

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 1997.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number **0-27544**

OPEN TEXT CORPORATION

(Exact name of Registrant as specified in its charter)

Ontario, Canada

(State or other jurisdiction
of incorporation or organization)

**185 Columbia Street West
Waterloo, Ontario, Canada**

(Address of principal executive offices)

98-0154400

(IRS employer
identification no.)

N2L 5Z5

(Zip code)

Registrant's telephone number, including area code: **(519) 888-7111**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

None

Name of each exchange on which registered

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, without par value

(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Aggregate market value of the Registrant's Common Stock held by non-affiliates as of September 19, 1997 was approximately \$148 million. The number of shares of the Registrant's Common Stock outstanding as of September 19, 1997 was 17,579,254.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the following documents are incorporated by reference to Part III of this Form 10-K: Proxy Statement for registrant's 1997 Annual Meeting of Shareholders.

Page 1 of 65

Exhibit Index Appears at Page 62

PART I

Forward-Looking Statements

Certain statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or developments in the Company's industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Such factors include, but are not limited to: the Company's limited operating history and losses, increases in expenses, unproven acceptance of the Company's products and services, risks involving the management of growth, competition and new entrants in the market for the Company's products and services, product development risks and risks of technological change, liquidity and capital resources and the other risks and uncertainties described under "Business - Risk Factors" in Part I of this Annual Report on Form 10-K. Certain of the forward-looking statements contained in this Report are identified with cross references to this section and/or to specific risks identified under "Business - Risk Factors."

Item 1. Business

The Company

Open Text Corporation (the "Company") develops, markets, licenses and supports software for use on intranets, extranets and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes and distribute or make available to users across networks or the Internet the resulting work product and other information. The Company's principal product line, *Livelink Intranet*, is a scaleable collaborative network application that integrates several modular engines including, but not limited to, search, collaboration, workflow and document management. The Company's search engine enables users to transparently search vast amounts of data stored in a wide variety of formats and in disparate locations, including World Wide Web sites. The Company's collaboration, workflow and document management engine enables users to establish and manage knowledge and document-oriented collaborative work processes that involve a diversity of workers, computing platforms and data. In addition, the Company's products enable organizations to flexibly manage the distribution and availability of information. The Company has focused its efforts on its intranet-related software and services, and its objective is to be the leading provider of collaborative knowledge management solutions for use on intranets. The Company's strategy is to offer information search, document management, workflow management and virtual team collaboration products that collectively represent an application suite to fill a broad range of knowledge management needs across a company's intranet and extranet.

The Company operates both directly and through a number of wholly-owned subsidiaries. The Company's material operating subsidiaries include: Open Text Inc., an Illinois corporation; InfoDesign Corporation, a Virginia corporation; InfoDesign Corporation, an Ontario corporation and Network Software Group, Inc., a British Columbia corporation. The Company also owns Open Text International BV, a Dutch corporation, which in turn owns Open Text AG, a Swiss corporation and Open Text UK Limited, a British corporation.

The Company was incorporated in June 1991 under the Business Corporation Act (Ontario). References herein to the "Company" refer to Open Text Corporation and its subsidiaries. The Company's principal executive offices are located at 185 Columbia Street West, Waterloo, Ontario, Canada N2L 5Z5, and its telephone number at that location is (519) 888-7111. The Company's World Wide Web home page address is <http://www.opentext.com>.

Unless otherwise indicated, all dollar amounts in this Annual Report on Form 10-K are in United States Dollars and all financial results are reported under United States generally accepted accounting principles.

Open Text, Open Text Index, Livelink, Livelink Intranet, WorkSmart® and Odesta® are trademarks of the Company. This Annual Report on Form 10-K also includes trademarks of companies other than the Company.

Acquisitions

Since June 1995, the Company sought to substantially broaden its technology base and product offerings and strengthen its sales and customer support capabilities through a series of acquisitions of business with technologies that can be integrated with the Company's technologies and products to create a broad line of information management products. Pursuant to this strategy, the Company acquired Odesta Systems Corporation ("Odesta"), certain assets of Intunix AG ("Intunix"), the Internet Anywhere division of Mortice Kerns System Inc. ("Internet Anywhere"), certain assets of SoftCore UK Limited and SoftCore Technology Limited ("SoftCore"), certain assets of NIRV Community Resource Centre ("NIRV"), Network Software Group, Inc. ("NSG"), a British Columbia corporation ("NSG") and InfoDesign Corporation, a Virginia corporation and InfoDesign Corporation, an Ontario corporation (collectively, "InfoDesign"). Odesta, InfoDesign and NSG and the acquired assets of Intunix, Internet Anywhere, SoftCore and NIRV are referred to collectively, in this Annual Report on Form 10-K, as the "Acquired Businesses", and the Company's acquisitions of the Acquired Businesses are referred to as the "Acquisitions."

In October 1995, the Company acquired Odesta, an Illinois-based software company offering integrated workflow, document management and collaborative computing software marketed under the name "*Livelink*." A key element of the Company's strategy has been to develop Odesta's *Livelink* technology to enable users to manage documents, establish collaborative workgroups and manage and track the progress of their work using intranets and the Internet. The Company integrated *Livelink* technology with the Company's former *Latitude* product-line technology to create the *Livelink Search* product, which enables users to find and retrieve information from an organization's intranet and the Internet and from other Web sites and manage the distribution of information using intranets and the Internet. Daniel Cheifetz, the President and principal stockholder of Odesta, is the Company's Executive Vice President, Software Development.

In October 1995, the Company acquired certain of the assets of Intunix, based in St. Gallen, Switzerland. Intunix offered Open Text a distribution channel as well as certain technology which was integrated with Open Text's search engine technology. Marco Palatini, the former Chief Executive Officer of Intunix, is the Company's Director, Central Europe.

In August 1995, the Company acquired the business of Internet Anywhere in Waterloo, Ontario. The primary product of Internet Anywhere was a suite of integrated software applications designed to assist users with access to and use of the Internet.

In March 1996, the Company acquired SoftCore, based in England, which was a value added reseller of the Company's products in Europe.

In June 1996, the Company acquired InfoDesign, NIRV and NSG. InfoDesign, based in Northern Virginia and Toronto, had been a systems integrator and a value added reseller of the Company's search technology, and had developed and marketed WorkSmart, an SGML document management and workflow software product, elements of which the Company intends to integrate into its *Livelink* product line. Dave Seaman, the former Chief Executive Officer of InfoDesign, is the Company's Vice President, Advanced Technology. NIRV, based in Toronto, Ontario had created and operated Internet protocol networks in Canada, and developed software technology relating to network management and

administration that the Company intends to integrate with its products. Its technical employees are experienced in the installation and operation of Internet protocol networks, and assist in product installations and customer service. Kirk Roberts, the former Chief Executive Officer of NIRV, is the Company's Vice President, Livelink Solutions and Online Services. NSG, based in Vancouver, British Columbia, consulted on the Company's *Open Text Index* development efforts and its employees, who have extensive experience working with intranet networks, have been integrated into the Company's software development division as well as customer support and installation.

Industry Overview

Organizations are increasingly seeking to leverage their knowledge assets and streamline their business processes in order to increase worker productivity and reduce costs through the implementation of information management solutions. Through investments in traditional information management tools, organizations often establish a variety of data processing infrastructures that are rigidly designed to complete specific tasks or perform narrowly defined functions. As a result, organizations are increasingly faced with significant information management challenges attributable to rapidly increasing amounts of data created and stored in a variety of formats and in disparate locations across various networks. In addition, the emergence of the Internet as an important medium for communications is an increasingly significant influence on the configuration of network computing environments, and organizations are increasingly adopting private "intranets" that are based on "thin" client/server architectures and that employ Internet data formats and communications protocols to connect geographically dispersed networks and facilities.

Proliferation of Information on Client/Server Networks and the Internet, and the Development of "intranets"

In recent years, advances in computer hardware and software technology have resulted in dramatic increases in the amount of electronically stored information available to computer users. The ease of use, increased performance and declining cost of computer hardware and software have resulted in the rapid growth of the number of business and individual personal computer users and the migration of corporate networks from centralized mainframe systems to distributed local and wide area networks based on client/server architectures and, more recently, on peer to peer architectures. The prevalence of client/server networks facilitates the creation and storage of information on numerous computers in dispersed locations and in a wide variety of files and formats. Client/server networks consist of desktop computers ("clients") that can access powerful computers ("servers") that store large amounts of information and perform computing functions on behalf of clients. These networks enable dispersed users to communicate with and access the information and other resources of other computers in the network across traditional geographic and organizational boundaries. As a result, information that is critical to organizations increasingly is created, managed and stored on a decentralized basis in numerous sites and in a variety of files and formats.

The rapid growth in the use of on-line services and the Internet has enabled both organizations and individual computer users to communicate with other users and access large amounts of information published for general public reference or for access by consumers. The Internet is a global web linking thousands of computer networks. Much of the recent growth in the use of the Internet is attributable to the emergence of the network of servers and information available on the Internet known as the World Wide Web. The Web employs a "thin" client/server architecture that, when integrated with "browser" software, enables non-technical users to exploit the capabilities of the Internet. "Thin" clients require significantly reduced resources on users' desktops than traditional client/server architectures, and through the use of browsers, standardize the look and feel of applications. This results in significantly reduced training and implementation costs, and faster deployment of enterprise systems.

In addition to providing access to a vast array of information, the Internet represents a new medium through which organizations and individuals can conduct business. The potential benefits of conducting business on the Internet include direct, immediate communications with consumers,

customers, vendors and other parties, increased access to a large and growing universe of organizations and individuals, novel advertising opportunities and low communications and transaction costs. The amount of information available on the Internet, the commercial applications of the Internet, the number of Web sites on which data reside and the amount of data residing on individual Web sites are all increasing rapidly. As a result, both business and home computer users face the challenge of locating and retrieving the specific information that responds to their needs from the vast sea of data available on the Internet.

The Web is characterized by a standard document format described by the Hypertext Mark-Up Language (“HTML”) and a standard information transfer protocol called Hypertext Transfer Protocol (“HTTP”). As organizations become familiar with the use of the Web, they are increasingly adopting Internet data formats and communications protocols, such as Transmission Control Protocol/Internet Protocol (“TCP/IP”), and using Web client and server software and, in some cases, the Internet’s facilities as the backbone for private networks (“intranets”) that connect an organization’s local area networks. The implementation of an intranet is a low cost alternative to the establishment of a proprietary private network. Intranets enable network users to communicate and access information within an organization’s boundaries, collaborate with external groups or individuals, including suppliers, customers and consultants, and use the Web to access information on the Internet and communicate with other Web users. An organization also may use its intranet servers to publish documents and data on the Web that are created and resident on its intranet. An increasing number of organizations are implementing intranets as an alternative to traditional client/server networks. Accordingly, demand for business-oriented software solutions that support Internet protocols is increasing, and expected to continue to increase.

Need for Enterprise-wide Workgroup Solutions

Many of the critical business activities of an organization involve the use of non-relational data in the preparation or analysis of information. This information is often developed through the collective, coordinated efforts of many individuals who may work in different departments and geographical locations, or even outside the organization. Workgroups engaged in the preparation of documents and information on an individual or collaborative basis typically rely on unwieldy paper-based and electronic information management systems. Accordingly, managers and workers often have limited access to information, are unable to find relevant information on a timely basis or may work with information and documents that are out of date or the wrong version. In addition, traditional information management systems do not facilitate workgroup communications and collaboration, and force workgroups to rely on staff meetings, memoranda, conference calls, document facsimiles, voice messaging and other traditional methods of information exchange to assign tasks, track progress, discuss questions and problems, reach and communicate decisions and report results. As a result, the work of the group is hindered by incomplete information and a lack of communication and coordination, resulting in inefficiency and a suboptimal work product.

The development of intranets, and Internet connectivity provide an opportunity for more efficient access to and use of information stored on an organization’s networks and on the Internet and the private networks of external organizations with which an organization collaborates. Specifically, intranets can support the formation and management of collaborative workgroups composed of participants inside and outside the organization.

Market Opportunity

The Company believes that as organizations seek to increase the efficiency of their business processes, they will require software that permits users to find and retrieve information created with a variety of computers and stored in different formats and locations across an organization’s intranet and other networks, the Internet and the networks of other related organizations. In addition, the Company believes that an effective software solution will facilitate collaboration and the sharing of information and documents among designated workgroup members, and will enable managers to establish the workflow process by which a project will proceed, to manage and track the status of each element of the project, and

to manage the distribution and availability of the work product and other information to the intended audience of users.

Because an organization's high-value documents and information are stored in increasingly disparate locations and formats, the organization's ability to enable its users to find information, work together and distribute information is an increasingly important element of its competitive advantage. Existing product solutions typically address only discrete parts of the information management problem, such as text retrieval, workflow management, document management or collaborative computing. As a result, the Company believes that organizations and individuals will demand an integrated software solution that enables users to find information, work together and distribute information in a way that increases the efficiency of an organization's business processes and make it more responsive and competitive.

The Open Text Solution

The Company's *Livelink Intranet* suite is a collaborative knowledge management product that shares the resulting work product and other information to users across intranets, extranets, local and wide area networks or the Internet. The Company's software supports original, native file formats and applications and does not require either the conversion of the information into new formats or the replacement of existing desktop computing tools. A key element of the Company's strategy is to develop the capability of its products to enable the formation of work groups and collaboration on intranets and the Internet.

The Company's suite of software products addresses the following needs:

- *Find Information.* The Company's proprietary string search technology enables users to search the full text of databases and documents in response to a user query that is not limited to document titles or keywords. The Company's search technology is characterized by rapid response times that do not increase materially as the amount of data searched increases, if adequate server and communications resources are employed. The Company's search engine and related products enable users to find and view information, thus supporting both the creative and storage-related functions critical to individual and collaborative work processes. The Company's search and retrieval solutions address the needs of a variety of information users and include the *Open Text Index*, which allows computer users to search the Company's index of the Web, and *Livelink Search*, an integrated component of *Livelink Intranet* which enables organizations to index and search for information on their local and wide area networks and the Internet.
- *Work Together and Share Information.* The Company's enterprise-wide collaboration, workflow and document management component of *Livelink Intranet*, enables organizations to establish and manage document and knowledge oriented collaborative work processes. It graphically represents the people, roles, information objects and processes involved in workgroup collaboration. It also executes and monitors workflow steps according to user-defined rules and procedures and facilitates communications, discussions and the sharing of information among members of a workgroup. Using *Livelink*, an organization can control access to documents, manage different versions and drafts, audit the creation and use of documents and manage the sharing of documents and information to selected users. *Livelink* supports the use of a variety of productivity software products, including standard word processing, spreadsheet and computer aided design ("CAD") programs.

The Company offers its solutions both as end-user products and as components that may be incorporated into the information systems of large end-user organizations. *Livelink* has been internationalized to accommodate characters in all European languages other than Russian. German language and Japanese Kanji versions have since been produced.

The Open Text Strategy

The Company's objective is to be the leading provider of collaborative knowledge management solutions, to users of intranets. Key elements of the Company's strategy are summarized below:

- *Provide Integrated Information Search, Collaborative Computing, Work Process Management and Information Sharing Solutions.* The Company has developed the capability of using *Livelink*, its collaborative knowledge management system, to operate over intranets and the Internet, and has integrated *Livelink* with *Livelink Search*, its tool kit for creating a Web site or intranet capable of finding and retrieving documents using an index of an organization's network and other Web sites, and making selected documents and information available to the public over the Internet. The Company recently entered into an agreement with Netscape through which a limited version of *Livelink* is bundled with Netscape's Suitespot server software on all servers being shipped by Netscape. See "Forward-Looking Statements". This is an amendment to an existing agreement which made Netscape Navigator technology available for inclusion in the Company's client-based products and certain Netscape server technology available for inclusion in the Company's server-based products. The Company believes that this arrangement will contribute to the Company's ability to offer integrated solutions by assuring compatibility of its software solutions with this popular industry standard.
- *Leverage Technology in Extending Product Lines and Developing New Features and Applications.* The Company is engaged in integrating other technologies and products with its existing technologies and products to increase their capabilities and application to intranets and the Internet. See "Product Development" and "Risk Factors - New Product Development and Technological Change."
- *Increase Market Penetration through Multiple Distribution Channels.* The Company has historically sold its products principally through its direct sales force and OEMs. The Company intends to intensify its direct sales efforts. Accordingly, the Company has increased its direct sales force through new hires and previously through Acquisitions. In order to market its products to a wide variety of potential customers, the Company intends to further develop indirect distribution channels by establishing additional relationships with distributors, integrators that incorporate the Company's software into products providing a particular solution and VARs that have particular access to distinct customer groups or geographical areas. The Company has also entered into arrangements with certain Internet Service Providers (ISPs) whereby the ISPs can resell *Livelink Intranet* suite on a monthly charge basis to their customers.
- *Build Awareness of the "Open Text" Name.* The Company believes that awareness of the Company and its software solutions has increased as Internet users have been exposed to the Company's search and retrieval technology through their use of the *Open Text Index*. Additionally, the Company has received favorable press coverage of late including recognition by International Data Corporation's naming *Livelink Intranet* suite as the leader for Web-enabled, integrated document management systems with a 64 percent market share at the end of calendar 1996.
- *Promote and Support Industry Standards.* The Company intends to continue to develop and market products that are consistent with applicable industry standards. The Company actively participates in the Document Management Alliance, a group responsible for developing and monitoring standards in document management. The Company is a member of SGML/Open, a consortium of leading SGML technology vendors. The Company also supports the development of the Web's Hypertext Markup Language through its participation in the HTML Working Group.

During 1996, the Company de-emphasized its consumer-oriented Internet activities and the development of the *Open Text Index* as a means of generating advertising revenue and ceased marketing *Internet Anywhere* Internet access software on a retail basis.

Products and Technology

Livelink Intranet, the Company's enterprise-wide workgroup product solution, employs an architecture that enables organizations to connect standard desktop computers, networks, databases and servers in organization-wide network applications with integrated search, collaboration, workflow and document management functions. *Livelink* supports a variety of computing platforms including servers such as NT, Sun, Hewlett Packard and Siemens Nixdorf Inc. and clients such as Microsoft Windows NT, Microsoft Windows 95, Apple Macintosh, and popular UNIX workstations.

Open Architecture. *Livelink Intranet* is fully Web-based and open-architected to ensure very rapid deployment, requiring just a standard Web browser on users' desktops to access its full functionality .

Livelink Intranet includes:

- *Livelink Search* enables users to find and retrieve information and documents using an index of the organization's network and other Web sites and enables the organization to make selected documents and information available to the public over the Internet. *Livelink Search* consists of publicly available Internet protocol software, the Company's search engine, the Company's crawlers that create and maintain the index, an application programming interface that permits integration of the Company's indexing and search technology with network- and Web-based applications and administrative tools that track and monitor the use of the index.
- *Livelink Library* allows an organization to store, manage and retrieve documents of any type. The *Livelink library* also controls access to documents and document modifications and tracks and manages the complete version history of all documents. In addition, *Livelink Library* provides a complete audit history of documents, manages the sometimes complex relationships and interdependency of documents and other data, and permits users to conduct searches based on document contents and attributes.
- *Livelink Workflow* enables users to design and diagram the steps necessary to complete a projector work process. The software also routes personalized instructions, documents and other objects to each workflow participant and automatically moves the work item to the next step in the workflow based on the action or decision of the previous workflow participant. Managers can monitor the status of workflows to determine whether schedules are being met and which tasks are completed, late or have yet to begin.
- *Livelink Project Collaboration* enables users to form "virtual" teams that allow members to collaborate with others in the group regardless of where they physically reside. Team members are able to share and discuss documents and manage and track project-related tasks and workflows.
- *Livelink WorkSmart* is a technology option integrated with the *Livelink Intranet* suite providing SGML document management capabilities .

Search and Retrieval Technology

Development History. The Company's full text indexing and search technology evolved out of the work of the Oxford English Dictionary project undertaken at the University of Waterloo in 1984 and completed in 1989. This project, undertaken in cooperation with Oxford University Press, IBM and the Government of Canada, required the development of technology suitable for searching large databases containing complex, multilingual, highly irregular data structured in SGML format. Recent increases in

computing speeds, memory size and hard drive capacity and reductions in the cost of memory have increased the size of data files that can be built and processed economically, making string search technology practical and cost effective.

Structured Documents and SGML. The Company's search engine differs from conventional technologies in that it recognizes that documents are often characterized by complex structures. For example, documents often contain titles, headings, sections, subsections and paragraphs. The Company's search engine can search any number of different user-defined document structures without loss of performance. It fully supports SGML, the key international standard for structured documents.

Indexing. Most information retrieval products, including those developed by the Company, automate the index-building function. The *Livelink Search* component of the suite creates and maintains indexes through the use of "crawlers", software programs that search for and retrieve material to be indexed. Crawlers move from site to site, automatically identifying documents that need to be included or updated in the index. The Company's crawlers are designed to be "intelligent", avoiding duplicated material and updating material based in part on an assessment of its relevancy. Thus, new data added to a database can be added to the index without re-indexing the entire database. Deleted data similarly is removed from the index.

Workflow and Document Management Technology

Livelink Intranet is an off-the-shelf intranet application suite that provides a scaleable, collaborative environment supporting thousands of users and hundreds of gigabytes of information. With just a Web browser and a password, workgroups and managers working from anywhere in the world can use the fully integrated *Livelink* services for project collaboration, search, workflow and document management.

Leveraging a scaleable, relational database architecture, *Livelink Intranet* is highly extensible and customizable through the use of the Livelink SDK. Livelink SDK consist of the *Livelink API's* and the *Livelink Components Builder*, an object oriented application development environment designed specifically for building collaborative intranet solutions. *Livelink Component Builder* offers customers the ability to customize and extend the features of *Livelink Intranet* to meet their particular needs. *Livelink Component Builder* provides OScript, a robust, Java-like extensible scripting language for developing application logic, a graphical window painter with object and color palettes and object workspaces for managing objects in *Livelink*.

Engines and APIs. The *Livelink API* is a set of APIs that provide programmatic access to the rich functionality of Livelink's search, collaboration, workflow and document management engines via the C, C++, Java and Visual Basic programming languages. The *Livelink API* allows application designers the ability to integrate *Livelink's* robust search, collaboration, document management and workflow capabilities with other enterprise systems such as a company's financial, manufacturing or email systems.

Applications of Livelink

Livelink applications have been deployed for such varied uses as creating and updating operational manuals and safety information in the utilities industry; managing compliance with FAA-mandated air-worthiness directives in the airline industry; creating and monitoring clinical trial data and developing new drug applications in the pharmaceutical industry; managing engineering drawings and change control in the telecommunications industry; creating and managing standard operating procedures in the high-tech manufacturing industry; and developing and managing proposals in the aerospace industry.

Sales and Marketing

The Company's strategy is to achieve broad market penetration by employing multiple distribution channels, including direct sales, distributors, OEMs and VARs. The Company believes that the selected distribution channels will enable the Company to effectively market its wide range of products.

Direct Sales. The Company employs a direct sales force to market its products and component technology. Prior to June 1995, the Company employed three sales personnel and had two sales offices. As of September 1, 1997, the Company's world wide sales force was 25 sales representatives in 18 cities.

Distributors. The Company has distribution agreements with both Canon and Nissho Iwai, under which both companies market the Company's products in Japan.

OEMs. The Company markets its products to selected OEMs, including independent software vendors, in order to embed its products and technologies in products marketed by companies with particular access to specific target markets or large installed customer bases. As previously noted, the Company recently updated its agreement with Netscape to bundle its software with Suitespot on servers being shipped commencing September 1997. The Company also entered into an OEM agreement with Siemens Nixdorf Inc. to market its products in Europe.

VARs. VARs, including systems integrators, customize, configure and install the Company's software products with complementary hardware, software and services. In combining these products and services, the VARs are able to deliver complete information management solutions to address specific customer needs. The Company entered distribution agreement with Netsys Technology Group AB ("Netsys") to market its product in Scandinavia. Netsys is a Swedish service provider for on-line services.

International Sales. In order to support its international sales effort, the Company has sales offices in England, Switzerland and The Netherlands. The Company also contracts with distributors in Japan to market its products to the Japanese market. In addition, the Company maintains relationships with OEMs and VARs in other Pacific Rim nations. *Livelink* has been internationalized to accommodate characters in all European languages except Russian. German language and Japanese Kanji versions are also available.

The Company's revenues have been generated through relatively large sales to a relatively small number of customers. No one customer accounted for greater than 10% of revenue in 1997.

Investments

Deja News Corporation. The Company owns less than 20% of the stock of Deja News Corporation ("Deja News"). Deja News provides an index for searching Internet newsgroups on its own home page which is listed on the Netscape Navigator under the "Directory Search" button.

MacRAE's O.E.M. Mart, Inc. The Company currently owns a majority interest in MacRAE's O.E.M. Mart, Inc., ("MacRAE's") which publishes and sells the industrial directory, "MacRAE's Blue Book." The Company is currently negotiating with the management of MacRAE's to reduce this holding to less than 50 percent.

General Internet Inc. The Company has a right to a minority interest in General Internet, a United States based Internet service development company.

Customer Support and Professional Services

The Company believes that its ability to offer a high level of customer support and service is critical to its success. Most of the Company's customer support service activities are provided through telephone support, and the Company is able to service most software problems remotely. The Company's major products are typically sold with an annual maintenance contract. The annual service fee typically is 15% of the total list price of the software system purchased and entitles the customer to remote support, product updates and maintenance releases. For additional fees, the Company offers training and consulting services and provides integration services for the purpose of customizing the Company's software to specific customer needs. The Company also maintains a "business partner support program" that provides training and support for OEMs and VARs. The Company is expanding its customer support and professional services staff. As of September 1, 1997, the Company employed 51 customer support and professional services personnel.

Competition

The markets for the Company's products are new, intensely competitive, subject to rapid technological change and evolving rapidly. The Company expects competition to increase in the future as the markets for the Company's products continue to develop and as additional companies enter each of its markets.

As a result of *Livelink Intranet* suite's broad spectrum of functionalities, it has a number of competitors for each of its aspects. In the market for workflow and document management software, the Company competes with vendors of document management software, including Documentum, Inc., FileNet Corporation, Interleaf, Inc., and PC DOCS, Inc. The Company also competes with collaboration software solutions such as Attachmate's Open Mind product and the RadNet products. The industry may also position *Livelink* as a product that competes with established systems such as IBM's Lotus Notes and its Domino product for the Web and systems from Novell, Inc. and Oracle Corporation. The Company believes that the principal competitive factors in this market include the full support for intranets, functionality of the document management solution, integration of document management with workflow management applications and related enabling technologies, vendor and product reputation, product quality and performance, OEM and other relationships with providers of database and information systems to organizations, quality of product support, and price. The Company believes that *Livelink* competes favorably on the basis of these factors relative to its competition and is particularly well-suited for applications involving or requiring full support for intranet environments on an enterprise-wide scale. The Company's competitors can be expected to enhance their existing products or to develop new products that will further integrate workflow, document management and collaborative computing features.

In the market for information search and retrieval software, the Company indirectly competes with AltaVista Internet Software, Inc., Excalibur Technologies Corporation, Fulcrum Technologies, Inc., Information Dimensions, Inc., Personal Library Software, Inc., Verity, Inc. and others. The Company also competes indirectly with database vendors that offer information search and retrieval capabilities with their core database products. In the future, the Company may encounter competition from companies that enhance products such as document management systems, groupware applications, Internet products and operating systems to include information search and retrieval functions. The Company believes that the principal competitive factors in this market include the ability to search large amounts of data rapidly without degradation in performance, the ability to find and view information on disparate platforms in a variety of formats and locations, vendor and product reputation, the ability to index information comprehensively, ease of use, product architecture, product quality and performance, quality of product support and price. The Company believes that its search and retrieval technology competes favorably relative to its competition with respect to these factors.

In April 1996, Microsoft also introduced Microsoft Exchange Server which includes "groupware" functions such as search and collaboration. Microsoft can be expected to provide internet and intranet

software as well as document management and other collaborative computing software that will compete directly with the Company's products. In addition, Microsoft offers Internet browser software free of charge under certain circumstances, which resulted in competing providers of browser software to significantly reduce or eliminate charges for such software. The Company's ability to market *Internet Anywhere* was so adversely affected that the Company has stopped marketing *Internet Anywhere*. Similar marketing strategies by Microsoft or others may adversely effect other products of the Company.

Oracle announced InterOffice, its scaleable, Web-based collaboration software which provides corporate intranets with e-mail, scheduling, workflow and document management services, and announced a strategy to deliver a comprehensive product line to enable full-service intranets. Oracle can be expected to provide intranet software as well as document management and collaborative computing software that will compete directly with the Company's products.

The Company's markets are the subject of intense industry interest, and the Company is aware of numerous other major software developers as well as smaller entrepreneurial companies that are focusing significant resources on developing and marketing software products and services that will compete with the Company's products and services. Numerous releases of products and services that compete with those of the Company can be expected in the near future. Certain of the Company's current and potential competitors may bundle their products with other software in a manner that may discourage users from purchasing products offered by the Company. Many of the Company's current and potential competitors in each of its markets have longer operating histories and significantly greater financial, technical and marketing resources, name recognition and installed product base than the Company. There can be no assurance that the Company will be able to compete effectively with current and future competitors. If significant price competition were to develop, the Company would likely be forced to lower its prices, which could have a material adverse effect on the Company's business, operating results and financial condition.

Product Development

As of September 1, 1997, the Company's research and development organization included 78 employees. The Company's current product development efforts are focused on enhancing and broadening its information search, work process management and information distribution products. Areas of particular emphasis are the continued development of the capability of *Livelink* to operate on intranets and the Internet and the integration of technologies acquired in certain of the Acquisitions with the Company's other technologies and products. See "Management's Discussion and Analysis of Financial Condition and Results of Operation —Overview." Improvement of search engine speed, development of more efficient Web crawler technology, integration of relational database management systems with the Company's software and enhancements of the user interfaces for all of the Company's products are other areas of ongoing activity for the product development organization. The Company intends to enhance *Livelink Intranet* suite by increasing its ability to handle larger and more complex environments. See "Forward- Looking Statements".

The Company's ability to successfully develop and release new products and product enhancements in a timely manner is subject to a variety of factors, including its ability to solve technical problems and test products, competing priorities of the Company, the availability of development and other resources and other factors outside the control of the Company. There can be no assurance that the Company will not experience difficulties that could delay or prevent the successful development, introduction or marketing of new products and product enhancements. See "Risk Factors - New Product Development and Technological Change."

Intellectual Property Rights

The Company's search engine technology was comprised of software owned by the Company or licensed to it. Dr. Gaston Gonnet and Dr. Frank Tompa, inventors of an early version of the search technology, sold all rights to the software and technology and licensed it to the Company.

The Company's software products are generally licensed on a nonexclusive basis for internal use in a customer's organization. The Company also grants to third parties rights to market certain of its products either nonexclusively or under a limited-scope exclusive right to a particular application of the product(s) or to a particular geographic area. See "Sales and Marketing."

The Company relies on a combination of copyright, trademark and trade secret laws, non-disclosure agreements and other contractual provisions to establish and maintain its proprietary rights. The Company has not sought patent protection for its products. Enforcement of the Company's intellectual property rights may be difficult, particularly in some nations outside of the United States and Canada in which the Company seeks to market its products. Certain of the Company's license arrangements have involved the Company's agreement to make a limited confidential disclosure of portions of the source code for its products, or to place such source code into an escrow for the protection of the other party. Despite the precautions taken by the Company, it may be possible for unauthorized third parties to copy certain portions of the Company's products or to reverse engineer or obtain and use information that the Company regards as proprietary. Also, there can be no assurance that the Company's competitors will not independently develop technologies that are perceived substantially equivalent or superior to the Company's technologies. While the Company's competitive position may be affected by its ability to protect its intellectual properties, the Company believes that such protection is less significant to the Company's success than other factors such as the knowledge, ability and experience of the Company's personnel, name recognition and ongoing product development and support. Although the Company does not believe it is infringing on the intellectual property rights of others, claims of infringement are becoming increasingly common as the industry develops and related legal protections, including patents, are applied to software products.

Sie-Base Technology Corporation, a privately held company located in Colorado ("Sie-Base"), has registered the term "Opentext" in The Supplemental Register of the US Patent and Trademark Office. The Company believes that it has established a distinctive identification for its products and services through its use in the United States of the mark "Open Text" and related marks and that Sie-Base has not established such an identification. The Company has applied for registration of trademarks incorporating the term "Open Text" and, if necessary, will challenge the registration of Sie-Base, although there can be no assurance that the Company will be successful. Absent a favorable resolution, the Company may be limited in its ability to operate or market products in the United States under the name Open Text.

There can be no assurance that third parties will not assert infringement claims against the Company in the future, or that any such assertion will not result in litigation or require the Company to obtain a license for the intellectual property rights of others. There can be no assurance that such licenses will be available on reasonable terms or at all.

Risk Factors

Prospective investors should consider carefully the following factors, as well as all of the other information set forth herein, in evaluating an investment in the Company's Common Stock.

Limited Operating History; Losses; Accumulated Deficit; Increased Expenses

The Company was founded in June 1991 and commenced shipment of its initial products in September 1991. The current versions of the Company's principal products were released during fiscal 1996 and thereafter, and the Company completed seven acquisitions. Accordingly, the Company has only a limited operating history upon which an evaluation of its business and prospects can be based. The Company has incurred net losses in each of the last four fiscal years and expects that it will continue to incur net operating losses at least through part of fiscal 1998. As of June 30, 1997, the Company had an accumulated deficit of \$59.8 million. The Acquired Businesses also sustained substantial losses prior to their acquisition by the Company. There can be no assurance that the Company can continue to generate substantial revenue growth, or that any revenue growth that is achieved can be sustained. In addition, the

Company has increased, and plans to increase further, its operating expenses in order to fund higher levels of research and development, increase its sales and marketing efforts, develop new distribution channels, broaden its customer support capabilities and increase its administrative resources in anticipation of future growth. To the extent that increases in such expenses precede or are not subsequently followed by increased revenues, the Company's business, operating results and financial condition will be materially adversely affected. There can be no assurance that the Company will achieve or sustain profitability. In addition, in view of recent revenue growth, the rapidly evolving nature of its business and markets, its short operating history and its completion of the acquisitions of the Acquired Businesses, the Company believes that period-to-period comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

Unproven Acceptance of the Company's Products and Services; Developing Market

The Company's principal products or product versions have been introduced only recently. The Company is working on the development of improvements to and new versions of its *Livelink* suite of products. In the past, the Company has at times experienced longer than anticipated installation times for new products as they are being integrated into customer networks, and as problems were discovered with the software, as frequently occurs with new software releases. There can be no assurance that, despite testing by the Company, errors will not be found in new software products or improvements to existing products after release, or, if discovered, that the Company will be able to successfully correct such errors in a timely manner, or at all. If the Company is unable to successfully market its current products and services, develop new software products and services and enhancements to current products and services, correct errors and complete customer installations on a timely basis or complete products and services currently under development, or if the Company's products and services or enhancements do not achieve market acceptance, the Company's business, operating results and financial condition will be materially adversely affected.

The primary market for the Company's software and services has only recently begun to develop and is rapidly evolving. As is typical in the case of a new and rapidly evolving industry, demand for and market acceptance of products and services that have been released recently or that are planned for future release are subject to a high level of uncertainty. If the markets for the Company's products and services fail to develop, develop more slowly than expected or become saturated with competitors, or if the Company's products and services do not achieve market acceptance, the Company's business, operating results and financial condition will be materially adversely affected.

Management of Growth

In the past year, the Company has experienced rapid growth in revenues, research and development activities and product distribution channels. In addition, the Company's markets have evolved, and continue to evolve, at a rapid pace. The total number of employees of the Company has grown from 32 as of January 31, 1995 to 295 as of September 1, 1997. The Company believes that continued growth in the breadth of its product lines and services and in the number of personnel will be required to establish and maintain the Company's competitive position.

The Company's growth, coupled with the rapid evolution of the Company's markets, has placed, and is likely to continue to place, significant strains on its administrative and operational resources and increased demands on its internal systems, procedures and controls. The Company acted to focus its efforts on the *Livelink* product suite and to consolidate the operations of certain of the Acquired Businesses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview". There can be no assurance that the Company's administrative infrastructure, systems, procedures and controls will adequately support the Company's operations or that Company management will be able to achieve the rapid, effective execution of the product and business initiatives necessary to successfully penetrate the markets for the Company's products and services. If the Company is unable to manage growth effectively, the Company's business, operating results and financial condition will be materially adversely affected.

New Product Development and Technological Change

The Company's success will depend on its ability to design, develop, test, market, sell and support new software products and enhancements of current products on a timely basis in response to both competitive products and evolving demands of the marketplace. In addition, new software products and enhancements must remain compatible with standard platforms and file formats. Presently, the Company is continuing to develop the capability for *Livelink* to enable users to form workgroups and collaborate on intranets and the Internet. The Company increasingly must integrate software licensed from third parties with its own software to create or improve intranet and Internet products. These projects are key to the success of the Company's strategy, and there can be no assurance that the Company will be successful in developing and marketing these and other new software products and enhancements. If the Company is unable to successfully integrate the technologies licensed from third parties, to develop new software products and enhancements to existing products or to complete products currently under development, or if such integrated or new products or enhancements do not achieve market acceptance, the Company's business, operating results and financial condition will be materially adversely affected.

Potential Acquisitions, Investments, Joint Ventures and Other Business Initiatives

The Company continues to seek out opportunities to acquire or invest in businesses, products and technologies that expand, compliment or are otherwise related to the Company's current business or products. The Company also considers from time to time opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. The Company believes that these efforts may result in the formation, together with third parties, of new business units or joint ventures involving substantial investment of funds and/or technology transfers, the acquisition or disposition of product lines or businesses or other initiatives. Such acquisitions, investments, joint ventures or other business initiatives may involve significant commitments of financial and other resources of the Company. There can be no assurance that any such activity will be successful in generating revenue, income or other returns to the Company, or that financial or other resources committed to such activities will not be lost. Such activities also could place significant strains on the Company's administrative and operational resources and its ability to manage growth.

Dependence on the Internet; Uncertain Adoption of the Internet as a Medium of Communications and Commerce

Rapid growth in interest in and use of the Internet is a recent phenomenon. The market for certain of the Company's products and services are highly dependent upon the increased use of the Internet for information publication and distribution and commercial applications. Critical issues concerning the commercial use of the Internet, including capacity, security, reliability, cost, ease of use, access, quality of service and acceptance of advertising, remain unresolved. If widespread commercial use of the Internet does not develop, the Company's business, operating results and financial condition could be materially adversely affected.

Third Party Software

Developments of Internet and intranet applications by companies, including by the Company, must rely on the stability, functionality and scalability of the infrastructure software of the underlying intranet, such as that of Netscape, Microsoft and others. There can be no assurance that if weaknesses in third party software are detected, the Company will be able to correct or compensate for such weaknesses. If the Company is unable to address weaknesses resulting from problems in the infrastructure software such that the Company's products do not meet customer needs or expectations, the Company's business, operating results and financial condition will be materially adversely affected.

Competition; New Entrants

The markets for the Company's products are new, intensely competitive, subject to rapid technological change and evolving rapidly. The Company expects competition to persist, increase and intensify in the future as the markets for the Company's products continue to develop and as additional companies enter each of its markets. Among others, Microsoft, Netscape and Oracle have launched or announced major initiatives in the markets for internet and intranet software and services. Numerous releases of products and services that compete with those of the Company can be expected in the near future. There can be no assurance that the Company will be able to compete effectively with current and future competitors. If these or other competitors were to engage in such pricing policies with respect to other competing products, or significant price competition were to otherwise develop, the Company would likely be forced to lower its prices, which could have a material adverse effect on the Company's business, operating results and financial condition. See "Competition."

Liquidity and Capital Resources

The Company's cash and marketable securities and working capital were \$31.8 million and \$33.4 million, respectively, at June 30, 1997. During the year ended June 30, 1997, the Company's operations used cash in the amount of \$15.3 million. The Company anticipates increased expenses in fiscal 1998. To date, the Company's operations have not generated sufficient cash to meet its requirements, and the Company has relied principally on the sale of securities to meet its cash needs. The Company believes that the current cash balance and revenues will be sufficient to meet its cash requirements in fiscal 1998. See "Forward-Looking Statements." However, the Company regularly evaluates acquisitions, investments, joint ventures and other business initiatives, and cash expenditures for acquisitions, investments, joint ventures and other business initiatives or unanticipated expenses could create a need for additional financing. In addition, if the Company's operations do not begin to generate cash sufficient to satisfy its needs, the Company would require additional financing. There can be no assurance that such financing would be available if required. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

Dependence on the Adoption of intranets; Uncertain Adoption of intranets

The Company will rely heavily on the development of markets for products that support or increase the functionality of private Internet-protocol networks, or "intranets," with respect to its *Livelink* Product Suite. The Company has developed an Internet-protocol version of *Livelink* and focused its resources on its intranet software products. These products will be marketed to organizations with intranets or that are considering the creation of intranets. There are a number of concerns, including concerns relating to the effectiveness of technologies providing security for information resident on the organization's network, that may inhibit organizations from creating intranets. There can be no assurance that intranets will be adopted by large numbers of organizations, that organizations will seek to enable users to collaborate over intranets or that the Company's products will appeal to organizations that do so. If intranets are not adopted by large numbers of organizations, or if organizations adopting intranets do not select the Company's products, the Company's business, operating results and financial condition will be materially adversely affected.

Potential Fluctuations in Quarterly Operating Results

The Company has experienced, and is likely to continue to experience, significant fluctuations in quarterly operating results caused by many factors, including changes in the demand for the Company's products, the introduction or enhancement of products by the Company and its competitors and market acceptance of those enhancements or products, delays in the introduction of products or enhancements by the Company or its competitors, customer order deferrals in anticipation of upgrades and new products, changes in the Company's pricing policies or those of its competitors, the mix of distribution channels through which products are sold, the mix of products and services sold, the mix of international and North

American revenues, foreign currency exchange rates and general economic conditions. The results of operations of the Acquired Businesses also have fluctuated and are likely to continue to fluctuate from period to period due to factors similar to those that have affected the Company.

A significant portion of the Company's historical revenues have been derived from relatively large sales to a limited number of customers, and the Company currently anticipates that future results will continue to reflect this trend. Because the decision by a customer to purchase the Company's products often involves relatively large-scale implementation across the customer's network or networks, sales of these products may entail a significant commitment of resources by prospective customers, accompanied by the attendant risks and delays frequently associated with significant expenditures and lengthy sales cycle and implementation procedures. If installation of the Company's products in one or more customers takes longer than originally anticipated, the date on which revenue from these sales could be recognized would be delayed. Like many other software companies, the Company has generally recognized a substantial portion of its revenues in the last quarter of each year and in the last weeks of each quarter. Accordingly, the cancellation or deferral of even a small number of purchases or delay in installations of the Company's products could have a material adverse effect on the Company's business, results of operations and financial condition in any particular quarter. The Company also has noted historically lower sales in July and August than in other months, which has resulted in proportionately lower sales in the quarter ended September 30 than in other quarters. Because of the Company's limited operating history, the impact of the timing of product introductions and the rapid evolution of the Company's business and the markets it serves, the Company cannot predict whether seasonal patterns experienced in the past will continue. Due to all of the foregoing, the Company believes that its quarterly operating results could vary significantly in the future.

Intellectual Property Rights

The Company is highly dependent on its ability to protect its proprietary technology. There can be no assurance that the Company's efforts to protect its intellectual property rights will be successful. The Company relies on a combination of copyright, trademark and trade secret laws, non-disclosure agreements and other contractual provisions to establish and maintain its proprietary rights. The Company has not sought patent protection for its products. Enforcement of the Company's intellectual property rights may be difficult, particularly in some nations outside of the United States and Canada in which the Company seeks to market its products. Despite the precautions taken by the Company, it may be possible for unauthorized third parties, including competitors, to copy certain portions of the Company's products or to reverse engineer or obtain and use information that the Company regards as proprietary. Although the Company does not believe that its products infringe on the rights of third parties, there can be no assurance that third parties will not assert infringement claims against the Company in the future, or that any such assertions will not result in costly litigation or require the Company to obtain a license for the intellectual property rights of third parties. There can be no assurance that such licenses will be available on reasonable terms, or at all. Another company has registered the trademark "Opentext" in the United States. See "Intellectual Property Rights."

Dependence on Key Personnel; Recent Hires

The Company's performance is substantially dependent on the performance of its executive officers and key employees, most of whom have worked together for a relatively short period of time. The Company added Brett Newbold as President in July 1997. A number of other key executive officers and management personnel have joined the Company over the past year. The loss of the services of any of its executive officers or other key employees could have a material adverse effect on the business, operating results or financial condition of the Company. The Company does not maintain "key person" life insurance policies on any of its employees. The Company's success is highly dependent on its continuing ability to identify, hire, train, retain and motivate highly qualified management, technical and sales and marketing personnel, including recently hired officers and other employees. Competition for such personnel is intense, and there can be no assurance that the Company will be able to attract, assimilate or

retain highly qualified technical and managerial personnel in the future. Keith Soley, the Company's former Chief Operating Officer left his position with the Company during the first quarter of fiscal 1998.

Possible Volatility of Stock Price

The market price of the Common Shares has been highly volatile and subject to wide fluctuations. Such fluctuations in market price may continue in response to quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many high technology companies and that often have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations or any failure of the Company's operating results in a particular quarter to meet market expectations may adversely affect the market price of the Common Shares. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would have a material adverse effect on the Company's business, operating results and financial condition.

Item 2. Properties

The Company leases 32,000 square feet of office space at its Waterloo headquarters pursuant to a lease which terminates on June 30, 2003. The Company also leases 10,000 square feet in a nearby building pursuant to a lease which terminates on June 30, 1999. The Company maintains an office of approximately 39,000 square feet in Bannockburn, Illinois for its product development, marketing, consulting, support, administration and sales operations which terminates on April 30, 2001. The Company also maintains Canadian field offices in Toronto and Ottawa, Ontario and Vancouver, British Columbia; US field offices in San Mateo, California, Bethesda, Maryland and Detroit, Michigan; and international field offices in London, England, Amsterdam, The Netherlands and St. Gallen, Switzerland. The current annualized total rent for the Company is approximately \$1.3 million.

Item 3. Legal Proceedings

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

The following table sets forth certain information as to the executive officers of the Company as of September 1, 1997.

<u>Name</u>	<u>Age</u>	<u>Title</u>
P. Thomas Jenkins.....	37	Chief Executive Officer
Brett Newbold.....	45	President
Daniel Cheifetz.....	49	Executive Vice President, Software Development
William N. Stirlen.....	58	Chief Financial Officer
Anthony Heywood.....	43	Managing Director, European Operations
Abraham Kleinfeld.....	39	Senior Vice President, Marketing and Corporate Development
Kirk Roberts.....	36	Vice President, Livelink Solutions and Online Services
Marco Palatini.....	44	Director, Central Europe

P. Thomas Jenkins has served as a director of the Company since December 1994 and as Chief Executive Officer of the Company from July 1997. From March 1995 to July 1997, he served as President and Chief Executive Officer of the Company. From January 1995 until March 1995, he served as the acting President of the Company. From July 1994 to June 1996, Mr. Jenkins also served as the Chief Operating Officer of the Company. From August 1993 until June 1994, he served as the Senior Vice President, Sales and Marketing, of DALSA, Inc., an electronic imaging manufacturer (“DALSA”). From December 1989 until August 1993, Mr. Jenkins served as the Vice President/General Manager of DALSA.

Brett Newbold has served as President of the Company since July 1997. Mr. Newbold joined Oracle Corporation in 1990 and was most recently Vice President of the ConText Division where he managed the development of RDBMS-based, linguistically aware, text management software. In 1986, Mr. Newbold founded Lexpertise Linguistic Software in Neuchatel, Switzerland.

Daniel Cheifetz has served as a director of the Company since October 1995. From February 1992 until October 1995, Mr. Cheifetz served as the President and Chief Executive Officer of Odesta, which was acquired by the Company in October 1995. From May 1982 until February 1992, Mr. Cheifetz served as the President of Odesta Corporation, the predecessor to Odesta, which Mr. Cheifetz founded in May 1982.

William N. Stirlen has served as the Chief Financial Officer of the Company since June 1996. From 1993 to 1994, Mr. Stirlen served as Chief Financial Officer of Supercuts, Inc. From 1991 to 1993, Mr. Stirlen served as Chief Financial Officer of Trimble Navigation, Ltd., a supplier of commercial navigation, positioning and communication data products.

Anthony Heywood has served as Managing Director, European Operations since June 1997. From November 1995 to May 1997, Mr. Heywood was Vice President Europe/World-Wide Acquisitions for Platinum Technology. Mr. Heywood was European Managing Director for Locus Computing Corporation from 1991 to 1995. He has also held positions with Uniplex, Logica, Comshare and Zilog.

Abraham Kleinfeld has served as Senior Vice President, Marketing and Corporate Development of the Company since August 1997. Prior to this, he served as Vice President, US Sales. Mr. Kleinfeld was Vice President of Worldwide Sales at Odesta prior to its acquisition by Open Text in October 1995 and had previously held sales and marketing positions at Oracle Corporation, Computer Consoles, Inc. and Wang Laboratories.

Kirk Roberts has 12 years experience in the development, deployment and management of on-line collaboration, intranet and Internet services. He joined the Company in 1996 and served as Vice President, Network Services prior to taking on his current position of Vice President, Livelink Solutions and Online Services in August 1997. Mr. Roberts has worked extensively on the technical and human challenges of effective global networking. He has advised and consulted on networking initiatives in over 30 countries.

Marco Palatini has served as a director of the Company since November 1995 and as the Director, European Operations for the Company from October 1995 to June 1997 and as Director, Central Europe since July 1997. From December 1988 until October 1995, Mr. Palatini served as the Chief Executive Officer of Intunix, which he founded in December 1988.

PART II

Item 5. Market for Registrant's Common Equity and Related Stock Matters

The Common Stock began trading on the NASDAQ National Market on January 23, 1996 under the symbol "OTEXF" and has been trading there since that time. The following table sets forth the high and low closing bid price for the Common Stock, as reported by NASDAQ, for the periods indicated below. The prices set forth below reflect interdealer quotations, without retail markups, markdowns, fees or commissions and do not necessarily reflect actual transactions.

	<u>High</u>	<u>Low</u>
Year Ending June 30, 1997		
Fourth Quarter	10.25	6.63
Third Quarter	10.25	6.86
Second Quarter	8.38	4.88
First Quarter	10.00	4.19
Year Ending June 30, 1996		
Fourth Quarter	15.00	8.88
Third Quarter (commencing January 23, 1996)	21.75	10.00

On September 19, 1997, the closing bid price of the Company's Common Stock on NASDAQ was \$14.25 per share. At September 19, 1997, there were approximately 351 shareholders of record of the Company's Common Stock.

Exchange Controls and Other Limitations Affecting Holders of Common Shares

Investment Canada Act

Canada has no system of exchange controls. There is no law, government decree or regulation in Canada restricting the export or import of capital or affecting the remittance of dividends, interest or other payments to a non-resident holder of Common Shares, other than withholding tax requirements. See "Certain Tax Considerations—Canadian Federal Income Tax Considerations."

There is no limitation imposed by Canadian law or by the articles or other charter documents of the Company on the right of a non-resident to hold or vote Common Shares or Preferred Shares of the Company with voting rights (collectively, "Voting Shares"), other than as provided in the Investment Canada Act (the "Investment Act"), as amended by the World Trade Organization Agreement Implementation Act (the "WTOA Act"). The Investment Act generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture that is not a "Canadian," as defined in the Investment Act (a "non-Canadian"), unless, after review, the minister responsible for the Investment Act is satisfied that the investment is likely to be a net benefit to Canada. An investment in Voting Shares of the Company by a non-Canadian (other than a "WTO Investor," as defined below) would be reviewable under the Investment Act if it were an investment to acquire control of the Company, and the value of the assets of the Company were \$5.0 million or more. Except for certain economic sectors with respect to which the lower threshold aforementioned would apply, an investment in Voting Shares of the Company by a WTO Investor would be reviewable under the Investment Act if it were an investment to acquire direct control of the Company, and the value of the assets of the Company equaled or exceeded \$172 million. A non-Canadian, whether a WTO Investor or otherwise, would acquire control of the Company for purposes of the Investment Act if he or she acquired a majority of the Voting Shares of the Company. The acquisition of less than a majority, but at least one-third of the Voting Shares of the Company, would be presumed to be an acquisition of control of the Company, unless it could be established that the Company was not controlled in fact by the acquirer through the ownership of Voting Shares. In general, an individual is a WTO Investor if he or she is a "national" of a country (other than Canada) that is a member of the World Trade

Organization (“WTO Member”) or has a right of permanent residence in a WTO Member. A corporation or other entity will be a WTO investor if it is a “WTO investor-controlled entity” pursuant to detailed rules set out in the Investment Act. The United States is a WTO Member.

Certain transactions involving Voting Shares of the Company would be exempt from the Investment Act, including: (a) an acquisition of Voting Shares of the Company if the acquisition were made in connection with the person’s business as a trader or dealer in securities; (b) an acquisition of control of the Company in connection with the realization of a security interest granted for a loan or other financial assistance and not for any purpose related to the provisions of the Investment Act; and (c) an acquisition of control of the Company by reason of an amalgamation, merger, consolidation or corporate reorganization, following which the ultimate direct or indirect control in fact of the Company, through the ownership of voting interests, remains unchanged.

Strategic Technologies Program

The Company is a member of a research consortium that has received a commitment from the Canadian government funding through the Strategic Technologies Program (the “STP”). The Company received \$100,000 in fiscal 1997 from the STP for work performed under the program. The program completion date was March 31, 1997. As a condition to such funding, recipients are prohibited from undergoing any change in control or material change in ownership, management or financing without the prior written consent of the Minister of Industry, Science and Technology (the “Minister”). Failure to comply with this restriction could result in the suspension of additional funding, the repayment of funding received to date under the STP and the assignment to the Minister of all equipment acquired and technology and intellectual property developed using such funding.

Canadian Federal Income Tax Considerations

The following summary is based upon the current provisions of the *Income Tax Act* (Canada) (the “ITA”) and the regulations thereunder, all proposed amendments to the ITA and the regulations thereunder publicly announced by the Department of Finance, Canada prior to the date hereof, the current published administrative and assessing practices of Revenue Canada, Customs, Excise and Taxation (“Revenue Canada”), the Canada-United States Income Tax Convention (1980) (the “Convention”), and the amendments to the Convention contained in a protocol (the “Protocol”) signed by Canada and the United States on March 17, 1995 and ratified on November 9, 1995. Except for the foregoing, this summary does not take into account or anticipate changes in the law or the administrative or assessing practices of Revenue Canada whether by legislative, governmental or judicial action and does not take into account or anticipate provincial, territorial or foreign tax considerations.

This summary relates to the principal Canadian income tax considerations under the ITA and the regulations thereunder generally applicable to purchasers of Common Shares hereunder who: (i) for purposes of the ITA, are not, have not been and will not be or be deemed to be resident in Canada at any time while they held or hold Common Shares, deal at arm’s length with the Company, will hold their Common Shares as capital property, and do not use or hold, and will not and will not be deemed to use or hold their Common Shares in, or in the course of carrying on a business in Canada through a permanent establishment or in connection with a fixed base in Canada, and (ii) for purposes of the Convention, are residents of the United States and not residents of Canada.

Amounts in respect of Common Shares paid or credited or deemed to be paid or credited as, on account or in lieu of payment of, or in satisfaction of, dividends to a non-resident holder will generally be subject to Canadian non-resident withholding tax. Such withholding tax is levied at a basic rate of 25% which may be reduced pursuant to the terms of an applicable tax treaty between Canada and the country of residence of the non-resident holder. Currently, under the Convention, the rate of Canadian non-resident withholding tax on the gross amount of dividends beneficially owned by a person who is a resident of the

United States for the purpose of the Convention and who does not have a “permanent establishment” or “fixed base” in Canada is 15%. However, pursuant to the Protocol, where such beneficial owner is a company which owns at least 10% of the voting stock of the Company, the rate of such withholding is 5% for dividends paid after 1996. The 15% rate is unaffected by the Protocol.

A purchase of Common Shares by the Company (other than a purchase of Common Shares by the Company on the open market in the manner in which shares would be purchased by any member of the public in the open market) will give rise to a deemed dividend under the ITA equal to the difference between the amount paid by the Company on the purchase and the paid-up capital of such shares determined in accordance with the ITA. The paid-up capital of such shares may be less than the non-resident holder’s cost of such shares. Any such dividend deemed to have been received by a non-resident holder will be subject to a non-resident withholding tax as described above. The amount of any such deemed dividend will reduce the proceeds of disposition of the Common Shares to the non-resident holder for purposes of computing the amount of the non-resident holder’s capital gain or loss under the ITA.

A holder who is not resident in Canada for purposes of the ITA will generally not be subject to tax under the ITA in respect of any capital gain or entitled to deduct any capital loss realized on a disposition of Common Shares unless at the time of such disposition such Common Shares constitute “taxable Canadian property” of the holder for purposes of the ITA and the holder is not entitled to relief under the Convention. If the Common Shares are listed on a prescribed stock exchange (which includes the NASDAQ National Market) at the time they are disposed of, they will generally not constitute “taxable Canadian property” of the non-resident holder at the time of a disposition of such shares unless such holder uses or holds or is deemed to use or hold such shares in or in the course of carrying on business in Canada or, at any time during the five year period immediately preceding the disposition of the Common Shares, 25% or more of the issued shares of any class or series of the Company were owned by the non-resident holder, by persons with whom the non-resident holder did not deal at arm’s length or by the non-resident holder and persons with whom the non-resident holder did not deal at arm’s length. In any event, under the Convention, gains derived by a resident of the United States from the disposition of Common Shares will generally not be taxable in Canada unless such U.S. resident has a permanent establishment or fixed base in Canada or unless the value of the Common Shares is derived principally from real property situated in Canada.

When a non-resident holder dies holding Common Shares, such holder will be deemed to have disposed of such Common Shares for an amount equal to the fair market value thereof immediately before such holder’s death and will be subject to the tax treatment with respect to dispositions described above. Any person who acquires such Common Shares as a consequence of the death of such holder will be deemed to have acquired such shares for their fair market value at that time.

United States Federal Income Taxation

The following discussion summarizes certain tax considerations relevant to an investment in the Common Shares by individuals and corporations who, for income tax purposes, are resident in the US and not in Canada, hold Common Shares as capital assets, do not use or hold the Common Shares in carrying on a business through a permanent establishment or in connection with a fixed base in Canada and, in the case of individual investors, are also U.S. citizens (collectively, “Unconnected U.S. Shareholders”). The tax consequences of an investment in the Common Shares by investors who are not Unconnected U.S. Shareholders may be expected to differ substantially from the tax consequences discussed herein. The discussion is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), the Convention between Canada and the United States of America with respect to Taxes on Income and on Capital (the “Convention”), the administrative practices published by the U.S. Internal Revenue Service, and judicial decisions, all of which are subject to change. This discussion does not consider the potential effects, both adverse and beneficial, of any recently proposed legislation which, if

enacted, could be applied, possibly on a retroactive basis, at any time. The discussion does not take into account the tax laws of the various state and local jurisdictions of the US.

Unconnected US Shareholders generally will treat the gross amount of dividends paid by the Company equal to the U.S. dollar value of such dividends on the date of receipt (based on the exchange rate on such date), without reduction for the Canadian withholding tax, as dividend income for US federal income tax purposes to the extent of the Company's current or accumulated earnings and profits. However, the amount of Canadian tax withheld (and, with respect to the foreign tax credit, in the case of certain US shareholders that are corporations owning 10% or more of the Common Shares, a portion of the Canadian income tax paid by the Company) generally will give rise to a foreign tax credit or deduction for US federal income tax purposes. Investors should be aware that dividends paid by the Company generally will constitute "passive income" for purposes of the foreign tax credit, which could reduce the amount of foreign tax credit available to a US shareholder. The Code applies various limitations on the amount of foreign tax credit that may be available to a US taxpayer. Investors should consult their own tax advisors with respect to the potential consequences of those limitations. Dividends paid on the Common Shares will not generally be eligible for the "dividends received" deduction. An investor which is a corporation may, under certain circumstances, be entitled to a 70% deduction of the US source portion of dividends received from the Company if such investor owns shares representing at least 10% of the voting power and value of the Company. To the extent that distributions exceed current or accumulated earnings and profits of the Company, they will be treated first as a return of capital, up to the investor's adjusted basis in Common Shares, and thereafter as gain from the sale or exchange of the Common Shares.

In the case of foreign currency received as a dividend that is not converted by the recipient into U.S. dollars on the date of receipt, an Unconnected US Shareholder will have a tax basis in the foreign currency equal to its US dollar value on the date of receipt. Any gain or loss recognized upon a subsequent sale or other disposition of the foreign currency, including an exchange for US dollars, will be ordinary income or loss.

The sale of Common Shares generally will result in the recognition of gain or loss to the holder in an amount equal to the difference between the amount realized and the holder's adjusted basis in the Common Shares. Pursuant to the Taxpayers Relief Act of 1997, the first capital gains tax rate cut since 1981 uses a two-tier approach. Generally effective for tax years ending May 6, 1997, the maximum tax rate on net capital gains is reduced from 28 percent to 20 percent while the rate for individuals currently paying a 15 percent tax on capital gains is reduced to 10 percent. From May 7, 1997 to July 28, 1997, the lower rates apply to assets held for more than 12 months. Effective July 29, 1997 the new preferential rates apply only to assets held more than 18 months; gains from capital gains held more than 12 months but not more than 18 months still qualify for the 28 percent top rate as before. These reduced rates also apply for AMT purposes.

Corporate capital losses are deductible to the extent of capital gains. Non-corporate taxpayers may deduct excess capital losses, whether short-term or long-term, up to US\$3,000 a year (US\$1,500 in the case of a married individual filing separately). Non-corporate taxpayers may carry forward unused capital losses indefinitely. Unused capital losses of a corporation (other than a Subchapter S corporation) may be carried back three years and carried forward five years.

In general, dividends paid on Common Shares will not be subject to information reporting or US backup withholding tax provided the dividends are not considered a "reportable event". However, dividends paid, and the proceeds of a sale of Common Shares, in the United States through a US or US-related paying agent (including a broker) will be subject to US information reporting requirements and to a 31 percent backup withholding tax, unless the paying agent is furnished with a completed Form W-9. US corporations furnishing correct documentation will qualify as exempt recipients for backup withholding and information reporting purposes. Any amounts withheld under the US backup withholding tax rules will be allowed as a refund or a credit against the Unconnected US Shareholder's US federal income tax liability, provided the required information is furnished to the Internal Revenue

Service. It should be noted that proposed US Treasury Regulations expand the definition of a “reportable payment”.

Personal Holding Companies

A corporation, whether a U.S. corporation or non-U.S. corporation, may be classified as a personal holding company (a “PHC”) for U.S. federal income tax purposes if both of the following tests are satisfied: (i) if at any time during the last half of the Company’s taxable year, five or fewer individuals (without regard to their citizenship or residency) own or are deemed to own (under certain attribution rules) more than 50% of the stock of the corporation by value (the “PHC Ownership Test”) and (ii) such non-U.S. corporation receives 60% or more of its U.S. related gross income, as specifically adjusted, from certain passive sources such as royalty payments (the “PHC Income Test”). Such a corporation is taxed (currently at a rate of 39.6%) on its undistributed PHC income, in addition to “regular” income tax. The foreign tax credit is not allowed against PHC income.

The Company does not believe that it currently satisfies the PHC Income Test and intends to manage its affairs so as to avoid becoming a PHC, to the extent consistent with its business goals.

Foreign Personal Holding Company

A non-US corporation (other than tax-exempt organizations and certain banks) may be classified as a foreign personal holding company (a “FPHC”) for US federal income tax purposes if both of the following tests are satisfied: (i) at any time during the Company’s taxable year, five or fewer individuals who are U.S. citizens or residents own or are deemed to own (under certain attribution rules) more than 50% of all classes of the corporation’s stock measured by voting power or value (the “FPHC Ownership Test”) and (ii) the corporation receives at least 60% (50% in later years) of its gross income (regardless of source), as specifically adjusted, from certain passive sources (the “FPHC Income Test”).

The Company does not believe that it satisfies either the FPHC Ownership Test or the FPHC Income Test. If the Company were to be classified as an FPHC, a portion of its “undistributed foreign personal holding company income” (as defined for U.S. federal income tax purposes) would be imputed to all of its shareholders who are U.S. holders of Common Shares on the last day of the Company’s taxable year, or, if earlier, the last day on which it is classified as an FPHC. Such income would be taxable as a dividend, even if no cash dividend is actually paid. U.S. holders who dispose of their Common Shares prior to such date would not be subject to tax under these rules.

Passive Foreign Investment Company

A non-U.S. corporation will be classified as a passive foreign investment company (a “PFIC”) for U.S. federal income tax purposes if it satisfies either of the following two tests: (i) 75% or more of its gross income for the taxable year is passive income or (ii) on average for the taxable year (by value or, if the Company so elects, by adjusted basis), 50% or more of its assets produce or are held for the production of passive income.

The Company does not believe that it satisfies either of the tests for PFIC status. If the Company were to be a PFIC for any taxable year, U.S. investors would be required to either (i) pay an interest charge together with tax calculated at maximum ordinary income rates on certain “excess distributions” (defined to include gain on a sale or other disposition of Common Shares), or (ii) if a Qualified Electing Fund (“QEF”) election is made, to include in their taxable income certain undistributed amounts of the Company’s income.

Controlled Foreign Corporation

If more than 50% of the voting power of all classes of stock or the total value of the stock of the Company is owned, directly or indirectly, by citizens of the US, US domestic partnerships and corporations or estates or trusts other than foreign estates or trusts, each of whom owns 10% or more of the total combined voting power of all classes of stock of the Company (“US Shareholders”), the Company could be treated as a “controlled foreign corporation” under Subpart F of the Code. This classification would have many complex results, including the required inclusion by such U.S. Shareholders in income of their pro rata shares of “Subpart F income” (as specifically defined by the Code) of the Company. In addition, under Section 1248 of the Code, gain from the sale or exchange of Common Shares by a holder who is or was a US Shareholder at any time during the five-year period ending with such sale or exchange would be treated as dividend income to the extent of earnings and profits of the Company attributable to the stock sold or exchanged. The Company does not believe that it is a controlled foreign corporation.

Dividend Policy

The Company has never paid cash dividends on its capital stock. The Company currently intends to retain earnings, if any, for use in its business and does not anticipate paying any cash dividends in the foreseeable future.

Item 6. Selected Consolidated Financial Data

The following table sets forth selected consolidated financial data of the Company for the periods indicated. The financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the Consolidated Financial Statements of the Company and Notes thereto.

	Fiscal Year Ended June 30,				
	1993(2)	1994(2)	1995	1996(3)	1997
	(in thousands, except per share data)				
Statement of Operations Data:					
Total revenues	\$	\$	\$	\$	\$
		1,728			22,648
Gross profit	1,193	1,534	2,098	6,183	15,169
Operating expenses:					
Research and development	169	503	709	4,531	6,612
Sales and marketing	557	889	1,565	8,466	16,638
General and administrative	663	689	783	3,658	4,648
Amortization, including acquired research and development	41	67	144	30,793	1,689
Restructuring reserve	-	-	-	3,428	650
Total operating expenses	<u>1,430</u>	<u>2,148</u>	<u>3,201</u>	<u>50,876</u>	<u>30,237</u>
Loss from operations	(237)	(614)	(1,103)	(44,693)	(15,068)
Other income	-	-	-	145	57
Interest income	-	-	-	1,478	1,944
Interest expense	(91)	(96)	(108)	(129)	(148)
Loss for the year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
		(710)			(13,215)
Loss per share	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Weighted average Common Shares outstanding ⁽¹⁾	<u>1,580</u>	<u>1,894</u>	<u>3,243</u>	<u>12,042</u>	<u>16,866</u>
	June 30				
	1993(2)	1994(2)	1995	1996(3)	1997
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	-	-	-	\$ 51,139	\$ 31,762
Working capital	\$ 200	\$ 394	\$ (124)	48,892	33,413
Total assets	1,456	1,814	2,597	66,158	52,345
Long-term liabilities	54	282	157	742	511
Shareholders’ equity	470	758	404	55,550	42,455

Footnotes to Selected Financial Data:

- (1) See Note 2 of Notes to Consolidated Financial Statements for a description of the calculation of the weighted average number of Common Shares outstanding used in computing loss per share.
- (2) Canadian dollar amounts from prior periods have been translated into United States dollars solely for the convenience of the reader at the average rate for the relevant period, in the case of the statement of operations data, and the relevant year-end rate, in the case of the balance sheet data. These translations are not necessarily representative of the amounts that would have been reported if the Company historically had reported its financial statements in United States dollars. The exchange rates used are not necessarily indicative of rates in effect at any other time.
- (3) Reflects the results of the Acquired Businesses from the time of acquisition. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Overview” and Note 18 of Notes to Consolidated Financial Statements.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Open Text Corporation develops, markets, licenses and supports software for use on intranets, local and wide area private networks and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes and distribute or make available to users across networks or the Internet the resulting work product and other information. Historically, the Company has focused its resources on developing and marketing information search and retrieval products. The Company has since substantially broadened its technology base and product offering, and strengthened its sales and marketing, distribution and customer support capabilities through internal growth and acquisitions.

The Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be considered in the light of the risks, expenses and difficulties frequently encountered by companies seeking to introduce new products into new and rapidly evolving markets. To address these risks and uncertainties, the Company must, among other things, successfully market its existing products and technologies and complete and introduce products and product enhancements under development in a timely manner, continue to upgrade and commercialize its technologies, and attract, retain and motivate highly qualified personnel and manage rapid growth. There can be no assurance that the Company will successfully address these challenges. The Company has incurred losses in each of its last five fiscal years and as at June 30, 1997, had an accumulated deficit of \$59.8 million. The Company is presently operating at a loss, and there can be no assurance that the Company will be able to achieve or sustain profitability.

During 1996, the Company completed the Acquisitions of seven businesses. See "Business — Acquisitions" and Note 18 of Notes to Consolidated Financial Statements for additional information concerning the Acquisitions. The results of operations of the Acquired Businesses are included in the Company's results of operations from the dates of the Acquisitions. The Acquisitions have been accounted for under the purchase method of accounting and resulted in the allocation of an aggregate of approximately \$30.5 million to intangible assets during the year ended June 30, 1996. Of this amount, an aggregate of \$27.6 million was allocated to purchased research and development and, under US GAAP, was charged immediately to expense.

The Company's strategy in acquiring certain of the Acquired Businesses was principally to acquire technology which the Company believed could be adapted and integrated with the Company's existing products and technologies to develop information management software solutions applicable to intranets and the Internet. See "Business - Acquisitions", "Business - Product Development" and Note 18 of Notes to Consolidated Financial Statements. In order to complete the development of these products, the Company has pursued several significant research and development projects. The Company substantially modified and expanded Odesta's *Livelink* technology to render it compatible with Internet protocols and with the Company's information search and retrieval technology. The initial release of an integrated product took place in the spring of 1996. Further integration and improvements to the product continued to require the efforts of a substantial portion of the Company's research and development personnel. The Company integrated and plans to continue to integrate, technologies acquired with certain of the Acquired Businesses into its *Livelink Intranet* suite product. See "Business - Acquisitions" and "Business - Product Development." The cost of these integration activities are included in research and development expenses. The Company's estimates of the feasibility of research and development projects and the time and resources necessary to complete them are subject to a variety of uncertainties inherent in software research and development projects and may change as the projects proceed. See "Forward-Looking Statements;" "Business - Product Development"; "Business - Risk Factors"; and "Business - New Product Development and Technological Change". There can be no assurance that the Company will successfully complete all or any of these research and development projects in a timely manner or at all.

Overview (continued)

A number of competitive developments in certain of the Company's markets at the end of fiscal 1996, together with the recognition of the need to integrate and consolidate the activities of the Acquired Businesses resulted in a decision by the Company to focus its efforts on its *Livelink* product line that has been integrated with the Company's search technology and modified to be compatible with Internet protocols. After its initial release, customer interest in the *Livelink Intranet* product suite was substantial. Initial customer installations, however, proceeded more slowly and required more resources than anticipated as the Company resolved installation issues and retained and trained newly-hired employees and employees of the Acquired Businesses to support full scale *Livelink* deployments. Further, the Company concluded that the market for intranet software presented an excellent market opportunity, but the likelihood of intense competition was foreseen. As a result, the Company concluded that focusing its technical, research and development, sales and marketing and management resources on the *Livelink* product line would enhance the product's market penetration.

In order to concentrate on the intranet market opportunity for *Livelink*, the Company stopped marketing the *PC Search* product developed from technology acquired with Intunix and stopped offering its *Open Text 5* search engine as a stand-alone product. As a result of intensely competitive pricing practices of competitors with respect to Internet browsers and access software, the Company became unable to charge a price for its *Internet Anywhere* product that covered the cost of sales of the product. Accordingly, the Company ceased marketing the product. The Company also determined that the level of expenditure and commitment of management and technical resources required to compete for advertising revenues with several well-financed providers of Internet search services was not justified by the advertising revenues being generated by the *Open Text Index* or likely to be generated in the future. Accordingly, the Company de-emphasized the development of the *Open Text Index* as a means of generating advertising revenue. The Company continues to make the *Open Text Index* service available to users of the Internet and to certain customers of its *Livelink* search product.

As a part of its integration of the activities of the Acquired Businesses, and focusing its activities on its intranet-related products and services, the Company incurred a pre-tax restructuring charge of \$3.4 million during the quarter ending June 30, 1996. Included in this charge was a \$1.3 million expense relating to the phase out of *Internet Anywhere* retail activity, and a provision of \$2.1 million related to fixed assets and leases involved consolidation of operations. During the quarter ending September 30, 1996, the Company announced the termination of a number of employees, which resulted in a charge to income of \$650,000 for severance compensation and benefits in accordance with US GAAP requirements. The restructuring was completed during the fourth quarter of fiscal 1997. The amount of the restructuring charges were equal to the costs of the restructuring.

The Company continues to seek out opportunities to acquire or invest in businesses, products and technologies that expand, compliment or are otherwise related to the Company's current business or products. The Company also considers from time to time opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. Such acquisitions, investments, joint ventures or other business initiatives may involve significant commitments of financial and other resources of the Company. There can be no assurance that any such activity will be successful in generating revenue, income or other returns to the Company, or that financial or other resources committed to such activities will not be lost.

Results of Operations

During the year ended June 30, 1997, the Company sustained a loss of \$13.2 million, or \$0.78 per share.

Results of Operations (continued)

The following table presents, for the periods indicated, certain components of the selected financial data of the Company as a percentage of total revenues:

	For Year Ended June 30,		
	1997	1996	1995
Revenues:			
License.....	60.6%	65.8%	69.8%
Service.....	39.4	34.2	30.2
Total revenues.....	100.0	100.0	100.0
Cost of revenues:			
License.....	3.7	17.2	1.0
Service.....	29.3	20.9	14.4
Total cost of revenues.....	33.0	38.1	15.4
Gross profit.....	67.0	61.9	84.6
Operating expenses:			
Research and development.....	29.2	45.3	28.6
Sales and marketing.....	73.5	84.7	63.1
General and administrative.....	20.5	36.6	31.6
Amortization.....	7.4	308.1	5.8
Restructuring.....	2.9	34.3	—
Total operating expenses.....	133.5	509.0	129.1
Loss from operations.....	(66.5)	(447.1)	(44.5)
Other income.....	0.3	1.4	—
Interest income.....	8.6	14.8	—
Interest expense.....	(0.7)	(1.3)	(4.3)
Loss for the year.....	<u>(58.3)%</u>	<u>(432.2)%</u>	<u>(48.8)%</u>

Fiscal 1997 Compared with Fiscal 1996

Revenues. Total revenues include license revenues and service revenues which consists of consulting contracts, customer support agreements and training and integration services contracts. Contract revenues are derived from contracts to develop applications, conduct research and provide consulting services. Contract revenues are recognized under the percentage of completion method, using a methodology that accounts for costs incurred in relation to total value under the contract after providing for any anticipated losses under the contract. Revenues from customer support agreements, which are generally for a term not exceeding one year, are recorded as deferred revenue when the agreement is executed and are recognized on a pro rata basis over the term of the agreement. Payments under customer support agreements are generally made in advance. Revenues from training and integration services are recognized in the period in which the services are performed.

Total revenues increased 127% from \$10.0 million in the year ended June 30, 1996 to \$22.6 million in the year ended June 30, 1997. Revenues from licenses increased 109% from \$6.6 million in the year ended June 30, 1996 to \$13.7 million in the year ended June 30, 1997. The Company's information search and retrieval software and workflow, document management and collaborative computing software accounted for 90% of revenues from licenses in fiscal 1997, compared with 69% in fiscal 1996. Service revenues increased 160% from \$3.4 million in the year ended June 30, 1996 to \$8.9 million in the year ended June 30, 1997. The increase in service revenues was primarily attributable to an increase in integration services provided to new license customers and the increase in support contracts provided to new and existing customers.

Fiscal 1997 Compared with Fiscal 1996 (continued)

Cost of revenues. Cost of license revenues consists primarily of the costs of royalties payable to companies whose software is bundled in the Company's products, product media, duplication, manuals and packaging.

Cost of license revenues decreased from \$1.7 million in the year ended June 30, 1996 to \$848,000 in the year ended June 30, 1997, decreasing from 17.2% to 3.7% of total revenue. This was primarily due to decreased royalties payable as a result of the discontinuation of the Company's *Internet Anywhere* product at the end of fiscal 1996, as well as decreased packaging, and production costs after discontinuing *Internet Anywhere*.

Cost of service revenues consists primarily of the costs of integration, technical support personnel, product support and training. Cost of service revenues increased 217% from \$2.1 million in the year ended June 30, 1996 to \$6.6 million in the year ended June 30, 1997, primarily due to additional personnel required to support the expanded activities of the technical services department. Cost of service revenues as a percentage of total revenues increased from 20.9% in the year ended June 30, 1996 to 29.3% in the year ended June 30, 1997. The Company believes that it must continue to enhance its customer service and support capabilities as its customer base expands.

Research and development expenses. The following table sets forth gross and net research and development expenditures and investment tax credits for the periods indicated:

	Year Ended June 30,	
	1997	1996
	(in thousands)	
Gross research and development expenditures	\$ 6,612	\$ 5,201
Investment tax credits	—	(670)
Net research and development expenditures	<u>\$ 6,612</u>	<u>\$ 4,531</u>
Gross research and development expenditures as a percentage of total revenues .	29.2%	52.0%
Net research and development expenditures as a percentage of total revenues	29.2%	45.3%

Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses and facilities and equipment costs. The Company presently expenses all research and development costs as incurred. See Note 2 of Notes to Consolidated Financial Statements.

Net research and development costs increased by 45.9% from \$4.5 million in the year ended June 30, 1996 to \$6.6 million in the year ended June 30, 1997 and decreased as a percentage of total revenues from 45.3% in the year ended June 30, 1996 to 29.2% in the year ended June 30, 1997. The absolute dollar amount spent on research and development continues to increase and reflects an increase in the number of personnel through hiring in support of the Company's research and development projects. See "Forward-Looking Statements".

As a Canadian Controlled Private Corporation ("CCPC"), the Company qualified for certain investment tax credits under the Income Tax Act (Canada) on eligible research and development expenditures. Prior to the Company's initial public offering in January 1996, refundable investment tax credits, which result in cash payments to the Company, have been recorded at a rate of 35% of eligible current research and development expenditures, and at a rate of 20% of eligible capital research and development expenditures, with an additional 10% recorded at the provincial level effective January 1, 1995. Prior to the Company's initial public offering, the Company was entitled to an investment tax credit

Fiscal 1997 Compared with Fiscal 1996 (continued)

at these rates for the first Cdn \$2.0 million of eligible current research and development expenditures and a further investment tax credit at the rate of 20% of eligible research and development expenditures in excess of Cdn \$2.0 million. Investment tax credits on current expenditures earned at the 35% rate are fully refundable to CCPCs. Investment tax credits earned by a CCPC on capital expenditures and investment tax credits earned at the 20% rate are refundable at a rate of 40% of the amount of the credit. The Company now earns investment tax credits at a rate of 20% of eligible current and capital research and development expenditures made after December 31, 1995. While a portion of investment tax credits earned when the Company was a CCPC were refundable, investment tax credits earned subsequent to December 31, 1995 may only be used to offset income taxes otherwise payable.

The Company believes that significant investments in research and development are required to remain competitive in the software business. As a consequence, the Company expects the absolute amount of its expenditures on research and development to continue to increase, mainly through the employment of additional development personnel.

Sales and marketing expenses. Sales and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for advertising, trade shows, cost of facilities and other expenses related to the sales and marketing of the Company's products and services. Sales and marketing expenses increased 96.5% from \$8.5 million in the year ended June 30, 1996 to \$16.6 million in the year ended June 30, 1997 but decreased as a percentage of total revenues from 84.7% in the year ended June 30, 1996 to 73.5% in the year ended June 30, 1997. The increase in absolute dollars was due principally to expenses associated with increases in the number of sales and marketing personnel and related salaries and commissions, as well as expenses related to marketing, public relations activities, marketing materials, advertising and trade shows to promote *Livelink*. Sales and marketing expenses can be expected to increase in absolute dollars consistent with the Company's increased sales and marketing efforts. See "Forward-Looking Statements".

General and administrative expenses. General and administrative expenses consist primarily of salaries of administrative personnel and related overhead and facilities expenses. General and administrative expenses increased 27% from \$3.7 million in the year ended June 30, 1996 to \$4.6 million in the year ended June 30, 1997 and decreased as a percentage of total revenues from 36.6% in the year ended June 30, 1996 to 20.5% in the year ended June 30, 1997. The increase in absolute dollars was attributable to an increase in salaries and other costs as the Company has grown in size and scope. The Company has increased the size of its management and administrative staff during the year and believes that the level of general and administrative expenses in future periods will increase in absolute dollars as the Company will install new management information systems and processes. See "Forward-Looking Statements".

Amortization expenses. Amortization expense was \$1.1 million in the year ended June 30, 1996 and increased to \$1.7 million in the year ended June 30, 1997 as a result of increased capital expenditures during the year. Amortization expense in fiscal 1996 included amounts relating to the Acquisitions, including the allocation of an aggregate of \$27.6 million to acquired research and development which was charged to expense at the dates of the respective Acquisitions. Amortization of purchased software and goodwill amounted to \$1.0 million and \$1.1 million, respectively including a charge at June 30, 1996 reflecting write-off of goodwill in connection with the Company's restructuring.

Other income. During fiscal 1997, the Company sold its investment in Yahoo! Corporation for a net gain of \$5.8 million. Also during the year, reserves were taken against the value of certain investments and other assets, including General Internet Inc. in the amount of \$3.9 million and MacRAE's O.E.M. Mart Inc. in the amount of \$815,000. This resulted in Other income of \$57,000. Other income for fiscal 1996 consisted principally of foreign exchange gains and gain on sale of fixed assets.

Fiscal 1997 Compared with Fiscal 1996 (continued)

Interest. Interest expense has been incurred by the Company under capital equipment leases. Interest expense was \$129,000 in the year ended June 30, 1996 compared to \$148,000 in the year ended June 30, 1997. The Company recorded interest income in the amount of \$1.5 million during the year ended June 30, 1996 which increased to \$1.9 million for the year ended June 30, 1997. See "Liquidity and Capital Resources."

Income taxes. A deferred tax asset of \$9.2 million and \$16.4 million existed as of June 30, 1996 and June 30, 1997 respectively. A valuation allowance is recorded against a deferred tax asset if it is more likely than not that the asset will not be realized. In accordance with US GAAP, a 100% valuation allowance has been recorded by the Company because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax asset under certain conditions.

Fiscal 1996 Compared with Fiscal 1995

Revenues. Total revenues increased 303% from \$2.5 million in the year ended June 30, 1995 to \$10 million in the year ended June 30, 1996. Revenues from licenses increased 280% from \$1.7 million in the year ended June 30, 1995 to \$6.6 million in the year ended June 30, 1996. The Company's information search and retrieval and workflow, document management and collaborative computing software accounted for 69% of revenues from licenses and *Internet Anywhere* accounted for 31%. Service revenues increased 357% from \$.7 million in the year ended June 30, 1995 to \$3.4 million in the year ended June 30, 1996. The increase in service revenues was primarily attributable to an increase in integration services provided to new license customers and the increase in support contracts provided to new and existing customers. Advertising revenue from the *Open Text Index* was not significant.

Cost of revenues. Cost of license revenues increased from \$24,000 in the year ended June 30, 1995 to \$1.7 million in the year ended June 30, 1996, increasing from 1% to 17.2% of total revenue. The increase was primarily due to increased royalties payable to companies whose software is being bundled in the Company's *Internet Anywhere* product, as well as packaging, and production costs relating to *Internet Anywhere*.

Cost of service revenues increased 486% from \$357,000 in the year ended June 30, 1995 to \$2.1 million in the year ended June 30, 1996, primarily due to additional personnel required to support the expanded activities of the technical services department. Cost of service revenues as a percentage of total revenues increased from 14.4% in the year ended June 30, 1995 to 20.9% in the year ended June 30, 1996.

Research and development expenses. The following table sets forth gross and net research and development expenditures and investment tax credits for the periods indicated:

	Year Ended June 30,	
	1996	1995
	(in thousands)	
Gross research and development expenditures	\$ 5,201	\$ 1,087
Investment tax credits	(670)	(378)
Net research and development expenditures	<u>\$ 4,531</u>	<u>\$ 709</u>
Gross research and development expenditures as a percentage of total revenues .	52.0%	43.8%
Net research and development expenditures as a percentage of total revenues	45.3%	28.6%

Net research and development costs increased by 539.1% from \$709,000 million in the year ended June 30, 1995 to \$4.5 million in the year ended June 30, 1996 and increased as a percentage of total revenues from 28.6% in the year ended June 30, 1995 to 45.3% in the year ended June 30, 1996. The

Fiscal 1996 Compared with Fiscal 1995 (continued)

increase was the result of an increase in compensation expense as the Company significantly increased the number of research and development personnel through hiring and the Acquisitions in support of the Company's research and development projects.

Sales and marketing expenses. Sales and marketing expenses increased 441% from \$1.6 million in the year ended June 30, 1995 to \$8.5 million in the year ended June 30, 1996 and increased as a percentage of total revenues from 63.1% in the year ended June 30, 1995 to 84.7% in the year ended June 30, 1996. The increase was due principally to expenses associated with increases in the number of sales and marketing personnel and related salaries and commissions, as well as expenses related to marketing public relations activities, marketing materials and trade shows to promote product introduction. Commencing in June 1995, the Company significantly increased the number of sales and marketing personnel in North America and Europe, both through new hires and through the Acquisitions.

General and administrative expenses. General and administrative expenses increased 367% from \$783,000 in the year ended June 30, 1995 to \$3.7 million in the year ended June 30, 1996 and increased as a percentage of total revenues from 31.6% in the year ended June 30, 1995 to 36.6% in the year ended June 30, 1996. The increase was attributable to the Acquisitions, an increase in professional fees relating to legal proceedings, an increase in occupancy costs as the Company has grown in size and scope, and an increase in bad debt expense resulting from a higher level of receivables.

Amortization expenses. Depreciation expense was \$144,000 in the year ended June 30, 1995 and increased to \$1.1 million in the year ended June 30, 1996. This increase was primarily attributable to equipment purchased to support ongoing operations and the *Open Text Index*. The Acquisitions resulted in the allocation of an aggregate of \$27.6 million to acquired research and development which was charged to expense at the dates of the respective Acquisitions. Amortization of purchased software and goodwill amounted to \$1.0 million and \$1.1 million, respectively, in fiscal 1996, including a charge at June 30, 1996 reflecting write-off of goodwill in connection with the Company's restructuring reserve.

Interest. Interest expense has been incurred by the Company under its bank line of credit and capital equipment leases. Interest expense was \$129,000 in the year ended June 30, 1996 compared to \$108,000 in the year ended June 30, 1995, as the bank line of credit was paid off in August 1995, but interest on capital leases increased as additional equipment was put in place to support the *Open Text Index* and an increased number of employees. The Company recorded interest income in the amount of \$1.5 million during the year ended June 30, 1996 resulting from cash balances from sales of securities. See "Liquidity and Capital Resources". Interest expense for the year ended June 30, 1996 relates primarily to interest on capital equipment leases.

Income taxes. A deferred tax asset of \$9.2 million and \$628,000 existed as of June 30, 1996 and June 30, 1995, respectively. A 100% valuation allowance was recorded by the Company because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax asset under certain conditions.

Quarterly Results

The Company has experienced significant fluctuations in quarterly results that have been caused by many factors, including changes in demand for the Company's products, the introduction or enhancement of products by the Company and its competitors, market acceptance of those products or enhancements, delays in the introduction of products or enhancements by the Company or its competitors, delays involved in installing products with customers, the mix of distribution channels through which products are sold, the mix of products and services sold, the mix of international and North American revenues, the integration of the Acquired Businesses into the Company's operations and general economic

Quarterly Results (continued)

conditions. The results of operations of these businesses have also fluctuated from period to period due to factors similar to those that have affected the Company. As a result, the Company believes that period-to-period comparisons of its results of operations, either on an actual or pro forma basis, are not necessarily meaningful and should not be relied upon as any indication of future performance. In addition, like many other software companies, the Company has generally recognized a substantial portion of its revenues in the last quarter of each fiscal year and in the last weeks of each quarter. The Company's revenues for the quarter ended September 30 of each fiscal year generally have been lower than revenues for other quarters, however, it is uncertain whether this trend will continue in current or future periods. Due to all of the foregoing factors, the Company's operating results in a particular quarter may fail to meet market expectations. See "Business—Risk Factors—Potential Fluctuations in Quarterly Operating Results."

Liquidity and Capital Resources

To date, license and service revenues have been insufficient to satisfy the Company's cash requirements. The Company has financed its cash needs primarily through sales of securities.

At June 30, 1997, the Company had cash and cash equivalents of \$31.8 million, current assets of \$42.8 million and current liabilities of \$9.4 million. The Company has credit facilities of \$7.5 million, under which borrowings were insignificant at June 30, 1997.

In January 1996, the Company completed an initial public offering with net proceeds of \$61.4 million. The Company received net proceeds of approximately \$20.6 million from sale of securities in private placements during fiscal 1996 before completion of the public offering. Cash used by operations during the year ended June 30, 1997 was \$15.3 million. Sale of shares in Yahoo! Corporation generated \$6.3 million. Purchase of other investments and additions to other assets were \$1.4 million and \$6.0 million respectively. Acquisitions of furniture and equipment was \$2.6 million. Net cash used for the payment of capital lease obligations was \$828,000. During fiscal 1997, the Company advanced approximately \$4.0 million to General Internet Inc., a US based Internet service development company and converted these advances to a promissory note. In fiscal 1997, the Company, together with a company controlled by a director of the Company and individuals not related to the Company, incorporated MacRAE's O.E.M. Mart, Inc. ("MacRAE's") and loaned \$1.1 million to MacRAE's in the form of a subordinated debenture.

The Company had liabilities with respect to capital leases of \$941,000 at June 30, 1997, with a current portion of \$430,000 and operating lease obligations during fiscal 1997 of \$1.3 million. The Company anticipates additional capital expenditures for equipment as the number of employees increases and to meet new technology needs. In connection with the acquisition of Infodesign, the Company agreed, subject to the satisfaction of certain financial targets, to issue up to the 227,273 Common shares and pay up to an additional \$750,000 in cash. There has been no final determination as to whether amounts are owing. See Note 18 of Notes to Consolidated Financial Statements.

Since June 30, 1995, the Company has completed the Acquisitions, hired additional employees, increased its sales, marketing and promotional activities, increased occupancy costs and otherwise increased the level of its business activity. This has resulted, and will continue to result, in cash requirements that significantly exceed those of previous years. The Company believes that existing cash and revenue from operations, will be sufficient to satisfy the Company's cash requirements until at least June 30, 1998. See "Forward-Looking Statements". However, the Company regularly evaluates acquisitions, investments, joint ventures and other business initiatives, and cash expenditures for acquisitions, investments, joint ventures and other business initiatives or unanticipated expenses could create a need for additional financing. In addition, if the Company's operations do not begin to generate cash sufficient to satisfy its needs, the Company ultimately would require additional financing. There can be no assurance that such financing would be available if required. See "Business — Risk Factors — Liquidity and Capital Resources."

Effects of Foreign Currency Exchange Rates and Inflation

Approximately 39% of the Company's revenues in 1997 and 26% in 1996 has been earned in currencies other than the United States dollar. In fiscal 1997 and 1996, the effects of fluctuations in currency exchange rates were not material. A portion of the Company's operating expenses, however, has been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the United States dollar and other foreign currencies could materially affect the Company's results of operations. To date, the Company has not engaged in exchange rate hedging activities. To the extent that the Company implements hedging activities in the future with respect to foreign currency exchange transactions, there can be no assurance that the Company will be successful in such hedging activities.

While the Company believes that inflation has not had a material effect on its results of operations, there can be no assurance that inflation will not have a material effect on the Company's results of operations in the future.

Item 8. Financial Statements and Supplementary Data

<u>Index to Financial Statements and Supplementary Data</u>	<u>Page Number</u>
Management's Report.....	37
Auditor's Report by Price Waterhouse Chartered Accountants.....	38
Consolidated Balance Sheets as at June 30, 1997 and 1996.....	39
Consolidated Statements of Operations for the years ended June 30, 1997, 1996 and 1995.....	40
Consolidated Statements of Shareholders' Equity for the years ended June 30, 1997, 1996 and 1995.....	41
Consolidated Statements of Cash Flows for the years ended June 30, 1997, 1996 and 1995.....	42
Notes to Consolidated Financial Statements.....	43

Management's Report

Management is responsible for all the information and representations contained in the consolidated financial statements and other sections of this FORM 10-K. Management believes that the consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and appropriate in the circumstances to reflect in all material respects the substance of events and transactions that should be included, and that the other information in this FORM 10-K is consistent with those statements. In preparing the consolidated financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being accounted for.

In meeting its responsibility for the reliability of the consolidated financial statements, management depends on the Company's system of internal accounting control. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization, and are recorded properly to permit the preparation of consolidated financial statements in accordance with generally accepted accounting principles. In designing control procedures, management recognizes that errors or irregularities may nevertheless occur. Also, estimates and judgments are required to assess and balance the relative cost and expected benefits of the controls. Management believes that the Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

The Board of Directors pursues its oversight role for these consolidated financial statements through the Audit Committee, which is comprised solely of Directors who are not officers or employees of the Company. The Audit Committee meets with management periodically to review their work and to monitor the discharge of each of their responsibilities. The Audit Committee also meets periodically with Price Waterhouse, the independent auditors, who have free access to the Audit Committee of the Board of Directors, without management present, to discuss internal accounting control, auditing, and financial reporting matters.

Price Waterhouse is engaged to express an opinion on our consolidated financial statements. Their opinion is based on procedures believed by them to be sufficient to provide reasonable assurance that the consolidated financial statements are not materially misleading and do not contain material errors.

P. Thomas Jenkins
Chief Executive Officer

William N. Stirlen
Chief Financial Officer

August 15, 1997

Auditors' Report

To the Directors and Shareholders of
Open Text Corporation

We have audited the consolidated balance sheets of Open Text Corporation as at June 30, 1997 and 1996 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended June 30, 1997, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these 1997 and 1996 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 1997 and 1996 and the results of its operations and cash flows for the years ended June 30, 1997, 1996 and 1995 in accordance with accounting principles generally accepted in the United States.

Price Waterhouse
Chartered Accountants

Kitchener, Canada
August 15, 1997

OPEN TEXT CORPORATION
CONSOLIDATED BALANCE SHEETS
(In US Dollars)

	June 30,	
	1997	1996
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,762	\$ 51,139
Accounts receivable trade, net of allowance for doubtful accounts of \$350 in 1997 and \$433 in 1996	8,623	5,416
Prepaid expenses	1,852	846
Other current assets	555	1,357
Total current assets	42,792	58,758
Furniture and equipment (Note 3)	5,054	3,536
Other investments, at cost (market value \$1,591 for 1997 and \$6,946 for 1996)	1,591	2,227
Other assets	2,908	1,637
	\$ 52,345	\$ 66,158
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade and accrued liabilities (Note 5)	\$ 8,949	\$ 6,900
Provision for restructuring (Note 6)	—	2,339
Current portion of obligations under capital leases	430	627
Total current liabilities	9,379	9,866
Obligations under capital leases (Note 7)	511	742
Commitments (Note 10)		
Shareholders' equity:		
Share capital (Note 8)		
17,204,120 and 16,235,852 Common Shares issued and outstanding at June 30, 1997 and June 30, 1996 respectively	101,103	93,563
Other capital	2,076	9,116
Employee share purchase loans	(383)	(240)
Deficit	(59,764)	(46,549)
Cumulative translation adjustments	(577)	(340)
Total shareholders' equity	42,455	55,550
	\$ 52,345	\$ 66,158

OPEN TEXT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (In US Dollars)

	Year Ended June 30,		
	1997	1996	1995
	(in thousands, except share and per share data)		
Revenues:			
License	\$ 13,736	\$ 6,573	\$ 1,730
Service	8,912	3,422	749
Total revenues	22,648	9,995	2,479
Cost of revenues:			
License	848	1,719	24
Service	6,631	2,093	357
Total cost of revenues	7,479	3,812	381
Gross profit	15,169	6,183	2,098
Operating expenses:			
Research and development (Note 12)	6,612	4,531	709
Sales and marketing	16,638	8,466	1,565
General and administrative	4,648	3,658	783
Amortization, including			
acquired research and development	1,689	30,793	144
Restructuring reserve (Note 6)	650	3,428	—
Total operating expenses	30,237	50,876	3,201
Loss from operations	(15,068)	(44,693)	(1,103)
Other income (Note 11)	57	145	—
Interest income	1,944	1,478	—
Interest expense	(148)	(129)	(108)
Loss for the year	\$ (13,215)	\$ (43,199)	\$ (1,211)
Loss per share	\$ (0.78)	\$ (3.59)	\$ (0.37)
Weighted average number of Common Shares outstanding	16,865,644	12,042,006	3,242,963

OPEN TEXT CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In US Dollars)

	Common Shares		Other Capital		Employee Share Purchase Loans	Deficit
	Shares	Amount	Number	Amount		
				(in thousands)		
Balance as of June 30, 1994	2,055	\$ 1,793	—	\$ —	\$ —	(690)
Issuance of Common Shares	4,144	852	—	—	—	—
Repurchase of Common Shares	(75)	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—
Loss for the year	—	—	—	—	—	(1,211)
Balance as of June 30, 1995	6,124	2,645	—	—	—	(1,901)
Issuance of Special Warrants	—	—	2,403	8,673	—	—
Exercise of dissenters' rights	(391)	(131)	—	—	—	(1,389)
Issuance of Common Shares						
On conversion of special warrants	2,403	8,673	(2,403)	(8,673)	—	—
In connection with acquisitions	888	8,940	—	—	—	—
Under employee stock option plans	122	51	—	—	—	—
Under employee stock option plans in exchange for employee share purchase loans	1,675	240	—	—	(240)	—
In connection with private placements	1,182	11,956	—	—	—	—
From public offering, net of issuance cost of \$2,755	4,600	61,415	—	—	—	—
On reversal of dissenters' rights	391	131	—	—	—	1,389
Common Shares set aside in connection with acquisitions (Note 18)	—	—	883	9,116	—	—
Repurchase of Common Shares	(758)	(357)	—	—	—	(1,449)
Loss for the year	—	—	—	—	—	(43,199)
Balance as of June 30, 1996	16,236	93,563	883	9,116	(240)	(46,549)
Issuance of Common Shares						
Conversion of shares set aside including employee stock options	672	7,040	(672)	(7,040)	(143)	—
Under employee stock option plans	296	500	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—
Loss for the year	—	—	—	—	—	(13,215)

Balance as of June 30, 1997	17,204	\$	101,103	211	\$	\$	(383)	\$	(59,764)
	<u>17,204</u>		<u>\$ 101,103</u>	<u>211</u>			<u>(383)</u>		<u>\$ (59,764)</u>
							<u>2,076</u>		

OPEN TEXT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In US Dollars)

	Year Ended June 30,		
	1997	1996	1995
		(in thousands)	
Cash flows from operating activities:			
Loss for the year	\$ (13,215)	\$ (43,199)	\$ (1,211)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization, including acquired research and development	1,689	30,793	144
Write down of furniture and equipment	—	856	—
Changes in operating assets and liabilities:			
Accounts receivable.....	(3,207)	(4,168)	(573)
Prepaid expenses and other current assets	(204)	(584)	(104)
Provision for restructuring	(2,339)	—	—
Accounts payable - trade and accrued liabilities	2,049	3,949	573
Gain on sale of other investments	(45)	—	—
Net cash used in operating activities	(15,272)	(12,353)	(1,171)
Cash flows from investing activities:			
Acquisitions of furniture and equipment	(2,623)	(2,356)	(167)
Purchase of other businesses	—	(2,490)	—
Purchase of Odesta.....	—	(5,305)	—
Purchase of InfoDesign	—	(1,081)	—
Purchase of other investments	(1,389)	(2,227)	—
Proceeds of sale of other investments	6,345	—	—
Additions to other assets	(5,967)	(753)	—
Net cash used in investment activities	(3,634)	(14,212)	(167)
Cash flow from financing activities:			
Payment of long-term debt, including current portion	—	—	(109)
Payments of obligations under capital leases, including current portion	(828)	(944)	(131)
Proceeds from issuance of Special Warrants	—	8,673	—
Proceeds from issuance of Common Shares	500	73,661	852
Employee share purchase loans	(143)	(240)	—
Repurchase of Common Shares	—	(1,806)	—
Increase (decrease) in bank indebtedness.....	—	(1,640)	726
Net cash provided by financing activities	(471)	77,704	1,338
Increase in cash and cash equivalents during the period	(19,377)	51,139	—
Cash and cash equivalents at beginning of year	51,139	—	—
Cash and cash equivalents at end of year	\$ 31,762	\$ 51,139	\$ —

OPEN TEXT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1997

(in thousands, except share and per share data)

NOTE 1—NATURE OF OPERATIONS

Open Text Corporation (the "Company") develops, markets, licenses and supports software for use on intranets, extranets and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes and distribute or make available to users across networks or the Internet the resulting work product and other information. The Company markets and sells its software to commercial end users across many industries through mainly direct sales efforts in primarily North America, Europe and Asia. The Company's shares trade publicly on the NASDAQ Stock Market - National market, under the symbol OTEXF.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Reporting Currency

These consolidated financial statements are expressed in US dollars and are prepared in accordance with US generally accepted accounting principles. During 1996, the Company's functional currency changed from Canadian dollars to US dollars, as the greater part of its operations is denominated in US dollars.

Basis of consolidation

The consolidated financial statements include the accounts of Open Text Corporation and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated.

Accounting estimates

The preparation of financial statements in conformity with US generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

All highly liquid investments with an original maturity of three months or less at the date of acquisition are classified as cash equivalents.

Investment tax credits until December 31, 1995

The Company, as a Canadian Controlled Private Corporation ("CCPC") prior to offering its shares to the public, was entitled to an investment tax credit at a rate of 35% of the first Cdn \$2.0 million of eligible current research and development expenditures. Investment tax credits on current expenditures earned at the 35% rate are fully refundable to the Company. Investment tax credits earned on capital expenditures at a rate of 20% are refundable at a rate of 40% of the amount of the credit.

OPEN TEXT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1997

(in thousands, except share and per share data)

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent to December 31, 1995, the Company is entitled to an investment tax credit rate of 20% of eligible current research and development expenditures. The investment tax credit can be used to reduce tax otherwise payable. No investment tax credits have been recognized since December 31, 1995.

Furniture and equipment

Furniture and equipment are stated at cost and are depreciated on a declining balance basis over the estimated useful lives of the related assets, generally two to five years. Leased assets are amortized on a declining balance basis over the lesser of the estimated useful life or the lease term. Gains and losses upon asset disposal are taken into income in the year of disposition.

Revenue recognition

a) License revenues

License revenues consist primarily of revenues from software license agreements. Revenues from the sale of software products are recognized upon delivery of the product if remaining vendor obligations are insignificant and collection of the resulting receivable is probable.

b) Service revenues

Service revenues consist of revenues from consulting contracts, customer support agreements and training and integration services contracts. Contract revenues are derived from contracts to develop applications, conduct research and provide consulting services. Contract revenues are recognized under the percentage of completion method, using a methodology that accounts for costs incurred in relationship to total revenues under the contract after providing for any anticipated losses under the contract. Software maintenance revenues are deferred and recognized ratably over the life of the service contract. Revenues from training and integration services are recognized in the period in which the services are performed.

Research and development costs

Costs related to research, design and development of products are charged to research and development expense as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. To date, completing a working model of the Company's products and general release have substantially coincided. As a result, the Company has not capitalized any software development costs since such costs have not been significant.

Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities, measured at tax rates that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

OPEN TEXT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1997

(in thousands, except share and per share data)

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of credit risk

The Company maintains the majority of its cash and cash equivalents in US dollar denominated Canadian federal government securities or short-term, interest-bearing, investment-grade securities and demand accounts of a major Canadian chartered bank.

The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. The Company maintains allowances for potential losses, and such losses have been within management's expectations. One customer accounted for 14% of the accounts receivable balance as at June 30, 1997. Two customers accounted for 10% and 13% respectively of the accounts receivable balance at June 30, 1996. No single customer accounted for more than 10% of the accounts receivable balance at June 30, 1995.

Fair value of financial instruments

Carrying amounts of certain of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other liabilities approximate fair value due to their short maturities. Based upon borrowing rates currently available to the Company for loans with similar terms, the carrying value of capital lease obligations and amounts payable approximate fair value.

Foreign currency translation

Assets and liabilities of certain foreign subsidiaries, whose functional currency is the local currency, are translated from their respective functional currencies to US dollars at year-end exchange rates. Income and expense items are translated at the average rates of exchange prevailing during the year. The adjustment resulting from translating the financial statements of such foreign subsidiaries, when material is reflected as a separate component of shareholders' equity.

Employee stock option plans

The compensation cost associated with the Company's employee stock-based compensation plans are determined using the Fair Value measurement basis.

Computation of net loss per share

Net loss per share is computed using the weighted average number of shares of common and common stock equivalents outstanding. Common equivalent shares from stock options are excluded from the computation when their effect is antidilutive.

Recent accounting pronouncements

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings per share." SFAS No. 128 will be effective for fiscal years ending after December 15, 1997 and will require the Company to disclose basic and diluted earnings per share as well as reconcile the numerators and denominators of the basic and diluted earnings per share computations. The Company will adopt the provisions of this statement.

OPEN TEXT CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1997**

(in thousands, except share and per share data)

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)

In February 1997, the Financial Accounting Standards Board issued SFAS No. 129, “Disclosure of Information about Capital Structure.” SFAS No. 129 will be effective for fiscal years ending after December 15, 1997 and requires disclosure of information about securities, particularly dividend and liquidation preferences, participation rights and other rights. As the Company currently is authorized only to issue Common Shares, the provisions of this Statement do not have a significant impact.

In June of 1997, the Financial Accounting Standards Board issued SFAS No. 130 “Reporting Comprehensive Income.” SFAS No. 130 is effective for fiscal years beginning after December 15, 1997 and will require the Company to report all components of comprehensive income as well as a total amount of comprehensive income. The Company will adopt the provisions of SFAS No. 130 as they become effective, on a comparative basis.

In June of 1997, the Financial Accounting Standards Board issued SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997 and requires the Company to disclose information based on operating segments. The Company will adopt SFAS No. 131 as it becomes effective and the provisions of this statement would not significantly change currently reported segment information.

NOTE 3—FURNITURE AND EQUIPMENT

	<u>June 30, 1997</u>		
	<u>Cost</u>	<u>Accumulate d Depreciation</u>	<u>Net</u>
Furniture and fixtures	\$ 1,481	\$ 341	\$ 1,140
Office equipment	138	63	75
Computer hardware and software	4,619	1,875	2,744
Assets under capital leases	1,843	953	890
Leasehold improvements	279	74	205
	<u>\$ 8,360</u>	<u>\$ 3,306</u>	<u>\$ 5,054</u>
	<u>June 30, 1996</u>		
	<u>Cost</u>	<u>Accumulate d Depreciation</u>	<u>Net</u>
Furniture and fixtures	\$ 678	\$ 152	\$ 526
Office equipment	80	34	46
Computer hardware and software	2,444	755	1,689
Assets under capital leases	1,560	524	1,036
Leasehold improvements	255	16	239
	<u>\$ 5,017</u>	<u>\$ 1,481</u>	<u>\$ 3,536</u>

OPEN TEXT CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1997**

(in thousands, except share and per share data)

NOTE 4—BANK INDEBTEDNESS

The Company and its subsidiaries have credit facilities totaling \$7.5 million that are secured by a general security agreement. During 1997, 1996 and 1995, borrowings and interest cost on bank indebtedness were insignificant.

NOTE 5 - ACCOUNTS PAYABLE - TRADE AND ACCRUED LIABILITIES

Accounts payable - trade and accrued liabilities are as follows :

	Year Ended June 30,	
	1997	1996
Accounts payable - trade	\$ 1,234	\$ 1,569
Accrued trade liabilities	575	785
Amounts payable for acquisitions	1,037	1,527
Sales tax payable	662	—
Accrued salaries and commissions	1,237	303
Deferred revenue	1,857	554
Other liabilities	2,347	2,162
	\$ 8,949	\$ 6,900

NOTE 6—PROVISION FOR RESTRUCTURING

Restructuring of operations in 1996

As a result of the acquisitions made during fiscal 1996 and competitive factors in certain of the Company's markets, the Company initiated a plan in June of 1996 to eliminate redundancies by combining certain entities and exiting activities of the Company. Activities the Company exited include offering a retail Internet product, marketing PC Search acquired through Intunix, offering Open Text 5 search engine as a stand-alone product, and refocusing its Open Text Index from a source of revenue to support for other activities. The restructuring is now complete.

Severance and outplacement costs

As a result of the acquisitions made during fiscal 1996 and the decision to exit certain activities of the Company on September 12, 1996, the Company announced that certain technical support, customer service and administrative functions would be combined and reduced. A total of 36 employees were affected by the decision and those affected received their notices of termination on September 12, 1996. Total severance and outplacement costs were \$650. As of June 30, 1997, all employees had completed their final assignments.

OPEN TEXT CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1997**

(in thousands, except share and per share data)

NOTE 6—PROVISION FOR RESTRUCTURING (Continued)

A summary of the provision for restructuring is as follows:

	June 30, 1996	Additional provision	Cash payments	June 30, 1997
Loss on contracts of exited activities ...	\$ 1,639	\$ —	\$ (1,639)	\$ —
Costs to close facilities.....	700	—	(700)	—
Severance and out placement costs	—	650	(650)	—
	\$ 2,339	\$ 650	\$ (2,989)	\$ —

NOTE 7—OBLIGATIONS UNDER CAPITAL LEASES

Minimum non-cancelable capital lease obligations are as follows:

1998.....	\$ 468
1999.....	420
2000.....	138
	1,026
Less: Imputed interest.....	85
	941
Less: Current portion of obligations under capital leases	430
	\$ 511

Interest paid on capital leases amounted to \$80 in 1997, \$91 in 1996 and \$20 in 1995.

NOTE 8—SHARE CAPITAL

The authorized share capital of the Company is an unlimited number of Common Shares.

In November 1995, the shareholders of the Company approved a reverse stock split in the ratio of one Common Share for every two Common Shares outstanding as of that date. All share and earnings per share amounts have been restated to reflect this reverse stock split.

NOTE 9—OPTION PLANS

1992 Stock Option Plan

Under the 1992 employee stock option plan, options to acquire an aggregate of 299,000 Common Shares were granted at prices ranging from \$0.0001 to \$4.38 per share. The options expire from 1994 to 1998. In August 1995, the Board of Directors canceled all remaining unexercised options under the 1992 employee stock option plan.

OPEN TEXT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1997

(in thousands, except share and per share data)

NOTE 9—OPTION PLANS (Continued)

Miscellaneous Options

On March 22, 1995, fully vested options to acquire an aggregate of 1,520,000 Common Shares were granted to key officers at an exercise price of \$0.15 per share. All of the options were exercised in August 1995 with non-recourse, interest-free loans.

1995 Flexible Stock Incentive Plan

In June 1995, the Company adopted the 1995 Flexible Stock Incentive Plan (the "Incentive Plan") for employees, officers, directors and consultants. The plan allowed the grant of options to purchase an aggregate of 782,500 Common Shares, of which options to purchase an aggregate of 776,500 Common Shares were outstanding at June 30, 1995 at an exercise price of \$0.15 per share, subject to the vesting provisions of the plan.

Options granted under the Incentive Plan vest over a four or five year period. Under the Incentive Plan, options are exercisable for a period of up to seven years from the grant date. Vested options terminate immediately upon an optionee's termination "for cause" and 90 days after termination for any other reason. Unvested options terminate immediately upon the termination of an optionee's employment or service to the Company.

During October 1995, additional options to purchase 250,000, 37,000 and 18,500 Common Shares were granted under the Incentive Plan at exercise prices of \$3.87, \$9.93 and \$10.00, respectively.

The Company granted additional options arising from acquisitions under the Incentive Plan. A total of 25,578 options to purchase Common Shares were granted to shareholders of Intunix (see Note 18 - Acquisitions) at an exercise price of \$5.62 and vested as to 40% of the Common Shares immediately and the remainder will vest over four years at a rate of 15% per year. A total of 32,092 options to purchase Common Shares were granted to the shareholders of Network Software Group Inc. at an exercise price of \$10.75 and will vest over a four year period commencing June 21, 1996. A total of 21,521 options to purchase Common Shares were granted to the shareholders of NIRV Community Resource Centre at an exercise price of \$11.875 and vested immediately.

During fiscal 1997, additional new options to purchase 3,902,514 Common Shares were granted under the Incentive Plan at exercise prices between \$4.25 and \$10.25. The Board of Directors increased the number of Common Shares available under the 1995 Flexible Stock Incentive Plan to accommodate these grants.

1995 Replacement Stock Option Plan

In October 1995, the Company adopted the 1995 Replacement Stock Option Plan (the "Replacement Plan"). The Replacement Plan provides for the granting of options to purchase an aggregate of 548,255 Common Shares to directors, officers, employees and consultants of Odesta who held options under Odesta's stock option plan. Options to purchase 548,255 Common Shares have been issued at an exercise price of \$0.0005 per share and vest immediately.

OPEN TEXT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1997

(in thousands, except share and per share data)

NOTE 9—OPTION PLANS (Continued)

Under the Replacement Plan, options are exercisable for a period of a ten years from the grant date. Replacement Options terminate immediately upon the termination of an optionee's employment or service to the Company "for cause" and 90 days after termination for any other reason.

1995 Supplementary Stock Option Plan

In October 1995, the Company adopted the 1995 Supplementary Stock Option Plan. This Plan provides for the granting of options to purchase an aggregate of 357,500 Common Shares to eligible former directors, officers and employees of Odesta. Options to purchase 357,500 Common Shares have been issued at an exercise price of \$14.00 per share. Options granted under the Supplementary Plan vest over a two-year period. Under the Supplementary Plan, options are exercisable for a period of ten years from the grant date. Vested options terminate 90 days after termination of an optionee's employment or service to the Company for any reason.

1995 Directors Stock Option Plan

The Directors Stock Option Plan (the "Directors Plan") provides for the granting of options to purchase an aggregate of 50,000 Common Shares to eligible non-employee directors of the Company. This was subsequently increased to 500,000. In accordance with the Directors Plan, the Plan Administrator determines the non-employee directors for the Company to whom options are granted, the number of Common Shares subject to each option, the exercise price and vesting schedule of each option. At June 30, 1997, 304,000 options had been granted under the Directors Plan of which 260,000 options are eligible to purchase 260,000 Common Shares at an exercise price of \$6.63 vesting over four years and 44,000 options are eligible to purchase 44,000 Common Shares at an exercise price of \$8.47 vesting over four years.

Option Exchange Program

On September 10, 1996, the Board of Directors authorized an option exchange program (the "Program") whereby employees who have been granted options to acquire Common Shares of the Company under the 1995 Flexible Stock Incentive Plan (the "Flexible Plan") and the 1995 Supplementary Stock Option Plan (the "Supplementary Plan") were permitted to exchange those options on a one-for-one basis, for an option to acquire Common Shares of the Company with an exercise price of \$4.25 (the "Exchange Options"). This was subsequently approved by the shareholders. The Exchange Options vest and become exercisable, as to 10% of the Common Shares subject to option, the later of six months after the date of grant or the date the original option was scheduled to first vest (the "initial vesting date"), as to the next 10% of the Common Shares subject to option, six months after the initial vesting date, and as to the remainder of the Common Shares subject to option, 5% at the end of each quarter following one year after the initial vesting date.

A total of 510,452 options to acquire Common Shares of the Company from the Flexible and Supplementary plans were eligible for exchange under the Program with an average exercise price of \$12.89. As of June 30, 1997, a total of 140,830 options under the Flexible Plan with a weighted average

OPEN TEXT CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1997**

(in thousands, except share and per share data)

exercise price of \$10.90 were exchanged for 140,830 Exchange Options and 335,000 options under the Supplementary Plan with an exercise price of \$14.00 were exchanged for 335,000 Exchange Options.

NOTE 9—OPTION PLANS (Continued)

As of June 30, 1997, options to purchase an aggregate of 4,735,506 Common Shares were outstanding under all of the Company's stock option plans out of an allowable pool of options totaling 5,770,152. Options to purchase 586,129 Common Shares were fully vested, and the remaining options vest over the next five years.

A summary of option activity since June 30, 1994 is set forth below:

	Options	
	Number	Price
Options outstanding at June 30, 1994	299,000	\$0.0001 - \$ 4.38
Granted during fiscal 1995.....	2,296,500	\$0.15
Canceled and expired	(295,667)	\$0.0001 - \$ 4.38
Exercised	—	—
Options outstanding at June 30, 1995	2,299,833	\$0.0001 - \$ 4.38
Granted during fiscal 1996	1,292,446	\$0.0005 - \$14.00
Canceled and expired	—	—
Exercised	(1,797,523)	\$0.0001 - \$ 3.87
Options outstanding at June 30, 1996	1,794,756	\$0.0005 - \$14.00
Granted during fiscal 1997 (new)	3,902,514	\$4.2500 - \$10.25
Granted under the Program	475,830	\$4.25
Canceled and expired	(260,931)	\$4.2500 - \$14.00
Exercised	(700,833)	\$0.0005 - \$ 6.27
Exchanged.....	(475,830)	\$4.2500 - \$10.25
Options outstanding at June 30, 1997	<u>4,735,506</u>	<u>\$0.0005 - \$14.00</u>

The Company applies the intrinsic value method prescribed in APB No 25, Accounting for Stock Issued to Employees in accounting for its stock-based compensation plans. Had compensation cost for the Company's stock-based compensation plans been determined using the fair value approach set forth in SFAS No. 123, Accounting for Stock-Based Compensation, the Company's loss for the year and loss per share would have been increased to the pro forma amounts indicated below:

	June 30,		
	1997	1996	1995
Loss for the year			
As reported.....	\$ (13,215)	\$ (43,199)	\$ (1,211)
Pro forma	\$ (16,105)	\$ (43,242)	\$ (1,211)
Loss per share			
As reported.....	\$ (0.78)	\$ (3.59)	\$ (0.37)
Pro forma	\$ (0.96)	\$ (3.59)	\$ (0.37)

The fair value of each stock option grant on the data of grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

OPEN TEXT CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1997**

(in thousands, except share and per share data)

NOTE 9—OPTION PLANS (Continued)

	June 30,		
	1997	1996	1995
Volatility	75.0%	30.0%	.001%
Risk-free interest rate	6.0%	6.0%	6.0%
Dividend yield	—	—	—
Expected lives (in years)	5.16	4.18	3.30
Weighted average fair value (in dollars)	7.53	11.13	0.15

NOTE 10—COMMITMENTS

Operating leases

The Company has entered into operating leases for premises with minimum annual rents as follows:

1998.....	\$ 1,360
1999.....	1,256
2000.....	1,228
2001.....	1,032
2002.....	434
Thereafter	499
	<u>\$ 5,809</u>

Rent expense amounted to \$1,330 in 1997, \$737 in 1996, and \$179 in 1995.

NOTE 11—OTHER INCOME

During the year, the Company disposed of its investment in Yahoo! Corporation (“Yahoo”) for proceeds of \$6,345 and a net gain of \$5,845.

Also during the year, reserves were taken against certain investments and other assets where Management as part of its regular review of the carrying value of its investments has determined there to be a permanent impairment in value. A summary of these items is as follows:

Gain on sale of Yahoo common shares	\$ 5,845
Reserve for General Internet Inc.	(3,906)

OPEN TEXT CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1997**

(in thousands, except share and per share data)

Write down for valuation of other investments	(1,523)
Reserve for other assets individually less than \$ 200	<u>(371)</u>
Gain on sale of other investments	\$ 45
Balance of other income	<u>12</u>
Other income	<u><u>\$ 57</u></u>

The remaining carrying cost of all investments are at their net realizable value of \$1,591.

NOTE 11—OTHER INCOME (Continued)

On October 17, 1996, pursuant to an agreement signed on the date between the Company and General Internet Inc. ("General Internet"), the Company converted its advances to General Internet to a promissory note, due no later than October 17, 1998, bearing a stated interest rate of 8.25% per annum, and secured by a security agreement subordinating the promissory note to a second position of not more than \$25,000 of debt or equity General Internet may otherwise secure and a right to a minority interest. The secured promissory note from General Internet totaled \$3,906. The secured promissory note's face value was calculated as \$3,686 representing a discount based on the difference between the rate of return associated with financing a start-up venture and the stated interest rate of 8.25% and was included in Other assets. The discount of \$220 was charged to operations in the first quarter of fiscal 1997.

In March 1997, the Company determined that the value of the promissory note was permanently impaired requiring a further write down of \$3,686 which was charged to operations as of March 31, 1997.

NOTE 12—RESEARCH AND DEVELOPMENT

	Year Ended June 30,		
	1997	1996	1995
Gross research and development expenditures	\$ 6,612	\$ 5,201	\$ 1,087
Investment tax credits	<u>—</u>	<u>(670)</u>	<u>(378)</u>
	<u><u>\$ 6,612</u></u>	<u><u>\$ 4,531</u></u>	<u><u>\$ 709</u></u>

NOTE 13—INCOME TAXES

The Company's and its subsidiaries' income tax provision has been determined as follows:

	Year Ended June 30,		
	1997	1996	1995
Loss for the period	<u>\$ (13,215)</u>	<u>\$ (43,199)</u>	<u>\$ (1,211)</u>
Combined basic Federal and Provincial income taxes at 44.6% (44.6% as of June 30, 1996 and 44.3% as of June 30, 1995).....	\$ (5,854)	\$ (19,267)	\$ (536)
Decrease resulting from:			
Small business deduction	—	—	33
Non-deductible amortization, including			

OPEN TEXT CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1997**

(in thousands, except share and per share data)

acquired research and development	—	13,117	—
Unrecorded benefit of tax losses	5,854	6,150	503
Income tax provision.	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

NOTE 13—INCOME TAXES (Continued)

The Company’s loss for the year is allocated to tax jurisdictions as follows:

	Year Ended June 30,		
	1997	1996	1995
Canada	\$ (10,773)	\$ (40,033)	\$ (1,211)
United States	(1,123)	(2,243)	—
Other	(1,319)	(923)	—
	<u>\$ (13,215)</u>	<u>\$ (43,199)</u>	<u>\$ (1,211)</u>

For each of the three years in the period ended June 30, 1997, there was no current tax expense or benefit nor any deferred tax expense or benefit in any country due to the continuing losses of all companies in the consolidated group.

The Company and its subsidiaries has approximately \$35,540 of losses and deductions available to reduce taxable income in future years, the benefit of which has not been reflected in the financial statements. Deductions of \$14,000 have no expiration date, and the balance of losses expire as follows:

Year Ended June 30	
1998.....	\$ 70
1999.....	—
2000.....	350
2001.....	480
2002.....	770
2003.....	2,600
2004.....	2,030
Thereafter	15,240
	<u>\$ 21,540</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and reporting purposes and amounts used for income tax purposes.

Significant components of the Company’s deferred income tax balances consist of the following:

Year Ended June 30,	
1997	1996

OPEN TEXT CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1997**

(in thousands, except share and per share data)

Losses available to offset future income taxes	\$ 9,933	\$ 5,060
Research and development expenses deducted		
for accounting in excess of tax	3,704	1,060
Share issue costs	2,592	2,700
Other differences	143	350
Net deferred tax assets	<u>16,372</u>	<u>9,170</u>
Less: Valuation allowance	<u>(16,372)</u>	<u>(9,170)</u>
	<u>\$ —</u>	<u>\$ —</u>

The Company's subsidiaries had no significant deferred tax components.

NOTE 13—INCOME TAXES (Continued)

The Company has maintained its 100% valuation allowance on the net deferred tax asset because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax assets under certain conditions.

NOTE 14—RELATED PARTY TRANSACTIONS

In fiscal 1997, the Company, together with a company controlled by a director of the Company and individuals not related to the Company, incorporated MacRAE's O.E.M. Mart, Inc., a Delaware Corporation ("MacRAE's"). The Company retained a 70% interest in MacRAE's. On that date, the Company also loaned \$1,100 to MacRAE's in the form of a subordinated debenture bearing an annual interest rate of 7.08% and repayable on December 31, 2007. The debenture was included in other investments and was subsequently written down to its realizable value (see Note 11, Other Income). MacRAE's purchased, from a company controlled by a director of the Company, for \$365 the business to publish and sell the industrial directory, "MacRAE's Blue Book" and sell print advertising and information services in combination with sponsorships on its industry content web site, "Internet Mall." As of June 30, 1997 the Company has a plan to dispose of the investment and therefore carries its investment in MacRAE at cost. Operations of MacRAE's since incorporation through to June 30, 1997 are insignificant.

In 1996, the Company purchased 137,500 common shares of another investment from a shareholder of the Company for \$550 which represented the carrying cost of the investment.

In fiscal 1995, a shareholder loaned the Company \$146 at an interest rate of 2.5% per annum above the prime bank rate. The loan was repaid prior to the end of fiscal 1995 with interest amounting to \$4.

NOTE 15—FOREIGN REVENUE AND MAJOR CUSTOMERS

The Company licenses its software internationally and generates revenues from customers outside Canada, primarily the United States. The following table summarizes revenues from foreign customers for the periods indicated:

	<u>Year Ended June 30,</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
United States	\$ 13,729	\$ 4,427	\$ 1,717
Europe.....	3,454	1,110	113

OPEN TEXT CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1997**

(in thousands, except share and per share data)

Japan.....	495	1,159	108
Korea	—	921	—
Other foreign countries	21	498	—
	<u>\$ 17,699</u>	<u>\$ 8,115</u>	<u>\$ 1,938</u>

In fiscal 1997 and 1996, no customers accounted for 10% or more of total revenues. In fiscal 1995, two customers accounted for 14% and 11% respectively, of total revenues.

NOTE 16—SEGMENTED INFORMATION

The Company's operations consists of a single line of business to develop, market, license and support software. This software enables users to find electronically stored information, work together in creative and collaborative processes, and distribute or make available to users across networks or the Internet the resulting work product or information.

The Company has sales and marketing operations located outside North America, primarily in Europe.

Financial data by geographic area:

	<u>Year Ended June 30,</u>			
	<u>North America</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
Revenues:				
1997.....	\$ 18,678	\$ 2,472	\$ 1,498	\$ 22,648
1996.....	6,260	1,150	2,585	9,995
1995.....	2,479	—	—	2,479
Loss from operations:				
1997.....	\$ (14,532)	\$ (536)	\$ —	\$ (15,068)
1996.....	(43,816)	(877)	—	(44,693)
1995.....	(1,103)	—	—	(1,103)
Identifiable assets:				
1997.....	\$ 50,146	\$ 2,199	\$ —	\$ 52,345
1996.....	65,104	1,054	—	66,158
1995.....	2,597	—	—	2,597

NOTE 17—SUPPLEMENTAL CASH DISCLOSURES

	<u>June 30,</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ 148	\$ 129	\$ 108
Supplemental Schedule of non cash investing and financing activities:			

OPEN TEXT CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1997**

(in thousands, except share and per share data)

Equipment purchased under capital leases .	400	2,007	71
Conversion of special warrants to Common Shares	—	8,673	—
Conversion of shares set aside to Common Shares	7,040	—	—
Acquisitions (see Note18)			
Assets acquired, excluding cash	—	419	—
Purchased software	—	979	—
Goodwill and other intangible assets ...	—	1,890	—
Purchased research and development ..	—	27,555	—
Liabilities assumed in acquisitions	—	1,103	—

NOTE 18—ACQUISITIONS

The Company completed several acquisitions as at June 30, 1996, all of which have been accounted for by the purchase method of accounting. The results of the acquired businesses have been included in the Company's statement of operations from the date of acquisition.

Summary of acquisitions

	Odesta	InfoDesign	Other Acquisition s	Total
Consideration is as follows:				
Cash paid	\$ 5,305	\$ 1,081	\$ 2,490	\$ 8,876
Net liabilities assumed	—	—	1,103	1,103
Value of Common Shares issued.....	8,807	—	133	8,940
Value of Common Shares to be set aside to cover options granted and Common Shares to be issued.....	5,483	2,500	1,133	9,116
Amounts payable	—	750	665	1,415
	<u>\$ 19,595</u>	<u>\$ 4,331</u>	<u>\$ 5,524</u>	<u>\$ 29,450</u>

	Odesta	InfoDesign	Other Acquisition s	Total
Assets acquired, at fair value, are as follows:				
Purchased research and development	\$ 19,982	\$ 3,997	\$ 3,576	\$ 27,555
Capitalized software	649	—	330	979
Goodwill.....	—	485	1,149	1,634
Other intangible assets	—	250	50	300
Other	(1,036)	(401)	419	(1,018)
	<u>\$ 19,595</u>	<u>\$ 4,331</u>	<u>\$ 5,524</u>	<u>\$ 29,450</u>

OPEN TEXT CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for each of the three years in the period ended June 30, 1997**

(in thousands, except share and per share data)

The following pro forma consolidated information shows the results of operations for the years ended June 30, 1996 and 1995 as if the above acquisitions had occurred at July 1, 1994 and acquired research and development costs were expensed as of July 1, 1994. The pro forma information is presented for information purposes only and is not necessarily indicative of what would have occurred if the acquisitions had been made as of those dates. In addition, the pro forma information is not intended to be a projection of future results expected to result from the integration of acquired businesses. The Company expects revenue from the integrated operations before growth in revenue from *Livelink* products to be lower than pro forma revenues as the Company has redeployed people and resources to support its suite of intranet products and has phased out retail internet products (see Note 6, Provision for Restructuring).

NOTE 18—ACQUISITIONS (Continued)

	Year Ended June 30,	
	1996	1995
Pro forma total revenues	\$ 15,680	\$ 11,849
Pro forma loss for the year	\$ (11,941)	\$ (30,060)
Weighted average number of Common Shares outstanding	12,596	4,422
Pro forma loss per share	\$ (0.95)	\$ (6.80)

Odesta

In October 1995, the Company acquired all of the issued and outstanding common stock of Odesta Systems Corporation (“Odesta”), a US software corporation offering integrated workflow, document management and collaborative computing software, for a total purchase price and associated acquisition costs aggregating \$19,595. The purchase price was comprised of cash in the amount of \$5,000 allowing Odesta to discharge certain of its liabilities and to pay bonuses to certain employees resulting from the acquisition and acquisition costs of \$305. 880,745 Common Shares and options to purchase 548,255 Common Shares granted to members of the Odesta stock option plan at an exercise price of \$.0005 per share which was calculated on the basis of the exercise price of the Odesta options and the exchange ratio of Common Shares for Odesta common stock. Intangible assets totaling \$20,631 was allocated to computer software and purchased research and development in the amount of \$649 and \$19,982, respectively. A net working capital deficiency of \$1,320 and other assets amounting to \$284 was also acquired. The purchased research and development costs were expensed at the time of acquisition. Acquired software has been completely amortized as of June 30, 1996 in accordance with SFAS No. 86.

InfoDesign

In June 1996, the Company acquired all of the issued and outstanding shares of InfoDesign Corporation, a Virginia corporation (“InfoDesign US”) and all of the issued and outstanding shares of InfoDesign Corporation, an Ontario corporation, (“InfoDesign Canada”) pursuant to a share purchase agreement between the Company and the holders of the aforementioned shares. InfoDesign US and Canada are systems integrators and had developed and marketed an SGML document management and workflow software product.

OPEN TEXT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1997

(in thousands, except share and per share data)

As consideration the Company agreed to issue up to 227,273 common shares in the capital of the Company valued at \$11.00 per share, the market value of the Company's Common Shares as of April 18, 1996, and to pay up to \$1,750 in cash. Both the number of shares and the amount of the cash component constituting the purchase price are subject to the final determination of the combined InfoDesign companies' net book value and revenue for the six-month period ended June 30, 1996 and on the InfoDesign companies meeting, on a combined basis, revenue targets for the six-month fiscal period ending December 31, 1996. Cash in the amount of \$1,000 was paid at closing. The balance of the cash component, amounting to \$750 and all of the shares to be issued will be delivered on two separate settlement dates following the delivery of the combined financial statements of the InfoDesign companies for the fiscal periods ending June 30, 1996 and December 31, 1996. The component of the consideration that relates to the revenue targets for the six-month fiscal period ending December 31, 1996 has been recognized as an amount payable of \$750 and as Common Shares set aside of \$1,000. As of June 30, 1997, negotiations are ongoing and final settlement is not yet determinable.

NOTE 18—ACQUISITIONS (Continued)

The purchase price was \$4,331, including acquisition costs of \$81 and was in excess of identifiable assets by \$4,732. The excess purchase price was allocated entirely to intangibles. An amount of \$3,997 was allocated to purchased research and development costs which were charged to income upon acquisition, \$250 was allocated to trademarks and \$485 to goodwill. Goodwill will be amortized on a straight-line basis over three years.

Other Acquisitions:

a) Internet Anywhere

During August 1995, the Company acquired certain assets and liabilities of the Internet Anywhere division of Mortice Kern Systems Inc. ("Internet Anywhere"), a provider of Internet integrated software applications, for a total purchase price and associated acquisition costs aggregating \$1,513. The purchase price including acquisition costs in excess of identifiable assets of \$68 has been allocated to purchased software costs and purchased research and development costs in the amount of \$200 and \$1,245 respectively. As at June 30, 1996, purchased computer software has been completely amortized in accordance with SFAS No. 86. Purchased research and development was expensed at the time of acquisition.

b) Intunix

During October 1995, the Company acquired certain assets of Intunix AG, a Swiss corporation ("Intunix"), a developer and marketer of information management products using search technologies on PC hard drives, CD-ROM and local area networks, for cash consideration of \$504, plus associated acquisition costs of \$130, an amount payable of \$518 and options to acquire 25,578 Common Shares at an exercise price less than fair market value. The value of the Common Shares issuable upon exercise of these options less their exercise price amounted to \$240. The total acquisition cost of Intunix was \$1,392. Intangible assets with an assigned value of \$1,313 was allocated to computer software at \$129 purchased research and development at \$934 and goodwill at \$250. Identifiable assets totaling \$79 were also acquired. As of June 30, 1996 purchased computer software has been completely amortized in accordance

OPEN TEXT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1997

(in thousands, except share and per share data)

with SFAS No. 86. Purchased research and development costs were expensed at the time of acquisition. Goodwill in the amount of \$250 has been written off due to the Company's restructuring of Central Europe (see Note 6, Provision for Restructuring).

c) NIRV

During June 1996, the Company acquired certain assets of NIRV Community Resource Centre for a total purchase price of \$1,632. The purchase price was comprised of cash consideration and acquisition costs of \$48, an amount payable of \$147, the assumption of a portion of NIRV's net liabilities of \$1,103, and the allocation of 30,644 Common Shares as Common Shares set aside for \$334 based on the market value of the Company's Common Shares as of June 30, 1996. A certain number of the Common Shares are held in escrow and will be released subject to collection of accounts receivable within the next fiscal year. The Company is reasonably sure it will be obligated to issue the Common Shares.

NOTE 18—ACQUISITIONS (Continued)

At the time of acquisition, NIRV had identifiable assets of \$234. The purchase price in excess of identifiable assets of \$1,398 was allocated to purchased research and development and was expensed at the time of acquisition.

d) Other Acquisitions

In March 1996, the Company acquired certain assets of SoftCore UK Limited, a British company ("SoftCore"), a value-added reseller of the Company's products, for a total purchase price, including associated acquisition cost of \$418. In June 1996, the Company acquired all issued and outstanding shares of Network Software Group ("NSG"), a consulting company. The total purchase price, including associated acquisition costs of \$10 amounted to \$569.

NOTE 19—RECLASSIFICATION

The accounts for the comparative periods have been reclassified to conform with the presentation adopted in the current year.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information concerning the Company's directors will be contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the annual meeting of stockholders or in an amendment to the Form 10-K and is incorporated herein by reference. Information concerning the Company's executive officers is set forth under Part I of this report.

Item 11. Executive Compensation

Information concerning this item will be contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the annual meeting of stockholders or in an amendment to the Form 10-K and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning this item will be contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the annual meeting of stockholders or in an amendment to the Form 10-K and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information concerning this item will be contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the annual meeting of stockholders or in an amendment to the Form 10-K and is incorporated herein by reference.

PART IV

Item 14. Exhibits and Reports on Form 8-K

- a) The following documents are filed as a part of this report:
- 1) Consolidated Financial Statements and Report of Independent Accountants are included under Item 8, in Part II.
 - 2) Consolidated financial Statement Schedules and Report of Independent Public Accountants in those schedules are included as follows:

None.
 - 3) Exhibits: The following exhibits are filed as part of this Report.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Articles of Incorporation of the Company. (1)
3.2	Articles of Amalgamation of the Company. (1)
3.3	Articles of Amendment of the Company. (1)
3.4	By-law No. 1 of the Company. (1)
3.5	Articles of Amendment of the Company. (1)
3.6	By-law No. 2 of the Company. (1)
3.7	By-law No. 3 of the Company. (1)
3.8	Articles of Amalgamation of the Company. (1)
4.1	Form of Common Share Certificate. (1)
10.1	Restated 1995 Flexible Stock Incentive Plan. (3)
10.2	1995 Replacement Stock Option Plan. (1)
10.3	1995 Supplementary Stock Option Plan. (1)
10.4	1995 Directors Stock Option Plan. (1)
10.5	Amendment to Research Funding Agreement, dated October 31, 1995, between the University of Waterloo and the Company, and Research Funding Agreement, dated July 1, 1991, between the University of Waterloo and the Company. (1)
10.6	Technology Licensing Agreement, dated July 1, 1991, between Dr. Frank Tompa and the Company. (1)
10.7	Assignment Agreement, dated August 25, 1995, between Dr. Frank Tompa and 1136390 Ontario, Inc. (1)
10.8	License Agreement, dated August 25, 1995, between the University of Waterloo and the Company. (1)
10.9	Technology Development Agreement, dated August 25, 1995, between the University of Waterloo and the Company, and Amendment No. 1 thereto. (1)
10.10	Letter of offer, dated January 19, 1994, between the Canadian Strategic Software Consortium and the Minister of Industry, Science and Technology, Canada. (1)
10.11	Representation Letter, dated November 30, 1993, to Helix from the Company. (1)
10.12	License Agreement, dated August 1, 1995, between Mortice Kern Systems Inc. and 1136299 Ontario Limited. (1)
10.13	Amended and Restated Agreement and Plan of Merger, dated October 10, 1995, between Open Text Acquisition Corporation, Odesta Systems Corporation, Daniel Cheifetz, and the Company. (1)
10.14	Purchase Agreement, dated October 12, 1995, between Intunix AG and the Company. (1)

- 10.15 Security Agreement, dated May 29, 1992, between Royal Bank of Canada and the Company. (1)
- 10.16 Lease, dated March 3, 1994, between Wiebe Property Corporation Ltd. and the Company. (1)
- 10.17 Lease, dated October 6, 1994, between REGUS/Washington Tysons, Inc. and the Company. (1)
- 10.18 Agreement, dated January 1, 1995, between Tom Jenkins and the Company. (1)
- 10.19 Letter Agreement, dated November 30, 1995, between Michael Farrell and the Company. (1)
- 10.20 Employment Agreement, dated October 13, 1995, between Marco Palatini and the Company. (1)
- 10.21 Employment Agreement, dated October 19, 1995, between Daniel Cheifetz and the Company. (1)
- 10.22 Form of Registration Rights Agreement, between Technology Crossover Ventures, L.P., Technology Crossover Ventures, C.V. and the Company. (1)
- 10.23 Confirmation letter, dated November 1, 1995, between Netscape Communications Corporation and the Company. (1)
- †10.24 OEM License Agreement, dated November 10, 1995, between Netscape Communications Corporation and the Company. (1)
- 10.25 Amending Agreement, dated October 6, 1995, between Helix (PEI) and the Company. (1)
- 10.26 Shareholders' Agreement, dated June 30, 1992, with certain amendments. (1)
- 10.27 Forms of Compensation Option Agreement, dated July 19, 1995 between Yorkton Securities Inc., Midland Walwyn Capital Inc., Griffiths McBurney & Partners Inc. and the Company. (1)
- 10.28 Share Purchase Agreement dated June 28, 1996 between Open Text Corporation and the shareholders of InfoDesign Corporation. (2)
- 10.29 Documentation relating to stock option grants and subsequent option exercises for Messrs. Jenkins and Farrell. (3)
- 10.30 Employment Agreement, dated May 30, 1996, between the Company and Keith Soley. (4)
- 10.31 Employment Agreement, dated July 11, 1996, as amended, between the Company and William N. Stirlen. (4)
- 10.32 Letter Agreement, dated October 10, 1996, between the Company and Michael F. Farrell. (5)
- 10.33 Letter Agreement, dated October 10, 1996 between the Company and Marco Palatini. (5)
- 10.34 Letter Agreement, dated October 10, 1996 between the Company and Daniel Cheifetz. (5)
- 10.35 Letter Agreement, dated May 27, 1997 between the Company and Brett Newbold.

10.36	Letter Agreement, dated November 14, 1996 between the Company and Abraham Kleinfeld.
10.37	Letter Agreement, dated April 25, 1997 between the Company and Anthony Heywood.
10.38	Letter Agreement, dated July 10, 1997 between the Company and Kirk Roberts.
10.39	Amendment to Agreement, dated January 22, 1997, between the Company and P. Thomas Jenkins.
10.40	Separation Agreement, dated August 14, 1997 between the Company and Keith Soley.
10.41	Commitment letter from Royal Bank of Canada dated August 26, 1997.
10.42	Lease, dated December 18, 1996 between Unipark III Inc. and the Company. Indemnity agreement dated December 18, 1996 between The Cora Group Inc. and the Company.
10.43	Lease, dated August 26, 1997, between CarrAmerica Realty Corporation and the Company.
10.44	Amendment to Agreement, dated June 27, 1997 between INSO Corporation and the Company.
10.45	Amendment to Agreement, dated June 10, 1997, between Netscape Communications Corporation and the Company.
21.1	List of the Company's Subsidiaries.
23.1	Consent of Price Waterhouse.

† Portions of these exhibits, which are incorporated by reference to Registration No. 33-98858, have been omitted pursuant to an Application for Confidential Treatment filed by the Company with the Securities and Exchange Commission pursuant to Rule 406 of the Securities Act of 1933, as amended.

- (1) Filed as an Exhibit to the Company's Registration Statement on Form F -1 (Registration Number 33-98858) as filed with the Securities and Exchange Commission (the "SEC") on November 1, 1995 or Amendments 1, 2 or 3 thereto (filed on December 28, 1995, January 22, 1996 and January 23, 1996 respectively), and incorporated herein by reference.
- (2) Filed as an Exhibit to the Company's Report on Form 8 -K, as filed with the SEC on July 15, 1996 and incorporated herein by reference.
- (3) Filed as an Exhibit to the Company's Registration Statement on Form S -8 (Registration Number 333-5474) as filed with the SEC on August 23, 1996 and incorporated herein by reference.
- (4) Filed as an Exhibit to the Company's Report on Form 10-K, as filed with the SEC on September 30, 1996 and incorporated herein by reference.
- (5) Filed as an Exhibit to Amendment #1 to the Company's Annual Report on Form 10-K as filed with the SEC on October 28, 1996 and incorporated herein by reference.

b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 26, 1997

OPEN TEXT CORPORATION

P. Thomas Jenkins
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated below on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ P. Thomas Jenkins	Director and Chief Executive Officer (Principal Executive Officer)	September 26, 1997
_____ Brett Newbold	Director and President	September 26, 1997
_____ William N. Stirlen	Chief Financial Officer (Principal Financial Officer and Accounting Officer)	September 26, 1997
_____ Marco Palatini	Director and Director of Central Europe	September 26, 1997
_____ Donald C. Webster	Chairman of the Board of Directors	September 26, 1997
_____ John G. Roche	Director	September 26, 1997
_____ Dr. Frank W. Tompa	Director	September 26, 1997
_____ J. Ian Giffen	Director	September 26, 1997
_____ Richard C. Black	Director	September 26, 1997
_____ Warren L. Culpepper	Director	September 26, 1997
_____ Stephen J. Sadler	Director	September 26, 1997
_____ Daniel Cheifetz	Director	September 26, 1997

OPEN TEXT CORPORATION

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