IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

IN RE: COREL CORPORATION INC. SECURITIES LITIGATION	:	Civil Action No: 00-CV-1257
THIS DOCUMENT RELATES TO: All Actions	:	

CONSOLIDATED AND AMENDED CLASS ACTION COMPLAINT

Lead Plaintiffs, Fred Spagnola, Michael Perron and David Chavez, ("Plaintiffs" or "Lead Plaintiffs") individually and on behalf of all persons similarly situated, allege upon personal knowledge as to themselves and their own acts, and as to all other matters upon the investigation made by and through their counsel, which included, among other things, a review of Securities and Exchange Commission ("SEC") filings, news reports, press releases, transcripts and other publicly available information, as follows:

JURISDICTION AND VENUE

1. This action arises under Section 10(b) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), 15 U.S.C. § 78j(b) and Rule 10b-5, 17 C.F.R. § 240.10b-5, promulgated thereunder by the Securities and Exchange Commission ("SEC") and Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a).

2. This Court has jurisdiction over the action pursuant to Section 27 of the Exchange Act, 15 U.S.C. §78aa, and 28 U.S.C. §1331 and 1337.

3. Venue is proper in this judicial district pursuant to Section 27 of the Exchange Act and 28 U.S.C. § 1391(b). Defendant Corel Corporation ("Corel" or the "Company") is a Canadian corporation headquartered in Ottawa, Ontario, Canada. Corel's stock is traded on the NASDAQ

national exchange under the ticker CORL. Corel has a substantial business presence, and many of the acts complained of, including the dissemination to the investing public of materially false and misleading information occurred in this District. Plaintiff Fred Spagnola resides in this District, and purchased his shares of Corel stock in this District, as do many members of the plaintiff Class.

4. In connection with the acts and conduct alleged in this Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including the United States mails, telephone communications, and the facilities of the national securities exchanges.

NATURE OF ACTION

5. This class action is brought on behalf of the Class as defined below, to recover damages caused to plaintiff and the Class by defendants' violations of the federal securities laws.

6. During the Class Period, defendants engaged in a plan, scheme and course of conduct which was designed to, and did:

a. deceive the investing public, including Plaintiffs and other members of the Class, concerning the financial condition and performance of the Company, including, among other things, the nature and extent of the actual sales made, and expenses incurred by the Company during the Class Period;

b. artificially inflate the market price of Corel's common stock during the Class Period; and

c. cause Plaintiffs and other members of the Class to purchase Corel common stock at inflated prices.

7. In furtherance of this plan and course of conduct, defendants issued or caused to be issued during the Class Period a series of false and misleading public statements and took the actions alleged herein, which operated as a fraud and deceit upon the market for the Company's stock, Plaintiffs

and the other members of the Class.

THE PARTIES

8. Pursuant to the Court's Order dated June 28, 2000, and entered July 5, 2000, the following persons were appointed to serve as Lead Plaintiffs in this action: Fred Spagnola, Michael Perron and David Chavez. Each of the Lead Plaintiffs made purchases of Corel common stock at inflated prices during the Class Period and suffered losses as a result of defendants' conduct.

9. Defendant Corel is a Canadian corporation headquartered at 1600 Carling Avenue, Ottowa, Ontario, Canada. Corel has two U.S. subsidiaries – Corel, Inc. and Corel Corporation, (U.S.A.) located at 567 Timpangos Parkway, Orem, Utah 84507. Corel also has a one third ownership interest in Linux*Force* Inc. of Philadelphia, Pennsylvania, which it acquired during the Class Period. Corel's stock is traded on the NASDAQ national exchange under the ticker CORL, and also on the Toronto Stock Exchange. Corel describes itself as a company which develops, manufactures, licenses, sells and supports a wide range of software products including graphics, business productivity, consumer and video applications as well as network computers. According to Corel's 1998 Form 10-K, Corel products are available for users of most PC's, Apple Macintosh, UNIX based and LINUX based systems.

10. Defendant Dr. Michael C.J. Cowpland, is and at all relevant times has been the Chairman of the Board, President and Chief Executive Officer of the Company. Defendant Cowpland signed the Company's Form 10-K's filed with the Securities and Exchange Commission ("SEC") during the Class Period.

11. Defendant Cowpland, by reason of his shareholdings, direct and substantial management position and responsibilities during the relevant time of this Complaint, was a "controlling person" of Corel within the meaning of Section 20 of the Exchange Act, and had the power and

influence to control Corel, and exercised such control to cause the Company to engage in the violations of law and improper practices complained of herein. Cowpland, because of his position as an officer and director of Corel, had access to material adverse non-public information about the Company's business, operations, financial condition and performance alleged herein.

12. As an officer and director of a publicly-held company, Cowpland had a duty at all relevant times to disseminate timely, accurate, truthful and complete information with respect to the Company's business, operations, financial condition, performance and future prospects, so that, among other things, the market price of the Company's stock would be based on truthful, accurate and complete information. As hereinafter alleged, Cowpland violated this duty and obligation during the Class Period.

CLASS ACTION ALLEGATIONS

13. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23, on behalf of a class (the "Class") consisting of all U.S. citizens who purchased Corel common stock on the NASDAQ national exchange at any time from December 7, 1999, through and including March 20, 2000 (the "Class Period"), and who were damaged thereby. Excluded from the Class are defendants, their subsidiaries and affiliates, and members of defendant Cowpland's immediate family.

14. During the Class Period, Plaintiffs and the other members of the Class purchased shares of Corel common stock in the open market without knowledge of the misconduct of defendants alleged in this Complaint, and suffered damages as a result. Plaintiffs and each member of the Class relied, directly or indirectly, upon defendants' public reports, press releases, and other public statements, as more fully described below, and/or upon the integrity of the market for Corel common stock.

15. The Class is so numerous that joinder of all Class members is impracticable. While the exact number of Class members is unknown to Plaintiffs at this time and can only be ascertained from

the records maintained by Corel or its agents, as of February 21, 2000, the Company estimated that the number of beneficial holders of Corel common shares approximated 110,000 holders.

16. Shares of Corel common stock have been actively traded during the Class Period in an open and efficient market on the National Association of Securities Dealers Automatic Quotation system ("NASDAQ").

17. Plaintiffs' claims are typical of the claims of the members of the Class, since all members of the Class purchased shares of Corel common stock during the Class Period and sustained damages arising out of defendants' wrongful conduct in violation of federal securities laws as alleged herein.

18. Plaintiffs will fairly and adequately protect the interests of the members of the Class. Plaintiffs have retained counsel competent and experienced in prosecuting class actions and securities litigation, and plaintiffs have no interests antagonistic to, or in conflict with, the other members of the Class.

19. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Joinder of all Class members is impracticable. The likelihood of individual Class members prosecuting separate individual claims is remote. Since the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation makes it impracticable for Class members individually to seek redress for the wrongs done to them. No unusual difficulties are likely to be encountered in the management of this class action.

20. There are questions of law and fact common to the members of the Class which predominate over any questions affecting any individual members. These common questions of law and fact include, among others:

a. whether defendants violated Sections 10(b) and 20(a) of the Exchange Act and

SEC Rule 10-b-5;

b. whether defendants participated in and/or conspired in the common course of conduct complained of herein;

c. whether documents, releases, reports, and statements disseminated to the investing public during the Class Period omitted to state or misrepresented material facts about the financial results of Corel;

d. whether defendants acted with knowledge or with reckless disregard for the truth in misrepresenting and/or omitting to state material facts about the business and financial results of Corel;

e. whether, during the Class Period, the market price of Corel common stock was artificially inflated due to the material misrepresentations and/or non-disclosures complained of herein; and,

f. whether the members of the Class have sustained damages, and, if so, the proper measure thereof.

21. Plaintiffs will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine, in that:

a. defendants made public misrepresentations during the Class Period, and/or omitted facts necessary to make the statements made not misleading, as alleged in this Complaint;

b. the misrepresentations were material;

c. shares of Corel common stock were traded on a developed national stock exchange, namely the NASDAQ, which is an efficient market within the meaning of that term in the context used in this Complaint;

d. Corel filed periodic public reports with the SEC and the NASD;

e. Corel communicated with investors via established market communication mechanisms including through regular disseminations of press releases on major newswire services such as BusinessWire, and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services;

f. Corel was followed by securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms and were publicly available and in the public marketplace;

g. The market price of Corel stock during the Class Period reflected the current information from the Company from the publicly available sources described above; and

h. Plaintiffs and the other members of the Class purchased their Corel shares during the Class Period without knowledge of the falsity of the misrepresentations and omissions complained of herein.

22. Based upon the foregoing, Plaintiffs and the other members of the Class are entitled to a presumption of reliance upon the integrity of the market. Similarly, Plaintiffs and the other members of the Class are also entitled to a presumption of reliance with respect to the misrepresentations and omissions of material fact alleged in this Complaint.

BACKGROUND INFORMATION

23. Corel has a history of portraying itself as being a part of whatever the latest Wall Street craze happens to be. For example, in November 1999, just prior to the start of the Class Period, Corel announced that it now had become a "Linux" company, hoping to capitalize on the hype surrounding Linux, the open source, free software which is being touted as a competitor to Microsoft's Windows operating system. Corel's stock price, which had been trading in a range of \$6 to \$8 per share in early November, began to rise on heavy volume. It closed at a high of \$13.4375 on November 17, 1999 on extremely heavy volume of 14.1 million shares.

24. Corel is also a company with a history of missteps, and which has often surprised and disappointed investors with its financial results. In 1997, Corel hired Michael O'Reilly as its CFO, who after 21 years at KPMG, was charged with returning Corel to profitability. In the second quarter of 1999, Corel announced that it had finally turned the corner of profitability.

PRE-CLASS PERIOD EVENTS

25. On June 18, 1999, Corel issued a press release announcing preliminary results for its 1999 second quarter. In the press release, Corel stated that it expected to report revenue for its 1999 Second Quarter of \$70.5 million and earnings of \$.14 per share. According to O'Reilly, Corel decided to issue the press release in advance of its formal earnings announcement "in recognition of what appears to be recent speculative trading in our shares both on the NASDAQ and on the TSE."

26. On June 21, 1999, Corel issued a press release formally announcing earnings, and a return to profitability in its second quarter of 1999. Corel reported that revenues increased to \$70.5 million compared to \$63 million in the second quarter of fiscal 1998. Net profit was \$9.2 million or \$.14 per share compared to a net loss of \$8.3 million in the same period last year. The release quoted O'Reilly who stated that "[e]arnings for this quarter are the best that Corel has reported

since the third quarter of 1995. Notwithstanding the first quarter shortfall, when both versions of our flagship products were at the end of their cycles, Q2 is an important sign that Corel will continue to benefit from the significant restructuring changes it implemented throughout 1998." The release also quoted Michael Cowpland, Corel's CEO, who stated, "we remain confident that we can deliver on our plan of profitable growth for the balance of the year and beyond." "Both WordPerfect Office 2000 and CorelDRAW 9 launched to many positive reviews and have already won a number of awards nationwide."

27. On September 20, 1999, Corel issued a press release announcing financial results for the 1999 third quarter. Again, Corel reported "strong results." Specifically, revenues for the quarter ending August 31, 1999 were \$71.3 million, compared to \$71.1 million for the same quarter in 1998. Net profit was \$.26 per share versus a net loss of \$.13 per share in 1998. According to the press release, the "total earnings per share of \$.26 for the quarter is the highest ever reported in the company's history." Thus, Corel announced that it had been successful in more than doubling its net profits by greatly reducing costs. The release quoted O'Reilly who stated that Corel's financial troubles were in the past, and expressed optimism for the 1999 fourth quarter. O'Reilly stated:

> I believe that this quarter fully delivers on the promise we made almost two years ago to return Corel to a position of financial strength and sustained profitability. I believe that with the turn around now behind us, Corel is in a solid position for growth, and our outlook for Q4 remains positive.

Cowpland was also quoted in the release stating:

> We've had a very strong quarter. We are pleased with the acceptance of our recent releases of CorelDRAW and WordPerfect and look forward to continued profitability with the development of these products for different segments of the market.

28. On November 16, 1999, CBS MarketWatch reported on Corel's "launch" of its Linux operating system. The article noted that Corel's shares rose more than 11% after the launch at more than seven times average daily volume.

29. On November 29, 1999, Corel issued a press release announcing O'Reilly was interviewed on RadioWallStreet. The press release noted that on Monday, November 29, 1999, Corel was the most active NASDAQ stock with 58 million shares traded. On that date, Corel stock closed at $20.875 per share.

30. On November 30, 1999 Corel's 1999 fourth quarter, and fiscal year ended. During the "quiet period" between the November 30, 1999 close of the fourth quarter, and Corel's announcement of its financial results, Corel issued public statements commenting on current business conditions, and defendant Cowpland repeatedly appeared in public both touting Corel's future prospects, and stating that Corel's recently completed fourth quarter was "on track." Each of the statements was made, as Corel representatives later admitted, after Corel received reports from its distributors that they saw a "significant slowdown" in sales of Corel's core Windows products in the fourth quarter of 1999. Additionally, as Corel's CFO, O'Reilly admitted on January 18, 2000, the "sharp increase" in expenses which Corel initially claimed contributed to its poor results in the fourth quarter, was anticipated and was not really a surprise. Thus, each of the statements detailed below was either false and/or misleading made with either knowledge, or with reckless disregard for the sales shortfall, which combined with the higher fourth quarter expenses, would cause Corel to report a loss in the fourth quarter instead of the $.12 per share profit expected by analysts.

DEFENDANTS' FALSE AND MISLEADING
REPRESENTATIONS DURING THE CLASS PERIOD

31. On December 7, 1999, Corel announced that its head of sales and marketing abruptly resigned. According to the press release, Jim Orban, executive vice president, sales and marketing had resigned effective December 31, 1999. Cowpland was quoted stating, "Jim has been instrumental in charting a strong sales course, a return to profitability and has been a leader in bringing together Corel's sales and marketing teams." The release further noted that although Corel is currently in "quiet period" pending the release of fourth quarter earnings, the company wanted to state "that Mr. Orban's departure is not related to any performance or financial issues." Orban was quoted stating, "I am pleased to have had the opportunity to play a significant role at Corel and I am confident the Company will continue to chart a positive course in the months and years ahead." On December 7, 1999, Corel stock closed at $22.6875 per share on volume of 12.8 million shares.

32. The statements made by Cowpland and Orban detailed in ¶ 31, were false and misleading. It was misleading, one week after the November 30, 1999, end of the quarter, to tout Corel's "strong sales course," and "return to profitability," and to stress that Orban's "resignation" was not related to "financial issues," and express confidence that "the Company will continue to chart a positive course in the months and years ahead." Defendants knew, or were reckless in not knowing prior to the end of the quarter, through reports they received from three major distributors that there had been a "significant slowdown" in sales of Corel's core Windows products in the quarter. Additionally, Corel employed a sophisticated system for monitoring actual retail sales of its products at least on a monthly basis, which would have reflected the slowdown. The sales shortfall, combined with the known and expected sharp increase in expenses in the fourth quarter, would result in Corel's posting a loss for the quarter instead of the $.12 per share profit analysts

were expecting.

33. On December 9, 1999, again during the "quiet period" between the November 30, 1999, close of the quarter, and the announcement of Corel's financial results, Cowpland appeared twice on CNNFn Streetsweep. The first interview aired at 3:59 EST. Cowpland appeared with three other guests and mainly hyped Linux, stating that the reason for Corel's recent stock price increase was that "we have a huge Linux story." In the second interview, aired at 4:46 EST, Cowpland directed his comments not only to Linux, but to Corel's current quarter Windows business as well. The following question and answer transpired.

> Q: So your company has actually been losing money in the last several years; just got profitable in the last few months. I mean, is this Linux operating system enough to mean that your stock is worth what it is trading at?
>
> A: Well, we've been able to get profitable in Windows on its own in the last two quarters, quite highly profitable, 17 million in revenue in the last quarter, and that's a great launch pad to get into Linux because we're providing the bridge between the 400 or 500 million Windows users out there and the rapidly emerging Linux system.

Later in the interview Cowpland responded as follows.

> Q: Michael, would you be willing to give us at least a directional idea of when you would be cash flow positive and/or real earnings?
>
> A: Well, we're in a quiet period right now, so I can't go into the financial details, but I can say that we shipped out a significant amount of products in the quarter we just finished, and the numbers will be pretty impressive with the Linux momentum.
>
> Q: So no details, but basically positive direction?
>
> A: Oh, very much so, yes. We see a huge surge forward in Linux for us.

34. The statements made by Cowpland detailed in ¶ 33 above were false and misleading. It was blatantly misleading, nine days <u>after</u> the November 30, 1999, end of the quarter, to state "we've been able to get profitable in Windows on its own in the last two quarters, quite highly

profitable," and "the numbers will be pretty impressive with the Linux momentum" when <u>prior</u> to the end of the quarter, Corel received reports from three major distributors that they saw a "significant slowdown" in sales of Corel's core Windows products. Since Corel granted its distributors a right of return, and maintained reserves for those reserves, Corel management was aware that many of the products shipped to those distributors were likely to be returned. Additionally, Corel employed a sophisticated system for monitoring actual retail sales of its products at least on a monthly basis, which would have reflected the slowdown. Corel management knew, or was reckless in not knowing, that the sales slowdown, combined with the expected sharp increase in expenses in the fourth quarter, would likely result in Corel posting a loss for the quarter, not the substantial profit analysts were predicting.

35. On December 9, 1999, and article appeared in *The Ottawa Citizen* which described Cowpland as "the relentless promoter" of his company.

36. Corel's stock closed on December 9, 1999, at $39.25 per share on enormously heavy volume of over 41.8 million shares.

37. On December 10, 1999, an article appeared in the *Computer Dealer News*, discussing Corel's return to profitability and its Linux prospects. Cowpland was interviewed for the article, and he continued to hype the Company, stating that he is bullish on Corel's prospects for growth. He further commented on Corel's recent "surge" in stock price stating he didn't feel it was unwarranted. He stated:

> one month ago (our share price) was at half that. What's happening is people are seeing our potential and Linux is creating a growth opportunity, but our Windows business generated $17 million in profit last quarter on $70 million in sales. This (Linux) is going to help our Windows business because its bringing attention to our applications. It's giving people the opportunity to see what we have.

He further commented on margins, stating, "[W]e've found the channels to be very receptive. We expect margins to be similar to our current ones, we sell a lot of software in the $50 to $100 range right now. They will sell in a similar range to our Windows applications." On December 10, 1999, Corel stock closed at $30.50 per share, again on heavy volume of over 47 million shares.

38. The statements made by Cowpland detailed in ¶ 38 above were false and misleading. Specifically, it was misleading for Cowpland to "hype" Corel's future Linux prospects, yet omit to state that Corel had reversed the trend of the prior two quarters, and sales of Corel's core Windows products had slowed to the point that Corel would post an operating loss for the 1999 fourth quarter. Moreover, Cowpland's comments about margins "similar to our current ones" implied that margins were being maintained similar to those reported in Corel's 1999 third quarter. At the time he made these statements, Cowpland knew, or was reckless in not knowing that the "significant slowdown" in sales of Corel's core Windows products reported by Corels distributors prior to the close of the quarter and by Corel's own system for monitoring retail sales, combined with the expected sharp increase in expenses in the fourth quarter, would materially and negatively impact Corel's profitability and margins for the fourth quarter and beyond.

39. On Saturday, December 11, 1999, an article appeared in *The National Post* which reported that Steven Houck, Cowpland's former limo driver in Palm Beach, Florida was appointed Corel's executive vice-president of sales. The article also noted that another Corel employee, Ross Cammalleri was appointed Executive Vice President of marketing. The article noted that not only did Jim Orban, executive vice president sales and marketing suddenly resign after the end of the quarter, but Kevin McNeil, Corel's vice-president of OEM sales, suddenly departed as well.

40. On December 12, 1999, an article appeared in the *Sunday Business Group* which described the current stock market "mania" over Linux related companies. The article noted Corel's

772% share price rise, and also that Cowpland had sold some of his personal shares of Corel "just a few weeks ago."

41. On December 13, 1999, Cowpland appeared on CNBC. Despite the "quiet period" between the November 30, 1999 close of the quarter and the announcement of earnings, Cowpland hyped Corel's prospects as a "Linux play." Cowpland stated:

> the Linux-related products are beginning to surge in sales. We can't announce the results we just finished in Q4, because we're in a quiet period, but they'll be much stronger than the million you mentioned.

Later in the interview Cowpland was asked about the analyst consensus number of $.12 per share profit for Corel's current quarter. While stopping just short of actually stating that Corel expected to meet the number, Cowpland implied that would be the case by his carefully worded response. Following is the Q and A:

> Q: Because you need one more piece of the puzzle for fiscal 99, and that's the fourth quarter, which you can't comment on because of the quiet period. But if you hit the consensus number of 12 cents, that would be 24 cents for the year. And then for fiscal 2000, estimates are only at 26 cents right now, which as you know, at $34 a share, that would be a pretty high valuation.
>
> A: Right, based upon the pure Windows, then this would be true. It's a solid business but nonetheless, not one that's going to attract that kind of value. But we look on that as a really good launching platform in the sense that we have 50 million Windows users worldwide, and we can bring those applications over to Linux as Linux takes off.

42. The statements detailed in ¶ 41 above were false and misleading. Specifically, it was misleading for Cowpland to "guide" the market about the Linux contribution to the quarter's revenues, yet omit to state that Corel had reversed the trend of the prior two quarters, and sales of Corel's core Windows products had slowed to the point that Corel would post a loss for the 1999 fourth quarter. Moreover, it was blatantly misleading to talk about the core Windows business as "a

solid business" in the context of discussing analyst's specific earnings projections of $.12 per share for the quarter, when Cowpland knew or was reckless in not knowing that the "significant slowdown" in sales of Corel's core Windows products reported by Corel's distributors prior to the close of the quarter, and its own system for monitoring actual retail sales, combined with the known and <u>expected</u> sharp increase in expenses in the fourth quarter, would cause Corel to report a loss for the quarter.

43. In the CNBC interview, Cowpland imparted a false negative "spin" on the insider trading charges pending against him by stating that those charges had been resolved.

> Q: Mr. Cowpland, let me ask you about the shareholder lawsuit against you, you've been charged with some insider trading. This goes back to a transaction you had back in 1997 in August. Right before the stock tumbled, you sold between $13 million, $20 million worth of shares. Does that affect, should it affect how people perceive your company and the future of it?
>
> A: I don't think so at all. It's a matter of going back two years when the shares were sold at about $6 US. And the allegations were totally unfounded, and my lawyers were totally successful in defending against those.

In reality, the charges are still pending and are expected to be tried in 2000.

44. On December 13, 1999, Corel stock closed at $33.0625 per share on volume of over 18.5 million shares.

45. On December 14, 1999, *The Ottawa Citizen* reported on Cowpland's CNBC interview. The article was titled, "Corel boss says Linux to create 50% of sales: Share price jumps sharply again after Cowpland interview." The article noted that Cowpland's remarks which "appeared to bend the rules on 'quiet periods' prior to earnings announcements, helped lift Corel stock while many other Linux-inflated issues were falling." The article further reported that "Mr. Cowpland said recent Corel sales and profits reflect revenues from products aimed at the Windows

operating system, a market that is solid but does not explain the high Corel stock price." On December 14, 1999, Corel stock closed at $29.125 per share on volume of 9.8 million shares.

46. On December 15, 1999, Corel issued a press release reporting that its CFO, Michael O'Reilly, abruptly resigned. The press release noted that Cowpland "reluctantly accepted a notice of resignation from Michael O'Reilly." O'Reilly said, "it is highly gratifying to me to be able to leave Corel on such solid footing with new opportunities ahead." According to the release, "Mr. O'Reilly was integral to the restructuring of Corel and the return to profitability in fiscal Q4 1998 and the recent back-to-back profitable quarters in fiscal Q2 and Q3 that exceeded analysts estimates." Corel spokesman Stuart McCarthy assured the market that O'Reilly's departure was not because of problems with the upcoming numbers." On that date, Corel stock traded down sharply, closing at $22.6875 per share with over 20 million shares traded.

47. It was false and misleading for Corel to discuss in the press release Corel's "solid footing," its "return to profitability" and the recent "back- to-back profitable quarters" without disclosing the "significant slowdown" in sales of Corel's core Windows products, combined with the sharp increase in expenses in the fourth quarter, which would cause Corel to report a loss for the quarter.

48. On December 16, 1999, Cowpland was quoted in an M2 Communications press release stating "Michael O'Reilly has done an outstanding job at managing Corel's finances and overseeing the streamlining of the Company that put us back on a profitable track." The release repeated the above quote by O'Reilly. On December 16, 1999, Corel stock closed at $23.875 per share on volume of over 13.6 million shares.

49. It was false and misleading for Cowpland to discuss Corel's return to "a profitable track" in the press release without disclosing that Corel was about to report a "significant

slowdown" in sales of Corel's core Windows products, combined with the sharp increase in expenses in the fourth quarter, which would cause Corel to report a loss for the quarter.

50. On December 17, 1999, an article appeared in *The Financial Post* discussing two very negative analyst reports on Corel. One of the analysts, Ralph Garcia of Scotia Capital Markets, "chastised" Cowpland for making predictions about potential Linux business during the current quiet period.

51. On Saturday, December 18, 1999, an article appeared on *Redherring.com* which was extremely critical of Corel business practices, and Cowpland's shameless hyping of Corel as a Linux company. The article stated the following:

> There's a common joke circulating around technology investment circles these days that suggests that companies with lagging stock prices should slap "Linux" on their company names.
>
> That's exactly what Michael Cowpland, founder and CEO of Corel has done. Any investor who has one eye on the wallet should be very suspicious of a CEO who follows a strategy that's the butt of water-cooler jokes.
>
> As the high-technology equivalent of a ch-ch-changin' David Bowie, Mr. Cowpland's latest rock-and-roll alter ego is a Linux revolutionary reinventing his second-tier Canadian manufacturer of desktop applications as a Microsoft slayer.
>
> Mr. Cowpland's pursuit of instant gratification by capitalizing on the Linux hype is as transparent as the open-source code he purports to worship. For example, at Bazaar [a conference focusing on Linux development and technology held as part of the ebusiness expo in New York City], in a display of salesmanship that would have made Securities and Exchange Commission Chairman Arthur Levitt shiver in his suit, Mr. Cowpland showed a slide that compared Corel's stock valuation with other Linux companies such as VA Linux Systems and Red Hat, and implied that because Corel is now a Linux company, it actually deserves the better than 20 to 1 price-to-sales valuations that VA Linux and Red Hat are receiving. Corel currently trades at a market cap of $1.53 billion and has a price-to-sales ratio in the range of 5 to 1.

> CEO's are not supposed to be lecturing at developer conferences about the valuation of their shares. That's the Wall Street equivalent of President Bill Clinton conducting meetings on sexual mores at a meeting of the Federal Reserve Board.

The article further states:

> The current scenario is reminiscent of Mr. Cowpland's last alter ego experiment, in which he hijacked the buzzwords of the mid-1990s, "Java" and "thin client," in an attempt to market Wordperfect, the office suite he bought from Novell in 1996, as a Java-based product for server-based computing.
>
> At least one financial analyst who covers Corel sees the Linux ploy as specious, at best. Michel DeLavergne, an analyst with BLC Securities in Montreal, doesn't see the Linux strategy contributing to either top-line or bottom-line growth for the company, at least in the short term.
>
> "It's a hypefest, big time," says Mr. DeLavergne. "He's playing that Linux card to position himself with the Linux stocks. I'm not anticipating any growth from Corel over the next few months."
>
> Its last strategy shift, a misguided effort to compete with Microsoft applications on alternative platforms with catch buzzwords, resulted in years of losses and a plummeting stock price. After a return to profitability, the CFO who engineered the recovery has resigned, and the CEO has launched a new strategy that focuses on -- you guessed it – competing with Microsoft applications on alternative platforms with catchy buzzwords.
>
> To boot, Mr. Cowpland pitches himself as a valuation expert on his company's stock at a developer conference. He is already being investigated on insider trading charges by the Ontario Securities Commission.

The article had little impact on Corel's stock price. On December 20, 1999, the first trading day after the article appeaered, Corel stock closed at $22.3125 per share on volume of 5.8 million shares.

52. On December 22, 1999, Corel shocked the market by announcing that it expects to report a loss for the quarter. Cowpland tried to down-play the news stating, "While we are

disappointed by the preliminary results for the quarter, we are pleased that we are still able to deliver a profitable year." According to the release, Corel was surprised by the revenue shortfall. O'Reilly stated:

> Detailed analysis of channel sell-through necessitated taking substantial reserves on a number of product lines. This resulted in a reduction of reportable revenue to the indicated level. We also appear to have incurred higher than anticipated costs in some of the Company's operations and activities during the quarter.

53. These statements set forth in ¶ 52 above were false and misleading because, as O'Reilly later <u>admitted</u> on January 18, 2000, Corel received reports from its distributors <u>prior</u> to the close of the quarter reporting a "significant slowdown" in sales of Corel's core Windows products. Additionally, O'Reilly <u>admitted</u> on January 18 that the sharp increase in expenses in the fourth quarter of 1999 were anticipated, and were not a surprise. Additionally, Corel employed a sophisticated system for monitoring actual retail sales of its products, or "sell-through," at least on a monthly basis, which would have reflected the sales shortfall.

54. On December 22, 1999, an article appeared in *The Canadian Press* which stated that Corel "jolted" investors Wednesday with an announcement that it expected to show a loss of at least $8.5 million on declining revenue of $61 million for the quarter. Corel blamed the loss on slack sales of Windows-based software such as WordPerfect and CorelDraw graphics program. Corel said it was "surprised" by the drop in sales. Corel's stock lost 27% on the news, closing down $7.40 to $19.70. Cowpland was quoted in the article, and he tried to place the emphasis not on the bad results, but on the potential of Linux. He stated, "This setback in the Windows market will encourage us even further to push hard into the enormous potential of Linux. In many respects we continue to be the company with the most Linux technology" he added noting the stock market values the company at less than five percent as much as Linux-sector leader Red Hat. However, a

Merrill Lynch Canada analyst disagreed. "This is still early to declare Linux on the desktop a success. If they don't continue to provide a decent Windows solution, that would be the big warning sign." The article concluded by noting that until recently, Cowpland had indicated that the quarter was on track to meet earnings expectations.

55. On December 22, 1999, *Interactive Investor* published an article titled "Corel Falls on 4Q Warning, CEO Beats Linux Drum." The report noted that "[o]n a conference call, Cowpland blamed the company's problems on its "old" business of making Windows software. Investors should view Corel as a Linux stock, he said. 'Valuewise we're at 5 percent of Red Hat. In many respects we're the company with the most Linux technology.'" The article noted Corel's "long history of disappointing Wall Street," and referred to a recent interview given to Reuters by Duncan Stewart, fund manager at Terra Capital, in which Mr. Stewart commented prior to the announcement, "[t]his is a company which has a long and checkered history, and yeah, hopefully this time it's going to be different." The article then states "Wrong," and continues to describe the latest earnings miss. The article further stated that:

> Cowpland and the company also seemed to be reaching for reasons for the profit warning on the conference call. Cowpland said there could be a slowdown because of Year 2000 concerns. He said PC and software sales have been slowing and that may have affected the quarter. When pressed for specifics on slowing PC sales and Windows software, Cowpland couldn't offer details. He said the Y2K consumer slowdown may be "emotional factors" and couldn't "really tell."

56. The article also noted that "in recent weeks, Cowpland emphasized that the fourth quarter was on track . . . Just days ago, a Red Herring reporter noted, Cowpland told an audience that the quarter looked fine." "Cowpland thinks Linux hype will carry Corel stock forward again. But technology, whether good or not, means nothing in the face of sloppy management." The article concludes stating:

> Two strong quarters in a row nearly had me thinking Corel might be out of trouble. Today's warning now resurrects questions about Cowpland's grasp of daily operations. Not only did the company fail to realize its sales channel was grossly overstuffed until more than two weeks after the quarter ended – as recently as last week, Cowpland said the quarter looked to be on-track – but costs also rose faster than anticipated.

57. On information and belief, based on information contained in the news stories described in paragraphs 56 and 62, Cowpland appeared at other times during the Class Period and stated that the quarter was "on track." Each time that Cowpland made such a statement, it was false and misleading and was made well after Corel received internal reports of actual retail sales, as well as reports from its distributors of a "significant slowdown" in sales of Corel's core Windows products. This sales shortfall, combined with high fourth quarter expenses, caused Corel to report a loss in the fourth quarter instead of the $.12 per share profit expected by analysts. Plaintiffs believe that discovery will identify more specifically each circumstance defendant Cowpland made these false and/or misleading statements.

58. On December 22, 1999, Corel stock closed at $13.1875 per share with over 19 million shares traded, down from the previous day's close of $18.5625 per share.

59. On January 18, 2000, Corel issued a press release formally announcing its fourth quarter and full year 1999 financial results, and thereafter held a conference call to discuss those results. In the press release, Corel reported that revenues for quarter were $60.9 million compared to $67.2 million for Q4 of '98. Net profit was $4.6 million for the quarter or $.07 per share, compared to a profit of $6.8 million or $.10 per share in the same period in the prior year. The results were consistent with Corel's December 22, 1999 pre-announcement but for certain tax credits that allowed Corel to show a profit. Notwithstanding, Corel posted a loss from operations for the quarter. The press release stated that Corel's results were negatively affected by sales below

anticipated levels, primarily in the North American retail channel for Corel's productivity applications and higher than expected expenses. O'Reilly was quoted in the press release stating "Overall, Corel has made significant progress in restoring its financial base while at the same time, maintaining the momentum of its flagship CorelDRAW and WordPerfect brands. It is now in a strategic position to move forward aggressively to leverage those strengths into the Linux marketplace." The remainder of the press release touted Corel's Linux success and prospects for the future. Corel's stock price remained relatively unchanged, closing at $20 per share, down from the prior day's close of $20.6875.

60. The statements made by O'Reilly, that Corel was "maintaining the momentum of its flagship CorelDRAW and WordPerfect brands" and was now in a strategic position to move forward aggressively to leverage those strengths into the Linux marketplace" were false and misleading. At the time of the earnings release, Corel was almost seven weeks into its then current quarter. By that time, defendants knew, or were reckless in not knowing that sales of Corel's core Windows based products had deteriorated to a level whereby the revenues generated thereby would be insufficient to sustain the Company as a going concern beyond the next six months. Moreover, sales of Corel's Linux products had actually decreased in the current quarter from the levels reported in the prior quarter, and would not be a significant enough contribution to revenues to satisfy Corel's cash needs.

61. Cowpland, O'Reilly, Burney, Corel's executive vice president of engineering, and Houk, Corel's executive vice president of sales participated on a conference call following the press release. O'Reilly spoke first noting that operation results were negatively affected by sales below expected levels primarily in the North American retail channel and sales of the company's productivity applications declined from the previous quarter. The cost of goods was higher than

anticipated at 30% of sales reflecting the impact of fixed costs of lower volume and inventory adjustments totaling $3.3 million. Advertising costs were $4 million above Q3 due to costs for print materials and trade shows. SG&A costs were $2 million higher than Q3 due to travel, warehousing, etc. Cowpland spoke next. He first talked about the positive attributes of Corel's business. Then he talked about the Q4 results, attributing the poor results to a slowdown in Windows sales, and that sales and marketing costs increased while sales stayed the same from the prior period.

62. On the conference call, Corel executives made significant admissions. First, in response to a question about whether the increase in expenses in Corel's fourth quarter was a surprise, O'Reilly admitted that it was not. According to O'Reilly, the higher costs in the fourth quarter were anticipated. Overall, costs were $48 million, "not far off from where we expected." Corel upped its print and advertising budget substantially in Q4. The expenses were not a surprise overall, but impacted Q4. Next, O'Reilly admitted that Corel became aware of a sales slowdown when it received reports from three major distributors near the end of the quarter that they saw a "significant slowdown." Thus, Corel representatives' statements about the strength of the quarter based on shipments to those distributors in light of the information about the "significant slowdown" in the distributors' sales (which would necessitate either write-downs or returns), as well as information Corel received through its monitoring of actual retail sales were either consciously or recklessly false and misleading.

63. On January 19, 2000, an article appeared on *Individualinvestor.com* by Senior Analyst Garrett Bekker titled "Corel Beats Expectations – Or Did It?" The article noted that "in early December, CEO Michael Cowpland let it 'slip' that it is on track to meet its quarterly number with revenue of approximately $77 million. Shortly thereafter the company pre-announced that it would miss these numbers by a long shot, with revenue falling to about $61 million from $71.3

million in the previous quarter, and earnings per share dropping to a loss of $.14 from a gain of $.26." "Specifically, the lower revenue was due to a $13.4 million decline in sales of its productivity applications (WordPerfect Office) to $25.5 million versus $38.9 million last quarter. Graphics applications (CorelDRAW, PHOTO-PAINT) were flat at $38.9 million."

64. On January 25, 2000, Corel issued a press release which continued to tout Corel's Linux prospects. The release, titled "Corel Linux OS a Hit Around the World," quoted Al Gillen, research manager, server infrastructure software for International Data Corporation, who stated "Corel's US $3.2 million in Linux operating system sales during the short time it was on the market in 1999 is a stunning beginning for the company in the fast-growing Linux market. This level of revenue places the company in the first tier of Linux client operating environment vendors." According to defendant Cowpland, "This is a tremendous validation of our efforts to transform Corel into a major Linux player. There should be no doubt in anybody's mind that Corel has what it takes to deliver a high-quality Linux OS and Linux applications to the PC market." Corel's stock price closed at $20.375 on that date.

65. On February 7, 2000, Corel issued a press release announcing that Corel had entered into a "definitive merger agreement" with Inprise/Boland. According to the release, the combined organization "will be a Linux powerhouse, offering a single source for end-to-end solutions featuring a range of productivity applications, development tools, and professional services for all major platforms." Under the terms of the deal, Inprise/Borland shareholders were to receive .747 shares of Corel stock for each Inprise/Boland share. The merger would require Corel to issue approximately 53.7 million shares, and based Corel's closing price as of February 4, 2000, the deal was valued at $2.44 billion U.S. Corel's stock price closed down, at $19.3125.

66. On that date, which was just three weeks before the end of Corel's first fiscal

quarter, which closed on February 29, 2000, defendant Cowpland participated in a conference call with analysts to discuss the merger. Notwithstanding the detailed description in Corel's Form S-4 filed with the SEC on April 4, 2000, which describes the merger process as long and involved, beginning on December 21, 1999, and continuing into 2000 with a series of meetings with the Boards of the respective companies and financial advisors, and concluding with a "due diligence" review from January 25 through February 5, 2000, Cowpland described the process as follows. "We have come together very rapidly. We have been working together for a long time, but I think we seriously started talking less than three days." On the call, Cowpland touted Corel's current Linux business as well as its potential future business. He noted that that one of the key points for the merger "is the fact that Corel has the leading position in the Desktop Linux OS" as well as the leading position in the applications area. Cowpland also touted Corel's current Linux business, stating, "If you look at our shipments last quarter we were at the same level already as Red Hat. So we kind of developed the desktop OS as the market from scratch and we see that accelerating as people see the benefits." In response to a question about Linux revenues, Cowpland responded as follows.

> Well at this point we announce $3.1 million in revenues from the next last quarter, which was very close to the amount Red Hat was actually shipping in products. . . . So we have already got substantial revenue and we have – Office Suite which is due to come out next quarter, so we have some very good ramping up. . .

67. Cowpland noted the $3.1 million in Linux revenues Corel purportedly earned in its 1999 fourth quarter several times on the conference call, each time noting that Corel's Linux revenues were approximately the same as Red Hat, a leading Linux software company. In response to another question concerning Linux revenue, he responded as follows.

> Well, we are looking at just the starting point and in fact, we have just

> created the desktop market because people said it didn't exist until recently. But we did do, as I mentioned, three million in the Q4, which has already put us at the level of Red Hat, which is the leader on the server.
>
> So we are looking at kind of exponential growth.

68. Cowpland then asked whether there were any kind of projections for Linux for the coming year. Dale Fuller, Inprise/Borland's interim President and CEO replied "IDC said the market itself will grow at more than 25 percent." Cowpland then responded as follows.

> I think we are looking around the twenty-plus revenues as our target for Corel in the coming year.
>
> * * *
>
> Twenty million in Linux revenues.
>
> * * *
>
> That's during the current fiscal year. Because we are already off to a good run rate, as I mentioned, with the introduction of the O/S and we have our full other suite coming out next quarter, so – even though its kind of hard to project because we are in the exponential take-off point, certainly its reasonable to do the 20 to 30 million this year and –

Cowpland repeated the projection of $20 to $30 million stating that with $3 million of Linux products shipped in the fourth quarter of fiscal 1999 and the shipping of new Linux suites in fiscal 2000, "we have lots of reasons for optimistic growth there."

69. The statements detailed in paragraphs 65 through 68 above were false and misleading. On the date the statements were made, Corel was already 9 weeks into its current quarter, and as Corel later revealed, sales of Corel's Linux products had decreased substantially from the prior quarter. The known slowdown in Linux sales from the prior quarter caused certain statements on the call to be misleading. Specifically, Cowpland continually repeated that Corel earned over $3 million in Linux revenue in the prior quarter without stating that sales in the current

quarter were substantially below the prior quarter. Cowpland also talked about the level of Linux shipments in the prior quarter, and that the market was "accelerating." He stated "we have already got substantial revenue . . . so we have some very good ramping-up," and that "we did . . . three million in the Q4" "[s]o we are looking at kind of exponential growth." He also predicted Linux sales of $20 to $30 million for fiscal 2000 and stated "we are already off to a good run rate," and we have lots of reasons for optimistic growth there,"

70. Cowpland was also asked on the conference call whether Corel was moving away from Windows towards Linux, to which he responded, "No. We see Windows as being the cash cow that is funding all of the development and we see Windows continuing to be strong in the decade ahead." Likewise, Cowpland was asked when, because Corel posted a profit in the fourth quarter of 1999 and Inprise posted a loss, the merged entity would be expected to post a profit. Cowpland replied, "Well, we are planning to keep the operating profitability continuing going forward . . ." He further stated. "the nice thing is we are not having to gamble anything because we are both strong in the Windows business and Linux' incremental growth . . ." In response to another question, he stated "we have 50 million current [Windows] users of our product world wide and growth wise we have been sustaining around a 10-15 per cent growth rate in our products."

71. The statements made by Cowpland detailed in paragraph 70 were false and misleading. It was blatantly misleading to describe Corel's Windows business as a "cash cow" when Corel's Windows business had deteriorated to the point that it could not sustain Corel as a going concern beyond the next six months. Moreover, as later reports would reveal, Corel desperately needed Inprise/Borland's substantial cash reserves, which was likely a driving force behind the merger. Additionally, it was misleading to make statements about Corel's "profitability continuing going forward" and sustained 10 to 15 % growth rates in Corel's "strong" Windows

business and Linux' incremental growth, when revenues from Corel's Windows products continued to decrease rapidly, and revenues from sales of Linux products were substantially below the prior quarter.

72. On February 7, 2000, an article appeared on *CBS MarketWatch* by Mike Tarsala reporting on the merger. Cowpland was quoted in the article stating "Linux is the hottest technology anywhere right now. . . People want to take advantage of Linux as soon as they can. We can facilitate doing that." Cowpland also took the opportunity to tout Corel's core Window's based business. The article stated "[s]till, Corel expects software that works with Microsoft's operating systems to be a big part of the combined company's revenue over the next decade. Cowpland says he hopes to continue to fund Linux development with the profits from Microsoft related sales." The article further quoted Cowpland who stated "We see Windows as being strong in the decade ahead. We also see Linux moving up to become an equal competitor."

73. The statements attributable to Cowpland detailed in paragraph 72 were false and misleading. It was misleading to describe Corel's Windows business as "strong" and refer to its profitability when Corel's Windows business continued to decrease rapidly, and had deteriorated to the point that it could not sustain Corel as a going concern beyond the next six months.

74. On February 8, 2000, an article appeared on *ZD Net Interactive Investor* by Larry Dignan about the merger. The article noted that "Corel has hopped on so many technology bandwagons its silly. And Linux is just the latest." In an obvious reference to Corel's recent financial disappointments, the article stated:

> Corel raised the expectations bar and then couldn't deliver. Through it all, Corel beat the Linux drum to juice shares.
>
> The Linux theme continued on a media conference call. Corel CEO Michael Cowpland reiterated that Corel's Linux revenue was $3 million in

> the fourth quarter, more than half of Red Hat's . . . December quarter sales. And, Cowpland boasted, Corel Linux was only on the market a few weeks. Cowpland then went on to say Linux would bring in about $20 million in sales for 2000 and then just two breaths later upped the estimate to $30 million.
>
> The guidance is typical of Cowpland – overpromise and underdeliver. "That's the problem with Corel," said Bill Schaff, fund manager for the Berger Information Technology Fund. "Corel moved on Linux not because it is a well-run company."

75. On March 8, 2000, eight days after the close of Corel's fiscal 2000 first quarter, Corel issued a characteristically upbeat press release titled "Corel is Delivering on its Promises." The release noted that the company's Annual and Special Meeting of Shareholders, to be held on that date, "will give company officials and shareholders a chance to celebrate its accomplishments over the past year and look forward to another exciting year for the company." The release further stated, "Corel is delivering on the promises it made to shareholders at last year's meeting . . ." The press release quoted defendants Cowpland who stated,

> We've had an exciting year at Corel! The successful releases of our flagship brands – WordPerfect Office 2000 and CorelDRAW – combined with our groundbreaking work on Linux has earned us a leadership position in the industry. We've earned our leadership position by delivering exciting new technology to the market. Through our strategic partnerships and ongoing commitment to compatible, cross-platform solutions, we will provide our customers with the bridge that links them to the Web and the next generation of computing.

The release concluded by reciting a list of Corel's purported accomplishments for the year.

76. On March 8, 2000, defendant Cowpland, along with Corel Chief Technology Officer Derek Burney and Dale Fuller of Inprise addressed the special meeting of Corel shareholders. Cowpland was asked whether Corel had a back-up plan if the deal was not consummated. He replied,

> Well, basically, both companies are surging forward with their own plans

> and each one has a great story – put them together, and you have got an even bigger story. But each on their own is very good anyway. It is not okay, it is kind of a fail-safe situation. Because we are dealing with open Web standards anyway, everything fits together. We really don't see any need to have a back-up plan per se because it is good either way. It is good if it goes ahead – if it doesn't go ahead, it is good; if it goes ahead, it is fantastic.

Later, Cowpland was asked whether Corel would have to take steps to solidify its cash position, should the deal not go through. Cowpland responded, "No. Actually, our cash flow has been very good and we are very comfortable independently with our cash position. Finally, Cowpland was asked to comment on reports that sales – especially on the Windows side, were going to be flat for the first quarter. Cowpland that "we know the Windows market is relatively saturated but stable. We think, as mentioned, it is a very good platform for growth into the open Web . . ." Corel's stock price closed at $14.125 on March 8, up from the prior day's close of $13.1875.

77. The statements made by Cowpland detailed in paragraph 76 were false and misleading. It was misleading to state that Corel was "surging forward" with or without the merger, that Corel's cash flow was "very good," and the Windows market is "stable," when the Windows business had decreased rapidly to the point that it could not sustain Corel as a going concern beyond the next six months, and revenues from sales of Linux products were substantially below the prior quarter. Moreover, as Corel's later reports would admit, Corel's cash position was not "very good," and Corel desperately needed Inprise/Borland's substantial cash reserves, which was likely a driving force behind the merger.

78. On March 9, 2000, an article appeared on *CBS MarketWatch* by Mike Tarsala which reported that executives from both Corel and Inprise/Boland told investors that the planned merger of the two companies should go through as planned, despite the challenge leveled by Inprise director Robert Coates, who resigned from the Inprise board specifically to challenge the deal.

THE TRUTH BEGINS TO EMERGE

79. On March 20, 2000, after the market closed, Corel issued a press release announcing its first quarter financial results. In sharp contrast to defendants' earlier statements about Corel's "strong Windows business" which was its "cash cow," Corel reported revenues of only $44.1 million and a loss of $12.4 million, or $.19 per share for the quarter versus analysts expectations of a loss of $.16 per share. Significantly, the loss included a $.10 per share gain from the sale of Corel's equity interest in GraphOn, Inc. Thus, Corel's losses from operations were substantially beyond expectations, and but for the extraordinary gain, would have been so reflected in Corel's quarterly numbers. The true state of Corel's core Windows business also began to be revealed. The release quoted Mitch Desrochers, vice president of finance and controller who admitted that, "Based on the prospects for revenue and the cost structure in place at Corel, we expect that results for the next two quarters will mirror those experienced in this quarter."

80. Notwithstanding Corel's poor results, defendant Cowpland continued his positive "spin" and actually touted Corel's then current cash position.

> With an improved cash position since Q4 1999, and profitable investments, Corel is positioned to fund future growth. Over the past two years, we've taken steps to leverage open technologies for the Internet. The early results have been promising, and we are continuing to take advantage of these fast growing market segments.

81. The statements by Cowpland detailed in paragraph 79 were false and misleading. As Corel subsequently revealed, Corel's cash position was not sufficient to fund future growth. In fact, Corel was entirely dependant on the cash generated by the merger with Inprise/Borland to fund any future growth. And, but for Inprise's cash reserves, Corel's current lines of business could not support the Company as a going concern unless Corel took drastic cost reducing measures.

82. Despite the fact that on prior occasions Cowpland repeatedly "hyped" the $3.2

million in Linux revenue from the 1999 fourth quarter, and Corel's "surging" Linux sales experiencing "exponential growth," Corel's press release was completely silent about Linux revenue in the current quarter. Later, in a conference call announcing the results, Corel admitted that revenue from Linux products had decreased substantially to $2.3 million from the $3.2 million reported in the prior quarter.

83. Despite the disappointing results, on the same day, March 20, 2000, Corel issued a press release announcing that Wordperfect Office 2000 for Linux is now shipping. The release noted that "Response to Corel's Linux products has been very strong."

84. Stock market analysts were quick to report on Corel's latest results. On March 20, 2000, an article appeared on *CBS MarketWatch* by Deborah Adamson titled "Corel First-Quarter Losses Widen." The article reported on Corel's announcement of a loss of $12.4 million, or $.19 per share for the quarter versus analysts expectations of a loss of $.16 per share, and noted that the loss included the $.10 per share extraordinary gain from the sale of Corel's interest in GraphOn. The author noted Corel's comment that it expects results for the next two quarters to mirror that of the first quarter, as prospects for revenue and costs remain the same.

85. On March 21, 2000, another article appeared on *CBS MarketWatch* by Mike Tarsala which reported that Corel's wider than expected loss could possibly threaten Corel's purchase of Inprise. It also noted that "[r]evenue from Linux software, on which Corel is betting a large chunk of its future, fell to $2.3 million from $3.2 million in the fourth quarter." Corel blamed its poor results on slow retail graphics software sales.

86. On March 21, 2000, an article appeared on *ZD Net Interactive Investor* by Larry Dignan titled "Corel tries out new buzzwords after latest debacle." The article reads as follows.

> Corel Corp. . . . is amazing – for all the wrong reasons. The company

fumbled yet another quarter, but still manages to string investors along with its liberal use of buzzwords.

Despite Corel's latest miscue, the company will find plenty of supporters even as shares fall. Why? Corel introduced a few more hot tech buxxwords – WAP, ASP, B2B and XML – last night on its earnings conference call. The theory goes like this: The more hot technologies CEO Michael Cowpland talks about, the greater the chance that some sucker will buy Corel shares.

The latest evidence is Corel's first quarter. The company missed estimates (is that news anymore?), and said its next two quarters would mirror the quarter just ended. For the record, Corel had a first quarter operating loss of 19 cents a share, missing the First Call consensus by three pennies.

As for the outlook, expect similar losses in the next two quarters. It's a "transitional period" for Corel.

Unfortunately, analysts were hoping for a second quarter profit of 2 cents a share. In the third quarter, First Call consensus called for a loss of 6 cents a share.

Of course, financial projections never mattered much to Corel anyway (one analyst bothered publishing estimates). Just that new financial chief Mitch Desrochers took a shot at a projection is a bold step.

Perhaps sensing this Linux thing has played itself out on Wall Street, Cowpland felt obligated to talk about the next big thing for Corel. Nevermind that the most recent big thing hasn't paid off yet.

Enter the new buzzwords: WAP, ASP, B2B and XML. Corel management said the company is cooking up hot technologies for the day when Microsoft . . . won't rule the computing world. Think Linux spreadsheets on wireless phones.

Corel said it will enable wireless applications using the wireless application protocol (WAP) standard, cook up Extensible Markup Language (XML) versions of its software, and play in the application service provider (ASP) and business-to-business (B2B) markets. Most of these world-beating products are still in development.

Like clockwork, investors hit the message boards talking about Corel's WAP strategy and other big plans.

> Will Corel deliver on any of those new high-tech initiatives? Doubtful. However, investors should note Corel's use of buzzwords. Corel is a great barometer for finding out what's hot in the tech sector.
>
> *   *   *
>
> Just in case the WAP thing doesn't work out, Corel still managed to work the Linux angle.
>
> What was most interesting about Corel's first quarter earnings release is what the company didn't say. Corel didn't mention Linux sales. That's quite a change considering Corel couldn't stop babbling about Linux when shares were gaining along with VA Linux . . . and Red Hat.
>
> It didn't take long to figure out why Corel didn't mention Linux sales. On a conference call, officials said Corel Linux, a version of the free open-source operating system, brought in $2.3 million in sales in the first quarter. Since Linux sales were down from $3.2 million in the fourth quarter, Corel figured it wouldn't mention that item in its press release.
>
> *   *   *
>
> Cowpland said investors should focus on the allegedly bright Linux-, WAP-, ASP-, B2B-, XML-based future of the company.

87. On March 21, 2000, the first trading day after Corel released its results, Corel's stock price closed at $10.375, down sharply from the prior day's close of $13.375.

88. Notwithstanding Corel's significant and growing financial problems, defendant Cowpland continued to express unwavering optimism. On March 30, 2000, Corel issued a press release titled "Corel's Linux Market Share Grows!" According to the release, Corel is "pleased to announce that recent market information from PC Data indicates that Corel's market share in the Linux US retail market has increased significantly since November of 1999." The release quoted defendant Cowpland who stated "We are thrilled with the level of support we're receiving from our customers."

89. On or about April 14, 2000, former Inprise/Borland director Robert Coates, through his company Management Insights, Inc., filed a lawsuit in the Delaware Court of Chancery against,

among others, Inprise and Corel. The lawsuit challenged the proposed merger between the two companies claiming the deal was unfair to Inprise shareholders, and that the transaction was induced in part by misrepresentations made by Corel to Inprise about Corel's current and expected financial results. The complaint alleged specifically that "Significantly, Corel's release discussing its first quarter results did not even mention the decline in Linux sales. It was only in a conference call that Corel was forced to admit that there had been a significant decline in Linux sales in the first quarter. Corel's sudden silence on Linux revenues when it had previously been shouting its Linux results from the rooftops is understandable. Corel's poor Linux performance has undermined the primary rationale for the merger with Inprise." Corel's stock price closed at \$6.8348 on that day, down from the prior day's close of \$7.9375.

90. On April 17, 2000, an article appeared on *CBS MarketWatch* by Mike Tarsala reporting on Corel's appointment of John Blaine as its new CFO. The article noted that the previous CFO, Michael O'Reilly, had led Corel "through back-to-back profitable quarters in May and August, just before poor earnings sent shares on a long tumble from a high of 44 ½ in December to its current closing price of less than 7."

91. On April 19, 2000, Corel filed its quarterly report for the period ending February 29, 2000, on Form 10-Q with the SEC, which confirmed the financial results Corel announced publicly on March 20, 2000. The Form 10-Q repeated the disclosure that "Corel expects that results for the next two quarters will be similar to those experienced in the first quarter of fiscal 2000." Significantly, the Form 10-Q disclosed for the first time that,

> If the proposed merger with Inprise Corporation does not occur, other sources of financing are not secured and/or Corel's operating results do not improve, a cash deficiency may occur within the next three months. Corel is currently examining its cost structure and exploring other sources of financing, but it is not clear whether changes to the cost structure or

> obtaining other sources of financing are feasible or would be sufficient to avoid the cash deficiency.

<u>POST CLASS PERIOD EVENTS</u>

92. After the disclosure, Corel's financial fortunes continued to spiral downward. On April 21, 2000, an article appeared on *The Canadian Press* which reported that Corel could run out of money within 90 days if the Inprise merger is not completed and if Corel is unable to improve its financial health. The article attributed the source of the information to the Company's recently filed Form 10-Q. According to an analyst who asked not to be named, "They've been in a week financial position for some time. It's not a terribly healthy situation." Corel chief technology officer Derek Burney tried to downplay the situation stating that the cash-crunch warning was a "minor paragraph" in the documents which contained "nothing new." According to the article, Burney told the *National Post* that "[I]t's in there because there's a chance it could happen. If you add them all together, the odds of that happening are pretty low." Burney further commented on the pending merger with Inprise stating that he anticipated the deal would go through.

93. On May 3, 2000, an article appeared on the *Reuters* new service in which several financial analysts questioned whether the Corel/Inprise merger would be completed due to Corel's precarious financial condition. The article noted that Inprise had asked its financial advisors to take a "second look" at the deal to determine if it is fair to Inprise shareholders. The article noted that former Inprise/Borland director Robert Coates, who is chief executive of investment company Management Insights, Inc., filed a lawsuit against Corel and Inprise/Borland executives claiming the deal was induced by Corel "through misrepresentations as to its current and expected financial results." The article noted that "Characteristically, Corel chief executive Michael Cowpland is confident the deal will go through."

94. On May 16, 2000, Corel issued a press release announcing that the merger agreement between Corel and Inprise/Borland had been terminated by mutual agreement without payment of any termination fees. The press release tried to put a positive spin on Corel's financial situation noting that "With the termination of the merger agreement, Corel is now able to fully evaluate offers of alternative financing it has recently received." Corel also announced a massive cost reduction program which it expected to trim $40 million in costs on an annualized basis.

95. On May 16, 2000, an article appeared on *TheStreet.com* by staff reporter Thomas Lepri titled "Merger Collapse Could Cause Corel to Crash and Burn." The article discussed how Corel's stock went from $6 ¾ on November 1, 1999 (just prior to the Class Period), to $39 ¼ in early December. According to the author, "Some appearances on *CNBC* by controversial CEO Michael Cowpland and rumors of a possible takeover by Red Hat . . . were all it took to light a fire under the stock." The author further noted that "Fueled by revelations that the company was facing an imminent cash crisis, Corel's stock has lost close to 70% of its value since then, thus destroying the value of the merger for Inprise." The author quoted money managers who speculated on Corel's future.

> "It probably goes out of business, says one money manager who does not want his name used, and who doesn't hold a position in Corel. I don't know what else is here. They were acquiring cash in a stock deal. And they need that cash to operate."
>
> "They've been controversial forever," says Jeff Matthews of Ram Partners, who doesn't own or short the stock. "They've had insider trading allegations. They've had these 180 degree changes in what they are. One minute they're a spreadsheet company or selling office suites against Microsoft . . ., and the next minute they're a Linux play. I don't know, maybe they're going to be a Pokemon play."
>
> They have no credibility," he continues. "They don't have a real business model, as far as I can tell. I don't think anybody outside the message boards ever took that company seriously. And I never understood why

> Inprise was interested in a deal with them."

The article continued, stating,

> Corel's conference call Tuesday didn't do much to help the company's credibility. Executives refused to answer nearly every question posed to them: exactly what form Corel's search for "alternative financing" would take; how it planned to achieve its cost-savings goal of $40 million; how much cash it held on its balance sheet (the company would say only that it had "cash in the bank"); or what its guidance would be for second-quarter sales of Linux products. Asked if Corel remained on track for $20 million to $30 million in Linux sales, Cowpland merely responded, "We still have a good shot at doing that."

The article concluded with a quote from Matthews.

> "Linux was a bubble within a larger bubble. And Corel, for one brief shining moment, managed to spin themselves as a Linux play even as they were under a cloud because of insider trading allegations. It wasn't a clean story even when it was a hot story."

96. On May 16, 2000, an article appeared on *Upside Today* by Sam Williams titled "No Eulogies For Corel-Inprise." The article quoted Duncan Stewart, technology analyst for Toronto-based Tera Capital. "The deal was dead as soon as Corel's market share started dropping. Once Inprise investors got wind of how bad the deal was, it was only a matter of time." It also quoted Rob Enderle, an analyst with the Giga Information Group who stated, "The biggest thing Corel needed out of it was the cash to keep things running until the Linux market matured. Inprise had a cash reserve that could have kept Corel running, giving the company time to bring revenues from its Linux business up to speed. Now, without the merger, the company has only a few months' cash to go on." Corel's stock price closed at $6 on May 16, 2000.

97. On May 18, 2000, an article appeared on *The Canadian Press* which stated that "Corel Corp., denied a critical pool of money by it s aborted bid for a California software company, is in imminent peril of running out of case, the *Globe and Mail* reported today." The article quoted

David Wright, technology analyst at BMO Nesbitt Burns, who stated "If they don't do anything, my model suggests they're out of cash." According to Jean Orr, a technology analyst at BlueStone Capital Partners in New York, "I think they'll be able to raise what they need for short term needs. But, I think Corel will probably have to take some onerous conditions." The article also quoted Duncan Stewart, a portfolio manager at Tera Capital, who said "Corel's case likely is 'pretty close to zero. It is very serious. Running out of cash is a real problem.'"

98. On May 18, 2000, an article appeared on *CBS MarketWatch* by Mike Tarsala. The article noted that Corel's stock price sank 23 percent that day "as the embattled company may be days from running out of cash, according to Canada's Globe and Mail newspaper." Corel spokesperson Catherine Hughes denied the allegation stating "This is not the case: Our cash position is stable, and we are continuing to meet our financial obligations. We are in the process of evaluating a number of financing offers we've received. As soon as we can disclose the information, we will." The article also quoted defendant Cowpland who stated, "Much has changed since the merger was agreed to more than three months ago." "The market moves very rapidly. There are many factors at play." The article noted that Cowpland's repeated statement during a company conference call echoed what the company issued in a written press release, but that Cowpland "wouldn't elaborate on what specific changes were at the heart of the deal's end." On May 18, 2000, Corel's stock price closed at $4.1875, down from the prior day's close of $5.375.

99. Defendant Cowpland remained steadfast in his optimism. On May 20, 2000, Cowpland issued a statement reported by *the Canadian Press* that Corel had garnered more than enough cash to keep its operations going full force. According to Cowpland, "We've got lots of cash financing coming in, in addition to what we've got." "And we have plenty of cash to run the company." Cowpland added that he remains optimistic about the company's prospects, and that

"Everything's going great."

100. On May 25, 2000, just five days after the close of Corel's second fiscal quarter, Corel issued a press release announcing that after 10 years at Corel, Sandra Gibson, executive vice president, corporate services had resigned. Likewise, Eric Smith, vice president, general counsel and secretary, also resigned.

101. On the same day, May 25, 2000, Corel issued another press release announcing a "bought deal" with Canaccord Capital Corporation to issue and sell common shares of Corel for gross proceeds of $15 million Canadian. Cowpland was quoted in the press release stating "Contrary to much of the recent media speculation, Corel is and continues to be, an active and dynamic member of the local high-tech community and the industry as a whole." "Having secured this source of financing, we can now turn our full attention towards executing our short and long-term strategy, which will include an aggressive cost-savings plan."

102. On May 26, 2000, an article appeared on *ZD Net Interactive Investor* by Tiffany Kary reporting on Corel's cash infusion and the resignation of two more senior executives. The article noted that Corel was in a "quiet period" pending disclosure of its most recent, second quarter financial results, and that Corel was expected to post a loss of $.32 per share for the quarter.

103. On May 26, 2000, an article appeared on Tech Web titled "Corel Tribulations Continue With Departures." The article quoted several analysts who commented on Corel's current and expected future business. The article noted that "[a]nalysts said Corel, Ottawa, is having a hard time sorting out two very different product sets and business models. On one hand, it has its Windows applications, including its flagship graphics products and WordPerfect, once the preeminent word processor in the world." According to John Dunkle, president of Workgroup Technologies, Portsmouth, NH,

> Corel is not the Corel of old, with the graphic design programs high-end illustration packages. They're trying to move their business base, and have split the base between Linux, which is internally known as their hot prospect for the future, and trying to accommodate that with all the other stuff they own and acquired. In my opinion, there's a degree of disbelief internally and outside the company that they can serve the two markets equally well.

104. On May 26, 2000, an article appeared on *Forbes.com* by David Einstein which began "If Michael Cowpland had been the captain of the Titanic, he would have looked out on the horizon and said, 'Ice. Terrific. Now we can keep the beer cold.'" The article continued to describe the collapse of the Inprise merger, the financing "lifeline" extended by Canaccord Capital, and the precipitous drop in Corel's stock over the past several months. The article stated, "Cowpland, who has been through a lot of ups and downs with Corel over the years, reacted to the situation with trademark optimism, telling reporters, "We're in great shape." The author notes that the biggest obstacle to Corel's success may be Cowpland, "a man who excels at the vision thing but isn't much on follow-through." According to Jean W. Orr of Bluestone Capital Partners, "He's very good at identifying new trends and looking at how to apply new technology to the market, but that's also his weakness because he tends to look at what's new rather than at the current business." According to Orr, "It would be good if they had someone to sort of counterbalance Mike Cowpland." "That way he could do his long-range planning and dreaming, and someone else could do what's needed to run the company day to day." Corel's stock price closed at $3.0625 that day, down from the prior day's close of $3.8438.

105. On June 8, 2000, an article appeared on *CNET News.com* by Wylie Wong and Sam Ames reporting that Corel just cut 320 jobs, or 21% of its workforce. According to Corel, the lay-offs are the first step in its $40 million cost reduction plan.

106. On June 15, 2000, for the third straight quarter, Corel issued a press release

announcing that its results for the quarter would be much worse than indicated at the time the Company announced its prior quarter's results. Instead of mirroring results for the first quarter as previously announced (loss from operations of $18.7 million on revenues of $44.1 million), Corel expected to post a loss of $22 to $24 million on revenues of $37 to $38 million, as compared to revenues of $70.5 million and income of $9.7 million in the same period in the prior year.

107. On June 15, 2000, an article appeared on *The Canadian Press* titled "Corel Loss Advisory Points to Deeper Cuts; Cowpland Future Questioned." The article quoted Alfie Morgan, professor of business administration at the University of Windsor who stated, "It's time for Dr. Cowpland to step down and let new thinking and new strategies come to the fore."

108. On June 20, 2000, Corel issued a press release announcing its financial results for its 2000 second quarter. Corel announced revenues of $36.6 million and a loss of $23.6 million, or $.36 per share.

109. On June 20, 2000, an article appeared on *CBSMarketWatch* by Chris Kraeuter reporting that Corel had only $9.9 million in cash on its balance sheet at the end of its second quarter. According to the article, "Corel also conceded that unless it gets more money, its 'ability to continue would be in substantial doubt.'" The company said it expects results for the third quarter to be similar to those for the second quarter and it "needs to secure additional equity or debt financing immediately and to effect a significant cost reduction plan in the near term."

110. On July 12, 2000, an article appeared on TheStreet.com by Derek Moscato titled "Corel Corralled by Bad News." The article reported as follows.

> In stark contrast to these good times, however, comes the tumultuous story of Corel. The Ottawa-based software firm – developer of CorelDraw, Corel WordPerfect and well-regarded networking server software for the Linux operating platform – has watched its fortunes go from good to bad to ugly in

> the span of less than six months. Management turmoil, slumping sales for its core products and dwindling cash reserves plague the company.
>
> For mere observers, the company's never-ending run of antics and snafus makes for great entertainment. Chief executive Michael Cowpland, ever the showman, has kept the Canadian media busy with his head-office theatrics. (When the executive vice president of sales left the firm in January, Cowpland promoted his former limo driver to fill the spot.) But the Corel saga is anything but amusing for the company's investors – particularly those stubborn retail buyers who refuse to leave the stock alone.
>
> Corel stock, currently trading at 3 9/16, is down miserably from a 52-week high of 44 ½. The Corel tragicomedy of the year 2000 has been marked by key management departures, the botched acquisition of Web tool developer *Inprise* and two disappointing quarters.
>
> Management ineptitude has scared analysts and institutional investors straight. Corel-invested mutal funds such as the MAS Small Cap Valuefund and the MAS Mid Cap Valuefund have unloaded their holdings in the company during the past six months.
>
> Despite favorable reviews for its Linux offerings and loyal pockets of support for its core products, too much has gone wrong for Corel in too short a time frame. As it stands, there's not an awful lot to be optimistic about.

SCIENTER

111. The facts pled constitute strong circumstantial evidence of conscious misbehavior or recklessness. The facts show that:

- Corel had a sophisticated tracking system in place whereby Corel monitored actual retail sales of its products at least on a monthly basis. Thus defendants either knew, or were reckless in not knowing what the actual retail sales were at the time they made false and misleading statements during the Class Period;

- Corel received reports from three of its main distributors before the end of the fourth quarter of 1999 reporting a "significant slowdown" in sales of Corel products;

- Corel admitted that the increase in expenses which Corel claims to have contributed to the fourth quarter 1999's poor financial results was not unexpected;

- Cowpland, as Corel's president, CEO was in a position to know the above facts.

112. There is no doubt that Corel management knew about a material slowdown in sales of Corel's core Windows products before the end of the 1999 fourth quarter. Thus, it was either intentional, or at the least reckless for Cowpland, as Corel's CEO, to be appearing in public during the quiet period and guiding the market that the quarter was "on track." Additionally, since Corel constantly monitored the retail sales of its products, defendants either knew, or were reckless in not knowing at the time they made statements about the strength of their "cash cow" Windows products, that the slowdown in Windows products continued into the first and second quarters of fiscal 2000. Additionally, they knew, or were reckless in not knowing at the time they made statements about the exponential growth in sales of their Linux products, that sales of those items decreased substantially in the first quarter of 2000 from the prior quarter.

113. On December 7, 1999, after the close of the quarter, and while defendants were representing that the quarter was "on track," but before Corel reported its financial results, Jim Orban, the head of sales and marketing abruptly "resigned." At about the same time, Kevin McNeil, head of OEM sales, "suddenly departed." Shortly thereafter, on December 15, 1999, while defendants were representing that the quarter was "on track," but before Corel reported its financial results, Corel's CFO O'Reilly abruptly resigned. The abrupt departures of three key senior managers directly involved with the products which experienced the slowdown shortly after the close of the quarter is highly suspicious and suggests that discussion about the sales slowdown was occurring at the highest levels at Corel.

114. The facts also show Corel and Cowpland had both motive and opportunity to commit fraud.

- Cowpland is Corel's largest shareholder. As of March 17, 2000, Cowpland was the beneficial owner of 5,150,558 Corel shares, and held options exercisable for 1,383,076 shares of stock. Cowpland's total holdings represented 9.7% of the total shares outstanding. Cowpland's personal net worth depended in large part, on the value of Corel's stock.

- Corel needed the Inprise/Borland merger to succeed to gain Inprise/Borland's cash reserves. The market for Corel's core Windows products was mature, saturated and drying up rapidly, and was inadequate to sustain Corel as a going concern. Thus, Corel desperately needed the cash from the merger to sustain its operations until the Linux market eventually took-off. The deal was structured as a stock-for-stock exchange, whereby Inprise shareholders would receive .747 shares of Corel for each share of Inprise stock with no adjustments (or collar). Thus, the consideration paid to Inprise, and hence the ultimate success of the deal, was primarily dependent on the market price of Corel stock.

- Corel generated a significant amount of cash from the exercise of employee stock options. According to Corel's Form 10-K filed with the SEC on February 28, 2000, "Corel has used funds generated from operations and from the exercise of employee stock options to fund its operations, to repay a portion of its Novell obligations and to acquire capital equipment, products and technology." The exercise of employee and other stock options provided cash of approximately $12.8 million in fiscal 1999, as opposed to $0.2 million in fiscal 1998, and $6.2 million in fiscal 1997. Thus, defendants had incentive to inflate the price of Corel stock to induce holders to exercise options thereby generating case for Corel.

115. Each defendant knew of, or recklessly disregarded, the adverse, non-public information about Corel business and operations, as well as its finances, markets, and present and future business prospects as alleged herein. Cowpland's executive and directorial positions provided him with access to all internal corporate documents and information (including the Company's operating plans, forecasts, and reports of actual operations compared thereto), and allowed him to have conversations and meetings with other corporate officers and employees. In addition, before defendant Cowpland made the statements he made, as alleged herein, he was obligated to assure himself of the accuracy of those statements and that there were no existing facts

which made his statements materially misleading, particularly since the fourth quarter already had ended when defendants made the false and misleading statements concerning the fourth quarter's profitability.

116. Defendants' credibility and the veracity of statements they made during the Class Period have been repeatedly questioned by analysts, members of the financial press, and a former director of Inprise/Borland who alleged that the merger was induced, in substantial part, by Corel's misrepresentations about its current results, and expected future prospects.

COUNT I

VIOLATION OF SECTION 10 (b) OF THE EXCHANGE ACT AND RULE 10b-5 AGAINST ALL DEFENDANTS

117. Plaintiff incorporates by reference and realleges paragraphs 1 through 116 above as if set forth herein at length.

118. This claim is asserted by plaintiff and the Class against all defendants and is based upon Section 10(b) of the 1934 Act, 15 U.S.C. § 78j(b) and Rule 10b-5 promulgated thereunder.

119. During the Class Period, defendants engaged and participated in a continuous course of conduct to conceal adverse material information regarding the true financial and operating condition of the Company as specified herein. Defendants recklessly employed devices, schemes, and artifices to defraud and recklessly engaged in acts, practices, and a course of conduct as herein alleged in an effort to maintain artificially high market prices for the common stock of Corel. This included the formulation, making of and /or participating in the making of untrue statements of material facts and the omission to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, so that the market price of the Company's stock would be based upon truthful, complete and accurate

information.

120. Defendant Cowpland's primary liability and controlling person liability arises from the following. Cowpland was the President, Chief Executive Officer and Chairman of the Board of Corel during the Class Period. Cowpland, by virtue of his responsibilities and activities as a senior officer and/or director of the Company, was privy to and had knowledge of the Company's true financial results.

121. As a result of the foregoing, the market price of Corel's common stock was artificially inflated throughout the Class Period. In ignorance of the omitted material facts described above, and the deceptive and manipulative devices and contrivances employed by defendants, plaintiff and the other members of the Class have suffered substantial damages as a result of the wrongs alleged herein.

122. During the Class Period, defendants made the statements identified above which were materially false and misleading in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. These statements were materially false and misleading and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

123. With reckless disregard for the truth regarding the nature and extent of the Company's financial and operating condition, the defendant Cowpland caused Corel to make the statements containing misstatements and omissions of material fact as alleged herein.

124. In direct or indirect reliance on the aforesaid false and misleading statements, plaintiff and the other members of the Class purchased Corel common stock during the Class Period at artificially inflated prices and were damaged thereby.

125. Relying upon the integrity of the marketplace and the market price of Corel's

common stock, plaintiff and the other members of the Class purchased Corel's common stock at artificially inflated prices and were damaged thereby. Defendants' conduct as alleged has damaged plaintiff and the other members of the Class in an amount which cannot presently be ascertained.

126. Had plaintiff and the other members of the Class known of the materially adverse information which was not disclosed by defendants, they would not have purchased Corel common stock at all, or not at the artificially inflated prices they did, and would not have sustained damages.

COUNT II

VIOLATION OF SECTION 20(a) OF THE EXCHANGE ACT AGAINST DEFENDANT COWPLAND

127. Plaintiff incorporates by reference and realleges paragraphs 1 through 126, above as if set forth herein at length.

128. This Count is asserted against defendant Cowpland and is based on Section 20(a) of the 1934 Act. Cowpland acted as a controlling person of Corel within the meaning of Section 20 of the 1934 Act. By reason of his position as a senior officer and director of Corel, Cowpland had the power and authority to cause or to prevent the wrongful conduct complained of herein.

129. By reason of such wrongful conduct, Cowpland is liable to plaintiff and the Class pursuant to Section 20 of the Exchange Act. As a direct and proximate result of defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of Corel common stock during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

a. An order certifying the Class as set forth herein and designating plaintiff as representative thereof;

b. A judgment declaring the conduct of the defendants to be in violation of law as set forth herein;

c. A judgment awarding plaintiff and the other members of the Class compensation for the damages which they have sustained as a result of the defendants' unlawful conduct stated above;

d. A judgment awarding plaintiff reasonable attorneys' fees, experts' fees, interest and cost of suit; and

e. Grant such other and further relief as this Court may deem just.

PLAINTIFF DEMANDS A JURY TRIAL

Plaintiff hereby demands a trial by jury of all issues so triable.

Dated: August 1, 2000

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