UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended June 30, 1999.

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	**98-0154400**
(State or other jurisdiction of incorporation or organization)	(IRS employer identification no.)
185 Columbia Street West Waterloo, Ontario, Canada	**N2L 5Z5**
(Address of principal executive offices)	(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	Name of each exchange on which registered
None	None

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

Common Shares, 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 X 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 9, 1999 was approximately $443 million. The number of shares of the Registrant's Common Shares outstanding as of August 9, 1999 was 21,376,101.

DOCUMENTS INCORPORATED BY REFERENCE

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

Exhibit Index Appears at Page 74

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 Corporations 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.

BUSINESS OF THE COMPANY

Open Text is a recognized leader in intranet, extranet and collaborative knowledge portal™ solutions, helping organizations to create new products, deliver new services and find ways to maximize existing resources.

Open Text combines the power and ubiquity of the World Wide Web (the "Web") with a flexible collaborative environment, with products and services that enable organizations to create, share, find, manage, and track information and processes. Open Text solutions help organizations to achieve success by unleashing collective knowledge and creating an environment that promotes innovation.

The Open Text family of solutions enable thousands of organizations to address a diverse range of business needs: to effectively manage information, unify globally distributed teams, capture market opportunities more quickly, accelerate product cycles, improve customer and partner relationships, and alter business strategies faster and with greater ease. And to leverage their most valuable assets—people and knowledge.

Open Text's flagship product, *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, extranets and portals into collaborative knowledge management systems that help organizations discover where their knowledge is so that they can capture, share and re-use it.

Livelink integrates virtual team collaboration, knowledge library, business process automation, enterprise group scheduling, and information retrieval services, which can all be accessed by knowledge workers using any 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 the Internet. 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 three years since its introduction of *Livelink*, Open Text has achieved significant growth. Organizations with tens of thousands of users are actively deploying *Livelink* for business-critical applications. More than 80 Value-Added Resellers (VARs), Solution Providers and Developers joined Open Text's Affinity Partner program over the last year. Business, technical, and marketing relationships have been formed with such industry leaders as Adobe, Canon Sales, Microsoft, Netscape, 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 739 individuals located in facilities in the United States, Canada, Europe, and Australia. 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, a British corporation; Information Dimensions, SARL, a French corporation; Open Text GmbH, a German corporation and Open Text Pty Ltd., an Australian corporation.

Acquisitions

Since June 1995, the Company has sought to substantially broaden its technology base and product offerings and to 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"), certain assets and liabilities of Information Dimensions, Inc. ("Information Dimensions"), certain assets and liabilities of Lava Systems Inc. ("Lava"). Odesta, InfoDesign and NSG and the acquired assets of Intunix, Internet Anywhere, SoftCore, NIRV, OnTime, Information Dimensions and Lava 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 VAR 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 VAR 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.

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.

In December 1998, the Company acquired certain of the assets and liabilities of Lava from the court appointed receiver cash in the amount of $2.3 million paid at closing in a transaction which has been accounted for under the purchase method. The operations of Lava have been included in the Company's consolidated financial statements from the purchase date. A key element of the acquisition is the Company's perception of the value of Lava's document management technology and its professional services organization. Although Lava's technology is a 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. In view of the preceding, the Company believes that the acquisition of Lava provides it with an opportunity to successfully advance collaborative knowledge 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 14 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 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 the future increasingly will 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.

The wealth of information that is available to individuals through the Internet, intranets and extranets (private internets that connect an organization with its customers and/or vendor community) has a downside. Information overload, or the overabundance of information, has made finding specific pieces of information difficult and time consuming. In the consumer market personalized portals have developed as a way to filter information through specialized services. *MyYahoo!* has emerged as the market leader in the consumer portal industry.

The corporate world is following consumer portal model. Corporate portals have just begun to develop with increases in functionality and usability increasing rapidly.

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. This information may have been created with a variety of computers and stored in different formats and locations across an organization's intranet, 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. This solution will enable managers to establish workflow processes, manage and track the project, and to manage the distribution and availability of the work product and other information to the intended audience.

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 makes it more responsive and competitive.

The demand for the optimization of information available to individuals, project groups and other organizational divisions is another important consideration. Without access to highly contextualized information individuals are unable to acquire information that supports their decision making process. By providing individuals with a personalized interface through which contextual industry information is delivered, the Company believes that organizations will be better able to arrive at conclusions, make decisions, and promote innovation at the individual, group and organizational levels. The Company believes integration of relevant information, filtered from internal and external sources, combined with business process automation and collaborative functionality will facilitate the success of organizations.

Open Text Solutions

Open Text was first in its vision—and delivery—of Web-based solutions that optimize the power of the Web to provide a collaborative work environment that allows organizations to capitalize on their collective knowledge and best practices across the enterprise.

Open Text provides completely integrated solutions that enable people to use information and technology more effectively at departmental levels and across the enterprise. The Company offers its solutions both as end-user stand alone products and as fully integrated modules—providing a complete solution that is easily incorporated into existing enterprise business systems.

The *Livelink* Family of Products includes the powerful business applications: *Livelink*, BASIS, Techlib, OnTime, and WorkSMART. Easily integrated with Open Text's flagship product, *Livelink*, these applications harness the power of the Internet, providing solutions for:

- Putting intranets to work on an enterprise scale
- Powering business-to-business collaboration via secure extranets
- Incorporating multiple information repositories or corporate libraries, such as BASIS and Techlib
- Combining cross platform legacy systems, including SAP R/3 and JD Edwards
- Filtering information through our collaborative corporate portal™ offering, *MyLivelink*

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 an organization to use the connectivity of the Web as the infrastructure for its knowledge management and process automation system.

As an extension to our solutions-based offerings, the Company provides professional services, training, documentation 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 and corporate portal solutions to users of intranets, extranets and the Web. 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.

- To leverage our *Livelink* success into a larger and more fundamental value proposition for corporations and communities via our corporate portal application, *MyLivelink*. *MyLivelink* is a Collaborative Corporate Portal that provides personalized access to information from a variety of sources from both inside and outside an organization. The Company's goal is that *MyLivelink* will become the hub for navigating to the information sources, allowing users to customize access to industry data, consumer links, news feeds, chat, scheduling, conferencing, project collaboration, etc. This strategy has far reaching implications into how the Company develops and extends its products, how it market and brand itself and finally how it creates its business model with its customer base and deepens its relationship on a one-to-one basis with users.

- To extend product lines and develop 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, extranets and the Internet. This includes integrating acquired technologies into the Open Text product family. See "Product Development" and "Risk Factors - New Product Development and Technological Change".

- To increase market penetration through multiple distribution channels. The Company has historically sold its products principally through its direct sales force and partners. 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 Affinity Partner program in March of 1997. The goal of the program is to build a strong team of distributors, VAR's, system integrators, solution providers and development partners that incorporate the Company's software into products which provide a particular solution to distinct customer groups or geographical areas. The Company also launched *Livelink* Online in 1998. *Livelink* Online is a subscription service that offers corporate customers reliable, high-performance intranet/extranet hosting services based on *Livelink*. For a low monthly fee, corporations can lease a full-featured intranet or extranet with powerful Web-based collaborative applications, supported by numerous services. *Livelink* Online 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 General Electric Information Services and Hewlett Packard.

- To develop and grow both corporate and product brand equity. Open Text will be branded as an ambitious and effective organization that empowers organizations to manage knowledge and accelerate the pace of innovation at every level—including throughout individual, departmental and shared communities of interest. *Livelink* will be branded as our flagship product—one that inspires innovation and delivers tangible business results. To date, the Company continues to receive favorable press coverage. A recent International Data Corporation study (1998) found Open Text to be the installed-base growth leader, occupying almost 43% of installed seats and 48% of all new Electronic Document Management System (EDMS) users.

- To 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 (a 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 1999, the Company released *Livelink* 8.1.3, 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 modular architecture with value-added application modules. This latest release of *Livelink* includes French, German, and English language versions of *Livelink* server. This release of *Livelink* is certified with Microsoft SQL Server 7.0, Microsoft Internet Explorer 5.0 on Windows NT 4.0, Windows 98 and Windows 95.

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, Document Collection Management, Library Automation and Collaborative Corporate Portals.

- *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.

The Knowledge Library 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's Information Retrieval functionality 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.

Livelink's Information Retrieval provides 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. 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 the Company believes is at least twice as often as most other on-line search engines.

- *Virtual Team Collaboration*

Livelink's Virtual Team Collaboration enables people to work together to share information and experiences and 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 online 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. Using OnTime, 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.

OnTime is available as a fully integrated enterprise group scheduling *Livelink* module. *Livelink* and OnTime integration adds Project and Personal calendar capability to *Livelink*, enabling *Livelink* users to keep track of critical project milestones and schedule activities with full knowledge of each participant's calendar—considerably enhancing *Livelink*'s virtual team collaboration capabilities.

- *Document Collection Management*

The Company also offers the BASIS software product line to support the management of specialized corporate and government document collections. Designed for comprehensive library control, BASIS provides an ideal solution for companies who need access to hybrid document collections consisting of both documents and metadata. Used by major commercial and government information centers, BASIS provides library automation, research and records management, litigation support, intellectual property protection, content management, and competitive intelligence. The BASIS technology is used as a platform for building such applications.

BASIS is available as a standalone product and a fully integrated solution with *Livelink*. The *Livelink* Activator™ for BASIS integrates the collaborative features of *Livelink* with the collection management features of BASIS. This module extends BASIS information management and library automation functionality to fully exploit *Livelink*'s rich collaborative features, enabling users to easily access BASIS library objects and incorporate them into the *Livelink* environment.

- *Library Automation*

The Techlib product is a specific application that utilizes BASIS to automate and integrate the main functions of a corporate or government library. Techlib is an integrated, Web-based solution for managing, automating and delivering a complete range of library services. From access and cataloging to circulation, serials control and acquisitions, Techlib provides users with the ability to manage digital collections and make the corporate library the focus of an organization's knowledge resources.

Techlib can be implemented as a component of BASIS, or as fully integrated solution with *Livelink*—as the *Livelink* Cataloged Library™ module. Techlib and *Livelink* integrations gives users consolidated access to knowledge resources on the intranet, extranet and in the corporate library, to support decisions, smooth workflow and automate processes.

Web browser interfaces have made BASIS 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 enterprise intranet and extranet 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.

- *Collaborative Corporate Portals*

Open Text's collaborative corporate portal solution, *MyLivelink*, gathers information from internal and external sources and brings it directly to an individual's desktop. A 'hub' for navigating various information

sources, *MyLivelink* enables users to personalize access to industry data, enterprise business systems, consumer links, news feeds, and more. In an easy-to-use, intuitive interface.

MyLivelink is powered by *Livelink*. It leverages *Livelink*'s enterprise collaborative knowledge management functionality—giving users access to vital business knowledge and team collaboration. *MyLivelink* has been designed to capture *Livelink* user preferences, including favorites, projects, tasks, discussions and channels. Combined with *Livelink* and Open Text Web content services, *MyLivelink* provides access to high quality, industry-specific information, extending an organization's reach and transforming its intranet and/or extranet into a one-stop access area for business-critical applications and information.

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 tested solutions that provide massive scalability based on *Livelink's* modular architecture.

Advanced Optional Modules

Open Text offers a wide selection of optional modules that enable organizations to easily extend and enhance the functionality of *Livelink* to suit their evolving business requirements. The following modules are available:

- *Livelink Activator for BASIS* enables organizations to integrate their corporate library into a collaborative enterprise knowledge network. This module provides an ideal solution for combining the collaborative features of *Livelink* with the collection management features of BASIS.

- *Livelink Activator for SAP/R3* allows users to leverage their existing legacy systems, providing seamless connectivity between the *Livelink* Server and the R/3 System.

- *Livelink Desktop*™ enables users to easily access their favorite desktop applications from within *Livelink*. The *Livelink Desktop* allows for seamless communication between desktop applications and *Livelink*'s Knowledge Library.

- *Livelink Directory Services*™ allows organizations to administer users and groups for each *Livelink* server from within a central directory. This module synchronizes with a central directory service and provides single logon access for network users.

- *Livelink Explorer*™ enables users to navigate through the *Livelink* system with ease using the familiar Microsoft® Windows® Explorer-like drag-and-drop interface. Cut, paste, copy and move objects, including documents and compound documents, quickly and easily within *Livelink*.

- *Livelink Forms*™ *Adobe*—Accelerate business processes using automated online forms—the Adobe version of *Livelink* Forms enables users to collaboratively create, manage and track electronic forms and integrate them into standard corporate business processes using *Livelink*.

- *Livelink OnTime*™ allows users to schedule group and project team meetings. Fully integrated with *Livelink*, this module provides users with secure access to other users' personal calendar information, project team calendars and resources.

- *Livelink Prospectors*™ allows users to create their own personalized, virtual research assistants. Based on custom user preferences, prospectors scour internal networks and targeted Web sites for information users need to get their jobs done.

- *Livelink SDK*™—Specifically designed for creating scalable, enterprise-wide, collaborative knowledge management solutions, *Livelink SDK* provides built-in tools for rapid development and deployment.

- *Livelink Spider*™ crawls across an organization's intranet and/or the World Wide Web and automatically finds and indexes new or modified documents, enabling *Livelink* to maintain an up-to-date, searchable knowledge base.

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 the claims approval process
- 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, and PC DOCS Group (a division of Hummingbird Communications Ltd.). The Company also competes with collaboration software solutions such as Lotus Notes/Domino, ChangePoint, NetRight and the RadNet products. Open Text has positioned its products in the new and emerging "collaborative knowledge management" (CKM) and "Corporate Portal" (CP) market spaces, which are intensely competitive, subject to rapid technological change and evolving rapidly. These markets are becoming fiercely competitive as major and smaller industry players jockey for position with offerings that fall into several different segments. In the CKM market, the segments are accepted as: high-end, specialized document management solutions, collaborative knowledge management applications and e-mail centric messaging systems. The CP market is divided into data portals which specialize in providing industry specific information, Information portals which provide information filtered through expert systems or human intervention, and collaborative knowledge portals which combine the first two types of portals with business process and collaboration tools.

Companies such as Documentum, FileNet, and PC DOCS Group offer highly specialized document management technology suitable for building application-specific document management needs. Companies like Microsoft and IBM/Lotus offer e-mail based collaborative messaging applications.

In April 1996, Microsoft introduced Microsoft Exchange Server which includes "groupware" functions such as search and collaboration. Microsoft can be expected to provide Internet and intranet software as well as document management and other collaborative computing software that will compete directly with the Company's

products. 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. As of August 1, 1999, the Company's worldwide sales force consisted of 142 sales representatives in 45 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 123 *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.

Sales and marketing expenses for each of the last three fiscal years are $36.4 million, $21.9 million and $16.6 million.

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 18.5% 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 1, 1999, the Company employed 178 customer support and professional service personnel.

Product Development

As of August 1, 1999, the Company's research and development organization included 146 employees. In 1999, Open Text successfully integrated acquired technologies from OnTime, Information Dimension's BASIS and Techlib and LAVA Systems' Enabler solution. 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, test products and 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 original 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 rights to third parties 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 required the Company 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 to be 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.

During fiscal 1998, the Company applied for trademark registration for 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.

Investments

Deja.com. The Company owns less than 5% of the outstanding share capital of Deja.com, Inc. (formerly Deja News Corporation). Deja.com, Inc. provides an index for searching Internet newsgroups on its own home page which is listed on the Netscape Navigator under the “Directory Search” button.

About.com. During fiscal 1997, the Company acquired a minority equity interest in About.com, Inc. ("About.com") (formerly MiningCo.com Inc. and formerly General Internet, Inc.) which presently represents 885,201 shares of common stock. In March 1999, About.com completed an initial public offering of common stock and its common stock was listed on the Nasdaq Stock Market's National Market. At June 30, 1999, the closing price for About.com's common stock as reported by Nasdaq was $51.875 per share. On August 9, 1999, the closing price for About.com's common shares was $22.688 per share. Beginning in the quarter ended March 31, 1999, the Company is accounting for its interest in About.com as securities available for sale, and will carry the investment on its balance sheet as a current asset valued at the trading value of the securities on the balance sheet date. The Company’s balance sheet also includes a current liability for the estimated future tax payable if the securities were sold at the value reflected on the balance sheet.

Securities of Internet commerce companies such as About.com have been highly volatile, and the amount the Company will realize on this investment is uncertain. The Company has agreed not to offer or sell it's shares in About.com until September 20, 1999 without the consent of the managing underwriter of the initial public offering.

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 four of the last five fiscal years. As of June 30, 1999, the Company had an accumulated deficit of $46 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, OnTime and Lava, 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 292 as of September 1, 1996 to 739 as of August 1, 1999. 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 December 1998, the Company acquired certain assets of Lava. In June 1998, the Company completed the acquisition of Information Dimensions. In December 1997, the Company completed the acquisition of OnTime. See Note 14 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 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, OnTime and Lava. 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 and 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. 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".

Cash flow from operations

The Company's cash and short term investments and working capital were $140 million and $199 million, respectively, at June 30, 1999. During the year ended June 30, 1999, the Company's operations provided cash in the amount of $2.8 million. The Company anticipates increased expenses in fiscal 2000. In May 1999, the Company received net proceeds of $97 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.

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 November 1998, the Company added John Shackleton as President. 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, intranet and extranet 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 a 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.

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 leases an office of approximately 39,000 square feet in Bannockburn, Illinois for its product development, marketing, consulting, support, administration and sales operations, pursuant to a lease which terminates on April 30, 2001. The Company also leases Canadian field offices in Toronto, Ontario; Ottawa, Ontario and Vancouver, British Columbia; US field offices in Dublin, Ohio; Livonia, Michigan; and international field offices in Amsterdam, The Netherlands; Paris, France; Frankfurt, Germany; Beaconsfield, United Kingdom; London, United Kingdom; St. Gallen, Switzerland and Sydney, Australia. The current annualized total rent for the Company is approximately $3.6 million.

Item 3. Legal Proceedings

The Company is engaged in a dispute with a Swedish company that distributes its products in Scandinavia. The Company initiated an action under the arbitration provisions in Ontario of the distribution agreement claiming that the distributor is in breach of the Agreement, damage related to this breach and for payment of certain fees incurred by the distributor. The distributor subsequently brought an action in Ontario against the Company, which has been stayed by the Ontario court pending a decision by the arbitrators as to the scope of the arbitration agreement between the parties. In connection with the action brought by the distributor, the Company does not believe it will incur any material liability. See "Forward-Looking Statements" in Part I, Item 2 of this report.

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 1, 1999.

Name	Age	Position with Company	Principal Occupation
P Thomas Jenkins Waterloo, Ontario, Canada	39	Director and Chief Executive Officer	Chief Executive Officer of the Company
John Shackleton Burridge, IL, USA	52	President	President of the Company
Richard C Black [(1) (2)] Etobicoke, Ontario, Canada	31	Director	Vice President, Helix Investments (Canada) Inc. (a venture capital company)
Daniel Cheifetz Evanston, IL, USA	51	Director and Executive Vice President, Software Development	Executive Vice President, Software Development of the Company
Warren L Culpepper [(1)(3)] Big Canoe, GA, USA	57	Director	President, Culpepper and Associates (a software industry research firm)
Randy Fowlie [(2)] Waterloo, Ontario, Canada	39	Director	Chief Financial Officer, Inscriber Technology Corporation (a computer software company)
Ken Olisa [(1)] Surrey, UK	47	Director	Managing Director, Interregnum Venture Marketing Limited (an Information Technology venture marketing company)
Stephen J Sadler [(2)] Aurora, Ontario, Canada	48	Director	Chairman, Helix Investment (Canada) Inc. (a venture capital company)
Michael Slaunwhite [(2)(3)] Gloucester, Ontario, Canada	38	Director	President, Manta Corporation (a services and software company)
Paul J Stoyan [(3)] Toronto, Ontario, Canada	41	Director	Partner, Gardiner, Roberts (a law firm)
Thomas J Hearne Etobicoke, Ontario, Canada	34	Chief Financial Officer	Chief Financial Officer of the Company
Anthony Heywood Buckinghamshire, UK	45	Executive Vice President, Europe	Executive Vice President, Europe of the Company
Kirk Roberts Guelph, Ontario, Canada	38	Vice President, Livelink Solutions and Online Services	Vice President, Livelink Solutions and Online Services of the Company
David Lewis Toronto, Ontario, Canada	36	Secretary and Vice President, Legal	Vice President, Legal of the Company
Les McNeil Diablo, CA, USA	55	Executive Vice President, Marketing	Executive Vice President, Marketing 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.

Richard C Black has served as a director of the Company since December 1993. From 1993 to the present, Mr. Black has served as a Vice President of Helix Investments (Canada) Inc. ("Helix"), a venture capital company. Mr. Black also serves as a director of CRS Robotics Corporation and numerous private companies.

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 Inscriber 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 Communitech 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 held various positions with Wang Laboratories Inc., lastly that of Senior Vice President and General Manager, Europe, Africa and Middle East. Mr. Olisa is a director of Link Software (which is quoted on the Belgian exchange of Euro.nm) in addition to several privately held information technology companies. Mr. Olisa also chairs the boards of Geoconference Ltd, Metapraxis Ltd, CallCentric Ltd and Catalyst Solutions Ltd.

Stephen J Sadler has served as a director of the Company since September 1997. Mr. Sadler has served as Executive Vice President and Chief Financial Officer of GEAC from 1987 to 1990, as President and Chief Executive Officer of GEAC from 1990 to 1996, as Vice Chairman of GEAC from 1996 to 1998, and a Senior Advisor to GEAC on acquisitions until May 1999. Prior to Mr. Sadler's involvement with GEAC, he held executive positions with Phillips Electronics Limited and Loblaws Companies Limited. Currently Mr. Sadler is Chairman of Helix Investments a position he has held since early 1998. Mr. Sadler is also currently a director of several public companies, including TSB International and Cyberplex Multimedia, as well as being a director of several private companies in the high tech industry sector.

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.

John Shackleton has served as the President of the Company since November 1998. From July 1996 John served as President of the Platinum Solution division for Platinum Technology Inc. Prior to that he served as Vice President of Professional Services for the Central U.S. and South America at Sybase, Inc., as Vice President of Worldwide Consulting at ViewStar Corp., a document management imaging company, and he directed several consulting practices for Oracle Systems Corp.

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.

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.

David Lewis has served as the Vice-President, Legal and General Counsel of Open Text since February 1999 and as corporate secretary since June 1999. From November 1994 to February 1999, Mr. Lewis was General Counsel of Alias/Wavefront (previously Alias Research). Between June 1994 and November 1994, Mr. Lewis was an independent consultant. Prior to June 1994, Mr. Lewis was General Counsel of SoftKey Software Products Inc.

Les McNeill joined Open Text as Executive Vice President Marketing in June 1999. Prior to that he served as senior director Enterprise Markets and Sales at Harbinger Corporation. Before joining Harbinger, Mr. McNeill was president and CEO of InterMax Solutions from 1994 to 1998. InterMax was a developer and provider of B2B e-Commerce and EAI tools. Before InterMax, Mr. McNeill was CEO of ECH Plc, a technology company whose operations included software solutions for the enterprise alongside mainframe hardware reengineering and supply. With more than thirty years of experience as a professional manager and technical innovator in diverse corporate entities worldwide, Mr. McNeill provides a unique blend of marketing, sales, operations, and technical skills alongside an in-depth understanding of the role of information management in the corporate sector.

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 "OTEX" and has been trading there since that time. The Common Shares recently began trading on the Toronto Stock Exchange ("TSE") 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 and the TSE, 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, 1999, the closing price of the Company's Common Stock on Nasdaq was $30.00 per share. On June 30, 1999, the closing price of the Company's Common Stock on the TSE was $43.50 per share.

	Nasdaq		TSE	
	High	Low	High	Low
Year Ending June 30, 1999				
Fourth Quarter	$ 42.50	$ 27.50	$ 57.50	$ 42.00
Third Quarter	34.31	17.88	47.50	29.25
Second Quarter	26.38	10.00	38.40	16.25
First Quarter	19.50	10.13	28.25	16.75
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 9, 1999, the closing price of the Company's Common Stock on Nasdaq was $25.97 per share. As at August 9, 1999, there were approximately 6,700 shareholders of record of the Company's Common Stock. As at August 9, 1999, there were approximately 3,200 US shareholders of record holding 12,208,491 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 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 of the Company, through the ownership of voting interests, remains unchanged.

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 on 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 maiximum 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.

	Fiscal Year Ended June 30,				
	1999	1998[2]	1997	1996	1995
	(in thousands, except per share data)				
Statement of Operations Data:					
Total revenues	$ 92,537	$ 45,300	$ 22,648	$ 9,995	$ 2,479
Gross Profit	72,713	36,246	15,169	6,183	2,098
Operating expenses:					
Research and development	11,373	7,906	6,612	4,531	709
Sales and marketing	36,441	21,906	16,638	8,466	1,565
General and administrative	5,921	4,645	4,648	3,658	783
Depreciation	4,225	2,374	1,689	3,238	144
Amortization of intangible assets	2,194	618	-	-	-
Acquired in-process research and development and write down of intangible assets	3,419	7,978	-	27,555	-
Restructuring reserve	329	-	650	3,428	-
Total operating expenses	63,902	45,427	30,237	50,876	3,201
Income (loss) from operations	8,811	(9,181)	(15,068)	(44,693)	(1,103)
Other income	427	280	57	145	-
Interest income	2,342	1,745	1,944	1,478	-
Interest expense	(47)	(125)	(148)	(129)	(108)
Income (loss) before income taxes	$ 11,533	$ (7,281)	$ (13,215)	$ (43,199)	$ (1,211)
Provision for income taxes	8,637	1,000	-	-	-
Net income (loss) for the year	$ 20,170	$ (6,281)	$ (13,215)	$ (43,199)	$ (1,211)
Net income (loss) per share, basic	$ 0.96	$ (0.36)	$ (0.78)	$ (3.59)	$ (0.37)
Net income (loss) per share, diluted	$ 0.85	$ (0.36)	$ (0.78)	$ (3.59)	$ (0.37)
Weighted average Common Shares outstanding[1], basic	20,914	17,680	16,866	12,042	3,243
Weighted average Common Shares outstanding[1], diluted	23,729	17,680	16,866	12,042	3,243

	June 30,				
	1999	1998	1997	1996	1995
Balance Sheet Data:					
Cash and cash equivalents	$ 140,256	$ 40,390	$ 31,762	$ 51,139	$ -
Working capital	197,595	39,640	32,902	48,892	(124)
Total assets	264,774	100,582	52,345	66,158	2,597
Long-term liabilities	-	-	-	742	157
Shareholders' equity	232,825	73,074	42,455	55,550	404

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 in 1998 and 1999 from the time of acquisition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" and Note 14 of Notes to Consolidated Financial Statements.

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

"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. Any statements that express or involve discussions with respect to predictions, expectations, beliefs plans, projections, objectives, assumptions or future events or performance or the outcome of litigation (often, but not always, using words or phrases such as "believes", "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate" or "intends" or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken or achieved) are not statements of historical fact and may be "forward looking statements". 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 business or its 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, year 2000 issues, increases in expenses, unproven acceptance of the Company's products and services, risks involving the management of growth, risks of acquisitions, including risks involved in integrating recent and future acquisitions and acquired products into the Company's business, competition and new entrants in the market for the Company's products and services, product development risks, risks of technological change, litigation risk and liquidity and capital resources. Litigation and arbitration proceedings are inherently uncertain and can be affected by newly discovered evidence or documents, the assertion of new claims or legal theories and other factors that make it difficult to predict the outcome of litigation with certainty. Additional risks uncertainties are described in connection with certain of the forward-looking statements under "Overview. Forward-looking statements are based on management's current plans, estimates, opinions and projections, and the Company assumes no obligation to update forward-looking statements if assumptions of these plans, estimates, opinions or projections should change. Certain of the forward-looking statements contained in this report are identified with cross-references to this section.

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 characterized by intense competition. 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, compete effectively with a large number of technologically sophisticated and well financed companies, and attract, retain and motivate highly qualified personnel, manage rapid growth and integrate the personnel, technologies and operations of acquired businesses. There can be no assurance that the Company will successfully address these challenges. The Company has incurred losses in four of its last five fiscal years and as at June 30, 1999, had an accumulated deficit in shareholders' equity of $46 million. The Company attained profitability in fiscal 1999.

On December 29, 1998 the Company acquired certain assets of Lava for cash of $2.3 million. The acquisition was accounted for by the purchase method of accounting. The Company has charged to expense an amount of $3.4 million related to in-process research and development. This amount represents the present value of Lava technology acquired that required completion and integration into the Company's *Livelink* products. The most significant of these products is Lava Claims Enabler, a completely new product under design at Lava, was approximately 74% complete at the date of acquisition. The Company plans to re-engineer this product as in its current form, Lava Claims Enabler does not have the scalability, features and web enablement that are required to be a saleable product in the current marketplace. Other products in process at the date of acquisition were Lava Enabler, Lava Intellidocs and Lava PME, all at various stages of completion but requiring web enablement and migration to current database technology. The Company continues to assess the capability of these existing products and currently estimates that future versions will become available beginning in calendar 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 $1 million will be required to complete the existing products and estimates a completion date at the end of calendar 1999.

The valuation of the in-process research and development was prepared 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 after appropriate allocation to existing core products. In the valuation model, the Company contemplated sales of $750,000 in fiscal 1999, $1.5 million in 2000, $2 million in 2001. The Lava Claims Enabler product requires a significant amount of integration at each installation and accordingly professional service revenue is contemplated to be $1.9 million in fiscal 1999, $3.8 million in 2000, $5 million in 2001. Product margins and professional services margins and operating costs used in the valuation model were similar to those the Company currently experiences.

Included in tangible net liabilities is an amount of $4.5 million for direct acquisition costs, involuntary terminations, costs to exit certain activities and certain contingencies. The liabilities included $765,000 for direct acquisition costs, $800,000 for involuntary terminations of management and certain development, sales and administrative staff, $1.1 million for lease terminations, relocation expenses and other contract losses and $1.9 million for potential claims of former employees of Lava for terminations occurring prior to the acquisition date. These potential claims has been recorded based on estimates which management believes are reasonable, however, the amount may change as management obtains more information about the outcome of various claim. Should further information indicate that the amount is different that the estimate made, any adjustments to the amount determined prior to December 29, 1999 will adjust the goodwill recorded as of the date of the acquisition. It is expected that these claims will be settled by the end of fiscal 2000. During the year ended June 30, 1999, the company paid and charged against the liability $800,000 million for involuntary terminations, $1.1 million for lease terminations, relocation expense and other contract losses and $600,000 in claims from former employees.

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.

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 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 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. The excess of the purchase price over the fair market 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.

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 Dimension 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 completed this work in the middle of fiscal year 1999. Actual costs to complete the product were not materially different than estimates made.

The valuation of the in-process research and development was prepared 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% after appropriate allocation to existing core products. In the valuation model, the Company contemplated sales of $11 million in fiscal 2000, $39 million in 2001, $25 million in 2002 and $12 million in 2003. Product margins and operating costs used in the valuation model were similar to those the Company currently experiences.

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 was 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.

As of June 30, 1998, costs under the Information Dimensions and OnTime acquisitions for involuntary termination and relocation were $1.6 million. The Company made charges of $1.6 million to reserves in the year ended June 30, 1999 and no reserve balance exists at June 30, 1999.

During fiscal 1997, the Company acquired a minority equity interest in About.com (formerly MiningCo.com Inc.) which presently represents 885,201 shares of common stock. In March 1999, About.com completed an initial public offering of common stock and its common stock was listed on the Nasdaq Stock Market's National Market. At June 30, 1999, the closing price for About.com's common stock as reported by Nasdaq was $51.875 per share. Beginning in the quarter ended March 31, 1999, the Company accounted for its interest in About.com as securities available for sale, and will carry the investment on its balance sheet as a current asset value at the trading value of the securities on the balance sheet date. Unrealized gains of $32 million after providing for taxes are not included in net income, but are included in shareholders' equity as part of comprehensive income. The Company’s balance sheet also includes a current liability for the estimated future tax payable if the securities were sold at the value reflected on the balance sheet.

Securities of Internet commerce companies such as About.com have been highly volatile, and the amount the Company will realize on this investment is uncertain. The Company has agreed not to offer or sell it's shares in About.com until September 20, 1999 without the consent of the managing underwriter of the initial public offering.

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.

The Company’s financial statements are prepared in accordance with generally accepted accounting principles in the United States (“US GAAP”) and are presented in United States dollars unless otherwise indicated.

All references in this report to financial information concerning the Company refer to such information in accordance with US GAAP and all dollar amounts in this report are in United States dollars.

Results of Operations

During the year ended June 30, 1999, the Company had net income of $20.2 million, or $0.85 per share, diluted.

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

	Year Ended June 30,		
	1999	1998	1997
Revenues:			
License	58.0 %	65.4 %	60.6 %
Service	42.0	34.6	39.4
Total revenues	100.0	100.0	100.0
Cost of revenues:			
License	2.0	3.3	3.7
Service	19.4	16.7	29.3
Total cost of revenues	21.4	20.0	33.0
Gross Profit	78.6	80.0	67.0
Operating expenses:			
Research and development	12.3	17.4	29.2
Sales and marketing	39.4	48.4	73.5
General and administrative	6.4	10.3	20.5
Depreciation	4.5	5.2	7.4
Amortization of acquired intangible assets	2.4	1.4	-
Acquired in-process research and development	3.7	17.6	-
Restructuring	0.4	-	2.9
Total operating expenses	69.1	100.3	133.5
Income (loss) from operations	9.5	(20.3)	(66.5)
Other income (expense)	0.5	0.6	0.3
Interest income	2.5	3.9	8.6
Interest expense	-	(0.3)	(0.7)
Income (loss) for the year before income taxes	12.5	(16.1)	(58.3)
Income tax recovery	9.3	2.2	-
Net income (loss) for the year	21.8 %	(13.9) %	(58.3) %

Fiscal 1999 Compared with Fiscal 1998

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 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 104% from $45.3 million in the year ended June 30, 1998 to $92.5 million in the year ended June 30, 1999. Revenues from licenses increased 81% from $29.6 million in the year ended June 30, 1998 to $53.7 million in the year ended June 30, 1999. The increase in license revenues was due primarily to the growth of *Livelink* sales and acquisitions made in June 1998. Service revenues increased 148% from $15.7 million in the year ended June 30, 1998 to $38.9 million in the year ended June 30, 1999. The increase in service revenues was primarily attributable to an increase in consulting and integration services provided to new license customers and the increase in support contracts provided to new and existing customers as well as customers from acquisitions.

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 $1.5 million in the year ended June 30, 1998 to $1.9 million in the year ended June 30, 1999, decreasing from 5% to 3% of license revenue. The decrease was primarily due to further efficiencies in production and shipping of license products .

Cost of service revenues consists primarily of the costs of integration, technical support personnel, product support and training. Cost of service revenues increased 138% from $7.6 million in the year ended June 30, 1998 to $18 million in the year ended June 30, 1999, primarily due to additional personnel required to support the expanded activities of the integration and consulting departments. Cost of service revenues as a percentage of service revenues decreased from 48% in the year ended June 30, 1998 to 46% in the year ended June 30, 1999. The Company believes that it must continue to enhance its integration and consulting 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 44% from $7.9 million in the year ended June 30, 1998 to $11.4 million in the year ended June 30, 1999 and decreased as a percentage of total revenues from 17% in the year ended June 30, 1998 to 12% in the year ended June 30, 1999. 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 66% from $21.9 million in the year ended June 30, 1998 to $36.4 million in the year ended June 30, 1999 but decreased as a percentage of total revenues from 48% in the year ended June 30, 1998 to 40% in the year ended June 30, 1999. The increase in absolute dollars was due principally to expenses associated with increases in the number of sales and marketing personnel and related salaries and commissions, as well as expenses related to marketing, public relations activities, marketing materials, advertising and trade shows to promote *Livelink*. Sales and marketing expenses can be expected to increase in absolute dollars consistent with the Company's increased sales and marketing efforts. See "Forward-Looking Statements".

General and administrative expenses. General and administrative expenses consist primarily of salaries of administrative personnel and related overhead and facilities expenses. General and administrative expenses increased 27% from $4.6 million in the year ended June 30, 1998 to $5.9 million in the year ended June 30, 1999 and decreased as a percentage of total revenues from 10% in the year ended June 30, 1998 to 6% in the year ended June 30, 1999. The Company believes that the level of general and administrative expenses in future periods will increase in absolute dollars as the Company will add more administrative staff and install new management information systems and processes. See "Forward-Looking Statements".

Depreciation expenses. Amortization expense was $2.4 million in the year ended June 30, 1998 and increased to $4.2 million in the year ended June 30, 1999 as a result of increased capital expenditures during the year and increased capital equipment acquired through acquisitions.

Amortization of acquired intangible assets. Amortization of acquired intangible assets was $618,000 for the year ended June 30, 1998 and $2.2 million for the year ended June 30, 1999. Included in amortization of acquired intangible assets is amortization of core technology and goodwill on the acquisition of OnTime, Information Dimensions and Lava.

Acquired in-process research and development and write down of acquired intangible assets. Acquired in-process research and development was $7.9 million for the year ended June 30, 1998 and $3.4 million for the year ended June 30, 1999. These charges are attributable to the cost of acquired in-process research and development expenses as part of the Information Dimensions and OnTime acquisitions in fiscal 1998 and the Lava acquisition in fiscal 1999 that are expensed under GAAP. See Overview.

Other income. Other income was $280,000 for the year ended June 30, 1998 and $427,000 for the year ended June 30, 1999. Other income is comprised mainly of gains and losses on the disposal of investments and fixed assets.

Interest. Interest income was $1.7 million in the year ended June 30, 1998 compared to $2.3 million in the year ended June 30, 1999. The increase was due to higher average cash balances held by the Company during the year. See "Liquidity and Capital Resources".

Income taxes. A deferred tax asset of $20.4 million and $20.2 million existed as of June 30, 1998 and June 30, 1999 respectively. In fiscal year 1999 the Company released $9.1 million of its valuation allowance as a result of its examination of realizability of gross deferred tax amounts and recorded the amount as income. The remaining change in valuation was primarily allocated to goodwill. In accordance with US GAAP, a valuation allowance of $7.7 million continues to be recorded against the deferred tax asset by the Company as reasonable assurance on the use of the remaining portion of the tax assets has not been obtained. The valuation allowance at June 30, 1998 was $19.4 million. The Company continues to evaluate its taxable position quarterly and considers factors such as estimated taxable income, the history of losses for tax purposes and the growth of the Company, among others.

Fiscal 1998 Compared with Fiscal 1997

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. 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. The increase was primarily due to 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 service revenues decreased from 74% in the year ended June 30, 1997 to 48% 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 19.7% 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 17.5% 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. Amortization 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. Amortization of acquired intangible assets was $618,000 in the year ended June 30, 1998 versus nil for the year ended June 30, 1997. Included in amortization of acquired intangible assets is the amortization of core technology and goodwill on the acquisitions of OnTime and Information Dimensions.

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 in accordance with GAAP. The Company subsequently revised the software 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.

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 About.com 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. 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 result in cash payments to the Company. 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.

Depreciation 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 in-process 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 About.com 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

At June 30, 1999, the Company had current assets of $237 million, $45.9 million of which are available for sale, and current liabilities of $38 million. The Company has a Cdn $10 million (USD$6.79 million) line of credit with a Canadian chartered bank, under which no borrowings were outstanding at June 30, 1999. The line of credit

bears interest at the lender's prime rate plus 0.5% and is secured by all of the Company's assets, including an assignment of accounts receivable.

Cash provided by operations during the year ended June 30, 1999 was $2.8 million. Acquisitions of furniture and equipment was $4.7 million. The purchase of Lava Systems resulted in a cash outflow of $5.8 million.

To date, license and service revenues have been insufficient to satisfy the Company's cash requirements, as the Company continues to search for businesses to acquire. The Company has financed its cash needs primarily through issuance of the Company's Common Shares. On May 3, 1999, the Company completed the issuance of 3.0 million Special Warrants, convertible into Common Shares for no additional consideration, for net proceeds of $97 million. Each Special Warrant entitles the holder, upon exercise thereof in accordance with its terms, to acquire one Common Share without payment of additional consideration therefor at any time on or after June 14, 1999 and up to and including 5:00 p.m. (E.S.T.) 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, Alberta and Québec Securities Commissions shall have issued a receipt for a (final) prospectus qualifying the distribution of the Common Shares (the "Underlying Shares") issuable on the conversion of the Special Warrants; (b) and May 4, 2000.

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.

During fiscal 1997, the Company advanced approximately $4.0 million to About.com, 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 About.com common stock.

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.

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, 2000. 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 37% of the Company's revenues in 1999 and 32% in 1998 has been earned in currencies other than the US dollar. Approximately 52% of the Company's expenses in 1999 and 30% in 1998 have been spent in currencies other than US dollar. 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 and has retained outside consultants to assist it in this compliance review. The focus of the Company's compliance efforts includes all of the Company's present products, systems and equipment. The Company is not testing any past products. The review and testing of present products was completed in May 1999. The Company also reviewed its internal systems and equipment and this review was completed in June 1999. Any remediation necessary on these internal systems is expected to be complete by the end of September 1999 however the Company has not identified any specific critical issues. It is estimated that the compliance costs will not exceed $500,000. See "Forward-Looking Statements".

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. See "Forward-Looking Statements".

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 LLP, 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 LLP 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, 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, 1999 and 1998 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended June 30, 1999, 1998 and 1997. 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, 1999 and 1998 and the results of its operations and cash flows for the years ended June 30, 1999, 1998 and 1997 in accordance with accounting principles generally accepted in the United States.

(signed) PricewaterhouseCoopers LLP
Chartered Accountants

Kitchener, Canada
August 12, 1999

OPEN TEXT CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands of US Dollars, except share data)

	June 30, 1999	June 30, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 140,256	$ 40,390
Available for sale securities (Note 3)	45,920	-
Accounts receivable trade, net of allowance for doubtful accounts of $1,658 as at June 30, 1999 and $1,635 as at June 30, 1998	31,632	22,924
Deferred tax assets (Note 11)	4,000	-
Prepaid expenses and other assets	7,736	2,834
Total current assets	229,544	66,148
Furniture and equipment (Note 4)	9,988	8,710
Goodwill, net of accumulated amortization of $1,946 at June 30, 1999 and $442 at June 30, 1998	14,388	15,461
Other assets	10,854	10,263
	$ 264,774	$ 100,582
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade and accrued liabilities (Note 6)	$ 13,995	$ 17,396
Deferred revenues	9,802	10,112
Deferred tax liability (Note 11)	8,152	-
Total current liabilities	31,949	27,508
Commitments and contingencies (Notes 9 and 17)		
Shareholders' equity:		
Share capital (Note 7)		
21,280,463 and 18,087,069 Common Shares issued and outstanding at June 30, 1999 and June 30, 1998 respectively	150,252	105,108
3,000,000 and 1,750,000 Special Warrants issued and outstanding at June 30, 1999 and June 30, 1998 respectively	97,420	34,800
Accumulated other comprehensive income and other capital:		
Unrealized gain on available for sale securities (net of tax)	31,699	-
Cumulative translation adjustment	(735)	(944)
Other	64	155
Accumulated deficit	(45,875)	(66,045)
Total shareholders' equity	232,825	73,074
	$ 264,774	$ 100,582

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,		
	1999	**1998**	**1997**
Revenues:			
License	$ 53,657	$ 29,644	$ 13,736
Service	38,880	15,656	8,912
Total revenues	92,537	45,300	22,648
Cost of revenues:			
License	1,819	1,500	848
Service	18,005	7,554	6,631
Total cost of revenues	19,824	9,054	7,479
	72,713	36,246	15,169
Operating expenses:			
Research and development	11,373	7,906	6,612
Sales and marketing	36,441	21,906	16,638
General and administrative	5,921	4,645	4,648
Depreciation	4,225	2,374	1,689
Amortization of acquired intangible assets	2,194	618	-
Acquired in-process research and development and write down of intangible assets	3,419	7,978	-
Restructuring costs	329	-	650
Total operating expenses	63,902	45,427	30,237
Income (loss) from operations	8,811	(9,181)	(15,068)
Other income (Note 10)	427	280	57
Interest income	2,342	1,745	1,944
Interest expense	(47)	(125)	(148)
Income (loss) before income taxes	11,533	(7,281)	(13,215)
Income tax recovery (Note 11)	8,637	1,000	-
Net income (loss) for the year	$ 20,170	$ (6,281)	$ (13,215)
Net income (loss) per share - basic	$ 0.96	$ (0.36)	$ (0.78)
Net income (loss) per share - diluted	$ 0.85	$ (0.36)	$ (0.78)
Weighted average number of Common Shares outstanding - basic	20,914,365	17,679,987	16,865,644
Weighted average number of Common Shares outstanding - diluted	23,728,738	17,679,987	16,865,644

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	Accumulated	Accumulated Other Comprehensive
	Shares	Amount	Shares	Amount	Amount	Loans	Deficit	Income (loss)
Balance as of June 30, 1996	16,236	$ 93,563	-	-	$ 9,116	$ (240)	$ (46,549)	$ (340)
Issuance of Common Shares								
Conversion of shares set aside including employee stock options	672	7,040	-	-	(7,040)	(143)	-	-
Under employee stock option plans	296	500	-	-	-	-	-	-
Comprehensive income:								
Foreign currency tranlation adjustment	-	-	-	-	-	-	-	(237)
Net loss for the year	-	-	-	-	-	-	(13,215)	-
Total comprehensive income (loss)	-	-	-	-	-	-	-	-
Balance as of June 30, 1997	17,204	101,103	-	-	2,076	(383)	(59,764)	(577)
Issuance of Common Shares								
Conversion of shares set aside	4	54	-	-	(54)	-	-	-
Under employee stock options plans	879	3,951	-	-	-	-	-	-
Issuance of Special Warrants	-	-	1,750	$ 34,800	-	-	-	-
Reduction in original investments	-	-	-	-	(1,867)	-	-	-
Repayment of employee share purchase loans	-	-	-	-	-	383	-	
Comprehensive income:								
Foreign currency translation adjustment	-							(367)
Net loss for the year	-	-	-	-	-	-	(6,281)	-
Total comprehensive income (loss)	-	-	-	-	-	-	-	-
Balance as of June 30, 1998	18,087	105,108	1,750	34,800	155	-	(66,045)	(944)
Issuance of Common Shares								
Conversion of shares set aside	9	91	-	-	(91)	-	-	-
Under employee stock option plans	1,355	9,075	-	-	-	-	-	-
On acquisitions	10	307	-	-	-	-	-	-
Conversion of special warrants	1,750	34,800	(1,750)	(34,800)	-	-	-	-
Additional costs related to Mar'98 issue of special warrants	-	(31)	-	-	-	-	-	-
Under employee stock purchase plans	70	902	-	-	-	-	-	-
Issuance of special warrants	-	-	3,000	97,420	-	-	-	-
Comprehensive income:								
Unrealized gain on available for sale securities	-	-	-	-	-	-	-	31,699
Foreign currency translation adjustment	-	-	-	-	-	-	-	209
Net income for the year	-	-	-	-	-	-	20,170	-
Total comprehensive income (loss)	-	-	-	-	-	-	-	-
Balance as of June 30, 1999	21,281	$ 150,252	3,000	$ 97,420	$ 64	-	$ (45,875)	$ 30,964

OPEN TEXT CORPORATION

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

	Year Ended June 30,		
	1999	1998	1997
Cash flows from operating activities:			
Net income (loss) for the year	$ 20,170	$ (6,281)	$ (13,215)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation	4,225	2,374	1,689
Amortization and write down of intangible assets and acquired in-process research and development	5,701	8,755	-
Deferred taxes	(11,658)	-	-
Gain on sale of other investments	(991)	-	-
Other	(388)	(446)	(45)
Changes in operating assets and liabilities (net of assets acquired in the period):			
Accounts receivable	(8,601)	(7,864)	(3,207)
Other assets and goodwill	5,575	1,000	-
Prepaid expenses and other current assets	(5,244)	415	(204)
Provision for restructuring	-	-	(2,339)
Accounts payable and deferred revenue	(6,004)	(5,095)	2,049
Net cash provided by (used in) operating activities	2,785	(7,142)	(15,272)
Cash flows from investing activities:			
Acquisitions of furniture and equipment	(4,747)	(3,733)	(2,623)
Purchase of other investments	(3,524)	(2,386)	(1,389)
Proceeds of sale of other investments	3,928	-	6,345
Purchase of OnTime group net of cash acquired	-	(5,485)	-
Purchase of Information Dimensions group net of cash acquired	-	(7,829)	-
Purchase of Lava Systems	(5,797)		
Proceeds from (additions to) other assets	(340)	533	(5,967)
Net cash used in investment activities	(10,480)	(18,900)	(3,634)
Cash flow from financing activities:			
Payments of obligations under capital leases, including current portion	(203)	(597)	(828)
Proceeds from issuance of Special Warrants	97,420	34,800	-
Proceeds from issuance of Common Shares	10,344	2,084	500
Employee share purchase loans	-	383	(143)
Net cash provided by (used in) financing activities	107,561	36,670	(471)
Increase(decrease) in cash and cash equivalents during the year	99,866	10,628	(19,377)
Cash and cash equivalents at beginning of the year	40,390	31,762	51,139
Cash and cash equivalents at end of the year	$ 140,256	$ 42,390	$ 31,762

See accompanying notes to consolidated financial statements

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 products are sold primarily to Global 2000 customers. The Company's shares trade publicly on the Nasdaq Stock Market - National market ("Nasdaq"), under the symbol OTEX 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 ("US GAAP").

Basis of consolidation

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

Accounting estimates

The preparation of financial statements in conformity with US GAAP 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. 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 two 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, provided that the Company has no remaining service obligations under the license agreement other than customer support agreements, the fees are fixed and determinable 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, and provide consulting services. Contract revenues are recognized under the percentage of completion method, using a methodology that accounts for costs incurred in relationship to total revenues under the contract after providing for any anticipated losses under the contract. Software maintenance revenues are deferred and recognized ratably over the life of the service contract. Revenues from training and integration services are recognized in the period in which the services are performed.

Research and development costs

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

Income taxes

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

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, 1999 and June 30, 1998.

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.

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.

Earnings per share

Basic earnings per share is computed using the weighted average number of shares of common shares. Diluted earnings per share is computed using the weighted average number of shares of common shares and common share equivalents outstanding during the period. Common share equivalents consist of stock options (using the treasury stock method) and Special Warrants. In fiscal 1998, common share equivalents are excluded for the computation if their effect is antidilutive.

	Year Ended June 30,		
	1999	**1998**	**1997**
		(in thousands)	
Basic earnings (loss) per share			
Net income (loss)	$ 20,170	$ (6,281)	$ (13,215)
Weighted average number of common shares outstanding	20,914	17,680	16,866
Basic earnings (loss) per common share	$ 0.96	$ (0.36)	$ (0.78)
Diluted earnings (loss) per share			
Net income (loss)	$ 20,170	$ (6,281)	$ (13,215)
Weighted average number of common shares outstanding	20,914	17,680	16,866
Number of common share equivalents as a result of stock options outstanding	2,814	-	-
Weighted average number of common shares and common share equivalents outstanding	23,728	17,680	16,866
Diluted earnings (loss) per common share and common share equivalents	$ 0.85	$ (0.36)	$ (0.78)

Recent accounting pronouncements

On December 15, 1998, the AICPA issued Statement of Position No.98-9 (“SOP 98-9”), “Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions”. SOP 98-9 amends certain paragraphs of SOP 97-2, “Software Revenue Recognition”, to require recognition of revenue using the “residual method” when (1) there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting, (2) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement, and (3) all revenue-recognition criteria in SOP 97-2 other than the requirement for vendor-specific objective evidence of the fair value of each delivered element of the arrangement are satisfied. SOP 98-9 also amends SOP 98-4, “Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition”, to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 to the Company’s June 30, 2000 fiscal year. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. The Company is currently reviewing the effects of SOP 98-9 on its June 30, 2000 fiscal year.

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.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 provides guidance regarding the determination of whether computer software is internal-use software, the capitalization of costs incurred for computer software developed or obtained for internal use and accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. The Company has not yet determined the effect, if any, of adopting SOP 98-1, which will be effective for the Company's fiscal year ending June 30, 2000.

In March 1998, the AICPA issued Statement of Position No.98-4 ("SOP 98-4"), "Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition". SOP 98-4 defers, for one year, the application of certain passages in SOP 97-2 which limit what is considered vendor-specific objective evidence ("VSOE") necessary to recognize revenue for software licenses in multiple-element arrangements when undelivered elements exist. Adoption of the remaining provisions of SOP 97-2 did not have a material impact on revenue recognition during fiscal year 1999.

NOTE 3—AVAILABLE FOR SALE SECURITIES

About.com. During fiscal 1997, the Company acquired a minority equity interest in About.com, Inc. ("About.com") (formerly MiningCo.com Inc. and formerly General Internet, Inc.) which presently represents 885,201 shares of common stock. In March 1999, About.com completed an initial public offering of common stock and its common stock was listed on the Nasdaq. At June 30, 1999, the closing price for About.com's common stock as reported by Nasdaq was $51.875 per share. Beginning in the quarter ended March 31, 1999, the Company is accounting for its interest in About.com as securities available for sale, and will carry the investment on its balance sheet as a current asset value at the trading value of the securities on the balance sheet date. The Company’s balance sheet also includes a current liability for the estimated future tax payable if the securities were sold at the value reflected on the balance sheet. The Company's cost basis of this investment is $200,000.

Securities of Internet commerce companies such as About.com have been highly volatile, and the amount the Company will realize on this investment is uncertain. The market price since year end is lower than the price at

June 30, 1999. The Company has agreed not to offer or sell it's shares in About.com until September 20, 1999 without the consent of the managing underwriter of the initial public offering.

NOTE 4—FURNITURE AND EQUIPMENT

	June 30, 1999		
	Cost	Accumulated Depreciation	Net
		(in thousands)	
Furniture and fixtures	$ 3,743	$ 1,556	$ 2,187
Office equipment	398	256	142
Computer hardware and software	18,938	11,749	7,189
Leasehold improvements	814	344	470
	$ 23,893	$ 13,905	$ 9,988

	June 30, 1998		
	Cost	Accumulated Depreciation	Net
		(in thousands)	
Furniture and fixtures	$ 3,025	$ 1,182	$ 1,843
Office equipment	294	196	98
Computer hardware and software	16,099	9,675	6,424
Leasehold improvements	539	194	345
	$ 19,957	$ 11,247	$ 8,710

NOTE 5—BANK INDEBTEDNESS

The Company and its subsidiaries have credit facilities totaling Cdn $10.0 million (USD $6.79 million) (1998 - USD $6.5 million) that are secured by a general security agreement, at prime rate of interest (6.25% as of June 30, 1999). During 1999, 1998 and 1997, borrowings and interest cost on bank indebtedness were insignificant.

NOTE 6 - ACCOUNTS PAYABLE - TRADE AND ACCRUED LIABILITIES

Accounts payable - trade and accrued liabilities are as follows:

	June 30,	
	1999	1998
	(in thousands)	
Accounts payable - trade	$ 4,369	$ 2,734
Accrued trade liabilities	3,405	3,061
Amounts payable related to acquisitions	1,265	7,196
Accrued salaries and commissions	4,815	4,173
Other liabilities	141	232
	$ 13,995	$ 17,396

NOTE 7—SHARE CAPITAL

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

The authorized share capital of the Company includes an unlimited number of first preference shares, of which none are issued.

On May 3, 1999, the Company completed the issuance of 3,000,000 Special Warrants convertible into Common Shares at a price of $34.00 per Special Warrant for net proceeds of $97 million. Each Special Warrant entitles the holder, upon exercise thereof in accordance with its terms, to acquire one Common Share without payment of additional consideration.

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. 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.

In February 1999, the Company announced its intention to purchase from time to time, if considered advisable and subject to regulatory approval, up to an aggregate of 1 million common shares, being less than 5% of its common shares, on the Nasdaq National Market and The Toronto Stock Exchange over the next 12 months. All common shares purchased by Open Text pursuant to the notice will be cancelled. As of June 30, 1999 no purchases have been made.

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 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 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, 1999, 524,000 options had been granted to date and 132,000 had been cancelled to date under the Directors Plan of which 286,500 options in total are outstanding and eligible to purchase Common Shares as follows: 74,000 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; 70,000 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 86,500 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 1,800,000 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.

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 90th 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.

With the approval of the New Option Plan on June 23, 1998 by the Board, no further options will be issued under any of the previous option plans.

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.

During fiscal 1999, additional new options to purchase 1,458,045 Common Shares were granted under the New Option Plan at an average exercise price of $18.80.

Summary of Outstanding Stock Options

As of June 30, 1999, options to purchase an aggregate of 4,415,046 Common Shares were outstanding under all of the Company's stock option plans out of an allowable pool of options totaling 4,804,126. Options to purchase 1,010,361 shares were exercisable at an average price of $7.14. At June 30, 1998, options to purchase 1,055,020 shares were exercisable at an average price of $5.96. At June 30, 1997 options to purchase 628,368 shares were exercisable at a weighted average price of $4.37.

A summary of option activity since June 30, 1996 is set forth below:

	Options Outstanding	
	Number	Weighted Average Exercise Price
Options outstanding at June 30, 1996	1,794,756	$ 1.10
Granted during fiscal 1997	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
Granted during fiscal 1999	1,458,045	18.80
Cancelled and expired	(745,349)	9.38
Exercised	(1,363,740)	6.66
Options outstanding at June 30, 1999	4,415,046	11.35

The following table summarizes information regarding stock options outstanding at June 30, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at June 30, 1999	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Outstanding at June 30, 1999	Weighted Average Exercise Price
$ 0.0006 - $ 0.15	143,476	5.83	$ 0.14	108,176	$ 0.14
3.98 - 6.63	1,380,908	7.28	5.60	416,683	5.62
6.88 - 8.00	235,620	7.78	7.79	102,970	7.93
8.50 - 11.25	822,146	8.22	9.69	294,981	9.48
11.44 - 20.94	1,354,801	9.04	13.89	87,551	14.23
21.88 - 31.50	478,095	9.78	28.73	-	-
0.00 - 31.50	4,415,046	8.25	11.35	1,010,361	7.14

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 lessor 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 or stock dividends, stock splits, combinations of shares, or other similar changes in capitalization of the Company. During fiscal 1999, a total of 69,654 Common Shares were issued under the ESPP.

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 and the employee stock purchase plan have 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:

	June 30,		
	1999	1998	1997
Net income (loss) for the year		(in thousands)	
As reported	$ 20,170	$ (6,281)	$ (13,215)
Pro forma	$ 12,213	$ (14,304)	$ (16,105)
Net income (loss) per share - basic			
As reported	$ 0.96	$ (0.36)	$ (0.78)
Pro forma	$ 0.60	$ (0.81)	$ (0.96)
Net income (loss) per share - diluted			
As reported	$ 0.85	$ (0.36)	$ (0.78)
Pro forma	$ 0.54	$ (0.81)	$ (0.96)

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 for the stock-based compensation plans:

	June 30,		
	1999	1998	1997
Volatility	79.3%	63.6%	75.0%
Risk-free interest rate	6.0%	6.0%	6.0%
Dividend yield	-	-	-
Expected lives (in years)	5.80	5.54	5.16
Weighted average fair value (in dollars)	21.76	13.87	7.53

The fair value of each employee stock purchase plan share on the date of grant was estimated using the Black-Scholes option pricing model for June 30, 1999 using a volatility rate of 81.3%, a risk-free interest rate of 5.0%, no dividend yield, an expected life of one half year for a weighted fair value of $4.94.

NOTE 9—COMMITMENTS

The Company has entered into operating leases for premises and vehicles with minimum annual payments as follows:

	(in thousands)
2000	$ 3,765
2001	2,745
2002	1,620
2003	1,515
2004	500
Thereafter	6,415
	$ 16,560

Rent expense amounted to $3.4 million in 1999, $2.2 million in 1998 and $1.3 million in 1997.

NOTE 10—OTHER INCOME

	June 30,		
	1999	1998	1997
	(in thousands)		
Gain on sale of Yahoo common shares	-	-	$ 5,845
Gain on sale of investments, net of disposal costs	$ 991	-	-
Gain associated with investment activities	1,080	-	-
Loss provision for About.com	-	-	(3,906)
Loss provision for valuation of other investments	-	-	(1,523)
Loss provison for other assets individually less than $200,000	-	-	(371)
Gain on sale of other investments	2,071	-	45
Cost associated with investment activities	(1,196)	-	-
Balance of other income	(448)	$ 280	12
Other income	$ 427	$ 280	$ 57

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.

On October 17, 1996, pursuant to an agreement signed on the date between the Company About.com, the Company converted its advances to About.com to a promissory note.

In March 1997, the Company remeasured the value of the promissory note requiring a further write down of $3.7 million which was charged to operations as of March 31, 1997. The Company's loans and advances to About.com were eventually converted into other securities and common shares (See Note 3).

NOTE 11—INCOME TAXES

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

	Year Ended June 30,		
	1999	1998	1997
		(in thousands)	
Income (loss) before income taxes	$ 11,533	$ (7,281)	$ (13,215)
Combined basic Federal and Provincial income tax (expense) recovery at 44.6% as of June 30, 1999, 1998 and 1997	$ (5,144)	$ 3,247	$ 5,854
Difference resulting from:			
Effect of foreign tax rate	459	-	-
Unrecorded benefit of loss carryforwards and temporary differences	-	(3,247)	(5,854)
Benefit of loss carryforwards utilized	4,239	-	-
Reduction in deferred tax assets	(1,000)	-	-
Reduction in valuation allowance	10,083	1,000	-
Income tax recovery	$ 8,637	$ 1,000	$ -

The Company’s income (loss) before income taxes for the year is allocated to tax jurisdictions as follows:

	Year Ended June 30,		
	1999	1998	1997
		(in thousands)	
Canada	$ 3,650	$ (6,919)	$ (10,773)
United States	7,431	(969)	(1,123)
Other	452	607	(1,319)
	$ 11,533	$ (7,281)	$ (13,215)

The income tax recovery is comprised of current and deferred income taxes as follows:

	Year Ended June 30,		
	1999	1998	1997
	(in thousands)		
Current tax expense	-	-	-
Canadian federal	-	-	-
Canadian provincial	-	-	-
Foreign	$ (446)	-	-
	$ (446)	$ -	$ -
Deferred tax recovery			
Canadian federal	$ 4,606	$ 1,000	-
Canadian provincial	1,036	-	-
Foreign	3,441	-	-
	9,083	1,000	-
Income tax recovery	$ 8,637	$ 1,000	$ -

The Company and its subsidiaries have approximately $45 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 $8 million have no expiration date, and the balance of losses and deductions expire as follows:

	(in thousands)
Year Ended June 30	
2000	$ -
2001	-
2002	-
2003	4,000
2004	2,000
2005	2,000
Thereafter	29,000
	$ 37,000

The Company also has tax credits available of $1.9 million in Canada and the United States that expire from 2004 to 2019.

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

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

	June 30,	
	1999	1998
	(in thousands)	
Current deferred tax asset:		
Losses available to offset future income taxes	$ 6,000	$ -
Less valuation allowance	(2,000)	-
	$ 4,000	$ -
Current deferred tax liability:		
Losses available to offset future income taxes	$ 5,400	$ -
Tax credits	470	-
Deferred tax on available for sale securities	(14,022)	-
	$ (8,152)	$ -
Long-term deferred tax asset:		
Loss available to offset future income taxes	$ 3,285	$ 16,693
Tax credits	1,463	688
Share issue costs	1,741	2,454
Intangibles	1,836	534
	8,325	20,369
Less valuation allowance	(5,696)	(19,369)
	2,629	1,000
Furniture and equipment	(841)	-
	$ 1,788	$ 1,000

Long-term deferred tax assets are included in other assets**.**

Approximately $1.6 million of the decrease in valuation allowance in 1999 was attributed to benefits acquired in an acquisition and accordingly was charged against the goodwill of that acquisition. A further $1.3 million in benefits will be charged against the goodwill of an acquisition as the valuation allowance on that benefit is reduced.

Included in losses available to offset future income taxes are benefits associated with employee's stock option exercises in the amount of $5.8 million (1998-$1.1 million). As the valuation allowance against these deductions are reduced in the future, the benefit of the deductions is credited to shareholders' equity.

The Company believes that sufficient uncertainty exists regarding the realization of certain deferred tax assets that a valuation allowance is required. The Company continues to evaluate and examine the valuation allowances on a quarterly basis and at such time future uncertainties are resolved, the valuation allowances may be reduced further.

NOTE 12—SEGMENT INFORMATION

In 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the reporting by public business

enterprises of information about operating segments, products and services, geographic areas, and major customers. The method of determining what information to report is based on the way that management organizes the operating segments within the Company for making operational decisions and assessments of financial performance.

The Company has two reportable segments: North America, and Europe. The Company evaluates operating segment performance based on net revenues and direct operating expenses of the segment. The accounting policies of the operating segments are the same as those described in the summary of accounting policies. No segments have been aggregated.

Information about reported segments are as follows:

	North America	Europe	Other	Total
		(in thousands)		
1999				
Revenue from external customers	$ 52,989	$ 34,764	$ 4,784	$ 92,537
Operating costs	43,355	27,123	3,081	73,559
Contribution margin	$ 9,634	$ 7,641	$ 1,703	$ 18,978
Segment assets	$ 62,569	$ 26,340	$ 814	$ 89,723
1998				
Revenue from external customers	$ 33,688	$ 10,501	$ 1,111	$ 45,300
Operating costs	34,028	9,086	377	43,491
Contribution margin	$ (340)	$ 1,415	$ 734	$ 1,809
Segment assets	$ 87,022	$ 13,560	$ -	$ 100,582
1997				
Revenue from external customers	$ 19,438	$ 3,210	-	$ 22,648
Operating costs	30,333	4,316	-	34,649
Contribution margin	$ (10,895)	$ (1,106)	$ -	$ (12,001)
Segment assets	$ 50,403	$ 1,942	$ -	$ 52,345

For the year ended June 30, 1999 and 1998, the "Other" category consists of geographic regions other than North America and Europe.

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements for the years ended June 30, 1999 and 1998 is as follows:

	Year Ended June 30,		
	1999	1998	1997
	(in thousands)		
Total contribution margin from operating segments above	$ 18,978	$ 1,809	$ (12,001)
Intercompany transactions	-	-	-
Amortization and depreciation	(10,167)	(10,990)	(2,339)
Total operating income (loss)	$ 8,811	$ (9,181)	$ (14,340)
Interest, other income and taxes	11,359	2,900	1,125
Net income (loss)	$ 20,170	$ (6,281)	$ (13,215)

	As of June 30,		
	1999	1998	1997
	(in thousands)		
Segment assets	$ 89,723	$ 100,582	$ 52,740
Available for sale securities	45,920	-	-
Cash and cash equivalents	135,001	-	-
Intercompany balances	-	-	(395)
Total corporate assets	$ 270,644	$ 100,582	$ 52,345

Contribution margin from operating segments does not include amortization of intangible assets, acquired in-process research and development and restructuring costs. Goodwill and intangibles have been included in segment assets.

The distribution of net revenues determined by location of customer, and identifiable assets, greater than 10%, by geographic areas for the years ended June 30, 1999, 1998, 1997 are as follows:

	Year Ended June 30,		
	1999	1998	1997
	(in thousands)		
Net revenues:			
Canada	$ 7,019	$ 7,375	$ 5,829
United States	49,996	28,584	13,366
United Kingdom	14,057	3,280	-
Other	28,484	13,436	9,282
Total revenues	$ 99,556	$ 52,675	$ 28,477

	As of June 30,		
	1999	1998	1997
	(in thousands)		
Segment assets:			
Canada	$ 59,248	$ 50,077	$ 41,966
United Kingdom	12,597	1,095	163
Other	17,878	49,410	10,216
Total segment assets	$ 89,723	$ 100,582	$ 52,345

NOTE 13—SUPPLEMENTAL CASH DISCLOSURES

	June 30,		
	1999	**1998**	**1997**
	(in thousands)		
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$ 47	$ 125	$ 148
Supplemental Schedule of non cash investing and financing activities:			
Equipment purchased under capital leases	-	-	400
Conversion of special warrants to Common Shares	34,800	-	-
Conversion of shares set aside to Common Shares	91	54	7,040

NOTE 14—ACQUISITIONS

Fiscal 1999

Lava

On December 29, 1998 the Company acquired certain of the assets and liabilities of Lava Systems Inc., (“Lava”) for approximately $2.3 million in cash paid at closing, in a transaction which has been accounted for under the purchase method. The operations of Lava have been included in the financial statements from the purchase date.

A key element of the acquisition is the Company’s perception of the value of Lava’s document management software and its professional services organization. Although Lava’s technology is a 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. In view of the preceding, it is believed that the acquisition of Lava provides the Company with an opportunity to successfully advance collaborative knowledge management technology.

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

	(in thousands)
Tangible net liabilities	$ (4,051)
Current software products	707
Goodwill	2,222
Acquired in-process research and development	3,419
	$ 2,297

Included in tangible net liabilities is an amount of $4.5 million for direct acquisition costs, involuntary terminations, costs to exit certain activities and certain contingencies. The liabilities included $765,000 for direct acquisition costs, $800,000 for involuntary terminations of management and certain development, sales and administrative staff, $1.1 million for lease terminations, relocation expenses and other contract losses and $1.9 million for potential claims of former employees of Lava for terminations occurring prior to the acquisition date. These potential claims have been recorded based on estimates which management believes are reasonable, however, the amount may change as management obtains more information about the outcome of various claims. Should further information indicate that the amount is different than the estimate made, any adjustments to the amount determined prior to December 29, 1999 will adjust the goodwill recorded as of the date of the acquisition. It is expected that these claims will be settled by the end of fiscal 2000. During the year ended June 30, 1999, the Company paid and charged against the liability $800,000 for involuntary terminations, $1.1 million for lease terminations, relocation expense and other contract losses and $600,000 in claims from former employees.

As of the date of acquisition of Lava, the Company determined there were a number of research and development projects in process. The projects were about 74% complete at the time of acquisition. The most significant project, Lava Claims Enabler, a *Livelink* Module is slated for completion in the middle of calendar 1999. The Company believes that there are critical issues in Claims Enabler that its research and development efforts need to address to reach completion. Should these technical issues not be addressed in the estimated time, the Company expects the release of Claims Enabler in particular could be delayed.

The valuation of the in-process research and development was prepared 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% after appropriate allocation to existing core products. In the valuation model, the Company contemplated sales of $750,000 in fiscal 1999, $1.5 million in 2000, and $2 million in 2001. The Lava Claims Enabler product requires a significant amount of integration at each installation and accordingly professional service revenue is contemplated to be $1.9 million in fiscal 1999, $3.8 million in 2000, $5 million in 2001. Product margins and professional services margins and operating costs used in the valuation model were similar to those the Company currently experiences.

As a result of the valuation, the fair market value of the acquired in-process research and development was determined to be $3.4 million. In accordance with applicable accounting rules, this amount was expensed upon acquisition in the second quarter of fiscal 1999.

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 $707,000. This amount was recorded as an asset and will be amortized on a straight-line basis over two years. The excess of the purchase price over the fair value of acquired indentifiable assets and liabilities assumed has been recorded as goodwill in the amount of $2.2 million which will be amortized on a straight-line basis over ten years.

The following pro forma consolidated information shows the results of operations for the years ended June 30, 1999 and 1998 as if the Lava acquisition had occurred on July 1, 1997 and acquired in-process research and

development costs were expensed as of July 1, 1997. 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.

	Year ended June 30,	
	1999	1998
	(in thousands, except share and per share data)	
	(unaudited)	
Pro forma total revenues	$ 96,582	$ 60,053
Pro forma income (loss) for the year	$ 13,970	$ (49,314)
Weighted average number of Common Shares outstanding - diluted	23,728,738	17,679,987
Pro forma income (loss) per share - diluted	$ 0.59	$ (2.79)

Fiscal 1998

Information Dimensions

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.

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. Product liabilities included in tangible net assets of $4.0 million was discharged for costs equal to $4.0 million.

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	9,708
	$ 8,100

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 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

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
	$ 6,700

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 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 $2.5 million and this amount has been included in acquired in-process research and development.

As of June 30, 1998, costs accrued under the Information Dimensions and OnTime acquisitions for involuntary terminations and relocation were $1.6 million. The Company made charges of $1.6 million to reserves in the year ended June 30, 1999 and no reserve balance exists at June 30, 1999.

NOTE 15—SUBSEQUENT EVENTS

On July 26, 1999 the Company announced it has entered into an agreement with Microstar Software Ltd. ("Microstar") of Ottawa, Ontario to acquire all the outstanding shares of Microstar for Cdn $2.10 per share payable in cash for approximate total consideration of Cdn $6.9 million (US $4.7 million). Microstar has agreed not to solicit other offers and has agreed to pay Open Text a break-up fee equal to approximately 4% of the equity value of Microstar if the transaction is not completed in certain circumstances. In addition, Microstar has granted an option

to Open Text, exercisable only in the circumstances in which the break-up fee is payable, to purchase treasury common shares equal to 19% of the issued and outstanding shares of Microstar at an exercise price of Cdn $2.10 per share. The offer is subject to standard conditions including at least 66 2/3% of the shares being tendered to the offer, regulatory approvals and due diligence. Shareholders holding in the aggregate approximately 35% of the shares of Microstar have agreed to tender their shares to the offer.

NOTE 16—RECLASSIFICATION

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

NOTE 17—LEGAL PROCEEDINGS

The Company is engaged in a dispute with a Swedish company that distributes its products in Scandinavia. The Company initiated an action under the arbitration provisions in Ontario of the distribution agreement claiming that the distributor is in breach of the Agreement, damage related to this breach and for payment of certain fees incurred by the distributor. The distributor subsequently brought an action in Ontario against the Company, which has been stayed by the Ontario court pending a decision by the arbitrators as to the scope of the arbitration agreement between the parties. In connection with the action brought by the distributor, the Company does not believe it will incur any material liability.

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) Reports on Form 8-K.

A current report on Form 8-K/A dated March 15, 1999 was filed with the Securities and Exchange Commission to report under item 7, Financial Statements Pro Forma Financial Information and Exhibits, the audited financial statements for the Lava Systems, for the periods ended July 31, 1998 and 1997, and the pro forma financial statements for the year ended June 30, 1998 and the six months ended December 31, 1998.

A current report on Form 8-K/A dated February 5, 1999 was filed with the Securities and Exchange Commission to report under item 7, Financial Statements and Pro Forma Financial Information, the Company determined that financial statements and pro forma financial information are not required regarding the acquisition of certain assets and liabilities of Information Dimensions, Inc. and its subsidiaries.

SIGNATURES

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

Date: August 19, 1999

OPEN TEXT CORPORATION

/s/Thomas J Hearne
Thomas J Hearne
Chief Financial Officer

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

Signature	**Title**	**Date**
P Thomas Jenkins	Director and Chief Executive Officer (Principal Executive Officer)	August 18, 1999
Thomas J Hearne	Chief Financial Officer (Principal Financial Officer and Accounting Officer)	August 18, 1999
Richard C Black	Director	August 18, 1999
Daniel Cheifetz	Director and Executive Vice President – Software Development	August 18, 1999
Warren L Culpepper	Director	August 18, 1999
Randy Fowlie	Director	August 18, 1999
Ken Olisa	Director	August 18, 1999
Stephen J Sadler	Director	August 18, 1999
Michael Slaunwhite	Director	August 18, 1999
Paul J Stoyan	Director	August 18, 1999

OPEN TEXT CORPORATION

INDEX TO EXHIBITS

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

10.15	Security Agreement, dated May 29, 1992, between Royal Bank of Canada and the Company. (1)
10.16	Lease, dated March 3, 1994, between Wiebe Property Corporation Ltd. and the Company. (1)
10.17	Lease, dated October 6, 1994, between REGUS/Washington Tysons, Inc. and the Company. (1)
10.18	Agreement, dated January 1, 1995, between 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)(*)
10.29	Letter Agreement, dated October 10, 1996 between the Company and Marco Palatini. (4)(*)
10.30	Letter Agreement, dated October 10, 1996 between the Company and Daniel Cheifetz. (4)(*)
10.31	Letter Agreement, dated May 27, 1997 between the Company and Brett Newbold. (5)(*)
10.32	Letter Agreement, dated November 14, 1996 between the Company and Abraham Kleinfeld. (5)(*)
10.33	Letter Agreement, dated April 25, 1997 between the Company and Anthony Heywood. (5)(*)
10.34	Letter Agreement, dated July 10, 1997 between the Company and Kirk Roberts. (5)(*)
10.35	Amendment to Agreement, dated January 22, 1997, between the Company and P Thomas Jenkins. (5)(*)
10.36	Separation Agreement, dated August 14, 1997 between the Company and Keith Soley.
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)
10.40	Amendment to Agreement, dated June 10, 1997, between Netscape Communications Corporation and the Company. (5)
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 3rd, 1998 between Bybatch Enterprises Limited and Open Text UK Limited and Open Text Corporation. (8)
10.48	Sublease Agreement dated November 10th, 1997 between Compuserve Incorporated and Information Dimensions, Inc. (8)
10.49	Lease Agreement dated March 6th, 1998 between Open Text Inc. and The Blain Group. (8)
10.50	Employment Agreement, dated October 12, 1998, between John Shackleton and the Company.
10.51	Employment Agreement, dated May 31, 1999, between Les McNeil and the Company.
10.52	Employment Agreement, dated January 19, 1999 between David Lewis and the Company.
10.53	Sublease, dated March 25, 1999, between Livingston Group Inc. and the Company.
10.54	Agreement of Purchase and Sale of Assets by and among Open Text Corporation, as Buyer, and Richter & Partners Inc., the receiver of Lava Systems Inc., as Seller. (9)
10.55	Agreement relating to the sale of the business and the assets of Lava Systems (Europe) Limited and SCS Consulting Ltd. between the Open Text UK Limited and Open Text Corporation, as buyers and the receivers (Tracey Elizabeth Callaghan and Peter John Robertson Souster), as sellers. (9)
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.

(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.
(3) Filed as an Exhibit to the Company's Annual Report on Form 10K 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.
(8) Filed as an Exhibit to the Company's Annual Report on Form 10-K, as filed with the SEC on September 28, 1998 and incorporated herein by reference.
(9) Filed as an Exhibit to the Company's Report on Form 8-K, as filed with the SEC on January 12, 1999 and incorporated herein by reference.