licenses with a hosting arrangement, although, the fee for the license component may be decreasing.

Revenue by category

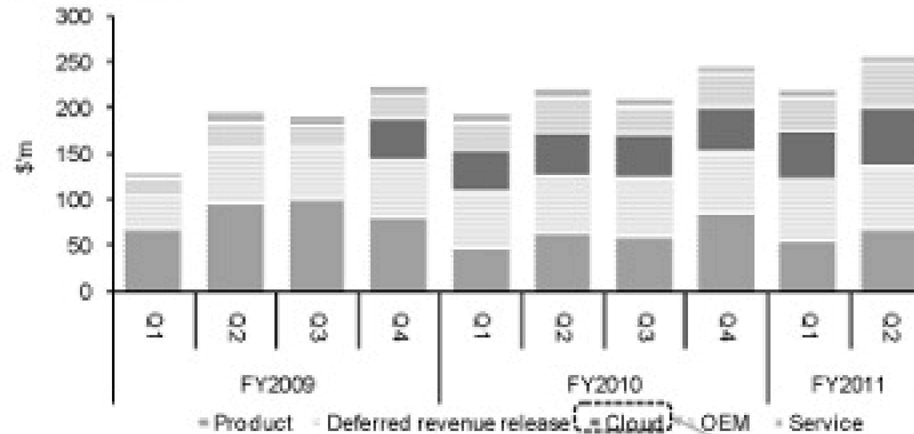
$m	2009	2010	H1 2010	H1 2011
Product	390	252	109	123
Deferred revenue release	214	256	126	134
Cloud	-	190	92	117
OEM	100	133	67	84
Service	36	40	22	18
Total	**740**	**870**	**416**	**476**

Source: Annual reports, unaudited management information

Cloud revenue is growing at 25% compared to the prior period. This is a significantly faster rate than the deferred revenue release, reflecting with switch away from the perpetual license model with associated PCS revenue.

We have not been provided with the composition of deferred revenue to assess the renewal/attach rate. Management represented that it is in the 90% range.

Revenue by type



Source: Annual reports, unaudited management information

Target did not identify cloud revenue prior to Q4 2009.

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Supporting analysis

Expenses

Cost of goods sold as a percentage of revenue has increased over the period reflecting a shift in revenue mix to hosting.

Operating expenses as a percentage of revenue have been approximately flat after taking into account the Interwoven acquisition.

We have no information regarding the composition of expenses. Management stated that it was not aware of any significant one-time items that need to be considered in evaluating revenue and expense trends.

Expenses

$m	2008	2009	2010	H1 2010	H1 2011
Cost of good sold	**45.0**	**87.7**	**111.6**	**51.9**	**58.6**
% of revenue	*8.9%*	*11.9%*	*12.8%*	*12.5%*	*12.3%*
Research and development					
Reported expense	78.4	98.8	114.8	55.5	71.8
Less amortization	(4.6)	(8.9)	(17.4)	(7.0)	(11.0)
Add amounts capitalized	11.2	24.7	38.5	16.3	21.2
Net expense	**85.0**	**114.6**	**135.9**	**64.8**	**82.0**
% of revenue	*16.9%*	*15.5%*	*15.6%*	*15.6%*	*17.2%*
Sales and marketing	**135.2**	**170.8**	**204.1**	**93.5**	**111.3**
% of revenue	*26.9%*	*23.1%*	*23.5%*	*22.5%*	*23.4%*
General and administrative	**42.6**	**60.6**	**69.4**	**34.5**	**37.4**
% of revenue	*8.5%*	*8.2%*	*8.0%*	*8.3%*	*7.9%*

Target capitalizes certain research and development costs under IAS 38. Under U.S. GAAP the majority of these costs would not qualify for capitalization and would be expensed as incurred.

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Supporting analysis

Summary balance sheet

See following slides for a description of balance sheet components.

Balance sheets

$'m	Dec 31, 2009	Dec 31, 2010	Jun 30, 2011
Assets			
Cash and equivalents	242.8	1,060.6	736.2
Accounts receivable	230.2	267.6	299.8
Other receivables	45.7	62.6	74.6
Current assets	518.7	1,390.8	1,110.7
Property, plant, and equipment	33.9	42.6	84.9
Long-term investments	16.6	68.6	98.1
Goodwill and other intangibles	1,686.3	1,762.3	2,153.5
Deferred tax assets	24.0	16.3	19.2
Total assets	**2,279.6**	**3,280.5**	**3,466.4**
Liabilities and equity			
Current debt	52.4	78.7	66.1
Accounts payable	14.9	23.4	19.7
Other current liabilities	57.2	53.6	77.8
Taxes payable	43.3	33.2	41.3
Deferred revenue, current	164.9	170.3	186.6
Current liabilities	332.8	359.3	391.4
Long-term debt	145.2	748.2	715.7
Deferred revenue, non-current	8.6	7.4	6.2
Deferred taxes	85.1	91.1	104.3
Other non-current liabilities	6.1	7.3	15.1
Total liabilities	577.8	1,213.3	1,232.6
Shareholders' equity	1,701.8	2,067.2	2,233.7
Total liabilities and equity	**2,279.6**	**3,280.5**	**3,466.4**

Source: Unaudited management information

Other receivables comprise deposits for real estate leases and prepayments. No further detail of this balance is available.

Investments mainly comprise Blinkx (95%) of the asset. Blinkx share price has declined since the balance sheet date and the fair value of this asset is now approximately $70 million rather than $95 million.

Current debt is a term loan from Barclays and is repayable at Closing.

Long-term debt at June 30, 2011 comprises the convertible debt. The expected cost of repayment including accrued interest and the make-whole components is about $1.35 billion.

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Supporting analysis

Accounts receivable

Target's DSOs are in the range of 90 to 100 days (after adjustment for the impact of Iron Mountain).

Target stated its bad debt write-off is typically less than 1% of its receivable balance.

At December 31, 2010 $5 million of receivables were due after one year.

Approximately 5% of accounts receivable are unbilled. Management did not specify the reasons why the receivables were unbilled and whether this represented milestone or extended payment terms with a potential revenue recognition impact.

Accounts receivable

$m	Dec 31, 2009	Dec 31, 2010	Jun 30, 2011
Gross accounts receivable	251.6	293.6	
Bad debt reserve	(21.4)	(26.0)	
	230.2	**267.6**	**299.8**

The bad debt reserve is computed on a specific invoice by invoice basis. The reserve covers invoices that could be significantly more than one year old. Management's policy is to keep the receivables and reserve in its general ledger unless there is no realistic opportunity to collect the debt.

There is a difference in revenue recognition policy between Target and HP around payment terms. Under HP policy, for customers with payment terms in excess of 90 days, revenue is deferred until it is collected. This will result in less revenue being recognized than under Target's policies; however, we do not have sufficient data to determine the impact on an annual or quarterly basis.

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Supporting analysis

Current liabilities

Target has not provided details of its accrued expenses and provisions beyond the data contained in the financial statements.

Management represented that it had no provisions or reserves for unprofitable customer contracts or other long-term non-lease contracts.

Liabilities

$m	Dec 31, 2009	Dec 31, 2010	Jun 30, 2011
Accrued expenses and other current liabilities	54.5	52.0	67.6
Acquisition and other provisions	7.9	5.3	22.0
	62.4	**57.2**	**89.6**

Source: Annual reports, unaudited management information

The provision prior to June 30, 2011 related to onerous lease obligations. The $17 million increase in provisions at June 30, 2011 relates to the Iron Mountain acquisition. The increase represents provisions for onerous leases and patent litigation.

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Supporting analysis

Deferred revenue

Presented is the calculation to estimate the fair value of deferred revenue. We were not provided with the estimated roll-out of deferred revenue. As such, we assumed that for deferred revenue recognized within one year the roll-out is 35%, 28%, 22%, and 15% for each of the first four quarters. We assumed that deferred revenue greater than one year is recognized in the fifth quarter after closing.

This estimate was based on consolidated data. Once Target provides detailed fulfillment cost information we will be able to provide a more detailed analysis.

Valuation of deferred revenue

$'000		Q4 FY2011 31-Oct-11	Q1 FY2012 31-Jan-12	Q2 FY2012 30-Apr-12	Q3 FY2012 31-Jul-12	Q4 2012 31-Oct-12
Deferred revenue		63,543	50,834	39,941	27,233	6,211
Cost of sales	15.0%	9,531	7,625	5,991	4,085	932
Profit mark-up @	10.0%	953	763	599	408	93
		10,485	8,388	6,590	4,493	1,025
R&D Expense	10.0%	6,354	5,083	3,994	2,723	621
Profit mark-up @	10.0%	635	508	399	272	62
		6,990	5,592	4,394	2,996	683
G&A Expense	5.0%	3,177	2,542	1,997	1,362	311
Profit mark-up @	10.0%	318	254	200	136	31
		3,495	2,796	2,197	1,498	342
Total cost obligation and mark-up		20,969	16,775	13,181	8,987	2,050
Discount factor						
Discount period		0.1260	0.3771	0.6271	0.8771	1.1271
Present value factor @	6.21%	0.9924	0.9775	0.9629	0.9485	0.9344
Present value		**20,810**	**16,398**	**12,692**	**8,524**	**1,915**
Fair value		**60,340**				

Source: Information provided by management

Notes:

1) Cost of fulfilling deferred revenue is based on an analysis of historical and projected cost margins. Deferred revenue primarily relates to maintenance support for technology and hosting. Service costs include customer service personnel costs and costs related to technical phone support. Management, stated the cost margin should be representative of future cost to fulfill deferred service revenue obligations.

2) The profit mark-up is based on comparable public companies.

3) R&D expenses was based on analysis of historical and projected maintenance R&D fulfillment costs. Maintenance R&D activities includes bug fixes, escalation of cases and technology updates.

4) G&A expenses was based on an analysis of historical and projected G&A margins.

5) The discount factor is based on the yield of Moody's Baa / S&P BBB corporate bonds as of August 3, 2011.

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Supporting analysis

Commit backlog

Presented is the calculation to estimate the intangible asset associated with the commit backlog asset. We were not provided with the estimated roll-out the commit backlog. As such, we assumed that it is recognized over four years in the following proportion - 35%, 28%, 22%, and 15%.

This estimate was based on consolidated data. Once Target provides detailed fulfillment cost information we will be able to provide a more detailed analysis.

Indicative estimate of commit backlog intangible asset

$m		Year 1	Year 2	Year 3	Year 4
Revenue		95.3	76.2	59.9	40.8
Cost of sales	15%	14.3	11.4	9.0	6.1
Research and development	13%	12.4	9.9	7.8	5.3
General and administrative	5%	4.8	3.8	3.0	2.0
Depreciation	1%	1.0	0.8	0.6	0.4
Operating income		62.9	50.3	39.5	27.0
Taxes	28%	17.6	14.1	11.1	7.5
Profit after tax		45.3	36.2	28.5	19.4
Contributory asset charge	20%	19.1	15.2	12.0	8.2
Excess earnings		26.2	21.0	16.5	11.2
Discount factor	10%	0.953	0.867	0.788	0.716
Present value		**25.0**	**18.2**	**13.0**	**8.1**
Sum of present value		64.2			
Tax amortization benefit		11.2			
Fair value of intangible backlog asset		**75.5**			

Source: Information provided by management

Notes:

1) Assumed mid-period cash flow receipt

2) Calculated using an income tax rate of 25.0% and based on the U.S. tax amortization benefit factor.

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Supporting analysis

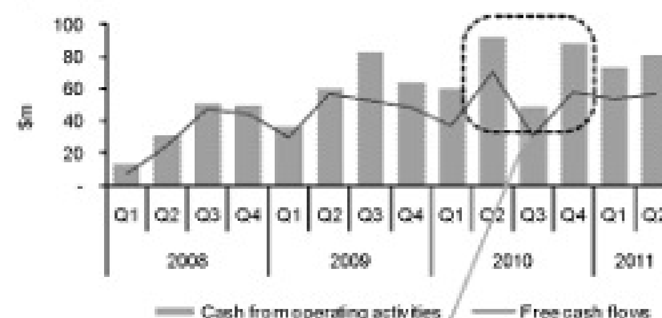
Summary cash flow

Target generates approximately $250 million of operating cash flow after capitalized R&D costs and around $200 million of free cash flow.

Cash flow statement

$m	2009	2010	H1 2011
Operating activities			
Net income	191.6	217.3	109.1
Depreciation	37.2	38.8	25.8
Amortization of goodwill and intangibles	35.0	43.5	29.1
Capitalized software amortization	8.9	17.4	-
Asset writedown & restructuring costs	0.8	0.7	-
Stock-based compensation	7.2	6.0	4.6
Non-cash changes in tax and interest	43.2	31.7	25.0
Interest income	1.1	7.8	5.9
Interest expense	(5.3)	(17.1)	(14.9)
Changes in working capital			
Accounts receivable	(78.3)	(60.9)	(3.6)
Inventory	0.2	0.3	0.0
Accounts payable	4.3	7.8	(24.9)
Cash from operating activities	**245.9**	**293.1**	**156.2**
Capitalized software development costs	(24.7)	(38.6)	(21.2)
Capital expenditure	(34.4)	(59.7)	(24.3)
Free cash flows	**186.8**	**194.8**	**110.7**
Cash acquisitions	(630.1)	(79.6)	(401.6)
Investments in associates	(6.5)	(10.2)	-
Change in net debt	158.7	707.9	(79.6)
Issuance of common stock	333.2	18.7	10.1
Foreign exchange differences	1.5	(14.2)	36.1
Net change in cash	**43.6**	**817.5**	**(324.3)**

Quarterly cash flows



The significant changes in cash flow in 2010 was mainly related to the timing of changes in working capital.

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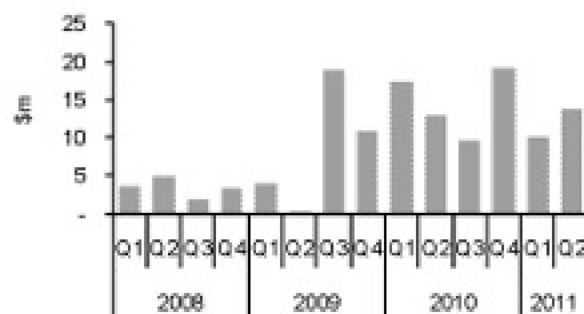
Supporting analysis

Capital expenditure

Capital expenditure was $60 million in 2010 as Target built out its hosting and data storage business. Capital expenditure is forecast to be about $55 million in 2011. The majority of the expense is related to further expansion of the hosting business including investments for some specific customer contracts.

Capital expenditure represents a combination of both hardware and software. Management stated it makes relatively few purchases from HP.



Source: Annual reports, unaudited management information

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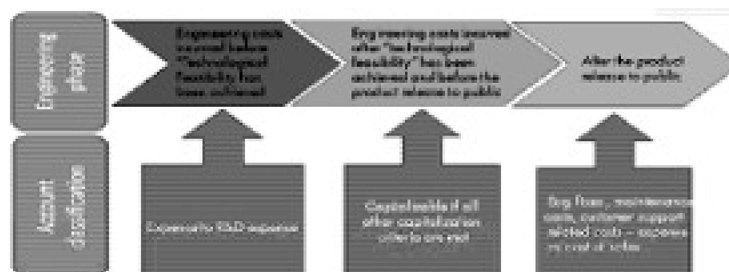
Supporting analysis

IFRS and U.S. GAAP differences – 1

Issue	Description	Potential Implications

Capitalized research and development – software
 	
U.S. GAAP: ASC 985-20
 	
IFRS: IAS 38
	▪ Target recognizes an internally-generated intangible asset arising from product development if all of the following conditions are met:
	  ▪ an asset is created that can be identified (such as software and new processes);
	  ▪ it is probable that the asset created will generate future economic benefits;
	  ▪ the development cost of the asset can be measured reliably; and
	  ▪ the product from which the asset arises meets the group's criteria for technical feasibility.
	▪ Target amortizes internally-generated intangible on a straight-line basis over the three year useful life.
	▪ Prior to converting to IFRS in 2005, Target previously recognized U.S. GAAP internally generated intangibles under legacy FAS 86 (now ASC 985-20: Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed).
	  ▪ Note: Target's policy under U.S. GAAP included general overheads, which are not allowed under IFRS; FAS 86 left the capitalization of these costs up to professional judgment.
	▪ HP typically expenses software development as R&D expense. However, HP has a policy for capitalizing certain software development costs under limited situations (AFM Topic 6345-Software For Resale).
	  ▪ Costs must be incurred after "technological feasibility" and before the software is ready for general release (generally a very short period of time – refer to visual below).
	  ▪ Target's internally-generated intangible asset might not qualify for capitalization under HP's U.S. GAAP policy - this would require detailed technology reviews to ensure compliance with HP's detailed criteria.
	
	
	
		▪ **EBITDA impact:** potentially up to a $21 million impact in 2010.

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Supporting analysis

IFRS and U.S. GAAP differences – 2

Issue	Description	Potential Implications
Share-based payments U.S. GAAP: ASC 718 IFRS: IFRS 2	**Awards vesting:** ▪ Under U.S. GAAP, awards vesting in difference tranches (graded vesting) may be accounted for as separate share-based payment arrangements, or ratably over the longest vesting tranche if the award vests based on service only. Our experience suggests that HP chooses to utilize the ratable method. Target has confirmed that it applies graded vesting, which is required under IFRS. Target essentially accounts for award tranches as separate share-based payment arrangements. **Deferred taxes:** ▪ IFRS also requires deferred taxes related to share-based payments to be remeasured based on the tax deduction attributable to the stock option price (intrinsic value) at the end of each reporting period. ▪ Based on price fluctuations, there could be a change in deferred tax asset and expense as well as potential APIC movements. There is also no "APIC pool" or "mezzanine equity" concept under IFRS.	▪ **EBITDA impact:** Timing and amount of compensation recognized over the term of the plan may differ under U.S. GAAP. IFRS typically shows more volatility in the P&L and balance sheet for share-based payments.
Deferred taxes U.S. GAAP: ASC 740 IFRS: IAS 12	**Tax measurement:** ▪ Deferred tax is measured based on rates and tax laws that are enacted or substantively enacted at the reporting date. ▪ There is no specific IFRS guidance (similar to U.S. GAAP / legacy FIN 48) on the recognition of deferred tax liabilities in respect of income tax exposures and on the classification of interest and penalties related to income tax exposures.	▪ **EBITDA impact:** Potential for additional deferred tax liabilities under U.S. GAAP. ▪ Target might apply different measurement of deferred tax assets and liabilities, in either direction.

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Supporting analysis

IFRS and U.S. GAAP differences – 3

Issue	Description	Potential Implications
Other IFRS considerations Provisions U.S. GAAP: ASC 450, ASC 715, IFRS: IAS 37, IFRIC 1, IFRIC 5, IFRIC 6 Impairment U.S. GAAP: ASC 350, 360 IFRS: IAS 36, IAS 38	**Provisions (liabilities):** ▪ Under IFRS, "probable" is defined as "more likely than not", generally interpreted as more than 50%. Under U.S. GAAP, "probable" is defined as "likely to occur", generally interpreted as 70% to 75%, which is a higher threshold than the IFRS approach. ▪ Provisions may also be measured differently under IFRS, as a result of mandatory discounting for material, long-term provisions. IFRS also measures a provision at the midpoint of a range as opposed to the U.S. GAAP requirement to measure at the low end of a range. **Impairment:** ▪ Under IFRS, impairment testing of goodwill and long-lived assets is a single-step process in which an impairment loss is recognized to the extent that the carrying amount of a cash generating unit exceeds its 'recoverable amount' (measured at the higher of fair value less cost to sell and value in use, which is a discounted cash flow valuation using discounted entity-specific future cash flows). ▪ Impairment write-downs, other than for goodwill, must be reversed under IFRS if the recoverable amount improves subsequently. ▪ U.S. GAAP does not have an equivalent concept of cash generating unit and impairment write-downs cannot be reversed.	▪ **EBITDA impact –** ▪ **Provisions:** The timing of recognition of a provision may be earlier and at a higher amount under IFRS. ▪ **Impairment:** It is generally believed that IFRS leads to earlier recognition of impairments than under U.S. GAAP.

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Supporting analysis – taxation

Supporting analysis

Target taxation - background

HP is contemplating the acquisition of all the common stock of Target, which includes the U.K. parent and the U.S. Group, in a taxable transaction.

Scope

In connection with our tax due diligence of Target as detailed in the engagement scope (see Appendix 1), we read the tax documentation provided in Target's online data room from July 31, 2011 through August 8, 2011. We were provided a limited amount of documentation from which we base this report. These documents included, but were not limited to, U.S. and U.K. tax opinions, the transfer pricing study covering the period beginning with the acquisition of eTalk and ending with the acquisition of Zantaz, and TP addendum covering the acquisition of Interwoven. Additionally, we read publicly available documents including financial statements and U.K. filed statutory accounts. We also had discussions with management on August 2, 2011.

During the course of our diligence, we did not speak to Target's external tax advisors. While numerous requests to speak with the tax advisors were made, as of the date of this report, all requests were denied.

Additionally, as noted above, we were provided a limited amount of tax information and documentation. As such, during the course of the current diligence, we were unable to investigate other tax matters such as state and local taxes, VAT, etc.

Background

Target was founded in 1996 and has dual headquarters in Cambridge, U.K. and San Francisco, CA.

Target is a U.K. company, which wholly owns the stock of AEHL, a U.K. subsidiary of Target. AEHL wholly owns ANAH, a U.S. subsidiary, which is also the common parent of the U.S. consolidated group. Please see Appendix 2 for the detailed organizational chart.

In March 1996, Target, Inc. was formed in the U.S. as a wholly owned subsidiary of Target. In October 2005, Target formed ANAH as a wholly owned subsidiary and contributed the stock of Target, Inc. in exchange for the stock of ANAH. ANAH subsequently made a number of stock and asset acquisitions including Verity in December 2005, Zantaz in July 2007, and Interwoven in March 2009. Please see the detailed acquisition discussion on the next slide.

Target's economic and tax beneficial rights to Target's primary self-developed as well as acquired IP is located primarily in Cambridge, U.K. Management represented that customer support operations are based in Cambridge, U.K., Calgary, Canada and Bangalore, India. We are unsure to what extent, if any, IP development also occurs in these jurisdictions.

- Acquired IP: "Wither on the vine" strategy - With respect to acquired IP, the IP is typically transferred to the U.K. in a five year process, during which a residual profit split between the acquired company and U.K. occurs representing the contribution of acquired IP versus U.K. based IP. Please see the Transfer Pricing section for additional detail.

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Supporting analysis

Target taxation - acquisition timeline

Key acquisitions:

1) Iron Mountain Digital

2) Interwoven

3) Zantaz

4) Verity

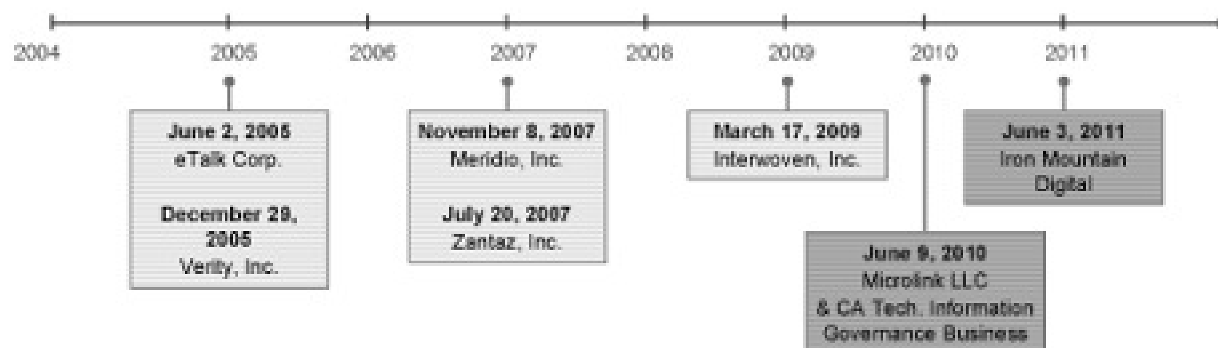
Recent acquisition history

Please see Acquisition timeline below.

- Key acquisitions included Iron Mountain Digital, Interwoven, Zantaz and Verity.
- According to Target's 2010 filed financial statements, the fully integrated acquisitions of Interwoven, Zantaz and Verity represent approximately 20% of the market capitalization as of the end of 2010.

Acquisitions (in reverse chronological order)

- **Iron Mountain Digital**: On June 3, 2011, Target purchased certain stock (Mimosa Systems, Inc., Stratify, Inc., and four foreign subsidiaries) and the assets of Iron Mountain Digital, based in Southborough, Massachusetts, for approximately $380 million plus preliminary working capital adjustments of $21 million (as of June 30, 2011). The selected purchased assets from IRM's Digital division included archiving, eDiscovery and online backup (the final PPA is anticipated in the second half of 2011).
- **Microlink LLC and CA Technologies Information Governance Business**: On June 9, 2010, Target announced the purchase of assets from CA Technologies, a company based in Islandia, New York, to strengthen Target's leadership position in Meaning Based Governance for $19.4M. Additionally, Target purchased 100% of the interests in Microlink LLC (which should be treated as an asset purchase for U.S. federal income tax purposes), based in Vienna, Virginia, from one of Target's resellers with the intent to accelerate the adoption of Target's technology in U.S. state and federal government accounts for $56.9 million.
- **Interwoven**: On March 17, 2009, Autonomy acquired 100% of the stock of Interwoven, Inc., based in San Jose, California, and a leader in content management software, for $804.2 million.
- **Zantaz**: On July 20, 2007, Target acquired 100% of the stock of Zantaz, Inc. for $378.0 million. Zantaz, Inc., a company based in Pleasanton, California, is a leader in archiving, eDiscovery, and proactive Information Risk Management.



Source: Public documents including: Investor Forum 29 November 2010; Press release Iron Mountain Digital Acquisition 16 May 2011; Target's 2005 through 2010 Annual Report & Accounts.

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