7-29-2016

Aruba Doc 3 2016.07.29 Marcus Expert Report Corrected for Dissenting Shareholders

CONTAINS HIGHLY CONFIDENTIAL MATERIAL

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

VERITION PARTNERS MASTER FUND LTD. AND VERITION MULTI-STRATEGY MASTER FUND LTD.	)	
PETITIONERS,	)	
V.	)	C.A. NO. 11448-VCL
ARUBA NETWORKS, INC.	)	
RESPONDENT.	)	

Expert Report of Paul A. Marcus, CFA, CFE

July 29, 2016

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I. SCOPE OF ENGAGEMENT AND REPORT

1. At the request of Grant & Eisenhofer P.A., I was asked to determine the fair value per common share of Aruba Networks, Inc. ("Aruba" or the "Company") as of May 18, 2015, as defined in the appraisal rights statute, Section 262 of the Delaware General Corporation Law. The date of the valuation represents the date on which Aspen Acquisition Sub, Inc., a wholly-owned subsidiary of Hewlett-Packard Company ("HP"), merged with and into Aruba, and Aruba became a wholly-owned subsidiary of HP.

2. The term "fair value" as used in this report is defined as the amount "the stockholder is entitled to be paid for that which has been taken from him, viz., his proportionate interest in a going concern. By value of the stockholder's proportionate interest in the corporate enterprise is meant the true or intrinsic value of his stock which has been taken by the merger."[1] This amount excludes synergies, *i.e.*, it is exclusive of any element of value arising from the accomplishment or expectation of the combination of the merged enterprises.

3. I submit this report in accordance with rules of the Court of Chancery of the State of Delaware. The analysis and opinions contained herein are based on information available as of the date of this report. I reserve the right to supplement and/or amend this report should any additional information become available. The professional fees for my services are not contingent upon the outcome of this matter or the opinions expressed herein. This report presents a summary of my methodologies, findings, and conclusions.

II. SUMMARY OF QUALIFICATIONS

4. I, Paul Marcus, am the Managing Member of PM Financial Expert Consultants, LLC ("PMFEC"), a Needham, Massachusetts-based firm focused on providing dispute and

[1] *Tri-Continental Corp. v. Battye*, 74 A.2d 71, 72 (Del. 1950).

corporate finance consulting services primarily to companies and their counsel. I am a professional with over 30 years of experience in advising clients in commercial disputes or litigation, corporate finance, mergers and acquisitions, security and business valuation, solvency analysis, investment decision making, performing independent fundamental research and due diligence, strategic planning and financial analysis, raising and providing capital, and originating, structuring, and negotiating complex financial transactions. I hold an M.B.A. from the University of Chicago Booth School of Business with a specialization in finance and a concentration in accounting, and a B.S. from Tufts University. I have served as an Adjunct (Part-Time) faculty member in the Finance Department at the Carroll School of Management at Boston College teaching Mergers & Acquisitions. I also hold the Chartered Financial Analyst designation granted by the CFA Institute, the Certified Fraud Examiner designation granted by the Association of Certified Fraud Examiners, and successfully completed a formal credit training program at Bank of America.

5. As a practitioner, I have analyzed hundreds of businesses, including a detailed study of their historical and projected performance for purposes of evaluating valuation, solvency, lending, investment, advising on financial strategy, merger and acquisition analysis, financial restructuring, dispute resolution, and others. In my lending roles I have been involved in underwriting in excess of $1 billion of financing. Further, as an investment banker, I advised companies (including shareholders and boards of directors) on buying and selling businesses, and I advised companies and individuals on raising in excess of $300 million in debt and equity financing. As a dispute consultant, I have been called upon to value businesses and securities, review small business underwriting practices, develop an understanding of complex financial transactions and the practical economic results of those transactions, and numerous other

topics. I have been involved with companies in several industries including but not limited to technology (hardware and software), biotechnology, manufacturing, distribution, financial services, professional services, utilities and energy, telecommunications, and textiles.

6. Additionally, I have provided consulting and expert services to numerous attorneys and companies on matters of business modeling and projecting, capital formation including debt and equity financing, valuation, solvency, damages, lost profits, corporate finance, and others. I have also served as a financial analyst and consultant to numerous companies on private placement of debt and equity, mergers and acquisitions, business valuation, leveraged buyouts, and debt restructuring. I have been qualified as an expert to testify in six Federal Court trials, a Delaware Chancery Court trial, and a AAA Arbitration on a variety of topics including but not limited to: small business loan underwriting practices, the use of complex financial transactions for hedging purposes, financial analysis and calculation of damages relating to the valuation of companies and securities, solvency, and others. I have made presentations on understanding financial statements, valuation, financial statement analysis, solvency, financing strategy, and exit strategies for business owners to business groups and law firms.

7. A copy of my current curriculum vitae, which summarizes my qualifications and professional experience and includes a list of my deposition, arbitration, and trial testimony over at least the past five years, is attached as Appendix A to this report. The list of documents and other information I relied upon in performing my analysis set forth below is attached as Appendix B.

8. The Michel-Shaked Group is being compensated for my time at an hourly rate of $575. Other Michel-Shaked Group staff is being compensated at hourly rates ranging from $110

to $575 per hour for staff that assists me depending upon the level of the professional staff involved.

III. SUMMARY OF OPINIONS

9. I determined the fair value of Aruba's stock as of May 18, 2015 (the "valuation date") by performing a discounted cash flow ("DCF") valuation. Based on the DCF valuation I performed, it is my opinion that the fair value of Aruba's common stock as of May 18, 2015 was $32.57 per share.

10. As a test of the reasonableness of my findings using the DCF valuation, I performed two other valuation methodologies: (1) the Market Approach – Comparable Company Valuation and (2) the Market Approach – Comparable Transaction Valuation. The results of the Comparable Company Valuation support the result of my DCF valuation. The Comparable Transaction Valuation did not produce enough reliable data to render it a meaningful check of my DCF valuation.

IV. OVERVIEW OF ARUBA NETWORKS, INC.

11. The following section of this report provides a background discussion on the Company and the impact that the evolution in wireless technology has had on the Company.

A. DESCRIPTION OF THE COMPANY[2]

12. As of the valuation date, Aruba developed, marketed, and sold products and services that addressed customers' enterprise mobility and Wireless Local Area Network

[2] Based primarily on Aruba Networks, Inc. Form 10-K for the Fiscal Year Ended July 31, 2014 ("2014 10-K") unless otherwise noted.

("WLAN")[3] needs and was a leading provider of such services to the mobile enterprise. Through its Mobility-Defined Networks™, the Company provided a reliable network solution for information technology ("IT") departments and the ever increasing number of workers who rely on mobile devices and Internet connectivity to do their work and for personal communication needs.[4] (The Company refers to this generation as "Gen Mobile").

13. The Company was founded in 2002 by an executive team that consisted of industry veterans in the areas of wireless, security, and enterprise networking.[5] The Company is headquartered in Sunnyvale, California and has operations throughout the Americas, Europe, Middle East, and Africa ("EMEA"), and the Asia Pacific ("APAC"). Prior to its acquisition by HP, Aruba was led by President, Chief Executive Officer ("CEO"), and Chairman of the Board of Directors ("Aruba Board") Dominic Orr ("Orr") and Co-Founder and Chief Technology Officer ("CTO") Keerti Melkote ("Melkote"). Aruba shipped its first commercial products in June 2003 and raised $88 million by issuing 8 million shares in its initial public offering ("IPO") in March 2007, expecting to bring the total number of shares outstanding after the IPO to approximately 75.2 million.[6]

14. At the time Aruba was formed, IT departments primarily relied on three "fixed edge" solutions to provide workers the ability to be mobile while still being able to connect to the firm's network: 1) traditional WLAN, 2) open access to fixed points, and 3) Virtual Private

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[3] Wi-Fi is a technology that allows electronic devices to connect to a WLAN primarily using the 2.4 Gigaherz and 5 Gigaherz ISM radio bands. As generally used today, Wi-Fi is synonymous with WLAN.

[4] Aruba Networks, Inc. Form 8-K, February 26, 2015.

[5] Aruba Networks, Inc. Offering Prospectus for 8,000,000 shares of Common Stock, March 26, 2007 ("IPO Prospectus"), p. 28.

[6] IPO Prospectus, p.1 and p.3.

Networks ("VPNs"). Traditional WLANs were fundamentally designed for extending the wired ports within a physical building by extending the fixed network services over the air as opposed to adapting them to roam with the user. Some companies relied on open access to fixed ports to provide their users with some form of mobility. In these environments, when the user moves away from their primary network port (e.g., desk) to another location in the office, the user must find a port and cable to connect to the network. VPNs offer employees secure mobile access to the enterprise network by requiring IT managers to install, configure and maintain client software on the end-user's machine.[7]

15. These solutions extended the "fixed edge" of the existing network on a limited basis and often resulted in reduced security and sub-optimal application performance. By recognizing these limitations when Wi-Fi technology was at an early stage of development, Aruba became a leading provider of an alternative to these approaches to providing employees with mobility.

16. As of the valuation date, Aruba's Mobility-Defined Networks™ was "a fundamentally new network architecture designed to automatically optimize infrastructure-wide performance and trigger security actions that previously required manual intervention"[8] by IT managers. At the time of its merger with HP, Aruba identified four key ingredients for its all-wireless workplace: 1) Stable Air, 2) Secure Air, 3) Simple Air, and 4) Smart Air.[9] The all-wireless network needs to provide Wi-Fi that does not slow down as more users connect to the network (Stable Air), that secures the data and the devices without overwhelming the IT network

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[7] IPO Prospectus, p. 2.

[8] 2014 10-K, p.4.

[9] Company Overview, February 17, 2015, p. 6 (ARUN006122).

(Secure Air), that is simple to manage (Simple Air), and that allow users, devices and applications, and locations to empower new applications (Smart Air).

17. As the Company reported in its 2014 annual report, it believed that the market for mobility solutions was changing and anticipated a significant growth in mobile devices. The increasing bring-your-own-device ("BYOD") phenomenon contributed to that growth and required firms to provide networks that allow mobility.[10]

18. As a result of Aruba's architecture solutions, the Company was well positioned to address the market opportunity brought about by the evolution in wireless technology from 2003 to the valuation date. For the period 2003 to 2009, Aruba characterized the wireless market as primarily serving laptop computers with Wi-Fi protocols 802.11abg.[11] 802.11 refers to a set of standards for WLAN equipment as established by the Institute of Electrical and Electronics Engineers ("IEEE"). The different letters following 802.11 refer to different wireless protocols.

19. From 2010 to 2013, the wireless market was defined as providing guest access to the network as well as for BYOD with Wi-Fi protocols 802.11n. By 2014, the gateway to access an all-wireless office accelerated with the development of the 802.11ac protocol. According to International Data Corporation ("IDC"):

> "The 802.11ac standard for WLAN is well on its way to being the fastest-adopted WLAN standard in history. Initially expected to overtake 802.11n in terms of enterprise shipments and revenue in 2016, recently quarterly trends are showing that the actual inflection point will likely come in 1H15 for revenue and follow shortly thereafter for shipments."[12]

The 802.11ac standard is characterized as follows:

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[10] 2014 10-K, p.4.

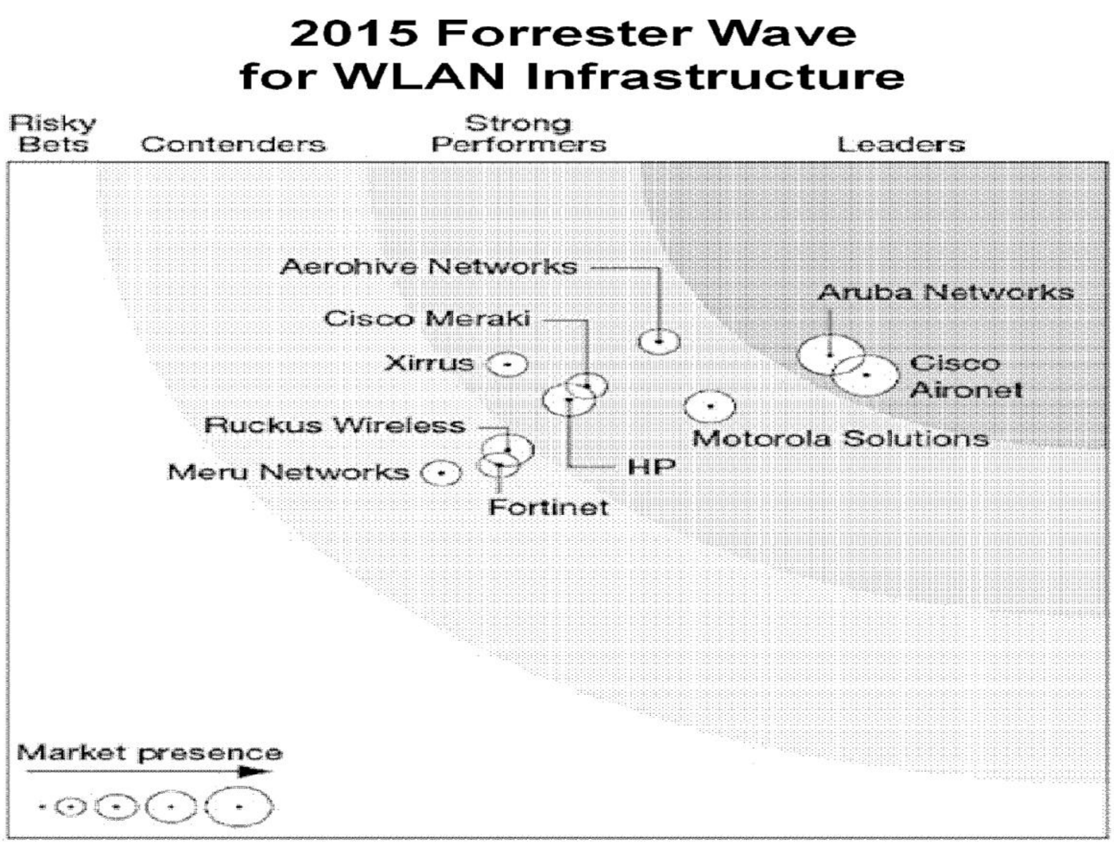
[11] Company Overview, October 2014, p. 19 (ArubaAA0461186).

[12] "Worldwide Enterprise Communications and Datacenter Network Infrastructure 2015 Top 10 Predictions," IDC, January 2015, p. 6 (ArubaAA0349480).

> "The newest generation of Wi-Fi signaling in popular use, 802.11ac utilizes dual band wireless technology, supporting simultaneous connections on both the 2.4 GHz and 5 GHz Wi-Fi bands. 802.11ac offers backward compatibility to 802.11b/g/n and bandwidth rated up to 1300 Mbps on the 5 GHz band plus up to 450 Mbps on 2.4 GHz."[13]

20. As of the valuation date, creating an all-wireless network was more achievable than before and Aruba was well positioned to benefit from this evolution in Wi-Fi technology. At that time, two leading technology research firms (Forrester and Gartner) recognized that the Company was a leader in market innovation.

21. As of the valuation date, the Forrester WAVE™ analysis indicated that Aruba was one of only two companies considered a leader in WLAN infrastructure:[14]



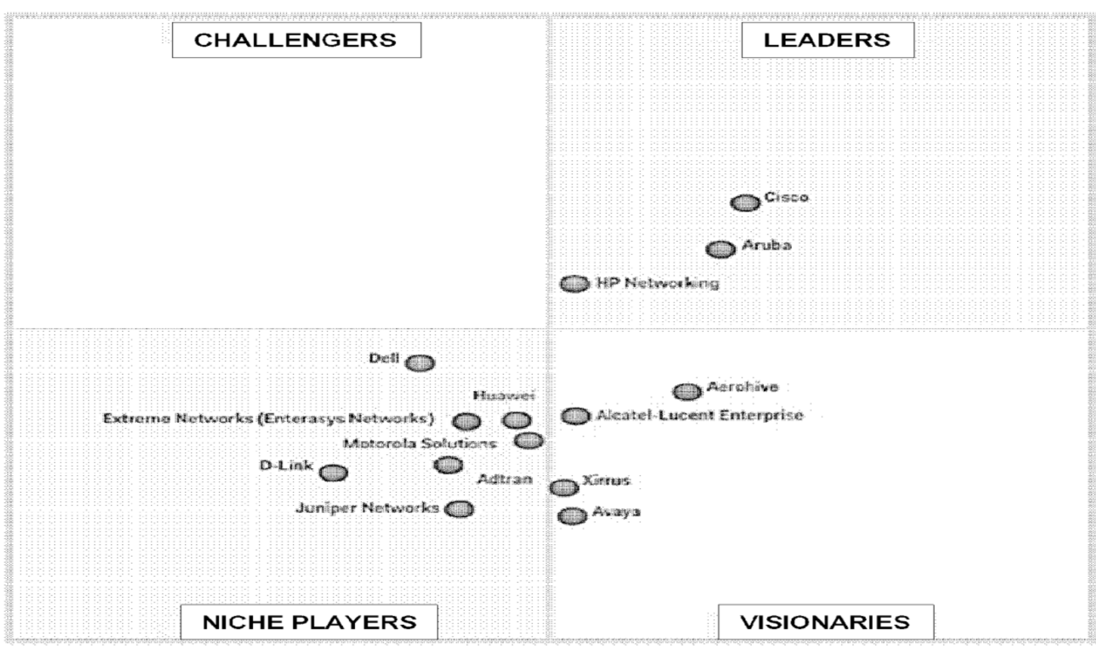
[13] http://compnetworking.about.com/cs/wireless80211/a/aa80211standard.htm

[14] Company Overview, February 17, 2015, p. 5 (ARUN006121).

22. The Forrester WAVE™ for WLAN Solutions report evaluates vendors on several architectural characteristics (scalable, shared, simplified, standardized and secure) and also considers strategy and market presence. In a September 10, 2014 news release announcing the release of the Forrester Wave™ for Wireless Local Area Network (LAN) Solutions for 2014, Aruba's Chief Marketing Officer Ben Gilson was quoted as stating "Our Mobility-Defined Networks are allowing customers to meet the needs of #GenMobile employees in a way that is cost-effective for their organizations. Our approach has already been embraced by customers worldwide, and we believe Forrester's assessment further validates that we are on the right track."[15]

23. Gartner's Magic Quadrant similarly recognized that Aruba was a leader for Wired and WLAN as of the valuation date:

2015 Gartner Magic Quadrant for Wired + Wireless LAN



[15] http://news.arubanetworks.com/press-release/aruba-networks-named-leader-wireless-lan-solutions-2014-evaluation-independent-researc.

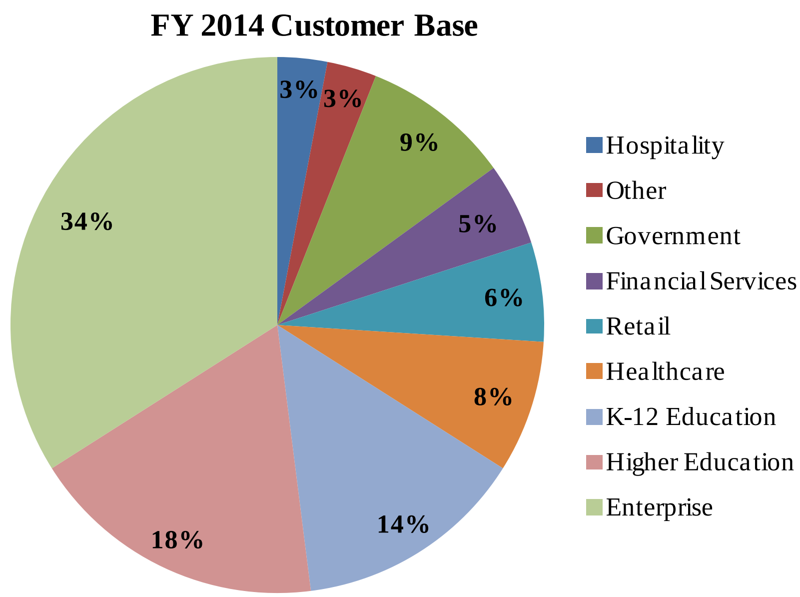
1. Revenues, Cost of Revenues, and Operating Expenses

24. As of the valuation date, Aruba's products and services were sold to more than 40,000 customers worldwide, primarily in the United States, EMEA, and APAC. The following table summarizes the generally stable geographic distribution of the Company's revenue stream:

	For the Fiscal Years Ended July 31,					
	2012		2013		2014	
($000s)						
United States	$ 323,331	63%	$ 379,447	63%	$ 476,114	65%
Europe, Middle East and Africa (EMEA)	89,540	17%	106,427	18%	132,847	18%
Asia Pacific (APAC)	89,677	17%	94,361	16%	102,666	14%
Rest of World	14,221	3%	19,809	3%	17,306	2%
Total	$ 516,769	100%	$ 600,044	100%	$ 728,933	100%

Source: Aruba Networks, Inc. Form 10-K for the Fiscal Year Ended July 31, 2014, p. 95.

25. As of the valuation date, the Company sold its products through its own sales force and through a multi-tier distribution model. The Company's Value Added Distributors ("VADs") and Original Equipment Manufacturers ("OEMs") sold Aruba's products and a variety of support services to a diverse number of Value Added Resellers ("VARs"), systems integrators, and service providers. The customer base included enterprise (general/high technology/industrial), higher education, K-12 education, health care, retail, government (federal/state/local), financial services, and hospitality. The following chart provides a breakdown of the Company's revenue base for the 2014 fiscal year ("FY") ended July 31, 2014 ("FY 2014"):



Source: Company Overview, October 2014, p. 77 (ArubaAAA0461244).

26. For FY 2014, the Company's product mix consisted of Campus Access Points ("APs") (47%), Instant (19%), Software (18%), Controllers (11%), and Switches (4%).[16] Campus APs allowed enterprises to create a secure and simple Wi-Fi network for their campus locations (e.g., college campuses, corporate office campuses). Aruba Instant products provided enterprise grade Wi-Fi to an existing wired LAN, with set-up taking clients just a few minutes.[17] Aruba's software products were used in tandem with its hardware products to provide network access control and network management. The Meridian App platform was a software solution that sent Wi-Fi network users personalized push notifications to their mobile devices. Controllers provided Aruba's customers with network engineering services as well as policy controls.

[16] Company Overview, October 2014, p. 74 (ArubaAA0461241).

[17] Aruba Networks, "Aruba Instant: Combining Enterprise class Wi-Fi with unmatched affordability and configuration simplicity," p. 4, http://www.arubanetworks.com/pdf/technology/TB_Aruba-Instant.pdf (last accessed July 29, 2016).

Switches connected network devices, receiving, processing, and forwarding the appropriate data to the network device.[18]

27. The Company outsourced the majority of its manufacturing. Its major manufacturing partners were Accton, Flextronics, Sercomm, and Wistron NeWeb Corp. In addition, Flextronics facilities in Singapore and Venray, Netherlands were used for production of specialized products and fulfillment operations for orders destined to EMEA and APAC.

28. Research and development was primarily conducted in Sunnyvale, California, Bangalore and Chennai, India, and Beijing, China. As of January 2015, the Company had approximately 1,800 employees worldwide as summarized in the following table:

Worldwide Base of Employees as of January 2015

		Field Operations				Operations				% of
Location	R&D	Sales	CA	Marketing	CFO	Ops	IT	Other*	Total	Total
HQ	264	39	37	30	45	29	23	41	508	28%
Other Americas	27	356	24	5	7	1	-	10	430	24%
EMEA	-	154	7	7	15	2	-	8	193	11%
APAC	386	135	57	8	28	11	23	18	666	37%
Total	677	684	125	50	95	43	46	77	1,797	100%
% of Total	38%	38%	7%	3%	5%	2%	3%	4%	100%	

* Includes Human Resources, Sales Operations, Training, Legal, Business Development, and Office of CEO.
Source: Company Overview, February 17, 2015, p. 8 (ARUN006124).

[18] http://www.arubanetworks.com/products/networking/

29. The table below summarizes the Company's employee growth from FY 2009 to FY 2014:

Worldwide Base of Employees

	As of the Fiscal Year Ended July 31					
	2009	2010	2011	2012	2013	2014
Sales & Marketing	260	300	422	520	580	723
Research & Development	177	254	426	471	586	655
General & Administrative	55	66	111	131	166	201
Customer Services	33	40	65	66	103	131
Operations	20	21	33	35	38	44
Total	545	681	1,057	1,223	1,473	1,754

Source: Company filings with the SEC.

2. Management and Board of Directors[19]

30. As of the valuation date, Orr was the Company's CEO and Chairman of the Aruba Board. He had served as a Director since 2002 and became President and CEO in April 2006.

31. Melkote co-founded Aruba, and as of the valuation date was the Company's CTO and a Director on the Aruba Board.

32. As of the valuation date, the Aruba Board was comprised of six other individuals, including Lead Independent Director Daniel Warmenhoven ("Warmenhoven"). Warmenhoven had served as a Director of the Company since 2006 and became the Lead Independent Director in October 2009.

33. Michael Galvin ("Galvin") joined Aruba in July 2005 and served as the Company's Senior Director of Finance until November 2008. In December 2008, Galvin became Vice President, Finance; in April 2011, he became the Chief Financial Officer ("CFO").

[19] Based on the 2014 10-K.

34. Ava Hahn ("Hahn") was the Company's General Counsel and frequently served as the Secretary of the Aruba Board meetings.[20]

3. Acquisition History[21]

35. Aruba acquired businesses or technologies to stimulate growth, enhance existing product offerings, acquire additional talented employees, and/or to enable the Company to develop new solutions. Between September 2010 and the valuation date, Aruba acquired the following companies: Azalea Networks, Inc. ("Azalea"), Avenda Systems ("Avenda"), and Meridian Apps, Inc. ("Meridian").

36. In September 2010, Aruba bought Azalea for $42.0 million plus Contingent Rights estimated to be worth $9.5 million at the time of the transaction. Azalea was a leading supplier of outdoor mesh networks critical for outdoor industrial networking applications. Its products were used in the 2008 Beijing Olympics to provide voice, video, and Wi-Fi access over a 19 square mile area. Previously, Aruba had focused on providing indoor WLAN solutions. This acquisition allowed the Company to expand its business to include outdoor solutions.[22]

37. In November 2011, the Company acquired Avenda, a developer of network security solutions, for $35.5 million in cash and stock. Avenda provided secure network access solutions for BYOD users. This acquisition was expected to provide Aruba's customers with a simple solution for BYOD network access. Avenda's products allowed mobile devices on a

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[20] For example, see Minutes of a Meeting of the Board of Directors of Aruba Networks, Inc., September 2, 2014 (ArubaAA0001780 – 1781).

[21] Based on the 2014 10-K, unless otherwise noted.

[22] Aruba Networks, Inc. Form 8-K, May 10, 2010, Exhibit 99.1.

broad range of operating systems to securely and quickly connect to a network without the need for IT helpdesk assistance.[23]

38. In May 2013, the Company bought Meridian, a company that supplied mobile software for location-based services, for $16.8 million in cash. This software came in the form of applications for mobile phones or tablets, which provided turn-by-turn directions and other location-based services. It was used by business enterprises to engage with potential customers through their mobile phones. This acquisition represented a new business opportunity for Aruba. The Company planned to offer new location-based services by combining its own network technology and data with Meridian's Wi-Fi based applications and solutions.[24]

B. HISTORICAL FINANCIAL PERFORMANCE

39. Prior to the merger, Aruba operated on a FY ending July 31, such that its quarters ended on October 31 (Q1), January 31 (Q2), April 30 (Q3) and July 31 (Q4). The following is a discussion of Aruba's annual financial performance over the five-year period ending July 31, 2014 and for the quarters ended October 31, 2014 ("Q1 2015") and January 31, 2015 ("Q2 2015"). Q1 2015 and Q2 2015 represent the first two quarters of the fiscal year ended July 31, 2015 ("FY 2015").

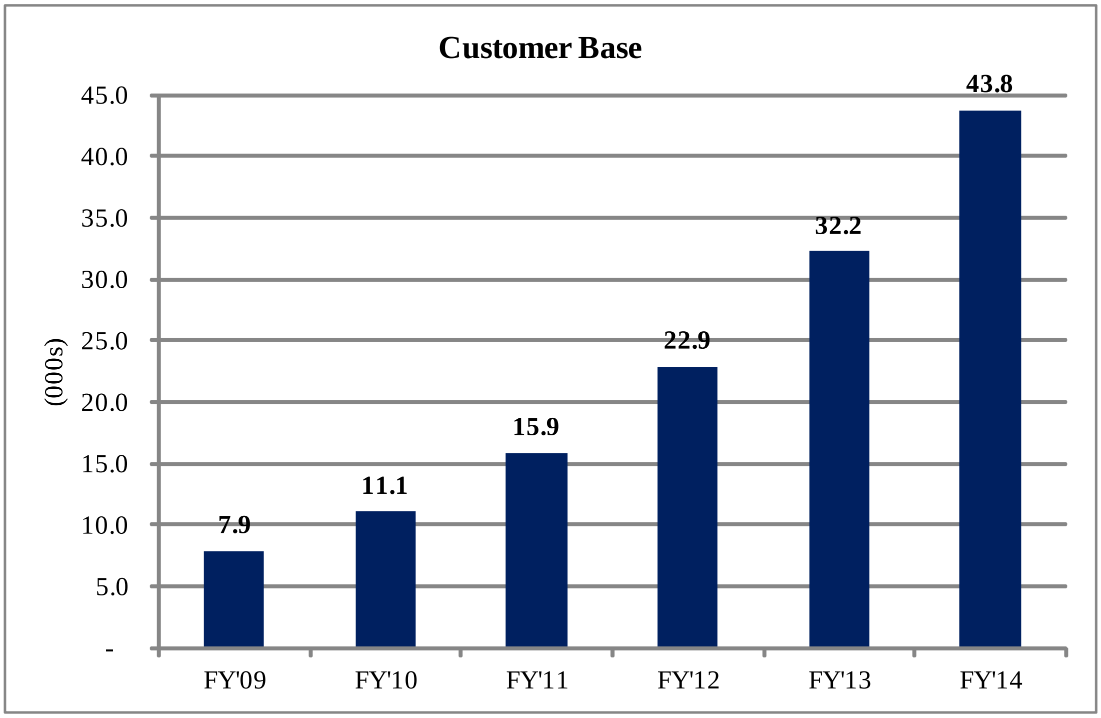
1. Fiscal Years 2010 - 2014

40. As seen in Exhibit 1-1, Aruba consistently grew its products and services revenue in FY 2010 – FY 2014. Exhibits 1-2 through 1-4 present Aruba's historical income statements, balance sheets, and statements of cash flows. During this time period, the Company also increased its market share of WLAN equipment revenue worldwide. For example, as reported by

[23] Aruba Networks, Inc Form 8-K, November 17, 2011, Exhibit 99.2.

[24] Aruba Networks, Inc. Form 10-Q for the quarter ended April 30, 2013, p. 22.

Gartner, Aruba had a 14.6% share of Q4 2014 WLAN equipment sales, up from its Q4 2013 market share of 12.7%.[25] Over this same year, Aruba maintained its second place position behind Cisco Systems and increased its market share over the third place vendor. The Company's customer base grew significantly over FYs 2009 – 2014:



Source: ArubaAA0509184.xlsx

41. Aruba referred to its product gross margins as "Industry Leading."[26] As seen in Exhibit 2-1, the Company's product gross margins increased from 62.0% at Q1 2009 to 70% at Q2 2015, as the Company focused on improving its operating income. Throughout FY 2014, Aruba reported record revenue and improving margins. Aruba's Q3 2014 earnings release stated:

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[25] Market Share: Enterprise Network Equipment by Market Segment, Worldwide reports for 4Q14 and 2014 and 4Q13 and 2013 (ArubaAA0360733-734 and ArubaAA0464292-293).

[26] Company Overview, October 2014, p. 78 (ArubaAA0461245).

> "Record revenue of $188.8M grew 28% from the $147.1M reported in Q3'13.
>
> * * *
>
> 'We delivered record revenue driven by strong demand across our product portfolio,' said Dominic Orr, Aruba's president and chief executive officer. 'We believe our exceptional topline performance this quarter reflects the investment we made in extending our sales and channel capacity, coupled with the strength of our differentiated architecture and product portfolio. The need for simple, smart, secure and stable Wi-Fi, particularly for cutting edge organizations moving toward all-wireless environments and 802.11ac, is driving interest for Aruba's broad product platform."[27]

42. While Aruba's stock was trading at $17.95 after the Q3 2014 earnings call with security analysts, many security analysts had higher price targets ("PTs"), with the median PT at $24.00. Exhibit 3-1 summarizes security analysts' PTs following Q3 2014 earnings.

43. On August 26, 2014, Aruba issued a press release reporting record revenue in both the quarter ended July 31, 2014 ("Q4 2014") and for FY 2014. In an internal email to Aruba employees, Orr reported on the Company's performance:

> "We had another strong quarter during which we made meaningful progress on our key strategic priorities. Our results exceeded guidance on all fronts, with record revenue of $202.9 million, an increase of 33% from last year. We met our commitment to deliver 20% operating margin by the end of the year and delivered gross margin of 71.5%, an improvement from the prior quarter."[28]

44. The Company also reported that its non-generally accepted accounting principles ("Non-GAAP") operating margin improved by 530 basis points (5.30%) over the last four

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[27] Aruba Networks, Inc. Fiscal Third Quarter 2014 Earnings Release (ArubaAA0518231) (Orr Ex. 5).

[28] Email from Dominic Orr to Aruba employees, Subject: Important Message from Dom, August 26, 2014 (ArubaAA0115422-32) (Orr Ex. 7).

quarters.[29] Following the Company's earnings announcement, security analysts at J.P. Morgan Securities wrote:

> "We are throwing in the towel on our Underweight thesis for Aruba as datapoints continue to suggest that the competitive threat from Cisco is not materializing. We also see both new 802.11ac capable smartphones and increased E-Rate K-12 Wifi spending in 2015 as potential tailwinds."[30]

45. In summarizing the Company's performance for FY 2014, in his letter to stockholders, Orr noted the Company's shift in focusing on profitability:

> "While strong growth remains a core priority, we have reached a stage in the company's evolution where our financial model allows us to shift our focus to driving growth with improved profitability.
>
> Looking to Fiscal 2015, we are excited about our opportunity to increase shareholder value. With solid growth expected in the WLAN market, differentiated products and a focus on profitability, we believe we have never been better positioned."[31]

46. As part of the August 26, 2014 press release, the Company announced that it had implemented a plan to improve its profitability through a cost reduction initiative known internally as "Project Greyhound." The press release stated that Aruba expected the cost reduction to eliminate approximately 3.7% of its workforce and to relocate approximately 4.2% of its workforce to Aruba operations in Portland, Oregon, Bangalore, India and Cork, Ireland. In part due to Project Greyhound, the Company raised its FY 2015 Non-GAAP operating margin target from 21% to 22%.[32]

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[29] Email from Dominic Orr to Aruba employees, Subject: Important Message from Dom, August 26, 2014 (ArubaAA0115422-32) (Orr Ex. 7).

[30] "FQ4'14 Wrap: Upgrading to Neutral as Cisco Competitive Thesis Fails to Play Out," J.P. Morgan Securities LLC, August 27, 2014, p. 1 (ArubaAA0516039).

[31] Dominic P. Orr, President and Chief Executive Officer, Letter to Stockholders. (Aruba Networks, Inc. 2014 Annual Report).

[32] Aruba Networks, Inc. Form 8-K, August 26, 2014. Ex. 99.1.

47. Project Greyhound was designed to address certain criticisms lodged by analysts as the Company matured. As Aruba's revenue growth matured and the Company started to become profitable, securities analysts began to focus on Aruba's ability to grow earnings alongside revenue. As Galvin explained during his deposition, "[w]hen you are a high-growth company, a top-line revenue growth company, you are given a bit of a hall pass, if you will, on operating profitability because they believed you are becoming bigger and bigger and bigger and down the road your margin will figure itself out. But you are taking so much revenue and so much market share that they give you a break on what your operating margins might be, what your EPS growth might be."[33] When HP first approached Aruba, the Company was nearing the stage where its "hall pass" was going to be revoked as securities analysts began to demand both revenue growth and earnings growth.[34]

48. In the months preceding HP's approach, Aruba management expressed frustration that despite record revenues and strong performance, Aruba's stock price did not trade at a price reflective of what they believed the Company was worth.[35]

49. To achieve a share price that reflected Aruba's intrinsic value, management turned its focus to showing the operating leverage – *i.e.*, having increasingly higher percentages

[33] Deposition of Michael M. Galvin ("Galvin Dep.") at 49-50.

[34] Galvin Dep. at 78-82.

[35] *See, e.g.*, Deposition of Dominic Orr ("Orr Dep.") at 48:18-23 (noting "a high degree of frustration [in June 2014] between me and my executive staff" because "[w]e believe we are running a world-class business. We were gaining market share, and Wall Street just do[es] not appreciate – we think that we are worth way more than what the market's value is at"); Orr Dep. at 49:12-25 (noting that in the June 2014 timeframe "the general sentiment is, we are not appreciated. There is nothing the company can do to satisfy the shareholder. . . . [T]he shareholders, and the buy-side analysts, which are primarily the one who decide the stock price, don't follow our story, don't get it. And no matter how well we execute, we cannot get the stock price where we want.").

of revenue fall to the bottom line to show increased earnings per share – that securities analysts demanded. Project Greyhound was planned "in direct response to generating better operating leverage for the company, reducing operating expense, and making [Aruba's] operating margins better."[36]

50. While Aruba announced Project Greyhound to the market on August 26, 2014, along with its FY 2014 earnings, Galvin testified that he expected that it would take a couple of quarters for the impact of Project Greyhound to be felt such that the "operating model question" would be behind Aruba and such that security analysts would come to believe that Aruba was "committed" to showing operating leverage.[37]

51. As seen in Exhibit 4-1, the market reacted favorably to the Company's Q4 2014 and FY 2014 financial results and improved guidance. Security analysts covering Aruba commented on the Company's financial performance and improved outlook. For example, Goldman, Sachs & Co. reported:

> "Aruba's better than expected quarter was driven by strong product revenue as the company continues to gain share in the 11ac product cycle
>
> * * *
>
> Aruba guided Fl Q revenue of $202-205mn (26% yoy at the midpoint), implying sequentially flat product revenue. We believe this guidance bakes in conservatism due to both a strong F4Q and an emerging FlQ seasonality as the company is getting close to a $1bn revenue run-rate. The company increased its FY15 OM guidance to 21-22% from 19-21 %, driven by both expectation of continued topline strength and headcount restructuring."[38]

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[36] Galvin Dep. at 73.

[37] Galvin Dep. at. 74.

[38] "Beat and Raise; better FY15 operating margin helped by reorg," Goldman, Sachs & Co., August 27, 2014, p. 1 (ArubaAA0453308).

52. Similarly, Bank of America Merrill Lynch wrote:

> "Big wins; cost cutting to drive OM strength in FY15
>
> Strong demand for the AC, Instant, and Clear Pass products helped drive wins at a large biopharmaceutical company, 2,000+ branches for a US bank, and several large school districts. Strength, as we have seen with other WLAN companies recently, is driven by the AC adoption cycle and we expect this trend to continue supporting Aruba's top line. Management also announced plans to reduce ~4% of the workforce and relocate positions (primarily G&A) to lower cost areas such as India, Ireland, and its Oregon office. The company also highlighted a partnership with Juniper, which could help Aruba sell AC products into Juniper's install base."[39]

53. After the announcement of the Company's Q4 2014 earnings, 16 security analysts had established PTs above the $24.67 deal price. Furthermore, the median PT was $25.00, also above the deal price. Exhibit 3-1 is a summary of security analysts' PTs at this point in time.[40] Furthermore, as previously discussed, Galvin expected security analysts to take a couple of quarters to believe that Project Greyhound would deliver the improved operating leverage that Aruba sought.[41]

2. Q1 2015

54. On November 20, 2014, Aruba issued a press release reporting financial results for Q1 2015. The Company reported record revenue for the quarter, growing 29% over the prior year period, and also reported increases and improvements in both Non-GAAP and GAAP gross margins and operating margins.[42]

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[39] "Aruba continues to ride the AC wave with a strong 4Q14," Bank of America Merrill Lynch, August 27, 2014, p. 1 (ArubaAA0453213).

[40] Note that Price Targets typically represent the analyst's forecast of the subject company's stock price 12 months out from the date of the analyst report.

[41] Galvin Dep. at 73 – 74.

[42] Aruba Networks, Inc. Form 8-K, November 20, 2014.

55. Orr spoke positively about Aruba's performance and outlook:

> "Driven by our focus on profitable growth, we generated record revenue of $207.8 million. This strong performance was coupled with a solid improvement in our profitability in the first quarter… Adoption of 802.11ac technology continued to drive growth in many of our verticals, including federal government, retail and enterprise. Our recent focus on penetrating the small to mid- sized enterprise market is paying off, and we are excited about the opportunity to continue to accelerate in this fast growing portion of the wireless market."[43]

56. In addition to reporting its results, the Company provided revenue guidance for Q2 2015 of $208 million to $212 million, the midpoint of which was approximately 1% lower than security analysts' expectations of $211.75 million.[44]

57. In response to questions about the guidance on the earnings conference call with security analysts, Galvin stated that the guidance the Company provided the market was based on a desire to be prudent in light of shifting macro factors, rather than any company specific issues:

> "So with regards to the guide, obviously, we do feel very good about the year-on-year growth, the 18% to 20%. We believe both are actuals from Q1 and that guidance are definitely taking market share from the market. But for this quarter, in particular, when we looked out, we really looked at kind of the things we're all hearing right now about a mixed spending and a mixed macro environment and we really flavored that in to our normal process of the way we evaluate our pipeline and conversion ratios, et cetera. And so it was really, really focused on that. **There weren't specific verticals or geographies per se. It was really, I guess, just kind of a prudence in terms of what we're all hearing about the market out there**."[45]

58. Despite Galvin's efforts to reassure the market that the lowered guidance was the result of prudence, the Company's share price fell approximately 14% in response (see Exhibits

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[43] Aruba Networks, Inc. Form 8-K, November 20, 2014.

[44] Aruba Networks, Inc. FQ1 2015 Earnings Call Transcripts, S&PCapital IQ, November 20, 2014.

[45] Aruba Networks, Inc., FQ1 2015 Earnings Call Transcripts, November 20, 2014 p. 10. (emphasis added).

4-1 and 4-2). Several security analysts attributed the stock drop to the lower guidance. For example, Bank of America Merrill Lynch commented:

> "Strong quarter revenue beating our/Street estimates, gross and operating margins 20bps and 130bps above our expectations, and EPS 1c better than expected…Nevertheless, the focal point this quarter is the weak guidance, driving the stock down 8% in after-hours trading."[46]

59. Other analysts also commented on the lowered guidance. For example, Barclays noted:

> "F1Q was solid in terms of share gains, margins and cash flow against a mixed spending environment. Aruba also issued guidance largely in line with consensus for the January [2015] quarter, but it is sub-seasonal – which clearly raised some concerns. Obviously, all of the company's peers in networking have issued sub-seasonal guidance as well – and Aruba is the best in wireless and on par with F5 [Networks]."[47]

60. Morgan Stanley noted:

> "While the company exceeded quarterly expectations for FQ1, guidance was generally in-line with our and Street expectations, as they see no near term catalysts driving outperformance and are cautious on the general spending environment due to macro headlines."[48]

61. J.P. Morgan Securities stated:

> "Aruba reported a solid quarter with a 2% beat on revenues and a 1c beat on EPS. Operating margin was better than consensus as we had previewed. However, the company proceeded to deliver tepid guidance, driven by a mixed macro and spending environment…"[49]

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[46] "Guidance confirms concerns; Downgrading to Underperform," Bank of America Merrill Lynch, November 21, 2014, p. 1 (EVERCORE00000452).

[47] "UPDATE: Solid Quarter – Guidance Raises Concerns but Seems Conservative," Barclays Capital Inc., November 21, 2014, p. 1 (ArubaAA0515633).

[48] "Slight Beat Doesn't Change Outlook," Morgan Stanley & Co., LLC, November 21, 2014, p. 1 (ArubaAA0515692).

[49] "FQ1'15 Wrap: EMEA Drives Beat in Q but Macro Cause Weak G. Reiterate Neutral," J.P. Morgan Securities LLC, November 21, 2014, p. 1 (ArubaAA0515645).

62. Goldman Sachs reported:

> "Aruba executed well in F1Q and the company's focus on profitability (including GAAP) is paying off. Aruba's top-line guidance at the mid-point was slightly below consensus and even though we expect the company to ultimately produce revenue (and EPS) largely in line with consensus, we expect investors to be focused on moderating top-line growth going forward."[50]

63. After Aruba's stock fell substantially on the lowered guidance, analysts questioned whether the slightly lowered guidance signaled something more than simple prudence. On December 4, 2014, Aruba Vice President of Investor Relations Tonya Chin reported to Orr, Galvin, and Melkote on conversations she had had with sell-side and buy-side analysts who told Ms. Chin that "they viewed our need to take guidance down for just $1M at the mid-point as a directional concern as we clearly wouldn't have done it if we didn't feel concerned."[51] In response to this expressed concern, Orr stated, "I regret every day after the earnings call that I did not stick with our 209-213 guidance range."[52]

64. Aruba's 2Q 2015 performance, as set forth below, makes clear that Orr safely could have stuck to his original range, as the Company reported "record revenue of $212.9 million"[53] that quarter – at the top end of the higher range.

65. As seen in Exhibit 3, it is interesting to note that Barclays (which would later be retained to represent HP in connection with the acquisition of Aruba) did not change its overweight rating or its $25 price target ("PT") based on this latest news from Aruba.[54]

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[50] "Solid Quarter; guidance a little light; focus on growth moderation," Goldman Sachs & Co., November 21, 2014, p. 1 (EVERCORE00000462).

[51] ArubaAA0445519-5521 (Orr Ex. 43).

[52] *Id.*

[53] Aruba Networks Reports Fiscal Second Quarter 2015 Financial Results (February 26, 2015).

[54] *Compare* ArubaAA0446876 - 887 (Hardegree Ex. 8) (Barclays Equity Research Report, Aruba Networks, Inc., Top Line Momentum Continues; Focusing More on Leverage) *with*

Furthermore, internal HP documents suggest that the 1Q 2015 or the lower guidance for Q2 2015 results did not have an impact on its valuation of Aruba.[55] Furthermore, as seen in Exhibit 3-1, the majority of security analysts did not change their PTs following this lowered guidance.

3. Q2 2015

66. At the beginning of this quarter, the Company announced that for the second consecutive year it was positioned in the Leaders Quadrant of Gartner's Magic Quadrant for Network Access Control.[56]

67. While official financial results for Q2 2015 would not be made public for another nine days, an internal Company document dated February 17, 2015 reported a 21% year-over-year growth in Q2 2015 revenue.[57]

68. After the market closed on February 26, 2015, the Company issued a press release reporting financial results for Q2 2015. Similar to Q1 2015, Aruba reported record revenue for the quarter, growing 21% over the prior year quarter, with increases and improvements in both Non-GAAP and GAAP gross margins and operating margins.[58] In reporting these results, Orr stated:

ArubaAA0512469 – 483 (Hardegree Ex. 9) (Barclays Equity Research Report, Aruba Networks, Inc., Solid Quarter – Guidance Raises Concerns but Seems Conservative, November 20, 2014).

[55] Project Aspen, Discussion Materials, January 2015, p. 2 (ArubaAA0380138) (Johansson Ex. 23) ("In light of the softer guidance, the share price traded down 14% and is currently trading at $18.09, near its three year average share price. **The softer guidance did not cause us to change our financial model.**") (emphasis added). *See also* Deposition of Joakim Johansson ("Johansson Dep.") at 123-124.

[56] http://news.arubanetworks.com/press-release/aruba-networks-positioned-leaders-quadrant-gartners-magic-quadrant-network-access-co-0

[57] Company Overview, February 17, 2015, p. 3 (ARUN006119).

[58] Aruba Networks, Inc. Form 8-K, February 26, 2015.

> "We are pleased to report solid results for the second quarter, reflecting continued execution on our strategic plan… Our results were supported by continued growth in our key geographies, strong year-over-year performance in our Federal vertical, further success in penetrating the Global 2000, and increasing traction in our SME business. We believe we are well positioned to capitalize on the continued growth in WLAN, the potential opportunities from increased E- Rate funding later this year, and the continued 802.11ac refresh cycle."[59]

69. Galvin also noted that the Company's strong revenue growth and expanding gross margin combined with prudent management of operating expenses led to the record quarter in Non-GAAP operating margin (23.3%).[60] On February 27, 2015, Aruba's share price rose 9.7% (see Exhibit 4-2).

70. The market did not have the opportunity to digest and react independently to the favorable Q2 2015 financial results[61] because on the previous day, February 25, 2015, Bloomberg News, citing people with knowledge of the transaction, reported that HP was in negotiations to buy Aruba.[62] The report did not provide an acquisition price, but as seen in Exhibit 4-2, Aruba's stock price rose 21.0% on this rumor. Trading volume in Aruba shares remained high from February 25, 2015 through March 2, 2015 when the transaction was officially announced. Before the deal price was announced, Aruba's stock briefly traded in excess of the $24.67 deal price.

71. While the market did not have an opportunity to react independently to the Q2 2015 earnings announcement, the stock rose 9.7% following the earnings release.

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[59] Aruba Networks, Inc. Form 8-K, February 26, 2015.

[60] Aruba Networks, Inc. Form 8-K, February 26, 2015.

[61] *See, e.g.,* EVERCORE00008319 (Reisenberg Ex. 38) (email from George Boutros of Qatalyst commenting on the leak to Bloomberg and noting "I guess we'll never know where the stock would have settled based on your results and guidance").

[62] "H-P in Talks to Buy Aruba Networks – Bloomberg," Dow Jones Newswires, February 25, 2015.

Notwithstanding the rumored transaction leak reported by Bloomberg News, security analysts were able to analyze the quarter's results and form independent opinions on Aruba's shares. For example, Barclays commented in raising its PT on Aruba:

> "We think Aruba's F2Q results demonstrate broad-based demand and solid execution despite tough conditions in K-12. The company is also making substantial progress in its efforts to demonstrate operating leverage. While the timing of E-rate spending hurts the F3Q outlook modestly, the guidance was better than feared and should ease some concerns. There are signs of pent-up demand, which should drive a significant acceleration in the back half of the year.
>
> * * *
>
> Our estimates move up slightly and our price target goes to $28 from $22 as we are more positive about the acceleration potential later this year into CY16."[63]

72. UBS made similar comments as Barclays in also raising its PT on Aruba:

> "**Aruba delivers a beat and respectable guidance**
>
> Aruba delivered solid results and respectable guidance especially given recent concerns over turnover in the sales organization and a slowdown in the education vertical ahead of federal funds ($1b/year) being released starting July 2015 (retroactive reimbursement starting April)."[64]
>
> "**Valuation: Maintain Buy and raise Price Target to $27**
>
> Our PT is based on 20x (was 19x) our CY15 EPS estimate of $1.20 (was $1.17) plus $2.6/share in cash. We've raised our multiple on better visibility, execution, and expectations of sales acceleration in CY2H."[65]

73. Goldman, Sachs & Co. also raised its PT on Aruba to $23 from $22 based on its raising estimates for Aruba's FY15/16/17 EPS estimates following the Company's strong Q2 2015 performance.[66]

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[63] "Managing the E-Rate Pause Well, Raising Target," Barclays Capital Inc., February 27, 2015, p.1 (ArubaAA0515277).

[64] "Solid execution in a relatively tough environment," UBS Securities LLC, February 27, 2015, 1 1 (ArubaAA0515294). Emphasis in original document.

[65] *Id.*

74. Additional evidence of security analysts increasing their PTs based on Aruba's future prospects and not on rumors of the acquisition include the commentary below from J.P. Morgan and BMO Capital Markets respectively:

> "We are increasing our Dec-15 price target to $24 from $20 based on 19.6x 2015 PE."[67]

> "We are raising our price target to $26 from $22 which represents 15-20x our CY 2016 pro forma EPS estimate of $1.54."[68]

C. ARUBA IMPLEMENTED PLANS TO LOWER ITS STOCK-BASED COMPENSATION EXPENSE

75. Personnel costs represented the largest component of Aruba's operating expenses. Like many high technology companies, Aruba awarded employees throughout the Company with stock-based compensation ("SBC"). Stock-based awards included restricted stock units and awards ("RSUs"), stock options, performance-based awards, and an employee stock purchase plan.[69] The Company determined the amount of SBC expense based on stock awards that it ultimately expected to vest, less estimated forfeiture amounts. The SBC expense was also adjusted to take into consideration the effects of modified awards and repurchased or cancelled awards.[70]

76. The following table summarizes the amount of SBC expense the Company reported on a GAAP basis over the last five fiscal years preceding the merger with HP:

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[66] "Strong F2Q; F3Q visibility hampered by E-rate; no M&A news," Goldman Sachs & Co., February 27, 2015, p. 1 (QP00012696).

[67] J.P. Morgan Analyst Report on Aruba Networks, Inc., "FQ2'15 Wrap: A Beat and Raise though Guidance Range Was Wide Due to E-Rate Uncertainty. Reit. N.," February 27, 2015, p. 1 (ArubaAA0515100).

[68] BMO Capital Markets Analyst Report on Aruba Networks, Inc., "Solid Results and Some M&A Uncertainty; Raising Estimates and Target," February 27, 2015, p. 1 (ArubaAA0515211).

[69] 2014 10-K p. 44.

[70] 2014 10-K p. 44.

	For the Fiscal Year Ended July 31				
SBC Expense by Operating Expense Category	**2010**	**2011**	**2012**	**2013**	**2014**
($ Millions)					
Cost of Revenue	$ 1	$ 3	$ 5	$ 7	$ 9
Research & Development	11	23	31	36	44
Sales & Marketing	14	24	35	38	42
General & Administrative	10	13	13	16	16
Total Stock-Based Compensation	$ 36	$ 64	$ 84	$ 96	$ 111
SBC Expense by Award Type					
Stock Options	$ 16	$ 19	$ 17	$ 10	$ 5
Stock Awards	16	39	59	77	97
Employee Stock Purchase Plan	4	6	8	10	9
	$ 36	$ 64	$ 84	$ 96	$ 111
SBC Expense Percentage of Revenue	*13.5%*	*16.1%*	*16.2%*	*16.0%*	*15.3%*

Source: Company filings with the SEC.

77. Historically, Aruba had issued SBC at a higher level than other companies in the industry. In an email Orr sent on June 25, 2014, he acknowledged this fact:

> "We have historically been at the very top of all comparable companies in granting equity to employees. In years past we've granted more than two times the amount of stock to our employees as compared to comparable companies in our space. Over FY14, we made significant changes in the stock plan to bring our stock spending more in line with our peer group."[71]

78. In the quarters leading up to the valuation date, Aruba was focused on lowering its SBC, both in terms of dollars and as a percentage of revenue, as part of its focus on increasing operating leverage. To that end, effective FY 15, Aruba would not be granting any SBC to "employees in levels 1 through and including 6."[72] Similarly, Aruba publicly stated that it expected SBC expense in FY 2015 to be lower than FY 2014 in terms of both dollars and as a percentage of revenue and expected continued reductions in fiscal years 2016 and 2017.[73]

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[71] Email from Dominic Orr, Subject: Focal Reviews, June 25, 2014 (ArubaAA0054934). Galvin Dep. at 132 – 135.

[72] AurbaAA0054933 (Galvin Ex. 17).

[73] 2014 10-K, p. 48.

79. As of June 2014, Galvin had "started a three-year plan to get us to high single digits of SBC as a percentage of revenue."[74] Galvin testified that once Aruba achieved this goal there would be no reason for it to go back to its historical "double the market" SBC levels.[75]

80. Aruba management also publicly announced their plans to both reduce SBC as a percent of revenue and to continue share repurchases to negate the impact of dilution caused by stock awards. Consider, for example, the following from the Company's 2014 earnings calls with analysts:

> "Next, I would like to comment on our stock-based compensation, or SBC. As I have discussed in previous quarters, we have implemented changes over the past year in our stock issuance practices. Our goal is to both reduce our SBC as a percentage of revenue as well as to moderate our stock dilution. In fiscal years '12 and '13, we had SBC of 16% of revenues in each year. In our last 2 fiscal quarters, we have begun to see the benefits of the changes in our issuance practices, reporting SBC as a percentage of revenue of 15% in Q3 and 13% in this Q4. These actions brought our full fiscal '14 SBC down to 15% of revenue. For fiscal 2015, we expect to drive further shareholder return with SBC in the range of 12% to 14%, and these improvements and that improving rate will continue in FY '16 and '17."[76]
>
> "As we move forward, we plan to continue to utilize our repurchase program to mitigate stock dilution, balancing our capital structure needs in any given quarter."[77]

D. ARUBA'S CAPITAL STRUCTURE INITIATIVES

81. In the quarters leading up to the valuation date, Aruba focused on initiatives to optimize its capital structure. As of the valuation date, Aruba had no debt – a capital structure that Galvin recognized might not have been optimal in the long term because he "had a view for our future that having a portion of [our] balance sheet and [our] capital structure in debt was

[74] Galvin Dep. at 135:1-13.

[75] Galvin Dep. at 138:19-193:1.

[76] Q4 2014 Earnings Call Transcript, August 26, 2014, p. 6.

[77] *Id.*

possibly a good thing if it's an effective means of financing" and that as Aruba matured it was "more likely to have a more normalized capital structure."[78]

82. As early as June 2013, the Capital Structure Subcommittee of the Aruba Board ("Capital Structure Subcommittee") held meetings to discuss capital structure alternatives and its stock repurchase program.[79] The Capital Structure Subcommittee discussed financing options to improve the Company's capital structure, including using a portion of the proceeds of a convertible debt offering to repurchase shares over and above the historic buyback program designed to offset the dilutive effect of the Company's SBC. The Capital Structure Subcommittee used Barclays as its financial advisor for a potential convertible debt offering and alternated between Barclays and UBS for its stock repurchase plan in order to spread the business between the two banks.[80]

1. Convertible Bond Offering

83. At the June 21, 2013 meeting of the Capital Structure Subcommittee, Barclays presented financing discussion materials concerning a convertible bond offering.[81] At its August 8, 2013 meeting, also attended by Barclays, the subcommittee recommended that the Aruba Board approve a $300 million financing.[82]

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[78] Galvin Dep. at 103:21-104:24.

[79] Financing Discussion Materials, June 20, 2013, Barclays Capital, Inc. (ArubaAA0001928-1979).

[80] Galvin Dep. at 91.

[81] Financing Discussion Materials, June 20, 2013, Barclays Capital Inc. (ArubaAA0001928 – 1979).

[82] Minutes of a Meeting of the Capital Structure Subcommittee of the Board of Directors of Aruba Networks, Inc., August 8, 2013, p. 1 (ArubaAA0001980).

84. In the summer of 2014, the Company was working with Barclays to launch the $300 million convertible bond offering after the Labor Day holiday. Prior to HP approaching Aruba with the idea of a merger, the convertible bond offering appeared to be on track as evidenced by the following June 16, 2014 email from Barclays to Galvin:

> "Kirk [Kaludis of Barclays] updated the team on your latest thinking, so please find attached a revised timeline preparing for a post Labor Day launch.
>
> * * *
>
> …as we head into the summer, the markets are in great shape. Convertible investors are hungry for paper and the equity/bond markets have resumed their upwards march after a rocky spring."[83]

85. As merger talks progressed with HP (as discussed in more detail below), the Company put the financing on hold. When Aruba informed Barclays that it was tabling the convertible bond offering, Barclays was perplexed by Aruba's inaction, suggesting that the plans for the bond offering were very far along, as set forth in a September 25, 2014 email sent by Galvin to a number of Aruba executives:

> "Kirk [Kaludis] and I spoke yesterday. His head is spinning because all the stars have aligned to do a convert [convertible note financing], and yet we aren't. I told him that it just can't happen this qtr, but we're still calibrating every 90 days when the time is right. He said 'Mike, in my business, when this happens, either an exec [executive] is leaving the company or a major M&A txn [transaction] is in process'."[84]

86. The advanced stage of the bond offering plans is further reinforced by the below statement in Galvin's email:

[83] Email from Carl Chiou (Barclays) to Mike Galvin, Subject: Updated convertible execution timeline, June 16, 2014 (ArubaAA0449598-602)(Hardegree Ex. 6).

[84] Email from Mike Galvin to Lory Hopkins (cc: Dominic Orr and Keerti Melkote), Subject: Re: Kirk, September 25, 2014 (ArubaAA0116120).

> "Stu [Francis at Evercore] is not on to us nearly as much, because his angle has been just hoping to get some of the convert, but he doesn't know, like Kirk does, just how close we were to doing a financing."[85]

87. Had Aruba completed the convertible bond offering, not only would it have provided additional funds for the Company to buy back stock, but it also would have demonstrated to the market that Aruba was now capable of taking on fixed corporate obligations, something typically reserved for more established businesses.

2. Stock Repurchase Program

88. Aruba had a stock repurchase plan in place to offset the dilutive effects of SBC. On a regular basis, the Company bought back shares at prices that would be consistent with a belief that the stock was undervalued.

89. In early January 2014, Warmenhoven sent an email regarding increasing stock repurchases.[86] The following month, Galvin wrote a similar email in regards to increasing stock repurchases. [87] At the February 14, 2014 Capital Structure Subcommittee meeting, the subcommittee discussed plans to increase the stock repurchase plan and stated:

> "1. The recent trading price of the Company's stock on the NASDAQ Global Select Market has been depressed and the Board believes that the trading price of the Company's common stock may be undervalued and may present an attractive opportunity for investment in the Company's funds;
>
> 2. The Company has sufficient cash resources available to effect repurchases without significantly weakening the Company's financial position or its ability to finance its operations; and

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[85] Email from Mike Galvin to Lory Hopkins (cc: Dominic Orr and Keerti Melkote), Subject: Re: Kirk, September 25, 2014 (ArubaAA0116120).

[86] Email from Dan Warmenhoven to Michael Galvin, Subject: RE: Stock Repurchase Update, January 9, 2014 (ArubaAA0522631).

[87] Email from Mike Galvin to Dan Warmenhoven, Subject: RE: Aruba Networks: UWC Regarding Increase to Share Repurchase Plan Authorized Limit, February 16, 2014 (ArubdaAA0522635).

> 3. The repurchase of shares will help counter the Company's normal dilution from new share issuances for employee compensation."[88]

90. Following this meeting, the Aruba Board issued a press release stating that it had approved an additional $200 million of stock repurchases.[89]

91. After HP approached Aruba about a potential transaction (as discussed below), Aruba continued to buy back stock. At the September 2, 2014 Aruba Board meeting, "[t]he Board determined to allow repurchases within the existing limits previously approved (no more than $25 million per quarter at prices no higher than $25.00/share) and consistent with past practice, given the highly preliminary nature of discussions with Helsinki [HP]."[90]

92. On September 27, 2014, Galvin sent an email regarding share buybacks of $80 million planned for Q2 2015 and related presentation to the Capital Structure Subcommittee.[91]

93. Galvin testified that Aruba's stock repurchase program had been in place since 2012 and it was only stopped temporarily in light of the discussions with HP.[92] Following the termination of merger talks in November 2014, Aruba management acted quickly to resume the

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[88] Minutes of a Meeting of the Capital Structure Subcommittee of the Board of Directors of Aruba Networks, Inc., February 14, 2014, p. 2 (ArubaAA0002000). *See also* Galvin Dep. at 85 – 89.

[89] "Aruba Networks Announces Additional $200 Million Share Repurchase Authorization," Aruba Networks, Inc. News Release, February 20, 2014 (http://news.arubanetworks.com/press-release/aruba-networks-announces-additional-200-million-share-repurchase-authorization

[90] Minutes of a Meeting of the Board of Directors of Aruba Networks, Inc., September 2, 2014, p. 1 (ArubaAA0001780). *See also* Galvin Dep. at pp. 93 – 94.

[91] Email from Mike Galvin to Emmanuel Hernandez, Mike Kourey and Dan Warmenhoven, November 27, 2014 and attached Capital Structure Committee, Stock Repurchase Update, November 26, 2014 (ArubaAA0538775 – 79).

[92] Galvin Dep. at 96:10-25.

buyback program, proposing that the Company repurchase up to $75 million ($25 million catch up and $50 million normal repurchase).[93]

94. Security analysts also discussed with Aruba management that buying back stock at a time when the Company's stock price was depressed was a good use of corporate resources. For example, Jason Ader, CFA of William Blair and Company, wrote:

> "…one obvious consideration for you guys at this stock price is why not pursue an accelerated buyback. I know you probably don't want to deplete your balance sheet but this seems like a perfect opportunity to issue a low-cost convert and use that cash to buy back a bunch of stock. You would be making a huge statement by doing this, putting your money where your mouth is, rewarding patient shareholders and driving significant earnings accretion while only taking on a very modest debt that would become equity at a more reasonable price."[94]

V. BACKGROUND OF THE MERGER

95. In the following section of this report, I discuss the timetable and negotiations that led to the $24.67 deal price, the process Aruba and HP used to retain their financial advisors, and a summary of the key terms of the merger agreement.

A. PROCESS OF ARRIVING AT THE TRANSACTION PRICE

96. As early as July 2014, HP received approval to approach Aruba about a possible transaction; in late July or early August, Antonio Neri, Senior Vice President and General Manager, HP Servers and HP Networking Global Business Units ("Neri"), was scheduled to meet with Orr to discuss opportunities.[95]

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[93] Email from Dominic Orr to Aruba Board members, Subject: Helsinki Update, November 26, 2014 (ARUN004906) (Galvin Ex. 36).

[94] Email from Jason Ader to Mike Galvin, Subject: RE: Thank you: Investor's Business Daily, December 2, 2014 (ArubaAA0053842) (Galvin Ex. 36).

[95] Email from Antonio Neri to Lak Ananth, Subject: Juniper Networks Announces 2QFY14 Financial Results, July 23, 2014 (ArubaAA0108659) (Whitman Ex. 1).

97. On August 27, 2014, Orr received a call from Neri, who expressed HP's interest in acquiring Aruba. Orr then notified Warmenhoven of his call with Neri.[96]

98. Shortly thereafter, Aruba reached out to Qatalyst Partners ("Qatalyst") about the potential transaction and quickly retained Qatalyst to represent it. Qatalyst's retention is discussed in further detail below.

99. On August 30, 2014, Qatalyst provided "talking points" for Orr to use in his upcoming call with Neri about the potential transaction. Qatalyst suggested the following points to be made regarding Aruba's potential sale:

> "…our investments…are starting to pay considerable dividends as our market share has increased from 12.7% to 15.2% and we have a clear path to additional market share gains over the next several quarters."
>
> "…we have substantial upside ahead of us, and a high degree of confidence in our ability to execute and realize this upside. It also means that this is not a good time to be considering a sale of the company because the market does not fully appreciate the momentum we have which is not reflected in our share price, as investors tend to take a wait and see attitude."
>
> "…I would need to have a high degree of conviction that a combination with HP would allow me to meaningfully accelerate the plan that I know I can achieve on a stand-alone basis."
>
> "…it is important you understand that we would only consider an acquisition offer, and take ourselves off the independent course we are on, if the price fully reflects both the significant upside we have in front of us as an independent company, and the strategic value of Aruba to HP or any other acquirer."[97]

100. On August 30, 2014, Qatalyst partner George Boutros ("Boutros") further advised Orr on how to position Aruba's pricing expectations, suggesting that Orr state:

> "What all this means, is that for a deal to happen here, there will have to be a very substantial premium to market, well in excess of the typical m&a premium, in

[96] Orr Dep. at 123-125.

[97] Email from George Boutros to Dominic Orr, Subject: Conversation points, August 29, 2014 (ARUN001037-38) (Orr Ex. 31).

> order to fully reflect both the substantial upside potential we have as an independent company, and our strategic value to you and others."[98]

101. Following an Aruba Board meeting on September 10, 2014, Orr updated Neri on the meeting discussions. Neri summarized for the HP team his conversation with Orr as follows:

> "Dom Orr updated me this evening about his Board meeting. He held a 4 hours meeting where they discussed 2 topics. First a review of his 3 years plan presented 2 weeks ago to validate the assumptions to achieve it. Second the Aspen [Aruba] business case and request for engagement, [sic]
>
> Overall the Aspen Board is interested and intrigued. They would like to have a deeper conversation around how serious we are and our willingness to execute the plan/synergies. They requested to have their leading board member Dan Warmenhoven to have a conversation with Meg [Whitman] on this. Meg and Dan know each other, and I will organize Meg to place a call into Dan."[99]

102. In late September 2014 as Aruba management was preparing a presentation to be made to HP, Hahn reported on the following points that Orr wanted to make in telling its story to HP:

> "1. We are a high growth company with a diverse base of customers
>
> 2. We are a high margin company and margins are only going to improve
>
> 3. We are a highly profitable company
>
> 4. And the momentum is just beginning
>
> 5. We are on our way to $40 on our own
>
> > a. We have 32 analysts covering us and all but a couple have a BUY rating"[100]

103. From the outset, Aruba recognized that the best way to maximize value was to get competing bids.[101] Qatalyst identified potential competitors to HP and identified six Tier I

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[98] Email from George Boutros to Dominic Orr, August 30, 2014 (ARUN0001035) (Orr Ex. 31).

[99] Email from Antonio Neri addressed to Team, September 10, 2014 (ArubaAA0100331-332).

[100] Email from Ava Hahn to Mike Galvin and Qatalyst Partners, et al., Subject: Finance slides, September 26, 2014 (ARUN010432) (Orr Ex. 14).

strategic partners (EMC, Google, HP, Juniper Networks, Microsoft, and Oracle) and seven Tier II strategic partners (Arista Networks, Brocade, Citrix, Dell, Ericsson, F5 Networks, and IBM).[102]

104. While Qatalyst identified a number of potential bidders, it was understood from the outset that the chances of a competitive bid emerging were low. Boutros testified that in Qatalyst's view even within Tier I "it wasn't likely that there would be any other buyers other than HP," but that Qatalyst would nonetheless reach out to certain of the potential bidders it had identified.[103]

105. Similarly, Orr testified that Qatalyst informed Aruba that "this is going to be a tough assignment, because there was not really an obvious bidding partner" and that Qatalyst would "try [its] best, but coming up with a competitive bid [was] going to be difficult." Orr was not surprised by Qatalyst's assessment that the prospect of a competing bidder emerging was low, testifying that "in my heart, [I] agreed because I had been scanning the scene repeatedly and constantly, and I know why that is the case."[104]

106. While Qatalyst and Aruba both recognized that the odds of a competing bid emerging were low, Qatalyst was instructed at the September 25, 2014 Board Meeting to contact a limited number of strategic partners. Qatalyst was instructed to not contact any potential private equity bidders.

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[101] *See, e.g.*, Orr Tr. at 124:12-125:9 (Orr and Warmenhoven discussed that the best way to maximize value was to secure competing bids and that "there is no better firm than Qatalyst to get us competitive bids").

[102] Project Athens, Materials for Discussion, September 8, 2014, p. 17 (ARUN000017).

[103] Deposition of George Boutros ("Boutros Dep.") at 75.

[104] Orr Dep. at 149:7-24.

107. Between September 29, 2014 and October 2, 2014, Qatalyst contacted five potential strategic partners. [105] The outreach calls were brief, each involving Qatalyst communicating only that Aruba had been approached and asking whether the outreach target might be interested. No financial information was provided. [106]

108. By October 9, 2014, each of the five had informed Qatalyst that it had no interest in a potential acquisition of Aruba. Thereafter, Qatalyst made no further attempts to contact them.[107]

109. HP evidently shared Qatalyst's/Orr's view that it had no competition for its acquisition of Aruba. In fact, HP Vice President of Corporate Development Joakim Johansson ("Johansson"), testified that he did not even think Aruba was running any kind of sales process at all:

> "A. …[F]rom the time that Antonio reached out to Dom, at least from our perspective, it was a very friendly discussion. It was -- they were not running a sales process. There was no posturing about trying to pin us against someone else.
>
> Q. Did anyone at Aruba ever tell HP about any other companies expressing an interest in acquiring Aruba?
>
> A. No."[108]

110. On October 2, 2014, Aruba and HP management had a face-to-face meeting to discuss the potential transaction. Aruba presented its then-current financial forecasts to HP and provided other non-public information about the Company's ongoing strategy and vision, its

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105 On January 30, 2015, Qatalyst Partners also contacted a sixth potential strategic partner. Aruba Networks Inc. Schedule 14A, filed April 3, 2015 (the "Proxy") at 42.

106 Deposition of Daniel Warmenhoven (the "Warmenhoven Dep.") at 99:14-100:18; Boutros Dep. at 78:4-87:20, 99:3-18 (summarizing outreach efforts to potential competing bidders)

107 Boutros Dep. at 219; Warmenhoven Dep. at 104:24-106:3.

108 Deposition Transcript of Joakim Johansson, (the "Johansson Dep.") at 112:8-23.

product roadmap, its go-to-market strategy, its financials, and the potential synergies that may have resulted from a transaction.

111. On October 5, 2014, Neri told Orr that the information provided during the October 2 meeting had only "increased HP's interest in the potential transaction and that the product roadmap presented" "indicated greater synergies than HP's prior assessment."[109]

112. On October 6, 2014, HP announced that it planned to split into two companies, HP management reached out to Aruba to reassure it that HP remained focused on the potential acquisition and that the announced separation would not derail the potential deal.[110]

113. The parties continued to assess the potential transaction throughout October. On October 21, 2014, Neri told Orr that HP would need two to three more weeks to put together an offer.[111]

114. In late October or early November 2014, Orr informed Johansson of Aruba's preliminary financial results for the quarter ended October 31, 2014 (Q1 2015). Orr indicated to Johansson that Aruba would likely beat Wall Street estimates on revenue, gross margin, operating margin, and EPS.[112]

115. On November 3, 2014, the parties met to discuss HP's progress on reviewing the potential acquisition. HP informed Aruba that it planned to bring the potential deal to its board at its November 19, 2014 meeting and that it expected to be able to make an offer after that meeting.

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[109] Proxy at 41.

[110] Proxy at 41.

[111] Proxy at 41.

[112] Email from Dominic Orr to George Boutros et al., Subject: My meeting with Joakim, November 4, 2014 (ARUN001210-11) (Johansson Ex. 43).

116. After the November 19, 2014 meeting, HP did not present an offer for Aruba.

117. On November 21, 2014, as noted above, Aruba announced it 1Q 2015 results. The Company's stock dropped 14% in response to Aruba's lowering of guidance to 1% below the midpoint of analysts' expectations.

118. On November 24, 2014, Neri informed Orr that HP's Board had asked HP management to prepare additional financial analysis concerning the potential acquisition and that HP would need an additional two to three weeks to address these questions.[113]

119. On November 25, 2014, Orr called Neri to inform him that Aruba was ending discussions with HP regarding an acquisition. Orr reported to the Aruba Board as follows:

> "After speaking with Antonio [Neri], I spoke with the members of my team in the tent (Keerti, Mike, Greg, Aaron, Ava) as well as with Qatalyst, WSGR and Dan Warmenhoven. We believe that it is time to terminate discussions. We have been in dialogue with Helsinki [HP] since <u>August 27</u>, and have not received a proposal in all this time. We have delayed making decisions in our business pending the Helsinki proposal. We cannot continue to wait for them. Though Helsinki indicated they need only a few more weeks, that has been their refrain since our October 2 management meeting. I called Antonio back today to break things off."[114]

120. According to Hahn, Johansson responded that its "board feels it needs to be ultra-cautious" and that "the valuation 'at your current stock price' is hard to justify." In response to the discovery that HP thought that Aruba was "too expensive" at its then-current valuation, Orr responded, "Complete F&$king waste of our time!"[115]

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[113] Proxy at 42.

[114] Email from Dominic Orr to Aruba Board members, Subject: Helsinki Update, November 26, 2014 (ARUN004906) (Orr Ex. 45).

[115] Email from Dominic Orr to Ava Hahn, subject: Conversation with Joakim – Prive / Conf, November 28, 2014 (ARUN009606).

121. In late December 2014, Neri called Orr and informed Orr that HP's CEO, Meg Whitman ("Whitman"), had invited Orr to dinner. That dinner ultimately would take place on January 21, 2015. Although Neri did not state a purpose for the requested dinner meeting during his call, it was generally understood among the Aruba team that Whitman wanted to re-initiate a dialogue about a potential deal.[116]

122. Between the time Neri called him and the date of the dinner, Orr did not do anything with respect to evaluating a potential deal.[117] HP, however, continued to evaluate the potential transaction, bringing in McKinsey to analyze the synergies that HP could expect to realize through the transaction[118] and reaching out to Barclays to serve as a financial advisor.[119]

B. HP MAKES AN OFFER FOR ARUBA WHEN THE STOCK IS TRADING AT DEPRESSED LEVELS

123. When HP first approached Aruba about a potential transaction on August 27, 2014, Aruba's stock was trading at $22.01.[120] Negotiations continued throughout the fall, with HP never putting an offer on the table. By the date of the January 21, 2015 dinner meeting

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[116] *See, e.g.*, Warmenhoven Dep. at 126:17-127:11 (noting that since "the call came from Mr, Neri," "we knew probably what the subject matter was going to be"); Galvin Dep. at 264:4-100 ("I can say at my end it was an assumption that they wanted to talk about something , and Meg is involved. And so I would probably say me, I'll speak for myself, but the group, I think, thought something was going to reengage and Meg was involved. So that was the baseline assumption."); Orr Dep. at 260:17-22 ("Well, I mean, I would have a guess that she would be interested, but I don't remember.").

[117] Orr Dep. at 259:23-260:16.

[118] ArubaAA0380132-141 (Hardegree Ex. 22) at -138 ("Independent study from McKinsey completed prior to the holidays provided support for the Aspen business case. . . . Using the McKinsey assumptions, the study indicate[s] a valuation of between $3.2 – 3.4B vs. $3.6B for the Aspen business case. Overall, McKinsey recommend moving forward and confirming assumptions and findings in due diligence.").

[119] *See, e.g.*, Deposition of Richard Hardegree (the "Hardegree Dep.") at 120:21-121:3 (HP contacted Barclays about the potential deal on December 15, 2014).

[120] Reisenberg Ex. 13 (ARUN opening price of $22.01 on August 27, 2014).

during which Whitman re-opened the dialogue about a potential deal, Aruba's stock price had fallen to $16.82.[121]

124. This stock price drop did not go unnoticed by Aruba's Board. The day following the January 21, 2015 dinner meeting, Aruba Board member Bernard Guidon noted that "[t]he big question is what is Helsinki's [HP's] view on our valuation based on our low share price those [sic] days?"[122]

125. On January 31, 2015, HP made its first offer for Aruba: $23.25 per share in cash.[123] The $23.25 per share offer represented a 7% premium to Aruba's closing price of $21.80 on November 20, 2014 (the last trading day before Aruba issued its Q2 2015 revenue guidance to the market after the close on November 20, 2014) and a 14.8% premium to Aruba's closing price of $20.24 on August 26, 2014 (the day before HP first approached about a possible deal).

126. Prior to receiving this offer, Qatalyst had not provided the Aruba Board with a DCF analysis of Aruba's value.[124] Further, Warmenhoven testified that even if "somebody did [perform a DCF], it didn't make any difference, because nobody was going to look at it. It's just not the basis for the valuation that we were interested in."[125]

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[121] Reisenberg Ex. 13 (ARUN opening price of $16.82 on January 21, 2015).

[122] Email from Bernard Guidon to Dan Warmenhoven (cc: Aruba Board members), Subject: Re: Helsinki – Extremely Confidential, January 22, 2015 (ARUN003981).

[123] Hewlett-Packard Company Indicative Non-Binding Proposal to Aruba Networks, Inc., January 31, 2015 (ARUN001019-20).

[124] *See, e.g.*, Boutros Dep. at 220:20-24 (Boutros cannot recall if DCF presented to Aruba Board on February 4, 2015 was the first DCF shown to the Board); Boutros Dep. at 112:15-113:21 (DCF prepared in October 2014 was never presented to the Aruba Board); Warmenhoven Dep. at 126:17-128:8 (Aruba Board had not been shown a DCF at the time Whitman reached out to Orr in December 2014 to set a dinner meeting); Warmenhoven Dep. at 82:2-18 (Warmenhoven does not recall seeing a DCF and noting that in his view "[a] DCF doesn't really mean much because it has so much forecasting inaccuracy in it").

[125] Warmenhoven Dep. at 150:18-23.

127. On February 4, 2015, the Aruba Board held a special meeting to evaluate HP's $23.25 offer. The Aruba Board determined that a $29 counteroffer would be appropriate. In presenting this counteroffer to Barclays, Aruba's financial advisor Evercore Group L.L.C. ("Evercore"), the retention of which is discussed below, noted among other things:

- Aspen's internal plan is ahead of Street projections, so they feel confident in the growth prospects and opportunities of the company as a stand-alone business
- The company had not been looking for a sale. They mentioned that now is not an opportune time for a sale, given the stock is at a 52-week low.
- The low stock price reflects a misperception in the market that Aspen will miss its quarter. In fact, Aspen will beat consensus and have good guide.
- The "Board Authorized" message: "they are willing to engage on an exclusive basis, if the price is compelling" and that $29 per share is a price that's actionable.
- $23.25 is where the stock was a few months ago during the course of the early discussion between the companies.[126]

128. On February 8, 2015, Barclays told Evercore that a proposal at approximately $24 per share would be made. While no letter of intent at this price was provided, Evercore responded that a higher price per share was warranted.[127]

129. In setting its $24 per share offer, HP believed – based on publicly available information – that Aruba's fully diluted shares outstanding count was 123.9 million.[128] After receiving word of the potential $24 per share offer, Evercore provided revised share count information to Barclays that would allow HP to offer more per share without increasing the total price it believed it would be paying for Aruba at the time it made its offer for 123.9 million

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[126] ArubaAA0101696-97 (Orr Ex. 67A).

[127] Proxy at p. 43.

[128] ArubaAA0280950-0951 ("Why $24.67 is the new $24.00").

shares at $24 per share.[129] Because Aruba's actual share count (119.4 million) was substantially lower that what HP was originally working off (123.9 million), HP would be able to increase its per share offer without actually offering to pay more money for the Company.[130] Notably, in providing this information, Evercore suspected internally that HP was not willing to pay more than $3 billion for Aruba and that any offer it made would have to be structured to avoid crossing the $3 billion threshold.[131]

130. On February 9, 2015, HP revised its offer to $24.67 per share in cash[132] - a deal size of "$2.95 billion."[133] From HP's perspective, this $24.67 offer was the mathematical equivalent of the $24 per share offer[134] that Evercore was told would be coming in and that Evercore had told HP would be insufficient. [135]

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[129] *See, e.g.*, EVERCORE00003655 (Reisenberg Ex. 34); ArubaAA0280950 ("Why $24.67 Is The New $24").

[130] ArubaAA0280950-0951 ("Why $24.67 is the new $24.00").

[131] EVERCORE00003655 (Reisenberg Ex. 34) ("Can we get out team to figure out what price per share figure makes this a $3 billion deal before primary and fully diluted? The buyer may be trying to avoid that number.").

[132] Transaction Timeline (BARC-ARU_00000320).

[133] EVERCORE00004328 (Reisenberg Ex. 36).

[134] Deposition of Jeffrey Reisenberg (the "Reisenberg Dep.") at 235:13-237:4 (confirming that the $24 offered based on the publicly available fully diluted share outstanding figure was the mathematical equivalent of the $24.67 offer using the private fully diluted shares outstanding figure and that "from HP's standpoint, [the $24.67 offer] is the same [as the $24 per share offer] because the cash outlay on their part is the same").

[135] Proxy at 43 ("On February 8, 2015, Barclays communicated to Evercore verbally that there would be a proposal at approximately $24.00 per share, but no written letter of intent was provided. In response to the informal proposal, Evercore advocated that a higher price per share was warranted.").

131. On February 10, 2015, the Aruba Board accepted HP's offer of $24.67 per share in cash.[136]

1. The Transaction Was Negotiated and Executed on a Compressed Schedule.

132. HP exploited its previously announced plan to separate the company (discussed above) to place time constraints on the merger negotiations.

133. In a set of proposed talking points, it was suggested that HP tell Aruba that the planned split was putting timing pressures on HP:

> Time is of the essence: (i) to achieve our goal of a November 1, 2015 separation, there are a number of things that must precede the separation with many deadlines fast approaching, including our ability to make changes to IT, HR, accounting and other functions; (ii) if we don't seize the opportunity now, there are many external pressure points that impact HP's ability to do a transaction with Aspen in the foreseeable future.[137]

134. HP told Aruba that "we either do this now or the opportunity may not come back."[138]

135. HP's banker at Barclays, Richard Hardegree ("Hardegree"), acknowledged that creating a timing pressure like this is "a fairly common negotiating tactic."[139]

136. Rather than push back against HP's time pressure, the Aruba negotiating team proceeded on HP's accelerated time schedule and determined that they wanted to announce a

[136] Minutes of a Meeting of the Board of Directors of Aruba Networks, Inc., February 10, 2015, p. 2 (ARUN004016)

[137] ArubaAA0380132-141 at -141 (Hardegree Ex. 22).

[138] *Id.* at ArubaAA0380140.

[139] Hardegree Dep. at 186:22-187:22.

deal before its upcoming Q2 2015 earnings call[140]and in advance of a major customer event called "Atmosphere" that was scheduled to take place on March 1, 2015.[141]

137. Galvin noted that because both HP and Aruba were going to be announcing their earnings results in the third week of February, announcing a transaction "on the day of [Aruba's] earnings release" would have been "the perfect time to do it."[142] While Aruba's desire to announce a deal together with its earnings announcement might have made sense from a logistical standpoint, it created an odd dynamic in which Aruba would be negotiating a price at a time at which it believed its stock was trading low based on a misperception in the market that the Company would miss its quarter.[143]

138. Aruba was well-aware that a positive earnings announcement could have a substantial impact on its trading price. In fact, within days of receiving HP's first offer, Aruba witnessed this dynamic at work. On February 5, 2015 Ubiquiti Networks, Inc. ("Ubiquiti") announced financial results for the quarter ended December 31, 2014 that exceeded security

[140] Email from Richard Hardegree to Kirk Kaludis et al, Subject: Aspen – Update from Joakim, January 31, 2015 (BARC-ARU_00044302) (Orr mentions during call to Johansson that Aruba would like to announce before earnings call); Email from Richard Hardegree to Joakim Johansson, Subject: Notes – Call with Encore, February 9, 2015 (BARC-ARU_00044371) (Barclays reporting on a call with Stu Francis in which Francis stated that Aruba wanted to announce a deal before its February 26, 2015 earnings release).

[141] ARUN012354-55 (Warmenhoven Ex. 13) – Email from Dom Orr to Aruba board: "Hi Bernard , et. al.. I told Meg we will have over 2000 partners coming to Atmosphere 2015 in Vegas the week of March 1 through 5. It would be silly not to announce it there and let them go home and hear something later.").

[142] Galvin Dep. at 275:7-276:21.

[143] ArubaAA0101696-97 (Orr Ex. 67A) ("The low stock price reflects a misconception in the market that Aspen will miss its quarter. In fact, Aspen will beat consensus and have good guide.").

analysts' consensus estimates for both revenue and earnings per share.[144] Ubiquiti's stock rose 14% on the news.[145] In fact, Aruba's banker at Evercore, Stuart Francis ("Francis"), who was designated as the "lead negotiator," told his negotiating adversary at Barclays that Aruba wanted to announce a deal "at or before the Aspen [Aruba] earnings announcement" because "[t]hey are afraid stock runs like Ubiquiti's did which could make the deal more challenging from the Aspen [Aruba] perspective."[146] Such negotiating strategy evidences a focus more on getting a deal completed than necessarily maximizing price.

139. On February 25, 2015, the day before Aruba's scheduled earnings call, Bloomberg Business published an article reporting that Aruba and HP were discussing a potential acquisition of the Company. No potential prices were mentioned in the article. Following the release of the Bloomberg Business article, the trading price of Aruba stock rose 21%. In commenting on this rumored acquisition, Citi Research (a division of Citigroup Global Markets Inc.) wrote:

> "Despite reports on Wednesday afternoon that HP is looking to acquire Aruba, we believe a deal is unlikely to happen, because: (a) we do not believe Aruba is a willing seller at prices near the current trading level…
>
> * * *
>
> While Aruba's valuation has compressed recently, we believe CEO Orr would be unwilling to sell Aruba for less than $30/share (implying a 22.1x earnings multiple off our CY16 $1.36 PF EPS estimate, in-line with the average earnings

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[144] Ubiquiti Networks, Inc. Form 8-K, February 5, 2015; and Ubiquiti Networks, Inc. FQ2 2015 Earnings Call Transcripts, S&P Capital IQ, February 5, 2015.

[145] Project Athens, Materials for Discussion, March 2015, p. 13 (ARUN000105).

[146] Email from Richard Hardegree to Joakim Johansson, Subject: Notes – Call with Evercore, February 9, 2015 (BARC-ARU_00044371).

> multiple over the past two years), and would be unlikely to stay at HP for very long after adding integration risks for HP."[147]

140. On March 1, 2015, at a special meeting, the Aruba Board approved the transaction.

141. On March 2, 2015, prior to the open of the market, Aruba and HP issued a joint press release announcing the transaction.[148]

142. One security analyst expressed disappointment in the merger announcement. Cowen and Company, which followed the Company, wrote in a report titled "ARUN Sells Out: Investors Poorly Served":

> "We see ARUN's agreement to be acquired by HPQ for $3 bln, or $24.67 per share, as a disappointing outcome for ARUN's shareholders…we thought that ARUN would and should fetch $25 – 35 per share in an acquisition…today, we can only say that this is a very disappointing outcome."
>
> "ARUN appears essentially to have thrown in the towel. Its commentary suggests it simply had grown tired of the 'discount' in its shares. And lacked confidence that it could meaningfully positively influence investor sentiment. And, as previously noted, the decision to exit for what appears to us to be essentially no premium also suggests that ARUN is seeing, or is afraid of, stepped up comp from CSCO."[149]

C. THE FINANCIAL ADVISORS RETAINED BY ARUBA AND HP OPERATED UNDER POTENTIAL CONFLICTS OF INTEREST

143. As noted above, Aruba initially retained Qatalyst to serve as its banker for the potential HP transaction. Evercore was subsequently retained as a second financial advisor. The unusual circumstances surrounding the retention of Qatalyst and the subsequent retention of a

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[147] "ARUN FQ2 Wrap: Strong Fed and Services Gross Margin Drive Beats on both the Top and Bottom Lines: Remain Neutral," Citi Research, February 27, 2015, pp. 3 -4 (QP00008417-8418).

[148] Aruba Networks, Inc. Form 8-K, March 2, 2015; Hewlett-Packard Company Form 8-K, March 2, 2015.

[149] "ARUN Sells Out: Investors Poorly Served," Cowen and Company, March 3, 2015 (ARUN006267)

second financial advisor bear exploring, as these circumstances had the potential to impact the negotiations.

1. Qatalyst Partners

144. Aruba reached out to Qatalyst about a potential retention immediately upon being approached by HP. Aruba retained Qatalyst without reaching out to any other financial advisors[150] due to (1) longstanding relationships between Aruba and Qatalyst[151] and (2) Qatalyst's reputation as the "go to" banker to drum up competing bids.[152]

145. Aruba officially retained Qatalyst on September 5, 2014.[153] The Qatalyst team working on behalf of Aruba was led by Qatalyst CEO, Frank Quattrone ("Quattrone"), Boutros, and Nadir Shaikh.[154] As compensation for its services, Qatalyst would receive a Financial Advisory Fee of $100,000 upon the signing of the engagement agreement and a $5.0 million Opinion Fee for the issuance of an opinion related to a Transaction (as defined in the agreement). Should a Transaction close, Qatalyst would receive 1.0% of the value to which the Financial

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[150] Warmenhoven Dep. at 59:23-60:2 (Warmenhoven not aware of Orr or anyone else reaching out to any banks but Qatalyst); Orr Dep. at 124:5-130:5.

[151] Among other factors, Qatalyst founder Frank Quattrone and Warmenhoven had been friends for almost 25 years at the time HP first approached Aruba and the two currently serve on the Board of Directors of the Tech Museum of Innovation. *See, e.g.*, Email from Dan Warmenhoven to Meg Whitman, Subject: RE: Quatalyst [sic], January 25, 2015 (QP00010422); http://www.thetech.org/about-tech-museum-innovation/leadership-team

[152] Orr Dep. at 146:1-17 (noting the "board members' opinions that Qatalyst is the best in getting competitive bids"); Orr Dep. at 172:9-22 (noting that "in our assessment as the board, and at that discussion between Dan and I, we believed Qatalyst is the one who can give us the most number of bidder, therefore the chance of getting the higher price").

[153] Engagement Agreement between Aruba Networks, Inc. and Qatalyst Partners, September 5, 2014 (QP00013597 – 00013607).

[154] Project Athens, Materials for Discussion, September 2014, p. 2 (ARUN000002).

Advisory Fee and Opinion Fee would be credited.[155] The bulk of Qatalyst's fee, therefore, depended on a transaction closing – a fact that Orr noted gave rise to a "subtle but important split in objectives between Qatalyst and Aruba" because Q "only have one objective in mind – sell Aruba at the highest premium but sell it!"[156]

146. In addition to the conflict created by the economic incentive to favor *any* deal over no deal, Qatalyst faced additional constraints unique to HP specifically. In 2011, Qatalyst served as the financial advisor to Autonomy Corporation, plc ("Autonomy"), in a transaction in which HP bought Autonomy for $11.1 billion. That deal was largely seen as a debacle for HP, which in November 2012 recorded an $8.8 billion non-cash charge for impairment of goodwill and intangible assets primarily related to the Autonomy acquisition.[157] HP's acquisition of Autonomy resulted in significant litigation, which was pending throughout the time that HP was pursuing its acquisition of Aruba, in which HP's shareholders sued HP over its acquisition of Autonomy.[158] In March 2015, HP sued Autonomy executives accusing them of presenting fraudulent financials and lying about that company's operations.[159]

147. Qatalyst's prior representation of Autonomy in the controversial sale gave rise to unique issues in connection with Qatalyst's representation of Aruba here. Aruba was aware from the outset that HP might have an issue with Qatalyst serving as Aruba's financial advisor due to

[155] Engagement Agreement between Aruba Networks, Inc. and Qatalyst Partners, September 5, 2014, p. 2 (QP00013598).

[156] Email from Dominic Orr to Ava Hahn, Subject Re: One Page Summary, September 25, 2014 (ARUN001504).

[157] Hewlett-Packard Company, Form 8-K, November 20, 2012, p. 3.

[158] "HP pay $100 million to settle Autonomy-related class-action suit," Reuters, June 9, 2015.

[159] "HP sues Autonomy founder Mike Lynch as battle heats up," Financial Times, March 31, 2015.

Qatalyst's involvement in the Autonomy transaction. In a September 22, 2014 email from Aruba Vice President of Human Resources Aaron Bean ("Bean") sent to Orr and other Aruba executives, Bean stated:

> "one thing we should talk through is when Dom [Orr] meets with A [Antonio Neri of HP] and tells him yes we will use bankers if A replies as long as it isn't Q [Qatalyst Partners] that is fine, or if we get to the point where we have to put Q's name out there and if they say the[y] refuse to work with them we'll need to have our response thought out a bit."[160]

148. Further, in a January 2015 email, Orr noted that the potential that HP would have a problem with Qatalyst being involved in the deal "was the first question I and Dan [Warmenhoven] asked them in the first call before appointment and Frank [Quattrone] assured us there would be no problem."[161]

149. But it was a problem. Shortly before the January 21, 2015, dinner meeting at Whitman's home, the United Kingdom Serious Fraud Office had announced that it had closed its investigation into the Autonomy acquisition, finding that there was "insufficient evidence of a realistic prospect of conviction" of any Autonomy executives.[162] Whitman discussed the Autonomy acquisition during the dinner meeting, and her comments made clear that she would not permit HP to engage in any transaction in which Qatalyst was involved. As Orr explained in an email to Warmenhoven sent immediately after that meeting:

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[160] Email from Aaron Bean to Dominic Orr et al., Subject: News Observations, September 22, 2014 (ARUN005500).

[161] Email from Dominic Orr to Galvin (cc: Ava Hahn), Subject: Re: Aruba, January 24, 2015 (ARUN001946).

[162] *See, e.g.*, Murad Ahmed, Serious Fraud Office closes Autonomy investigation (*The Financial Times*, January 19, 2015).

> "Meg spoke with conviction and emotion over dinner that they were guilty. The way Meg emoted about this issue - I think if we don't insert buffer person, our negotiation will suffer severely ..Thanks"[163]

150. Thereafter, Aruba promptly set about finding a new advisor that would not displease Whitman. On January 23, 2015, Warmenhoven sent an email to the members of the Aruba Board, alerting them to HP's problem with Aruba using Qatalyst as its financial advisor:

> "We do have a bit of an issue and that is our choice of advisors. **Helsinki [HP] is very anti Q [Qatalyst Partners]**. At this time Meg is not aware that we have already signed on Q as our advisors.
>
> * * *
>
> **Given that alarm, I have scheduled a call with Meg at 6:00 PM this evening to get her view of the status of the discussions and to discuss our representation.** I intend to inform her that we signed up with Q many months ago. We are clearly bound by the contract with Q and will have to pay the 1 % fee if the transaction is concluded. **But if Dom is correct then we may need to bring in a second advisor. I intend to float Stu Francis' name past Meg**. Stu has left Barclay's and is now at Evercore. He is new, and Evercore is new in the tech sector, so they may be willing to do a deal at 1/4% just to get a deal done that they can brag about publicly."[164]

151. Following his telephone call with Whitman, Warmenhoven provided an update by reporting:

> "I spoke with Meg for 10 min just now. **Quatalyst [sic], Frank [Quattrone] & George [Boutros] are not welcome in the negotiations**. The issue is bigger than Autonomy and goes back to EBay & Yahoo. Meg described George as 'evil'.
>
> **She would be happy with either Stu [Francis] or me as negotiator with Quatalyst [sic] in the back room.**"[165]

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[163] Email from Dominic Orr to Dan Warmenhoven, January 21, 2015 (ArubaAA0055775).

[164] Email from Dan Warmenhoven to Ava Hahn et al., Subject: Helsinki – Extremely Confidential, January 23, 2015 (ARUN004372). Emphasis added.

[165] Email from Dan Warmenhoven to Michael Galvin et al., Subject: Helsinki, January 23, 2015 (ARUN004373). Emphasis added.

152. Aruba agreed to relegate Qatalyst to the back room and brought in a second banker (Francis of Evercore) to lead the negotiations.[166]

153. That Whitman's negative opinion of Qatalyst was the driving force behind Aruba's decision to bring in a second banker is made clear in contemporaneous email exchanges. In an email dated January 22, 2015 discussing the impact bringing in a second advisor would have on fees, Orr wrote to Warmenhoven "Please put in the back of Meg's mind we have retained Q [Qatalyst] for a while, **we listened to her now switch the banker on negotiation part**, but I don't want her to get upset if due diligence people found we had contract with Q."[167]

154. As discussed below, Aruba ultimately retained Francis of Evercore as a second financial advisor to negotiate the terms of the merger while Qatalyst would continue to advise Aruba behind the scenes. However, even this diminished role for Qatalyst was problematic for Whitman. On the evening of February 27, 2015, Neri and Orr met for dinner. During their meeting, Neri stated that '"Meg [Whitman] freaked out when she, for the first time, saw the Qatalyst name on the docs as she thought we [Aruba] had switched out with stu [Francis of Evercore].'" [168] Further, as the transaction was about to be announced on March 2, 2015, Whitman "went on a rampage" when she learned that Qatalyst was still advising on the transaction.[169]

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[166] Proxy at 42 (noting that on January 27, 2015 the Board authorized the retention of Evercore as an "additional financial advisor"); Reisenberg Dep. at 52:11-20 (Evercore understood that it was "being brought in to negotiate with HP as part of a potential transaction").

[167] Email from Dominic Orr to Dan Warmenhoven, Subject: Re: H, January 22, 2015 (ArubaAA0120741). Emphasis added.

[168] Email from Dominic Orr to Dan Warmenhoven, Subject: Re: Helsinki, February 28, 2015 (ArubaAA0437615).

[169] Email from Frank Quattrone to Partners, March 1, 2015 (QP00011412).

155. For its part, Qatalyst recognized the significant role that HP held in the technology sector, and that maintaining a positive relationship with HP was important to Qatalyst's ongoing business. From the inception of its engagement with Aruba, Qatalyst identified HP as the *only* likely bidder for HP.[170] In fact, in a September 22, 2014 email to Orr and other Aruba executives, Bean expressed his "thesis that Q[atalyst] is trying to make sure we get this done with H[P] and not look at other options."[171]

156. Whitman's refusal to permit HP to negotiate with Qatalyst, therefore, presented challenges to Qatalyst's business, and Quattrone quickly reached out to Whitman in an attempt to address her concerns. In a January 25, 2015 email, Quattrone pleaded his case to Whitman to maintain his firm's role as financial advisor to Aruba:

> "I was very surprised and disappointed to learn from Dan Warmenhoven today that you recently expressed very strong negative feelings about our firm, some of our people (including me) and our current representation of Aruba. I would greatly appreciate the opportunity to speak or meet with you at your earliest convenience to understand from you directly what your concerns are and give me the opportunity to address them. We have a very close relationship with Dom, Dan and the board and have been contractually retained for some time now, and while our loyalties are always to our client on any assignment, I am confident we can address your concerns, play a constructive role and engage with your team in a professional manner."[172]

157. Keeping a role in the HP/Aruba transaction was important to Qatalyst from a market perspective. In summarizing his conversation with Quattrone on January 25, 2016, Warmenhoven wrote to Orr and others:

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170 Boutros Dep. at 75:1-76:5

171 Email from Aaron Bean to Dominic Orr et al., Subject: News Observations, September 22, 2014 (ARUN005500). Emphasis added.

172 Email from Frank Quattrone to Meg Whitman, Subject: Can we please meet or speak?, January 25, 2015 (QP0010424).

> "The net is that he [Quattrone] wants an opportunity to speak with Meg as the next step. He was not willing to discuss fees, etc.
>
> **The issue is not Aruba. It is about the Quatalyst [sic] brand (as Dom described). If word spreads that they were tossed from this deal because HP will not engage with them on any M&A transaction, that creates a big issue for them**. Plus the fees will be public (as Stu mentioned) and the fact we have 2 advisors will raise all kinds of questions for them in future engagements.
>
> **Frank wants to save his firm**, so I agreed to try to brokered [sic] a discussion between him and Meg.
>
> **My opinion is that at this point Aruba is a transaction for Frank. The relationship, or lack thereof, between Quatalyst [sic] and HP/Meg is now their focus."**[173]

158. On January 24, 2015, Orr spoke to Boutros and as Orr detailed to Warmenhoven, upon learning of his firm's "firing," Boutros was "so emotional, defensive AND offensive (to Meg) that he hardly let me talk."[174] Interestingly, Orr also noted his beliefs as to why Boutros reactively so strongly to this news, none of which reflected on what was in Aruba's best interest:

> "I think George reacted so strongly cause (1) pride of their brand (2) reaction to Stu coming in the picture (3) protecting their fees.
>
> None of the above related to the benefits of aruba !"[175]

159. In fact, Quattrone continued his efforts to rehabilitate Qatalyst's relationship with Whitman after the merger agreement was signed. On March 1, 2015, the day the deal was announced, Quattrone sent an email to Whitman expressing his desire to have a good relationship with HP and his willingness to explore alternatives to Qatalyst's ordinary course of

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[173] Email from Dan Warmenhoven, January 25, 2015 (ARUN009491 – 92). Emphasis added.

[174] Email from Dominic Orr to Ava Hahn, Subject: Re: Banker update – PRIVILEGED/CONFIDENTIAL, January 24, 2015 (ARUN004920).

[175] Email from Dominic Orr to Ava Hahn, Subject: Re: Banker update – PRIVILEGED/CONFIDENTIAL, January 24, 2015 (ARUN004920).

marketing the firm's involvement in the deal.[176] In this email, Quattrone noted that he would agree not to send out a customary marketing blast publicizing his firm's role in the deal "if by doing so, we will have a 'clean slate' with you and HP immediately going forward. Just to be clear, this would require a commitment by you and your team that you will not: 1) disparage our firm or any of our partners; 2) attempt to persuade any of our clients not to use or services; and 3) tell our clients or prospective clients that you won't acquire them (or that it would make things more difficult for you to acquire them) if we are their advisors, among other things."[177]

160. In June 2015, Quattrone reached out to Whitman to set up a meeting "in order to discuss the path forward" between Qatalyst and HP.[178]

161. In September 2015, Quattrone reached out to Whitman to give her the chance to "object to any of the draft answers" it proposed to give to a Wall Street Journal reporter who was writing a profile on Qatalyst and had expressed interest in writing about the bank's relationship with HP.[179]

162. Whitman's power over Qatalyst as evidenced by her ability to convince Aruba to relegate its chosen banker to the back room combined with Qatalyst's desire to return to her good graces in the wake of Autonomy create reason to doubt whether Qatalyst was operating free from any extraneous considerations in advising Aruba about the potential transaction.

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[176] Email from Frank Quattrone to Meg Whitman, March 1, 2015 (ArubaAA0350502-503).

[177] QP00011440-443 (Boutros Ex. 40).

[178] ArubaAA0350501-0503 (Boutros Ex. 42).

[179] ArubaAA0432268-2270 (Boutros Ex. 43).

2. Evercore Group L.L.C.

163. Following Whitman's reaction to learning of Aruba's retention of Qatalyst, Aruba set about retaining a second banker that Whitman would be willing to negotiate against. Aruba quickly focused on Francis of Evercore as the second banker.

164. In addition to acceding to Whitman's unwillingness to work with Qatalyst by bringing in a second advisor, Aruba sought Whitman's opinion of who the second banker should be. As Warmenhoven wrote to Orr upon learning of Whitman's potential problem with Qatalyst:

> "Got it. I have a strategy. HP uses all firms, especially now before the break up. But Stu [Francis] is in a new firm [Evercore] and not conflicted, and Meg knows and (I think) trusts him.
>
> I sent a note to Meg asking for a 10 min call. **I will suggest Stu**. Are you OK with that?"[180]

165. Warmenhoven (as noted above) also informed Aruba's Board that he planned to "**float Stu Francis's name past Meg**."[181]

166. Beyond "floating" Stu Francis' name by Whitman, contemporaneous documents suggest that she may have been given a veto power over the second banker that Aruba was bringing in to address her unwillingness to work with the banker Aruba had initially chosen. In a January 23, 2015 email, Orr noted to Hahn that she and Galvin "also need to manage the update to Q and appointment of Stu **if M[eg Whitman] and our board agree**."[182]

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[180] Email from Dan Warmenhoven to Dominic Orr, January 21, 2015 (ArubaAA0055775).

[181] Email from Dan Warmenhoven to Ava Hahn et al., Subject: Helsinki – Extremely Confidential, January 23, 2015 (ARUN004372). (Orr Ex. 54). Emphasis added.

[182] Email from Dominic Orr to Greg Murphy, et. al., Subject: Re: Update to Dom's dinner last night (ArubaAA0522236-37) (Orr. Ex. 56). This document speaks to the approval of "M" and does not identify Meg Whitman by name, but Dominic Orr admitted that he cannot think of anyone other than Meg Whitman that the "M" might have referred to. Orr Dep. at 276:13-277:4. Emphasis added.

167. Evercore, like Qatalyst, suffered from potential conflicts of interest that may have impacted its role in negotiating against HP. As Warmenhoven noted at the outset of the consideration of hiring Francis, "Stu has left Barclay's and is now at Evercore. He is new, and Evercore is new in the tech sector, so they may be willing to do a deal at 1/4% just to get a deal done that they can brag about publicly." [183]

168. Hahn also noted Evercore's desire to secure a role in the transaction to advance its presence in the technology sector in a January 24, 2015 email:

> "Stu's in. He's happy to be invited to participate and understands he is not going to get 1% like Q did. He will be rational. **He started at Evercore 5 months ago and is their first tech sector person. They want this deal to establish a presence in tech.**"[184]

169. Aruba's speculation that Evercore's desire to be part of the deal was motivated, at least in part, by its desire to grow its presence in the tech sector appears to be well-founded, based on contemporaneous emails among high-ranking Evercore bankers at the time it secured the deal. Francis noted that he was "pretty excited" about the deal "in terms of our valley profile."[185] Ralph Schlosstein, the CEO of Evercore, stated, "This is just an amazing piece of good news, which could have important implications for out positioning in the industry."[186] Senior Managing Director Naveen Nataraj described the news as "Truly amazing!" and the deal as a "franchise transaction,"[187] and Senior Managing Director Michael Price stated "This is

[183] ARUN003981 (Reisenberg Ex. 5). Emphasis added.

[184] Email from Ava Hahn, January 24, 2015 (ARUN004921). Emphasis added.

[185] Email from Stuart Francis to Timothy LaLonde, Subject Re: Very Confidential, potentially very good news, January 26, 2015 (Evercore00001957).

[186] Email from Ralph Schlosstein to Stuart Francis, Subject Re: Very Confidential, potentially very good news, January 24, 2015 (Evercore00001955) (Reisenberg Ex. 7).

[187] Email from Naveen Nataraj to Stuart Francis, Subject Re: Very Confidential, potentially very good news, January 24, 2015 (Evercore00000543) (Reisenberg Ex. 6).

franchise defining."[188] Roger Altman, Founder and Executive Chairman of Evercore commented, "Just remarkable, Stu. What a coup! Would be, as you say, a dynamic advance for Evercore in The Valley."[189] These contemporaneous statements make clear that Evercore viewed the potential HP/Aruba transaction as a stepping stone to help Evercore's business.

170. In addition to shoring up Evercore's presence in the tech sector, securing a role in the HP/Aruba transaction gave Evercore a chance to build a relationship with Whitman that could lead to further work down the road. This is evident in an email exchange between Evercore Senior Managing Director Naveen Nataraj and Francis following a negotiating dinner meeting at Whitman's house on February 20, 2015. Francis reported that "people on our side said we had done a 'masterful' job of taking Meg through the issues as if we were her advisor … let's hope that that can help us get some traction in the future with her …"[190] Nataraj responded to Francis' email by stating "That's HUGE! Meg is going to be very active. Am almost sure Lenovo will make a bid for the PC business post separation. Would be a great new relationship …"[191]

171. The terms on which Evercore agreed to be retained further underscore the importance of this retention to the bank from a strategic standpoint. At the outset of negotiations over a fee split with Qatalyst, Evercore indicated that a 75/25 split would be a

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[188] Email from Michael Price to Stuart Francis, Subject Re: Very Confidential, potentially very good news, January 24, 2015 (Evercore00000543) (Reisenberg Ex. 6).

[189] Email from Roger Altman to Stuart Francis, Subject: Re: Very Confidential, potentially good news, January 24, 2015 (EVERCORE00000545) (Reisenberg Ex. 8).

[190] EVERCORE00007343 (Reisenberg Ex. 39).

[191] Email from Naveen Nataraj to Stuart Francis, Subject: Re: Evercore meeting at MWC/CEO Dinner at Can Roca, February 21, 2015 (EVERCORE00007343) (Reisenberg Ex. 39).

"harmful precedent to set."[192] Evercore, nonetheless, agreed to take 0.25% of the total 1.25% success fee being awarded to both bankers[193] – an 80/20 split in Qatalyst's favor.[194]

172. The importance to Evercore of securing a role in the Aruba/HP deal both in terms of solidifying the bank's presence in the tech sector and in terms of allowing it to build a potentially lucrative future relationship with HP create reason to doubt whether Evercore was operating free from any extraneous considerations in negotiating the potential transaction with HP.

3. Barclays Capital Inc.

173. HP's chosen banker, Barclays, similarly suffered from a potential conflict of interest. As an initial matter, as discussed above, throughout 2014 Barclays was working with Aruba in connection with preparations for issuing the convertible bond. As a result, Barclays was privy to non-public information regarding significant proposed changes to Aruba's capital structure.[195]

174. Documents and deposition testimony in the record show that Barclays suspected in the fall of 2014 that Aruba was in talks to be acquired by HP[196]and began to reach out to its contacts at both companies to try to secure a role on either side of the deal.

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[192] ARUN009491 (Reisenberg Ex. 9).

[193] Engagement Letter between Aruba Networks, Inc. and Evercore Group L.L.C., February 1, 2015 (ARUN012527 – 537)

[194] Reisenberg Dep. at 75:14-23.

[195] Galvin Dep. at 35-27; 210-212; 216.

[196] Email from Mike Galvin to Lory Hopkins, Subject: Re: Kirk, September 25, 2014 (ArubaAA0116120); Email from Dominic Orr to Ava Hahn, Subject: Re: Follow-up, September 30, 2014 (ARUN004613); Email from Kirk Kaludis to Dominic Orr, Keerti Melkote, and Mike Galvin, Subject: Follow-up, September 30, 2014 (ARUN004614).

175. Acting on these suspicions, as Orr described it, in a "blunt" and "threatening" manner, Barclays banker Kirk Kaludis ("Kaludis") reached out to Orr in late September 2014 to try to get a role in the potential transaction:

> "we have done a lot if [sic] work to support you in the last 8 years, btw, it was all my work, not Stu's, so I am calling to let you know that we would be disappointed if the HP rumor is true and you do not work with us!"[197]

176. After Barclays failed to secure a role representing Aruba, it set about seeing if it could get work on the HP side of the deal. On December 9, 2014, Laurence Goldberg called Tood Morgenfeld at HP to see if there was "anything [Barclays] could do to help" HP "fine-tune its portfolio in advance of the spin."[198] While the purpose of this call might not have been exclusively to try to get in on the Aruba/HP transaction, Hardegree acknowledged during his deposition that "Laurence was certainly aware that that was something that we had reason to speculate was under consideration at HP, and so [he thought] it was probably clearly on the list of probably numerous topics that were being discussed" during this December 9, 2014 phone call.[199] Kaludis also reached out to Aruba during this timeframe, setting up a telephone call with Galvin for December 11, 2014.[200]

177. Further demonstrating that Barclays was trying to get a retention on whatever side of the deal it could, Kaludis noted in a December 12, 2014 email to Hardegree, "I am trying to get back in front of the Aruba team. Seems like we have given up on the HP side."[201]

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[197] Email from Dominic Orr to Ava Hahn, Subject: Re: Follow-up, September 30, 2014 (ARUN004613).

[198] BARC-ARU_00043518 (Hardegree Ex. 13).

[199] Hardegree Dep. at 115:14-24,

[200] BARC-ARU_00044904 (Hardegree Ex. 14).

[201] BARC-ARU_00044906 (Hardegree Ex. 15).

178. Barclays' attempt to get retained by either Aruba or HP suggests that Barclays was indifferent to which side it represented in an attempt to obtain a fee.

179. Furthermore, Francis had recently joined Evercore following a lengthy tenure at Barclays. Francis personally supervised the Barclays bankers that he would be negotiating against with respect to the potential Aruba/HP deal.[202] In fact, Francis' actual (or perceived) influence over his negotiating adversary was considered so important to Aruba that it tried to have a "key man" clause inserted in its retainer with Evercore.[203]

180. These facts suggest that Barclays may be been influenced by outside forces in negotiating a deal with Aruba.

181. In short, the conflicting interests of the bankers on both sides of the deal in getting a deal – any deal, on any terms – done may have created an incentive to favor the Aruba/HP deal over the option of advising Aruba to continue to execute on its standalone plan, even if this were the better outcome for Aruba's stockholders.

D. DOMINIC ORR DISCUSSED HIS ROLE IN THE POST-CLOSING COMPANY WHEN HE WAS PROHIBITED FROM DOING SO UNDER A CONFIDENTIALITY AGREEMENT

182. In addition to the bankers on both sides having potential conflicts of interest, Orr similarly had conflicting incentives, as he knew from the outset of the negotiations that he was

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[202] EVERCORE00002403 (Reisenberg Ex. 15) Email from Stu Francis to Tim LaLonde dated February 1, 2015, noting, "The advisers to HP are Barclays and the team is two guys who worked for me in our group.").

[203] EVERCORE00002403 (Reisenberg Ex. 15) Email from Stu Francis to Tim LaLonde dated February 1, 2015 noting, "Aruba feels very strongly that the best deal their shareholders can be negotiated by me working as the lead person in dealing with Barclays, and that is why they are demanding a key man clause . . . I pushed back very strongly on this in discussions with them, but they will not budge, given the unique nature of the dialogue I can have in [sic] their behalf with my former colleagues.").

expected to run the post-closing Aruba and had discussions about this post-closing role at times when he was prohibited from doing so by a confidentiality agreement.

183. On October 2, 2014, Aruba and HP signed a Mutual Confidentiality Agreement ("MCA") that addressed the exchange of confidential information. The MCA precluded HP from having any direct or indirect informal discussions with any director, officer, or other employee of Aruba relating to retention, severance, or other compensation in connection with a possible transaction.[204] Specifically, the MCA stated:

> "HP hereby agrees that, except to the extent expressly authorized by the board of directors of the Company (or any authorized committee thereof) in advance, neither HP nor any of its Representatives acting on its behalf will directly or indirectly have any formal or informal discussions, or directly or indirectly enter into any agreement, arrangement or understanding (whether or not binding), with any director, officer or other employee of the Company relating to (i) any retention, severance or other compensation, incentives or benefits that may be or become payable to any directors, officers or employees of the Company in connection with a Transaction or following the consummation thereof, or (ii) any directorship, employment, consulting arrangement or other similar association or involvement of any directors, officers or other employees of the Company with HP or any of its businesses or operations following the consummation of a Transaction."[205]

184. Prior to the signing of the MCA, it was made known to Orr that he was expected to run the combined business if a transaction was consummated. For example, as early as September 24, 2014 Orr stated in an email to several Aruba employees that HP personnel Tom Black and Dominic Wilde would be working for Aruba personnel (or at least Orr himself).[206]

[204] Mutual Confidentiality Agreement, October 2, 2014, p. 5 (ArubaAA0427410).

[205] Mutual Confidentiality Agreement, October 2, 2014, p. 5 (ArubaAA0427410).

[206] Email from Dominic Orr to Greg Murphy (cc: Keerti Melkote et al.), Subject: Re: One Page Summary, September 24, 2014 (ARUN001505).

185. After the MCA was signed, Orr understood that he was prohibited from having any talks about his potential post-closing employment with HP.[207]

186. Despite this prohibition, Orr had unauthorized discussions with HP concerning his role with HP post-merger. For example, in a November 4, 2014 email Orr sent to Qatalyst and Aruba personnel after a meeting he had with Johansson, Orr wrote:

> "I met with Joakim over drinks for 75 minutes. He wanted to meet me for three things:
>
> > (1) let me know clearly that, post combination, they expect me to run the whole networking business. He wants to look me in the eye and see that I have no objection. I told him I have no objection."[208]

187. In a February 2, 2015 email, Orr notes that he had gone over his "notes from the conversation with Joakim, in which [Orr] tried to extract [Joakim's] observation in the [November 19, 2015] Helsinki board meeting." Orr noted that during this conversation he had asked Joakim "for the salient points to justify the case" and that Joakim listed "dom to run combined biz" among them.[209]

188. Orr's contemplated role leading the post-closing Aruba suggests that he may have had divided loyalties in negotiating the deal.

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[207] Minutes of a Meeting of the Board of Directors of Aruba Networks, Inc., February 18, 2015, p. 1 (ARUN004018).

("Mr. Orr began the meeting by noting that Helsinki was eager to begin discussions with the Company's senior management regarding their roles with Helsinki and the Company's business following completion of the proposed transaction. Mr. Orr noted, however, that the Company's confidentiality agreement with Helsinki prohibited Helsinki and the Company's management team from engaging in any such discussions without the Board's prior consent.").

[208] Email from Dominic Orr to George Boutros et al., Subject: My meeting with Joakim, November 4, 2014 (ARUN001210).

[209] ArubaAA0439451 (Orr Ex. 52).

189. It was not until February 18, 2015 that the Aruba Board agreed to amend the MCA to remove the provision prohibiting discussions regarding employee solicitations.

E. ABSENCE OF A GO-SHOP PROVISION[210]

190. On March 2, 2015, HP and Aruba entered into the Agreement and Plan of Merger ("Merger Agreement"). Under the terms of the Merger Agreement, Aruba shareholders were entitled to receive $24.67 per share in cash.

191. The Merger Agreement did not include a "go-shop" but, rather, prohibited Aruba from soliciting a competing offer. While the absence of a go-shop might not be troubling in certain circumstances, it is important to remember that Aruba never went through a formal sales process because it was not affirmatively for sale. The only efforts made to "shop" the Company were Qatalyst's limited contacts (as described above) with five potential strategic partners in late September and early October and its subsequent reach out to Citrix in January 2015. Under these circumstances, the absence of a go-shop is problematic.

VI. VALUATION OF ARUBA NETWORKS, INC. COMMON STOCK

A. INDUSTRY OUTLOOK[211]

192. Broadly speaking, Aruba operates in the enterprise network equipment industry. Companies in this space provide their customers with the hardware and software necessary to build a secure communications network for all the computers and devices used in operating their business. This network enables a business to share data and computer resources between all

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[210] Based on the Aruba Networks, Inc. Schedule 14A, April 3, 2015, including Annex A (Agreement and Plan of Merger among Hewlett-Packard Company, Aspen Acquisition Sub, Inc. and Aruba Networks, Inc., March 2, 2015).

[211] Based on "Worldwide Enterprise Communications and Datacenter Network Infrastructures 2015 Top 10 Predictions," International Data Corporation, January 2015 (ArubaAA0349474 - 0349486), unless otherwise noted.

company locations. For example, corporate offices in San Diego can easily share data and resources with production facilities in Mexico. Specifically, enterprise network equipment includes products such as routers, Ethernet switches, WAN optimization equipment, WLAN equipment, and application delivery controllers.

193. Over the period 2011-2014, industry revenues (as defined by IDC) grew from $38.7 billion to approximately $40.2 billion for a compound annual growth rate of 1.3%. These revenues were globally diversified, with 46.2% of revenues coming from North and South America, 29.0% from Europe and the Middle East, and the remaining 24.8% coming from the Asia/Pacific region. This geographical mix was projected to continue through 2019, with revenue from Asia/Pacific growing slightly faster than other regions.

194. The industry was further segmented into traditional (or wired) networking equipment and wireless network equipment. The traditional networking segment was led by companies such as Cisco Systems and Juniper Networks. Traditionally, these companies provided products, software, and support services for wired network solutions with products including, but not limited to, switches and routers. Historically, the sale of these products accounted for the majority of industry revenue. For example, in 2014 the industry had revenues of more than $40 billion, with switch revenue accounting for approximately 53.3% of the total and router sales accounting for an additional 8.5%. It was projected that traditional networking equipment would continue to constitute the majority of industry revenue through at least 2019.

195. WLAN equipment provides network capabilities similar to traditional networks, but with a focus on supporting secure wireless connections. WLAN allows a user to connect with a wireless device (e.g., laptop computer, smart phone, or tablet) via a signal that is transmitted

through radio frequency waves, allowing users to move throughout the coverage area while maintaining a connection to the network.

196. With more and more business conducted using a wireless device, the WLAN equipment segment has grown rapidly. Over the period 2011-2014, revenues for this segment grew at a compound annual rate of 17.6%, compared to 2.2% annual growth for the traditional segment. The wireless segment, however, was still relatively small compared to the wired segment. In 2014, this segment had revenues of $3.4 billion.

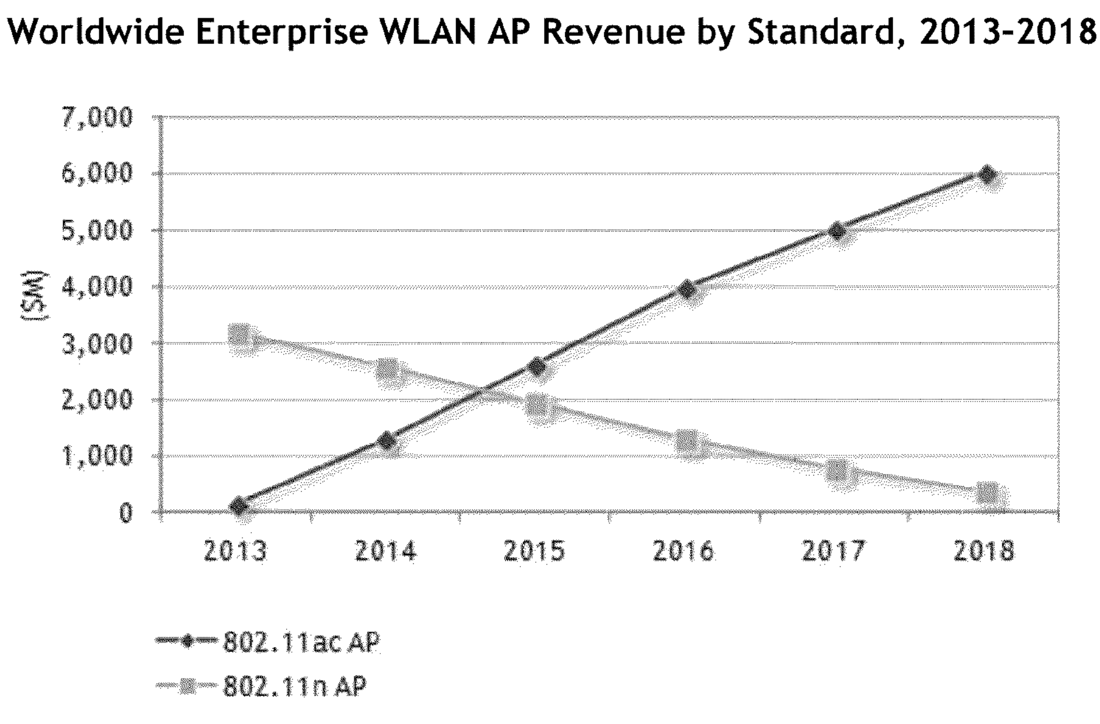
197. The growth in WLAN equipment was driven by the evolution in WLAN technology, which was necessary to accommodate the growing popularity of wireless devices. In the early 1990's, WLAN solutions were prohibitively expensive and were only used if a wired network was strategically or economically impossible. As the technology improved, WLAN adoption increased. The advent of IEEE 802.11 wireless protocols in 1997 provided an industry standard, replacing most WLAN solutions in existence at the time. These standards have been continuously developed, enabling companies to produce faster and more secure WLAN solutions.

198. In 2014, the IEEE approved the newest 802.11 standard, 802.11ac. Maximum speeds with this standard were three times greater than the previous standard, 802.11n, and enterprises responded with quick adoption. Consider the following from a January 2015 industry research report:

> "The 802.11ac standard for WLAN is well on its way to being the fastest-adopted WLAN standard in history. Initially expected to overtake 802.11n in terms of enterprise shipments and revenue in 2016, recent quarterly trends are showing that

> the actual inflection point will likely come in 1H15 for revenue and follow shortly thereafter for shipments."[212]

199. The IDC forecasted that, after a tenfold increase in 802.11ac equipment revenue from 2013 to 2014, revenue would continue to grow at an annual rate of nearly 47% through 2018. Furthermore, WLAN providers were planning to introduce "Wave 2" of 802.11ac solutions in 2015. Wave 2 promised even greater speeds and functionality and was expected to accelerate the move away from 802.11n. In fact, the IDC expected 802.11n to become obsolete by 2018. The following diagram illustrates the projected inflection point where 802.11ac overtakes its predecessor 802.11n:



Source: IDC, 2015

200. Given the fast adoption of 802.11ac and the launch of Wave 2, the wireless network equipment segment was expected to continue its rapid growth. Over the period 2014-

[212] "Worldwide Enterprise Communications and Datacenter Network Infrastructure 2015 Top 10 Predictions," IDC, January 2015, p. 16 (ArubaAA0349480).

2019 revenues were projected to grow at a compound annual rate of 9.6%, increasing this segment's revenues to almost $7.8 billion. Comparatively, traditional network equipment was projected to grow at a more modest 3.0%. Security analysts generally agreed with this sentiment. For example, in a February 21, 2014 report, Jefferies stated, "In our view, this is still a growth industry that's in the relatively early-to-middle innings."[213]

201. Research analysts at Barclays also felt that 802.11ac adoption would be a big driver of growth in the industry. Consider the following from their U.S. Data Networking industry report from July of 2014:

> "We believe demand for wireless equipment continues to benefit from secular tailwinds, making it more resilient than other areas of networking…Perhaps the biggest driver through 2014 is the transition to the faster .11ac standard as products see increased adoption and more compatible devices become available."[214]

202. However, Barclays saw increasing competition in the Wi-Fi vendor landscape. They believed that the market would only be able to support high revenue growth for a few companies.[215]

203. Consistent with the IDC on the Enterprise network equipment industry, a report issued by Dell'Oro Group titled "Five Year Forecast – Wireless LAN" also expected WLAN equipment sales growth to moderate over the coming years. Consider, for example, the following from their report issued in July of 2014:

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[213] "Gaining Share Never Felt So Good...Maintain Hold," Jefferies LLC, February 21, 2014, p. 3 (ArubaAA0517177).

[214] Barclays Research Report, U.S. Data Networking, "C2Q Networking VAR Survey: Trends seem steady and back 2h uptick," July 10, 2014, p. 7, (ArubaAA0447591).

[215] Barclays Research Report, U.S. Data Networking, "C2Q Networking VAR Survey: Trends seem steady and back 2h uptick," July 10, 2014, p. 7, (ArubaAA0447591).

> "Growth drivers of the past five years are weakening, and while new drivers are emerging, we expect Y/Y growth will moderate. . .. Over the next five years, we expect 802.11ac to be an even more powerful driver in units than 802.11n, and we expect strong Enterprise WLAN growth as it eventually overtakes Campus Ethernet switches as the network access method of choice."[216]

204. The expected growth in WLAN equipment and software as a result of the 802.11ac standard presented an economic opportunity for Aruba since it was an early leader in WLAN technology. As an example of Aruba's leadership position in this area, consider the following table prepared by HP in November 2014:

Select Competitive Benchmarking

■ Indicates a Leader

		HP	Aruba	Cisco	Ruckus	Ubiquiti	Aerohive
Focused GTM	SMB GTM	■		■		■	
	Wireless Field Expertise		■	■	■		■
	Wired Field Expertise	■		■			
	Enterprise GTM		■	■			
Applications	Vertical Applications		■				
	Wireless Security	■	■	■			
	Strategic Industry Partnerships		■				
	BYOD Solution		■				
Product Capabilities	Wireless Controller/ Features		■	■			
	Enterprise Access Point	■	■	■	■	■	■
	Wired Switching	■		■			
	Network Management Software	■	■				
	Policy Management		■	■			
	Teleworker/Remote Access Point		■	■			
	Controller-less Access Point		■				■
	Cloud-managed networking		■	■			■

Source: Project Aspen, IRB Approval to Negotiate (ATN), November 2014, p. 8 (ArubaAA0243444).

B. ECONOMIC OUTLOOK[217]

205. Following a contraction in 2008 and 2009, the US economy experienced a slow recovery. This recovery accelerated in 2013 and 2014, with the Congressional Budget Office

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[216] Dell'Oro Group Report, "Five-Year Forecast – Wireless LAN," July 22, 2014, p. 1 (ArubaAA0159045).

[217] Based on The Budget and Economic Outlook: 2015 – 2025, Congress of the United States, Congressional Budget Office, January 2015, unless otherwise noted.

("CBO") estimating that nominal and real GDP growth in 2014 were 4.0% and 2.1%, respectively.[218] Despite recent improvements in the rate of economic growth, the CBO believes there to be excess capacity in the economy as well as excess supply in the labor market.[219] The CBO estimates that this slack will be eliminated by the second half of 2017, eliminating downward pressure on inflation and interest rates.[220] GDP growth is expected to accelerate in 2015 and 2016, driven primarily by consumer spending and investment.[221] After 2016, nominal economic growth is projected to moderate to approximately 4.2% in the years 2018-2025.[222] This level of growth is lower than historical averages due to certain long-term trends, including the aging of the baby-boom generation and reduced work force growth.[223]

206. Globally, monetary policy continued to be accommodating in 2015 with both the Bank of Japan expanding its quantitative easing program in October of 2014 and the European Central Bank expanding its asset purchase programs in January of 2015. Monetary policy has played a large role in bringing long-term interest rates to historic lows. Consider, for example, the following from the IMF's April 2015 report on recent economic developments:

> "…the decline in long-term nominal interest rates appears to reflect primarily a decline in real interest rates, including a compression of term premiums and

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[218] Congressional Budget Office, "The Budget and Economic Outlook: 2015-2025," January 2015, p. 30.

[219] Congressional Budget Office, "The Budget and Economic Outlook: 2015-2025," January 2015, p. 27.

[220] Congressional Budget Office, "The Budget and Economic Outlook: 2015-2025," January 2015, p. 27.

[221] Congressional Budget Office, "The Budget and Economic Outlook: 2015-2025," January 2015, p. 29.

[222] Congressional Budget Office, "The Budget and Economic Outlook: 2015-2025," January 2015, p. 30.

[223] Congressional Budget Office, "The Budget and Economic Outlook: 2015-2025," January 2015, p. 27.

> reductions in the expected short-term neutral rate (see the April 2015 GFSR). Very accommodative monetary conditions have clearly played a role in the reduction in term premiums…"[224]

207. Although the US Federal Reserve was expected to begin raising rates in 2015, historically low long-term interest rates, as well as continued monetary accommodation, were expected to continue to support economic growth moving forward.

208. Stock markets have responded strongly to accommodative monetary policy, with the S&P 500 having more than doubled from recession-level lows and increasing 13% in the one year period prior to May 2015. In the eyes of some market participants, however, this performance left the market over-valued. Consider, for example, the following from a Morningstar report in March of 2015:

> "The S&P 500—at a level of 2,108—carries a Shiller price/earnings ratio of 27.7—higher than 79% of monthly readings since 1989…Alternatively, the S&P 500 is trading at 18.4 times trailing peak operating earnings, which is higher than 77% of monthly readings since 1989. In both cases, such high valuation levels have historically been associated with poor subsequent five-year total returns and an elevated risk of material drawdown. Proceed with caution."[225]

C. ANALYSIS OF THE FEBRUARY 2015 PROJECTIONS

209. On an annual basis, typically in the spring, Aruba management spent time developing a three-year strategic plan.[226] The strategic plan was considered a top down review of Aruba's operations as well as its future market opportunities.[227] While the plan never appears to have been formally approved by the Aruba Board, it was the subject of a special full-day Aruba

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[224] International Monetary Fund, "World Economic Outlook," April 2015, p. 10.

[225] "Stock Market Outlook: Proceed with Caution," Coffina, Matthew, Morningstar Quarter-end Insights, March 30, 2015, p. 3.

[226] Galvin Dep. at 11 - 12.

[227] Galvin Dep. at 17 – 18.

Board meeting typically around June of each year.[228] The Aruba Board challenged management with questions and issues to research and there was a back and forth engagement between management and the Aruba Board.[229] The three-year plan also provided the basis for other shorter term projections completed by Aruba management.[230]

210. On a shorter-term basis, Aruba also completed a 12-month annual operating plan or budget and a six-month plan. The latter was the only planning budget that was formally approved by the Aruba Board and served as the basis for employee compensation targets as well. An additional six-month budget was approved after the first period had elapsed. These six-month budgets also appear to have contributed to the quarterly forecasting that was completed for both internal and external purposes.

211. In the spring of 2014, Aruba management developed the FY 2015 – FY 2017 Strategic Plan that was eventually presented at the June 2014 Aruba Board meeting. Following that meeting, Bean reported to Aruba staff on the Aruba Board's reception to the FY 2015 – FY 2017 Strategic Plan:

> "Overall the strategy plan outlined to the board was well received and they are in general agreement with the 3 year plan. . . The overall tone from the board was positive and pretty bullish on the near and long term prospects for the company."[231]

212. In regards to FY 2015, Aruba management set several goals as summarized in a July 16, 2014 FY2015 Company Strategic Goal Summary:

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[228] Galvin Dep. at 12.

[229] Galvin Dep. at 20.

[230] Galvin Dep. at 12.

[231] Email from Aaron Bean to Dale Moore et al., Subject: Board Meeting Update, June 5, 2014, (ArubaAA0116825).

> "Goals for 2015 (1) Achieve aggressive 25% annual revenue growth; (2) Focus on needs of premium enterprise customers to grow sales to G2000 customers by [35%+] annually; (3) Increase overall software and subscription license sales by [25%+?? annually]; (4) Deliver innovative and differentiated mobility solutions to expand our CIO influence and sustain industry-leading 72%+ gross margins; (5) Create shareholder value by delivering consistent 20%+ operating margin."[232]

213. According to the Company's custom, in June/August 2014, Aruba management prepared a three-year projection covering FY 2015 - FY 2017. Subsequent to the preparation of the June/August 2014 projections, in October 2014, management prepared projections for FY 2015 – FY 2017 ("October 2014 Projections").

214. At a special meeting of the Aruba Board held on February 2, 2015, Galvin presented preliminary Q2 2015 financial results and presented financial projections prepared by management (the "February 2015 Projections").[233] The February 2015 Projections represented an update to the October 2014 Projections to create projections for the balance of FY 2015 and for FY 2016 – FY 2017. The October 2014 Projections were generally more optimistic than the February 2015 Projections, which are the focus of my analysis in this section. Exhibit 5 is a comparison between the February 2015 Projections and security analysts' consensus estimates prepared by Qatalyst in February 2015.

215. To assess the reasonableness of the February 2015 Projections, I reviewed and analyzed, among other things, the Company's historical performance, deposition testimony of Galvin and Orr, contemporaneous security analyst coverage, internal emails, industry reports, internal strategic documents, Project Greyhound documents, and Aruba Board minutes and presentations.

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[232] Email from Greg Murphy to Dominic Orr, Subject: FW: FY2015 Company Strategic Goal Summary, July 16, 2014 (ArubaAA0503479 – 80).

[233] Proxy at p. 43.

216. The February 2015 Projections are consistent with the notion that Aruba was in the process of transforming itself from being primarily focused on revenue growth to working on improving its profitability while continuing to grow revenues. As Johansson stated in his deposition testimony:

> "So when we [HP] looked at them [Aruba], it was very important for us to understand what was the trajectory on the profits going to look like going forward. And at the time, Dom [Dominic Orr] and the company had publicly stated that they were going to start focusing more on improving profits going forward.
>
> So the company was in a little bit of a transition from that perspective, but -- so immature from managing their P&L perspective, but mature from a market-acceptance perspective."[234]

217. Based on my review of the February 2015 Projections and Galvin's testimony regarding the process that was employed to develop those Projections, I believe that the February 2015 Projections provide a reasonable set of expectations for the Company's future performance. Therefore, I utilize the February 2015 Projections, as extended to five years by Qatalyst working in conjunction with Aruba management, in my analysis of Aruba's value as of May 18, 2015.

D. TREATMENT OF STOCK-BASED COMPENSATION

218. As previously discussed, Aruba, like many technology companies, paid a portion of its employees' compensation in SBC using both stock options and restricted stock. Historically, Aruba's SBC as a percentage of revenues was larger than its peers, which was a concern of management and the Aruba Board.[235] Management and the Aruba Board appeared to be committed to reducing the amount of SBC by favoring cash-based compensation going forward as well as minimizing any dilutive effect caused by the issuance of SBC through stock

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[234] Johansson Dep. at 51.

[235] Email from Dominic Orr, Subject: Focal Reviews, June 25, 2014 (ArubaAA0054934). *See* also Galvin Dep. at 132 – 133.

repurchases. While I have not been able to determine the number of shares repurchased by Aruba over the FY 2009 – Q2 2015 period, an analysis of the dollar amount of repurchased stock and dollar amount of SBC over that time period are approximately equal, demonstrating Aruba's commitment to minimizing any dilutive effects of its compensation plans. The following table compares the total stock repurchases and total SBC expensed during for FY 2009 – FY 2014 and the first half of FY 2015:

($ Millions)	2009	2010	2011	2012	2013	2014	1H 2015	Cumulative Total
Stock Repurchases	$ 1	$ -	$ -	$ 20	$ 86	$ 263	$ 105	$ 475
SBC Expense								
Stock Options	$ 12	$ 16	$ 19	$ 17	$ 10	$ 5	$ 1	$ 80
Stock Awards	10	16	39	59	77	97	39	337
Employee Stock Purchase Plan	3	4	6	8	10	9	4	43
Market Stock Units	-	-	-	-	-	-	4	4
Total SBC Expense	$ 25	$ 36	$ 64	$ 84	$ 96	$ 111	$ 48	$ 464
SBC % of Total Revenue	*12%*	*14%*	*16%*	*16%*	*16%*	*15%*	*11%*	

Source: Company filings with the SEC.

219. Due to the importance of SBC in evaluating the value of Aruba, in particular its cash flow impact, I include the amounts projected by management as current expenses from a cash flow perspective. While new grants of SBC do not often have a current cash impact on the Company, the inclusion of the SBC amount is a reasonable approximation of the cash outflows for two reasons. First, grants from prior periods that become vested or exercisable are typically deducted for tax purposes. Second, the cash outflow associated with the repurchase of shares is effectively accounted for in the cash flow projections, given Aruba's historical and projected intention to prevent dilution from its SBC grants. Further, the Company had sufficient projected free cash flow to accommodate the share repurchases without raising any external financing, although as mentioned above, external financing was seriously being considered at the Company.

220. My treatment of SBC was also employed in valuation analyses prepared by Evercore and Barclays, two of the three financial advisors who participated in the transaction. Only Qatalyst ignored this expense as part of the cash flow projection used in its DCF valuation. Qatalyst attempted to account for the impact of SBC by relying on a 28% dilution factor[236] (a number that at one point had been 25% prior to the final fairness opinion being issued).[237] Furthermore, the Qatalyst cash flow projections appear to ignore any potential tax benefits associated with SBC.

E. DISCOUNTED CASH FLOW VALUATION

1. Basis for Free Cash Flow

221. To project Aruba's free cash flow for purposes of performing a DCF valuation, I began with the February 2015 Projections.[238] In addition, I also reviewed a Qatalyst financial model, which provided the detail underlying the February 2015 Projections summarized in the Proxy.[239] The projections covered the period FY 2015 - FY 2020. The projections were based on the three-year strategic plan described above and then extended to 2020 by Qatalyst with input on the key assumptions from Aruba management. As mentioned above, I deduct SBC in the Company's projected cash flows. The same projection, excluding the SBC, is the basis for the projections utilized in the Qatalyst Fairness Opinion delivered to the Aruba Board.

222. While I relied on the projections through July 31, 2020, I find that the length of time for the projection required extension to account for the time it would take for Aruba's financial performance to normalize or to achieve a relatively level growth rate, which is

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[236] Project Athens, Materials for Discussion, March 2015, p. 19 (QP00009272).

[237] Project Qaddy (QP00014163.xlsm).

[238] Proxy at pp. 55 – 57.

[239] *See* Project Qaddy (QP00014163.xlsm).

necessary to determine a reasonable terminal value. Consequently, I employ a three-stage cash flow model, with Stage One being the projection period included in the Proxy and Stage Two being an additional five-year period to allow for the 10% projected revenue growth in fiscal 2020 to gradually decline, by approximately one percentage point per year, to a steady growth rate of 3.5% in 2025, a rate that will be explained further below.[240] Additional Stage Two assumptions include: maintained operating margins consistent with those in 2020, assumed that capital expenditures will equal depreciation, and assumed that working capital changes will be zero. Stage Three is the terminal year value that will be described below.

2. Weighted Average Cost of Capital ("WACC")

223. Historically, including as of May 18, 2015, Aruba's capital structure included no debt. As a 100% equity funded company, Aruba's WACC is equal to its Cost of Equity. As previously discussed, prior to HP approaching Aruba about a potential transaction, Aruba was in the final stages of a $300 million convertible debt offering, a process that the Company began investigating as early as 2013 with at least one investment bank - Barclays.[241] For purposes of my valuation, I have conservatively chosen not to include this debt in the capital structure despite the reasonable likelihood that Aruba would have issued it as a standalone company. Including the debt in the capital structure would have the effect of reducing Aruba's WACC both as a result of the lower cost of debt and any potential positive information that the equity markets might attribute to the Company for being able to complete the offering or since the offering was in part being done to repurchase Company stock.

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[240] The Budget and Economic Outlook: 2015 – 2025, Congress of the United States, Congressional Budget Office, January 2015, p. 30.

[241] For example, see Financing Discussion Materials, Board Presentation, June 20, 2013 (ArubaAA0001928 – 1979) and email from Mike Galvin to Lory Hopkins (cc: Dominic Orr and Keerti Melkote), Subject: Re: Kirk, September 25, 2014 (ArubaAA0116120).

224. To assess Aruba's Cost of Equity, which will serve as the WACC in my DCF analysis, I have employed the traditional Capital Asset Pricing Model ("CAPM") to calculate beta (β). Unsystematic risk (the risk attributed to a specific company) can be eliminated through portfolio diversification; therefore the CAPM attributes differences in returns on individual companies to differences in beta or systematic risk. The formula to determine the cost of equity using the CAPM is as follows:

$K_e = R_f + \beta(R_m - R_f) + R_s$ where:

R_f is the risk free rate

β is beta, or the measure of systematic risk

$(R_m - R_f)$ is the equity risk premium for the entire market

R_s is the return in excess of CAPM

225. The risk-free rate (R_f) used in the CAPM model represents the 20-year U.S. Treasury constant maturity rate, which was 2.75% as of May 18, 2015. For the risk premium, $(R_m - R_f)$, I utilized the supply-side equity risk premium of 6.19% obtained from the *Ibbotson 2015 Classic Yearbook.*[242]

226. As required by the CAPM formula detailed above, the equity risk premium must be multiplied by the beta. To calculate the beta in the case of Aruba, I considered a beta that took into account both Aruba's company-specific beta and the beta of a group of companies identified as comparable by two or more of the three financial advisors that participated in the transaction that represented both the WLAN and pure play networking markets (together "WLAN/ PPN").[243]

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[242] Ibbotson SBBI 2015 Classic Yearbook, p. 158.

[243] Damodaran, Aswath, "Ten Questions about Bottom-up Betas," New York University (http://people.stern.nyu.edu/adamodar/New_Home_Page/TenQs/TenQsBottomupBetas.htm).

227. For the Aruba-specific beta, I used a beta of .81 obtained from Bloomberg that was calculated on a two-year weekly basis ending on February 24, 2015, which represents the closest date ending two-years prior to the valuation date that is unaffected by the February 25, 2015 Bloomberg Business article reporting a rumor of a transaction between Aruba and HP.[244] For the WLAN/PPN group, I used the beta calculated from the two-year weekly data as provided by Bloomberg as of the valuation date. I further unlevered these betas to make them comparable to Aruba's beta since Aruba has no debt in its capital structure. The median unlevered beta for the WLAN/PPN group was 1.11 as of the valuation date.[245] I then assigned a weight of two-thirds to the Aruba-specific beta and one-third to the WLAN/PPN group unlevered beta, resulting in a beta of 0.91, which I utilized in determining Aruba's WACC.[246] The table below shows this calculation:

[244] "The period during which beta is determined should exclude dates on which the market was influenced by the transaction which led to the appraisal." Shannon P. Pratt & Roger J. Grabowski, *Cost of Capital in Litigation: Applications and Examples* 32 (2011), p. 171.

[245] Note that Arista Networks, Meru Networks, Aerohive and A10 Networks were excluded from this analysis due to the fact that there are not enough observations to calculate their two year beta.

[246] Using Aruba's company-specific beta (0.81) yields a WACC of 9.4% and an implied value of $35.83 per share. I performed this calculation in order to check the reasonableness of my selected inputs.

	2-Year Beta Unlevered
WLAN Vendors	
Aerohive	NMF
Ruckus Wireless	1.53
Ubiquiti	0.83
Pure Play Networking	
Arista Networks	NMF
A10 Networks	NMF
F5 Networks	1.15
Radware	1.07
Median Unlevered Peer Group Beta	1.11
Aruba Beta	0.81
Weighted Beta (1)	**0.91**

Note: (1) Calculated using a 2/3 weight for Aruba's beta and 1/3 weight for the median unlevered WLAN/PPN group beta.

Source: Bloomberg.

228. A two-year period for calculating beta was chosen as the period most representative of Aruba's future beta, which is the ultimate goal to achieve in the selection of the time period. I came to this conclusion as a result of my analysis of the Company's history and the transformative changes that have occurred at the Company and in the industry over the past several years. Utilizing a shorter period to determine beta due to changes in the subject company's business has been discussed in academic literature. For example, consider the following from New York University Corporate Finance Professor Aswath Damodaran:

> "We must make three decisions in setting up the [beta calculation] described above. The first concerns the length of the estimation period…The tradeoff is simple: A longer estimation period provides more data, but the firm itself might have changed in its risk characteristics over the time period."[247]
>
> "In choosing a time period for beta estimation, it is worth noting the trade off involved. By going back further in time, we get the advantage of having more observations in the regression, but this could be offset by the fact that the firm itself might have changed its characteristics, in terms of business mix and

[247] Damodaran, Aswath, "Corporate Finance Theory and Practice," 2nd Edition, p. 200.

> leverage, over that period. Our objective is not to estimate the best beta we can over the last period but to obtain the best beta we can for the future."[248]

229. In this case, a two year beta was chosen due to the fact that Aruba had changed substantially over the period leading up to the deal, as previously discussed. The Company had gone from being focused on revenue growth to focusing on earnings and had seen a substantial increase in its customer base. Furthermore, the Company had added a significant number of additional employees, expanded its geographic footprint, and made a number of strategic acquisitions. This expansion changed the Company's business mix and in my opinion, a two year beta represents the best approximation of Aruba's market risk going forward.

230. Since the CAPM does not fully account for the higher required rates of return of investors in small company stocks and tends to overstate the required returns of investors in large company stocks, an adjustment to the CAPM inputs discussed above is required. As reported in the Ibbotson SBBI Classic Yearbooks, the market is divided into ten deciles based on market capitalization. I chose the fifth decile, which contains companies with market capitalizations ranging from \$2.5 billion to \$3.7 billion as a result of a number of factors including, but not limited to, the value derived from my DCF valuation, contemporaneous analyst price targets with a median value of \$26, and Aruba's internal stock repurchase target of \$25. Accordingly, I applied a size premium of 1.60% associated with the fifth decile.[249] This approach provides a conservative estimate given the ultimate valuation conclusion that I reached since a larger company would typically require a smaller premium.

231. Applying all of the variables discussed above as well as represented in Exhibit 6-1, I have calculated Aruba's WACC as of May 18, 2015 to be 10.0%.

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[248] Damodaran, Aswath, "Estimating Risk Parameters," Stern School of Business, p. 9.

[249] Ibbotson SBBI 2015 Classic Yearbook, p. 108 and p. 109 (Errata Table 7-6).

3. Terminal Value

232. The terminal value represents all cash flows into perpetuity following the final year of the discrete projection period. As a result, the terminal year should represent a relatively steady state for a company for the projection to be most relevant. By extending the projection period to ten years, I have maximized the likelihood that the final year of the projection is representative of such a steady state given the facts and circumstances for Aruba.

233. Estimating an appropriate perpetuity growth rate ("PGR") for a company is an important input in any DCF valuation. Based on the fact that the Company was an industry leader and growing rapidly, I found it reasonable to expect Aruba to grow at the rate of the overall economy in the long term. To estimate its long-term growth, I looked at the data in the table below showing various projections of long-term nominal GDP growth ranging from 4.2% to 4.4%.

	Report Date	Real GDP Growth	Inflation Rate	Nominal GDP Growth
CBO Economic Outlook	Apr-15	2.2%	2.0%	4.2%
Economic Report of the	Feb-15	2.3%	2.0%	4.3%
EIA Energy Outlook	Apr-15	2.4%	2.0%	4.4%
	Median:	**2.3%**	**2.0%**	**4.3%**

234. I selected a PGR of 3.5%, which is approximately between the risk free rate used in my DCF analysis (2.75%) and the projected nominal GDP growth rates presented above.

235. To calculate the terminal value, or Stage Three value, I employed the Gordon Growth Model. The formula for using the Gordon Growth Model to determine the terminal value is: UFCF * [(1 + g)/ (k – g)] where UFCF represents the unlevered free cash flows projected in the final year of the projection horizon; g represents the PGR; and k represents the discount rate.

I utilized the projected cash flow in year ten, employed the WACC of 10.0%, and determined that the most reasonable estimate of stable growth for Aruba was 3.5%.[250]

4. Discounted Cash Flow Valuation Conclusion

236. In performing my DCF valuation, I used the February 2015 Projections as the basis for developing unlevered free cash flows. I extended the February 2015 Projections out to FY 2025 by gradually lowering Aruba's growth rate. Using the CAPM, I calculated a discount rate of 10.0%. The PGR I used in calculating the terminal value represents a reasonable approximation of stable growth for the Company, as described above. The results of my DCF valuation are summarized in the following table that provides a sensitivity of values centered on a discount rate of 10.0% and a PGR of 3.5%:

		Terminal Growth Rate		
		3.0%	3.5%	4.0%
Discount Rate	9.5%	$ 33.45	$ 35.05	$ 36.93
	10.0%	$ 31.15	$ 32.57	$ 34.00
	10.5%	$ 29.16	$ 30.26	$ 31.52

237. Based on the analysis I performed, it is my opinion that the fair value of Aruba's common stock on May 18, 2015 was $32.57 per share (see Exhibit 7-1).

F. MARKET APPROACH – COMPARABLE COMPANY VALUATION

238. The Comparable Company Valuation establishes value by measuring a company's normalized operating results against those of publicly traded comparable companies. For example, operating statement multiples are derived for each comparable, and the appropriate multiple is applied to the subject company's particular operating metric to determine value.

[250] The Budget and Economic Outlook: 2015 – 2025, Congress of the United States, Congressional Budget Office, January 2015, p. 30.

239. The cornerstone of any market-based approach is the comparability of the subject company to the companies to which it is compared. For purposes of my valuation of Aruba, I attempted to identify other publicly traded companies reasonably similar to Aruba in business strategy, financial performance, market position, end customers and other factors to insure the reasonableness of the indicated value. To identify potential comparable companies, I reviewed the companies utilized by Qatalyst, Evercore, and Barclays in their respective fairness opinions or valuation analyses, the companies identified in Aruba's public filings as being competitors, and companies identified in security analysts' reports covering the Company. Upon completion of my review of approximately 30 companies, I concluded that no single company or group of companies was sufficiently similar to Aruba to provide meaningful valuation comparisons. I therefore, do not rely on this methodology to assist in the determination of Aruba's fair value.

240. However, in performing my analysis, I did calculate a range of values for the WLAN/PPN Group despite my belief that these companies were not sufficiently comparable to Aruba. As shown in the table below, the companies included:

		Financial Advisor		
	Marcus Report	Qatalyst Partners (1)	Evercore (2)	Barclays (3)
WLAN				
Ubiquiti	X	X	X	X
Ruckus Wireless	X	X	X	X
Aerohive Networks	X	X	X	X
Meru Networks		X		
Pure Play Networking				
F5 Networks	X	X	X	X
Arista Networks	X	X	X	X
Radware	X	X	X	X
A10 Networks	X	X	X	

Sources: (1) Project Athens, Materials for Discussion, March 2015, p. 28 (QP00009281).
(2) Project Athens, Supporting Valuation Analysis, March 1, 2015, p. 17 (EVERCORE00010303).
(3) Project Aspen, Board Materials, February 28, 2015, p. 7 (BARC-ARU_00031354).

241. I observed valuation metrics for the WLAN/PPN Group. The results of this analysis is included in Exhibit 8-1. In all instances, a 20% premium was added to the results in order to eliminate the minority interest discount inherent in the analysis in order to arrive at the indicated fair value of Aruba that would be derived from the financial advisors' analyses.

242. Based on the testimony of Aruba's management and my review of security analysts' coverage of the Company, Aruba was in a transition period, where investors were beginning to focus more on the earnings capacity of the Company rather than its ability to grow revenues (even though revenue growth is generally an important factor in assessing the value of most businesses and the stock market's response to the Company's Q2 2015 revenue guidance provides additional evidence that the market had not completely abandoned revenues as a focus). As such, the emerging profitability that Aruba was experiencing in FY 2015 would be less indicative of current value than the value derived from estimated 2016 forward earnings and revenue. Excluding the 2015 earnings multiples, the range of values is $18.98 per share to $37.21 per share. As mentioned above, I have not factored this analysis into my assessment of Aruba's value in any way, but view it to be generally consistent with the value that I calculated utilizing the DCF valuation method.

G. MARKET APPROACH – COMPARABLE TRANSACTION VALUATION

243. Similar to the Comparable Company Valuation, the Comparable Transaction Valuation is heavily dependent upon the comparability of the transactions identified as being similar to the subject company. I attempted to identify comparable transactions by reviewing transactions identified by at least two of the three financial advisors as well as searching the FactSet database for transactions involving the acquisition of a majority stake announced between January 1, 2012 and May 18, 2015, but that closed by May 18, 2015. Furthermore, I limited my review of transactions to target companies operating in the information technology

services, telecommunications equipment, computer peripherals, and communications industries that were 10x smaller or 10x larger than the Aruba Transaction.

244. The results of this search yielded approximately 70 transactions, of which sufficient operating metric data for the target company (or business unit) was unavailable for approximately 40 of the transactions. With regard to the remaining 30 transactions where some information was available, I was not able to determine, what if any part of the transaction price was attributable to synergies. I concluded that no single transaction or group of transactions, where enough relevant information was available, was sufficiently similar to Aruba to provide meaningful valuation comparisons. I therefore, do not rely on this methodology to assist in the determination of Aruba's fair value.

H. EXTERNAL CHECKS ON VALUATION

245. In addition to the Market Approaches to valuation described above, my review of the record and other publicly available information revealed additional indications of Aruba's value. Those include (1) internal price discussions, and (2) the existence of an internal PT for the repurchase of shares.

246. Prior to August 2014, Galvin was not aware of anyone having performed an analysis to determine Aruba's intrinsic value.[251] However, there is evidence from Aruba and Qatalyst as to what represented a reasonable range for the Company's stock. One indication of value is found in Aruba's negotiations with Qatalyst on the engagement letter between the two firms. In negotiating the terms of the engagement letter, Aruba and Qatalyst suggested different terms for Qatalyst's fee. In a September 4 and 5, 2014 email exchange between Orr, Galvin and

[251] Galvin Dep. at 82.

Hahn, these Aruba executives discussed Qatalyst's potential fee based on a transaction price of over $30 per share. Hahn initiated the email exchange by stating:

> "Q feels that $36 is too high a bar for 1.25% as it is a 70% premium and not likely. They could see 1.5% for $36. They feel the breakpoint for 1.25% should be around $30. What they positioned was essentially 1.25% for what they think is the most likely outcome (around $30): a linear structure with 1% up to $30, 1.25 increasing to 1.5% linearly for $30-$36, 1.5% for $36+."[252]

247. Galvin followed Hahn's observation by writing "He [Boutros] emphasized $30 is a 50% premium over our trailing 30 day avg. I countered with it's universally thought that ARUN is undervalued right now."[253]

248. Orr concluded the dialogue stating that the Aruba Board did not want to sell the Company for less than $30 per share and that he wanted a transaction price over $33 per share. Specifically, Orr wrote:

> "Netting out my webchats: board doesn't want deal below $30; I want it above $33 . . . I'm not comfy of a ramp from 30 to 33. It would not be spicy enough to focus on the 33-35 target range we want."[254]

249. While the provision Orr, Galvin, and Hahn discussed with Qatalyst was not included in the final engagement letter, it is still noteworthy that the parties were discussing a transaction in the $30+ per share range.

250. As previously discussed, Aruba maintained an active share repurchase program. At the September 2, 2014 Aruba Board meeting: "The Board determined to allow repurchases within the existing limits previously approved (no more than $25 million per quarter at prices no

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[252] Email from Ava Hahn to Dominic Orr, Subject: Re: Qatalyst update – PRIV/CONF, September 4, 2014 (ARUN008302).

[253] Email from Mike Galvin, September 4, 2014 (ARUN008301).

[254] Email from Dominic Orr to Mike Galvin, Subject: Re: Qatalyst update – PRIV/CONF, September 5, 2014 (ARUN008301).

higher than $25/share) and consistent with past practice, given the highly preliminary nature of discussions with Helsinki [HP]."[255] The existence of this $25.00 per share price implies that the Aruba Board believed that the intrinsic value of the Company exceeded $25.00 per share since it would not likely repurchase shares at a value that exceeded the Company's intrinsic value. Further, the repurchase value is based on the minority price paid for the shares. Adding a 20% premium in order to eliminate the inherent minority interest discount arrives at a value of $30.00 per share.

251. Finally, in an email dated March 13, 2015 (after the merger agreement was signed), Aruba management estimated that the standalone value of the Company was between $400 million and $1.8 billion more than what HP paid in the deal.[256] A DCF valuation performed using management's model without synergies produced a valuation ranging from $3.1 to $4.5 billion according to Galvin.

VII. LIMITING FACTORS AND OTHER ASSUMPTIONS

252. This report is furnished solely for the benefit of the parties, counsel and the Court in the matter of *Verition Partners Master Fund Ltd., et al. v. Aruba Networks, Inc*. This report may not be relied upon by any other person or entity without my express, prior written consent. Any disclosure of this report, whether or not consented to, shall not create any obligation or

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[255] Minutes of a Meeting of the Board of Directors of Aruba Networks, Inc., September 2, 2014, p. 1 (ArubaAA0001780). *See also* Galvin Dep. at pp. 93 – 95.

[256] Email from J. Brown to D. Orr re HP Financial View of Aruba Acquisition, dated March 13, 2015 (ArubaAA0503223-24) (Galvin Ex. 49) ("At a $2.7b deal price (net of cash), HP would want to receive value of more than $2.7b of value on a discounted cash flow basis. … Based on the management model, and a 3% perpetuity growth rate (estimated growth in the years beyond FY20), we would deliver a valuation of $3.1b to $4.5b depending on what discount rate they may use …"). *See also* Galvin Dep. at 318-320.

liability on Paul A. Marcus. This report is delivered subject to the conditions, scope of engagement, limitations and understandings set forth in this report.

253. Neither all nor any part of the contents of this report should be conveyed to the public through advertising, public relations, news, sales, mail, direct transmittal, or other media, without my prior written consent and approval.

254. In accordance with recognized professional ethics, my professional fees for this service are not contingent upon the opinion expressed herein, and I do not have a present or intended financial interest in the outcome of this matter.

255. Public information, statistical information and data are from sources I deem to be reliable. However, I make no representation as to the accuracy or completeness of such information and data.

256. It should be understood that I have reviewed numerous documents related to this matter and I have set forth in this report only a summary of the testimony I expect to provide at trial. I have not attempted to set forth verbatim every fact that supports my opinion. I reserve the right to supplement or amend this report should any additional information become available.

Dated: July 29, 2016

Paul A. Marcus

Paul A. Marcus, CFA, CFE
PM Financial Expert Consultants, LLC