

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

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**FORM 10-K/A2**

**(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, 1998.

**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 Shares held by non-affiliates as of August 31, 1998 was approximately \$162 million. The number of shares of the Registrant's Common Shares outstanding as of August 31, 1998 was 19,959,277.

**DOCUMENTS INCORPORATED BY REFERENCE**

Parts of the following documents are incorporated by reference to Part III of this Form 10-K: Amendment to Form 10-K.

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Exhibit Index Appears at Page 69

## 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

The Company was incorporated on June 26, 1991 pursuant to articles of incorporation under the Business Corporation Act (Ontario). The Company amended its articles on August 1, 1995 and November 16, 1995, respectively, and filed articles of amalgamation on June 30, 1992, December 29, 1995, July 1, 1997 and July 1, 1998. 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 [www.opentext.com](http://www.opentext.com).

### BUSINESS OF THE COMPANY

Open Text Corporation is a leader in "collaborative knowledge management", an emerging market for intranet-based software. This new product category combines the technology and ubiquity of the World Wide Web, with a powerful collaborative environment that lets virtual teams create, share, find, and manage information, as well as track and monitor progress toward meeting their organizations' mission and business objectives.

Open Text's principal software, *Livelink*, is the first Web-based, enterprise wide, knowledge management application that is ready to install out of the box. As such, *Livelink* effectively transforms intranets into collaborative knowledge management systems that help organizations discover where their knowledge is, capture it, and make it accessible, shareable, and reusable. Organizations are using *Livelink* to help shorten product development cycles, improve quality, increase competitiveness, speed responsiveness, deliver better customer service and value, and increase profits.

*Livelink* integrates virtual team collaboration, knowledge library, business process automation, enterprise group scheduling and information retrieval which can all be accessed by knowledge workers through their standard Web browser. This powerful collaborative environment enables ad hoc teams to form quickly across functional and organizational boundaries without formal user training.

Two key factors distinguish *Livelink* from competing alternatives. First, unlike collaborative software developed for client/server environments, *Livelink* was designed from the ground up to run on intranets. This means that it scales easily and rapidly to thousands of users, gigabytes of data, and millions of documents. Second, unlike solutions that offer tools for users to build custom collaborative applications, Open Text's *Livelink* is an off-the-shelf, ready to install application. Although it is easily customized, no special development is required for project teams to be immediately productive. As a result, companies realize their return on investment quickly.

In less than two years since its introduction of *Livelink* Suite 7, Open Text has achieved significant growth. Organizations with tens of thousands of users are actively deploying *Livelink* for business-critical applications; more than 50 Value-Added Resellers (VARs), Solution Providers and Developers joined Open Text's *Livelink* Affinity Partner program over the last year; and business, technical, and marketing relationships have been formed with such industry leaders as Adobe, Canon Sales, Microsoft, Netscape, JetForm, Nissho Iwai, Oracle, Siemens Nixdorf and Unisys.

The Company was founded in 1991 and completed its initial public offering in January 1996 and now employs nearly 600 individuals located in facilities in the United States, Canada, and Europe. 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; Open Text AG, a Swiss corporation; Open Text International BV, a Dutch corporation; Open Text UK Limited and Information Dimensions, Limited, both British corporations; Information Dimensions, SARL, a French corporation and Information Dimensions, GmbH, a German corporation.

## **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 businesses 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 Kern 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., a British Columbia corporation ("NSG"), InfoDesign Corporation, a Virginia corporation, InfoDesign Corporation, an Ontario corporation (collectively, "InfoDesign"), certain assets and liabilities of Campbell Services, Inc. ("OnTime"), and certain assets and liabilities of Information Dimensions, Inc. ("Information Dimensions"). Odesta, InfoDesign and NSG and the acquired assets of Intunix, Internet Anywhere, SoftCore, NIRV, OnTime, and Information Dimensions are referred to collectively as the "Acquired Businesses", and the Company's acquisitions of the Acquired Businesses are referred to as the "Acquisitions."

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. The Company no longer markets the Internet Anywhere product.

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.

In October 1995, the Company acquired certain of the assets of Intunix, based in St. Gallen, Switzerland. Intunix offered the Company a distribution channel as well as certain technology that was integrated with the Company's search engine technology.

In March 1996, the Company acquired SoftCore, based in England, which was a value-added reseller of the Company's products in Europe. As a result of this acquisition, the Company established sales offices in England and the Netherlands by incorporating existing SoftCore offices and personnel.

In June 1996, the Company acquired InfoDesign, NIRV and NSG. InfoDesign, based in Northern Virginia and Toronto, Ontario was 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. NIRV, based in Toronto, Ontario, had created and operated Internet protocol networks in Canada and developed software technology relating to network management and administration. NIRV's technical employees were experienced in

the installation and operation of Internet protocol networks, and were integrated into the Company's workforce to assist in product installations and customer service. 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.

In December 1997, the Company acquired certain assets and liabilities of OnTime. OnTime, based in Southfield, Michigan, offered group calendaring and scheduling products in client server web environments. A key element of the acquisition was the OnTime calendaring and scheduling technology. Substantial development is being undertaken to integrate the software technology into *Livelink* to meet the Company's strategic goals.

In June 1998, the Company acquired certain assets and liabilities of Information Dimensions. Information Dimensions, based in Columbus, Ohio with subsidiaries in London, England; Paris, France; and Frankfurt, Germany offered document storage management, enterprise-wide access interface and a suite of application development interfaces. A key element of the acquisition was the Company's perception of the value of Information Dimension's document storage management technology.

Further information respecting the Acquisitions is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operation" and Note 16 of Notes to Consolidated Financial Statements contained herein.

## **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"***

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 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”). 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 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, 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 an 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 may also use its intranet servers to publish documents and data on the Web that are created and resident on its intranet. The Company believes that the focus in future will increasingly be on the management of the tacit knowledge that is naturally resident in an organization. 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 has increased significantly in the past several years.

### ***Need for Enterprise-wide Collaborative 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 and 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 may 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 may be hindered by incomplete information and a lack of communication and coordination, resulting in inefficiency and sub-optimal work production.

The emergence of intranets and Internet connectivity provide an opportunity for more efficient access to, and use of, information stored on internal networks, 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.

## Open Text Solutions

Every organization has a wealth of intellectual capital. Although it is of the highest value, this corporate asset is also the most underutilized. Information isn't knowledge until people add value to it, transforming raw data into business advantages. Accessing and sharing information are only the beginning of the knowledge transformation process. Capitalizing on collective knowledge and intellectual assets takes more than an intranet, a repository and some search and document management functionality. It takes collaborative knowledge management that addresses all four elements of the knowledge process:

- Knowledge Discovery - people searching for information that can help them get their jobs done and achieve their organization's business objectives.
- Knowledge Organization - the collection and management of information of all types - from files, documents and objects to running histories of enterprise projects, the contributors, the consensus, the solutions, and the activities.
- Collaborative Knowledge Development - people taking action and working together to create projects, form teams, develop project deliverables, and manage projects and processes through their many stages and cycles.
- Knowledge Distribution – people distributing their project output in the form of channels and other means of online communication.

The Company's flagship product, *Livelink*, is a Web-based enterprise wide collaborative knowledge management application that provides access to the resulting work product and other information to users across intranets, extranets, local and wide area networks or the Internet. *Livelink* allows a company use the connectivity of the Web as the infrastructure for its knowledge management system. People work together without regard to geographic location. Teams organize themselves because they are closest to the challenges your organization faces. People find all the information they need to make the best business decisions.

The Company offers its solutions both as end-user products and as modules that may be incorporated into the information systems of large end-user organizations in many different languages such as French, German, Portuguese and Japanese. The Company offers training, documentation, consulting and technical support services to accelerate customer implementation of its products.

## 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:

- *To provide an integrated Web-based application that offers comprehensive, off-the-shelf collaborative knowledge management services*—information retrieval, virtual team collaboration, knowledge library, business process automation and enterprise group scheduling for organizations of any size. Open Text's goal is to transform networked organizations into hyperlinked organizations where people, information and processes are all interconnected, enabling companies to respond quickly to opportunities and market changes.
- *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 continues to intensify its direct sales efforts and has increased its direct sales force through new hires and acquisitions. As well, the Company continues to further develop indirect distribution channels and has launched its *Livelink* Affinity Partner program in March of 1997. The goal of the program is to build a strong team of distributors, value-added resellers, system integrators, solution providers and development partners that incorporate the Company's software into products providing a particular solution to distinct customer groups or geographical areas. The Company has also launched *Livelink* Online, a subscription service that offers corporate customers reliable, high-performance intranet hosting services based on *Livelink*. For a low monthly fee, corporations can lease a full-featured intranet with powerful Web-based collaborative applications, supported by numerous services. This gives organizations the power of a full-functioned, enterprise-wide collaborative application without the administrative and implementation costs associated with installing and managing an in-house system. This service is offered directly by the Company and through a variety of business partners such as Netsys and Hewlett Packard.
- *Build Awareness of the "Open Text" and Livelink Names.* The Company believes that awareness of the Company and its software solutions commenced as Internet users were exposed to its search and retrieval technology through their use of *Open Text Index and Livelink* Pinstripe, a business specific search service. Additionally, the Company continues to receive favorable press coverage including recognition by International Data Corporation naming *Livelink* as the leader for enterprise document management systems at the end of December 1997. See "Products and Technology".
- *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), ODMA (a group which specifies a set of interfaces that applications can use to initiate actions within a document management system), and WfMC (group responsible for promoting and developing the use of workflow through the establishment of standards for software terminology, interoperability and connectivity between workflow products). The Company is also a member of SGML/Open, a consortium of leading SGML technology vendors.

The Company's products are based on industry and Web standards including SQL, TCP/IP, HTTP, HTTPS, HTML, PDF, SMTP, Java and ActiveX. As well, *Livelink* supports most desktop applications and file formats.

## Products and Technology

In June 1998, the Company released *Livelink 8* the newest release of the Company's flagship product. *Livelink* supports a variety of computing platforms including servers such as those based on Microsoft Windows/Windows NT, Sun, and Hewlett Packard. *Livelink 8* provides a combination of core knowledge management services, custom workspaces, and a new modular architecture with value-added application modules.

### *Knowledge Management Services*

*Livelink* offers the power of tightly integrated knowledge management services - Knowledge Library Management, Information Retrieval, Virtual Team Collaboration, Business Process Automation, Enterprise Group Scheduling and Information Center Management and Library Automation.

- *Knowledge Library Management*

The Company's industrial-strength document management technology provides a secure, central repository where organizations store and manage documents and other objects (workflow maps, discussions, tasks or news) in an organized, hierarchical structure. The Knowledge Library is accessible from multiple locations, allowing users to access, browse, search, store and manage virtually any type of object in a controlled, secure environment.

Includes support for compound documents, document aliases, version control, audit trails, reserve, check-in/out, and nine levels of permission for each object. The technology also allows organizations to create their own custom document categories and attributes.

- *Information Retrieval*

*Livelink* Information Retrieval helps users find and access information from anywhere throughout the enterprise—across the corporate information repository, the corporate Web sites, and across the Internet. Authorized users have on-demand access to information even if their knowledge base spans distributed and diverse network environments.

More than full-text search and retrieval, *Livelink* provides an integrated set of information retrieval tools including intelligent agents and sophisticated reports that give users unprecedented insight into the knowledge, actions and activities that are developing throughout an organization. For example, a employee in an organization could request to be notified of any changes made to a critical document or a senior executive could have a report run to identify all overdue tasks for an important project.

*Livelink* Information Retrieval is known for its exceptional performance and linear scaling, even across millions of documents and terabytes of information. It 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.

Sophisticated search features include searching a subset of the index ("slices"), contextual/proximity searching, an advanced query builder interface, thesaurus support, word stemming, "sounds like", and a powerful end-user query language. *Livelink* Data Flows facilitate moving information between *Livelink* and other data sources (e.g., create a data flow which crawls a number of competitor's Web sites, converts all the information to PDF format, and indexes it as different slices for searching).

The *Open Text Index* has been transformed from an index of the Web into a new site specifically designed for business users called *Livelink* Pinstripe. The site ensures highly targeted searches, indexing only the Web pages that are pertinent to business users. It incorporates the Company's unique "slicing technology" which separates the data into more than 150 pre-categorized groupings, enabling users to drill right to the information on any particular business topic. The database is refreshed in its entirety every 2 weeks, which is at least twice as often as most other on-line search engines.

- *Virtual Team Collaboration*

*Livelink's* Virtual Team Collaboration is all about people taking action and working together, sharing information and experiences, to achieve common business objectives. Every project in *Livelink* has its own secure Project Workspace including a home page, Knowledge Library, workflows, task lists, channels, discussions, participant list, and project outline to give users and workgroups everything they need to coordinate all aspects of a project. *Livelink* Projects provide a valuable on-line focal point for "virtual teams" in either centralized or highly distributed environments worldwide.

- *Business Process Automation*

The Company's workflow technology enables users to graphically create, modify, manage and deploy simple or complex business processes. *Livelink's* Business Process Automation services route a complete work package to appropriate users providing all the information they need to do their job and keep projects and processes on track.

Sophisticated workflow features include a graphical Java™-based Workflow Designer, serial or parallel routing, rendezvous and loop back conditions, sub-workflows, conditional branching with true/false statements, user dispositions and/or custom workflow attribute values, multiple end points, intelligent electronic forms, milestones, audit trails, and graphical workflow status. For example, *Livelink* Workflows can manage standard operating procedures such as travel requests, payroll increases and vacation requests.

- *Enterprise Group Scheduling*

The Company also offers group scheduling and calendaring services for the enterprise. Anyone with a Web browser can access their calendar information, schedule meetings, respond to meeting invitations and view public calendars from anywhere on the Internet.

The scheduling technology includes the ability to view, add and modify appointments, group meetings and tasks, notes, attendee list, RSVP status and meeting frequency, the ability to view and search other people's calendars, event schedules, resource (rooms, rentals, etc.) schedules, or any other schedule that has been "published" to the Web. Daily, weekly and monthly planners provide a detailed listing of a user's appointments and tasks for the selected day, week or month.

- *Information Center Management and Library Automation*

The Company also offers the BASIS software product line to support the management of specialized corporate and government information centers. These information centers are often chartered with the long-term archiving of internal proprietary information and externally purchased information. Example applications for a specialized information center include research information management, library management, records management, litigation support, intellectual property protection, content management, and controlled correspondence. The BASIS technology is used as a platform for building such applications. The Techlib product is a specific application that utilizes BASIS to automate and integrate the main functions of a corporate or government library. These library functions include resource cataloging, circulation management and serial publication management.

Web browser interfaces have made these applications more economical to deploy since more people can easily access and exploit the available information. Furthermore, as organizations continue to suffer from information overload, library science expertise in subject categorization and classification is being deployed to improve the usability of mainstream enterprise intranet applications.

The BASIS technology is uniquely suited for these types of applications by providing rich capabilities for securely managing bibliographic and full-text information, performing keyword, full-text, and relational queries, building thesauri for vocabulary control and improved retrieval, and extensively validating information and its associated attributes.

### ***Development Tools***

*Livelink* is highly scaleable, extensible and customizable through the use of the *Livelink* SDK. The *Livelink* SDK consists of the *Livelink* Application Program Interface ("API's") and the *Livelink* Builder, an object oriented

application development environment designed specifically for building collaborative intranet solutions. *Livelink* Builder offers customers the ability to customize and extend the features of *Livelink* to meet their particular needs. *Livelink* Builder provides OScript, a robust, Java-like extensible scripting language for developing application logic.

### ***Customizable Workspaces***

Three distinct Workspaces -- Personal, Enterprise and Project -- provide users with multiple views of the enterprise and its activities for improved knowledge access, sharing, and navigation.

Typically, users in an organization work within a specific structure and/or context—departments or business units; in project teams and privately on their own at home, on the road or in the office. *Livelink's* three distinct Workspaces provide both context and structure with familiar, customizable environments promoting organization, communication and collaboration.

From each Workspace, users have access to *Livelink's* powerful services, including shared knowledge libraries, information retrieval tools, business process automation, virtual team collaboration and enterprise group scheduling.

The *Enterprise Workspace* is the knowledge map of the enterprise, where an organization can publish, store, share and find everything corporate-related. This may include policies and procedures, best practices and solutions, forms of all kinds such as expense reports, travel requests, purchase requisitions, business and company news, and all projects currently underway throughout the enterprise. Every area and object in the enterprise knowledge map is searchable.

The *Personal Workspace* is a private work environment that can be customized for optimum productivity. Users can organize their individual knowledge base to suit their individual needs—keep projects, critical documents and objects, saved search results and tasks a click away. Subscribe to information sources that are of greatest interest to them; intelligent *Livelink* Change Agents and *Livelink* Channels transmit information right to their desktop as it is published or as events occur.

Every project in *Livelink* has its own *Project Workspace*. This is the project team's collaborative environment that allows everyone to share and access project-related information, from source documents and project participants, to workflows, steps and tasks. Threaded discussions keep information dynamic and support the free-flow of knowledge. The ability to create missions, objectives and goals ensures that the team and its initiatives are always driving toward department and corporate business goals.

### ***Web-Based Modular Architecture***

*Livelink's* architecture is three-tiered, standards-based and modular to provide organizations with the highest levels of scalability, extensibility, openness and security.

A modular backplane architecture in *Livelink* lets the Company and third parties add new functionality to *Livelink* without having to wait for new releases. New functionality can be added by building a *Livelink* Module with the *Livelink* SDK. These modules are easily installed, removed and upgraded. When installed, they dynamically register themselves with *Livelink* and take on the *Livelink* look and feel, comply with *Livelink* structures and behave as part of the inherent feature-set of *Livelink*.

The Company has designed, developed, and thoroughly tested solutions that provide massive scalability based on *Livelink's* modular architecture.

## ***Advanced Optional Modules***

The Company offers a variety of optional modules to address specific business solutions, including *Livelink Spider*, *Livelink Change Agents*, and *Livelink Explorer*.

*Livelink Spider* is a powerful and high performance enterprise data gathering engine. It locates documents published on Web sites and retrieves them to be indexed, enabling the creation of a constantly-updated searchable database. The *Livelink Spider* has features including individual site databases, page-level analysis, charting and reporting facilities, templates for site crawling, parallel crawling processes, and a crawling rate of up to one million pages per day.

*Livelink Change Agents* provide notification to users when objects change or are added to the *Livelink* system. The technology includes monitoring content and objects, e-mail message notification with hyperlinks to changed objects, personal notification schedules, multiple notification reports, support for TAPI/SAPI/IMAP, and the ability to configure notification through media such as pagers, voice mail, faxes and cell phones.

*Livelink Explorer* is an application based on Microsoft's ActiveX technology that presents users with a familiar Window's Explorer-like drag-and-drop interface to navigate the *Livelink* system. *Livelink Explorer* supports drag-and-drop between the Windows desktop and *Livelink*, all within a Web browser.

## **Applications of Livelink**

*Livelink* applications have been deployed for a great variety of uses such 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
- Creation and monitoring of clinical trial data and in the development of new drug applications in the pharmaceutical industry
- Managing and controlling changes in engineering drawings for the telecommunications industry
- Creating and managing standard operating procedures in the high-tech manufacturing industry
- Developing and managing proposals in the aerospace industry
- Improving customer responsiveness through Call Center applications in the insurance industry
- Managing the interview process in Human Resources departments
- Year 2000 compliance process approvals
- Managing ISO 9000 compliance accreditation
- Managing Medicare health claims
- Managing the Loan approval processes (workflow and document management) in the banking industry
- Managing document publishing processes in the Publishing industry
- Managing policy procedures and the dissemination of information in accordance with governmental policies
- Managing the development process for new product releases
- Managing internal and external document development process related to regulatory reviews

## **Competition**

The Company's products and services compete both at a functional level and at a market segment level. As a result of *Livelink's* broad spectrum of functionality, it has a number of competitors for each of its functions. 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 LAVA, Lotus Notes/Domino, ChangePoint, NetRight and the RadNet products.

Open Text has positioned its products in the new and emerging “collaborative knowledge management” market space, which is intensely competitive, subject to rapid technological change and evolving rapidly. The knowledge management market is becoming fiercely competitive as major and smaller industry players jockey for position with offerings that fall into three different segments: high-end, specialized document management solutions, collaborative knowledge management applications and e-mail centric messaging systems.

Companies such as Documentum, FileNet, PC DOCS offer highly specialized document management technology suitable for building application-specific document management needs. Companies like Microsoft Corporation (“Microsoft”) and IBM offer e-mail based collaborative messaging applications. In April 1996, Microsoft introduced Microsoft Exchange Server that 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. IBM/Lotus currently dominates the electronic messaging and calendaring segment with a large installed base of Lotus Notes users.

The Company expects competition to increase in the future as the markets for the Company’s products develop and as additional players enter the market. 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’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.

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.

## **Sales and Marketing**

The Company employs multiple distribution channels, including direct sales, distributors, OEMs and VARs, in order to market its 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 August 15, 1998, the Company’s worldwide sales force consisted of 101 sales representatives in 35 cities.

*Distributors.* The Company has distribution agreements with both Canon Inc. 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. During 1997, the Company entered into an OEM agreement with Siemens Nixdorf Inc. to market its products in Europe.

*Livelink Affinity Partners.* The Company has over 50 *Livelink* Affinity Partners (VARs, Solution Providers and Developers) to re-sell, 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 knowledge management solutions to address specific customer needs.

## **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".

*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 17.5% of the value 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 August 15, 1998, the Company employed 172 customer support and professional service personnel.

## **Product Development**

As of August 15, 1998, the Company's research and development organization included 147 employees. In June 1998, version 8 of *Livelink* was released which enhanced functionality and introduced modular architecture. Future versions are planned which will integrate the technology of OnTime and Information Dimensions. 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 allocate resources among 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" and "Forward-Looking Statements".

## **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 to the Company.

The Company's software products are generally licensed to customers 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.

During fiscal 1998, the Company registered the name *Livelink* in the United States, Canada and certain other countries.

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 securities.

### ***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. *Livelink*, the Company’s principal product was first released during fiscal 1996. 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 five fiscal years. As of June 30, 1998, the Company had an accumulated deficit of \$66 million. Some of 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 further 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 with the objective of supporting 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 continue to 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 recent acquisitions of Information Dimensions and OnTime, 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 *Livelink*. In the past, the Company has at times experienced longer than anticipated installation times for new products as they were 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 and sustain 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 and sustain market acceptance, the Company's business, operating results and financial condition will be materially adversely affected.

#### ***Management of Growth; Integration of Acquisitions***

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 592 as of August 15, 1998. The Company believes that continued growth in the breadth of its product lines and services and in the number of personnel will be required in order to establish and maintain the Company's competitive position. The Company has grown through acquisitions in the past and continues to review acquisition opportunities as a means of increasing the size and scope of its business. In June 1998, the Company completed the acquisition of Information Dimensions. In December 1997, the Company completed the acquisition of OnTime. See Note 16 of Notes to Consolidated Financial Statements. There can be no assurances that the Company will complete any future acquisitions, and if completed, that any further such acquisitions or the acquisition of Information Dimensions or OnTime will be successfully integrated into the Company.

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 has focussed its efforts on the *Livelink* product suite and consolidating the operations of Information Dimensions and OnTime. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview". If the Company completes significant future acquisitions, the need to integrate and manage the business acquired with the business of the Company would add to the demands on the Company's management, resources, systems, procedures and controls. 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 to successfully integrate any business acquisitions in the future. 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 enhance the capability for *Livelink* to enable users to form workgroups and collaborate on intranets and the Internet and to integrate the technology of OnTime and Information Dimensions. 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.

### ***Product Defects and Product Liability***

The Company's products are highly complex and sophisticated and, from time to time, may contain design defects or software errors that are difficult to detect and correct. There can be no assurance that errors will not be found in new products after commencement of commercial shipments or, if discovered, that the Company will be able to successfully correct such errors in a timely manner or at all. In addition, despite tests carried out by the Company on all its products, there is no assurance that the Company will be able to fully simulate the environment in which its products will operate and, as a result, the Company may be unable to adequately detect design defects or software errors inherent in its products and which only become apparent when the products are installed in an end-user's network. The occurrence of errors and failures in the Company's products could result in loss of or delay in market acceptance of the Company's products, and alleviating such errors and failures in the Company's products could require significant expenditure of capital and other resources by the Company. Because the Company's end-user base consists of a limited number of end-users, the reputational harm resulting from product errors and failures would be damaging to the Company. The consequences of such errors and failures could have a material adverse effect on the Company's businesses, results of operations and financial condition. The Company regularly provides a warranty with its products. There can be no assurance that the financial impact of these warranty obligations will not be significant in the future. The Company's agreements with its strategic partners and end-users typically contain provisions designed to limit the Company's exposure to claims, such as exclusions of all implied warranties and limitations on damage remedies and the availability of consequential or incidental damages. However, such provisions may not effectively protect the Company against claims and related liabilities and costs. Although the Company maintains errors and omissions insurance coverage and comprehensive liability insurance coverage, there can be no assurance that such coverage will be adequate or that all claims will be covered. Accordingly, any such claim could have a material adverse effect upon the Company's business, results of operations and financial condition. See "—Year 2000 Compliance".

### ***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, complement 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.

### ***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. See "—Year 2000 Compliance".

### ***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. 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 aggressive 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 short term investments and working capital were \$40.4 million and \$38.6 million, respectively, at June 30, 1998. During the year ended June 30, 1998, the Company's operations used cash in the amount of \$8.1 million. The Company anticipates increased expenses in fiscal 1999. 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. In March 1998, the Company received net proceeds of \$34.8 million from the sale of Special Warrants. 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 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 intranets with respect to *Livelink*. This product is marketed to organizations with intranets or those 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, which may inhibit organizations from creating intranets. There can be no assurance 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 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.

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 could 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 "Business of the Company-Intellectual Property Rights".

### ***Dependence on Key Personnel; Recent Changes***

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. In July 1997, the Company added Brett A Newbold as President and Keith Soley left his position as the Company's Chief Operating Officer during the first quarter of fiscal 1998. In October 1997, the Company added Thomas J Hearne as Chief Financial Officer. 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.

### ***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.

#### ***Dependence on a Limited Number of Products***

Substantially all of the Company's revenues are currently derived from *Livelink* and related services offered by the Company in the Internet and intranet markets. Accordingly, the Company's future results of operations will depend, in part, on maintaining and increasing market acceptance of this product and related services, as well as on the Company's ability to continue to enhance these products and services to meet the evolving needs of its customers. A reduction in demand or increase in competition in the market for Internet or intranet applications, or a decline in sales of *Livelink* and related services, could have a material adverse effect on the Company's business, results of operations and financial condition. See "Business of the Company-Products" and "Business of the Company-Competition".

#### ***Dependence on Distribution Channels***

While the Company receives most of its revenue from direct sales, a portion of the Company's revenue is derived from the sale of its products through third parties. There can be no assurance that the Company will be able to retain a sufficient number of its existing or future distributors, that such distributors will not give higher priority to the sale of other products (which could include products of competitors) or that these distributors will devote sufficient resources to marketing of the Company's products. The performance of third party distributors is outside the control of the Company and the Company is unable to predict the extent to which these distributors will be successful in marketing and selling the Company's products. A reduction in sales efforts or discontinuance of sales of the Company's products by its distributors could lead to reduced sales and could, as a result, have material adverse effect on the Company's business, financial condition and results of operations. In addition, other methods of product distribution may become important in the future, such as on-line services and other electronic distribution. The Company's success will depend, in part, upon its ability to attract and retain sufficient direct sales personnel, to maintain access to existing channels of distribution and to gain access to new channels if and when they develop. See "Business of the Company -- Sales and Marketing".

#### ***Risks Associated with International Sales***

The Company intends to continue to make efforts to increase international sales and anticipates that international sales will account for a significant portion of its revenue. These sales are subject to certain risks and costs associated with international operations, including the difficulty and expense of administering business abroad, complications in complying with foreign laws and domestic and international import and export laws and regulations and costs related to localizing products for foreign markets and translating and distributing products in a timely manner. Significant international sales may also expose the Company to greater risk from political and economic instability, unexpected changes in Canadian, US or other governmental policies concerning import and export of goods and technology and other regulatory requirements and tariffs and other trade barriers. In addition, while US and Canadian copyright law, international conventions and international treaties may provide meaningful protection against unauthorized duplication of software, the laws of some foreign jurisdictions may not protect proprietary rights to the same extent as the laws of Canada or the United States. Software piracy has been, and can be expected to be, a persistent problem for the software industry. See "Business of the Company -- Intellectual Property". Although to date the Company has not experienced any of the foregoing factors to any significant extent, there can be no assurance that these factors will not be experienced by the Company in the future or that they will not have a material adverse effect on the Company's business, results of operations and financial condition. In addition, international earnings may be subject to taxation by more than one jurisdiction, which could also materially adversely affect the Company's results of operations.

### ***Year 2000 Compliance***

Year 2000 computer risks arise from the practice of some computers using only two digits rather than four to indicate the year portion of the date. When January 1, 2000 arrives, these computers will change from “99” to “00” and may react as if it is the year 1900.

The Company is currently in the process of assessing its risks and costs of compliance. The expectation is that this review will be completed by the end of 1998. Until completion of this review, the Company does not know whether there are any material operational issues or costs associated with preparing its internal systems for Year 2000 compliance and there can be no assurances that the Company will not experience serious unanticipated negative consequences and/or material costs caused by undetected errors or defects in the technology used in its internal systems.

Additionally, there is the possibility that in the coming year corporations in dealing with their own Year 2000 issues will defer some software purchases except for the most urgent and those relevant to solving their own Year 2000 concerns. To the extent that this occurs, it could materially adversely affect the Company’s results of operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Year 2000 Compliance”.

### **Item 2. Properties**

The Company leases 32,000 square feet of office space at its Waterloo headquarters pursuant to a lease that 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 (these premises have been sublet to a third party by the Company). 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 Ottawa, Ontario and Vancouver, British Columbia; US field offices in San Mateo, California; Bethesda, Maryland; Dublin, Ohio; and Detroit, Michigan; and international field offices in London, England; Amsterdam, The Netherlands; Paris, France; Frankfurt, Germany and St. Gallen, Switzerland. The current annualized total rent for the Company is approximately \$3.1 million.

### **Item 3. Legal Proceedings**

Not applicable.

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

None.

#### Executive Officers and Directors of the Registrant

The following table sets forth certain information as to the directors and officers of the Company as of August 15, 1998.

<u>Name</u>	<u>Age</u>	<u>Position with Company</u>	<u>Principal Occupation</u>
P Thomas Jenkins Waterloo, Ontario, Canada	38	Director and Chief Executive Officer	Chief Executive Officer of the Company
Brett A Newbold Palo Alto, CA, USA	46	Director and President	President of the Company
Richard C Black <sup>(1)(2)</sup> Etobicoke, Ontario, Canada	30	Director	Vice President, Helix Investments (Canada) Inc. (a venture capital company)
Daniel Cheifetz Evanston, IL, USA	50	Director and Executive Vice President, Software Development	Executive Vice President, Software Development of the Company
Warren L Culpepper <sup>(1)(3)</sup> Big Canoe, GA, USA	56	Director	President, Culpepper and Associates (a software industry research firm)
Randy Fowlie <sup>(2)</sup> Waterloo, Ontario, Canada	38	Director	Chief Financial Officer, Inscriber Technology Corporation (a computer software company)
Ken Olisa <sup>(1)</sup> Surrey, UK	46	Director	Managing Director, Interregnum Venture Marketing Limited (an Information Technology venture marketing company)
Stephen J Sadler <sup>(2)</sup> Aurora, Ontario, Canada	47	Director	Vice Chairman, GEAC Computer Corporation (a computer software company)
Michael Slaunwhite <sup>(2)(3)</sup> Gloucester, Ontario, Canada	37	Director	President, Manta Corporation (a services and software company)
Paul J Stoyan <sup>(3)</sup> Toronto, Ontario, Canada	40	Director	Partner, Gardiner, Roberts (a law firm)
Thomas J Hearne Etobicoke, Ontario, Canada	33	Chief Financial Officer	Chief Financial Officer of the Company
Anthony Heywood Buckinghamshire, UK	44	Executive Vice President, Europe	Executive Vice President, Europe of the Company
Abraham Kleinfeld Mill Valley, CA, USA	40	Senior Vice President, Marketing and Corporate Development	Senior Vice President, Marketing and Corporate Development of the Company
Kirk Roberts Guelph, Ontario, Canada	37	Vice President, Livelink Solutions and Online Services	Vice President, Livelink Solutions and Online Services of the Company
Marco Palatini Niederwil, Switzerland	45	Director, Central Europe	Director, Central Europe of the Company

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

(3) Member of the Corporate Governance Committee.

**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 the President 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 has 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 A Newbold** has served as a director of the Company since September 1997 and as the President of the Company since July 1997. From 1990 to July 1997, Mr. Newbold was employed by Oracle Corporation 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.

**Richard C Black** has served as a director of the Company since December 1993. From May 1993 to the present, Mr. Black has served as a Vice President of Helix Investments (Canada) Inc. (“Helix”), a venture capital company. From May 1991 until May 1993, Mr. Black served as an associate at Helix. Prior to May 1991, Mr. Black was a self-employed businessman. Mr. Black also serves as a director of CRS Robotics Corporation and Architel Systems Corporation.

**Daniel Cheifetz** has served as a director of the Company since October 1995 and Executive Vice President, Software Development of the Company since October 1996. Mr. Cheifetz served as President of Odesta from October 1995 to October 1996. From February 1992 to October 1995, Mr. Cheifetz served as the President and Chief Executive Officer of Odesta which was acquired by the Company in October 1995.

**Warren L Culpepper** has served as a director of the Company since June 1994. From April 1979 to the present, Mr. Culpepper has served as the President of Culpepper and Associates, a software industry research firm. Mr. Culpepper currently serves as a director of GEAC Computer Corporation (“GEAC”), a computer software company.

**Randy Fowlie** has served as a director of the Company since March 1998. From February 1998 to present, Mr. Fowlie has been Chief Financial Officer of Inscrubber Technology, a computer software company. Prior to that, Mr. Fowlie worked with KPMG Chartered Accountants since 1984 and was a tax partner since 1995 and the leader of the firm’s Information, Communication and Entertainment practice in the Kitchener Waterloo, Cambridge and Guelph offices. Mr. Fowlie is currently a member of the board of CTT Communitex Technology Association and is a member of the Canadian Tax Foundation.

**Ken Olisa** has served as a director of the Company since January 1998. Since 1992, Mr. Olisa has served as Managing Director of Interregnum Venture Marketing Ltd., an Information Technology venture marketing company. From 1981 to 1992, Mr. Olisa served in various positions with Wang Laboratories Inc. most recently in the capacity of Senior Vice President and General Manager, Europe, Africa and Middle East. Mr. Olisa is a member of the board of several privately held technology companies based in the United Kingdom and is Chairman of each of DMA-TEK Ltd. of Israel, Geoconference Ltd. and Metaprxix Ltd.

**Stephen J Sadler** has served as a director of the Company since September 1997. Mr. Sadler has served as interim Chairman of Helix since October 1997, as Vice Chairman of GEAC since October 1996, as President and Chief Executive Officer of GEAC from 1990 to September 1996 and as Executive Vice President and Chief Financial Officer of GEAC from 1987 to 1990. Prior to Mr. Sadler’s involvement with GEAC, he held executive positions with Phillips Electronics Limited and Loblaw’s Companies Limited. Mr. Sadler is also a director of GEAC, Rand A Technology Corporation and Oxbow Equities Inc.

**Michael Slaunwhite** has served as a director of the Company since March 1998. Mr. Slaunwhite has served as President of Manta Corporation, a leading vendor of products and services to the groupware marketplace since 1995. From 1994 to 1995, Mr. Slaunwhite was an independent consultant to a number of companies assisting them with strategic and financing plans. Mr. Slaunwhite was Chief Financial Officer of Corel Corporation from 1988 to 1993.

**Paul J Stoyan** has served as a director of the Company since January 1998. Mr. Stoyan has been a partner in the law firm of Gardiner, Roberts since 1993 specializing in the areas of corporate/commercial and finance law with an emphasis on mergers and acquisitions. Mr. Stoyan has acted as legal counsel to a number of large and medium sized corporations in Canada and abroad and has also worked extensively with various venture capitalists and start-up companies.

**Thomas J Hearne** has served as the Chief Financial Officer of the Company since October 1997. From September 1996 to October 1997, Mr. Hearne served as Vice President, Finance and Administration of Algorithmics Incorporated, a developer of risk management software. From April 1996 to September 1996 Mr. Hearne was the Controller at Algorithmics Incorporated. From September 1992 to April 1996, Mr. Hearne was European Controller and Manager, Financial Reporting at Alias Research Inc., a developer of advanced graphics software systems.

**Anthony Heywood** has served as Executive Vice President, Europe of the Company 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 November 1995.

**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 the Company in October 1995 and had previously held sales and marketing positions at Oracle Corporation, Computer Consoles, Inc. and Wang Laboratories.

**Kirk Roberts** has served as Vice President, Livelink Solutions and Online Services of the Company since August 1997. Mr. Roberts joined the Company in 1996 as Vice President, Network Services. From 1982 to 1996, Mr. Roberts was Executive Director of NIRV. Mr. Roberts has 12 years experience in the development, deployment and management of on-line collaboration, intranet and Internet services. 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 Director, Central Europe of the Company since June 1997 and as the Vice President, European Operations of the Company from October 1995 to May 1997. From December 1988 until October 1995, Mr. Palatini served as the Chief Executive Officer of Intunix, which he founded in December 1988. Intunix was acquired by the Company in October 1995.

## PART II

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

The Common Shares began trading on the NASDAQ National Market on January 23, 1996 under the symbol "OTEXF" and has been trading there since that time. The Common Shares recently began trading on the Toronto Stock Exchange on June 26, 1998 under the symbol "OTC". 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.

On June 30, 1998, the closing bid price of the Company's Common Stock on NASDAQ was \$15.00 per share.

	<u>High</u>	<u>Low</u>
Year Ending June 30, 1998		
Fourth Quarter	\$23.50	\$14.13
Third Quarter	21.75	10.25
Second Quarter	14.38	9.00
First Quarter	15.50	8.88
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 August 31, 1998, the closing bid price of the Company's Common Stock on NASDAQ was \$11.00 per share. As at August 31, 1998, there were approximately 3,700 shareholders of record of the Company's Common Stock. As at August 31, 1998, there were approximately 2,000 US shareholders of record holding 11,046,834 shares of 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 was completed on 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% except where such beneficial

owner is a company which owns at least 10% of the voting stock of the Company (in which case the rate of such withholding is 5%).

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 US from the disposition of Common Shares will generally not be taxable in Canada unless such US 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 US citizens (collectively, "Unconnected US Shareholders"). The tax consequences of an investment in the Common Shares by investors who are not Unconnected US Shareholders may be expected to differ substantially from the tax consequences discussed herein. The discussion is based upon the provisions of the US 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 US 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 and 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 and 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 US 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. The tax basis will initially equal its cost to the Unconnected US Shareholder, as reduced by any distributions on the shares treated as return of capital. The Unconnected Shareholder will be taxed on the net amount of his or her capital gain at a maximum rate of (1) 28% provided the Common Shares were held for more than 12 months but not more than 18 months and (2) 20% provided the Common Shares were held for more than 18 months. Special rules (and generally lower maximum rates) apply to individuals in lower tax brackets. 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 US corporation or non-US corporation, may be classified as a personal holding company (a “PHC”) for US 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-US 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 US 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”). If the corporation owns, directly or indirectly, at least 25% by value of the stock of another corporation, it will be treated as if it holds directly its proportionate share of assets, and receives directly its proportionate share of income of such other corporation. Accordingly, the classification of the Company as a PFIC in any taxable year will depend on the character of the income and the assets of the Company and its subsidiaries”.

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 US federal income tax purposes) would be imputed to all of its shareholders who are US 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. US 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-US corporation will be classified as a passive foreign investment company (a “PFIC”) for US 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. If the corporation owns, directly or indirectly, at least 25% by value of the stock of another corporation, it will be treated as if it holds directly its proportionate share of assets, and receives directly its proportionate share of income of such other corporation. Accordingly, the classification of the company as a PFIC in any taxable year will depend on the character of the income and the assets of the company and its subsidiaries.

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, US 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 US 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.

	<b>Fiscal Year Ended June 30,</b>				
	<b>1998<sup>(2)</sup></b>	<b>1997</b>	<b>1996<sup>(2)</sup></b>	<b>1995</b>	<b>1994</b>
	(in thousands, except per share data)				
	(restated)				
<b>Statement of Operations Data:</b>					
Total revenues	\$ 45,300	\$ 22,648	\$ 9,995	\$ 2,479	\$ 1,728
Gross Profit	36,246	15,169	6,183	2,098	1,534
Operating expenses:					
Research and development	7,906	6,612	4,531	709	503
Sales and marketing	21,906	16,638	8,466	1,565	889
General and administrative	4,645	4,648	3,658	783	689
Depreciation	2,374	1,689	3,238	144	67
Amorization of intangible assets	618	-	-	-	-
Acquired in-process research and development and write down of acquired intangible assets	7,978	-	27,555	-	-
Restructuring reserve	-	650	3,428	-	-
Total operating expenses	<u>45,427</u>	<u>30,237</u>	<u>50,876</u>	<u>3,201</u>	<u>2,148</u>
Loss from operations	(9,181)	(15,068)	(44,693)	(1,103)	(614)
Other income	280	57	145	-	-
Interest income	1,745	1,944	1,478	-	-
Interest expense	(125)	(148)	(129)	(108)	(96)
Loss before income taxes	\$ (7,281)	\$ (13,215)	\$ (43,199)	\$ (1,211)	\$ (710)
Income tax recovery	1,000	-	-	-	-
Net loss for the year	<u>\$ (6,281)</u>	<u>\$ (13,215)</u>	<u>\$ (43,199)</u>	<u>\$ (1,211)</u>	<u>\$ (710)</u>
Net loss per share	<u>\$ (0.36)</u>	<u>\$ (0.78)</u>	<u>\$ (3.59)</u>	<u>\$ (0.37)</u>	<u>\$ (0.38)</u>
Weighted average Common Shares outstanding <sup>(1)</sup>	<u>17,680</u>	<u>16,866</u>	<u>12,042</u>	<u>3,243</u>	<u>1,894</u>
	<b>June 30,</b>				
	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>

### Balance Sheet Data:

Cash and cash equivalents	\$ 40,390	\$ 31,762	\$ 51,139	\$ -	\$ -
Working capital	38,640	32,902	48,892	(124)	394
Total assets	100,582	52,345	66,158	2,597	1,814
Long-term liabilities	-	-	742	157	282
Shareholders' equity	73,074	42,455	55,550	404	758

### 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) 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 16 of Notes to Consolidated Financial Statements.

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

### Restatement of IPR&D and Intangible Assets

During the fourth quarter of the 1998 fiscal year, the Company acquired certain assets relating to the business of Information Dimensions from Gores Technologies, Inc and during the second quarter of the 1998 fiscal year, the Company acquired certain assets relating to the business of OnTime from Campbell Services, Inc. At the time of the acquisitions, the Company, in consultation with its independent auditors, PricewaterhouseCoopers LLP, applied then existing, generally employed appraisal methodologies to determine the fair value of in-process research and development ("IPR&D"). Subsequent to the acquisitions and the Company's release of its year end fiscal 1998 results, in a letter dated September 9, 1998 to the American Institute of Certified Public Accountants, the Chief Accountant of the Securities and Exchange Commission (SEC) expressed new views of the SEC staff that took issue with certain appraisal practices generally employed in the determination of the fair value of the IPR&D. The Company, in consultation with its independent auditors, has voluntarily decided to adjust the amount originally allocated to acquired IPR&D in a manner to reflect the SEC staff's current views and has restated its fiscal 1998 consolidated financial statements accordingly.

The Company believes it is in compliance with all of the interpretation of the rules surrounding IPR&D and intangible assets. However, there can be no assurance that the SEC will not seek to further refine their interpretation of the rules surrounding purchased IPR&D and that this could result in the further adjustment of the Company's amounts of IPR&D and intangible assets.

The restatement does not affect previously reported net cash flows for the periods. The following table summarizes the changes to the purchase price allocation among the acquired assets and assumed liabilities as a result of the Company's restatement (in thousands):

	<b>As</b>	
	<b>Previously</b>	<b>As</b>
	<b>Reported</b>	<b>Restated</b>
Tangible net liabilities	(\$3,490)	(\$3,490)
Current software products	3,978	1,657
Core technology	-	5,003
Acquired in-process research and development and write down of acquired intangible assets	24,062	5,477
Goodwill	<u>-</u>	<u>15,903</u>
Total purchase price	<u><u>\$24,550</u></u>	<u><u>\$24,550</u></u>

The following table summarizes the changes in the Company's consolidated results of operations for the year ended June 30, 1998 and changes in its consolidated balance sheet as of June 30, 1998 as a result of the Company's restatement of the purchase price allocation (in thousands):

	<b>For the Year Ended June 30, 1998</b>	
	<b>As</b>	
	<b>Previously Reported</b>	<b>As Restated</b>
Cost of revenue: license	\$ 1,711	\$ 1,500
Amortization of intangible assets	-	618
Total operating expenses	62,410	45,427
Loss from operations	(26,375)	(9,181)
Net loss for the year	(23,475)	(6,281)
Net loss per share - basic	\$ (1.33)	\$ (0.36)
Net loss per share - diluted	\$ (1.33)	\$ (0.36)

	<b>June 30, 1998</b>	
	<b>As</b>	
	<b>Previously Reported</b>	<b>As Restated</b>
Other assets	\$4,553	\$6,286
Goodwill	-	15,461
Accumulated deficit	(83,239)	(66,045)

## Overview

Open Text develops, markets, licenses and supports collaborative knowledge management application software for use on intranets, extranets and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes, do group calendaring and scheduling 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*, is a scaleable collaborative network application that integrates several modular engines including, but not limited to, search, collaboration, workflow, group calendaring and scheduling, 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 engines enable users to establish and manage knowledge and document-oriented collaborative work processes that involve a diversity of workers, computing platforms and data. The Company's group calendaring and scheduling enables users to quickly schedule personal and group meetings, reserve conference rooms and add tasks to other users' lists of things to do. 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 to provide collaborative knowledge management solutions for use on intranets.

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, 1998, had an accumulated deficit in shareholders' equity of \$66 million. The Company attained operating profitability for the last three quarters in fiscal 1998 however there can be no assurance this can be sustained.

During 1996, the Company completed the acquisitions of seven businesses. 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.

During 1998, the Company completed the acquisitions of OnTime and Information Dimensions. The results of operations of these acquisitions 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 \$28.0 million to intangible assets during the year ended June 30, 1998. Of this amount, an aggregate of \$5.5 million was allocated to purchased research and development and, under US GAAP, was charged immediately to expense. See "Business — Acquisitions" and Note 16 of Notes to Consolidated Financial Statements for additional information concerning the acquisitions.

On June 3, 1998 the Company acquired certain of the assets and liabilities of Information Dimensions for approximately \$8.1 million which consists of cash paid on closing of \$7.6 million and an accrual of \$500,000 for contingent consideration that the Company expects it will be obligated to pay to the vendor one year from the closing date based on the delivery of a special purpose balance sheet of the assets and liabilities assigned as at May 31, 1998. See Note 16 of Notes to Consolidated Financial Statements. The operations of Information Dimensions have been included in the financial statements from the purchase date, using the purchase method of accounting.

On December 3, 1997 the Company acquired certain of the assets and liabilities of OnTime for approximately \$6.7 million, in a transaction which has been accounted for under the purchase method. See Note 16 of Notes to Consolidated Financial Statements. The purchase price is subject to adjustment based on delivery of a special purpose balance sheet of the assets and liabilities assigned as at November 30, 1997. The operations of OnTime have been included in the financial statements from the purchase date. Cash in the amount of \$6.2 million was paid at closing. Cash in the amount of \$268,000 was paid prior to June 30, 1998 based on the final determination of OnTime's working capital.

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 16 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 has integrated and has plans to continue to integrate, technologies acquired with certain of the Acquired Businesses into *Livelink*. See "Business - Acquisitions" and " - 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 "Risk Factors - 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.

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* 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 *Internet Anywhere* (the Company's Internet access software) 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 and has transformed the product into a business specific search index called *Livelink Pinstripe*.

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, 1998, the Company sustained a loss of \$6.3 million, or \$0.36 per share.

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

	<b>Year Ended June 30,</b>		
	<b>1998</b> (restated)	<b>1997</b>	<b>1996</b>
<b>Revenues:</b>			
License	65.4 %	60.6 %	65.8 %
Service	<u>34.6</u>	<u>39.4</u>	<u>34.2</u>
Total revenues	100.0	100.0	100.0
<b>Cost of revenues:</b>			
License	3.3	3.7	17.2
Service	<u>16.7</u>	<u>29.3</u>	<u>20.9</u>
Total cost of revenues	<u>20.0</u>	<u>33.0</u>	<u>38.1</u>
Gross Profit	80.0	67.0	61.9
<b>Operating expenses:</b>			
Research and development	17.4	29.2	45.3
Sales and marketing	48.4	73.5	84.7
General and administrative	10.3	20.5	36.6
Depreciation	5.2	7.4	32.4
Amortization of acquired intangible assets	1.4	-	-
Acquired in-process research and development and write down of acquired intangible assets	17.6	-	275.7
Restructuring	<u>-</u>	<u>2.9</u>	<u>34.3</u>
Total operating expenses	<u>100.3</u>	<u>133.5</u>	<u>509.0</u>
Loss from operations	(20.3)	(66.5)	(447.1)
Other income (expense)	0.6	0.3	1.4
Interest income	3.9	8.6	14.8
Interest expense	(0.3)	(0.7)	(1.3)
Loss before income taxes	<u>(16.1)</u>	<u>(58.3)</u>	<u>(432.2)</u>
Income tax recovery	<u>2.2</u>	<u>-</u>	<u>-</u>
Net loss for the year	<u>(13.9) %</u>	<u>(58.3) %</u>	<u>(432.2) %</u>

### **Fiscal 1998 Compared with Fiscal 1997**

*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 100% from \$22.6 million in the year ended June 30, 1997 to \$45.3 million in the year ended June 30, 1998. Revenues from licenses increased 116% from \$13.7 million in the year ended June 30, 1997 to \$29.6 million in the year ended June 30, 1998. The Company's *Livelink* software accounted for 100% of revenues from licenses in fiscal 1998, compared with 90% in fiscal 1997. Service revenues increased 76% from \$8.9 million in the year ended June 30, 1997 to \$15.7 million in the year ended June 30, 1998. 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.

*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, as well as software amortization on purchased software.

Cost of license revenues increased from \$848,000 in the year ended June 30, 1997 to \$1.5 million in the year ended June 30, 1998, decreasing from 3.7% to 3.3% of total revenue. Included in cost of license revenues is software amortization on purchased software.

Cost of service revenues consists primarily of the costs of integration, technical support personnel, product support and training. Cost of service revenues increased 13.9% from \$6.6 million in the year ended June 30, 1997 to \$7.6 million in the year ended June 30, 1998, 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 decreased from 29.3% in the year ended June 30, 1997 to 16.7% in the year ended June 30, 1998. The Company believes that it must continue to enhance its customer service and support capabilities as its customer base expands.

*Research and development costs.* 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.

Research and development costs increased by 19.6% from \$6.6 million in the year ended June 30, 1997 to \$7.9 million in the year ended June 30, 1998 and decreased as a percentage of total revenues from 29.2% in the year ended June 30, 1997 to 17.4% in the year ended June 30, 1998. 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. See "Forward-Looking Statements".

*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 31.7% from \$16.6 million in the year ended June 30, 1997 to \$21.9 million in the year ended June 30, 1998 but decreased as a percentage of total revenues from 73.5% in the year ended June 30, 1997 to 48.4% in the year ended June 30, 1998. 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 remained constant at \$4.6 million in the year ended June 30, 1997 and in the year ended June 30, 1998 and decreased as a percentage of total revenues from 20.5% in the year ended June 30, 1997 to 10.3% in the year ended June 30, 1998. The Company has maintained 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".

*Depreciation expenses.* Depreciation expense was \$1.7 million in the year ended June 30, 1997 and increased to \$2.4 million in the year ended June 30, 1998 as a result of increased capital expenditures during the year.

*Amortization of acquired intangible assets.* During fiscal 1998, the Company acquired certain assets and liabilities of Information Dimensions and OnTime. For both acquisitions an aggregate of \$5.0 million was capitalized as core technology and \$15.9 million was capitalized as goodwill. These items will be amortized on a straight-line basis over seven and ten years respectively. In fiscal 1998, \$618,000 was amortized for core technology and goodwill versus nil in fiscal 1997.

*Acquired in-process research and development and write down of acquired intangible assets.* During fiscal 1998, the Company acquired certain assets and liabilities of Information Dimensions and OnTime. For both acquisitions, an aggregate of \$5.5 million was charged to expense for acquired in-process research and development

at the dates of the respective acquisitions. The Company subsequently revised the current software products and core technology valuation for OnTime resulting in an additional writedown of \$2.5 million and this amount has been included in acquired in-process research and development.

*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 of \$280,000 for fiscal 1998 consisted principally of foreign exchange gains and gains on the sale of fixed assets.

*Interest.* Interest expense has been incurred by the Company under capital equipment leases. Interest expense was \$148,000 in the year ended June 30, 1997 compared to \$125,000 in the year ended June 30, 1998. The Company earned interest income in the amount of \$1.9 million during the year ended June 30, 1997 which decreased to \$1.7 million for the year ended June 30, 1998 as a result of lower interest rates and lower average cash balances. See "Liquidity and Capital Resources".

*Income taxes.* A deferred tax asset of \$16.4 million and \$20.4 million existed as of June 30, 1997 and June 30, 1998 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 valuation allowance continues to be recorded against a significant portion of the deferred tax asset 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 1997 Compared with Fiscal 1996**

*Revenues.* 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.

*Cost of revenues.* 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:

	<u>Year Ended June 30,</u>	
	<u>1997</u>	<u>1996</u>
	(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%

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 increased and reflected an increase in the number of personnel through hiring in support of the Company's research and development projects.

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 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.

*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*.

*General and administrative expenses.* General and administrative expenses increased 27.1% 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.

*Amortization expenses.* Amortization expense was \$3.2 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 of purchased software and goodwill in 1996 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 and was included in amortization expense.

*Acquired research and development.* The \$27.6 million charge in fiscal 1996 relates to the Acquisitions completed during the year which was expensed as of the dates of acquisition.

*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.

*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.

*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 was recorded by the Company because of the lack of profitability in the past, the significant risk that taxable income would 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 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, 1998, the Company had cash and cash equivalents of \$40.4 million, current assets of \$66.1 million and current liabilities of \$27.5 million. The Company has credit facilities of \$6.5 million, under which borrowings were insignificant as at June 30, 1998.

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. ("General Internet"), a US based Internet service development company and converted these advances to a promissory note. During 1998, the Company

converted the note to 433,333 shares of Series A Convertible Preferred Stock, 1,114,327 shares of Series B Convertible Preferred Stock and a Special Warrants to purchase 67,708 shares of General Internet common stock. 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.

On March 25, 1998, the Company issued 1,750,000 Special Warrants at a price of \$20.85 per Special Warrant for net proceeds to the Company of \$34.8 million. All of the Special Warrants were converted into 1,750,000 Common Shares on July 10, 1998 without payment of additional consideration. Cash used by operations during the year ended June 30, 1998 was \$8.1 million. Acquisitions of furniture and equipment was \$3.7 million. The purchase of OnTime and Information Dimensions resulted in a cash outflow of \$5.5 million and \$7.8 million respectively. The purchase of other investments resulted in a cash outflow of \$2.4 million. Net cash used for the payment of capital lease obligations was \$597,000.

The Company had liabilities with respect to capital leases of \$344,000 at June 30, 1998 and operating lease obligations during fiscal 1998 of \$2.2 million. The Company anticipates additional capital expenditures for equipment as the number of employees increases and to meet new technology needs.

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 operational cash requirements until June 30, 1999. 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**

The Company's earnings are affected by fluctuations in the value of the US dollar, as compared to foreign currencies, as a result of transactions in foreign markets. Approximately 32% of the Company's revenues in 1998 and 39% in 1997 has been earned in currencies other than the US dollar. A portion of the Company's operating expense, 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 nor does the Company purchase or hold any derivative financial instruments for speculative purposes. 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.

### **Year 2000 Compliance**

The approach of the year 2000 presents potential issues to all organizations who use computers in the conduct of their business or depend on business partners who use computers. To the extent computer use is date-sensitive, hardware or software that recognizes the year by the last two digits may erroneously recognize "00" as 1900 rather than 2000, which could result in errors or system failures.

The Company initiated its year 2000 compliance efforts in 1998. The initial focus of the Company's compliance efforts was on *Livelink*, however the review has now been expanded to include all of the Company's

products and systems (including past products). The Company has retained outside consultants to assist it in its compliance review. The review and a determination of all compliance costs is expected to be completed by the end of calendar 1998. The Company's contingency plan will be formalized at the conclusion of this review.

*Livelink* obtains date information, such as creation dates and modification dates, directly from the computer's operating system. Thus, it is the Company's belief that the current version of *Livelink* is year 2000 compliant provided that third party software is not embedded therein and that the underlying operating systems are fully compliant. However, the Company has not yet completed the necessary testing in order to verify this compliance. Therefore, the primary risk for the Company's customer lies with their own computer operating systems. While operating systems companies have stated that their products will continue to operate properly into the twenty-first century, the Company has not conducted any tests with the operating systems companies to verify this.

There is also the possibility that in the coming year corporations in dealing with their own Year 2000 issues will defer some software purchases except for the most urgent and those relevant to solving their own Year 2000 concerns. To the extent that this occurs, it could materially adversely affect the Company's results of operations.

In addition to any Year 2000 issues identified within the Company, it is not presently clear that all parts of the country's infrastructure, including such things as the national banking systems, electrical power, communications, and governmental activities, will be fully functioning as the Year 2000 approaches. To the extent failure occurs in such activities, which are outside the Company's control, it could affect the Company's ability to service its customers with the same degree of effectiveness with which they are served presently. The Company is identifying elements of the infrastructure that are of greater significance to its operations, obtaining information on an ongoing basis as to their expected Year 2000 readiness, and determining alternative solutions if required.

**Item 7a. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable.

## Item 8. Financial Statements and Supplementary Data

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## 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 PricewaterhouseCoopers, 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.

PricewaterhouseCoopers 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

Thomas J Hearne  
Chief Financial Officer

August 12, 1998  
Except as to Note 2, 11 and 16 of the consolidated  
financial statements which are as of August 11, 1999

## **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, 1998 as restated, and 1997 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended June 30, 1998, as restated, 1997 and 1996. 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 1998 and 1997 and the results of its operations and cash flows for the years ended June 30, 1998, 1997 and 1996 in accordance with accounting principles generally accepted in the United States.

As discussed more fully in Notes 2 and 16, the Company has modified the method it used to allocate excess purchase price over net assets (liabilities) acquired to in-process research and development to conform with the current views of the Securities and Exchange Commission, corrected its disclosure of the acquisitions and accordingly restated its consolidated financial statements for the year ended June 30, 1998.

(signed) PricewaterhouseCoopers LLP  
Chartered Accountants

Kitchener, Canada  
August 12, 1998  
Except as to Notes 2, 11 and 16 of the consolidated  
financial statements which are as of August 11, 1999

**OPEN TEXT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands of US Dollars, except share data)

	<b>June 30,</b>	
<b>ASSETS</b>	<b>1998</b>	<b>1997</b>
	(restated)	
Current assets:		
Cash and cash equivalents	\$ 40,390	\$ 31,762
Accounts receivable trade, net of allowance for doubtful accounts of \$1,635 as at June 30, 1998 and \$350 as at June 30, 1997	22,924	8,623
Prepaid expenses	2,834	2,407
Total current assets	66,148	42,792
Furniture and equipment (Note 3)	8,710	5,054
Other investments, at cost (approximates market value)	3,977	1,591
Goodwill, net of accumulated amortization of \$442 (Note 2)	15,461	-
Other assets, net of accumulated amortization of \$40 (Note 2)	6,286	2,908
	\$ 100,582	\$ 52,345
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable - trade and accrued liabilities (Note 5)	\$ 17,052	\$ 7,092
Deferred revenues	10,112	1,857
Obligations under capital leases (Note 6)	344	941
Total current liabilities	27,508	9,890
Commitments (Note 9)		
Shareholders' equity:		
Share capital (Note 7)		
18,087,069 and 17,204,120 Common Shares issued and outstanding at June 30, 1998 and June 30, 1997 respectively	105,108	101,103
1,750,000 Special Warrants issued and outstanding	34,800	-
Other capital	155	2,076
Employee share purchase loans	-	(383)
Accumulated deficit (Note 2)	(66,045)	(59,764)
Cumulative translation adjustments	(944)	(577)
Total shareholders' equity	73,074	42,455
	\$ 100,582	\$ 52,345

See accompanying notes to consolidated financial statements

## OPEN TEXT CORPORATION

### CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands of US Dollars, except share and per share data)

	Year Ended June 30,		
	1998 (restated)	1997	1996
Revenues:			
License	\$ 29,644	\$ 13,736	\$ 6,573
Service	<u>15,656</u>	<u>8,912</u>	<u>3,422</u>
Total revenues	45,300	22,648	9,995
Cost of revenues:			
License	1,500	848	1,719
Service	<u>7,554</u>	<u>6,631</u>	<u>2,093</u>
Total cost of revenues	<u>9,054</u>	<u>7,479</u>	<u>3,812</u>
	36,246	15,169	6,183
Operating expenses:			
Research and development	7,906	6,612	4,531
Sales and marketing	21,906	16,638	8,466
General and administrative	4,645	4,648	3,658
Depreciation	2,374	1,689	3,238
Amortization of acquired intangible assets	618	-	-
Acquired in-process research and development and writedown of acquired intangible assets	7,978	-	27,555
Restructuring reserve	<u>-</u>	<u>650</u>	<u>3,428</u>
Total operating expenses	<u>45,427</u>	<u>30,237</u>	<u>50,876</u>
Loss from operations	(9,181)	(15,068)	(44,693)
Other income (Note 10)	280	57	145
Interest income	1,745	1,944	1,478
Interest expense	<u>(125)</u>	<u>(148)</u>	<u>(129)</u>
Loss before income taxes	(7,281)	(13,215)	(43,199)
Income tax recovery	<u>1,000</u>	<u>-</u>	<u>-</u>
Net loss for the year	<u>\$ (6,281)</u>	<u>\$ (13,215)</u>	<u>\$ (43,199)</u>
Net loss per share, basic and diluted	<u>\$ (0.36)</u>	<u>\$ (0.78)</u>	<u>\$ (3.59)</u>
Weighted average number of Common Shares outstanding, basic and diluted	<u>17,679,987</u>	<u>16,865,644</u>	<u>12,042,006</u>

See accompanying notes to consolidated financial statements

**OPEN TEXT CORPORATION**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(In thousands)

	Common Shares		Special Warrants		Other Capital		Employee Share Purchase Loans
	Shares	Amount	Shares	Amount	Number	Amount	
Balance as of June 30, 1995	6,124	\$ 2,645	-	\$ -	-	\$ -	\$ -
Issuance of Special Warrants	-	-	2,403	8,673	-	-	-
Exercise of dissenters' rights	(391)	(131)	-	-	-	-	-
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	-	-	-	-	-
Common Shares set aside in connection with acquisitions	-	-	-	-	883	9,116	-
Repurchase of Common Shares	(758)	(357)	-	-	-	-	-
Loss for the year	-	-	-	-	-	-	-
Balance as of June 30, 1996	16,236	93,563	-	-	883	9,116	(240)
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	-	-	-	-	-	-	-
Balance as of June 30, 1997	17,204	101,103	-	-	211	2,076	(383)
Issuance of Common Shares							
Conversion of shares set aside	4	54	-	-	(4)	(54)	-
Under employee stock option plans	879	3,951	-	-	-	-	-
Issuance of Special Warrants	-	-	1,750	34,800	-	-	-
Reduction in original investments	-	-	-	-	(191)	(1,867)	-
Repayment of employee share purchase loans	-	-	-	-	-	-	383
Foreign currency translation adjustment	-	-	-	-	-	-	-
Net loss for the year (restated)	-	-	-	-	-	-	-
Balance as of June 30, 1998	18,087	\$ 105,108	1,750	\$ 34,800	16	\$ 155	\$ -

# OPEN TEXT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands of US Dollars)

	Year Ended June 30,		
	1998	1997	1996
	(restated)		
Cash flows from operating activities:			
Net loss for the year	\$ (6,281)	\$ (13,215)	\$ (43,199)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	2,374	1,689	3,238
Amortization of intangible assets and acquired in-process research and development	8,755	-	27,555
Write-down of furniture and equipment	-	-	856
Other	(446)	-	-
Changes in operating assets and liabilities (net of assets acquired in the period):			
Accounts receivable	(7,864)	(3,207)	(4,168)
Prepaid expenses and other current assets	415	(204)	(584)
Provision for restructuring	-	(2,339)	-
Accounts payable - trade and accrued liabilities	(5,095)	2,049	3,949
Gain on sale of other investments	-	(45)	-
Net cash used in operating activities	(8,142)	(15,272)	(12,353)
Cash flows from investing activities:			
Acquisitions of furniture and equipment	(3,733)	(2,623)	(2,356)
Purchase of other investments	(2,386)	(1,389)	-
Purchase of OnTime group net of cash acquired	(5,485)	-	-
Purchase of Information Dimensions group net of cash acquired	(7,829)	-	-
Purchase of Odesta	-	-	(5,305)
Purchase of InfoDesign	-	-	(1,081)
Purchase of other businesses	-	-	(2,490)
Proceeds of sale of other investments	-	6,345	(2,227)
Additions to other assets	(467)	(5,967)	(753)
Net cash used in investment activities	(19,900)	(3,634)	(14,212)
Cash flow from financing activities:			
Payments of obligations under capital leases, including current portion	(597)	(828)	(944)
Proceeds from issuance of Special Warrants	34,800	-	8,673
Proceeds from issuance of Common Shares	2,084	500	73,661
Employee share purchase loans	383	(143)	(240)
Repurchase of Common Shares	-	-	(1,806)
Increase (decrease) in bank indebtedness	-	-	(1,640)
Net cash provided by (used in) financing activities	36,670	(471)	77,704
Increase/(decrease) in cash and cash equivalents during the year	8,628	(19,377)	51,139
Cash and cash equivalents at beginning of the year	31,762	51,139	-
Cash and cash equivalents at end of the year	\$ 40,390	\$ 31,762	\$ 51,139

See accompanying notes to consolidated financial statements

## OPEN TEXT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

#### NOTE 1—NATURE OF OPERATIONS

The Company develops, markets, licenses and supports collaborative knowledge management application software for use on intranets, extranets and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes, do group calendaring and scheduling and distribute or make available to users across networks or the Internet the resulting work product and other information. The Company's shares trade publicly on the NASDAQ Stock Market - National market, under the symbol OTEXF and on the Toronto Stock Exchange, under the symbol OTC.

#### NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

##### *Basis of presentation*

These consolidated financial statements are expressed in US dollars and are prepared in accordance with generally accepted accounting principles in the United States.

##### *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.

#### **Restatement of IPR&D and Intangible Assets**

During the fourth quarter of the 1998 fiscal year, the Company acquired certain assets relating to the business of Information Dimensions from Gores Technologies, Inc and during the second quarter of the 1998 fiscal year, the Company acquired certain assets relating to the business of OnTime from Campbell Services, Inc. At the time of the acquisitions, the Company, in consultation with its independent auditors, PricewaterhouseCoopers LLP, applied then existing, generally employed appraisal methodologies to determine the fair value of in-process research and development ("IPR&D"). Subsequent to the acquisitions and the Company's release of its year end fiscal 1998 results, in a letter dated September 9, 1998 to the American Institute of Certified Public Accountants, the Chief Accountant of the Securities and Exchange Commission (SEC) expressed new views of the SEC staff that took issue with certain appraisal practices generally employed in the determination of the fair value of the IPR&D. The Company, in consultation with its independent auditors, has voluntarily decided to adjust the amount originally allocated to acquired IPR&D in a manner to reflect the SEC staff's current views and has restated its fiscal 1998 consolidated financial statements accordingly.

The Company believes it is in compliance with all of the interpretation of the rules surrounding IPR&D and intangible assets. However, there can be no assurance that the SEC will not seek to further refine their interpretation of the rules surrounding purchased IPR&D and that this could result in the further adjustment of the Company's amounts of IPR&D and intangible assets.

The restatement does not affect previously reported net cash flows for the periods. The following table summarizes the changes to the purchase price allocation among the acquired assets and assumed liabilities as a result of the Company's restatement (in thousands):

**OPEN TEXT CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
for each of the three years in the period ended June 30, 1998**

	<b>As</b>	
	<b>Previously Reported</b>	<b>As Restated</b>
Tangible net liabilities	(\$3,490)	(\$3,490)
Current software products	3,978	1,657
Core technology	-	5,003
Acquired in-process research and development and write down of acquired intangible assets	24,062	5,477
Goodwill	-	15,903
Total purchase price	\$24,550	\$24,550

The following table summarizes the changes in the Company's consolidated results of operations for the year ended June 30, 1998 and changes in its consolidated balance sheet as of June 30, 1998 as a result of the Company's restatement of the purchase price allocation (in thousands):

	<b>For the Year Ended June 30, 1998</b>	
	<b>As</b>	
	<b>Previously Reported</b>	<b>As Restated</b>
Cost of revenue: license	\$ 1,711	\$ 1,500
Amortization of intangible assets	-	618
Total operating expenses	62,410	45,427
Loss from operations	(26,375)	(9,181)
Net loss for the year	(23,475)	(6,281)
Net loss per share - basic	\$ (1.33)	\$ (0.36)
Net loss per share - diluted	\$ (1.33)	\$ (0.36)

	<b>June 30, 1998</b>	
	<b>As</b>	
	<b>Previously Reported</b>	<b>As Restated</b>
Other assets	\$4,553	\$6,286
Goodwill	-	15,461
Accumulated deficit	(83,239)	(66,045)

## OPEN TEXT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

#### *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.

#### *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.

#### *Goodwill and intangible assets*

Goodwill and intangible assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over four to ten years.

#### *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.

## OPEN TEXT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

#### *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.

#### *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 or Commercial paper.

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. No single customer accounted for more than 10% of the accounts receivable balance at June 30, 1998. One customer accounted for 14% of the accounts receivable balance as at June 30, 1997.

#### *Fair value of financial instruments*

Carrying amounts of certain of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable, trade and accrued 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 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, 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 intrinsic value method.

#### *Computation of net loss per share*

Net loss per share is computed using the weighted average number of common shares outstanding.

#### *Recent accounting pronouncements*

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

## OPEN TEXT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

will adopt SFAS No. 131 as it becomes effective and the provisions of this statement would not significantly change currently reported segment information.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 132, "Employer Disclosure about Pensions and other Post Retirement Benefits" and SFAS No. 133, "Accounting for Derivatives and Other Hedging Activities". As the Company currently does not have any post retirement benefits and does not engage in any hedging activities, the provisions of these Statements would not have a significant impact.

#### NOTE 3—FURNITURE AND EQUIPMENT

	<b>June 30, 1998</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
	(in thousands)		
Furniture and fixtures	\$ 3,025	\$ 1,182	\$ 1,843
Office equipment	294	196	\$ 98
Computer hardware and software	14,122	8,233	\$ 5,889
Assets under capital leases	1,977	1,442	\$ 535
Leasehold improvements	539	194	\$ 345
	<b>\$ 19,957</b>	<b>\$ 11,247</b>	<b>\$ 8,710</b>
	<b>June 30, 1997</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
	(in thousands)		
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
	<b>\$ 8,360</b>	<b>\$ 3,306</b>	<b>\$ 5,054</b>

#### NOTE 4—BANK INDEBTEDNESS

The Company and its subsidiaries have credit facilities totaling \$6.5 million (1997 - \$7.0 million) that are secured by a general security agreement, at prime rate of interest (6.5% as of June 30, 1998). During 1998, 1997 and 1996, borrowings and interest cost on bank indebtedness were insignificant.

**OPEN TEXT CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
for each of the three years in the period ended June 30, 1998**

**NOTE 5 - ACCOUNTS PAYABLE - TRADE AND ACCRUED LIABILITIES**

Accounts payable - trade and accrued liabilities are as follows :

	<b>June 30,</b>	
	<b>1998</b>	<b>1997</b>
	(in thousands)	
Accounts payable - trade	\$ 2,734	\$ 1,234
Accrued trade liabilities	3,061	2,373
Amounts payable related to acquisitions	7,196	1,037
Accrued salaries and commissions	4,173	1,237
Other liabilities	(112)	1,211
	<b>\$ 17,052</b>	<b>\$ 7,092</b>

**NOTE 6—OBLIGATIONS UNDER CAPITAL LEASES**

Obligations under capital leases are as follows:

	<b>June 30, 1998</b>
	(in thousands)
1998	\$ 294
1999	79
2000	7
	380
Less: Imputed interest	36
	<b>\$ 344</b>

Interest paid on capital leases amounted to \$63,000 in 1998, \$80,000 in 1997 and \$91,000 in 1996.

**NOTE 7—SHARE CAPITAL**

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

On March 25, 1998, the Company issued 1,750,000 Special Warrants convertible into Common Shares at a price of \$20.85 per Special Warrant for net proceeds to the Company of \$34.8 million. Each Special Warrant entitled the holder, upon exercise of the conversion rights contained therein, to acquire one Common Share, without any additional payment, at any time after May 5, 1998 and up to and including 5:00 pm (EST) on the date (the "Expiry Date") which is the earlier of (a) the fifth business day after the date (the "Qualification Date") as of which the last of the Ontario and Quebec Securities Commissions shall have issued a receipt for a (final) prospectus qualifying the distribution of the Common Shares issuable on the conversion of the Special Warrants; and March 25, 1999. A receipt for a (final) prospectus was filed on July 2, 1998 and all the Special Warrants were converted on July 10, 1998 without additional consideration.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

#### NOTE 8—OPTION PLANS

##### *1995 “Restated” 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 at an exercise price of \$0.15 per share.

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 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 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 Incentive Plan to accommodate these grants.

During fiscal 1998, additional new options to purchase 1,568,057 Common Shares were granted under the Incentive Plan at exercise prices between \$9.25 and \$21.00. The Board of Directors increased the number of Common Shares available under the 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.

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

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

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 by 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, 1998, 420,000 options had been granted to date under the Directors Plan of which 324,000 options in total are outstanding and eligible to purchase Common Shares as follows: 104,000 options at an exercise price of \$6.63 vesting over four years; 12,000 options at an exercise price of \$9.97 vesting over four years; 76,000 options at an exercise price of \$11.18 vesting over four years; 44,000 options at an exercise price of \$12.90 vesting over four years and 88,000 options at an exercise price of \$14.81 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. A total of 140,830 options under the Flexible Plan with a weighted average 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.

#### *1998 Stock Option Plan*

On June 23, 1998, the Board of Directors adopted the Company's 1998 Stock Option Plan (the "New Option Plan"). Under the New Option Plan, non-transferable options to purchase Common Shares may be granted to employees and directors of, and persons providing services to, the Company and its subsidiaries based on eligibility criteria set forth in the New Option Plan. The exercise price of any option to be granted under the New Option Plan is to be determined by the Board of Directors of the Company but shall not be less than the closing price of the Common Shares on the day immediately preceding the date of grant on the quotation system or stock exchange which had the greatest volume of trading of Common Shares. The maximum number of Common Shares issuable pursuant to the New Option Plan is 308,082 and the aggregate number of Common Shares reserved for issuance to any one person pursuant to the options granted under the New Option Plan or any other share compensation arrangement shall not exceed five percent (5%) of the outstanding Common Shares. The number of Common Shares reserved for issuance pursuant to all options granted to insiders under the New Option Plan and other share compensation arrangements shall not exceed fifteen percent (15%) of the outstanding Common Shares. In addition, the issuance to any one insider and such insider's associates, within a one-year period, of Common Shares issued pursuant to all share compensation arrangements may not exceed five percent (5%) of the outstanding Common Shares and the issuance to all insiders, within a one-year period, of Common Shares issued pursuant to all share compensation arrangements may not exceed ten percent (10%) of the outstanding Common Shares.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

The New Option Plan provides that the Company may make loans, the repayment of which shall be secured by the Common Shares purchased with the proceeds of such loans, or provide guarantees for loans to assist option holders to purchase Common Shares upon exercise of options granted pursuant to the New Option Plan or to assist option holders in payment of taxes exigible upon exercise of options granted pursuant to the New Option Plan. The terms of any option granted under the New Option Plan will not be permitted to exceed ten years.

Under the New Option Plan, the options for directors and senior officers will vest over a period specified by the Board of Directors at the time of grant. If an option holder resigns or ceases to be an employee or director of the Company or ceases to be engaged by the Company other than for cause or breach of duty, options held by such holder may be exercised prior to the 90<sup>th</sup> day following such occurrence. If an option holder ceases to be an employee or director of the Company or ceases to be engaged by the Company for cause or breach of duty, no options held by such holder may be exercised, and the option holder shall have no rights to any Common Shares in respect of such options following the date of notice of such cessation or termination, except in accordance with a written agreement with the Company.

The New Option Plan is administered by the Board of Directors, which has the authority, subject to the terms of the New Option Plan, to determine the persons to whom options may be granted, the exercise price and number of shares subject to each option, the time or times at which all or a portion of each option may be exercised and certain other provisions of each option, including vesting provisions.

During fiscal 1998, additional new options to purchase 25,000 Common Shares were granted under the New Option Plan at an exercise price of \$15.375.

#### *Summary of Outstanding Stock Options*

As of June 30, 1998, options to purchase an aggregate of 5,066,090 Common Shares were outstanding under all of the Company's stock option plans out of an allowable pool of options totaling 5,335,172. Options to purchase 1,055,020 Common Shares were fully vested, and the remaining options vest over the next five years.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
for each of the three years in the period ended June 30, 1998**

A summary of option activity since June 30, 1995 is set forth below:

	<b>Options Outstanding</b>	
	<b>Number</b>	<b>Weighted Average Exercise Price</b>
Options outstanding at June 30, 1995	2,299,833	\$ 0.52
Granted during fiscal 1996	1,292,446	\$ 5.55
Canceled and expired	-	\$ -
Exercised	(1,797,523)	\$ 0.24
Options outstanding at June 30, 1996	1,794,756	\$ 1.10
Granted during fiscal 1997 (new)	3,902,514	\$ 7.29
Exchanged under the Program	475,830	\$ 4.25
Canceled and expired	(260,931)	\$ 4.82
Exercised	(700,833)	\$ 0.31
Exchanged	(475,830)	\$ 12.89
Options outstanding at June 30, 1997	4,735,506	\$ 5.65
Granted during fiscal 1998	1,813,057	\$ 11.30
Cancelled and expired	(653,977)	\$ 5.51
Exercised	(828,496)	\$ 4.73
Options outstanding at June 30, 1998	5,066,090	\$ 7.62

The following table summarizes information regarding stock options outstanding at June 30, 1998:

Range of Exercise Prices	<b>Options Outstanding</b>			<b>Option Exercisable</b>	
	Number Outstanding at June 30, 1998	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Outstanding at June 30, 1998	Weighted Average Exercise Price
\$0.0005 - \$ 0.15	203,875	6.74	\$ 0.14	108,276	\$ 0.13
\$ 3.98 - \$ 6.63	2,268,762	8.29	\$ 5.50	596,811	\$ 5.35
\$ 6.75 - \$ 8.38	922,570	8.86	\$ 8.18	213,450	\$ 8.17
\$ 8.50 - \$11.25	1,074,907	9.1	\$ 9.70	128,632	\$ 9.48
\$11.62 - \$21.00	595,976	9.5	\$ 13.61	7,851	\$ 15.62
\$0.0005 - \$21.00	5,066,090	8.64	\$ 7.62	1,055,020	\$ 5.96

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

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 net loss for the year and net loss per share would have been increased to the pro forma amounts indicated below:

	<b>June 30,</b>		
	<b>1998</b>	<b>1997</b>	<b>1996</b>
	(restated)		
Net loss for the year		(in thousands)	
As reported	\$ (6,281)	\$ (13,215)	\$ (43,199)
Pro forma	\$ (14,304)	\$ (16,105)	\$ (43,242)
Net loss per share, basic and diluted			
As reported	\$ (0.36)	\$ (0.78)	\$ (3.59)
Pro forma	\$ (0.81)	\$ (0.96)	\$ (3.59)

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:

	<b>June 30,</b>		
	<b>1998</b>	<b>1997</b>	<b>1996</b>
Volatility	63.6%	75.0%	30.0%
Risk-free interest rate	6.0%	6.0%	6.0%
Dividend yield	-	-	-
Expected lives (in years)	5.54	5.16	4.18
Weighted average fair value (in dollars)	13.87	7.53	11.13

#### **Employee Stock Purchase Plan**

On March 5, 1998, the shareholders of the Company approved an Employee Stock Purchase Plan ("ESPP") whereby employees of the Company can subscribe to purchase Common Shares through payroll withholdings from the treasury of the Company at 85% of the lesser of: (1) the fair market value of the Common Shares on the first business day of the purchase period and (2) the fair market value of the Common Shares on the purchase date. An aggregate 500,000 Common Shares have been reserved for purchase under the ESPP, subject to adjustments in the event of stock dividends, stock splits, combinations of shares, or other similar changes in capitalization of the Company.

## OPEN TEXT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

#### NOTE 9—COMMITMENTS

##### *Operating leases*

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

	<b>June 30, 1998</b>
	(in thousands)
1999	\$ 3,100
2000	2,692
2001	2,240
2002	1,250
2003	1,250
Thereafter	7,243
	\$ 17,775

Rent expense amounted to \$2.2 million in 1998, \$1.3 million in 1997 and \$737,000 in 1996.

#### NOTE 10—OTHER INCOME

During 1997, the Company disposed of its investment in Yahoo! Corporation (“Yahoo”) for proceeds of \$6.3 million and a net gain of \$5.8 million.

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:

	<b>June 30,</b>		
	<b>1998</b>	<b>1997</b>	<b>1996</b>
	(in thousands)		
Gain on sale of Yahoo common shares	\$ -	\$ 5,845	\$ -
Loss provision for General Internet Inc	-	(3,906)	-
Loss provision for valuation of other investments	-	(1,523)	-
Loss provision for other assets individually less than \$200,000	-	(371)	-
Gain on sale of other investments	-	45	-
Balance of other income	280	12	145
Other income	\$ 280	\$ 57	\$ 145

The remaining carrying cost of all investments approximate their market value of \$4.0 million.

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

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

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 \$2.5 million of debt or equity General Internet may otherwise secure and a right to a minority interest. The secured promissory note from General Internet totaled \$3.9 million. The secured promissory note's face value was calculated as \$3.7 million 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 \$220,000 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 \$3.7 million which was charged to operations as of March 31, 1997. In April 1998, the Company converted the promissory note into Series A and B Convertible Preferred Shares and Special Warrants of General Internet.

#### NOTE 11—INCOME TAXES (restated)

The Company's consolidated income tax provision has been determined as follows:

	<b>Year Ended June 30,</b>		
	<b>1998</b>	<b>1997</b>	<b>1996</b>
	(restated)		
		(in thousands)	
Loss before income taxes	\$ (7,281)	\$ (13,215)	\$ (43,199)
Combined basic Federal and Provincial income tax recoveries at 44.6% as of June 30, 1998, 1997 and 1996	\$ 3,247	\$ 5,854	\$ 19,267
Decrease resulting from:			
Non-deductible amortization, including acquired research and development	-	-	(13,117)
Unrecorded benefit of temporary differences and tax losses	(3,247)	(5,854)	(6,150)
Reduction in valuation allowance	1,000	-	-
Income tax recovery	\$ 1,000	\$ -	\$ -

The Company's pre-tax loss for the year is allocated to tax jurisdictions as follows:

	<b>Year Ended June 30,</b>		
	<b>1998</b>	<b>1997</b>	<b>1996</b>
	(restated)		
Canada	\$ (6,919)	\$ (10,773)	\$ (40,033)
United States	(969)	(1,123)	(2,243)
Other	607	(1,319)	(923)
	\$ (7,281)	\$ (13,215)	\$ (43,199)

The Company and its subsidiaries have approximately \$63.4 million of losses and deductions available to reduce taxable income in future years, the benefit of which has only partially been reflected in the financial statements. Deductions of \$32.3 million have no expiration date, and the balance of losses expire as follows:

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

Year Ended June 30	(in thousands)
1999	\$ 563
2000	748
2001	2,420
2003	13,793
2004	3,624
2005	8,081
Thereafter	1,854
	<u>\$ 31,083</u>

Deferred income taxes reflect the net tax effects of temporary differences and tax losses 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:

	<u>June 30.</u>	
	<u>1998</u>	<u>1997</u>
	(in thousands)	
	(restated)	
Losses available to offset future income taxes	\$ 13,641	\$ 9,933
Write down of acquired intangible assets deducted for accounting in excess of tax	(1,318)	3,704
Acquisition related expenses	3,158	-
Share issue costs	2,454	2,592
Other differences	2,434	143
Gross deferred tax assets	20,369	16,372
Less: Valuation allowance	<u>(19,369)</u>	<u>(16,372)</u>
Net deferred tax assets	<u>\$ 1,000</u>	<u>\$ -</u>

A valuation allowance continues to be recorded against a significant portion of the net deferred tax asset 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 assets in certain situations.

#### NOTE 12—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 \$1.1 million 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 \$365,000 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, 1998 the Company has a plan to dispose of the investment and therefore carries its

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

investment in MacRAE at cost. Operations of MacRAE's since incorporation through to June 30, 1998 are insignificant.

In 1996, the Company purchased 137,500 common shares of another investment from a shareholder of the Company for \$550,000 which represented the carrying cost of the investment.

#### NOTE 13—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>1998</u>	<u>1997</u>	<u>1996</u>
	(in thousands)		
United States	\$ 27,758	\$ 13,729	\$ 4,427
Europe	11,514	3,454	1,110
Japan	1,111	495	1,159
Korea	-	-	921
Other foreign countries	<u>457</u>	<u>21</u>	<u>498</u>
	<u>\$ 40,840</u>	<u>\$ 17,699</u>	<u>\$ 8,115</u>

In fiscal 1998, 1997 and 1996, no customers accounted for 10% or more of total revenues.

#### NOTE 14—SEGMENT 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.

**OPEN TEXT CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
for each of the three years in the period ended June 30, 1998**

*Financial data by geographic area:*

	<u>North</u>			
	<u>America</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
	(in thousands)			
Revenues:				
June 30, 1998	\$ 32,397	\$ 11,514	\$ 1,389	\$ 45,300
June 30, 1997	18,678	2,472	1,498	22,648
June 30, 1996	6,260	1,150	2,585	9,995
Loss from operations:				
June 30, 1998 (restated)	\$ (10,203)	\$ 1,022	\$ -	\$ (9,181)
June 30, 1997	(14,532)	(536)		(15,068)
June 30, 1996	(43,816)	(877)	-	(44,693)
Identifiable assets:				
June 30, 1998 (restated)	\$ 96,435	\$ 4,147	\$ -	\$ 100,582
June 30, 1997	50,146	2,199	-	52,345
June 30, 1996	65,104	1,054	-	66,158

**NOTE 15—SUPPLEMENTAL CASH DISCLOSURES**

	<u>June 30,</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
	(in thousands)		
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	\$ 125	\$ 148	\$ 129
Supplemental Schedule of non cash investing and financing activities:			
Equipment purchased under capital leases	-	400	2,007
Conversion of special warrants to Common Shares	-	-	8,673
Conversion of shares set aside to Common Shares	54	7,040	-
Acquisitions (see Note 16)		-	-
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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

### NOTE 16—ACQUISITIONS

*Fiscal 1998*

*Information Dimensions (restated)*

On June 3, 1998 the Company acquired certain of the assets and liabilities of Information Dimensions for approximately \$8.1 million which consists of cash paid on closing of \$7.6 million and an accrual of \$500,000 for contingent consideration that the Company expects it will be obligated to pay to the vendor one year from the closing date based on the delivery of a special purpose balance sheet of the assets and liabilities assigned as at May 31, 1998. The operations of Information Dimensions have been included in the financial statements from the purchase date, using the purchase method of accounting.

A key element of the acquisition is the Company's perception of the value of Information Dimensions document management technology. Although Information Dimensions is a leading document management technology, it is the Company's belief that substantial development will be required to complete the software technology to meet the Company's strategic goals.

The Company allocated the total purchase price and restructuring costs to the assets acquired as follows:

	(in thousands)
Tangible net liabilities	\$ (11,026)
Current software products	569
Core technology	3,372
Acquired in-process research and development	5,477
Goodwill	<u>9,708</u>
	<u>\$ 8,100</u>

Included in tangible net liabilities is an amount of \$6.6 million for direct acquisition costs, involuntary terminations, exit costs and product liabilities. The liabilities included \$950,000 for direct acquisition costs, \$1.5 million for involuntary terminations, \$150,000 for moving costs and \$4.0 million for product liabilities. The involuntary terminations related to finance administration and sales staff located primarily in the United States and France. The Company assumed certain product obligations of Information Dimensions that had not been delivered by Information Dimensions at the acquisition date. Under these obligations, the Company was required to complete certain modules of the BASIS product that the Company did not plan to continue and for which the Company did not expect any future benefit. Actions under these plans are expected to be completed during the year ended June 30, 1999.

The software technology valuation was accomplished through the application of the stage of completion model. Projected revenue net of operating expenses and income taxes were discounted to a present value using a risk adjusted rate of return. Software technology was divided into three categories:

- current software products
- core technology
- in-process research and development

Current software products include products currently in the marketplace as of the acquisition date. The fair market value of the purchased current software products was determined to be \$569,000. This amount was recorded as an asset and is being amortized on a straight-line basis over four years. The fair market value of core technology

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

was determined to be \$3.4 million. This amount was recorded as an asset and is being amortized on a straight-line basis over seven years.

As a result of the valuation, the fair market value of the acquired in-process research and development costs was determined to be \$5.5 million. In accordance with applicable accounting rules, this amount was expensed upon acquisition.

Acquired in-process research and development costs represented the present value of Information Dimensions technology acquired that required completion. The most significant of these products is CIC/ Techlib, a new product under design at Information Dimensions and was approximately 80% complete at the date of acquisition. The Company plans to re-engineer this product as in its current form, it does not have the scalability, features and web enablement that are required to be a saleable product in the current marketplace. The Company continues to assess the capability of these existing products and currently estimates that future versions will become available beginning in the middle of fiscal year 1999. Should the Company encounter issues in the design of the products, such as scalability, that require further product redesign, the release of future products could be delayed significantly. The Company estimates a further \$2 million will be required to complete the existing products and estimates a completion date at the end of calendar 1998.

The Company valued the research and development in process for the above products using the stage of completion model whereby future net operating cash flows from products currently being developed are discounted to present values using a risk-adjusted discount rate of 30% and assuming pricing and cost structures that the Company currently experiences on its existing products.

The excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed has been recorded as goodwill in the amount of \$9.7 million which will be amortized over ten years.

#### *OnTime (restated)*

On December 3, 1997 the Company acquired certain of the assets and liabilities of OnTime for approximately \$6.7 million, in a transaction which has been accounted for under the purchase method. The purchase price is subject to adjustment based on delivery of a special purpose balance sheet of the assets and liabilities assigned as at November 30, 1997. The operations of OnTime have been included in the financial statements from the purchase date. Cash in the amount of \$6.2 million was paid at closing.

A key element of the acquisition is the Company's perception of the value of OnTime's calendaring and scheduling technology. Although OnTime is a leading calendaring and scheduling technology, it is the Company's belief that substantial development will be required to complete the software technology to meet the Company's strategic goals.

The Company allocated the total purchase price to the assets acquired as follows:

	(in thousands)
Tangible net liabilities	\$ (2,214)
Current software products	1,088
Core technology	1,631
Goodwill	6,195
	<u>\$ 6,700</u>

Included in tangible net liabilities is an amount of \$1.1 million for direct acquisition costs, involuntary terminations and exit costs. The liabilities included \$625,000 for direct acquisition costs, \$315,000 for involuntary terminations and \$180,000 for moving costs. The involuntary terminations related to finance, administration and

## OPEN TEXT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

sales employees of OnTime. All actions under these plans were completed during the year ended June 30, 1998 with no material differences from the estimates made at the date of acquisition.

The software technology valuation was accomplished through the application of an income approach. Projected debt-free income, revenue net of provision for operating expenses and income taxes were discounted to a present value. Software technology was divided into two categories:

- current software products
- core technology

Current software products include products currently in the marketplace as of the acquisition date. The fair market value of the purchased current software products was determined to be \$1.1 million. This amount was recorded as an asset and is being amortized on a straight-line basis over four years. Fair market value of the purchased core technology was determined to be \$1.6 million. This amount was recorded as an asset and is being amortized on a straight-line basis over seven years.

As a result of the valuation, the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed has been recorded as goodwill of \$6.2 million. In accordance with applicable accounting rules, this amount was capitalized upon acquisition and will be amortized on a straight-line basis over a ten year period.

The Company subsequently revised the current software products and core technology valuation for OnTime resulting in an additional writedown of \$2.4 million and this amount has been included in acquired in-process research and development.

The following pro forma consolidated information shows the results of operations for the years ended June 30, 1998 and 1997 as if the above acquisitions had occurred on July 1, 1996 and acquired in-process research and development costs were expensed as of July 1, 1996. The proforma 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 the acquired businesses.

	<u>Year ended June 30,</u>	
	<u>1998</u>	<u>1997</u>
	(in thousands, except share and per share data)	
	(unaudited)	
Pro forma total revenues	<u>\$ 69,494</u>	<u>\$ 53,473</u>
Pro forma loss for the year	<u>\$ (2,758)</u>	<u>\$ (54,073)</u>
Weighted average number of Common Shares outstanding	<u>17,679,987</u>	<u>16,865,644</u>
Pro forma loss per share	<u>\$ (0.16)</u>	<u>\$ (3.21)</u>

Accrued costs under the Information Dimensions and OnTime acquisitions for involuntary termination and relocation were \$1.8 million and \$330,000 respectively. The Company made charges of \$ 495,000 to the reserves in the period since the acquisitions to June 30, 1998 and a balance remaining of \$1.6 million is included in amounts payable related to acquisitions of \$7.2 million.

## OPEN TEXT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for each of the three years in the period ended June 30, 1998

#### *Shares set aside*

Pursuant to certain settlement agreements, the Company's obligation to issue shares in connection with its acquisitions of InfoDesign, NSG Software, NIRV, Softcore and Intunix have diminished. Income for the period reflects the reduction in shares set aside resulting from these settlement agreements.

#### NOTE 17—NET LOSS PER SHARE

The following table is a reconciliation of the earnings and share amounts used in the calculation of basic loss per share and diluted loss per share:

	<u>Year Ended June 30,</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
	(restated)		
	(dollars in thousands)		
Loss available to common shareholders	\$ (6,281)	\$ (13,215)	\$ (43,199)
Weighted average basic shares outstanding	17,679,987	16,865,644	12,042,006
Basic and diluted loss per share	<u>\$ (0.36)</u>	<u>\$ (0.78)</u>	<u>\$ (3.59)</u>

The effect of options and warrants have been excluded from the calculation of basic and diluted net loss per share as their effect would have been anti-dilutive.

Subsequent to the year end, the holders of the Special Warrants exercised their right under the Special Warrants and converted their Special Warrants into common shares of the Company. On July 10, 1998, an additional 1,750,000 shares were issued in connection with these Special Warrants.

#### NOTE 18—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 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 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 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 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.

<b><u>Exhibit Number</u></b>	<b><u>Description of Exhibit</u></b>
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)
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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 P Thomas Jenkins and the Company. (1)(\*)
- 10.19 Employment Agreement, dated October 13, 1995, between Marco Palatini and the Company. (1)(\*)
- 10.20 Employment Agreement, dated October 19, 1995, between Daniel Cheifetz and the Company. (1)(\*)
- 10.21 Form of Registration Rights Agreement, between Technology Crossover Ventures, L.P., Technology Crossover Ventures, C.V. and the Company. (1)
- 10.22 Confirmation letter, dated November 1, 1995, between Netscape Communications Corporation and the Company. (1)
- † 10.23 OEM License Agreement, dated November 10, 1995, between Netscape Communications Corporation and the Company. (1)
- 10.24 Amending Agreement, dated October 6, 1995, between Helix (PEI) and the Company. (1)
- 10.25 Shareholders' Agreement, dated June 30, 1992, with certain amendments. (1)
- 10.26 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)
- 10.27 Share Purchase Agreement dated June 28, 1996 between Open Text Corporation and the shareholders of InfoDesign Corporation. (2)
- 10.28 Documentation relating to stock option grants and subsequent option exercises for P Thomas Jenkins. (3)(\*)
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- 10.36 Separation Agreement, dated August 14, 1997 between the Company and Keith Soley. (5)(\*)
- 10.37 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. (5)

10.38	Lease, dated August 26, 1997, between CarrAmerica Realty Corporation and the Company. (5)
10.39	Amendment to Agreement, dated June 27, 1997 between INSO Corporation and the Company. (5)
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10.41	Letter Agreement, dated October 1, 1997 between the Company and Thomas J Hearne (*)
10.42	Commitment letter from Royal Bank of Canada dated July 20, 1998.
10.43	Asset Purchase Agreement among Campbell Services, Inc. as Seller, and FTP Software, Inc. and Open Text Inc. as Buyer, and Open Text Corporation dated as of December 3, 1997. (6)
10.44	Agreement of Purchase and Sale of Assets by and among Open Text Inc., Open Text Corporation, Information Dimensions, Inc., the Stockholders of Information Dimensions International Corp. and Gores Technology Group dated May 31, 1998. (7)
10.45	Employee Stock Purchase Plan. (*)
10.46	1998 Stock Option Plan. (*)
10.47	Lease effective February 3 <sup>rd</sup> , 1998 between Bybatch Enterprises Limited and Open Text UK Limited and Open Text Corporation.
10.48	Sublease Agreement dated November 10 <sup>th</sup> , 1997 between Compuserve Incorporated and Information Dimensions, Inc.
10.49	Lease Agreement dated March 6 <sup>th</sup> , 1998 between Open Text Inc. and The Blain Group.
21.1	List of the Company's Subsidiaries.
23.1	Consent of PricewaterhouseCoopers.

† 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.

(\*) Identified as a Management Contract or Compensation Plan.

- (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 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.
- (5) Filed as an Exhibit to the Company's Report on Form 10-K, as filed with the SEC on September 29, 1997 and incorporated herein by reference.
- (6) Filed as an Exhibit to the Company's Report on Form 8 -K, as filed with the SEC on December 17, 1997 and incorporated herein by reference.
- (7) Filed as an Exhibit to the Company's Report on Form 8 -K, as filed with the SEC on June 16, 1998 and incorporated herein by reference.

b) Reports on Form 8-K.

A current report on Form 8-K dated April 7, 1998 was filed with the Securities and Exchange Commission to report under item 9, Sales of Equity Securities Pursuant to Regulation S, the sale of 1.75 million special warrants at US\$20.85 per special warrant for aggregate gross proceeds of US\$36,487,500.

A current report on Form 8-K dated June 16, 1998 was filed with the Securities and Exchange Commission to report under item 2, Acquisition or Disposition of Assets, the Agreement of Purchase and Sale of Assets by and among Open Text Inc., Open Text Corporation, Information Dimensions, Inc., the Stockholders of Information Dimensions International Corp. and Gores Technology Group dated June 3, 1998.



## OPEN TEXT CORPORATION

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