

OPEN TEXT CORP
Form 10-K
September 12, 2006
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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, 2006.

OR

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

For the transition period from _____ to _____

Commission files number 0-27544

OPEN TEXT CORPORATION

(Exact name of Registrant as specified in its charter)

Canada
(State or other jurisdiction
of incorporation or organization)

275 Frank Tompa Drive,

Waterloo, Ontario, Canada
(Address of principal executive offices)

98-0154400
(IRS Employer
Identification No.)

N2L 0A1
(Zip code)

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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
Common stock without par value	NASDAQ

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

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Aggregate market value of the Registrant's Common Shares held by non-affiliates, based on the closing price of the Common Shares as reported by the NASDAQ Global Select Market (NASDAQ) on December 31, 2005, was approximately \$523.3 million. The number of the Registrant's Common Shares outstanding as of September 1, 2006 was 48,971,559.

DOCUMENTS INCORPORATED BY REFERENCE

See Item 15 under Part IV, in this Annual Report on Form 10-K.

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PART I

Forward-Looking Statements

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, and is subject to the safe harbors created by those sections. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, may, could, would, might, will and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, beliefs, plans, projections, objections, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These forward-looking statements involve known and unknown risks as well as uncertainties, including those discussed herein and in the notes to our financial statements for the year ended June 30, 2006, certain sections of which are incorporated herein by reference as set forth in Items 7 and 8 of this report. The actual results that we achieve may differ materially from any forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements. You should carefully review Part 1 Item 1A Risk Factors and other documents we file from time to time with the Securities and Exchange Commission. A number of factors may materially affect our business, financial condition, operating results and prospects. These factors include, but are not limited to, those set forth in part 1 Item 1A Risk Factors and elsewhere in this report. Any one of these factors may cause our actual results to differ materially from recent results or from our anticipated future results. You should not rely too heavily on the forward-looking statements contained in this Annual Report on Form 10-K, because these forward-looking statements are relevant only as of the date they were made.

**Item 1. Business
The Company and Industry**

Open Text Corporation was incorporated on June 26, 1991 pursuant to articles of incorporation under the Business Corporations Act (Ontario) and continued under the Canada Business Corporations Act on December 29, 2005. We amended our 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, July 1, 1998, July 1, 2000, July 1, 2002, July 1, 2003, July 1, 2004 and July 1, 2005. References herein to the Company, Open Text, we or us refer to Open Text Corporation and its subsidiaries. Our current principal office is at 275 Frank Tompa Drive, Waterloo, Ontario, Canada N2L 0A1, and our telephone number at that location is (519) 888-7111. Our internet address is www.opentext.com. Throughout this Annual Report on Form 10-K, the term Fiscal 2006 means our fiscal year beginning on July 1, 2005 and ending on June 30, 2006, the term Fiscal 2005 means our fiscal year beginning on July 1, 2004 and ending on June 30, 2005, and the term Fiscal 2004 means our fiscal year beginning July 1, 2003 and ending on June 30, 2004. Unless otherwise indicated, all amounts included in this Annual Report on Form 10-K are expressed in U.S. dollars.

Access to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished to the United States Securities and Exchange Commission (the SEC) may be obtained through the Investor Relations section of our website at www.opentext.com as soon as reasonably practical after we electronically file or furnish these reports. We do not charge for access to and viewing of these reports. Information on our Investor Relations page and our website is not part of this Annual Report on Form 10-K or any other securities filings of ours unless specifically incorporated herein by reference. In addition, our filings with the SEC may be accessed through the SEC's Electronic Data Gathering, Analysis and Retrieval system at www.sec.gov. All statements made in any of our securities filings, including all forward-looking statements or information, are made as of the date of the document in which the statement is included, and we do not assume or undertake any obligation to update any of those statements or documents unless we are required to do so by law.

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ECM

We are one of the market leaders in providing Enterprise Content Management (ECM) solutions that help customers manage enterprise information throughout the full lifecycle from content creation, revision, approvals to archiving, and in compliance with relevant regulatory requirements. Livelink, a database or repository system forms the foundation of our products. Our solutions allow users to access, view and manage all information related to a transaction or business process, distilled into one complete picture on a worker s desktop. In essence, Open Text ECM solutions enable people in an organization to work more effectively with each other.

Value Proposition of ECM Solutions

Our ECM solutions are tailored to address specific business problems or focus on vertical industries. The overall value proposition is anchored in three main areas:

1. Streamline information to and from the customer s enterprise applications to enhance operational efficiencies, reduce costs, and improve performance.
2. Assure regulatory compliance by defining, securing, and controlling the process by which all content can be managed as business records under appropriate policies for retention and destruction.
3. Maximize the customer s return on investment (ROI) by leveraging our customers current investment in technology platforms as well as their employees familiarity with existing systems particularly those of Microsoft Corporation (Microsoft), SAP AG (SAP) and Oracle Corporation (Oracle).

Open Text ECM Solutions

By Business Application

Long-term adoption and expansion of ECM software within an organization occurs by building on a series of incremental deployments focused on specific business processes. Our business solutions are designed to meet the regulatory compliance and ROI goals of our customers, by resolving specific ECM challenges for typical enterprise functional groups, such as R&D, finance, information systems and technology, and marketing and sales. We provide targeted business solutions for a variety of markets, many of which require compliance with increasingly stringent standards and regulations.

Open Text Solutions for Compliance & Governance

Our Solutions for Compliance and Governance offer a wide range of functionalities to fulfill legislative requirements. The solutions assist with enhancing business processes to generate faster time to market, comply with government regulations, and manage risk. With our solutions customers can capture, classify, and manage huge volumes of electronic data and documents assisting with compliance to all regulatory requirements.

Open Text Solutions for Email Management

Our Solutions for Email Management are intended to allow customers to reduce the cost of overburdened email servers and help the organization mitigate its compliance and litigation risks associated with email content. Our solution can assess, identify, manage, and destroy business content stored in email records in accordance with regulations and internal policies.

Open Text Solutions for Corporate Services

Across most organizations, standard administrative services and functions support core business processes. The implementation of electronic workflow and documents can make the mission-critical difference that ensures success. The efficiency and control of those processes depend on the effective implementation of electronic workflow and documents.

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Corporate Services helps customers meet business goals through the management of processes such as Environment, Health & Safety, Facilities, Fleet & Equipment Management, Legal, Performance Monitoring, Quality Management, Travel Management and Human Resources.

Open Text Solutions for Information Systems & Technology (IT)

Our IT solutions can help reduce costs in the IT department through efficient IT consolidation methods. Our solutions help to switch-off legacy applications, as well as to reduce operating costs through SAP/Siebel data archiving. Our solutions are designed to fit in an existing IT landscape with support of many operating systems, databases and storage hardware. Our solutions streamline processes that include Information Lifecycle Management, IT Consolidation, IT Operations, and SAP Support.

Open Text Solutions for Manufacturing & Operations

Our solutions for Manufacturing and Operations can help customers improve quality, reduce product lifecycles, enforce standards, comply with regulations and decrease operational costs. Our Solutions address processes that include: Environment, Health & Safety, Facilities, Fleet & Equipment Management, Performance Monitoring, Quality Management, and Product Lifecycle Management.

Open Text Solutions for Procurement

Procurement is a multi-party collaboration process that involves purchasing, financial accounting and inventory management professionals as well as external vendors. Open Text's Solution for Procurement improves processes such as purchase order changes, requisition approval, and vendor selection, offering time and cost savings while adhering to the strictest financial audit traceability requirements. This product uses best practice design for an optimized and automated procurement process based on our customers' business process realities.

By Vertical Industry

We provide essential and tailored ECM solutions geared toward various industries. Many of these industries operate in highly-regulated or compliance-based environments.

Open Text Solutions for Government

Our Solutions for Government are intended to provide government organizations with a fully-compliant framework that helps their agencies manage information and exchange knowledge on a web-based solution. With a focus on reducing or eliminating paper-based processes, our ECM solution provides document and records management, secure project collaboration, workflow, search, and scheduling functionality for organizations in public services.

Open Text Solutions for Pharmaceutical & Life Sciences

Generally pharmaceutical and life sciences companies operate in a highly-regulated environment with long product lifecycles. Their operations tend to be both data and document intensive. Our ECM solutions for the Pharmaceutical and Life Sciences industries are aimed at supporting critical processes where compliant management of all paper and electronic records and documents is essential. Customers can choose from a variety of interfaces ranging from email clients to Web browsers, as well as office and specialty applications, allowing users to work in the environment most natural to them.

Open Text Solutions for Financial Services

Our Solutions for Financial Services are intended to enhance collaboration and ensure that customers are not at risk of litigation or non-compliance with industry and government regulations. Our solutions have

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been used by customers in segments of financial services, including banking, securities, trading, brokerage, and wealth management. Our solutions are intended to enable financial services organizations to foster a culture that facilitates knowledge sharing and information flow throughout an organization in a compliant manner.

Open Text Solutions for Energy

Our ECM solutions are designed to meet the requirements of the Oil and Gas, Petrochemical, Utility and Nuclear industries by facilitating the acquisition of information, its discussion, subsequent revisions and the re-distribution of the modified information.

Open Text Solutions for Media

We can help customers to cost-effectively and efficiently manage the production, brand management, and distribution of rich media assets. Open Text Solutions for Media are designed to manage the explosion of digital content produced, shared, and distributed around the world.

Open Text Solutions for Manufacturing

Our Solutions for Manufacturing can speed up critical information flow and reduce time to market. Because the information is secured, aged and archived by our solutions, other business units (e.g. research, development, legal, finance, marketing) can data mine it for re-use and repackaging, as well as best practices and lessons learned that can be key pieces of information which are essential to the successful development of future products and markets.

Partner Program Overview

We partner with prominent organizations in enterprise software and hardware in an effort to enhance the value of our ECM solutions and the investments our customers have made in their existing systems.

We are involved with three categories of partnerships and alliances, along with three levels of participation available in each category.

1. Services Partners are primarily system integrators and consulting and outsourcing firms. Their expertise may include: strategy, design, implementation, change management, project management, customization and specific vertical market and domain expertise. Along with their vision, service partners are able to combine their expertise with our products and services to deliver high-value customer solutions.
2. Solution Partners deliver comprehensive, repeatable solutions utilizing our products and services that target a specific business unit or vertical industry. Their expertise may include: vertical domain expertise, systems integration, and application development.
3. Technology Partners are vendors whose software and/or hardware offerings both complement and extend the value of our product offerings. These partners offer our customers best-of-breed technology components, which can be seamlessly integrated with our products and services. Their expertise may include: hardware and software components, database management systems and specific application environments.

Open Text and Microsoft Corporation

The strategic alliance between Microsoft and Open Text offers improved integration between Microsoft's desktop and server products. Open Text solutions increasingly rely on Microsoft Outlook as a ubiquitous user interface for accessing content in context. While reading any piece of email, information is automatically

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extracted from Enterprise Resource Planning, Customer Relationship Management, ECM and other enterprise applications. This context allows knowledge workers to make decisions and take actions, all through the familiar Microsoft Outlook interface. In addition to email, SharePoint is rapidly developing as the software of choice for team collaboration and document sharing. We offer solutions that allow teams to realize SharePoint's ease of use, while seamlessly tying into established retention policies for all enterprise content. On the server side, we have expanded our support for the latest Microsoft database technology.

Open Text and Oracle Corporation

This partnership extends Open Text's recently-launched enterprise solutions framework, and builds upon the decade-long database integration relationship between Open Text and Oracle. The partnership with Oracle allows us to focus on building content-enabled solutions that solve complex, industry-specific problems. We build comprehensive solutions directly on the Oracle Content Database infrastructure using new Oracle Fusion technology. The alliance of Oracle and Open Text enables customers to fortify their existing investments in accounts payable invoice processing, and report and output management solutions from Oracle. We provide a comprehensive portfolio of solutions that enhance Oracle applications such as PeopleSoft Enterprise, JD Edwards EnterpriseOne, JD Edwards World, Oracle E-Business Suite, and Siebel.

Open Text and SAP AG

Our solutions help customers improve the way they manage content from SAP systems in order to improve efficiency in key processes, manage compliance and reduce costs. Our targeted solutions let customer create, access, manage and securely archive all content for SAP systems, including data and documents, which allows customers to address stringent requirements for risk reduction, operational efficiency and information technology consolidation. Our solutions for SAP embrace the SAP environment including SAPGUI, Portal and Netweaver.

Competition

The market for our products is highly competitive and competition will continue to intensify as the ECM markets consolidate. We compete with a large number of ECM, web content management, management, workflow, document imaging and electronic document management companies. IBM is the largest company that competes directly with us in the ECM market. Documentum, a competitor in the content management market, was acquired by EMC Corporation, a large storage technology company, during 2003. EMC is now a competitor offering both content management and storage management capabilities. Additionally we compete with FileNet®, which is an entity that develops, markets, sells and supports a software platform and application development framework for ECM. On August 10, 2006, IBM announced that it had entered into a definitive agreement to acquire FileNet; if this transaction is completed, it will make IBM a more significant competitor for our business. Numerous smaller software vendors also compete in each product area. We also face competition from systems integrators who configure hardware and software into customized systems.

Large infrastructure vendors such as Oracle and Microsoft have developed products, or plan to offer products in the content management market. Other large infrastructure vendors may follow course. Software vendors such as CA and Symantec Corporation, each with a different core product foundation, have approached the ECM market from their individual market segments and may compete more intensely with us in the future. Additionally, new competitors or alliances among existing competitors may emerge and rapidly acquire significant market share. We also expect that competition will increase as a result of ongoing software industry consolidation.

We believe that the principal competitive factors affecting the market for our software products and services include vendor and product reputation; product quality, performance and price; the availability of software products on multiple platforms; product scalability; product integration with other enterprise applications; software functionality and features; software ease of use; and the quality of professional services, customer support services and training. We believe the relative importance of each of these factors depends upon the specific customer involved.

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No single customer has accounted for more than 10% of our revenue in any of the past three fiscal years. For information on the results of operation of our operating and geographic segments for each of the years in the three year period ended June 30, 2006, see Note 16 Segment Information in the Notes to Consolidated Financial Statements included in Item 8 to this Annual Report on Form 10-K.

Acquisition Activity

In August 2006, we entered into a definitive agreement with Hummingbird, Ltd. (Hummingbird) to acquire all of Hummingbird's outstanding common shares at a price of \$27.85 per share, or approximately \$489.0 million. Hummingbird is a Toronto based global provider of ECM solutions. The transaction with Hummingbird is to be carried out by way of a statutory plan of arrangement and will be voted on by Hummingbird's shareholders at a meeting of shareholders currently expected to be held in mid-September 2006. The arrangement is subject to court approval in the Province of Ontario as well as certain other customary conditions, including the receipt of regulatory approvals. The proposed transaction is expected to close in early-October, shortly after receipt of Hummingbird shareholder approval and final approval of the court.

Our competitive position in the marketplace requires us to maintain a complex and evolving array of technologies, products, services and capabilities. The combination of technological complexity and rapid change within our industry makes it difficult for a single company to provide all of the technological solutions that its customers request. In light of the continually evolving marketplace in which we operate, and as part of our operations, we regularly evaluate various acquisition opportunities within the ECM marketplace and elsewhere in the high technology industry. If we determine that a potential acquisition opportunity is in the best interest of our shareholders, we will conduct negotiations with the relevant entity or entities to discuss the possibility of a merger, acquisition or other mutually beneficial combination of operations. Successful negotiations lead to an agreement to enter into a merger, acquisition or combination transaction, and eventually to a completed transaction that improves our ability to compete in our chosen industry.

Employees

As of June 30, 2006, we employed a total of 1,894 individuals. The composition of this employee base is approximately as follows: 411 employees in sales and marketing, 426 employees in product development, 482 employees in professional services, 255 employees in customer support, and 320 employees in general and administrative roles. We believe that relations with our employees are strong.

In July 2005, we announced a restructuring of our operations which included workforce related reductions. The details of this restructuring are covered in Note 20 Special Charges (Recoveries) of the Notes to Consolidated Financial Statements included in Item 8 to this Annual Report on Form 10-K.

Intellectual Property Rights

Our success and ability to compete depend on our ability to develop and maintain our intellectual property and proprietary technology and to operate without infringing on the proprietary rights of others. Our software products are generally licensed to our customers on a non-exclusive basis for internal use in a customer's organization. We also grant rights in our intellectual property to third parties that allow them to market certain of our products on a non-exclusive or limited-scope exclusive basis for a particular application of the product(s) or to a particular geographic area.

We rely on a combination of copyright, patent, trademark and trade secret laws, non-disclosure agreements and other contractual provisions to establish and maintain our proprietary rights. We have obtained or applied for trademark registration for most strategic product names in most major markets. As of June 30, 2006, we own four U.S. patents which expire between 2017 and 2022. In addition, we have 16 U.S. patent applications, 6 Canadian patent applications and 14 other foreign patent applications. Some of these patents and patent applications have been filed in other jurisdictions.

Table of Contents**Item 1A. Risk Factors****Risk Factors**

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, and is subject to the safe harbors created by those sections. These forward-looking statements involve known and unknown risks as well as uncertainties, including those discussed in the following cautionary statements and elsewhere in this Annual Report on Form 10-K. The actual results that we achieve may differ materially from any forward-looking statements, which reflect management's opinions only as of the date hereof. You should carefully review the following factors, as well as the other information set forth herein, when evaluating us and our business. If any of the following risks were to occur, our business, financial condition and results of operations would likely suffer. In that event, the trading price of our Common Shares would likely decline. Such risks are further discussed from time to time in our filings filed from time to time with the SEC.

Our anticipated acquisition of Hummingbird may adversely affect our operations and finances in the short term

In August 2006, we entered into a definitive agreement with Hummingbird to acquire all of Hummingbird's outstanding common shares at a price of \$27.85 per share, or approximately \$489.0 million. This transaction is subject to the approval of two-thirds of the votes cast by Hummingbird's shareholders at a meeting of shareholders, currently expected to be held in mid-September 2006, as well as court approval. The transaction is also subject to certain other customary conditions, including the receipt of regulatory approvals. The Hummingbird shares will be acquired for cash, and as a result we will need to borrow the funds for the Hummingbird acquisition from a syndicate of leading financial institutions. The interest costs associated with the resulting credit facility will materially increase our operating expenses, which may materially and adversely affect our profitability and the price of our Common Shares. The Hummingbird acquisition represents a significant opportunity for our business. However, the size of the acquisition and the inevitable integration challenges that will result from the acquisition may divert management's attention from the normal daily operations of our existing businesses, products and services. We cannot ensure that we will be successful in retaining key Hummingbird employees and our operations may be disrupted if we fail to adequately retain and motivate the combined employee base.

Our success depends on our relationships with strategic partners

We rely on close cooperation with partners for product development, optimization, and sales. If any of our partners should decide for any reason to terminate or scale back their cooperative efforts with us, our business, operating results, and financial condition may be adversely affected.

If we do not continue to develop new technologically advanced products, future revenues will be negatively affected

Our success depends upon our ability to design, develop, test, market, license 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. We continue to enhance the capability of our Livelink software to enable users to form workgroups and collaborate on intranets and the Internet. We increasingly must integrate software licensed or acquired from third parties with our own software to create or improve our products. These products are important to the success of our strategy, and we may not be successful in developing and marketing these and other new software products and enhancements. If we are unable to successfully integrate the technologies licensed or acquired from third parties, to develop new software products and enhancements to existing products, or to complete products currently under development, or if such

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integrated or new products or enhancements do not achieve market acceptance, our operating results will materially suffer. In addition, if new industry standards emerge that we do not anticipate or adapt to, our software products could be rendered obsolete and our business would be materially harmed.

If our products and services do not gain market acceptance, we may not be able to increase our revenues

We intend to pursue our strategy of growing the capabilities of our ECM software offerings through the in-house research and development of new product offerings. In response to customer requests, we continue to enhance Livelink and many of our optional components and we continue to set the standard for ECM capabilities. The primary market for our software and services is rapidly evolving. As is typical in the case of a 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 our products and services fail to develop, develop more slowly than expected or become saturated with competitors, our business will suffer. We may be unable to successfully market our current products and services, develop new software products, services and enhancements to current products and services, complete customer installations on a timely basis, or complete products and services currently under development. If our products and services or enhancements do not achieve and sustain market acceptance, our business and operating results will be materially affected.

Current and future competitors could have a significant impact on our ability to generate future revenue and profits

The markets for our products are intensely competitive, and are subject to rapid technological change and competitive pressures. We expect competition to increase and intensify in the future as the markets for our products continue to develop and as additional companies enter each of our markets. Numerous releases of competitive products are continually occurring and can be expected to continue in the near future. We may not be able to compete effectively with current and future competitors. If competitors were to engage in aggressive pricing policies with respect to competing products, or if significant price competition was to otherwise develop, we would likely be forced to lower our prices. This could result in lower revenues, reduced margins, loss of customers, or loss of market share for us.

We are confronting two inexorable trends in our industry; the consolidation of our competitors and the commoditization of our products and services

The acquisition of Documentum Inc. by EMC Corporation (EMC) in December 2003 and the proposed acquisition of FileNet by IBM have changed the marketplace for our goods and services. If the IBM/FileNet acquisition is successful, then two comparable competitors to our company will have been replaced by larger and better capitalized companies. In addition, other large corporations with considerable financial resources either have products that compete with the products we offer, or have the ability to encroach on our competitive position within our marketplace. These large, well-capitalized companies have the financial resources to engage in competition with our products and services on the basis of marketing, services or support. They also have the ability to introduce items that compete with our maturing products and services. For example, Microsoft has launched SharePoint, a product which provides the same benefits that some of our ECM products provide at a lower cost to the customer. The threat posed by larger competitors and the goods and services that these companies can produce at a lower cost to our target customers may materially increase our expenses and reduce our revenues. Any material adverse effect on our revenue or cost structure may materially reduce the price of our common shares.

Acquisitions, investments, joint ventures and other business initiatives may negatively affect our operating results

We continue to seek out opportunities to acquire or invest in businesses, products and technologies that expand, complement or are otherwise related to our current business. We also consider from time to time,

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opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. These activities create risks such as the need to integrate and manage the businesses and products acquired with our own business and products, additional demands on our management, resources, systems, procedures and controls, disruption of our ongoing business, and diversion of management's attention from other business concerns. Moreover, these transactions could involve substantial investment of funds and/or technology transfers and the acquisition or disposition of product lines or businesses. Also, such activities could result in one-time charges and expenses and have the potential to either dilute the interests of existing shareholders or result in the assumption of debt. Such acquisitions, investments, joint ventures or other business collaborations may involve significant commitments of financial and other resources of our company. Any such activity may not be successful in generating revenue, income or other returns to us, and the financial or other resources committed to such activities will not be available to us for other purposes. Our inability to address these risks could negatively affect our operating results.

Businesses we acquire may have disclosure controls and procedures and internal controls over financial reporting that are weaker than or otherwise not in conformity with ours

We have a history of acquiring complementary businesses with varying levels of organizational size and complexity. Upon consummating an acquisition, we seek to implement our disclosure controls and procedures and internal controls over financial reporting at the acquired company as promptly as possible. Depending upon the size and complexity of the business acquired, the implementation of our disclosure controls and procedures and internal controls over financial reporting at an acquired company may be a lengthy process. Typically, we conduct due diligence prior to consummating an acquisition, however, our integration efforts may periodically expose deficiencies in the disclosure controls and procedures and internal controls over financial reporting of an acquired company. We expect that the process involved in completing the integration of our own disclosure controls and procedures and internal controls over financial reporting at an acquired business will sufficiently correct any identified deficiencies. However, if such deficiencies exist, we may not be in a position to comply with our periodic reporting requirements and our business and financial condition may be materially harmed.

The length of our sales cycle can fluctuate significantly which could result in significant fluctuations in license revenue being recognized from quarter to quarter

Because the decision by a customer to purchase our products often involves relatively large-scale implementation across our customer's network or networks, licenses 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. Given the significant investment and commitment of resources required by an organization in order to implement our software, our sales cycle tends to take considerable time to complete. Over the past fiscal year, we have experienced a lengthening of our sales cycle as customers include more personnel in the decision-making process and focus on more enterprise-wide licensing deals. In an economic environment of reduced information technology spending, it can take several months, or even several quarters, for sales opportunities to translate into revenue. If a customer's decision to license our software is delayed and the installation of our products in one or more customers takes longer than originally anticipated, the date on which revenue from these licenses could be recognized would be delayed. Such delays could cause our revenues to be lower than expected in a particular period.

Our international operations expose us to business risks that could cause our operating results to suffer

We intend to continue to make efforts to increase our international operations and anticipate that international sales will continue to account for a significant portion of our revenue. We have increased our presence in the European market, especially since our acquisition of IXOS Software AG (IXOS). These international operations are subject to certain risks and costs, including the difficulty and expense of administering business and compliance abroad, compliance with both domestic and foreign laws, compliance

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with domestic and international import and export laws and regulations, costs related to localizing products for foreign markets, and costs related to translating and distributing products in a timely manner. International operations also tend to be subject to a longer sales and collection cycle, as well as potential losses arising from currency fluctuations, and regulatory limitations regarding the repatriation of earnings. Significant international sales may also expose us to greater risk from political and economic instability, unexpected changes in Canadian, United States or other governmental policies concerning import and export of goods and technology, regulatory requirements, tariffs and other trade barriers. In addition, international earnings may be subject to taxation by more than one jurisdiction, which could also materially adversely affect our effective tax rate. Also, international expansion may be more difficult, time consuming, and costly. As a result, if revenues from international operations do not offset the expenses of establishing and maintaining foreign operations, our operating results will suffer. Moreover, in any given quarter, foreign exchange rates can impact revenue adversely.

Our expenses may not match anticipated revenues

We incur operating expenses based upon anticipated revenue trends. Since a high percentage of these expenses are relatively fixed, a delay in recognizing revenue from license transactions could cause significant variations in operating results from quarter to quarter and could result in operating losses. If these expenses are not subsequently followed by revenues, our business, financial condition, or results of operations could be materially and adversely affected. In addition, in July 2005, we announced our 2006 restructuring initiative to restructure our operations with the intention of streamlining our operations. We will continue to evaluate our operations, and may propose future restructuring actions as a result of changes in the marketplace, including the exit from less profitable operations or services no longer demanded by our customers. Any failure to successfully execute these initiatives on a timely basis may have a material adverse impact on our results of operations.

Our products may contain defects that could harm our reputation, be costly to correct, delay revenues, and expose us to litigation

Our 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. Errors may be found in new software products or improvements to existing products after commencement of commercial shipments. If these defects are discovered, we may not be able to successfully correct such errors in a timely manner, or at all. In addition, despite the tests we carry out on all our products, we may not be able to fully simulate the environment in which our products will operate and, as a result, we may be unable to adequately detect design defects or software errors inherent in our products and which only become apparent when the products are installed in an end-user's network. The occurrence of errors and failures in our products could result in loss of, or delay in market acceptance of our products, and alleviating such errors and failures in our products could require us to make significant expenditure of capital and other resources. The harm to our reputation resulting from product errors and failures would be damaging. We regularly provide a warranty with our products and the financial impact of these warranty obligations may be significant in the future. Our agreements with our strategic partners and end-users typically contain provisions designed to limit our exposure to claims, such as exclusions of all implied warranties and limitations on the availability of consequential or incidental damages. However, such provisions may not effectively protect us against claims and related liabilities and costs. Although we maintain errors and omissions insurance coverage and comprehensive liability insurance coverage, such coverage may not be adequate and all claims may not be covered. Accordingly, any such claim could negatively affect our financial condition.

Other companies may claim that we infringe their intellectual property, which could result in significant costs to defend and if we are not successful it could have a significant impact on our ability to generate future revenue and profits

Although we do not believe that our products infringe on the rights of third-parties, third-parties may assert infringement claims against us in the future, and any such assertions may result in costly litigation or require us

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to obtain a license for the intellectual property rights of third-parties. Such licenses may not be available on reasonable terms, or at all. In particular, as software patents become more prevalent, it is possible that certain parties will claim that our products violate their patents. Such claims could be disruptive to our ability to generate revenue and may result in significantly increased costs as we attempt to license the patents or rework our products to ensure that they are not in violation of the claimant's patents or dispute the claims. Any of the foregoing could have a significant impact on our ability to generate future revenue and profits.

Failure to protect our intellectual property could harm our ability to compete effectively

We are highly dependent on our ability to protect our proprietary technology. Our efforts to protect our intellectual property rights may not be successful. We rely on a combination of copyright, patent, trademark and trade secret laws, non-disclosure agreements and other contractual provisions to establish and maintain our proprietary rights. Although we hold certain patents and have other patents pending, we generally have not sought patent protection for our products. While U.S. and Canadian copyright laws, 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 is expected to be, a persistent problem for the software industry. Enforcement of our intellectual property rights may be difficult, particularly in some nations outside of the United States and Canada in which we seek to market our products. Despite the precautions we take, it may be possible for unauthorized third parties, including competitors, to copy certain portions of our products or to reverse engineer in order to obtain and use information that we regard as proprietary.

The loss of licenses to use third party software or the lack of support or enhancement of such software could adversely affect our business

We currently depend on certain third-party software, the lack of availability of which could result in increased costs of, or delays in, licenses of our products. For a limited number of product modules, we rely on certain software that we license from third-parties, including software that is integrated with internally developed software and which is used in our products to perform key functions. These third-party software licenses may not continue to be available to us on commercially reasonable terms, and the related software may not continue to be appropriately supported, maintained, or enhanced by the licensors. The loss of license to use, or the inability of licensors to support, maintain, and enhance any of such software, could result in increased costs, delays, or reductions in product shipments until equivalent software is developed or licensed, if at all, and integrated with internally developed software, and could adversely affect our business.

A reduction in the number or sales efforts by distributors could materially impact our revenues

A significant portion of our revenue is derived from the license of our products through third parties. Our success will depend, in part, upon our ability to maintain access to existing channels of distribution and to gain access to new channels if and when they develop. We may not be able to retain a sufficient number of our existing or future distributors. Distributors may also give higher priority to the sale of products other than ours (which could include products of competitors) or may not devote sufficient resources to marketing our products. The performance of third party distributors is largely outside of our control and we are unable to predict the extent to which these distributors will be successful in marketing and licensing our products. A reduction in sales efforts, a decline in the number of distributors, or the discontinuance of sales of our products by our distributors could lead to reduced revenue.

We must continue to manage our growth or our operating results could be adversely affected

Our markets have continued to evolve at a rapid pace. Moreover, we have grown significantly through acquisitions in the past and continue to review acquisition opportunities as a means of increasing the size and scope of our business. Finally, we have been subject to increased regulation, including various NASDAQ rules

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and Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes), which has necessitated a significant use of our resources to comply with the increased level of regulation on a timely basis. Our growth, coupled with the rapid evolution of our markets and the new heightened regulations, have placed, and are likely to continue to place, significant strains on our administrative and operational resources and increased demands on our internal systems, procedures and controls. Our administrative infrastructure, systems, procedures and controls may not adequately support our operations or compliance with such regulations, and our management may not be able to achieve the rapid, effective execution of the product and business initiatives necessary to successfully penetrate the markets for our products and services and to successfully integrate any business acquisitions in the future to comply with all regulatory rules. If we are unable to manage growth effectively, or comply with such new regulations, our operating results will likely suffer and we may not be in a position to comply with our periodic reporting requirements or listing standards, which could result in our delisting from the NASDAQ stock market.

Recently enacted and proposed changes in securities laws and related regulations could result in increased costs to us

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of Sarbanes and recent rules enacted and proposed by the SEC and NASDAQ, have resulted in increased costs to us as we respond to the new requirements. In particular, complying with the requirements of Section 404 of Sarbanes have resulted in an overall higher level of internal costs and fees from our independent accounting firm and external consultants. These rules could also impact our ability to obtain certain types of insurance, including director and officer liability insurance, and as a result, we may be forced to accept reduced policy limits and coverage and/or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, on committees of our Board of Directors, or as executive officers.

Our products rely on the stability of various infrastructure software that, if not stable, could negatively impact the effectiveness of our products, resulting in harm to our reputation and business

Our developments of Internet and intranet applications depend and will depend on the stability, functionality and scalability of the infrastructure software of the underlying intranet, such as that of Sun Microsystems Inc., Hewlett Packard Company, Oracle, Microsoft and others. If weaknesses in such infrastructure software exist, we may not be able to correct or compensate for such weaknesses. If we are unable to address weaknesses resulting from problems in the infrastructure software such that our products do not meet customer needs or expectations, our business and reputation may be significantly harmed.

Our quarterly revenues and operating results are likely to fluctuate which could materially impact the price of our Common Shares

We experience, and we are likely to continue to experience, significant fluctuations in quarterly revenues and operating results caused by many factors, including changes in the demand for our products, the introduction or enhancement of products by us and our competitors, market acceptance of enhancements or products, delays in the introduction of products or enhancements by us or our competitors, customer order deferrals in anticipation of upgrades and new products, lengthening sales cycles, changes in our pricing policies or those of our competitors, delays involved in installing products with customers, the mix of distribution channels through which products are licensed, the mix of products and services sold, the timing of restructuring charges taken in connection with acquisitions completed by us, the mix of international and North American revenues, foreign currency exchange rates, acquisitions and general economic conditions.

A cancellation or deferral of even a small number of licenses or delays in installations of our products could have a material adverse effect on our results of operations in any particular quarter. Because of the impact of the timing of product introductions and the rapid evolution of our business and the markets we serve, we cannot predict whether seasonal patterns experienced in the past will continue. For these reasons, reliance should not be

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placed upon period-to-period comparisons of our financial results to forecast future performance. It is likely that our quarterly revenue and operating results could always vary significantly and if such variances are significant, the market price of our Common Shares could materially decline.

There can be no assurance that any patentable elements will be identified or, if identified, that patent protection will be obtained.

Although we intend to protect our rights vigorously, there can be no assurance that these measures will, in all cases, be successful. Enforcement of our intellectual property rights may be difficult, particularly in some nations outside of the United States and Canada in which we seek to market our products. Certain of our license arrangements have required us to make a limited confidential disclosure of portions of the source code for our products, or to place such source code into an escrow for the protection of another party. Despite the precautions we have taken, unauthorized third parties may be able to copy certain portions of our products or to reverse engineer or obtain and use information that we regard as proprietary. Also, our competitors could independently develop technologies that are perceived to be substantially equivalent or superior to our technologies. Our competitive position may be affected by our ability to protect our intellectual property. Although we do not believe we are infringing on the intellectual property rights of others, claims of infringement are becoming increasingly common as the software industry develops and as related legal protections, including patents, are applied to software products. Although most of our technology is proprietary in nature, we do include certain third party software in our products. In these cases, this software is licensed from the entity holding our intellectual property rights. Although we believe that we have secured proper licenses for all third-party software that has been integrated into our products, third parties may assert infringement claims against us in the future, and any such assertion may result in litigation, which may be costly and require us to obtain a license for the software. Such licenses may not be available on reasonable terms or at all.

If we are not able to attract and retain top employees, our ability to compete may be harmed

Our performance is substantially dependent on the performance of our executive officers and key employees. The loss of the services of any of our executive officers or other key employees could significantly harm our business. We do not maintain key person life insurance policies on any of our employees. Our success is also highly dependent on our continuing ability to identify, hire, train, retain and motivate highly qualified management, technical, sales and marketing personnel. Specifically, the recruitment of top research developers, along with experienced salespeople, remains critical to our success. Competition for such personnel is intense, and we may not be able to attract, integrate or retain highly qualified technical and managerial personnel in the future.

The volatility of our stock price could lead to losses by shareholders

The market price of our Common Shares has been 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 us or our competitors, changes in financial estimates by securities analysts or other events or factors. In addition, financial markets experience significant price and volume fluctuations that particularly affect the market prices of equity securities of many technology companies and these fluctuations have often 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 our operating results in a particular quarter to meet market expectations may adversely affect the market price of our Common Shares, resulting in losses to shareholders. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation have often been instituted against such a company. Due to the volatility of our stock price, we could be the target of similar securities litigation in the future. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would have a material adverse effect on our business and operating results.

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We may have exposure to greater than anticipated tax liabilities

We are subject to income taxes and non-income taxes in a variety of jurisdictions and our tax structure is subject to review by both domestic and foreign taxation authorities. The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment. Although we believe our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

Item 1B. Unresolved Staff Comments

As part of a review by the staff of the SEC (the Staff) of our Annual Report on Form 10-K for the year ended June 30, 2005 and our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2005, December 31, 2005, and March 31, 2006, we have received and responded to comments from the Staff. As of the date of the filing of this Annual Report under Form 10-K certain of the Staff comments remains unresolved and these pertain primarily to our method of accounting for acquisition related costs.

Item 2. Properties

Our headquarters is located in Waterloo, Ontario, Canada. This facility consists of four floors totaling approximately 112,000 square feet. The land on which the building has been built is leased from the University of Waterloo (U of W), for a period of 49 years with an option to renew for an additional term of 49 years. The option to renew is exercisable by us upon providing written notice to the U of W not earlier than the 40th anniversary and not later than the 45th anniversary of the lease commencement date.

We have obtained a mortgage from a Canadian chartered bank which has been secured by a lien on our headquarters in Waterloo. For more information regarding this mortgage please refer to Note 9 Bank Indebtedness under our Notes to Consolidated Financial Statements in Item 8 to this Annual Report on Form 10-K.

Other principal offices that we currently occupy under lease are:

Lincolnshire, IL, USA totaling 38,115 rentable square feet;

Beaconsfield, UK totaling 16,948 rentable square feet;

Grasbrunn (Munich), Germany totaling 339,205 rentable square feet; and

Richmond Hill, ON, Canada totaling 101,458 rentable square feet.

In addition, we also occupy other leased facilities in the United States, Canada, Europe and Asia.

We continue to review our facilities portfolio in an effort to ensure that our operational needs are being met. In Fiscal 2006, we identified certain facilities as excess and have since taken steps to fully or partially close such excess facilities.

Item 3. Legal Proceedings

In the normal course of business, we are subject to various other legal matters. While the results of litigation and claims cannot be predicted with certainty, we believe that the final outcome of these other matters will not have a materially adverse effect on our consolidated results of operations or financial conditions.

Item 4. Submission of Matters to a Vote of Security Holders
None.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our Common Shares have traded on the NASDAQ since January 23, 1996 under the symbol OTEX and our Common Shares have traded on the Toronto Stock Exchange (TSX) since June 26, 1998 under the symbol OTC. The following table sets forth the high and low sales prices for our Common Shares, as reported by the TSX, and the NASDAQ, respectively, for the periods indicated below.

On June 30, 2006, the closing price of our Common Shares on the NASDAQ was \$14.44 USD per share. On June 30, 2006, the closing price of our Common Shares on the TSX was \$16.01 CDN per share.

	NASDAQ		TSX	
	High (in U.S. dollars)	Low	High (in Canadian dollars)	Low
Fiscal Year Ending June 30, 2006:				
Fourth Quarter	\$ 19.16	\$ 13.25	\$ 21.22	\$ 14.80
Third Quarter	18.36	14.10	20.99	16.44
Second Quarter	15.92	13.15	19.06	15.53
First Quarter	15.23	11.51	18.49	13.58
Fiscal Year Ending June 30, 2005:				
Fourth Quarter	\$ 19.00	\$ 14.00	\$ 23.00	\$ 17.30
Third Quarter	21.22	16.84	26.35	20.52
Second Quarter	20.26	14.82	25.50	18.37
First Quarter	32.06	16.44	41.45	21.48

On September 1, 2006, the closing price of our Common Shares on the NASDAQ was \$17.01 USD per share.

On September 1, 2006, the closing price of our Common Shares on the TSX was \$18.70 CDN per share.

As at August 25, 2006, there were approximately 8,950 shareholders of record holding our Common Shares of which approximately 2,947 were U.S. Shareholders of record holding our Common Shares.

All of the share information presented above and throughout this Annual Report on Form 10-K has been adjusted for the two-for-one stock split that took place in Fiscal 2004.

Unregistered sales of Equity Securities

None.

Dividend Policy

We have never paid cash dividends on our capital stock. We currently intend to retain earnings, if any, for use in our business and we do not anticipate paying any cash dividends in the foreseeable future. In Fiscal 2004, the Company declared a two-for-one split of the Company's Common Shares.

Table of Contents**Stock Repurchases**

The following table provides details of Common Shares we repurchased during the three months ended June 30, 2006:

**PURCHASES OF EQUITY SECURITIES OF THE COMPANY FOR THE THREE
MONTHS ENDED JUNE 30, 2006**

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
04/1/06 to 04/30/06		\$		
05/1/06 to 05/31/06				2,444,104
06/1/06 to 06/30/06				2,444,104
Total		\$		2,444,104

On May 19, 2006, we registered a repurchase program (the Repurchase Program) that provided for the repurchase of up to a maximum of 2,444,104 Common Shares. No shares were repurchased under the Repurchase Program during the period beginning May 19, 2006 and ending on June 30, 2006. The Repurchase Program will terminate on May 18, 2007.

Item 6. Selected Financial Data

The following table summarizes our selected consolidated financial data for the periods indicated. The selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Annual Report on Form 10-K. The selected consolidated statement of income and balance sheet data for each of the five years indicated below have been derived from our audited financial statements.

	Fiscal Year Ended June 30,				
	2006	2005	2004	2003	2002
(in thousands, except per share data)					
Statement of Income Data:					
Revenue	\$ 409,562	\$ 414,828	\$ 291,058	\$ 177,725	\$ 154,372
Net income	\$ 4,978	\$ 20,359	\$ 23,298	\$ 27,757	\$ 16,671
Net income per share, basic	\$ 0.10	\$ 0.41	\$ 0.53	\$ 0.71	\$ 0.42
Net income per share, diluted	\$ 0.10	\$ 0.39	\$ 0.49	\$ 0.67	\$ 0.39
Weighted average number of Common Shares outstanding, basic	48,666	49,919	43,744	39,051	39,957
Weighted average number of Common Shares outstanding, diluted	49,950	52,092	47,272	41,393	42,478

As of June 30,

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	2006	2005	2004	2003	2002
Balance Sheet Data:					
Total assets	\$ 671,093	\$ 640,936	\$ 668,655	\$ 238,687	\$ 186,847
Long-term liabilities	57,108	57,781	57,971	6,608	
Cash dividends per Common Share					

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

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, and is subject to the safe harbors created by those sections. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, may, could, would, might, will and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These forward-looking statements involve known and unknown risks as well as uncertainties, including those discussed herein and in the notes to our financial statements for the year ended June 30, 2006, certain sections of which are incorporated herein by reference as set forth in Items 7 and 8 of this report. The actual results that we achieve may differ materially from any forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements. You should carefully review Part I Item 1A Risk Factors and other documents we file from time to time with the Securities and Exchange Commission. A number of factors may materially affect our business, financial condition, operating results and prospects. These factors include but are not limited to those set forth in Part I Item 1A Risk Factors and elsewhere in this report. Any one of these factors may cause our actual results to differ materially from recent results or from our anticipated future results. You should not rely too heavily on the forward-looking statements contained in this Annual Report on Form 10-K, because these forward-looking statements are relevant only as of the date they were made.

OVERVIEW**About Open Text**

We are one of the market leaders in providing Enterprise Content Management (ECM) solutions that bring together people, processes and information. Our software combines collaboration with content management, transforming information into knowledge that provides the foundation for innovation, compliance and accelerated growth.

Offer to Purchase Hummingbird Ltd (Hummingbird)

In July 2006, we announced our intention to make an offer to purchase all of the outstanding common shares of Hummingbird. Hummingbird is a Toronto based global provider of ECM solutions.

In August 2006, we entered into a definitive agreement with Hummingbird to acquire all of Hummingbird's outstanding common shares at a price of \$27.85 per share, or approximately \$489.0 million. The transaction with Hummingbird is to be carried out by way of a statutory plan of arrangement and will be voted on by Hummingbird's shareholders at a meeting of shareholders currently expected to be held in mid-September. The arrangement is subject to court approval in the Province of Ontario as well as certain other customary conditions, including the receipt of regulatory approvals. The proposed transaction is expected to close in early-October, shortly after receipt of Hummingbird shareholder approval and final approval of the court.

We believe that this potential acquisition will benefit the shareholders, customers, partners and employees of both companies and will substantially increase our size and global reach. Hummingbird provides a strategic fit that adds to our focus on solutions and increases the effectiveness of our global partner program.

Management Changes

We announced that effective June 1, 2006 we had appointed Paul McFeeters as the Chief Financial Officer (CFO) of Open Text. Mr. McFeeters prior positions included that of CFO at Platform Computing Inc. (a grid

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computing software vendor), CFO at Kintana, Inc. (a privately-held IT governance software provider), as well as President and Chief Executive Officer (CEO) positions at MD Private Trust and Municipal Financial Corporation. He holds a Certified Management Accountant designation and attained a B.B.A (Honours) from Wilfrid Laurier University and an MBA from York University, Canada. Mr McFeeters has a strong investment background that includes having completed five public offerings and his experience within entrepreneurial high-growth companies will make him a valued advisor to our management team.

On July 5, 2006, we announced the appointment of John Wilkerson as Executive Vice President, Global Sales and Services. Mr. Wilkerson's appointment was effective August 1, 2006. Mr. Wilkerson's prior experience includes executive positions at Microsoft Corporation (Microsoft), Electronic Data Systems Corporation, Baan Corporation and Oracle Corporation (Oracle). With over twenty years' experience in leadership roles in direct sales, channel sales and professional services, Mr Wilkerson brings unique credentials to leverage our global partner program within the worldwide sales and services functions. He also brings considerable experience in providing vertical solutions at the enterprise level to our global customers.

Quarterly Overview

The following table summarizes selected unaudited quarterly financial data for the past eight fiscal quarters:

	Fiscal 2006			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands)			
Total revenues	\$ 105,235	\$ 100,926	\$ 110,771	\$ 92,630
Gross profit	67,649	65,556	75,447	59,722
Net income (loss)	\$ 7,803	\$ 7,322	\$ 2,721	\$ (12,868)
Earnings (loss) per share:				
Basic	\$ 0.16	\$ 0.15	\$ 0.06	\$ (0.27)
Diluted	\$ 0.17	\$ 0.15	\$ 0.05	\$ (0.27)

	Fiscal 2005			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands)			
Total revenues	\$ 109,373	\$ 105,167	\$ 114,692	\$ 85,596
Gross profit	72,091	68,136	76,744	55,689
Net income (loss)	\$ 5,033	\$ 5,342	\$ 10,970	\$ (986)
Earnings (loss) per share:				
Basic	\$ 0.10	\$ 0.11	\$ 0.22	\$ (0.02)
Diluted	\$ 0.10	\$ 0.10	\$ 0.21	\$ (0.02)

Quarterly revenues and expenses are impacted by a number of external factors including the timing of large transactions, timing of budget approvals of our customers, acquisitions, seasonality of economic activity and to some degree the timing of capital spend by our customers. Historically, our second quarter (which coincides with the fourth quarter of a number of our customers) has been our strongest quarter and we expect this trend to continue in Fiscal 2007.

Table of Contents**Results of Operations**

The following table presents an overview of our selected financial data.

(in thousands)	Fiscal Year			% Change from Fiscal Year	
	2006	2005	2004	2005 to 2006	2004 to 2005
Total revenue	\$ 409,562	\$ 414,828	\$ 291,058	(1.3%)	42.5%
Cost of revenue	141,188	142,168	85,613	(0.7%)	66.1%
Gross profit	268,374	272,660	205,445	(1.6%)	32.7%
Amortization of acquired intangible assets	9,199	8,234	4,095	11.7%	101.1%
Special charges (recoveries)	26,182	(1,724)	10,005	N/A	N/A
Other operating expenses	220,042	236,842	160,876	(7.1%)	47.2%
Income from operations	12,951	29,308	30,469	(55.8%)	(3.8%)
Gross margin	65.5%	65.7%	70.6%		
Operating margin	3.2%	7.1%	10.5%		
Net income	\$ 4,978	\$ 20,359	\$ 23,298	(75.5%)	(12.6%)

Our focus in Fiscal 2006 was on increasing near-term profitability by streamlining our operations. To achieve this we announced a significant restructuring of our operations in July 2005 which resulted in a charge of \$26.2 million. This restructuring primarily included work force reductions and abandonment of excess real estate facilities. Absent the impact of this charge our operational income was \$39.1 million in Fiscal 2006 which was a substantial improvement over our operational income (absent the impact of a restructuring recovery) in Fiscal 2005, which was \$27.6 million. Going forward we expect to generate annualized savings of approximately \$38.0 to \$40.0 million as a result of this restructuring initiative. In addition, we rationalized our product portfolio and made significant progress with our global partner program, particularly with Microsoft, Oracle and SAP. We received Microsoft's Global ISV (Independent Software Vendor) of the year award and launched a program with Oracle which will include the joint selling of Oracle and Open Text products. This reinforces our belief that our global partner program is strong and we expect this momentum to continue in Fiscal 2007.

We are positive on the overall outlook for ECM in Fiscal 2007. Our objective in Fiscal 2007 is to increase our market share and we expect our level of partner sales to increase to 20% or more from our current level of approximately 15%. We will continue to adapt to market changes in the ECM sector by developing new solutions, leveraging our existing solutions and utilizing our partner programs to reach new customers, and to serve existing customers more effectively. We also expect to announce the formal release of Livelink ECM version 10.0, our next major product release, within the first six months of Fiscal 2007. Livelink 10.0 is a higher value-added application that will offer the ability to connect with or interact with various platforms from other vendors. Finally, we expect (contingent upon the successful closure of the Hummingbird acquisition) to focus our efforts on the operational integration of Hummingbird into our operations and to realize the synergies in our combined product offerings.

An analysis of each of the components of our Results of Operations follows:

Revenues**Revenue by Product Type**

The following tables set forth our revenues by product and as a percentage of the related product revenue for the periods indicated:

(In thousands)	2006	2005-2006 Change in %	2005	2004-2005 Change in %	2004
License	\$ 122,520	(10.3%)	\$ 136,522	12.2%	\$ 121,642
Customer support	189,417	5.7%	179,178	64.7%	108,812
Services	97,625	(1.5%)	99,128	63.6%	60,604
Total	\$ 409,562	(1.3%)	\$ 414,828	42.5%	\$ 291,058

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(% of total revenue)	2006	2005	2004
License	30.0%	32.9%	41.8%
Customer support	46.2%	43.2%	37.4%
Services	23.8%	23.9%	20.8%
Total	100.0%	100.0%	100.0%

License Revenue

License revenue consists of fees earned from the licensing of software products to customers.

License revenue decreased by approximately \$14.0 million in Fiscal 2006 compared to Fiscal 2005. The drop was primarily due to structural re-alignment of certain sales forces around the world, which decreased license revenue by approximately \$16.3 million, as we continued to focus on streamlining our operations and to focus on future profitability. This decrease was offset by improved results in North America, where license revenue increased by approximately \$5.6 million compared with Fiscal 2005. We believe the increased license revenue in North America was the result of a greater demand in North America for our ECM and SAP solutions. The remaining decrease in license revenue is attributable to a negative foreign exchange impact of \$3.3 million.

License revenue increased in Fiscal 2005, compared to Fiscal 2004, by \$14.9 million. We generated approximately \$26.0 million in revenue from acquisitions and approximately \$6.0 million related to the positive impact of foreign exchange rates. This increase was offset by the discontinuance of unprofitable revenue streams obtained through acquisitions. In addition, Fiscal 2005 revenue was negatively impacted by a shift in our business model that saw customers increasingly interested in buying, substantially, a full ECM platform, which had the impact of lengthening the sales cycle and close process for new deals and deals in the pipeline. Further, sales were impacted due to our need to partially rebuild our North American sales force, during the year, to meet the needs of our evolving business model. Finally, the large drop in the Euro during the fourth quarter had the effect of delaying purchase decisions with respect to several of our large European customers. For these reasons, our organic growth decreased in Fiscal 2005.

Customer Support Revenue

Customer support revenue consists of revenue from our customer support and maintenance agreements. These agreements allow our customers to receive technical support, enhancements and upgrades to new versions of our software products when and if available. Customer support revenue is generated from such support and maintenance agreements relating to current year sales of software products and from the renewal of existing maintenance agreements for software licenses sold in prior periods. As our installed base grows, the renewal rate has a larger influence on customer support revenue than the current software revenue growth. Therefore changes in customer support revenue do not necessarily correlate directly to the changes in license revenue in a given period. Typically the term of these support and maintenance agreements is twelve months, with customer renewal options. We have historically experienced a renewal rate over 90% but continue to encounter pricing pressure from our customers during contract negotiation and renewal. New license sales create additional customer support agreements which contribute substantially to the increase in our customer support revenue.

Customer support revenue increased by approximately \$10.2 million in Fiscal 2006 compared to Fiscal 2005. All geographic regions contributed to the increase in customer support revenue from Fiscal 2005 to Fiscal 2006. North American customer support revenue rose by 5% in Fiscal 2006. European customer support revenue rose by 4% in Fiscal 2006, and customer support revenue in other regions increased by 7% in Fiscal 2006.

Customer support revenues increased by approximately \$70.4 million in Fiscal 2005 compared to Fiscal 2004. The increase in customer support revenues resulted from several factors. Customer support revenues related to the Fiscal 2004 and Fiscal 2005 acquisitions accounted for approximately 47% and 8%, respectively, of

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the revenue growth. The increase in the number of licenses granted in Fiscal 2004, which resulted in an increased number of maintenance contracts, contributed to the growth in customer support revenues in Fiscal 2005. Moreover, we continued to experience very strong service support contract renewal rates for all of our products, which also contributed to the growth in customer support revenue.

Service Revenue

Service revenue consists of revenues from consulting contracts and contracts to provide training and integration services.

Service revenue remained relatively stable in Fiscal 2006 albeit dropping very slightly by \$1.5 million compared to Fiscal 2005. Service revenue was strong in North America, with revenues increasing by \$8.5 million from Fiscal 2005 to Fiscal 2006. The increase in North American service revenue was due in part to its close relationship to license revenue. We believe this growth was the result of a strong market demand for our ECM solutions, namely our Livelink platform, as well as our strategic shift in focus towards deployment solutions and services consulting.

This increase in service revenue for North America was offset by a decrease in Fiscal 2006 service revenue of \$8.2 million in Europe compared to Fiscal 2005. Approximately \$2.5 million of this decrease was the result of lower license revenue in Europe. The remaining decrease was primarily the result of the cancellation through negotiation of several over-run legacy projects, and the cancellation of these projects forced us to lose short-term revenue. Although these projects resulted in less revenue for Fiscal 2006, we believe the cancellation of these projects will avert unprofitable long-term problems in the future.

Service revenue from countries other than North America and Europe resulted in a decrease of \$1.4 million in Fiscal 2006 compared to Fiscal 2005. This decrease was primarily attributable to the decrease of license revenue in Fiscal 2006.

Overall, the foreign exchange impact on our service revenue was favorable by approximately \$400,000.

Service revenues increased by approximately \$38.5 million in Fiscal 2005 compared to Fiscal 2004. Service revenues related to Fiscal 2005 acquisitions represented 10% of the growth while Fiscal 2004 acquisitions represented approximately 45% of the growth. In Fiscal 2005, we completed the integration of the Fiscal 2004 acquisitions (most notably IXOS), aligning services with the sales verticals for consistent teaming on strategic accounts as well as delivering repeatable services solutions (as opposed to trying to deliver unique consulting solutions to each customer), which resulted in the growth in these revenues.

Revenue and Operating Margin by Geography

The following table sets forth information regarding our revenue by geography

Revenue by Geography

(In thousands)	2006	2005	2004
North America	\$ 197,852	\$ 173,767	\$ 136,346
Europe	189,260	215,401	138,192
Other	22,450	25,660	16,520
Total	\$ 409,562	\$ 414,828	\$ 291,058
% of Total Revenue	2006	2005	2004
North America	48.3%	41.9%	46.8%
Europe	46.2%	51.9%	47.5%
Other	5.5%	6.2%	5.7%
Total	100.0%	100.0%	100.0%

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The overall increase in North America revenues in Fiscal 2006 versus Fiscal 2005 and Fiscal 2004 is reflective of our strengthened sales management, improved focus on sales process management, enhancement of lead generation processes and a focus on our key partnerships and verticals that represent our greatest opportunities. Decreases in European revenues reflect the weakening of European currencies and a structural re-alignment of our European sales force.

North America

The North America geographic segment includes Canada, the United States and Mexico.

Revenues in North America increased by \$24.1 million in Fiscal 2006 compared to Fiscal 2005. The increase is the result of the North American market showing greater interest in our ECM and SAP solutions. In Fiscal 2006, North America saw an increase of 24 new customers, ranging from Fortune 500 companies, major government organizations and financial institutions.

Europe

The Europe geographic segment includes Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom.

Revenues in Europe decreased by \$26.1 million in Fiscal 2006 compared to Fiscal 2005. The decrease can be attributed to the structural realignment of certain sales forces in Fiscal 2006. In Fiscal 2006, we focused on profitability which resulted in us having to give up growth in certain areas.

Other

The other geographic segment includes Australia, Japan, Malaysia, and the Middle East region.

Revenues from our other segments decreased by \$3.2 million in Fiscal 2006 compared to Fiscal 2005 primarily due to the reorganization of our operating model in certain areas, such as the Middle East. By leveraging our partner programs in these areas, we can enhance our sales force coverage and expect to see increased cost effectiveness in the future.

Adjusted Operating Margin by Significant Segment

The following table provides a summary of the Company's adjusted operating margins by significant segment.

	2006	2005	2004
North America	19.5%	13.6%	16.0%
Europe	15.7%	12.4%	19.9%

Our adjusted operating margins have increased in all geographies in Fiscal 2006 compared to Fiscal 2005 on account of our customers being increasingly interested in purchasing a complete ECM platform which generally involves a larger dollar value transaction. This has the effect of lengthening lead times for new and existing opportunities.

The decrease in adjusted operating margins in Europe in Fiscal 2005 versus Fiscal 2004 is due to the fact that Fiscal 2004 included the results of IXOS from March 1, 2004. This resulted in a higher adjusted operating margin from IXOS than would have been realized on an annual basis due to the timing/seasonality of revenue and expenses. In addition, the rapid devaluation of the Euro in late Fiscal 2005 triggered deferrals of customer purchases late into the year.

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The increase in margins in North America is due to a substantial realignment of our sales management efforts.

Adjusted operating margin is a non-GAAP financial measure. Such non-GAAP financial measures have certain limitations in that they do not have a standardized meaning and thus our definition may be different from similar non-GAAP financial measures used by other companies. We use this financial measure to supplement the information provided in our consolidated financial statements, which are presented in accordance with U.S. GAAP. The presentation of adjusted operating margin is not meant to be a substitute for net income presented in accordance with U.S. GAAP, but rather should be evaluated in conjunction with and as a supplement to such U.S. GAAP measures. Adjusted operating margin is calculated based on net income before including the impact of amortization of acquired intangibles, special charges, other income/expense, share-based compensation expenses and the provision for taxes. These items are excluded based upon the manner in which our management evaluates our business. We believe the provision of this non-GAAP measure allows our investors to evaluate the operational and financial performance of our core business using the same evaluation measures that we use to make decisions. As such we believe this non-GAAP measure is a useful indication of our performance or expected performance of recurring operations and may facilitate period-to-period comparisons of operating performance.

A reconciliation of our adjusted operating margin to net income as reported in accordance with U.S. GAAP is provided below:

	Year ended	Year ended	Year ended
	June 30, 2006	June 30, 2005	June 30, 2004
Revenue			
North America	\$ 197,852	\$ 173,767	\$ 136,346
Europe	189,260	215,401	138,192
Other	22,450	25,660	16,520
Total revenue	\$ 409,562	\$ 414,828	\$ 291,058
Adjusted operating margin			
North America	\$ 38,569	\$ 23,686	\$ 21,768
Europe	29,796	26,646	27,511
Other	4,971	2,786	2,383
Total adjusted operating margin	73,336	53,118	51,662
Less:			
Aggregate amortization of all acquired intangible assets	28,099	24,409	11,306
Special charges (recoveries)	26,182	(1,724)	10,005
Share-based compensation	5,196		
Other expense (income)	4,788	3,116	(217)
Provision for income taxes	4,093	6,958	7,270
Net income	\$ 4,978	\$ 20,359	\$ 23,298

Table of Contents**Cost of Revenue and Gross Margin by Product Type**

The following tables set forth the changes in cost of revenues and gross margin by product type for the periods indicated:

Cost of Revenue:

(In thousands)	2006	2005-2006 Change in %	2005	2004-2005 Change in %	2004
License	\$ 11,196	(3.0%)	\$ 11,540	7.0%	\$ 10,784
Customer Support	31,482	(4.8%)	33,086	63.0%	20,299
Service	79,610	(2.2%)	81,367	72.0%	47,319
Amortization of acquired technology acquired intangible	18,900	16.8%	16,175	124.3%	7,211
Total	\$ 141,188	(0.7%)	\$ 142,168	66.1%	\$ 85,613

Cost of revenue as a % of revenue	2006	2005	2004
License	9.1%	8.5%	8.9%
Customer Support	16.6%	18.5%	18.7%
Service	81.5%	82.1%	78.1%

Cost of license revenue

Cost of license revenue consists primarily of royalties payable to third parties and product media duplication, instruction manuals and packaging expenses.

Cost of license revenues decreased in Fiscal 2006 as our license revenues decreased, but the gross margin on licenses has remained stable over Fiscal 2006, Fiscal 2005 and Fiscal 2004 due to the fact that our overall cost structure has remained relatively unchanged.

Cost of customer support revenues

Cost of customer support revenues is comprised primarily of technical support personnel and related costs.

Cost of customer support revenues decreased by \$1.6 million in Fiscal 2006 over Fiscal 2005 due to operational efficiencies achieved as the result of our global restructuring efforts.

Cost of customer support revenues increased \$12.8 million in Fiscal 2005 compared to Fiscal 2006. The majority of the increase is attributable to personnel costs related to Fiscal 2004 acquisitions. The increased number of personnel in our customer support organization also drove increases in other general and administrative expenses including communication, travel and office expenses.

Cost of service revenues

Cost of service revenues consists primarily of the costs of providing integration, customization and training with respect to our various software products. The most significant component of these costs is personnel related expenses. The other components include travel costs and third party subcontracting.

Cost of service revenues decreased by \$1.8 million in Fiscal 2006 versus Fiscal 2005 due to reduced professional services and training costs of \$1.9 million offset by higher direct marketing costs of \$108,000. Cost of service revenues as a percentage of service revenues remained stable at 81.5 % in Fiscal 2006 compared to 82.1% in Fiscal 2005.

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Cost of service revenues increased by \$34.0 million in Fiscal 2005 versus Fiscal 2004 due to additional costs assumed as a result of the Fiscal 2004 acquisitions since our Europe-based Fiscal 2004 acquisitions have made the service cost structure higher as a percentage of revenue.

Amortization of acquired technology intangible assets

Amortization of acquired technology intangible assets increased by \$2.7 million in Fiscal 2006 compared to Fiscal 2005. The increase is due to the full year impact of the amortization of intangibles relating to our Fiscal 2005 acquisitions.

Amortization of acquired technology intangible assets increased by \$9.0 million in Fiscal 2005 compared to Fiscal 2004. The increase is due to the impact of the Fiscal 2005 acquisitions and a full year's amortization of the IXOS intangible assets, versus four months amortization in the prior year.

Operating Expenses

The following table sets forth total operating expenses by function and as a percentage of total revenue for the periods indicated:

(In thousands)	2006	2005-2006 Change in %	2005	2004-2005 Change in %	2004
Research and development	\$ 59,184	(9.1%)	\$ 65,139	49.3%	\$ 43,616
Sales and marketing	104,419	(8.8%)	114,553	31.1%	87,362
General and administrative	45,336	(1.7%)	46,110	102.3%	22,795
Depreciation	11,103	0.6%	11,040	55.4%	7,103
Amortization of acquired intangible assets	9,199	11.7%	8,234	101.1%	4,095
Special charges (recoveries)	26,182	N/A	(1,724)	N/A	10,005
Total	\$ 255,423	5.0%	\$ 243,352	39.1%	\$ 174,976

(in % of total revenue)	2006	2005	2004
Research and development	14.5%	15.7%	15.0%
Sales and marketing	25.5%	27.6%	30.0%
General and administrative	11.1%	11.1%	7.8%
Depreciation	2.7%	2.7%	2.4%
Amortization of acquired intangible assets	2.2%	2.0%	1.4%
Special charges (recoveries)	6.4%	(0.4%)	3.4%

Research and development expenses

Research and development expenses consist primarily of personnel expenses, contracted research and development expenses, and facility costs.

Research and development expenses decreased by \$6.0 million in Fiscal 2006 compared to Fiscal 2005 primarily due to a favorable reduction of labour expenses of \$4.4 million owing to a reduction of headcount in Fiscal 2006, a reduction in overhead expenses of \$1.9 million and recoverable input tax credits of \$1.0 million offset by share-based payment expenses of \$1.3 million.

Research and development expenses increased by \$21.5 million in Fiscal 2005 compared to Fiscal 2004. The increase relates primarily to an increase of approximately \$13.6 million in expenses relating to IXOS and Fiscal 2005 acquisitions, and an additional \$3.2 million relating to increased personnel costs. The balance of the increase relates to the increased spending in our core development organization relating to the integration of IXOS archiving products with Open Text's Livelink records management and collaboration products.

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Sales and marketing expenses

Sales and marketing expenses consist primarily of personnel expenses and costs associated with advertising and trade shows.

Sales and marketing expenses declined by \$10.1 million in Fiscal 2006 compared to Fiscal 2005. This decline relates primarily to a \$7.4 million reduction of labour costs attributable to a reduction of headcount in Fiscal 2006, a reduction of \$3.0 million in marketing expenses, a reduction of \$2.1 million in overhead allocations offset by an increase of \$2.0 million of share-based payment expenses and the rest due to miscellaneous increases in costs.

Sales and marketing expenses increased \$27.2 million in Fiscal 2005 compared to Fiscal 2004. The absolute dollar increase in sales and marketing expenses in Fiscal 2005 relates to an increase of \$14.9 million relating to the impact of IXOS. Additionally, we spent an additional \$4.5 million on labor costs, \$2.1 million on increased marketing expenses and \$2.4 million on increased commissions to sales staff, related to an increased number of license sales. The rest of the increase relates to core operational spending on training, travel, recruitment and other miscellaneous costs. Additionally, sales and marketing personnel increased from 498 individuals at the end of Fiscal 2004 to 514 at the end of Fiscal 2005.

General and administrative expenses

General and administrative expenses consist primarily of salaries of administrative personnel, related overhead, facility expenses, audit fees, consulting expenses and separate public company costs.

General and administrative expenses as a percentage of sales have remained stable over both Fiscal 2006 and Fiscal 2005. These expenses increased marginally in absolute dollar terms as a result of a decrease in consulting and compliance related costs offset partially by an increase due to stock compensation expenses.

General and administrative expenses increased \$23.3 million in Fiscal 2005 compared to Fiscal 2004. The absolute dollar increase in general and administrative expenses in Fiscal 2005 over Fiscal 2004 relates to an increase of \$9.1 million relating to the impact of the IXOS acquisition. Additionally, in Fiscal 2005, we spent an additional \$3.4 million on labor costs, \$2.7 million on consulting costs, and \$5.6 million as a result of separate public company costs, including additional audit fees, and Sarbanes-Oxley compliance fees.

Depreciation expenses

Depreciation expenses increased marginally in Fiscal 2006 over Fiscal 2005 due to additions in capital assets relating primarily to the addition of the Waterloo building and computer equipment.

Depreciation expenses increased by \$3.9 million in Fiscal 2005 compared to Fiscal 2004 as a direct result of the increased value of capital assets acquired and additions through business acquisitions.

Amortization of acquired intangible assets

Amortization of acquired intangible assets includes the amortization of patents and customer assets. Amortization of acquired technology is included as an element of cost of sales. The \$1.0 million increase in amortization in Fiscal 2006 over Fiscal 2005 is due to the full year impact of the amortization of intangibles relating to our Fiscal 2005 acquisitions.

Amortization of acquired intangible assets increased \$4.1 million in Fiscal 2005 compared to Fiscal 2004. The increase is due to the impact of the Fiscal 2005 acquisitions and a full year's amortization of the IXOS intangible assets, versus four months amortization in the prior year. Because the amortization of acquired intangible assets is only included from the date of acquisition, this expense continued to increase substantially in Fiscal 2005 when a full year amortization was recorded for the Fiscal 2004 acquisitions.

Table of Contents**Special charges (recoveries)**

In Fiscal 2006, we recorded special charges of \$26.2 million. This charge is primarily comprised of \$21.6 million, relating to the Fiscal 2006 restructuring, \$3.8 million related to the impairment of capital assets, and \$1.0 million related to the impairment of intangible assets. This charge was offset by a recovery of miscellaneous expenses related to the Fiscal 2004 restructuring. Details of each component of special charges (recoveries) are discussed below.

Fiscal 2006 Restructuring

In the first quarter of Fiscal 2006, our Board approved, and we began to implement restructuring activities to streamline our operations and consolidate our excess facilities (Fiscal 2006 restructuring plan). Total costs to be incurred in conjunction with the Fiscal 2006 restructuring plan are expected to be approximately \$22.0 million of which \$21.6 million has been recorded as of June 30, 2006. These charges relate to work force reductions, abandonment of excess facilities and other miscellaneous direct costs. On a quarterly basis we conduct an evaluation of these balances and revise our assumptions and estimates as appropriate. The provision related to workforce reduction is expected to be substantially paid by December 31, 2006 and the provisions relating to the abandonment of excess facilities, such as contract settlements and lease costs, are expected to be paid by January 2014.

A reconciliation of the beginning and ending liability is shown below:

Fiscal 2006 Restructuring Plan	Work force reduction	Facility costs	Other	Total
Balance as of June 30, 2005	\$	\$	\$	\$
Accruals	13,982	6,708	933	21,623
Cash payments	(11,788)	(2,770)	(924)	(15,482)
Foreign exchange and other adjustments	491	197		688
Balance as of June 30, 2006	\$ 2,685	\$ 4,135	\$ 9	\$ 6,829

The following table outlines restructuring charges incurred under the Fiscal 2006 restructuring plan, by segment, for the year ended June 30, 2006.

Fiscal 2006 Restructuring Plan by Segment	Work force reduction	Facility costs	Other	Total
North America	\$ 7,798	\$ 2,983	\$ 415	\$ 11,196
Europe	5,706	3,533	446	9,685
Other	478	192	72	742
Total charge for year ended June 30, 2006	\$ 13,982	\$ 6,708	\$ 933	\$ 21,623

Table of Contents***Fiscal 2004 Restructuring***

In the three months ended March 31, 2004, we recorded a restructuring charge of approximately \$10 million relating primarily to our North America segment. The charge consisted primarily of costs associated with a workforce reduction, excess facilities associated with the integration of the IXOS acquisition, write downs of capital assets and legal costs related to the termination of facilities. On a quarterly basis we conduct an evaluation of these balances and revise our assumptions and estimates, as appropriate. As a result of these evaluations, we recorded a recovery to this restructuring charge of \$306,000 during the year ended June 30, 2006. This recovery represents primarily reductions to previous charges for estimated employee termination costs and recoveries in estimates relating to accruals for abandoned facilities. All actions relating to employer workforce reduction were completed as of March 31, 2006. The provision for facility costs is expected to be expended by 2011. The activity of our provision for the 2004 restructuring charge is as follows for each period presented below:

Fiscal 2004 Restructuring Plan	Work force reduction	Facility costs	Total
Balance as of June 30, 2005	\$ 167	\$ 1,878	\$ 2,045
Revisions to prior accruals	(167)	(139)	(306)
Cash payments		(659)	(659)
Foreign exchange and other adjustments		90	90
Balance as of June 30, 2006	\$	\$ 1,170	\$ 1,170

Fiscal 2004 Restructuring Plan	Work force reduction	Facility costs	Other	Total
Balance as of June 30, 2004	\$ 3,290	\$ 2,538	\$ 90	\$ 5,918
Revisions to prior accruals	(1,423)	(301)		(1,724)
Cash payments	(1,700)	(359)	(90)	(2,149)
Foreign exchange and other adjustments				
Balance as of June 30, 2005	\$ 167	\$ 1,878	\$	\$ 2,045

Fiscal 2004 Restructuring Plan	Work force reduction	Facility costs	Other	Total
Balance as of June 30, 2003	\$	\$	\$	\$
Revisions to prior accruals	5,656	3,317	1,032	10,005
Cash payments	(2,366)	(779)	(942)	(4,087)
Foreign exchange and other adjustments				
Balance as of June 30, 2004	\$ 3,290	\$ 2,538	\$ 90	\$ 5,918

Impairment Charges***Impairment of capital assets***

During Fiscal 2006, impairment charges of \$3.8 million were recorded against capital assets that were written down to fair value, including various leasehold improvements at vacated premises and redundant office equipment. Fair value was determined based on our estimate of disposal proceeds, net of anticipated costs to sell.

Impairment of intangible assets

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During Fiscal 2006, impairment charges of \$1.0 million were recorded relating to a write-down of intellectual property in North America. The intellectual property represents the fair value of acquired technology from the Corechange acquisition which closed in the 2003 fiscal year. The triggering event that gave rise to the impairment was a shift in the marketing and development strategy associated with this acquired technology and

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an assessment of where the technology is in terms of our assessment of the product lifecycle. The impairment was measured as the excess of the carrying amount over the discounted projected future net cash flows.

Income taxes

We recorded a tax provision of \$4.1 million in Fiscal 2006 compared to \$7.0 million during Fiscal 2005 and \$7.3 million in Fiscal 2004. This equates to an effective tax rate of 42.4% in Fiscal 2006 versus an effective tax rate of 25.2% and 22.8% in Fiscal 2005 and Fiscal 2004, respectively. The increase in our effective tax rate in Fiscal 2006 versus the two preceding fiscal years is in part due to the fact that the corresponding tax benefit has not been realized on losses that resulted from our Fiscal 2006 restructuring charge.

Our deferred tax assets totaling \$65.9 million are based upon available income tax losses and future income tax deductions. Our ability to use these income tax losses and future income tax deductions is dependent upon us generating income in the tax jurisdictions in which such losses or deductions arose. The recognized deferred tax liability of \$31.7 million is primarily made up of three components. The first component relates to \$23.0 million arising from the amortization of timing differences relating to acquired intangible assets and future income inclusions. The second component of \$4.1 million relates primarily to deferred credits arising from non capital losses and undeducted scientific research and development experimental expenditures acquired at a discount on asset acquisitions, which will be included in income as they are utilized. The third component of \$1.4 million relates to deferred tax liability arising from investment tax credits. We record a valuation allowance against deferred income tax assets when we believe it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Based on the reversal of deferred income tax liabilities, projected future taxable income, the character of the income tax asset and tax planning strategies, we have determined that a valuation allowance of \$127.5 million is required in respect of our deferred income tax assets as at June 30, 2006. (A valuation allowance of \$127.6 million was required for the deferred income tax assets as at June 30, 2005). This valuation allowance is primarily attributable to valuation allowances set up based on losses incurred in the year in certain foreign jurisdictions. In order to fully utilize the recognized deferred income tax assets of \$65.9 million, we will need to generate aggregate future taxable income in applicable jurisdictions of approximately \$188.0 million. Based on our current projection of taxable income for the periods in the jurisdictions in which the deferred income tax assets are deductible, it is more likely than not that we will realize the benefit of the recognized deferred income tax assets as of June 30, 2006.

Liquidity and Capital Resources

The following table summarizes the changes in our cash and cash equivalents and cash flows over the periods indicated:

(in thousands)	June 30, 2006	June 30, 2005	Change in %
Cash and cash equivalents	\$ 107,354	\$ 79,898	34.4%
Net cash provided by (used in):			
Operating activities	60,798	57,264	6.2%
Investing activities	(54,727)	(77,383)	(29.3)%
Financing activities	18,202	(58,920)	(130.9)%
Net Cash Provided by Operating Activities			

Net cash provided by operating activities increased by approximately \$3.5 million in Fiscal 2006 compared to Fiscal 2005 as a result of an increase in non cash adjustments of approximately \$11.0 million and a net increase in operating assets and liabilities of approximately \$7.9 million. The increase in net cash provided by operating activities was offset by a decrease in net income of approximately \$15.4 million.

Table of Contents***Net Cash Used in Investing Activities***

Net cash used in investing activities decreased by approximately \$22.7 million in Fiscal 2006 compared to Fiscal 2005. The overall decrease in investing expenditures was primarily due to the fact that we did not make any business acquisitions in Fiscal 2006 (which represented approximately \$31.5 million in spending in Fiscal 2005) and our acquisition-related costs were lower by \$5.7 million. In addition, we also spent \$9.1 million less in Fiscal 2006 than Fiscal 2005 purchasing IXOS and Gauss shares. These savings in investment were offset by our increased capital spending of \$1.4 million, \$2.1 million on prior period acquisitions and an investment of \$20.2 million in the shares of Hummingbird.

We currently own approximately 96% of IXOS. Based on current estimates we anticipate the additional cost of acquiring IXOS shares to be approximately \$12.0 million.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing increased by approximately \$77.1 million in Fiscal 2006 compared to Fiscal 2005. This increase was primarily due to the fact that we did not repurchase any of our Common Shares in Fiscal 2006, which represented \$63.8 million in spending in Fiscal 2005 and as a result of the mortgage financing we secured on our Waterloo building, which represented approximately \$12.9 million in Fiscal 2006.

In Fiscal 2006 we secured a demand operating facility of CDN \$40.0 million with a Canadian chartered bank. Borrowings under this facility bear interest at varying rates depending upon the nature of the borrowing. We have pledged certain of our assets as collateral for this demand operating facility. There are no stand-by fees for this facility. As of June 30, 2006, there were no borrowings outstanding under this facility.

We intend to finance the offer to purchase Hummingbird shares through loan facilities that are currently being negotiated with a Canadian chartered bank. The loan facilities were not finalized as of the date of the filing of this Annual report under Form 10-K. The facilities will potentially include a term loan facility and a revolving facility.

We anticipate that our cash and cash equivalents, available credit facilities and committed loan facilities will be sufficient to fund our anticipated cash requirements for working capital, contractual commitments and capital expenditures for at least the next 12 months.

Commitments and Contractual Obligations

We have entered into the following contractual obligations with minimum annual payments for the indicated fiscal periods as follows:

	Total	Payments due by Fiscal year ended June 30,			
		2007	2008 to 2009	2010-2011	2012 and beyond
Long-term debt obligations	\$ 16,322	\$ 1,089	\$ 2,178	\$ 13,055	\$
Operating lease obligations *	93,663	19,185	35,280	27,467	11,731
Purchase obligations	4,584	2,370	1,776	438	
	\$ 114,569	\$ 22,644	\$ 39,234	\$ 40,960	\$ 11,731

* Net of \$6.2 million of non-cancelable sublease income we are to receive from properties which we have subleased to other parties. Rental expense of \$11.3 million, \$15.5 million and \$14.3 million was recorded during the fiscal years ended June 30, 2006, 2005 and 2004, respectively.

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The long-term debt obligations are comprised of interest and principal payments on the five year mortgage on our recently constructed building in Waterloo, Ontario. See Note 9 Bank Indebtedness in our Notes to Consolidated Financial Statements under Item 8, in this Annual Report on this Form 10-K.

IXOS domination agreements

Based on the number of minority IXOS shareholders as of June 30, 2006, the estimated amount of Annual Compensation payable to IXOS minority shareholder was approximately \$504,000 for the fiscal year ended June 30, 2006. Because we are unable to predict, with reasonable accuracy, the number of IXOS minority shareholders that will be on record in future periods, we are unable to predict the amount of Annual Compensation that will be payable in future years.

Certain IXOS shareholders have filed for a procedure granted under German law at the district court of Munich, Germany, asking the court to reassess the amount of the Annual Compensation and the Purchase Price for the amounts offered under the IXOS DA. It cannot be predicted at this stage, whether the court will increase the Annual Compensation and/or the Purchase Price.

The costs associated with the above mentioned procedure are direct incremental costs associated with the ongoing step acquisitions of shares held by the minority shareholders. These disputes are a normal and probable part of the process of acquiring minority shares in Germany. We are unable to predict the future costs associated with these activities that will be payable in future periods.

For further details relating to the IXOS domination agreement refer to Note 13 Commitments and Contingencies in our Notes to Consolidated Financial Statements under Item 8 to this Annual Report on Form 10-K.

Gauss Squeeze out

We have recorded our best estimate of the amount payable to the minority shareholders of Gauss under the Squeeze Out. As of June 30, 2006, we had accrued \$75,000 for such payments. We are currently not able to determine the final amount payable and we are unable to predict the date on which the resolutions will be registered in the commercial register.

We continue to incur direct and incremental costs associated with the Squeeze Out procedures and registration thereof. We are unable to predict the future costs associated with these activities that will be payable in future periods.

For further details relating to the Gauss Squeeze out refer to Note 13 Commitments and Contingencies in our Notes to Consolidated Financial Statements under Item 8, to this Annual Report on Form 10-K.

Litigation

We are subject from time to time to legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, our management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Off-Balance Sheet Arrangements

We do not enter into off-balance sheet financing as a matter of practice except for the use of operating leases for office space, computer equipment, and vehicles. In accordance with U.S. GAAP, neither the lease liability nor the underlying asset is carried on the balance sheet, as the terms of the leases do not meet the criteria for capitalization.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based on our Consolidated Financial Statements, which are prepared in accordance with U.S. GAAP. The preparation of the Consolidated Financial Statements in accordance with U.S. GAAP necessarily requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we re-evaluate our estimates, including those related to revenues, bad debts, investments, intangible assets, income taxes, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed at the time to be reasonable under the circumstances. Under different assumptions or conditions, the actual results will differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside of our control.

We believe that the accounting policies described below are critical to understanding our business, results of operations and financial condition because they involve significant judgment and estimates used in the preparation of our Consolidated Financial Statements. An accounting policy is deemed to be critical if it requires a judgment or accounting estimate to be made based on assumptions about matters that are highly uncertain, and if different estimates that could have been used, or if changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our Consolidated Financial Statements. Management has discussed the development, selection and application of our critical accounting policies with the audit committee of our Board of Directors, and our audit committee has reviewed our disclosure relating to our critical accounting policies in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed below, are also critical to understanding our Consolidated Financial Statements. The notes to the Consolidated Financial Statements contain additional information related to our accounting policies and should be read in conjunction with this discussion.

The following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements:

Business combinations

We account for acquisitions of companies in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations (SFAS 141). We allocate the purchase price to tangible assets, intangible assets and liabilities based on estimated fair values at the date of acquisition with the excess of purchase price, if any, being allocated to goodwill.

Impairment of long-lived assets

We account for the impairment and disposition of long-lived assets in accordance with FASB SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets (SFAS 144). We test long-lived assets or asset groups, such as capital assets and definite lived intangible assets, for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant adverse changes in the business climate or legal factors; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and a current expectation that the asset will more likely than not be sold or disposed of before the end of its estimated useful life.

Recoverability is assessed based on comparing the carrying amount of the asset to the aggregate pre-tax undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group. An impairment is recognized when the carrying amount is not recoverable and exceeds the fair value of the asset or asset group. The impairment loss, if any, is measured as the amount by which the carrying amount exceeds

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discounted projected future cash flows. We recorded an impairment charge of \$1.0 million during the year ended June 30, 2006. (See Note 20 Special Charges (Recoveries) under Item 8 on this form 10-K).

Acquired intangibles

This category consists of acquired technology and contractual relationships associated with various acquisitions, as well as trademarks and patents.

Acquired technology is initially recorded at fair value based on the present value of the estimated net future income-producing capabilities of software products acquired on acquisitions. Acquired technology is amortized over its estimated useful life on a straight-line basis.

Contractual relationships represent relationships that we have with certain customers on contractual or legal rights and are considered separable. We acquired these contractual relationships through business combinations and they were initially recorded at their fair value based on the present value of expected future cash flows. Contractual relationships are amortized on a straight-line basis over their useful lives.

We continually evaluate the remaining useful life of our intangible assets being amortized to determine whether events and circumstances warrant a revision to the remaining period of amortization.

Goodwill

FASB SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), requires that goodwill and other intangible assets with indefinite useful lives be tested for impairment annually or earlier if events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

In accordance with SFAS 142, we do not amortize goodwill. We performed, in accordance with SFAS 142, our annual impairment analysis of goodwill as of April 1, 2006. Historically, we performed our annual goodwill impairment test coincident with our year end of June 30. In Fiscal 2005, the date of the test was moved to the first day of the fourth quarter, in order to provide us with more adequate time to complete the analysis given the acceleration of public company reporting requirements. We believe that the accounting change described above is an alternative accounting principle that is preferable under the circumstances and that the change was not intended to delay, accelerate or avoid an impairment charge. The analysis in all years indicated that there was no impairment of goodwill in any of the reporting units. If estimates change, a materially different impairment conclusion could result.

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make payments. We evaluate the credit worthiness of our customers prior to order fulfillment and based on these evaluations, adjust credit limits to the respective customers. In addition to these evaluations, we conduct on-going credit evaluations of our customers' payment history and current credit worthiness. The allowance is maintained for 100% of all accounts deemed to be uncollectible and, for those receivables not specifically identified as uncollectible, an allowance is maintained for a specific percentage of those receivables based upon the aging of accounts, our historical collection experience and current economic expectations. To date, the actual losses have been within management expectations. No single customer accounted for more than 10% of the accounts receivable balance as of June 30, 2006 and 2005.

Asset retirement obligations

We account for asset retirement obligations in accordance with FASB SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS 143), which applies to certain obligations associated with the retirement

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of tangible long-lived assets. SFAS 143 requires that a liability be initially recognized for the estimated fair value of the obligation when it is incurred. The associated asset retirement cost is capitalized as part of the carrying amount of the long-lived asset and depreciated over the remaining life of the underlying asset and the associated liability is accreted to the estimated fair value of the obligation at the settlement date through periodic accretion charges recorded within general and administrative expenses. When the obligation is settled, any difference between the final cost and the recorded amount is recognized as income or loss on settlement.

Revenue recognition

a) License revenues

We recognize revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition , issued by the American Institute of Certified Public Accountants (AICPA) in October 1997 as amended by SOP 98-9 issued in December 1998.

We record product revenue from software licenses and products when persuasive evidence of an arrangement exists, the software product has been shipped, there are no significant uncertainties surrounding product acceptance, the fees are fixed and determinable and collection is considered probable. We use the residual method to recognize revenue on delivered elements when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If an undelivered element for the arrangement exists under the license arrangement, revenue related to the undelivered element is deferred based on vendor-specific objective evidence (VSOE) of the fair value of the undelivered element.

Our multiple-element sales arrangements include arrangements where software licenses and the associated post contract customer support (PCS) are sold together. We have established VSOE of the fair value of the undelivered PCS element based on the contracted price for renewal PCS included in the original multiple element sales arrangement, as substantiated by contractual terms and our significant PCS renewal experience, from our existing worldwide base. Our multiple element sales arrangements generally include rights for the customer to renew PCS after the bundled term ends. These rights are irrevocable to the customer s benefit, are for specified prices and the customer is not subject to any economic or other penalty for failure to renew. Further, the renewal PCS options are for services comparable to the bundled PCS and cover similar terms.

It is our experience that customers generally exercise their renewal PCS option. In the renewal transaction, PCS is sold on a stand-alone basis to the licensees one year or more after the original multiple element sales arrangement. The renewal PCS price is consistent with the renewal price in the original multiple element sales arrangement although an adjustment to reflect consumer price changes is not uncommon.

If VSOE of fair value does not exist for all undelivered elements, all revenue is deferred until sufficient evidence exists or all elements have been delivered.

We assess whether payment terms are customary or extended in accordance with normal practice relative to the market in which the sale is occurring. Our sales arrangements generally include standard payment terms. These terms effectively relate to all customers, products, and arrangements regardless of customer type, product mix or arrangement size. The only time exceptions are made to these standard terms is on certain sales in parts of the world where local practice differs. In these jurisdictions, our customary payment terms are in line with local practice.

b) Service revenues

Service revenues consist of revenues from consulting, implementation, training and integration services. These services are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of these services. For

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those contracts where the services are not essential to the functionality of any other element of the transaction, we determine VSOE of fair value for these services based upon normal pricing and discounting practices for these services when sold separately. These consulting and implementation services contracts are primarily time and materials based contracts that are, on average, less than six months in length. Revenue from these services is recognized at the time such services are rendered as the time is incurred by us.

We also enter into contracts that are primarily fixed fee arrangements to render specific consulting services. The percentage of completion method is applied to these more complex contracts that involve the provision of services relating to the design or building of complex systems, because these services are essential to the functionality of other elements in the arrangement. Under this method, the percentage of completion is calculated based on actual hours incurred compared to the estimated total hours for the services under the arrangement. For those fixed fee contracts where the services are not essential to the functionality of a software element, the proportional performance method is applied to recognize revenue. Revenues from training and integration services are recognized in the period in which these services are performed.

c) Customer support revenues

Customer support revenues consist of revenue derived from contracts to provide PCS to license holders. These revenues are recognized ratably over the term of the contract. Advance billings of PCS are not recorded to the extent that the term of the PCS has not commenced or payment has not been received.

Research and development costs

Research and development costs internally incurred in creating computer software to be sold, licensed or otherwise marketed, are expensed as incurred unless they meet the criteria for deferral and amortization, described in FASB SFAS No. 86 *Accounting for the Costs of Corporate Software to be Sold, Released, or Otherwise Marketed* (SFAS 86). In accordance with SFAS 86, costs related to research, design and development of products are charged to expenses as incurred and capitalized between the dates that the product is considered to be technologically feasible and is considered to be ready for general release to customers.

In our historical experience, the dates relating to the achievement of technological feasibility and general release of the product have substantially coincided. In addition, no significant costs are incurred subsequent to the establishment of technological feasibility. As a result we do not capitalize any research and development costs relating to internally developed software to be sold, licensed or otherwise marketed.

Income taxes

We account for income taxes in accordance with FASB SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). Deferred tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years. These temporary differences are measured using enacted tax rates. A valuation allowance is recorded to reduce deferred tax assets to the extent that management considers it is more likely than not that a deferred tax asset will not be realized. In determining the valuation allowance, management considers factors such as the reversal of deferred income tax liabilities, projected taxable income, and the character of income tax assets and tax planning strategies. A change to these factors could impact the estimated valuation allowance and income tax expense.

In addition, we are subject to examinations by taxation authorities of the jurisdictions in which we operate in the normal course of operations. We regularly assess the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes.

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Restructuring charges

We record restructuring charges relating to contractual lease obligations and other exit costs in accordance with FASB SFAS No. 146,

Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 requires recognition of costs associated with an exit or disposal activity when the liability is incurred and can be measured at fair value.

We record restructuring charges relating to employee termination costs in accordance with FASB SFAS No. 112, Accounting for Post Employment Benefits (SFAS 112). SFAS 112 applies to post-employment benefits provided to employees under on-going benefit arrangements. In accordance with SFAS 112, we record such charges when the termination benefits are capable of being determined or estimated in advance, from either the provisions of our policy or from past practices, the benefits are attributable to services already rendered and the obligation relates to rights that vest or accumulate.

The recognition of restructuring charges requires management to make certain judgments regarding the nature, timing and amount associated with the planned restructuring activities, including estimating sublease income and the net recoverable amount of equipment to be disposed of. At the end of each reporting period, we evaluate the appropriateness of the remaining accrued balances.

Litigation

We are a party, from time to time, in legal proceedings. In these cases, management assesses the likelihood that a loss will result, as well as the amount of such loss and the financial statements provide for our best estimate of such losses. To the extent that any of these legal proceedings are resolved and the result is that we are required to pay an amount in excess of what has been provided for in the financial statements, we would be required to record, against earnings, such excess at that time. If the resolution resulted in a gain to us, or a loss less than that provided for, such gain is recognized when received or receivable.

New Accounting Standards

Adoption of SFAS 123R

On July 1, 2005, we adopted the fair value-based method for measurement and cost recognition of employee share-based compensation under the provisions of FASB SFAS 123R, using the modified prospective transitional method. Previously, we had been accounting for employee share-based compensation using the intrinsic value method, which generally did not result in any compensation cost being recorded for stock options since the exercise price was equal to the market price of the underlying shares on the date of grant.

Our stock options are now accounted for under SFAS 123R. The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option-pricing model.

For the year ended June 30, 2006, the weighted-average fair value of options granted, as of the grant date, was \$7.68, using the following weighted average assumptions: expected volatility of 52%; risk-free interest rate of 4.6%; expected dividend yield of 0%; and expected life of 5.2 years.

For the year ended June 30, 2005, the weighted-average fair value of options granted, as of the grant date, during the periods was \$8.35, using the following weighted-average assumptions: expected volatility of 61%; risk-free interest rate of 3.2%; expected dividend yield of 0%; and expected life of 4.3 years.

For the year ended June 30, 2004, the weighted-average fair value of options granted, as of the grant date, during the periods was \$10.33, using the following weighted-average assumptions: expected volatility of 60%; risk-free interest rate of 3.0%; expected dividend yield of 0%; and expected life of 3.5 years.

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Share-based compensation cost included in the statement of income for the year ended June 30, 2006 was approximately \$5.2 million. Additionally, deferred tax assets of \$622,000 were recorded, as of June 30, 2006 in relation to the tax effect of certain stock options that are eligible for a tax deduction when exercised. As of June 30, 2006 the total compensation cost related to unvested awards not yet recognized is \$9.2 million which will be recognized over a weighted average period of approximately 2 years.

We made no modifications to the terms of our outstanding share options in anticipation of the adoption of SFAS 123R. Also, we made no changes in either the quantity or type of instruments used in our share option plans or the terms of our share option plans.

Additionally, effective July 1, 2005, we amended the terms of our Employee Share Purchase Plan (ESPP) to set the amount at which Common Shares may be purchased by employees to 95% of the average market price on the Toronto Stock Exchange (TSX) or the NASDAQ on the last day of the purchase period. As a result of the amendments, the ESPP is no longer considered a compensatory plan under the provisions of SFAS 123R, and as a result no compensation cost is recorded related to the ESPP.

In order to calculate the fair value of share-based payment awards, we use the Black-Scholes model. This model requires the input of subjective assumptions, including stock price volatility, the expected exercise behavior and forfeiture rate. Expected volatilities are based on the historical volatility of our stock. The expected life of options granted is based on historical experience and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option are determined by the US Treasury yields and the Government of Canada benchmark bond yields for U.S. dollar and Canadian dollar options, respectively, in effect at the time of the grant.

The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change or we use different assumptions, our stock-based compensation expense could be materially different in the future. We are also required to estimate the forfeiture rate and only recognize the expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, our stock-based compensation expense could be significantly different from what we have recorded in the period such determination is made.

Accounting for Uncertain Tax Positions

In July 2006, the FASB issued FASB Interpretation No. 48 on Accounting for Uncertain Tax Positions an interpretation of FASB Statement No. 109, Accounting for Income Taxes (FIN 48).

FIN 48 will be effective as of the beginning of the first annual period beginning after December 15, 2006 and will be adopted by us for the year ended June 30, 2008. We are currently assessing the impact of FIN 48 on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are primarily exposed to market risks associated with fluctuations in foreign currency exchange rates.

Foreign currency risk

Businesses generally conduct transactions in their local currency which is also known as their functional currency. Additionally, balances that are denominated in a currency other than the entity's reporting currency must be adjusted to reflect changes in foreign exchange rates during the reporting period.

As we operate internationally, a substantial portion of our business is also conducted in currencies other than the U.S. dollar. Accordingly, our results are affected, and may be affected in the future, by exchange rate

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fluctuations of the U.S. dollar relative to the Canadian dollar, to various European currencies, and, to a lesser extent, other foreign currencies. Revenues and expenses generated in foreign currencies are translated at exchange rates during the month in which the transaction occurs. We cannot predict the effect of foreign exchange rate fluctuations in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our results of operations. Moreover, in any given quarter, exchange rates can impact revenue adversely.

We have net monetary asset and liability balances in foreign currencies other than the U.S. Dollar, including primarily the Euro (EUR), the Pound Sterling (GBP), the Canadian Dollar (CDN), and the Swiss Franc (CHF). Our cash and cash equivalents are primarily held in U.S. Dollars. We do not currently use financial instruments to hedge operating expenses in foreign currencies.

The following tables provide a sensitivity analysis on our exposure to changes in foreign exchange rates. For foreign currencies where we engage in material transactions, the following table quantifies the absolute impact that a 10% increase/decrease against the U.S. dollar would have had on our total revenues, operating expenses, and net income for the year ended June 30, 2006. This analysis is presented in both functional and transactional currency. Functional currency represents the currency of measurement for each of an entity's domestic and foreign operations. Transactional currency represents the currency in which the underlying transactions take place. The impact of changes in foreign exchange rates for those foreign currencies not presented in these tables is not material.

	10% Change in		
	Functional Currency		
	(in thousands)		
	Total	Operating	Net
	Revenue	Expenses	Income
Euro	\$ 17,371	\$ 16,205	\$ 1,166
British Pound	4,384	3,007	1,377
Canadian Dollar	2,855	6,837	3,982
Swiss Franc	4,053	2,290	1,763

	10% Change in		
	Transactional Currency		
	(in thousands)		
	Total	Operating	Net
	Revenue	Expenses	Income
Euro	\$ 11,479	\$ 10,113	\$ 1,366
British Pound	3,764	2,636	1,128
Canadian Dollar	2,848	6,856	4,008
Swiss Franc	2,586	1,476	1,110

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Open Text Corporation

We have audited management's assessment, included under Part II, Item 9A of this Form 10-K, that Open Text Corporation maintained effective internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Open Text Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Open Text Corporation maintained effective internal control over financial reporting as of June 30, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Open Text Corporation maintained, in all material respects, effective internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Open Text Corporation as of June 30, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended June 30, 2006, and our report dated September 5, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Toronto, Canada

September 5, 2006

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Open Text Corporation

We have audited the accompanying consolidated balance sheets of Open Text Corporation (and subsidiaries) as of June 30, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Open Text Corporation as of June 30, 2006 and 2005, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, the Company changed its method of accounting for share-based payments.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Open Text Corporation's internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated September 5, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Toronto, Canada

September 5, 2006

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(In thousands of U.S. Dollars, except share data)

	June 30,	
	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 107,354	\$ 79,898
Accounts receivable trade, net of allowance for doubtful accounts of \$2,736 as of June 30, 2006 and \$3,125 as at June 30, 2005 (note 8)	75,016	81,936
Income taxes recoverable	11,924	11,350
Prepaid expenses and other current assets	8,520	8,438
Deferred tax assets (note 15)	28,724	10,275
Total current assets	231,538	191,897
Investments in marketable securities (note 3)	21,025	
Capital assets (note 4)	41,262	36,070
Goodwill (note 5)	235,523	243,091
Acquired intangible assets (note 6)	102,326	127,981
Deferred tax assets (note 15)	37,185	36,499
Other assets (note 7)	2,234	5,398
	\$ 671,093	\$ 640,936
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 10)	\$ 62,535	\$ 80,468
Current portion of long-term debt (note 9)	405	
Deferred revenues	74,687	72,373
Deferred tax liabilities (note 15)	12,183	10,128
Total current liabilities	149,810	162,969
Long-term liabilities:		
Accrued liabilities (note 10)	21,121	25,579
Long-term debt (note 9)	12,963	
Deferred revenues	3,534	2,957
Deferred tax liabilities (note 15)	19,490	29,245
Total long-term liabilities	57,108	57,781
Minority interest	5,804	4,431
Shareholders' equity:		
Share capital (note 11)		
48,935,042 and 48,136,932 Common Shares issued and outstanding at June 30, 2006 and June 30, 2005, respectively; Authorized Common Shares: unlimited	414,475	406,580
Commitment to issue shares		813
Additional paid-in capital	28,367	22,341
Accumulated other comprehensive income	42,654	18,124
Accumulated deficit	(27,125)	(32,103)
Total shareholders' equity	458,371	415,755

\$ 671,093 \$ 640,936

Commitments and Contingencies (note 13)

Subsequent Events (note 22)

See accompanying notes to consolidated financial statements

Table of Contents**OPEN TEXT CORPORATION****CONSOLIDATED STATEMENTS OF INCOME****(In thousands of U.S. Dollars, except share and per share data)**

	2006	Year ended June 30, 2005	2004
Revenues:			
License	\$ 122,520	\$ 136,522	\$ 121,642
Customer support	189,417	179,178	108,812
Service	97,625	99,128	60,604
Total revenues	409,562	414,828	291,058
Cost of revenues:			
License	11,196	11,540	10,784
Customer support	31,482	33,086	20,299
Service	79,610	81,367	47,319
Amortization of acquired technology intangible assets	18,900	16,175	7,211
Total cost of revenues	141,188	142,168	85,613
	268,374	272,660	205,445
Operating expenses:			
Research and development	59,184	65,139	43,616
Sales and marketing	104,419	114,553	87,362
General and administrative	45,336		