COREL CORP

FORM 10-K
(Annual Report)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2008**

or

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

Commission File Number: 000-20562

COREL CORPORATION
(Exact name of registrant as specified in its charter)

Canada
(State or other jurisdiction of incorporation and organization)

98-0407194
(I.R.S. Employer Identification No.)

1600 Carling Avenue
Ottawa, Ontario
Canada K1Z 8R7
(Address of principal executive offices, including zip code)

(613) 728-0826
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:	**Name of exchange on which registered:**
Common Shares, no par value (together with associated rights to purchase additional Common Shares) **(Title of class)**	The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common shares on May 31, 2008 of $10.91, as reported on the Nasdaq Global Market, was approximately $86.3 million. Common shares held as of May 31, 2008 by each executive officer and director and by each person who owns 5% or more of the outstanding common shares have been excluded from this computation, in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of January 28, 2009 the Registrant had outstanding 25,839,111 common shares, no par value.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Statements contained in this Annual Report on Form 10-K which are not historical facts are forward-looking statements within the meaning of Section 21E of the U.S. Securities Exchange Act of 1934, as amended. A forward-looking statement may contain words such as "anticipate that," "believes," "continue to," "estimates," "expects to," "hopes," "intends," "plans," "to be," "will be," "will continue to be," or similar words. These forward-looking statements include the statements in this Report regarding: future developments in our markets and the markets in which we expect to compete; our estimated cost reductions; our future ability to fund our operations; our development of new products and relationships; our ability to increase our customer base; the services that we or our customers will introduce and the benefits that end users will receive from these services; the impact of entering new markets; our plans to use or not to use certain types of technologies in the future; our future cost of revenue, gross margins and net losses; our future restructuring, research and development, sales and marketing, general and administrative, stock-based compensation and depreciation and amortization expenses; our future interest expenses; the value of our goodwill and other intangible assets; our future capital expenditures and capital requirements; and the anticipated impact of changes in applicable accounting rules.

These forward-looking statements are based on estimates and assumptions made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances including but not limited to general economic conditions, product pricing levels and competitive intensity, and new product introductions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results, performance or achievements to differ materially from any future results, performance, or achievements discussed or implied by such forward-looking statements. These risks include the risks described in "Item 1A — Risk Factors" below.

These risk factors should be considered carefully, and readers should not place undue reliance on our forward-looking statements. Forward-looking statements speak only as of the date of the document in which they are made. We disclaim any intention or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances on which the forward-looking statement is based, except as required by law.

PART I

ITEM 1. *BUSINESS*

We are a leading global packaged software company with an estimated installed base of over 100 million active users in over 75 countries. We provide high quality, affordable and easy-to-use Graphics and Productivity and Digital Media software. Our products enjoy a favorable market position among value-conscious consumers and small businesses benefiting from the widespread, global adoption of personal computers, or PCs, and digital capture devices. The functional departments within large companies and governmental organizations are also attracted to the industry-specific features and technical capabilities of our software. Our products are sold through a scalable distribution platform comprised of original equipment manufacturer's (OEMs) our global e-Stores, and our international network of resellers and retail vendors. We have broad geographic representation with dedicated sales and marketing teams based in the Americas, Europe Middle East and Africa (EMEA), and the Asia Pacific (APAC) regions. Our product portfolio includes well-established, globally recognized brands.

An important element of our business strategy is to grow revenues through acquisitions of companies or product lines. We intend to focus our acquisition activities on companies or product lines with proven and complementary products and established user bases that we believe can be accretive to our earnings shortly after completion of the acquisition. While we review acquisition opportunities on an ongoing basis, we currently have no binding obligations with respect to any particular acquisition.

Graphics and Productivity

Our primary Graphics and Productivity products include: *CorelDRAW Graphics Suite, Corel Painter, CorelDESIGNER Technical Suite, WinZip* , *iGrafx* and *WordPerfect Office Suite. CorelDRAW Graphics Suite* is a leading vector illustration, page layout, image editing and bitmap conversion software suite used by design professionals and non-professionals around the world. *Corel Painter* is a Natural-Media digital painting and drawing software that mirrors the look and feel of their traditional counter parts. *CorelDESIGNER Technical Suite* offers users a graphics application for creating or updating complex technical illustrations. *WinZip* is the most widely used compression utility, with more than 50 million licenses sold to date. Our *iGrafx* products allow enterprises to analyze, streamline and optimize their business processes. *WordPerfect Office* is the leading Microsoft-alternative productivity software and features Microsoft-compatible word processing, spreadsheet and presentation applications.

Digital Media

Our Digital Media portfolio includes products for digital imaging, video editing, optical disc authoring (Blu-ray, DVD, and CD), and video playback. Our Digital Imaging products include *Corel Paint Shop Pro Photo, Corel MediaOne, Corel Photo Album,* and *PhotoImpact. Corel Paint Shop Pro Photo* is a digital image editing and management application used by novice and professional photographers and photo editors. *Corel MediaOne* is a multimedia software program for organizing and enhancing photos and video clips that are primarily taken with a point-and-shoot camera. *Corel Photo Album* is an entry-level software program that allows users to easily store, organize, share and manage their digital photo collections. PhotoImpact is an image editing software, which provides users with easy-to-use photo editing tools, creative project templates and some digital art capabilities. Our Video editing product is *VideoStudio. VideoStudio* is our consumer focused video editing and DVD authoring software for users who want to produce professional-looking videos, slideshows and DVDs. Our optical disc authoring products are *DVD Movie Factory and DVD Movie Writer. WinDVD* is the world's leading software for DVD, video and Blu-ray Disc playback on PC's with over 200 million units shipped worldwide. *DVD Factory and DVD Movie Writer* are consumer optical disc authoring software applications.

Corporate History

We were incorporated in Canada under the *Canada Business Corporations Act* in May 1985. In January 1989, we released *CorelDRAW* , a market-leading full-featured graphics software product in the Windows platform. In November 1989, we completed an initial public offering of our common shares. In January 1996, we acquired the *WordPerfect* family of software products. In August 2003, we were acquired by Vector Capital and taken private under the *Business Corporations Act (Ontario).*

In October 2004, we acquired Jasc Inc. (Jasc), a leading Digital Media packaged software company. Through the Jasc acquisition, we added *Corel Paint Shop Pro Photo* and *Corel Photo Album* to our Digital Media offerings.

In May 2006, we acquired WinZip Inc. (WinZip). As consideration for the acquisition, we issued shares to Vector Capital and repaid all of WinZip's outstanding indebtedness. Vector Capital acquired WinZip in January 2005. Through this acquisition, we added the *WinZip* file compression utility to our Graphics and Productivity software offerings. Also in May 2006, we completed an initial public offering of our common shares on the TSX and the NASDAQ Global Market.

On December 12, 2006, we completed the acquisition of InterVideo Inc., a provider of Digital Media authoring and video playback software with a focus on high-definition and DVD technologies. In 2005, InterVideo acquired a majority interest in Ulead Inc., a leading developer of video imaging and DVD authoring software for desktop, server, mobile and Internet platforms. On December 28, 2006, we completed the acquisition of the remaining interest in Ulead Inc.. The acquisitions of InterVideo Inc. and Ulead Inc. (together referred to as InterVideo) were completed in cash transactions totaling approximately $220.4 million. We financed the acquisitions through a combination of our cash reserves, InterVideo's cash reserves and debt

financing which included an amendment to our existing credit agreement to increase available term borrowings by $70.0 million.

This acquisition substantially expanded our presence in the Digital Media software market by creating a broad portfolio of Digital Media and DVD video products. The main products acquired from InterVideo were *WinDVD, VideoStudio, DVD Factory, DVD Copy* and *PhotoImpact.* With the combination of our Digital Imaging software and InterVideo's Digital Media products, we now deliver an expanded portfolio of easy-to-use, multi-purpose high-definition video, imaging, and DVD creation products to consumers and enterprises worldwide. In addition the acquisition has enabled us to further extend our presence in emerging markets and Japan.

Fiscal 2008 Activity

On March 28, 2008, we received an unsolicited proposal from Corel Holdings, L.P. (CHLP) (which is controlled by an affiliate of Vector Capital) the holder of approximately 69% of our outstanding common shares. CHLP proposed to make an offer to acquire all of our outstanding common shares not currently held by CHLP at a price of US$11.00 cash per share. CHLP indicated that any such offer would be conditional upon, among other things, satisfactory confirmatory due diligence and our existing credit facility remaining in place following the consummation of any transaction. Our Board of Directors formed a Special Committee of the Board, which assisted it in evaluating and responding to the CHLP proposal. In addition, the Special Committee undertook a process to evaluate other strategic alternatives to maximize value for all shareholders.

On August 18, 2008, we announced that CHLP had informed us that it withdrew its proposal to facilitate pursuit by us of other alternatives for maximizing value for all shareholders. In light of the withdrawal of the CHLP Proposal and the Board's desire to oversee evaluation of the potential strategic alternatives directly, the Board unanimously determined that there was no longer a need for the Special Committee. On August 20, 2008, we stated in a press release that we were in discussions with a third party regarding a potential sale of the company. We further stated that no agreement had been reached and there could be no assurance that such an agreement would be reached or, if completed, what its terms, price or timing might be. On October 22, 2008 we announced that discussions with a third party regarding a potential sale of Corel had ceased, and there were no longer any negotiations concerning a future acquisition of us.

On September 10, 2008, management initiated a restructuring plan to streamline its global operations in order to become more operationally efficient and to increase its investment in key growth opportunities, including sales to emerging markets and its eCommerce program. As part of this effort, we have reduced our workforce by approximately 90 employees worldwide.

Our Industry

Prior to the mid-1990s, the packaged software industry was characterized by high annual growth rates, rapid technological innovation and a relatively large number of viable software providers within each product category. Over the past decade the industry has matured, growth rates have become more stable and market share within each major product category has become highly concentrated, with one or two companies having a dominant market position. Our largest competitors, Microsoft Corporation and Adobe Systems Incorporated, currently hold the majority of the market share in our target markets. Growth rates of packaged software sales in emerging economies are expected to be higher than for the global packaged software market as a whole resulting from more rapidly increasing PC adoption rates in these markets. Opportunities for growth may be available within the Digital Media software market thanks to the proliferation of digital capture devices, the introduction of high definition formats, and the rapid expansion of Digital Media content creation and sharing through social networking websites and email.

Our Strategy

Our objective is to profitably grow our installed base of customers and increase sales to our existing users. We plan to achieve this objective through the following strategies:

- *Expand presence in emerging markets.* We are expanding our presence in emerging markets, such as China, India, Eastern Europe and Latin America, by continuing to localize our products in additional languages, expanding our reseller network and direct sales force and developing additional regionally-focused versions of our e-Stores. We believe these markets represent attractive growth opportunities for us because they are characterized by first time users of low cost PCs and digital cameras who have not yet developed loyalty to a particular brand of software.
- *Broaden our distribution network to capitalize on the rapid adoption of low cost technologies.* We view our relationships with OEMs, other distributors and online services companies as key growth drivers, and we are focused on forging new distribution relationships and broadening our existing relationships. To accomplish this goal, we have implemented a flexible "channel friendly" strategy of providing customized solutions tailored to the specific business needs of OEMs, other distributors and online services companies. We offer these parties:
  - attractive pricing;
  - marketing and sales support and incentives;
  - customized versions of our software; and
  - private label packaging and customized promotional materials.
- *Continue to respond to user needs to better serve specific market sectors and increase loyalty.* We will continue to work with our current customer base to help us develop additional product innovations. A particular focus on improving user-experience will strengthen user loyalty while allowing our products to better serve the needs of specific market segments. We have had significant success through our offering of high quality products for specific markets such as the legal and education sectors, and, as we continue to expand, we plan to target additional markets.
- *Continue to deliver high operating margins and positive cash flow.* We are committed to maximizing our operating margins and positive cash flow by keeping research and development activities focused on market driven, add-on functionality, utility and geographic reach of our existing product lines rather than pursuing speculative projects. We employ disciplined cost management policies and maintain stringent minimum return-on-investment criteria for our acquisition strategies. Our existing administrative, marketing and distribution infrastructure is highly scalable. We believe it will enable us to grow our revenues without experiencing a proportionate increase in fixed costs, and enabling us to continue to deliver high operating margins.
- *Leverage existing platform and brands to maximize value from acquisitions.* We are actively seeking to acquire complementary businesses to ours. Our acquisition and integration strategy is focused on acquisitions of companies with proven and complementary products and established user bases that we believe will be accretive to earnings shortly after the completion of the acquisition. As part of this strategy, in October 2004, we acquired Jasc to extend our reach in digital imaging software, in May 2006 we acquired WinZip to enhance our productivity software offerings, and in December 2006 we acquired InterVideo and completed the acquisition of Ulead to expand our presence in the Digital Media software market by creating a broad portfolio of digital imaging and DVD video products. We analyze acquisition candidates and effect acquisition transactions to ensure they meet our strategic and operational objectives. We seek acquisition candidates that we believe can benefit from our existing global marketing, sales, distribution and general and administrative infrastructure.

- *Increase upgrade conversion rates.* Increasing upgrade conversion rates represents a significant incremental revenue opportunity for us. We intend to increase upgrade conversion rates through a number of strategic initiatives, including:
  - increasing our database of registered users through on-line registration for new products; this allows us to market product upgrades to these users more effectively;
  - embedding upgrade information directly in our software and employing other types of proactive marketing within our products, including access to Tips and Tricks, product tutorials, online communities and special offers from us and our partners; and
  - offering products in tiers of functionality, such as entry-level, advanced and expert versions, enabling users at varying levels of product knowledge and sophistication to purchase the applications they need and then migrate to the more advanced versions over time.

Our Products

We provide high quality, affordable, and easy-to-use Graphics and Productivity and Digital Media software. The following table identifies our major software products within our two principal product categories:

	Year of Initial Release	Fiscal Quarter of Latest Release	Current Version
Graphics and Productivity:			
CorelDRAW Graphics Suite	1989	Q1 2008	14
WinZip	1991	Q4 2008	12
WordPerfect Office Suite	1982	Q2 2008	14
iGrafx FlowCharter	1991	Q2 2007	12
Corel Painter	1991	Q1 2007	10
Corel DESIGNER Technical Suite	1995	Q3 2008	14
Digital Media			
WinDVD	1999	Q1 2008	9
Paint Shop Pro Photo	1991	Q4 2008	12 (ultimate)
DVD Movie Factory	2001	Q1 2007	6
VideoStudio	1999	Q4 2008	12
PhotoImpact	1996	Q1 2008	13
MediaOne	2007	Q4 2007	2

Graphics and Productivity

Our Graphics and Productivity products include *CorelDRAW, WinZip, WordPerfect Office Suite, iGrafx FlowCharter, Corel Painter,* and *Corel DESIGNER Technical Suite* .

CorelDRAW Graphics Suite is easy-to-use and is compatible with most industry standard file formats, allowing the import and export of files in the common formats used by our competitors, including Adobe and its offerings, Adobe Creative Suite and Adobe Illustrator, and Microsoft. *CorelDRAW Graphics Suite* is used principally by production professionals, graphic designers and sales and marketing personnel and is currently available in nineteen languages.

WinZip. As one of the most frequently downloaded software products available on the Internet with over 185 million downloads to date, WinZip has developed a strong and highly recognizable brand. The *WinZip* product line includes three primary products: *WinZip* , *WinZip E-mail Companion* and *WinZip Self Extractor. WinZip* is a widely used compression utility for the Windows platform, allowing users to temporarily reduce the size of their computer files for more effective transmission and storage. *WinZip* also includes encryption

functionality to provide additional security in protecting sensitive information. *WinZip* is based on the .zip file format, but also supports a number of alternative compression formats. *WinZip E-Mail Companion* extends *WinZip* 's functionality to Microsoft's Outlook and Outlook Express email applications, automating the compression and encryption of email file attachments. *WinZip Self Extractor* allows users to create archives that can be decompressed without the need for *WinZip* or other compatible decompression utility.

WinZip has a broad user base that includes individual consumers, small-to medium-sized businesses and large corporations. *WinZip* is used worldwide, and is currently available in six languages. *WinZip* 's main competitors include commercial software such as PKZip, Stuffit, and WinRAR, open-source software such as 7-Zip and the basic compression functionality integrated into the Windows operating systems. *WinZip* 's reliability, ease-of-use, functionality and loyal user base has allowed it to compete effectively with these offerings.

WordPerfect Office Suite. The *Standard Edition* of *WordPerfect Office Suite* includes the *WordPerfect, Quattro Pro* and *Presentations* applications. Depending on the version of the suite, *WordPerfect MAIL* and *Paradox* are also included. *WordPerfect* is an easy-to-use word processing application that includes the ability to integrate charts, tables, images and graphics. *Quattro Pro* is a spreadsheet and database application with 3D chart functionality. *Presentations* is an application for producing multimedia presentations, overheads and transparencies. *WordPerfect MAIL* is an e-mail, calendaring and contact management application. *Paradox* is a database application.

WordPerfect Office Suite is an innovative, full-featured software suite and is the leading alternative to Microsoft Office. Our *WordPerfect Office Suite* applications are compatible with Microsoft Office's applications, allowing users to create documents from scratch, open and save documents in multiple versions of the Microsoft Word, Excel and PowerPoint file formats. *WordPerfect Office Suite* is used principally by governments, legal professionals and corporate legal departments, academic institutions, small-to medium-sized businesses and individual consumers.

iGrafx Flowcharter (iGrafx). The *iGrafx* suite of products allows enterprises to analyze, streamline and optimize their business processes while ensuring compliance with regulatory and service level requirements. Uses of *iGrafx* include visually depicting the elements of a business process, such as a supply chain solution and identifying, simulating, and visually presenting how a business can improve its business processes. *iGrafx's* main competitors are IDS-Scheer Aris and Metastorm. *iGrafx* products are currently offered in eight languages.

Corel Painter. *Corel Painter* is a digital drawing and painting application that, when used with a pen tablet, simulates natural media, such as watercolors, inks, oil paints, pencils, chalks and pastels. Users include commercial artists, professional photographers, fine artists and professional digital artists who wish to create new works of art or enhance existing images. Because it is compatible with Adobe Photoshop, *Corel Painter* provides additional natural media functionality not otherwise available with Photoshop. *Corel Painter* is currently available in seven languages.

Corel Painter Essentials is a simple to use drawing and painting application that also provides an automated method of turning digital photographs into paintings. Users are primarily consumers, hobbyists, school teachers and their students.

Corel DESIGNER Technical Suite. *Corel DESIGNER Technical Suite* offers users a graphics application for creating or updating complex technical illustrations. The suite consists of *Corel DESIGNER* for design, illustration and page layout, *Corel PHOTO-PAINT* for digital image editing and *Corel PowerTRACE* for the conversion of bitmaps to vector images. *Corel DESIGNER Technical Suite* includes filters to import 3D computer-aided design diagrams. *Corel DESIGNER Technical Suite* is currently available in three languages and is primarily used by engineering departments and technical publishers, who use the software to create professional-quality graphics that can be easily used in business documents, presentations and web and intranet pages. Examples of its uses include creating product manuals, assembly instructions and product specification diagrams. *Corel DESIGNER Technical Suite* is used in the manufacturing, automotive and aerospace industries from the conceptualization stage, through the design specification stage, to the production of technical manuals

and marketing material. *Corel DESIGNER Technical Suite* provides an easy-to-use technical illustration application at an affordable price compared to its main competitors IsoDRAW, Autodesk AutoCAD LT and Deneba Canvas.

Digital Media

Our Digital Media products include *WinDVD, Corel Paint Shop Pro Photo* , *DVD Movie Factory, VideoStudio, PhotoImpact* and *Corel MediaOne,* and *Photo Album.*

WinDVD. *WinDVD* is the market leading application for DVD, Blu-ray Disc playback on Windows-based personal computers, with an installed base exceeding 200 million copies. *WinDVD* is bundled with PCs by most of the world's market leading PC OEMs. In addition to its long established support for standard definition DVD playback, *WinDVD* now includes support for high-definition video, including H.264, VC-1, WMV-HD and AVCHD as well as high-definition lossless audio options such as Dolby TrueHD. *LinDVD* is the Linux-based version of our DVD software player designed for Linux-based PCs and CE devices. *LinDVD* is made available to PC OEMs and Linux software distributors for bundling with their system or operating system products. *WinDVD* is currently available in twenty-two languages,

Corel Paint Shop Pro Photo. *Corel Paint Shop Pro Photo* allows users to create, manipulate and manage digital images with photo editing, digital art and precision graphic design tools. Primary examples of its uses include digitally altering photos by fixing scratches and blemishes, changing colors, digitally removing people, objects and "red-eye" from photos and combining photographs into collages. *Corel Paint Shop Pro Photo* provides advanced functionality at an affordable price to users of digital cameras ranging from novices to professionals, graphics hobbyists and business users. Adobe Photoshop, a competing product, sells at a higher price and is directed at professional graphic designers. *Corel Paint Shop Pro Photo* is currently available in eleven languages.

DVD Movie *Factory.* *DVD Movie Factory* is a powerful consumer authoring and burning application, and provides users with the ability to author video in multiple formats, including DVD, Blu-ray, HD DVD and AVCHD. *DVD Factory* provides end users with a set of tools and templates for the development of menus and other interactive features for their chosen output format.

VideoStudio. *Video Studio* is a full featured video editing application that also provides an extensive set of "wizards" and templates to enable ease of use for new users. The base software supports DVD and other standard definition formats, while *Video Studio Plus* adds support for the high-definition Blu-ray, HD DVD and AVCHD formats. *Video Studio* provides a full set of tools for the editing and manipulation of video from multiple sources including SD and HD camcorders. *Video Studio Plus* also provides one-button encode and upload to *YouTube* ™ . Video Studio is currently available in thirteen languages.

PhotoImpact. *PhotoImpact* combines easy-to-use photo editing, photo projects tools and digital art to make digital photography and image creativity fast and easy. *PhotoImpact* is designed for the family "memory keeper" and the graphic arts hobbyist with its effective photo enhancement tools and photo projects. Video enthusiasts can enhance their projects by exporting DVD menus from *PhotoImpact* directly into *DVD Factory* and *VideoStudio* .

MediaOne. *MediaOne* is an all-in-one entry level multimedia application that combines simple digital image and video editing tools, slide show, online sharing and scrapbook tools. *MediaOne* is typically used by family "memory keepers" to organize and share their digital media memories with friends and family. *MediaOne* also provides end users with easy online backup tools to preserve their data easily. *MediaOne* is currently available in thirteen languages.

Corel Photo Album. *Corel Photo Album* allows users to store, organize, share and manage their digital photograph collections. Our software organizes photographs on users' computers by date, folder, keyword or other desired criteria. Users of *Corel Photo Album* can organize and publish photo albums, create scrap-books, print and share photographs, create slide shows and create CD and DVD back-ups of digital images. In addition, the software provides basic photograph enhancement capability which seamlessly integrates with *Paint Shop Pro Photo* for more advanced image editing. *Corel Photo Album's* main competitors are Adobe

Photoshop Elements and Microsoft Digital Image Suite. *Corel Photo Album* is currently available in seven languages.

Customer Support

We provide several customer support options, including phone, email and self-help tools, to meet the varied needs of our customers. Support options range from 24 hour 7 day a week free support via the Internet to fee-based options through maintenance agreements for enterprise customers or on a per incident basis for individual consumers. Our customer service representatives provide technical support, answer questions about product specifications, sell our products and provide replacement media and documentation. We maintain a database of technical support articles on our web site that is updated regularly with useful information and frequently asked questions and answers regarding our products. We maintain internet news groups and community forums to provide users with a mechanism to provide feedback as well as receive technical updates and notes. We also provide up-to-date information about common issues and useful tips on our web site. The majority of our in-house customer support personnel are located in Ottawa, Canada, Maidenhead, England and Makati City, Philippines.

Distribution, Sales and Marketing

Distribution

We have a global, multi-channel distribution network, including OEMs, the Internet, retailers and resellers, in over 75 countries through which we are able to distribute our software.

OEMs. We distribute our software under license agreements with OEMs granting them the right to distribute copies of our software installed on their hardware products. With the acquisition of InterVideo and its existing relationships, we have further broadened our network of OEMs. We have relationships with over 100 OEMs, including Hewlett Packard, Lenovo, Sony, NEC, and Toshiba.

Internet Distribution. Our global e-Stores allow consumers to purchase most of our software products directly from us and has been one of our fastest growing distribution channels. Our e-Stores are the central hub for all After Point of Sale and OEM sales.

Retail and Reseller. Our retail and reseller channel encompasses our relationships with over 25,000 resellers, including the following:

- retailers including Office Depot, Best Buy, CompUSA, Staples, Office Max, Future Shop, Amazon, Dixon System Group and Media Market, who sell our products to consumers and small businesses;
- software distributors, including Ingram Micro, Softbank, Navarre and Synnex, who sell our products to their retail customer base and license programs to their reseller partners;
- large account resellers, including CDW, Insight, Software House International, SoftChoice, ASAP and Softmart USA, who sell our software directly to large enterprises and government accounts, working closely with our direct sales force to help fulfill orders; and
- value-added resellers, including independent software vendors, consultants, system integrators and custom application developers, who generally service small to medium-sized businesses and provide varying degrees of technical support, implementation services and customization.

Direct Sales. Our direct sales force facilitates sales through other channels and the establishment of key relationships with OEMs, retail chains and resellers. The direct sales force also directly targets government and large enterprise clients.

Sales and Marketing

Our global sales and marketing organization is comprised of approximately 310 employees located in 22 countries as of November 30, 2008. The organization is focused on increasing sales by establishing and maintaining personal contact with our distributors and customers.

Our sales team is responsible for:

- communicating our value proposition and the benefits of our products;
- designing and implementing incentive programs for our distributors to promote our products;
- identifying, establishing and developing relationships with OEMs and online services companies;
- ensuring that our distributors are prominently positioning our products and managing inventory levels effectively; and
- recruiting new resellers, retailers and distributors.

Our marketing team focuses on:

- joint marketing and promotions with online services companies, OEMs and other distributors;
- selective, highly targeted advertising;
- direct mail; and
- public relations.

Internal Systems

We use various standard applications to provide a flexible and scalable infrastructure to accommodate growth and information needs. We use in-house development resources to maintain these systems and provide custom integration of applications to meet our reporting and business needs. The primary applications we use include Oracle for financial controls, reporting and human resources, Cognos for operational reporting, IBM Websphere for our e-Stores, Onyx customer relationship management database for customer and prospective customer information and RightNow Technology interactive knowledge base for customer and technical support. We are replacing, IBM Websphere with ATG as the primary application for our e-Stores, to meet our anticipated growth in this area. We believe these systems are sufficient to accommodate our anticipated growth.

Outsourced Manufacturing

ModusLink manufactures the principal materials and components used in the physically packaged versions of our products, including CD-ROMs and DVDs, product manuals and packaging, pursuant to a fixed price agreement. ModusLink prepares items to our specifications at manufacturing sites in the U.S., Czech Republic and Taiwan and engages third-party printers for the printing of the packaging and the manuals to be included with our packaged software. We provide ModusLink with all packaging and manual design templates.

Intellectual Property

Our intellectual property rights are important to our business. We rely on a combination of trademark, patent, copyright, trade secret, and other common law in the U.S., Canada and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our proprietary technology, processes and other intellectual property. We have obtained registrations for many different trademarks in more than 70 separate countries, have numerous issued patents in the U.S. and Canada and own many copyright registrations. Our patents expire on various dates between 2010 and 2021. As part of our hiring process, we typically require employees to execute written agreements containing confidentiality undertakings, intellectual property assignments, non-solicitation obligations, and in some cases, non-competition obligations in our favor.

In addition to the foregoing, we believe the technological and creative skill of our personnel, product developments and frequent product enhancements are essential to establishing and maintaining a competitive advantage.

Our products contain content and technology that we license from third parties. We generally enter into written agreements with independent contractors, consultants, strategic partners and third party content and technology providers, and through these written agreements we seek to obtain and control access to, and distribution of, the intellectual property rights necessary for the continued marketing of our products.

Despite our efforts to protect our intellectual property, third parties may use, copy or otherwise obtain and market or distribute our intellectual property or technology without our authorization or otherwise develop products with the same functionality as our products. Policing unauthorized use of our products and intellectual property is costly and virtually impossible on a worldwide basis. As a result, there is a risk that our efforts to protect our intellectual property will not be adequate to fully prevent the misappropriation of our intellectual property, particularly in emerging markets. See "Item 1A — Risk Factors — *Our success depends heavily on our ability to adequately protect our intellectual property* ."

The software industry is characterized by the existence of a large number of patents, trademarks and copyrights, and by frequent litigation based upon allegations of infringement or other violations of intellectual property rights. We may be constrained by the intellectual property rights of others. We are currently a defendant in a lawsuit alleging intellectual property infringement, and we may again in the future have to defend against intellectual property lawsuits. See "Item 1A — Risk Factors — *Our business may be constrained by the intellectual property rights of others, and we have been and are currently subject to claims of intellectual property infringement, which are costly and time-consuming to defend* ".

Competition

We compete with other software vendors for customers at the retail level and in corporate accounts, and for access to distribution channels. Our two primary competitors are Microsoft and Adobe. We believe that Microsoft Office and Adobe Systems hold most of the global market for Graphics and Productivity software and for Digital Media software. We are the next largest provider of packaged Graphics and Productivity and Digital Media software in our target markets. We also compete with a number of smaller companies, such as Sonic Solutions, Nero, ArcSoft and Cyberlink, that target certain sectors of the packaged software market.

Our Graphics and Productivity products provide features and technical capabilities that are generally comparable to higher-priced products offered by Microsoft and Adobe. Our Digital Media products offer leading edge technologies for DVD playback, authoring and video editing each supporting HD-DVD, Blu-ray and AVCHD formats, which addresses the growing needs of our most advanced customers as well as our OEM partners. We also compete for strategic relationships with OEMs, online services companies and other distributors. We believe we can provide distributors with attractive pricing, channel specific marketing and sales support, incentives and customized versions of our products and packaging. We believe tailored responses to distributors' needs distinguishes us from our competition and will allow us to broaden our distribution network.

Research and Development

We have a research and development (R&D) team of approximately 460 software professionals, the majority of whom are located in our Taiwan office and our corporate headquarters in Ottawa, Canada.

Following the acquisition of InterVideo in fiscal 2007, we now have a stronger concentration of development expertise focused on digital media innovations. Our R&D investments in the Graphics and Productivity product lines will remain focused on extending their core technologies to deliver compelling user experiences that meet the needs of today's workflows and to reach users in new customer segments, new vertical markets, and new geographies. Our R&D investments in the Digital Media portfolio will focus on maintaining our technological leadership with leading-edge innovations that differentiate our offerings in the minds of end users and our OEM partners. The different levels of R&D investment for each of our two main product categories is a reflection of the relative maturity and growth potential of each sector. In all cases, our R&D focus will be on increasing the user enjoyment of our products by concentrating on usability: bringing the most frequently used features to the surface in order to make them more readily accessible and intuitive to users of all skill levels.

Our increased focus on usability is reflected in the enhancements we have made to many of our products. For example we have increased the inter-operability of our *WordPerfect Office Suite* productivity applications with their Microsoft and Adobe counterparts. A new interface has been inserted in *Corel Painter Essentials* that provides for easy digital painting and making paintings from photos. We have also modernized our interfaces in both *CorelDRAW Graphics Suite X4* and *Corel DESIGNER* so that they are more intuitive.

The integrated development teams have been collaborating on key projects and sharing best practices. The development teams have standardized development, localization and release processes to ensure our products make it to the market in the most efficient way. A new industry-leading and intuitive installation, setup and patching device is being leveraged across product lines. User focused design and usability processes developed for *CorelDRAW* and *Corel Painter* are being used in the development of other product lines. Finally, in-product marketing and product updates are now delivered via a cohesive common platform.

Localization and geographic expansion remains core to our product strategy, providing users in emerging markets with software in their native language. We have now integrated our localization teams under a single point of leadership in order to maximize our efficiency for expanding our global reach. We have increased the level of languages provided across all product lines, including *WinDVD, CorelDRAW Graphics Suite X4* and *Video Studio,* which are now offered in twenty-two, nineteen and thirteen languages, respectively.

Finally, while our business is largely focused on desktop applications, we have taken steps to reflect the growing importance of the web to our users. Many of our products leverage a hybrid model, maximizing the value of both the desktop and on line environments. By providing users with a bridge between the two, we believe we can offer them an even better user experience. For example, *CorelDRAW Graphics Suite* users can collaborate and share design ideas online through our partnership with Conceptshare.com. Our partnership with Smilebox, enables *Corel Media One Plus* users to create personalized photo and video projects and share them on their favorite blog, social network or via email. Zazzle enables our users to take artwork created in *Painter Essentials* and send it to an online printing service where they can create canvases, mugs, t-shirts and other keepsakes-all from within the Corel application. These partnerships along with others such as KDDI, NetBlender, and WhatTheFont.com ensure that we provide our users with the benefits of both the desktop and Web based environments, providing them with a more rewarding user experience.

We plan to expand our product offerings through the acquisition of proven products and technology and to employ our R&D efforts to improve the utility of those products and technology to both our existing and new customers. Our research and development expenses for our fiscal years ended November 30, 2006, 2007 and 2008 were $25.9 million, $46.4 million and $44.5 million, respectively.

Employees

As of November 30, 2008, we had approximately 1,040 full-time employees, a reduction of 70 from our level as of November 30, 2007, due largely to restructuring activities completed in September of 2008. The total consists of 310 employees engaged in sales and marketing, 460 engaged in research and development and the remaining 270 engaged in general administration, finance and customer support. As of November 30, 2008, we have employees in 22 countries, including approximately 430 employees in our North American operations, 90 employees in EMEA, and 520 employees in APAC.

We believe that our future success will depend in large part on our ability to attract and retain highly skilled technical, managerial, and sales and marketing personnel. Competition for employees is intense in the software industry. To date, we believe we have been successful in our efforts to recruit qualified employees, but there is a risk that we will not continue to be successful in the future. None of our employees are subject to collective bargaining agreements. Management believes relations with employees are good.

Financial Information by Business Segment and Geographic Data

We operate in one business segment, the packaged software segment. For information regarding our geographic data, please refer to Note 19 — *Segment Reporting* of our Notes to our Consolidated Financial Statements found in Item 8 of this Annual Report on Form 10-K.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on the SEC Web site at http://www.sec.gov and on our Investor Relations Web site at http://www.corel.com. We make our filings available as soon as reasonably practicable after we file such material with, or furnish it to, the SEC. The information posted on our Web site is not incorporated into this Annual Report on Form 10-K unless otherwise noted.

ITEM 1A. *RISK FACTORS*

Risks Relating to our Business

The recent disruption in the overall economy and the financial markets will adversely impact our business.

Many industries, including businesses providing packaged software solutions, have been affected by current economic factors, including the significant deterioration of global economic conditions, declines in employment levels, and shifts in consumer spending patterns. The recent disruptions in the overall economy and volatility in the financial markets have greatly reduced, and may continue to reduce, consumer confidence in the economy, negatively affecting consumer spending, which could be harmful to our financial position. Disruptions in the overall economy may also lead to a lower collection rate on billings as consumers or businesses are unable to pay their bills in a timely fashion. Decreased cash flow generated from our products may adversely affect our financial position and our ability to fund our operations. In addition, macro economic disruptions, as well as the restructuring of various commercial and investment banking organizations, could adversely affect our ability to access the credit markets. The disruption in the credit markets may also adversely affect the availability of financing to support our strategy for growth through future acquisitions. There is a risk that government responses to the disruptions in the financial markets will not restore consumer confidence, stabilize the markets, or increase liquidity and the availability of credit.

We are subject to restrictive debt covenants that impose operating and financial restrictions on our operations and could limit our ability to grow our business.

Covenants contained in our debt facilities impose significant operating and financial restrictions on us. These restrictions prohibit or limit, among other things, our incurrence of additional indebtedness, acquisitions, asset sales and the creation of certain types of liens. As part of our current term loan agreement, we are permitted to make acquisitions up to an aggregate consideration of $300.0 million, provided that the aggregate consideration consisting of cash and indebtedness assumed or incurred in connection with acquisition does not exceed $200.0 million over the term of the credit facilities. For amounts exceeding that amount, we are required to seek the consent of our lenders.

These restrictions could limit our ability to pursue acquisitions, withstand downturns in our business, or take advantage of business and tax planning opportunities. Furthermore, our debt facilities require us to maintain specified financial ratios and to satisfy specified financial condition tests, and under certain circumstances require us to make annual mandatory prepayments with a portion of our available cash. As of November 30, 2008 we were in compliance with all of our debt covenants. However, our ability to comply with these ratios or tests may be affected by events beyond our control, including prevailing economic, financial and industry conditions and there is a risk we will not be in compliance in the future.

Our quarterly operating results may fluctuate depending on the timing and success of product releases, which may result in volatility of our stock price.

Our products generally have release cycles of between 12 and 24 months, and we typically earn the largest portion of revenues for a particular product during the first half of its release cycle. If new versions of our software do not achieve widespread market acceptance, our results of operations will be adversely affected. Because the timing and success of new product and product upgrade releases have a significant impact on our revenues and expenses and release dates do not conform to a fiscal year cycle, it is difficult to discern meaningful trends in our business by comparing our financial results for any two fiscal quarters. Due to the impact of releases of new products and versions, our future operating results and stock price may be subject to significant volatility, particularly on a quarterly basis. Any delays or failures in developing enhancements and marketing our new versions of our products or product upgrades may have a harmful impact on our results of operations.

The long-term trend in our business reflects growth in revenues from acquisitions and not our existing products and that growth through acquisitions may not be representative of future growth.

Although our financial results have improved since our acquisition by Vector Capital, a significant portion of that improvement resulted from our implementation of cost reduction initiatives, including a significant reduction in our workforce, as well as additional revenue we obtained primarily through the sale of products acquired through acquisitions. Because our products and markets are relatively mature, and since our strategy does not include internal development of new product lines, our prospects for offsetting declining organic revenues in mature products and for future growth are highly dependent on our ability to complete acquisitions of complementary businesses, products or technologies. Recent increases in our revenues are primarily attributable to the inclusion of InterVideo revenues beginning with our fiscal 2007 results. Our reliance on acquisitions as a primary means of achieving future growth involves a number of risks and uncertainties, many of which are beyond our control.

For example, the purchase price for acquisitions will depend significantly on overall market conditions, the degree of competition from other strategic or financial buyers and the availability of attractive acquisition candidates with complementary products or services. In addition, we may need debt or equity financing to pay for acquisitions, which may not be available to us on acceptable terms or at all, particularly after the tightening in the credit market in fiscal 2008. Our ability to use our common shares as currency to pay for acquisitions will depend on the trading price of our common shares, which may be volatile as demonstrated during the final quarter of fiscal 2008, when our share price declined from a high closing price of $10.15 per share to a low closing price of $4.23 per share. If we cannot successfully execute our acquisition strategy our growth will be constrained and the value of our common shares could decline.

We have grown, and may continue to grow, through acquisitions that give rise to risks and challenges that could adversely affect our future financial results.

We have in the past acquired, and we expect to acquire in the future, other businesses, business units, and technologies. Acquisitions involve a number of special risks and challenges, including:

- Complexity, time, and costs associated with the integration of acquired business operations, workforce, products, and technologies into our existing business, sales force, employee base, product lines, and technology;
- Diversion of management time and attention from our existing business and other business opportunities;
- Loss or termination of employees, including costs associated with the termination or replacement of those employees;
- Assumption of debt or other liabilities of the acquired business, including litigation related to alleged liabilities of the acquired business;
- The risk that key customers and business relationships of the acquired company may not be maximized;
- The incurrence of additional acquisition-related debt as well as increased expenses and working capital requirements;
- Dilution of stock ownership of existing stockholders, or earnings per share;
- Increased costs and efforts in connection with compliance with Section 404 of the Sarbanes-Oxley Act (“SOX”) and the risk that the acquired company may not be SOX compliant which may in-turn cause us to be non-compliant; and
- Substantial accounting charges for restructuring and related expenses, write-off of in-process research and development, impairment of goodwill, amortization of intangible assets, and stock-based compensation expense.

Integrating acquired businesses has been and will continue to be a complex, time consuming, and expensive process, and can impact the effectiveness of our internal controls over financial reporting.

If integration of our acquired businesses is not successful, we may not realize the potential benefits of an acquisition or undergo other adverse effects that we currently do not foresee. To integrate acquired businesses, we must implement our technology systems in the acquired operations and integrate and manage the personnel of the acquired operations. We also must effectively integrate the different cultures of acquired business organizations into our own in a way that aligns various interests, and may need to enter new markets in which we have no or limited experience and where competitors in those markets have stronger market positions.

Any of the foregoing, and other factors, could harm our ability to achieve anticipated levels of profitability from acquired businesses or to realize other anticipated benefits of acquisitions. In addition, because acquisitions of technology companies are inherently risky, there is a risk that our previous or future acquisitions will not be successful and will adversely affect our business, operating results, or financial condition.

If we fail to manage our growth effectively, our business could be harmed.

Our strategy is to maximize value by achieving growth both organically and through acquisitions. Our ability to effectively manage and control any future growth may be limited. To manage any growth, our management must continue to improve our operational, information and financial systems, procedures and controls and expand, train, retain and manage our employees. If our systems, procedures and controls are inadequate to support our operations, any expansion could decrease or stop, and investors may lose confidence in our operations or financial results. If we are unable to manage growth effectively, our business and operating results could be adversely affected, and any failure to develop and maintain adequate internal controls over financial reporting could cause the trading price of our shares to decline substantially.

Our core products compete with products offered by Microsoft and Adobe, which have dominant market positions and other significant competitive advantages.

Our *WordPerfect Suite* competes with Microsoft Office which has the majority of the global market for office suite software. In addition, our Digital Media products compete with similar products offered by Adobe, which has the majority of the global packaged Digital Media software markets in which we compete. It is extremely difficult for us to increase our market share among existing software users because they tend to have high levels of brand loyalty due to the actual or perceived cost, time and effort required to transition existing files and learn how to use new software. The existence of these dominant brands also makes it more difficult for us to attract first-time software buyers because Microsoft and Adobe can offer ubiquitous products that enable file sharing with other users of their respective products without compatibility concerns.

In addition to having dominant market positions, Microsoft and Adobe enjoy a number of other competitive advantages that result from having large scale operations, leading brand identities and significantly greater financial and other resources than we do. These advantages include, among others:

- sales and marketing advantages;
- advantages in the recruitment and retention of skilled technical personnel;
- advantages in the establishment and negotiation of profitable strategic, distribution and customer relationships;
- advantages in the development and acquisition of innovative software technology and the acquisition of software companies;
- greater ability to pursue larger scale product development and distribution initiatives on a global basis; and
- operational advantages.

Because we generally rely on having lower prices than Microsoft and Adobe to attract customers, to the extent Microsoft and/or Adobe were to offer products comparable to ours at a similar price, our revenues would decline and our business would be harmed.

Our prices may decline, which could harm our operating results.

We believe that a variety of factors in the current market could contribute to the risk that prices and our gross margins will decrease in future fiscal quarters. For example, as our customers continue to assess their business strategies and their budgets for our or our competitors product offerings, we may feel additional pressure to lower our prices.

Our success depends on our ability to offer products that are highly compatible with products offered by Microsoft and Adobe.

Software users often share files, making it critical that our products remain compatible with products that have dominant market positions. To make our products compatible with products offered by Microsoft, Adobe and others, we often rely on technical information provided to us through informal cooperative arrangements. We have no contractual right to receive this technical information, and if these competitors are unwilling to provide it to us, we may be unable to continue to provide products that are compatible with their products.

Although we have been able to achieve a high level of compatibility with Microsoft products in the past, it is often impossible for us to achieve the same level of functionality and performance as Microsoft’s products because its products benefit from technology embedded in the Microsoft Windows operating system and other Microsoft software applications, which places us at a competitive disadvantage.

Since it is often technically impossible for us to develop products that are compatible in all respects with the leading brands, there is also a risk that any non-compatible features will be criticized in the market and damage our reputation. If our products are not sufficiently compatible or are not perceived to be compatible with the leading brands for any reason, we would lose a key element of our value proposition and our revenues and results of operations would be adversely affected.

We rely on relationships with a small number of companies for a significant percentage of our revenues, and if any of these companies terminates its relationship with us, our revenues could decline.

In our fiscal year ended November 30, 2008, we derived a substantial amount of our revenues from our relationship with PC OEM manufacturers. To the extent our relationships with one or more of these large OEMs are interrupted or terminated for any reason, our revenues may decline. In addition, our agreements with these companies only provide a general framework governing our relationships. These agreements do not contain any exclusivity provisions, and these companies have no obligation to purchase a minimum quantity of our products, promote our products or continue distributing our products. Each of these companies also distributes the products of our direct competitors. Accordingly, these companies may stop distributing our products, they may feature competitive products more prominently or they may fail to effectively promote the sale of our products to their customers, which would harm our competitive position and operating results.

Because there are a small number of large PC OEMs, we only have a limited number of potential new large OEM customers, which will cause revenue to grow at a slower rate.

At present, we distribute a number of our products bundled with product offerings of OEMs such as Hewlett Packard, Lenovo, Sony, NEC, Toshiba Acer and ASUS. There are comparatively few large-scale OEMs. Our reliance on this sales channel involves many risks, including:

- we lack control over the shipping dates or volume of systems shipped by OEMs;
- our OEM partners are generally not subject to minimum sales requirements or any obligation to market our products to their customers;

- our OEM partners may terminate or renegotiate their arrangements with us and new terms may be less favorable due, among other things, to an increasingly competitive relationship with certain partners;
- sales through our OEM partners are subject to changes in strategic direction, competitive risks, and other issues that could result in a reduction of OEM sales;
- the development work that we must generally undertake under our agreements with our OEM partners may require us to invest significant resources and incur significant costs with little or no associated revenues;
- the time and expense required for the sales and marketing organizations of our OEM partners to become familiar with our products may make it more difficult to introduce those products to the market;
- our OEM partners may develop, market, and distribute their own products and market and distribute products of our competitors, which could reduce our sales; and
- we rely on these OEM partners to self report license revenues payable to us based on their product sales. If the revenues from these reports are understated we could receive significantly less cash than we are entitled.

Slow growth, or negative growth, in the PC industry could reduce demand for our product, and reduce gross profit.

Our revenue depends in large part on the demand for our products by OEMs. The PC industry has experienced slow or negative growth in the recent past due to general economic slowdowns, market saturation and other factors. If slow growth in the PC industry continues or negative growth occurs, demand for our products may decrease. Furthermore, if a reduction in demand for our products occurs, we may not be able to reduce expenses commensurately, due in part to the continuing need for research and development. Accordingly, continued slow growth or negative growth in the PC industry could reduce our gross profit.

If we fail to maintain strong relationships with our resellers and distributors, our ability to successfully deploy and sell our products may be harmed.

We primarily market our product offerings through resellers (such as Office Depot and Best Buy) and distributors (such as Ingram Micro). We focus our efforts on larger distributors, which has resulted in our dependence on a relatively small number of distributors licensing a large amount of our products. Our distributors also sell our competitors' products, and if they favor our competitors' products for any reason, they may fail to market our products as effectively or to devote resources necessary to provide effective sales, which would cause our results to suffer. In addition, the financial health of these distributors and our continuing relationships with them are important to our success. Some of these distributors may be unable to withstand adverse changes in business conditions. Our business could be seriously harmed if the financial condition of some of these distributors substantially weakens, as demonstrated in the fourth quarter of fiscal 2008 with the bankruptcy of one of our major customers.

Our business may be constrained by the intellectual property rights of others, and we have been and are currently subject to claims of intellectual property infringement, which are costly and time-consuming to defend.

The software industry is characterized by the existence of a large number of patents, trademarks and copyrights, and by frequent litigation based upon allegations of infringement or other violations of intellectual property rights. We may be constrained by the intellectual property rights of others. We are currently a defendant in a lawsuit alleging intellectual property infringement, and we may again in the future have to defend against intellectual property lawsuits. See "Item 3 — *Legal Proceedings* ". We may not prevail in our current or future intellectual property litigation given the complex technical issues and inherent uncertainties in litigation. We have in the past and expect that we will in the future receive correspondence alleging that our products infringe the intellectual property rights of others. Any claims, regardless of their merit, could be

time-consuming and distracting to management, result in costly litigation or settlement, cause product development or release delays or require us to enter into costly royalty or licensing agreements. In addition, some of our agreements with customers and distributors, including OEMs and online services companies, require us to indemnify these parties for third-party intellectual property infringement claims, and many of these indemnification obligations are not subject to monetary limits. The existence of these indemnification provisions could increase our cost of litigation and could significantly increase our exposure to losses from an adverse ruling.

Changes to the royalties we pay to third parties, or the requirement to pay other amounts in respect of third party intellectual property, could adversely effect our margins and profitability.

Our products, in particular our Digital Media applications, are sold subject to significant royalties which we pay to third parties, including third parties who hold patents and other intellectual property rights which purport to cover the technology contained within our products. These third parties could, from time to time, increase the royalties we are charged which could adversely effect our margins and profits. In addition, our products could become subject to the payment of additional royalties to other third parties which could also adversely affect our margins and profits. See prior risk factor — *"Our business may be constrained by the intellectual property rights of others, and we have been and are currently subject to claims of intellectual property infringement, which are costly and time-consuming to defend"* .

Our success depends on our ability to adequately prevent piracy of the proprietary content owned by others which is accessed by customers through the use of our products.

Our products allow our customers to use or display proprietary content owned by third parties, such as our customers' use of our WinDVD product to play movies owned by various movie studios and production companies. Individuals who are sophisticated in the field of DVD technology and encryption have made use of our products to bypass security measures implemented by movie studios, hardware and software manufacturers (the "Advanced Access Content System" or "AACS Security Protocol") and pirate the proprietary content, thereby making it available to others who can then view the content without paying the required fees to the content owners or their agents. While we continuously update the security of our products to prevent such occurrences, there is a risk that those breaches will occur in the future. The use of our products to improperly access proprietary third party content, and our requirement to update our software to correct any deficiencies, could harm our reputation with third party content providers and our customers. In some circumstances, it could also expose us to litigation and/or the requirement to compensate the owners of the proprietary content which is pirated. Further, repeated deficiencies of this type in our products could cause the AACS licensing authority to terminate our AACS license which allows us to participate in the AACS Security Protocol, a prerequisite for our products to be able to play high definition DVD content distributed by some movie studios and production companies. The loss of our AACS license would make our WinDVD product less attractive to some of our important OEM customers, upon whom we rely for a significant amount of our revenue. Accordingly, our failure to adequately protect proprietary third party content could cause us to lose customers and potentially expose us to having to pay compensation to content owners, either of which would harm our business.

We may be unable to maintain licenses to third-party technology that is integrated into our products.

We integrate third-party technology into our software products. Although we are not currently reliant on any technology license agreement from a single third party, if we were to lose our rights to technology licensed to us by several third parties, our business could be significantly disrupted, particularly if the technology subject to those agreements was either no longer available to us or no longer offered on commercially reasonable terms. In either case, if we are unable to redesign our software to function without this third-party technology or to obtain or internally develop similar technology, we might be forced to limit the features available in our current or future products.

Our success depends heavily on our ability to adequately protect our intellectual property.

We depend upon our ability to protect our technology. Our means of protecting our intellectual property may not be adequate to prevent others from misappropriating or otherwise obtaining and using information that we regard as proprietary. Any of our patents, trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. We may be unable to obtain effective patent or trademark protection in the future. Policing unauthorized use of our software is difficult and costly, particularly in countries where the laws may not protect our proprietary rights as fully as in the U.S. and Canada. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We have placed source code for our software in escrow, and this source code may, under certain circumstances, be made available to certain of our customers, distributors or OEMs. We also work with translators, localizers and independent software developers, and these third parties have access to proprietary information relating to our technology. While we have entered into confidentiality and non-competition agreements with these third parties and their employees, these arrangements could increase the ease or likelihood of potential misappropriation or other misuse of our intellectual property.

Further, our software products contain open source software code licensed to us under various open source licenses. We rely in part on third parties to develop our software and may not be able to verify whether the components developed by these third parties contain additional open source code. Open source code may impose limitations on our ability to sell our products because, among other reasons, open source license terms may result in unanticipated obligations regarding our products and the disclosure of underlying derivative source code, and open source software cannot be protected under trade secret law.

Our substantial indebtedness could affect our financing options and liquidity.

As of November 30, 2008, we had approximately $156.4 million of total debt outstanding and an unused $69.4 million revolving credit facility. Our indebtedness is secured by substantially all of our assets and could have important consequences to our business or the holders of our common shares, including:

- limiting our ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions;
- requiring a significant portion of our cash flow from operations to be dedicated to the payment of the principal of and interest on our indebtedness, thereby reducing funds available for other purposes;
- making us more vulnerable to economic downturns and limiting our ability to withstand competitive pressures; and
- making it more difficult to pay dividends on our common shares, if we decide to do so.

In addition, because some of our debt bears interest at variable rates, we are subject to interest rate risk in the event interest rates increase at a faster pace and/or to higher levels than we have experienced in recent periods. See "Item 7A — *Quantitative and Qualitative Disclosures about Market Risk — Interest Rate Risk.* "

The packaged software industry is subject to rapid technological change, and if we fail to respond to dynamic market forces, our position within the industry will be harmed.

The packaged software industry is characterized by rapid technological change. If our competitors are able to develop innovative new features or functionality that we are unable to replicate or if we experience delays in providing competing features or functionality, our business may suffer. Moreover, we devote the majority of our research and development efforts toward enhancing our existing product lines rather than pursuing the development of new applications. If our competitors are able to make significant innovative improvements to their products or develop new products with substantially enhanced capabilities, our products may become obsolete or our value proposition may become less attractive.

We face significant competitive threats from companies that may offer competitive software products at little or no cost to consumers to increase their market presence and user base.

Large online services companies are constantly seeking new ways to drive Internet traffic to their websites and increase their user bases, such as Google's Picasa, Docs, and SketchUp, which compete against some of our digital media and productivity products. Because these companies primarily earn revenues through the sale of advertising or the collection of subscription fees, they are often willing to provide free or low cost products and services to their users to increase usage of their core services.

The manner in which packaged software is distributed is changing rapidly, which presents challenges to established software companies such as us and presents opportunities for potential competitors.

Traditionally, most consumer software has been sold as a separate stand-alone item through retail vendors. Increasingly, software products are being bundled with hardware or online services and sold directly by the OEMs and online services companies. Although we have relationships to bundle our software with some hardware and online services providers, if we are not successful in maintaining these relationships and with forging distribution arrangements with digital camera manufacturers or additional participants in all the markets we serve, our competitors may gain a significant competitive advantage.

We generally receive significantly lower prices for software that is bundled with hardware or services than we receive for physically packaged software. In the case of software bundled with hardware, we generally bundle lower functionality versions of our software and provide the opportunity for users to upgrade to more full-featured versions. Accordingly, even if we are successful in expanding our relationships with OEMs, our revenues may decline to the extent purchasers through these channels do not purchase our software through the retail channel or elect not to purchase our software upgrades.

The increasing percentage of packaged software distributed by OEMs and over the Internet presents a number of challenges and competitive threats. We currently distribute a substantial portion of our products in retail locations around the world and view our retail distribution network as a competitive strength. To the extent that retail software distribution represents a diminishing percentage of total software sales, the relative benefits of our retail network will decline. A declining percentage of our sales have been derived from our retail distribution channel, and we expect this trend to continue. If in the future we need to reduce the size or scope of our retail distribution network, we will likely incur significant restructuring charges which would adversely affect our results of operations.

In addition, competitors such as Microsoft, increasingly are incorporating additional functionality into the Windows operating system at no additional cost which could render some or all of our products obsolete.

With the growth in the Internet as a medium to download and purchase software, we expect to face increasing competition from smaller software providers.

The increasing popularity of the Internet as a medium to purchase software is enabling smaller software providers to distribute products with minimal upfront costs or resources. In the past, a substantial barrier to entry into the packaged software market for small-scale providers has been the need to manufacture, package and distribute software through a retail or commercial distribution chain. To the extent consumers increasingly purchase software over the Internet, we expect to face increased competition from small software development companies and programmers worldwide. Online software distribution has certain inherent advantages over physically packaged software, such as the reduction or elimination of manufacturing, packaging, shipping and inventory costs. New entrants that have business models focused on Internet distribution may have more favorable cost structures than companies such as ours that employ a multi-channel distribution network, which could give those competitors cost savings, pricing and profitability advantages.

Open source software and open standards may make us more vulnerable to competition because new market entrants and existing competitors could introduce similar products quickly and cheaply.

Open source refers to the free sharing of software code used to build applications in the software development community. Individual programmers may modify and create derivative works and distribute them at no cost to the end user. To the extent that open source software is developed that has the same or similar functionality as our products, demand for our software may decline, we may have to reduce the prices we charge for our products and our results of operations may be negatively affected.

In addition, there is continuing pressure on the software industry to adopt standardized file formats. Microsoft recently released the specifications for one file format which has been implemented in its next generation office suite. While we generally support the adoption of open standards, this change may make it easier for other software companies to produce productivity software that is compatible with Microsoft Office. In the past we have been one of a small group of companies that offer productivity software that directly competes with Microsoft Office applications and is also compatible with those applications. If the proposed Microsoft Office open file format, or any other open file format, becomes the industry accepted standard, we could lose a key competitive advantage.

Our products are complex and may contain errors or defects resulting from such complexity.

The software products we develop and the associated professional services we offer are complex and must meet stringent technical requirements of our customers. We must develop our products quickly to keep pace with the rapidly changing software market. Our software products and services may contain undetected errors or defects, especially when first introduced or when new versions are released. Failure to achieve acceptance could result in a delay in, or inability to, receive payment. Our products may not be free from errors or defects after commercial shipments have begun, which could result in the rejection of our products and damage to our reputation, as well as lost revenues, diverted development resources, increased service and warranty costs and related litigation expenses and potential liability to third parties, any of which could harm our business.

An interruption of our supply of certain products or key components from our sole source supplier, or a price increase in those products or components, could hurt our business.

We have chosen to outsource the manufacturing and distribution of many of our desktop software products to ModusLink, a third party provider. Although our reliance on a single supplier provides us with efficiencies and enhanced bargaining power, poor performance by or lack of effective communication with this contractor can significantly harm our financial condition and results of operations. This risk is amplified by the fact that we carry very little inventory and rely on just-in-time manufacturing processes.

If we do not provide acceptable customer support, our reputation will suffer and it will be difficult to retain existing customers or to acquire new customers.

The effectiveness of our customer service and technical support operations are critical to customer satisfaction and our financial success. If we do not respond effectively to service and technical support requests we will lose customers and miss revenue opportunities, such as product renewals and new product sales. We occasionally experience customer service and technical support problems, including longer than expected waiting times for customers when our staffing and systems are inadequate to handle a higher-than-anticipated volume of requests. If we do not adequately train our support representatives, our customers may not receive an appropriate level of support, we could lose customers and our financial results could suffer.

We are subject to risks associated with international operations that may harm our business.

In our fiscal year ended November 30, 2008, we derived approximately 51.9% of our total revenues from sales to customers outside of the Americas. Our international operations subject us to a number of risks, challenges and uncertainties, including the following:

- foreign currency fluctuations;
- increased software piracy and uncertainty with respect to the enforcement of intellectual property rights;
- international economic and political conditions;
- labor and employment laws, particularly in Europe, which make it difficult to maintain flexible staffing levels;
- tariffs, quotas and other trade barriers and restrictions;
- difficulties and expenses in localizing our products, particularly in Asian markets;
- difficulties inherent in staffing and managing foreign operations; and
- the burdens of complying with a variety of foreign laws.

In addition, because increasing the scope of our operations in emerging economies, such as China, India, Eastern Europe and Latin America, is a key element of our growth strategy, we expect that our exposure to the risks and uncertainties described above will increase in the future.

As a global business, we have a relatively complex tax structure, and there is a risk that tax authorities will disagree with our tax positions.

We have tax losses carried forward available to offset future taxable income of $90.6 million as of November 30, 2008. Approximately 51% of our tax losses are in Canada. Under Canadian tax rules, we can only use losses to offset future taxable income from the same business or a business that is similar to the one that incurred the losses. While our Canadian losses are not subject to any annual deduction limitations, all of our losses expire between the tax years 2009 through 2028. Of the tax losses carried forward available to us, approximately C$51.0 million will expire in fiscal 2009. As of November 30, 2008, we also had approximately $155.4 million of tax depreciation in Canada that would be available to offset taxable income in future years. We have not recorded a financial statement benefit for these attributes. We have not been subject to a tax audit or review for the 2006, 2007 and 2008 tax years, and while we believe that our tax assets have been appropriately determined, there is a risk that, in the event of an audit, the tax authorities would not agree with our position.

Since we conduct operations worldwide through our foreign subsidiaries, we are subject to complex transfer pricing regulations in the countries in which we operate. Transfer pricing regulations generally require that, for tax purposes, transactions between us and our foreign affiliates be priced on a basis that would be comparable to an arm's length transaction and that contemporaneous documentation be maintained to support the tax allocation. Although uniform transfer pricing standards are emerging in many of the countries in which we operate, there is still a relatively high degree of uncertainty and inherent subjectivity in complying with these rules. To the extent Canadian or any foreign tax authorities disagree with our transfer pricing policies, we could become subject to significant tax liabilities and penalties.

The Company's tax returns are subject to review by taxing authorities in the jurisdictions in which we operate. Although we believe that we have provided for all tax exposures, the ultimate outcome of a tax review could differ materially from our provisions. The Minister of Revenue of Ontario issued a material reassessment in respect to our 2000 through 2002 taxation years. See note 12 of our financial statements, included in Item 8 of this Annual Form 10-K.

The taxes we owe for our *WinZip* business are based in part on maintaining substantial business operations in an overseas jurisdiction, which has favorable tax laws. If tax authorities determined that we did

not maintain business operations in this jurisdiction sufficient to remain subject to these tax provisions, our effective tax rate would increase, and we could become subject to significant tax liabilities, penalties and interest.

Impairment of our intangible assets could result in significant charges that would adversely impact our future operating results.

We have significant intangible assets, including goodwill with an indefinite life, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. The most significant intangible assets on our balance sheet are the technologies, customer relationships and trademarks we acquired with InterVideo and WinZip, Customer relationships are amortized on an accelerated basis based upon the pattern in which the economic benefits of customer relationships are being utilized. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives. We assess the potential impairment of goodwill on an annual basis, as well as whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We assess definite lived intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment of such assets include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of or use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period;
- changes in our organization or management reporting structure could result in additional reporting units, which may require alternative methods of estimating fair values or greater desegregation or aggregation in our analysis by reporting unit; and
- a decline in our market capitalization below net book value.

As of November 30, 2008, we had identified intangible assets with a carrying value in our financial statements of $67.0 million, all of which are definite-lived, and goodwill of $82.3 million. At November 30, 2008, given the current disruption and uncertainty in the global economy, our significant decrease in our stock price over the last fiscal quarter, and our revenues being slightly lower then projected, we determined that the appropriate triggers had been reached for an impairment test of all our intangible assets. We performed asset recoverability tests and determined that there has been no impairment of our definite lived intangible assets. Furthermore, we compared our carrying value of goodwill to the fair value of the associated reporting unit, the Company, and determined that there has been no impairment of our goodwill.

Further adverse changes in our operations or other unforeseeable factors could result in an impairment charge in future periods that would impact our results of operations and financial position in that period.

We are exposed to fluctuations in foreign currency exchange rates.

Because we have international subsidiaries and distributors that operate and sell our products outside the United States, we are exposed to the risk of changes in foreign currency exchange rates or declining economic conditions in these countries. With our increased international presence in a number of geographic locations and with international revenue and costs projected to increase, we are exposed to changes in foreign currencies including the Euro, British Pound, Canadian Dollar, Japanese Yen, and the Taiwanese Dollar. Changes in the value of foreign currencies relative to the value of the U.S. dollar could adversely affect future revenue, future operating expenses and operating results.

We are potentially exposed to default risk on our interest rate swaps and our line of credit, and there are limitations on our ability to draw on that line of credit.

As of November 30, 2008, we had $134.5 million of interest rate swaps which convert an aggregate notional principal amount of $134.5 million (or approximately 86% of our interest-bearing debt) from floating rate interest payments under our term loan facility to fixed interest rate obligations. These swaps protect us against the risk of adverse fluctuations in the London interbank offered rate (LIBOR).

Given the current economic disruptions and the restructuring of various commercial financing organizations, there is a risk of counter-party default on these items. Currently, our exposure to default risk on our interest rate swap agreements is minimal as we are currently in a liability position on all interest rate swaps. However, if the LIBOR rates were to significantly increase, there is a risk that one or more counterparties may be unable to meet its obligations under the swap agreement.

We also have a line of credit with $75.0 million available to us under our term loan agreement to fund operating and investing activities. However, it is unlikely that we will be able to draw down the full line of credit of $75.0 million position due to debt covenants. Currently, we believe we are in a position to make draws of approximately $40.0 million based on our current financial position at November 30, 2008, without violating our current debt covenants. There is a risk that maximum draw could be less in the future depending on our operating results. Furthermore, our lender may not be able to honor their line of credit commitment, which could lead to us seeking financing in a credit market that is becoming less accessible. This could adversely impact our ability to fund some of our internal initiatives or future acquisitions.

Risks Related to an Investment in our Common Shares

Our common share price is likely to be volatile.

The market price of our common shares may be volatile in response to a number of events, including:

- our quarterly operating results;
- sales of our common shares by principal shareholders;
- small trading volumes and small public float;
- future announcements concerning our or our competitors' businesses;
- changes in financial forecasts and recommendations by securities analysts or the termination of coverage by one or more securities analysts;
- actions of our competitors;
- general market conditions, economic conditions including the recent downturn, and political conditions;
- natural disasters, terrorist attacks and acts of war; and
- the other risks described in this section.

Vector Capital has significant control over our business and an investor may not have the same corporate governance protections investors would have if we were not a controlled company.

Vector Capital owns approximately 68% of our outstanding common shares. As a result, Vector Capital has the ability to influence our business, policies and affairs and has the ability to control the outcome of all elections of directors and any shareholder vote regarding a merger, other extraordinary transaction or any other matters. Messrs. Slusky and Mehta, who are members of our Board, are principals of Vector Capital. Vector Capital has no separate contractual rights to nominate any directors. There is a risk that the interests of Vector Capital and these directors will not be consistent with the interests of other holders of common shares.

In addition, for so long as Vector Capital or any other entity or group owns more than 50% of the total voting power of our common shares, we will be a "controlled company" within the meaning of NASDAQ and applicable Canadian securities regulations and, as a result, will qualify for exemptions from certain corporate

governance requirements. As a controlled company, we are exempt from several NASDAQ standards, including the requirements:

- that a majority of our Board consists of independent directors;
- that our prospective directors be nominated solely by independent directors; and
- that the compensation of our executive officers be determined solely by independent directors.

We have in the past, and may in the future, rely on these exemptions and as a result, a majority of our Board may not be independent. In addition, while we will have a nominating and corporate governance committee and a compensation committee, these committees will not consist entirely of independent directors. Our audit committee had only two independent directors for the transition period ending April 25, 2007, as permitted by applicable NASDAQ and SEC rules and by the rules and regulations of the Canadian provincial securities regulatory authorities. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ corporate governance requirements.

Vector Capital's ownership of a majority of our common shares, coupled with provisions contained in our articles of incorporation and Canadian law, reduce the likelihood that other investors will receive a premium upon a change of control.

As our controlling shareholder, Vector Capital has the sole ability to transfer control of our company to a third party, making it possible that other investors will not receive a premium upon a change of control. In addition, even if and when no single shareholder controls us, provisions of our articles of incorporation and Canadian law may delay or impede a change of control transaction. Our authorized preferred shares are available for issuance from time to time at the discretion of our Board, without shareholder approval. Our Board has the authority, subject to applicable Canadian corporate law, to determine the special rights and restrictions granted to or imposed on any wholly unissued series of preferred shares, and such rights may be superior to those of our common shares. Limitations on the ability to acquire and hold our common shares may be imposed by the *Competition Act* (Canada). This legislation permits the Commissioner of Competition of Canada to review any acquisition of a significant interest in us and grants the Commissioner jurisdiction to challenge such an acquisition before the Canadian Competition Tribunal if the Commissioner believes that it would, or would be likely to, result in a substantial lessening or prevention of competition in any market in Canada. The *Investment Canada Act* subjects an acquisition of control of a company by a non-Canadian to government review if the value of our assets as calculated pursuant to the legislation exceeds a threshold amount. A reviewable acquisition may not proceed unless the relevant minister is satisfied that the investment is likely to be a net benefit to Canada. Any of the foregoing could prevent or delay a change of control and may deprive our shareholders of the opportunity to sell their common shares.

Investors may be unable to enforce actions against the Company and certain of our directors under U.S. federal securities laws.

A majority of our directors and officers reside outside of the U.S.. Because all or a substantial portion of our assets and the assets of these persons are located outside the U.S., it may not be possible for investors to effect service of process within the U.S. upon the Company or those persons. Furthermore it may not be possible for investors to enforce judgments obtained in U.S. courts based upon the civil liability provisions of the U.S. federal securities laws or other laws of the U.S. against the Company or those persons. There is doubt as to the enforceability in original actions in Canadian courts of liabilities based upon the U.S. federal securities laws, and as to the enforceability in Canadian courts of judgments of U.S. courts obtained in actions based upon the civil liability provisions of the U.S. federal securities laws. Therefore, it may not be possible to enforce those actions against the Company, certain of our directors and officers or our independent public accounting firm.

U.S. investors in our company could suffer adverse tax consequences if we are characterized as a passive foreign investment company.

As at November 30, 2008, we believe that our company is not a passive foreign investment company. However, if, for any taxable year, our passive income or our assets that produce passive income exceed levels provided by U.S. law, we may be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. This characterization could result in adverse U.S. tax consequences to our shareholders. If we were classified as a PFIC for any taxable year in which a U.S. shareholder held our shares, such U.S. shareholder could be subject to increased U.S. federal income tax liability and an interest charge upon the sale or other disposition of our common shares or upon the receipt of amounts treated as "excess distributions." U.S. shareholders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of the PFIC rules discussed in this paragraph.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

Our executive office and registered office is located in Ottawa, Ontario, Canada. The following chart, updated as of November 30, 2008, outlines significant properties that we currently lease for operations. In addition to these, we lease office space in various countries around the world where we perform sales and marketing functions. Management believes that these facilities are well maintained, are adequate for our immediate needs and that additional space is available if needed to accommodate expansion.

Location	Purpose	Area (in square feet)	Expiration Year
Ottawa, Canada	Corporate Head Office	82,224	2018
Taipei, Taiwan	Research and Development/Sales, Marketing & Administration	50,525	2013
Shanghai, China	Research and Development/Sales and Marketing	16,258	2010
Mountain View, California	Sales and Marketing / General and Administrative	16,076	2014
Tualitin, Oregon	Sales/Research and Development	10,908	2012
Maidenhead, England	Sales and Administration	10,549	2015
Mansfield, Connecticut	*WinZip* Sales, Operations and Administration	8,890	2009
Yokohama, Japan	Sales and Marketing	6,923	2012
Munich, Germany	Sales and Administration	6,657	2012
Beijing, China	Sales and Marketing/Research and Development	4,324	2010
Munich, Germany	*iGrafx* Sales and Administration	3,627	2013
KaoHsuing, Taiwan	Research and Development	3,023	2009
Makati City, Philippines	Customer Support	3,016	2010

ITEM 3. *LEGAL PROCEEDINGS*

We are currently, and from time to time, involved in certain legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business, including assertions from third parties that we may be infringing patents or other intellectual property rights of others and from certain of our customers that they are entitled to indemnification from us in respect of claims that they are infringing such third party rights through the use or distribution of our products. The ultimate outcome of any litigation is uncertain and, regardless of outcome, litigation can have an adverse impact on the business because of defense costs, negative publicity, diversion of management resources and other factors. Failure to obtain any necessary license or other rights on commercially reasonable terms, or otherwise, or litigation arising out of intellectual property claims could materially adversely affect the business.

In addition, some of our agreements with customers and distributors, including OEMs and online services companies, require us to indemnify these parties for third-party intellectual property infringement claims, and many of these indemnification obligations are not subject to monetary limits. The existence of these indemnification provisions could increase our cost of litigation and could significantly increase our exposure to losses from an adverse ruling.

At November 30, 2008, we were a defendant in *Victor Company of Japan, Ltd ("JVC") v. Corel Corporation, InterVideo, Inc., Cyberlink Corp. et al,* an ongoing patent infringement proceeding. JVC filed a patent infringement action on January 15, 2008, against Corel and others in the United States District Court for the Western District of Texas (Austin Division), alleging infringement of U.S. Patents: 6,493,383 issued on December 10, 2002; 6,522,692 issued February 18, 2003; 6,542,543 issued April 1, 2003; 6,570,920 issued May 27, 2003; 6,141,491 issued October 31, 2000; and 5,535,008 issued July 9, 1996. JVC alleges certain Corel video playback applications infringe the patents. We believe that we have meritorious defenses to JVC's claims and intend to defend the litigation vigorously. The ultimate outcome of the litigation, however, is uncertain. Any potential loss is indeterminable at this time.

ITEM 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. *MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Our common shares are listed on the Nasdaq Global Market under the symbol "CREL" and on the TSX under the symbol "CRE". The following table sets forth the high and low closing sales prices per share of our common shares as reported on the Nasdaq Global Market, as applicable, and the TSX for each of the quarters during our fiscal year ended November 30, 2008. Our common shares commenced trading on the Nasdaq Global Market and the TSX on April 26, 2006.

	NASDAQ [US$]		TSX [CDN$]	
	High	Low	High	Low
Fiscal 2008				
Q1	$11.40	$ 7.15	$11.81	$ 8.25
Q2	$11.24	$ 9.86	$11.45	$ 9.60
Q3	$10.92	$ 9.17	$11.50	$ 9.27
Q4	$10.15	$ 4.23	$11.92	$ 5.00
Fiscal 2007				
Q1	$14.32	$12.20	$16.77	$14.29
Q2	$14.01	$12.37	$15.30	$14.50
Q3	$14.24	$12.16	$14.97	$12.95
Q4	$13.38	$11.14	$14.00	$11.31

On January 28, 2009, the last reported sale price on the Nasdaq Global Market for our common shares was $3.27 per share. On January 28, 2009, the last reported sale price on the TSX for our common shares was CDN$4.00 per share.

RECORD HOLDERS

As of January 31, 2009, there were 14 shareholders of record of our common shares, one of which was Cede & Co., a nominee for Depository Trust Company, or DTC, and one of which was The Canadian Depository for Securities Limited, or CDS. All of our common shares held by brokerage firms, banks and other financial institutions in the U.S. and Canada as nominees for beneficial owners are considered to be held of record by Cede & Co. in respect of brokerage firms, banks and other financial institutions located in the U.S., and by CDS in respect of brokerage firms, banks and other financial institutions located in Canada. Cede & Co. and CDS are each considered to be one shareholder of record.

DIVIDEND POLICY

We do not currently anticipate paying dividends on our common shares. Any determination to pay dividends to holders of our common shares in the future will be at the discretion of our Board and will depend on many factors, including our financial condition, earnings, legal requirements and other factors as the Board deems relevant. In addition, our indebtedness limits our ability to pay dividends and we may in the future become subject to debt instruments or other agreements that further limit our ability to pay dividends.

We paid a $7.5 million dividend to Vector Capital in March 2006. This payment is not indicative of our future dividend policy for the foreseeable future. No distributions or dividends have been paid or declared during the fiscal years ended November 30, 2008 and 2007.

MATERIAL UNITED STATES FEDERAL AND CANADIAN INCOME TAX CONSEQUENCES

General

The following discussion of material U.S. federal income tax consequences and Canadian federal income tax consequences of ownership of our common shares is included for general information purposes only and does not purport to be a complete description of all potential tax consequences.

Material U.S. Federal Income Tax Consequences

This section summarizes the material United States federal income tax consequences to "U.S. Holders" (as defined below) of the ownership and disposition of our common shares, based on the U.S Internal Revenue Code of 1986, as amended, existing and proposed Treasury regulations thereunder, published rulings, court decisions and administrative interpretations, all as currently in effect as of the date of this Annual Report on Form 10-K. This section does not purport to be a complete analysis of all of the potential United States federal income tax considerations that may be relevant to particular holders of our common shares in light of their particular circumstances, nor does it deal with all United States federal income tax consequences applicable to holders subject to special tax rules, including banks, brokers, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, tax-exempt entities, insurance companies, persons liable for alternative minimum tax, persons that actually or constructively own 10 percent or more of the total combined vesting power of our common shares, persons that hold common shares as part of a straddle or a hedging, constructive sale, synthetic security, conversion or other integrated transaction, pass-through entities (e.g., partnerships), persons whose functional currency is not the United States dollar, expatriates or former long-term residents of the United States, individual retirement accounts or other tax-deferred accounts, real estate investment trusts, or regulated investment companies.

For purposes of this discussion, you are a "U.S. Holder" if you are a beneficial owner of common shares and you are for United States federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation, or other entity taxable as a corporation, created or organized under the laws of the United States or any political subdivision thereof, (iii) an estate whose income is subject to United States federal income tax regardless of its source, or (iv) a trust (a) if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust or (b) that has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

Taxation of Dividends

In general, a U.S holder must include in its gross income as ordinary income the gross amount of any dividend paid by us out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes), including the amount of any Canadian taxes withheld from this dividend. We do not maintain calculations of our earnings and profits for United States federal income tax purposes. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. Distributions in excess of our current and accumulated earnings and profits (as determined for United States federal income tax purposes), including the amount of any Canadian taxes withheld from the distributions, will be treated as a non-taxable return of capital to the extent of your adjusted basis in the common shares and as a capital gain to the extent such portion exceeds your adjusted basis. If you are a non-corporate U.S. Holder, dividends you receive in taxable years beginning before January 1, 2011, generally will be taxable at a rate of 15 percent, provided certain holding period and other requirements are satisfied.

Any Canadian tax withheld from dividend payments may, subject to certain limitations, be claimed as a foreign tax credit against your United States federal income tax liability or may be claimed as a deduction for United States federal income tax purposes.

Taxation of Dispositions

The gain or loss you realize on the sale or other disposition of your common shares will be capital gain or loss for United States federal income tax purposes, and will be long-term capital gain or loss if you held your common shares for more than one year. The amount of gain or loss will be equal to the difference between the United States dollar value of the amount that you realize and your adjusted tax basis, determined in United States dollars, in your common shares. The deduction of losses is subject to limitations for U.S federal income tax purposes. The gain or loss will be gain or loss from sources within the United States for foreign tax credit limitation purposes.

Material Canadian Income Tax Consequences

The following discussion summarizes the principal Canadian federal income tax considerations generally applicable to a person, referred to as an "Investor", who holds our common shares, and who at all material times for the purposes of the Income Tax Act (Canada) (the "Act"), deals at arm's length with us, is not affiliated with us, holds common shares as capital property, is a non-resident of Canada, and does not, and is not deemed to, use or hold any common share in, or in the course of, carrying on business in Canada.

This summary is based on the current provisions of the Act, including the regulations under the Act, and the Canada-United States Income Tax Convention (1980), referred to as the "Treaty", as amended. This summary takes into account all specific proposals to amend the Act and the regulations under the Act publicly announced by the government of Canada prior to the date of this report, and our understanding of the current published administrative and assessing practices of the Canada Revenue Agency. It is assumed that all of those amendments will be enacted substantially as currently proposed, although no assurances can be given in this respect. Except to the extent otherwise expressly set out in this summary, this summary does not take into account any provincial, territorial, or foreign income tax law. Special rules, which are not discussed in this summary, may apply to a non-resident holder that is an insurer carrying on business in Canada and elsewhere, or a financial institution as defined by section 142.2 of the Act. If you are in any doubt as to your tax position, you should consult with your tax advisor.

Taxation Of Dividends

Any dividend on a common share paid or credited, or deemed under the Act to be paid or credited, by us to an Investor, will generally be subject to Canadian withholding tax at the rate of 25% on the gross amount of the dividend, or such lesser rates as may be available under an applicable income tax treaty. We will be required to withhold any such tax from the dividend, and remit the tax directly to the Canada Revenue Agency for the account of the Investor. Pursuant to the Treaty, the rate of withholding tax applicable to a dividend paid on a common share to an Investor who is a resident of the United States for the purposes of the Treaty (and who is otherwise eligible for the benefits of the Treaty) will be reduced to 5% if the beneficial owner of the dividend is a company that owns at least 10% of our voting stock, and in any other case will be reduced to 15%. Under the Treaty, dividends paid or credited to an Investor that is a United States tax exempt organization as described in Article XXI of the Treaty will not be subject to Canadian withholding tax. It is the position of the Canada Revenue Agency that United States limited liability companies ("LLC's) generally do not qualify as residents of the United States under the Treaty and therefore Treaty reductions are not available to those Investors. However, the fifth protocol amending the Treaty (the "Protocol") has amended the treaty such that an LLC may be entitled to benefits under the Treaty in certain circumstances provided that members of the LLC are taxed in the United States on any income, profits or gains earned through the LLC in the same way they would be if they had earned it directly. The relevant provisions of the Protocol are effective for amounts paid or credited on or after February 1, 2009.

Taxation of Gain on Disposition

An Investor generally will not be subject to tax pursuant to the Act on any capital gain realized by the Investor on a disposition of a common share unless the common share constitutes "taxable Canadian property" to the Investor for purposes of the Act and the Investor is not eligible for relief pursuant to an applicable

bilateral tax treaty. A common share that is disposed of by an Investor will not constitute taxable Canadian property of the Investor provided that the common share is listed on a "designated stock exchange" for the purposes of the Act (the TSX and NASDAQ are so designated), and that neither the Investor, nor one or more persons with whom the Investor did not deal at arm's length, alone or together, at any time in the five years immediately preceding the disposition, owned 25% or more of the issued shares of any class or series of our capital stock. Even if a common share is taxable Canadian property to an Investor, the Treaty will generally exempt an Investor who is a resident of the United States for the purposes of the Treaty (and who is otherwise eligible for the benefits of the Treaty), and who would otherwise be liable to pay Canadian income tax in respect of any capital gain realized by the Investor on the disposition of a common share, from that liability, provided that the value of the common share is not derived principally from real property situated in Canada. We are of the view that the value of our common shares is not currently derived principally from real property situated in Canada. The Treaty may not be available to a non-resident Investor that is an LLC, which is not subject to tax in the United States or, in accordance with amendments to the Treaty under the Protocol (discussed above), a resident investor that is a member of an LLC, if the non-resident investor is not taxed in the United States on any income, profits or gains earned through the LLC in the same way it would be if the non-resident investor earned it directly.

THE FOREGOING SUMMARY OF MATERIAL U.S. AND CANADIAN TAX CONSEQUENCES IS BASED ON THE CONVENTION BETWEEN CANADA AND THE UNITED STATES OF AMERICA WITH RESPECT TO TAXES ON INCOME AND CAPITAL GAINS, U.S. LAW, CANADIAN LAW, AND REGULATIONS, ADMINISTRATIVE RULINGS AND PRACTICES OF THE U.S. AND CANADA, ALL AS THEY EXIST AS OF THE DATE OF THIS REPORT. THIS SUMMARY DOES NOT DISCUSS ALL ASPECTS THAT MAY BE RELEVANT TO ANY PARTICULAR INVESTORS IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES. INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR OWN PARTICULAR CIRCUMSTANCES AND WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF OWNERSHIP OF COREL CORPORATION COMMON SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, PROVINCIAL, LOCAL AND FOREIGN TAX LAWS, ESTATE TAX LAWS AND PROPOSED CHANGES IN APPLICABLE LAWS.

RECENT SALES OF UNREGISTERED SECURITIES

During our fiscal year ended November 30, 2008 there were no issuances and sales of unregistered securities.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

Information regarding our equity compensation plans required by Item 201(d) of Regulation S-K may be found under "Item 12 — *Equity Incentive Plan and Other Compensation Plans.* "

DISCLOSURE PURSUANT TO THE REQUIREMENTS OF NASDAQ

A quorum for our general meetings consists of one person present and being, or representing by proxy, shareholders holding in the aggregate not less than 20% of the issued shares entitled to be voted at the meeting. We were granted an exemption from the NASDAQ Marketplace Rules requiring each issuer to provide for a quorum at any meeting of the holders of common stock of no less than 33.3% of the outstanding shares of the issuer's common voting stock.

In fiscal 2008, the independent members of our board of directors did not have regularly scheduled meetings at which only independent directors were present other than meetings of our audit committee and our special committee meetings to evaluate purchase offers.

ITEM 6. *SELECTED FINANCIAL DATA*

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data for our fiscal years ended November 30, 2006, 2007 and 2008 and as of November 30, 2007 and 2008 is derived from our audited consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. The selected consolidated financial data set forth below for our fiscal years ended November 30, 2004 and 2005, and as of November 30, 2004, 2005 and 2006 have been derived from our audited consolidated financial statements.

The selected consolidated financial data presented as at and for the fiscal years ended November 30, 2005 includes the financial results of the Jasc business from October 26, 2004. The selected consolidated financial data presented as at and for the fiscal year ended November 30, 2005 includes the financial data of WinZip from January 18, 2005 to November 30, 2005, which reflects the period that WinZip and we were under common control by Vector Capital. The selected consolidated financial date presented as at and for the fiscal year ended November 30, 2007 reflects the acquisition of InterVideo on December 12, 2006. As a result, the financial data presented is not directly comparable between periods.

Historical results do not necessarily indicate results expected for any future period. The data below is qualified in its entirety by the detailed information included elsewhere in this Annual Report on Form 10-K and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and the consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K.

	Fiscal Years Ended November 30,				
	2004	2005	2006	2007	2008
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues	$111,692	$164,044	$177,191	$ 250,480	$268,230
Gross margin	79,845	118,290	140,344	173,719	180,615
Total operating expenses	71,454	101,404	106,187	166,809	157,199
Income (loss) from operations	8,391	16,886	34,157	6,910	23,416
Income tax expenses (recovery)	7,315	6,291	4,668	3,443	(136)
Net income (loss)	1,207	(8,753)	9,251	(13,062)	3,707
Net income (loss) per Corel common share:					
Basic	$ N/A	$ N/A	$ 0.41	$ (0.52)	$ 0.14
Fully diluted	$ N/A	$ N/A	$ 0.40	$ (0.52)	$ 0.14
Weighted average number of Corel common shares used in per share calculations:					
Basic	N/A	N/A	22,410	24,951	25,631
Fully diluted	N/A	N/A	23,156	24,951	26,189
Net income (loss) per share					
Basic					
Class A	$ 0.08	$ (2.40)	N/A	N/A	N/A
Class B	$ 0.08	$ (2.40)	N/A	N/A	N/A
WinZip common	N/A	$ 136.90	N/A	N/A	N/A
Fully diluted					
Class A	$ 0.08	$ (2.40)	N/A	N/A	N/A
Class B	$ 0.08	$ (2.40)	N/A	N/A	N/A
WinZip common	N/A	$ 136.90	N/A	N/A	N/A
Weighted average number of shares used in per share calculations:					
Basic					
Class A	8,218	3,737	N/A	N/A	N/A
Class B	3,497	8,321	N/A	N/A	N/A
WinZip common	N/A	20	N/A	N/A	N/A
Fully diluted					
Class A	8,218	3,737	N/A	N/A	N/A
Class B	3,497	8,321	N/A	N/A	N/A
WinZip common	N/A	20	N/A	N/A	N/A
Cash Flow Data:					
Cash flow provided by operating activities	$ 32,512	$ 40,459	$ 36,225	$ 26,499	$ 35,505
Cash flow provided by (used in) financing activities	$ (5,329)	$ (38,552)	$ (3,885)	$ 71,808	$ (3,060)
Cash flow provided by (used in) investing activities	$ (34,099)	$ 7,301	$ (1,906)	$(124,760)	$ (6,625)
Other Financial Data:					
Adjusted EBITDA(1)	$ 32,199	$ 49,033	$ 55,214	$ 57,291	$ 60,903

	As of November 30,				
	2004	2005	2006	2007	2008
			(In thousands)		
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 21,788	$ 20,746	$ 51,030	$ 24,615	$ 50,260
Working capital (deficit)	(19,417)	(13,482)	31,152	(15,219)	(6,316)
Total assets	108,788	120,836	130,686	266,837	259,396
Deferred revenue	10,020	13,840	14,734	18,072	17,594
Total long-term debt	64,799	150,971	90,649	158,608	156,359
Total shareholders' equity (deficit)	1,537	(85,234)	(11,807)	(14,300)	(8,363)

(1) Adjusted EBITDA represents net income before interest, income taxes, depreciation and amortization, further adjusted to eliminate items specifically defined in our credit facility agreement. Adjusted EBITDA is not a measure of operating income, operating performance or liquidity under GAAP. We use this non-GAAP financial measure to confirm our compliance with covenants contained in our debt facilities, as a supplemental indicator of our operating performance and to assist in evaluation of our ongoing operations and liquidity and to determine appropriate levels of indebtedness. In particular, we have included a presentation of Adjusted EBITDA because certain covenants in our credit facility are tied to Adjusted EBITDA. If our Adjusted EBITDA were to decline below certain levels, it could result in, among other things, a default or mandatory prepayment under our current credit facility. The covenants in our credit facility are described under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness." We believe Adjusted EBITDA is useful to investors in allowing for greater transparency with respect to supplemental information used by management in its financial and operational decision making. This measure does not have any standardized meaning prescribed by GAAP and therefore is not comparable to the calculation of similar measures used by other companies. Adjusted EBITDA should not be considered in isolation, and should not be viewed as an alternative to or substitute for measures of financial performance or changes in cash flows calculated in accordance with GAAP.

We consider Adjusted EBITDA to be a measure of liquidity. Accordingly, it is reconciled to cash flow from operations (calculated in accordance with GAAP) in the table below. Investors are encouraged to review the related GAAP financial measure and the reconciliation.

	Fiscal Years Ended November 30,				
	2004	2005	2006	2007	2008
Cash flow provided by (used in) operating activities	$32,512	$ 40,459	$36,225	$26,499	$35,505
Change in operating assets and liabilities	1,683	(10,440)	3,736	5,238	1,544
Interest expense	2,709	12,786	12,309	16,978	14,711
Interest income	(1,485)	(178)	(978)	(724)	(459)
Income tax expense (recovery)	7,315	6,291	4,668	3,443	(136)
Provision for bad debts	93	(529)	(195)	(252)	(1,092)
Unrealized foreign exchange gains (losses) on forward contracts	27	(263)	(150)	(147)	(126)
Deferred income taxes	(5,178)	(830)	(876)	83	4,533
Gain (loss) on interest rate swap recorded at fair value	—	—	(810)	(392)	7
Gain (loss) on disposal of fixed assets	(3)	20	—	(102)	(196)
Gain on disposal of investments	—	—	—	—	822
Net gain on defined benefit plan	—	—	—	—	184
Predecessor legal settlement and tax refund	(8,994)	—	—	—	—
Restructuring	3,520	834	810	1,447	2,878
Integration costs	—	—	358	5,220	—
Expenses associated with evaluation of strategic alternatives	—	—	—	—	2,728
Reorganization costs	—	883	117	—	—
Adjusted EBITDA	$32,199	$ 49,033	$55,214	$57,291	$60,903

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following discussion and analysis should be read together with our audited consolidated financial statements for the years ended November 30, 2008, 2007 and 2006 and accompanying notes set forth elsewhere in this report. All financial information is presented in U.S. dollars.

Some of the statements set forth in this section are forward-looking statements relating to our future results of operations. Our actual results may vary from the results anticipated by these statements. Please see "Information Regarding Forward-Looking Statements".

OVERVIEW

We are a leading global packaged software company with an estimated installed base of over 100 million active users in over 75 countries. We provide high quality, affordable and easy-to-use Graphics and Productivity and Digital Media software. Our products enjoy a favorable market position among value-conscious consumers and small businesses benefiting from the widespread, global adoption of personal computers, or PCs, and digital capture devices. The functional departments within large companies and governmental organizations are also attracted to the industry-specific features and technical capabilities of our software. Our products are sold through a scalable distribution platform comprised of original equipment manufacturer's (OEMs), our global e-Stores, and our international network of resellers and retail vendors. We have broad geographic representation with dedicated sales and marketing teams based in the Americas, Europe Middle East and Africa (EMEA), and the Asia Pacific (APAC) regions. Our product portfolio includes well-established, globally recognized brands.

An important element of our business strategy is to grow revenues through acquisitions of companies or product lines. We intend to focus our acquisition activities on companies or product lines with proven and complementary products and established user bases that we believe can be accretive to our earnings shortly after completion of the acquisition. While we review acquisition opportunities on an ongoing basis, we currently have no binding obligations with respect to any particular acquisition. We are subject to certain debt covenants which may restrict our ability to pursue certain acquisitions.

Graphics and Productivity

Our primary Graphics and Productivity products include: *CorelDRAW Graphics Suite, Corel Painter, CorelDESIGNER Technical Suite, WinZip* , *iGrafx* and *WordPerfect Office. CorelDRAW Graphics Suite* is a leading vector illustration, page layout, image editing and bitmap conversion software suite used by design professionals and non-professionals around the world. *Corel Painter* is a Natural-Media digital painting and drawing software that mirrors the look and feel of their traditional counter parts. *CorelDESIGNER Technical Suite* offers users a graphics application for creating or updating complex technical illustrations. *WinZip* is the most widely used compression utility, with more than 40 million licenses sold to date. Our *iGrafx* products allow enterprises to analyze, streamline and optimize their business processes. *WordPerfect Office* is the leading Microsoft-alternative productivity software and features Microsoft-compatible word processing, spreadsheet and presentation applications.

Digital Media

Our Digital Media portfolio includes products for digital imaging, video editing, optical disc authoring (Blu-ray, DVD, and CD), and video playback. Our Digital Imaging products include *Corel Paint Shop Pro Photo, Corel MediaOne, Corel Photo Album,* and *PhotoImpact. Corel Paint Shop Pro Photo* is a digital image editing and management application used by novice and professional photographers and photo editors. *Corel MediaOne* is a multimedia software program for organizing and enhancing photos and video clips that are primarily taken with a point-and-shoot camera. *Corel Photo Album* is an entry-level software program that allows users to easily store, organize, share and manage their digital photo collections. PhotoImpact is an image editing software, which provides users with easy-to-use photo editing tools, creative project templates and some digital art capabilities. *VideoStudio* is our consumer focused video editing and DVD authoring

software for users who want to produce professional-looking videos, slideshows and DVDs. Our optical disc authoring software applications are *DVD Movie Factory and DVD Movie Writer. WinDVD* is the world's leading software for DVD, video and Blu-ray Disc playback on PC's with over 200 million units shipped worldwide.

Corporate History

We were incorporated in Canada under the *Canada Business Corporations Act* in May 1985. In January 1989, we released *CorelDRAW* , a market-leading full-featured graphics software product in the Windows platform. In November 1989, we completed an initial public offering of our common shares. In January 1996, we acquired the *WordPerfect* family of software products. In August 2003, we were acquired by Vector Capital and taken private under the *Business Corporations Act (Ontario).* Following our acquisition by Vector Capital, we undertook a significant restructuring of our business. As part of this restructuring, we divested our underperforming product lines, discontinued speculative research and development activity, refocused investments on our core product offerings and implemented company-wide expense reduction measures.

In October 2004, we acquired Jasc Inc. (Jasc), a leading Digital Media packaged software company, for total consideration of $36.7 million, consisting of $34.3 million in cash and 379,677 of our common shares. Through the Jasc acquisition, we added *Corel Paint Shop Pro Photo* and *Corel Photo Album* to our Digital Media offerings.

In May 2006, we acquired WinZip Inc. (WinZip). As consideration for the acquisition, we issued to Vector Capital 4,322,587 of our common shares and repaid all of WinZip's outstanding indebtedness. Vector Capital acquired WinZip in January 2005. Through this acquisition, we added the *WinZip* file compression utility to our Graphics and Productivity software offerings. Also in May 2006, we completed an initial public offering of our common shares on the TSX and the NASDAQ Global Market.

On December 12, 2006, we completed the acquisition of InterVideo Inc., a provider of Digital Media authoring and video playback software with a focus on high-definition and DVD technologies. In 2005, InterVideo acquired a majority interest in Ulead Inc., a leading developer of video imaging and DVD authoring software for desktop, server, mobile and Internet platforms. On December 28, 2006 we completed the acquisition of the remaining interest in Ulead Inc. The acquisitions of InterVideo Inc. and Ulead Inc. (together referred to as InterVideo) were completed in cash transactions totaling approximately $220.4 million. We purchased InterVideo for $13.00 per share of InterVideo common stock. We financed the acquisitions through a combination of our cash reserves, InterVideo's cash reserves and debt financing which included an amendment to our existing credit agreement to increase available term borrowings by $70.0 million.

This acquisition substantially expanded our presence in the Digital Media software market by creating a broad portfolio of Digital Media and DVD video products. The main products acquired from InterVideo were *WinDVD, VideoStudio, DVD Factory, DVD Copy* and *PhotoImpact.* With the combination of our Digital Imaging software and InterVideo's Digital Media products, we now deliver an expanded portfolio of easy-to-use, multi-purpose high-definition video, imaging, and DVD creation products to consumers and enterprises worldwide. In addition the acquisition has enabled us to further extend our presence in emerging markets and Japan. As a result of the acquisition, we now report revenues on two product categories: Graphics and Productivity and Digital Media.

Fiscal 2008 Activity

On March 28, 2008 we received an unsolicited proposal from Corel Holdings, L.P. ("CHLP") (which is controlled by an affiliate of Vector Capital) the holder of approximately 69% of our outstanding common shares. CHLP proposed to make an offer to acquire all of our outstanding common shares not currently held by CHLP at a price of US$11.00 cash per share. CHLP indicated that any such offer would be conditional upon, among other things, satisfactory confirmatory due diligence and our existing credit facility remaining in place following the consummation of any transaction. Our Board of Directors formed a Special Committee of the Board, which assisted it in evaluating and responding to the CHLP proposal. In addition, the Special Committee undertook a process to evaluate other strategic alternatives to maximize value for all shareholders.

On August 18, 2008, we announced that CHLP had informed us that it withdrew its proposal to facilitate pursuit by us of other alternatives for maximizing value for all shareholders. In light of the withdrawal of the CHLP Proposal and the Board's desire to oversee evaluation of the potential strategic alternatives directly, the Board unanimously determined that there was no longer a need for the Special Committee. On August 20, 2008, we stated in a press release that we were in discussions with a third party regarding a potential sale of the company. We further stated that no agreement had been reached and there could be no assurance that such an agreement would be reached or, if completed, what its terms, price or timing might be. On October 22, 2008 we announced that discussions with a third party regarding a potential sale of Corel had ceased, and there were no longer any ongoing negotiations concerning a future acquisition of us. The Company incurred approximately $2.7 million of expenses associated with the Special Committee Review and the evaluation of other strategic alternatives from March 28, 2008 through October 22, 2008. These costs have been classified separately from income from operations.

On September 10, 2008, management initiated a restructuring plan to streamline its global operations in order to become more operationally efficient and to increase its investment in key growth opportunities, including sales to emerging markets and its eCommerce program. As part of this effort, we have reduced our workforce by approximately 90 employees worldwide. The total costs that will arise from this global restructuring are estimated to be approximately $2.4 million, of which $2.2 million were recorded as operating expenses in fiscal 2008.

Industry and Business Trends

Our largest competitors, Microsoft Corporation and Adobe Systems Incorporated, hold the majority of the markets in both Productivity and Graphics and in Digital Media. Microsoft Corporation's Microsoft Office and Adobe Systems hold most of the North American and global market for packaged Graphics and Productivity software. Adobe Systems holds much of the Digital Media software market. Growth rates of packaged software sales in emerging economies are expected to be higher than for the global packaged software market as a whole resulting from more rapidly increasing PC adoption rates in these markets. Additionally, higher growth rates are expected within the Digital Media software market because of the proliferation of capturing devices, the introduction of high definition formats, and the expansion of Digital Media content creation and sharing through social networking websites and email. Because the prices we charge for our packaged software are generally substantially less than those charged by Microsoft and Adobe for products with similar functionality, we believe we are well positioned to take advantage of the emerging market for lower cost software. However, if any of our more established competitors decide to compete with us based on price in this market, we may be unable to successfully compete with the more widely accepted software applications these competitors sell. Similarly, the markets for low-cost personal computers and Digital Media software are only newly emerging. If these markets do not develop as we expect, our business could be adversely affected. Please refer to risk included in Item 1A — Risk Factors, of this 10-K document, *''Slow growth, or negative growth, in the PC industry could reduce demand for our product, and reduce gross profit''*.

We believe there is a significant market opportunity for us in countries where the markets for PCs are newly emerging, both because our software is more attractively priced than that of our larger competitors and because we believe first time users in these markets do not have established brand loyalties.

The packaged software industry continues to change with new revenue sharing models and types of business relationships. We will seek to continue to develop relationships with industry leading companies to establish new sources of revenues for our existing and future products. If we are unsuccessful in establishing such relationships, our operating results could be materially and adversely affected.

Operating Performance

Revenue for fiscal 2008 was $268.2 million, up 7.1% from fiscal 2007. The revenue growth of $17.8 million was due to a $9.9 million revenue increase from our Digital Media group of products along with a $7.8 million revenue increase from our Graphics and Productivity group of products. The growth in the Digital Media group of products was driven primarily by an increase in revenue from our *WinDVD* and *Instant*

On products as well as the OEM revenue of InterVideo, which we were unable to recognize in the first quarter of fiscal 2007, due to acquisition accounting standards. This was partially offset by a decline in sales from *Paint Shop Pro Photo* and *Corel Photo Album.* The increase in revenue from Graphics and Productivity was driven primarily by *CorelDRAW Graphics Suite* , *WinZip, iGrafx, CorelDESIGNER Technical Suite,* and was partially offset by a decline in sales from *WordPerfect.*

Our net income for 2008 was $3.7 million, or income of $0.14 per fully diluted common share, compared to a loss of $13.1 million, or a loss of $0.52 per filly diluted common share in 2007. The increase in net income of $16.8 million was driven by a $6.9 million increase in gross margin associated with our higher revenues, and a reduction of $5.2 million in integration expenses, $7.8 million in acquired in-process research and development expenses, and $3.6 million of income tax expenses all largely associated with the acquisition of InterVideo in 2007. These items were offset by additional restructuring expenses and strategic alternative review costs incurred in fiscal 2008 of $4.2 million. Non-GAAP Adjusted EBITDA was $60.9 million and cash flow from operations was $35.5 million in fiscal 2008 compared to non-GAAP adjusted EBITDA of $57.3 million and cash provided by operations of $26.5 million in fiscal 2007. Adjusted EBITDA represents net income before interest, income taxes, depreciation and amortization, further adjusted to eliminate items specifically defined in our credit facility agreement. Refer to the indebtedness section within Item 7 of this 10-K document, for a reconciliation of non-GAAP Adjusted EBITDA to cash flow provided by operations.

OPERATIONS

Revenues

We derive revenues principally from the sale of our software, and associated maintenance and support services. Maintenance and services revenues have historically constituted 8.0% to 12.0% of our total revenues. We distribute our software through OEMs, our Internet-based e-Stores, retailers and resellers around the world. Our products are focused on two primary software markets — the Graphics and Productivity market and the Digital Media market. Our primary Graphics and Productivity products are *CorelDRAW Graphics Suite* , *Corel Painter, Corel Designer Technical Suite, WinZip, iGrafx Flow Charter* and *WordPerfect Office Suite.* Our primary Digital Media products consist of *Paint Shop Pro Photo, Media One* and the *Digital Video* family of products including *WinDVD, VideoStudio, DVD Factory, Instant ON* and *PhotoImpact.* When comparing fiscal 2006 to fiscal 2008, there has been a significant increase in our Asia Pacific sales due to the acquisition of InterVideo and our positioning in this market. In our fiscal year ended November 30, 2008, approximately 48.1% (2006 — 58.9%) of our revenues came from the Americas, 29.5% (2006 — 32.9%) came from EMEA and 22.4% (2006 — 8.2%) came from APAC.

Our products generally have release cycles of between 12 and 24 months, and we typically earn the largest portion of revenues for a particular product during the first half of its release cycle. The fiscal quarter of the most recent release of each of our major products is set forth in Item 1 of this 10-K document, under “Our Products.”

We have typically released new versions of our Digital Media products on an annual basis during the second half of our fiscal year in preparation for the December holiday shopping season. While we expect to do so in future fiscal periods as well, it should be noted that release dates are subject to a number of uncertainties and variables many of which are beyond our control. See “Item 1A-Risk Factors — *Our quarterly operating results may fluctuate depending on the timing and success of product releases, which may result in volatility of our stock price* ”.

While our revenues have been growing due to recent acquisitions and revenue growth in some of our existing products, we are uncertain as to how our revenues will be impacted by the current downturn in the global economy. We do believe we are well positioned to avoid significant revenue decreases due to our global operations and our diverse product offerings.

Cost of Revenues

Cost of product revenues primarily consists of:

- royalties paid and costs of licensing third party intellectual property;
- salaries, benefits, stock-based compensation and related costs of the manufacturing oversight staff;
- the cost of packaging and distribution of our packaged software products;
- the cost of related customer and technical support functions;
- credit card fees; and
- allocated facilities, depreciation and amortization and other related overhead.

Our cost of product revenues varies depending on the format in which our products are delivered. Products delivered in electronic format, such as through OEMs or our e-Stores, involve minimal packaging cost, as compared to products delivered in fully packaged format, such as through retail outlets, which involve substantially higher packaging and distribution expense. In addition, typically, Digital Media products, in particular *WinDVD,* are lower margin products because of the related third party royalty payments.

Cost of maintenance and services revenues consists of:

- salaries, benefits, stock-based compensation and related costs of customer and technical support functions; and
- allocated facilities, depreciation and amortization and other related overhead.

Amortization of intangible assets represents the amortization of intellectual property and other intangible assets arising from purchases of other companies such as Jasc, WinZip and InterVideo and is included in the calculation of our gross margin.

Our gross margin as a percentage of revenues decreased in 2007 and 2008 due to the acquisition of Digital Video products which tend to have higher royalties, and also as a result of a change in our sales mix. We expect this to stabilize at current levels in the next fiscal year.

Sales and Marketing

Sales and marketing expenses consist primarily of:

- salaries, commissions, benefits and stock-based compensation related to sales and marketing personnel;
- travel and living expenses;
- marketing, such as co-marketing programs with our resellers and OEMs, trade shows and advertising; and
- allocated facilities, depreciation and amortization and other related overhead.

Research and Development

Research and development expenses consist primarily of:

- salaries, benefits and stock-based compensation related to research and development personnel;
- allocated facilities, depreciation and amortization and other related overhead; and
- localization and contract development expenses.

Our research and development investments are primarily focused on maintaining competitive functionality of our software products, responding to customer requirements and expanding the geographic reach of our products. We limit research and development spending to areas that we believe will provide an attractive return on investment and have eliminated spending on speculative or high risk projects. Our research and

development costs are expensed as incurred since the cost and time between technical feasibility and release is insignificant.

General and Administrative

General and administrative expenses consist primarily of:

- salaries, benefits and stock-based compensation related to general and administrative personnel;
- accounting, legal and other professional fees;
- allocated facilities, depreciation and amortization and other related overhead; and
- insurance costs.

Taxes

We have tax loss carryforwards available to offset future taxable income of $90.6 million as of November 30, 2008, that expire between the tax years 2009 and 2028, and have not been fully audited by relevant authorities. Of these tax loss carryforwards, approximately CDN$51.0 million will expire in fiscal 2009. We have not recorded a financial statement benefit for these attributes as we have limited history of profitability, with the exception of a benefit realized on approximately $6.0 million of losses in Taiwan. As of November 30, 2008 we also had approximated $155.4 million of tax depreciation that would be available to offset taxable income in future years, for which we have established a full valuation allowance. To the extent we use tax loss carryforwards subsequent to 2008, we expect to record the benefit as a reduction in income tax expense.

Due to the international scope of our business, our income tax expense includes the tax provisions calculated for the various tax jurisdictions in which we operate and foreign withholding tax on certain license income. As a result, income tax expense is affected by the profitability of our operations in all locations, as well as local tax rates.

RESULTS OF OPERATIONS

Comparison of Fiscal Year Ended November 30, 2008 to Fiscal Year Ended November 30, 2007

Our consolidated financial statements for our fiscal year ended November 30, 2008 have been prepared in accordance with U.S. generally accepted accounting principles.

The following table sets forth certain consolidated statements of operations data in dollars and expressed as a percentage of revenues for the periods indicated, as well as the percentage change on a year-over-year basis.

	November 30,				Percentage Change
	2007	2008	2007	2008	
	(Dollars in thousands)				
Revenues					
Product	$228,274	$241,960	91.1%	90.2%	6.0%
Maintenance and services	22,206	26,270	8.9	9.8	18.3
Total revenues	250,480	268,230	100.0	100.0	7.1
Cost of revenues					
Cost of product(1)	49,846	61,453	21.8	25.4	23.3
Cost of maintenance and services(1)	796	528	3.6	2.0	(33.7)
Amortization of intangible assets	26,119	25,634	10.4	9.6	(1.9)
Total cost of revenues	76,761	87,615	30.6	32.7	14.1
Gross margin	173,719	180,615	69.4	67.3	4.0
Operating expenses					
Sales and marketing	71,563	76,791	28.6	28.6	7.3
Research and development	46,368	44,513	18.5	16.6	(4.0)
General and administrative	34,380	33,017	13.7	12.3	(4.0)
Acquired in-process research and development	7,831	—	3.1	0.0	(100.0)
Integration expense	5,220	—	2.1	0.0	(100.0)
Restructuring	1,447	2,878	0.6	1.1	98.9
Total operating expenses	166,809	157,199	66.6	58.6	(5.8)
Income from operations	6,910	23,416	2.8%	8.7%	238.9%
Other expenses (income)					
Interest expense, net	16,254	14,252	*	*	*
Amortization of deferred financing fees	1,074	1,081	*	*	*
Expenses associated with evaluation of strategic alternatives	—	2,728			
Other non-operating (income) expense	(799)	1,784	*	*	*
Income (loss) before income tax expense (recovery)	(9,619)	3,571	*	*	*
Income tax expense (recovery)	3,443	(136)	*	*	*
Net income (loss)	$ (13,062)	$ 3,707	*	*	*

(1) Percentage reflects percentage of related revenues.

* Not Meaningful

Revenues

	Year Ended November 30,		Percentage Change
	2007	2008	
	(Dollars in thousands)		
Product	$228,274	$241,960	6.0%
As a percent of revenue	91.1%	90.2%	
Maintenance and services	22,206	26,270	18.3%
As a percent of revenue	8.9%	9.8%	
Total	250,480	268,230	7.1%

Total revenues for the year ended November 30, 2008 increased by 7.1% to $268.2 million from $250.5 million for the year ended November 30, 2007. The increase of $17.8 million is attributable to the $9.9 million revenue growth in Digital Media products and the $7.8 million revenue growth in Graphics and Productivity products. The growth in the Digital Media group of products was driven primarily by an increase in revenue from our *WinDVD* and *Instant On* products as well as the OEM revenue of *Digital Video* products, which we were unable to recognize in the first quarter of fiscal 2007, due to acquisition accounting standards. The increase in revenue from Graphics and Productivity was driven primarily by *CorelDRAW Graphics Suite* , *WinZip, iGrafx, CorelDESIGNER Technical Suite,* and was partially offset by a decline in sales from *WordPerfect.*

Product revenues for the year ended November 30, 2008 increased by 6.0% to $242.0 million from $228.3 million for the year ended November 30, 2007. The increase in product revenues was driven by the same products discussed above with respect to total revenues.

Maintenance and services revenues increased by 18.3% to $26.3 million for the year ended November 30, 2008. This increase is largely attributable to increased sales of WinZip's maintenance program.

Total Revenues by Product Group

Our products generally have release cycles of between 12 and 24 months and we typically earn the largest portion of revenues for a particular product during the first half of its release cycle. In the past we have experienced declines in product revenues during the second half of product release cycles, with the sharpest declines occurring toward the end of the release cycle.

	Year Ended November 30,		Percentage Change
	2007	2008	
	(Dollars in thousands)		
Graphics and Productivity	$141,692	$149,513	5.5%
As a percent of revenue	56.6%	55.7%	
Digital Media	108,788	118,717	9.1%
As a percent of revenue	43.4%	44.3%	

Graphics and Productivity revenues increased by $7.8 million or 5.5% to $149.5 million in fiscal 2008 from $141.7 million in fiscal 2007. The increase in revenues for fiscal 2008 was due to revenue growth in *CorelDRAW Graphics Suite, WinZip, iGrafx,* and *CorelDESIGNER Technical Suite* , which was partially offset by a decline in sales from *WordPerfect Office.* Revenue growth from *CorelDRAW Graphics Suite* was attributable to increased sales following the launch of *CorelDRAW Graphics Suite X4* in February 2008. We have also benefited from allocating more sales and marketing resources to *CorelDRAW X4* in developing and emerging markets in Asia, Eastern Europe and Latin America. *WinZip* revenues have increased due to growth in EMEA, partially offset by a weakening in sales in the United States. *CorelDESIGNER Technical Suite* revenue gains primarily occurred in the second half of fiscal 2008 in the US Market, as a product within this family reached its end of production, triggering a large amount of purchases from a few customers. *iGrafx* revenue growth was primarily attributable to the U.S market, where we continued to build our enterprise level business in a significant deal with a military institution, and in the European market; this was offset by declines in Japan, due to the gains derived in fiscal 2007 from the implementation of a control compliance

program. *WordPerfect Office* revenues declined in the North American market in the fourth quarter of fiscal 2008, due to a significant decrease in OEM sales and to the fact that one of our major customers sought bankruptcy protection. This bankruptcy impacted revenues by approximately $0.9 million in the fourth quarter.

Digital Media revenues increased by 9.1% or $9.9 million to $118.7 million in fiscal 2008 from $108.8 million in fiscal 2007. When consideration is given to the inability to recognize approximately $11.0 million of OEM revenue of InterVideo in fiscal 2007, due to acquisition accounting standards, Digital Media revenues have remained flat over the prior fiscal year. There have been some products, namely *WinDVD* and *Instant ON* which have had significant revenue increases in fiscal 2008. These gains have been offset by declining revenues in *Corel Paint Shop Pro Photo* and *Photo Album. WinDVD* revenues increased in Asia as we entered into two significant deals with new OEMs in fiscal 2008. *Instant On* revenues increased due to extra distribution by one of our significant Japanese OEM distributors. *MediaOne* revenue declined due to changes in an agreement with a significant OEM partner. *Corel Paint Shop Pro Photo* had revenue declines towards the end of fiscal 2008 in the Americas and in EMEA.

Total Revenues by Region

	Year Ended November 30,				Percentage
	2007	2008	2007	2008	Change
	(Dollars in thousands)				
Americas	$125,979	$129,037	50.3%	48.1%	2.4%
EMEA	72,932	79,164	29.1	29.5	8.5
APAC	51,569	60,029	20.6	22.4	16.4
Total	$250,480	$268,230	100.0%	100.0%	7.1%

Revenues in the Americas increased by 2.4% to $129.0 million in fiscal 2008 compared to $126.0 million in fiscal 2007. The comparative increase in revenues of $3.1 million for the year ending November 30, 2008 primarily relates to approximately $6.0 million of OEM revenue from *Digital Video* products in the first quarter of fiscal 2007, which could not be recognized in accordance with acquisition accounting standards. At a product level we achieved revenue increases in *WinDVD, iGrafx,* and *Corel DESIGNER* and declines in *MediaOne, Paint Shop Pro Photo, Word Perfect Office* and *WinZip. WinDVD* enjoyed growth as a result of its distribution arrangements with two significant OEM suppliers and the inability to record certain InterVideo revenue in fiscal 2007. *iGrafx* revenues increased due to a significant deal with a military unit and the continued building of the *iGrafx* enterprise level business. *CorelDESIGNER Technical Suite* revenue gains primarily occurred in the second half of fiscal 2008 in the U.S., due to a new version release and a product within this family reaching its end of production, triggering a large amount of purchases from customers. The decline in *MediaOne* and *Paint Shop Pro Photo* revenue were primarily due to changes in an agreement with a significant OEM partner. *WordPerfect Office* revenues declined in the North American market in the fourth quarter of fiscal 2008, due to the bankruptcy of one of our major customers, as well as a significant decrease in OEM sales. The decline in *WinZip* revenue was attributable to lower Internet license sales in the U.S. market.

Revenues in EMEA increased by 8.5% to $79.2 million in fiscal 2008 from $72.9 million in fiscal 2007. The revenue growth in this region was driven by *CorelDRAW Graphics Suite, WinZip,* and *iGrafx* and was partially offset by *WinDVD* and *Corel Paint Shop Pro Photo.* In February 2008 we launched *CorelDRAW Graphics Suite X4* and we continued to derive benefits from the success of this global launch. In addition, the product's upward trend prior to the launch, and further expansion into Eastern Europe, in particular the Russian Federation, has further driven the increase in *CorelDRAW Graphics Suite* revenue. The increase in *WinZip* revenue was due primarily to increased Internet license sales, the release of new language versions during the past year, and some significant new license arrangements for the product. The increase in *iGrafx* is due to the continued growth at the enterprise business level. The decline in *WinDVD* was due to reduced OEM orders, and some one-time license orders that were received in fiscal 2007. The loss of a key distributor in the region has weakened *DVD Creator* sales. The decline in *Paint Shop Pro Photo* is attributable to the product

launch being completed in fiscal 2007, and some weakening sales with a few key distributors towards the ends of fiscal 2008.

APAC revenues increased by 16.4% to $60.0 million in fiscal 2008 from $51.6 million in fiscal 2007. The comparative increase in revenues of $8.4 million for the year ending November 30, 2008 primarily relates to approximately $5.0 million of OEM revenue from InterVideo in the first quarter of fiscal 2007, which could not be recognized in accordance with acquisition accounting standards. Further, the increase in revenues was driven by *WinDVD* and *Instant ON,* which was partially offset by a decline in *iGrafx* . The increase in *WinDVD* revenues is attributable to two new distribution agreements which were entered into in latter fiscal 2008 with two OEMs. The increase in *Instant On* was primarily due to our benefiting from a new agreement with one of our significant Japanese OEM distributors. The decline in *iGrafx* revenue was due to the exceptionally strong second and third quarter of fiscal 2007 when this product was adopted by several large businesses to meet Japanese financial control compliance guidelines enacted in 2007.

Cost of Revenues

	Year Ended November 30,		Percentage
	2007	2008	Change
	(Dollars in thousands)		
Cost of product	$49,846	$61,453	23.3%
As a percent of product revenue	21.8%	25.4%	
Cost of maintenance and services	796	528	(33.7)%
As a percent of maintenance and service revenue	3.6%	2.0%	
Amortization of intangible assets	26,119	25,634	(1.9)%
As a percent of revenue	10.4%	9.6%	

Cost of Product Revenues. Cost of product revenues increased by 23.3% to $61.5 million in fiscal 2008 from $49.8 million in fiscal 2007. As a percentage of product revenues, cost of product revenues increased to 25.4% from 21.8%, for the year ended November 30, 2008. Our cost of products have increased in fiscal 2008 due to a change in the mix within the Digital Video product line where we have experienced a shift in revenue from our higher margin products to our lower margin products. We have also entered a few large revenue deals for *WinDVD* which had significant royalty cost rates. These factors were partially offset in fiscal 2008 by a $4.7 million reduction of a royalty contingency that had been established in connection with the acquisition of InterVideo.

Cost of Maintenance and Services Revenues. Cost of maintenance and services revenues decreased to 2.0% of related revenues in fiscal 2008 compared to 3.6% in fiscal 2007. The increase in maintenance margins are primarily attributable to *WinZip* , for which we have experienced limited incremental costs to provide.

Amortization of Intangible Assets. Amortization of intangible assets of $25.6 million for the year ending November 30, 2008 has decreased by $0.5 million compared to $26.1 million for the year ending November 30, 2007. There has been no significant change in our base of intangible assets in fiscal 2008. The expense has decreased as customer relationships are amortized over the period of which economic benefits are realized, and these benefits decrease on an annual basis.

Operating Expenses

Beginning in the first quarter of fiscal 2008, we re-classified some of our operating expenses related to our Information Technology group, so that costs of certain employees were better aligned with the functions they performed. As a result, for the year ended November 30, 2007, we have reduced our general and administrative costs by $2.7 million, increased our sales and marketing costs by $976,000, increased our research and development costs by $1.7 million, and increased our cost of products sold by $71,000.

	Year Ended November 30,		Percentage Change
	2007	2008	
	(Dollars in thousands)		
Sales and marketing	$71,563	$76,791	7.3%
As a percent of revenue	28.6%	28.6%	
Research and development	46,368	44,513	(4.0)%
As a percent of revenue	18.5%	16.6%	
General and administrative	34,380	33,017	(4.0)%
As a percent of revenue	13.7%	12.3%	
Restructuring	1,447	2,878	98.9%
As a percent of revenue	0.6%	1.1%	
Acquired in-process research and development	7,831	—	(100.0)%
As a percent of revenue	3.1%	0.0%	
InterVideo integration expenses	5,220	—	(100.0)%
As a percent of revenue	2.1%	0.0%	

Sales and Marketing. Sales and marketing expenses increased by 7.3% to $76.8 million in fiscal 2008 as compared to $71.6 million in fiscal 2007. For the year ended November 30, 2008, sales and marketing expenses as a percentage of revenue remained the same at 28.6%, as compared to the prior period. The increase in sales and marketing expenses was a result of additional payroll costs in the sales and marketing groups and extra marketing related to brand launches in the current year. We continue to expand our marketing efforts in emerging international markets as well as in EMEA. We also focused on increasing our marketing efforts in support of our Digital Media products. We expect these costs to stabilize in the next fiscal period as a result of our recent restructuring activity.

Research and Development. Research and development expenses decreased by 4.0% to $44.5 million for the year ended November 30, 2008, as compared to $46.4 million for the year ended November 30, 2007. As a percentage of total revenues, research and development expenses decreased to 16.6% from 18.5% in fiscal 2008 as compared to fiscal 2007. The decrease in the current year was primarily attributable to the consolidation of our research and development workforce as a result of our past and current restructuring activities. In particular, our restructuring plan, developed in November 2007, resulted in the closure of our Minneapolis research and development location during the second quarter of fiscal 2008. We expect these costs to decrease in future periods in conjunction with the implemented restructuring plans.

General and Administrative. General and administration expenses decreased by 4.0% to $33.0 million in the year ended November 30, 2008, from $34.4 million for the year ended November 30, 2007. As a percentage of total revenues, general and administration expenses decreased to 12.3% from 13.7% as compared to fiscal 2007. This decrease is due to the impact of restructuring plans undertaken in November 2007 and September 2008, and integration activities previously undertaken throughout 2007 after the acquisition of InterVideo. We expect these costs to decrease in future periods in conjunction with the implemented restructuring plans. The restructuring expenses have also resulted in a decrease in our facility charges in the current fiscal year. There was an increase in the amount of stock compensation expense of $680,000 for the year ended November 30, 2008 mainly associated with the accelerated vesting of our former Chief Executive Officer's options and the options granted to our new interim Chief Executive Officer which fully vest over one year.

Restructuring: We recorded $2.9 million of restructuring expenses during the year ended November 30, 2008. On September 10, 2008, management initiated a restructuring plan to streamline our global operations in order to become more operationally efficient and to increase our investment in key growth opportunities, including sales to emerging markets and our eCommerce program. As part of this effort, we have reduced our workforce by approximately 90 employees worldwide. This resulted in an expense of approximately $2.2 million in fiscal 2008. The remaining expenses related to restructuring plans adopted at the end of the fourth quarter of fiscal 2007 and the second quarter of fiscal 2008, to centralize much of our Digital Media operations in Greater China. This has resulted in the closure of our Minneapolis location at the end of the second quarter of fiscal 2008 as well as the termination of certain individuals.

These restructuring activities have resulted in a significant reduction in our sales and marketing, research and development and general and administrative expenses in the fourth quarter of fiscal 2008, as compared to the fourth quarter of fiscal 2007.

In the fourth quarter of fiscal 2007, our management initiated a restructuring plan to centralize much of the Company’s Digital Media operations in Greater China and Fremont, California. Additionally, further changes were made to staff to align and balance our global teams. This resulted in the closure of our Minneapolis location in fiscal 2008 as well as the termination of certain individuals. These restructuring charges were funded by our cash flow from operations. We expensed restructuring charges of $1.4 million in fiscal 2007, and $0.5 million in fiscal 2008, as a result of this plan.

InterVideo Integration Expense: Integration costs relating to the acquisition of InterVideo totaling $5.2 million were recorded during the year ending November 30, 2007. These costs related to the integration of the InterVideo business into our existing operations, including travel costs, retention bonuses and other incremental costs for our employees who worked on the integration planning process.

Acquired in-process Research and Development. Intangible assets acquired with InterVideo included $7.8 million of in-process research and development projects that, on the date of the acquisition, the related technology had not reached technological feasibility and did not have an alternate future use. As required by purchase accounting, this in-process research and development was expensed upon acquisition in the first quarter of fiscal 2007.

Other Expenses (Income)

	Year Ended November 30,	
	2007	2008
	(Dollars in thousands)	
Expenses associated with evaluation of strategic alternatives	$ —	$ 2,728
Interest expense, net	16,254	14,252
Amortization of deferred financing fees	1,074	1,081
Other non-operating (income) expenses	(799)	1,784
Total non-operating expenses	$16,529	$19,845

Expenses Associated with Evaluation of Strategic Alternatives: On March 28, 2008 the Company received an unsolicited proposal from CHLP, which is controlled by an affiliate of Vector Capital, the holder of approximately 69% of our outstanding common shares. CHLP had proposed to make an offer to acquire all of our outstanding common shares not currently held by CHLP at a price of US$11.00 cash per share. CHLP indicated that any such offer would be conditional upon, among other things, satisfactory confirmatory due diligence and our existing credit facility remaining in place following the consummation of any transaction.

The Board of Directors of the Company formed a Special Committee of the Board, which assisted it in evaluating and responding to the CHLP proposal. In addition, the Special Committee undertook a process to evaluate other strategic alternatives to maximize value for all shareholders. On August 18, 2008, CHLP withdrew its proposal and the Board disbanded the Special Committee. However, we continued to evaluate other strategic alternatives through the month of October, at which point negotiations with a third party were

concluded with no transaction completed. The costs of the Special Committee and the evaluation of strategic alternatives were largely related to professional consulting services.

Interest (Income) Expense, Net. Net interest expense decreased by $2.0 million in fiscal 2008 from $16.3 million in fiscal 2007. The decrease is due to the fact we did not use our credit line facility during this fiscal period and the increase in our gain on our unhedged interest swaps by $399,000 in fiscal 2008. During fiscal 2007, our credit line facility was drawn by as much as $43.0 million.

Amortization of Deferred Financing Fees. The amortization of deferred financing fees remained the same for our fiscal year ended November 30, 2008 as compared to our fiscal year ended November 30, 2007. There has been no new credit facilities entered into during the year.

Other non-operating expense (income): Other non-operating expenses, which are generally comprised of foreign exchange gains and losses, increased by $2.6 million from income of $0.8 million to an expense $1.8 million largely as a result of additional unfavorable foreign currency exchange losses throughout fiscal 2008. We were adversely affected by the strengthening of the US Dollar versus the Euro on our cash and account receivable balances denominated in Euros. Our losses on foreign currency exchange increased by $3.6 million from gains of $862,000 to a loss of $2.7 million in fiscal 2008. The foreign currency translation losses are offset by a gain on sale of a long-term of investment of $822,000 which was earned in fiscal 2008.

Income Tax Expense (Recovery). An income tax recovery of $136,000 was recognized for our fiscal year ended November 30, 2008 consisting of current tax expense of $4.4 million and deferred tax recovery of $4.5 million compared to a tax expense of $3.4 million for our fiscal year ended November 30, 2007 that included current tax expense of $3.5 million and a deferred tax recovery of $83,000.

The current tax provision relates mostly to foreign withholding taxes which are not creditable due to loss carryforwards. Management concluded that it is not more likely than not that the resulting foreign tax credits can be utilized. The current tax expense increased due to increased tax withholdings on Japanese OEM sales in that region. The current tax provision was offset by a deferred tax recovery, associated with the reduction of the valuation allowance against post-acquisition tax losses of InterVideo following the approval of a plan to realize these assets.

At the beginning of the third quarter of fiscal 2007, we received a notice of reassessment from the Ministry of Revenue of Ontario (the "Ministry") for CDN$13.4 million. The Ministry reassessment disallows various deductions claimed on our tax returns for the 2000, 2001 and 2002 taxation years resulting in a potential disallowance of loss carryforwards and liabilities for tax and interest. In September 2007, we received further notice that the Ministry had applied tax losses and other attributes, which reduced the assessment from CDN$13.4 million to CDN$6.4 million. Subsequently, in November 2007, we received another notice of assessment regarding this issue, which increased the capital tax and interest owing for the 2000, 2001, and 2002 taxation years. This assessment was for CDN$7.5 million. We intend to vigorously defend against the assessment. While management believes that we have adequately provided for potential assessments, it is possible that an adverse outcome may lead to a deficiency in recorded income tax expense and may adversely affect liquidity. However, we believe that the positions taken in our tax returns are correct and believe the potential loss from the assessment will not have a material impact on our financial condition or results of operations. As of November 30, 2008, no amounts have been accrued.

Comparison of Fiscal Year Ended November 30, 2007 to Fiscal Year Ended November 30, 2006

Our consolidated financial statements for our fiscal year ended November 30, 2007 have been prepared in accordance with U.S. generally accepted accounting principles.

On December 12, 2006, we acquired all of the outstanding shares of InterVideo. Accordingly, because the financial information for the year ended November 30, 2006 does not include InterVideo operations, they are not directly comparable to the consolidated financial information presented for the year ended November 30, 2007. In the analysis, "Corel products" refers to the revenues and expenses related to the products which were owned by Corel prior to the acquisition of InterVideo.

The following table sets forth certain consolidated statements of operations data in dollars and expressed as a percentage of revenues for the periods indicated, as well as the percentage change on a year-over-year basis.

	November 30,				Percentage Change
	2006	2007	2006	2007	
	(Dollars in thousands)				
Revenues					
Product	$157,319	$228,274	88.8%	91.1%	45.1%
Maintenance and services	19,872	22,206	11.2	8.9	11.7
Total revenues	177,191	250,480	100.0	100.0	41.4
Cost of revenues					
Cost of product(1)	21,339	49,846	13.6	21.8	133.6
Cost of maintenance and services(1)	1,142	796	5.7	3.6	(30.3)
Amortization of intangible assets	14,366	26,119	8.1	10.4	81.8
Total cost of revenues	36,847	76,761	20.8	30.6	108.3
Gross margin	140,344	173,719	79.2	69.4	23.8
Operating expenses					
Sales and marketing	54,851	71,563	31.0	28.6	30.5
Research and development	25,883	46,368	14.6	18.5	79.1
General and administrative	24,285	34,380	13.7	13.7	41.6
Acquired in-process research and development	—	7,831	0.0	3.1	n/a
Integration expense	358	5,220	0.2	2.1	1358.1
Restructuring	810	1,447	0.5	0.6	78.6
Total operating expenses	106,187	166,809	59.9	66.6	57.1
Income from operations	34,157	6,910	19.3%	2.8%	(79.8)%
Other expenses (income)					
Loss on debt retirement	8,292	—	*	*	*
Interest expense, net	11,331	16,254	*	*	*
Amortization of deferred financing fees	1,180	1,074	*	*	*
Other non-operating (income) expense	(565)	(799)	*	*	*
Income (loss) before income tax expense (recovery)	13,919	(9,619)	*	*	*
Income tax expense	4,668	3,443	*	*	*
Net income (loss)	$ 9,251	$ (13,062)	*	*	*

(1) Percentage reflects percentage of related revenues.

* Not Meaningful

Revenues

	Year Ended November 30, 2006	Year Ended November 30, 2007	Percentage Change
	(Dollars in thousands)		
Product	$157,319	$228,274	45.1%
As a percent of revenue	88.8%	91.1%	
Maintenance and services	19,872	22,206	11.7%
As a percent of revenue	11.2%	8.9%	
Total	177,191	250,480	41.4%

Total revenues for the year ended November 30, 2007 increased by 41.4% to $250.5 million from $177.2 million for the year ended November 30, 2006. Of this increase, $73.0 million was attributable to additional revenues generated from InterVideo products. There was an increase in total revenues from Corel products of $0.3 million in the current year. This increase was driven by growth of approximately $16.0 million, in *WinZip, CorelDraw, iGrafx,* and *Corel Painter.* These increases were largely offset by a decrease in *WordPerfect* revenues of $12.1 million and *Digital Imaging* revenues of $3.6 million from last year.

Product revenues for the year ended November 30, 2007 increased by 45.1% to $228.3 million from $157.3 million for the year ended November 30, 2006. Product revenues for Corel products decreased by $2.0 million or 1.3% to $155.3 million for the year ended November 30, 2007. This decline primarily reflects the decline in sales of *WordPerfect* and the decrease in sales of *Digital Imaging* products , which was partially offset by an increase in the sales of the rest of the portfolio of products, led by growth in *WinZip, CorelDRAW, iGrafx* and *Corel Painter* revenues. The decline in *WordPerfect* revenues for the year ended November 30, 2007 is due primarily to a decrease in point of sale royalties from one of our largest OEM customers, a decrease in enterprise license revenue and the latter part of the product lifecycle given the launch of *WordPerfect Office X3* in the first quarter of the prior year. The decline in *Digital Imaging* revenue for the year ended November 30, 2007 are primarily attributable to lower POS and APOS (after Point of Sale) revenue for *Snapfire* at one of our largest OEM customers, a decrease in the level of upgrades from earlier versions of *Paint Shop Pro Photo* to *Paint Shop Pro Photo X1* and the repositioning of this brand as our higher end product relative to our acquired *Photo Impact* and *Photo Express* brands. A new version of *Paint Shop Pro Photo* was released in the fourth quarter of fiscal 2007, partially offsetting the decrease in sales for fiscal 2007. Revenues from our *WinZip* products increased due to new license sales and upgrades resulting from increased conversion of trial customers to license users through more aggressive in-product messaging. The increase in *iGrafx* revenues was attributable to significant new customer wins in the Japanese market, the overall competitiveness of our product portfolio and additional marketing and promotional initiatives undertaken in the current year. The increase in *CorelDRAW* revenues during the year ended November 30, 2007 was attributable to growth in the European market due to significant enterprise license agreements and additional promotion and marketing activity. *CorelDRAW* continued to experience growth in emerging markets such as Latin America. The increase in *Corel Painter* revenue during fiscal 2007 was due to continued worldwide growth in OEMs, e-Stores sales, and channel sales.

Maintenance and services revenues increased by 11.7% to $22.2 million for the year ended November 30, 2007. This increase was largely attributable to increased sales of WinZip's maintenance program. As a percentage of total revenue, maintenance and services revenue declined to 8.9% in fiscal 2007 from 11.2%, as a result of the change in product mix due to the acquisition of InterVideo. The InterVideo family of products generates minimal amounts of maintenance and services revenue.

Total Revenues by Product Group

	Year Ended November 30, 2006	2007	Percentage Change
	(Dollars in thousands)		
Graphics and Productivity	$137,741	$141,692	2.9%
As a percent of revenue	77.7%	56.6%	
Digital Media	39,450	108,788	175.8%
As a percent of revenue	22.3%	43.4%	

Graphics and Productivity revenues increased by $4.0 million or 2.9% to $141.7 million in fiscal 2007 from $137.7 million in fiscal 2006. There was a decline of $12.0 million in the sales of *WordPerfect Office* . The rest of the Graphics and Productivity portfolio of products increased by $16.0 million or 15.5% as compared to the year ending November 30, 2006. This was primarily driven by growth in *WinZip, CorelDRAW, iGrafx* and *Corel Painter* revenues. Revenues from our *WinZip* products have grown due to increased new license sales and upgrades resulting from increased conversion of trial customers to license users through more aggressive in-product messaging. The increase in *iGrafx* revenues was attributable to additional marketing and promotional initiatives undertaken in the current quarter, and new licensing deals in Japan. The increase in *CorelDRAW* is due to new licensing deals reached in EMEA. The increase in *Corel Painter* was due to continued worldwide growth in OEMs, e-Stores sales, and channel sales. The decline in *WordPerfect* revenues was due primarily to the decrease in point of sale royalties from one of our largest OEM customers, the decrease in enterprise license revenue, and the launch of *WordPerfect Office X3* in the first quarter of the prior year.

Digital Media revenues increased by 175.8% to $108.8 million in fiscal 2007 from $39.5 million in fiscal 2006. The significant increase was due to the inclusion of $73.0 million of revenue in fiscal 2007 that resulted from products acquired with our acquisition of InterVideo on December 12, 2006. Excluding acquired Digital Media products, Corel's *Digital Imaging* products decreased by 9.2% to $35.9 million in fiscal 2007, as compared to $39.5 million in fiscal 2006. The decrease in revenues was the result of lower conversion rates and lower point of sales and after point of sales (APOS) revenue at our largest OEM customer. Some of this decline was offset by the introduction of *MediaOne,* which was not sold in fiscal 2006, as we continued to acquire new OEM partners and started to realize the benefit of APOS revenue. Also, during the second half of the year, we continued to reposition *Paint Shop Pro Photo* as the high end, high value product in a portfolio of Digital Media products, which now also includes *Photo Impact* and *MediaOne.*

Total Revenues by Region

	Year Ended November 30, 2006	2007	2006	2007	Percentage Change
	(Dollars in thousands)				
Americas	$104,447	$125,979	58.9%	50.3%	20.6%
EMEA	58,253	72,932	32.9	29.1	25.2
APAC	14,491	51,569	8.2	20.6	255.9
Total	$177,191	$250,480	100.0%	100.0%	41.4%

Revenues in the Americas increased by 20.6% to $126.0 million in fiscal 2007 compared to $104.4 million in fiscal 2006. The increase was principally driven by the revenues associated with our new *InterVideo* products, which generated sales of $28.7 million for the year ending November 30, 2007. Revenues for Corel products declined by 6.9% in fiscal 2007, due to lower *WordPerfect* and *Digital Imaging* revenues. *WordPerfect* decreased due to the decrease in point of sale royalties from one of our largest OEM customers, the decrease in enterprise license revenue, and the launch of *WordPerfect Office X3* in the first quarter of the prior year. The decline in *Digital Imaging* revenues for fiscal 2007 was primarily attributable to lower POS revenue at one of our largest OEM customers and the repositioning of the *Digital Imaging* product as our higher end

product relative to our acquired *Photo Impact* brand and *MediaOne.* A new version of *Paint Shop Pro Photo* was released in the fourth quarter of fiscal 2007.

Revenues in EMEA increased by 25.2% to $72.9 million in fiscal 2007 from $58.3 million in fiscal 2006. The main reason for the increase was the revenues generated by our *InterVideo* products which totaled $10.3 million in fiscal 2007. Revenues from Corel products increased by 7.6% primarily due to increases in *CorelDRAW Graphics Suite* and *WinZip* product sales, which offset decreases in sales in *WordPerfect* and *Digital Imaging* product . *CorelDRAW Graphics Suite* revenues increased in EMEA due to continued advances made in the retail and enterprise market and the strengthening of the Euro relative to the US Dollar.

APAC revenues increased by 255.9% to $51.6 million in fiscal 2007. The increase was due largely to sales from *InterVideo* products of $34.0 million in fiscal 2007. Revenue growth in Corel products was 21.2% for the year ended November 30, 2007, due to revenue growth in *WinZip* and *iGrafx. iGrafx* growth was larger in this region due to licensing deals reached with one of our distribution partners initiated in the second quarter of fiscal 2007. Revenues from our *WinZip* products have grown significantly due to increased new license sales and upgrades resulting from increased conversion of trial customers to license users through more aggressive in-product messaging.

Cost of Revenues

	Year Ended November 30,		Percentage Change
	2006	2007	
	(Dollars in thousands)		
Cost of product	$21,339	$49,846	133.6%
As a percent of product revenue	13.6%	21.8%	
Cost of maintenance and services	1,142	796	(30.3)%
As a percent of maintenance and service revenue	5.7%	3.6%	
Amortization of intangible assets	14,366	26,119	81.8%
As a percent of revenue	8.1%	10.4%	

Cost of Product Revenues. Cost of product revenues increased by 133.6% to $49.8 million in fiscal 2007 from $21.3 million in fiscal 2006. As a percentage of product revenues, cost of product revenues increased to 21.8% from 13.6%, for the year ended November 30, 2007. The increase in the period was largely attributable to the change in our product mix caused by the acquisition of InterVideo. InterVideo products generally have higher royalty content then Corel products.

Cost of Maintenance and Services Revenues. Cost of maintenance and services revenues decreased to 3.6% of related revenues in fiscal 2007 compared to 5.7% in fiscal 2006. The increase in maintenance revenues was primarily attributable to *WinZip's* higher maintenance revenues, for which we have experienced limited incremental costs to provide.

Amortization of Intangible Assets. Amortization of intangible assets increased by $11.7 million to $26.1 million in the year ended November 30, 2007, from $14.4 million in the year ended November 30, 2006. This increase was due to the $15.5 million of amortization related to the intangible assets of $86.6 million acquired with InterVideo.

Operating Expenses

During the first quarter of fiscal 2008, we re-classified some of our fiscal 2007 operating expenses related to our Information Technology group, so that costs of certain employees were better aligned with the functions they performed. As a result, for the year ended November 30, 2007, we have reduced our general and administrative costs by $2.7 million, increased our sales and marketing costs by $976,000, increased our research and development costs by $1.7 million, and increased our cost of products sold by $71,000.

	Year Ended November 30,		Percentage
	2006	2007	Change
	(Dollars in thousands)		
Sales and marketing	$54,851	$71,563	30.5%
As a percent of revenue	31.0%	28.6%	
Research and development	25,883	46,368	79.1%
As a percent of revenue	14.6%	18.5%	
General and administrative	24,285	34,380	41.6%
As a percent of revenue	13.7%	13.7%	
Restructuring	810	1,447	78.6%
As a percent of revenue	0.5%	0.5%	
Acquired in-process research and development	—	7,831	n/a
As a percent of revenue	0.0%	3.1%	
InterVideo integration expenses	358	5,220	1358.1%
As a percent of revenue	0.2%	2.1%	

Sales and Marketing. Sales and marketing expenses increased by 30.5% to $71.6 million in fiscal 2007 as compared to $54.9 million in fiscal 2006. For the year, sales and marketing expenses as a percentage of revenue decreased to 28.6%, as compared to 31.0% for the prior period. The increase in sales and marketing expenses was as a result of additional costs associated with assuming InterVideo operations. The decline in expenses as a percentage of revenue from the prior year was due to our integration activities which have created cost synergies in the current period.

Research and Development. Research and development expenses increased by 79.1% to $46.4 million for the year ended November 30, 2007, as compared to $25.9 million for the year ended November 30, 2006. As a percentage of total revenues, research and development expenses increased to 18.5% from 14.6% in fiscal 2007 as compared to fiscal 2006. The increase in research and development expenses was as a result of products acquired from InterVideo which are part of our Digital Media group of products. Further research and development investment is made in Digital Media due to relative maturity and growth potential of this sector.

General and Administrative. General and administration expenses increased to $34.4 million in the year ended November 30, 2007, from $24.3 million for the year ended November 30, 2006. As a percentage of total revenues, general and administration expenses remained the same at 13.7% as compared to fiscal 2006. The increase in general and administration costs was due largely to the integration of InterVideo operations and resources as well as additional expenses incurred to be compliant with Sarbanes-Oxley.

Acquired in-process Research and Development. Intangible assets acquired with InterVideo included $7.8 million of in-process research and development projects that, on the date of the acquisition, the related technology had not reached technological feasibility and did not have an alternate future use. As required by purchase accounting, this in-process research and development was expensed upon acquisition in the first quarter of fiscal 2007.

InterVideo Integration Expense: Integration costs relating to the acquisition of InterVideo totaling $5.2 million have been recorded during the year ending November 30, 2007. These costs relate to the integration of the InterVideo business into our existing operations, including travel costs, retention bonuses, incremental employees engaged solely for integration activities, other incremental costs for our employees who worked on the integration planning process, consultants for integrating systems, and other one-time charges for integrating systems.

Restructuring. In the fourth quarter of fiscal 2007, our management initiated a restructuring plan to centralize much of our Digital Media operations in Greater China and Fremont, California. Additionally, further changes have been made to staff to align and balance our global teams. This resulted in the planned closure of our Minneapolis location in fiscal 2008 as well as the termination of certain individuals. The total amount of the liabilities arising from this plan are estimated to be $2.2 million, of which $1.9 million relates to termination and related benefits, and $0.3 million relates to the closure of our Minneapolis facility. These charges were funded by our cash flow from operations. We expensed restructuring charges of $1.4 million in fiscal 2007 as a result of this plan. Further expenses of $0.5 million were recorded in fiscal 2008. We expect significant reductions in employee expenses in future periods as a result of the restructuring plan, however, some employees have been added in other locations to replace some of the individuals terminated.

For our fiscal year ended November 30, 2006, restructuring costs of $810,000 represent severance costs related to the realignment of our sales and marketing force in the Americas and reductions in our research and development team.

Non-Operating (Income) Expense

	Year Ended November 30,	
	2006	2007
	(Dollars in thousands)	
Loss on debt retirement	$ 8,292	$ —
Interest expense, net	11,331	16,254
Amortization of deferred financing fees	1,180	1,074
Other non-operating (income) expenses	(565)	(799)
Total non-operating expenses	$20,238	$16,529

Loss on Debt Retirement. We incurred a loss on debt retirement of $8.3 million in fiscal 2006 relating to the write-off of deferred financing costs as a result of our refinancing $130.0 million of credit facilities prior to maturity, as part of our initial public offering on May 2, 2006.

Interest (Income) Expense, Net. Net interest expense increased by $4.9 million in fiscal 2007 from $11.3 million in fiscal 2006. The increase was due to the additional long-term debt of $70.0 million incurred as a result of our acquisition of InterVideo.

Amortization of Deferred Financing Fees. The amortization of deferred financing fees decreased to $1.1 million for our fiscal year ended November 30, 2007 as compared to $1.2 million for our fiscal year ended November 30, 2006 as a result of the lower financing fees incurred under the senior credit facility entered into during our fiscal year ended November 30, 2006, as compared to those incurred with the Credit Suisse First Boston ("CSFB") facility entered into during our fiscal year ended November 30, 2005.

Other non-operating income: Other non-operating income, which is generally comprised of foreign exchange gains and losses, increased from $0.6 million to $0.8 million largely as a result of additional favorable foreign currency exchange gains in fiscal 2007 relating to the weakening of the US Dollar versus the Canadian Dollar and the Euro. Our gains on foreign currency exchange increased by $0.5 million from $0.4 million to $0.9 million in fiscal 2007.

Income Tax Expense. Income tax expense of $3.4 million for our fiscal year ended November 30, 2007 consisted of current tax expense of $3.5 million and deferred tax recovery of $83,000 compared to a tax expense of $4.7 million for our fiscal year ended November 30, 2006 that included current tax expense of $3.4 million and a deferred tax expense of $1.3 million.

Current taxes for the years ending November 30, 2006 and 2007 included foreign withholding taxes plus taxes incurred by our foreign subsidiaries. Deferred taxes in fiscal 2007 relates to an additional $5.0 million valuation allowance against all deferred tax assets assumed in the InterVideo acquisition. In the third quarter, we determined that it was no longer more likely than not that the deferred tax assets would be realized, and

accordingly a valuation allowance was recorded. This was offset by a reduction in our deferred income tax liability related to the amortization of intangible assets recorded on the acquisition of InterVideo. Deferred taxes in fiscal 2006 related to the tax benefits realized in Canada from the use of tax loss carryforwards, existing prior to our acquisition by Vector Capital, in post-acquisition periods, less deferred tax credits relating to WinZip operations in 2005.

We had current tax expense of $3.4 million on a loss before tax of $9.6 million due mostly to foreign withholding taxes which are not creditable due to the Canadian loss carryforwards and foreign taxes in jurisdictions which are profitable.

LIQUIDITY AND CAPITAL RESOURCES

As of November 30, 2008, our principal sources of liquidity include cash and cash equivalents of $50.3 million and trade accounts receivable of $33.2 million. We also have a five-year $75.0 million revolving line of credit facility, of which $69.4 million is unused as of November 30, 2008.

At November 30, 2008, approximately 68% of our cash and cash equivalents are held on deposit with banks and the remaining amount of approximately 32% is held in commercial paper. The largest proportion of our bank deposits is held in Canadian banking institutions which we believe to be secure in the current global economy due to historically tighter regulations. We believe that we will be able to access the remaining balance of bank deposits outside of Canada as these deposits are with large reputable banks. We have and will continue to make a series of short-term investments in term deposits and commercial paper. Our investment policy is to invest in low risk short-term investments which are highly graded commercial paper and term deposits. We have not had a history of any defaults on this commercial paper, nor do we expect any in the future given the grade and short term to maturity of these investments. All commercial paper on hand at November 30, 2008 have been repaid, and subsequently reinvested.

As we enter fiscal 2009, based on our current business plan, internal forecasts and the risks that are present in the current global economy, we believe that cash generated from operations and the accessible portion of our operating line of credit facility included under our senior credit facility, will be sufficient to meet our working capital and operating cash requirements for the next fiscal year. Cash from operations could be affected by various risks and uncertainties, including, but not limited to, the risks detailed in or incorporated by reference in Item 1A — *"Risk Factors"* .

In fiscal 2008, the Company generated an increase in cash of $25.6 million, largely driven by our operating cash flows, increasing our cash and cash equivalents to $50.3 million.

In fiscal 2009, our financing payments will increase and our operating cash flows could decrease, as we will incur a few significant one time payments, and there is uncertainty associated with revenues in this current economic environment. The one time payments include a cash sweep payment due under our senior credit facility in February 2009 which is estimated to be $17.5 million, and a payment made to settle a long-time contingency with a supplier in the estimated amount of $2.0 million. These items will be partially offset by a reduction in our operating expenditures, an elimination of salary increases for fiscal 2009, a reduction in restructuring payments, a reduction in one-time expenditures such as the charges associated with the evaluation of strategic alternatives, and a reduction in our capital expenditures. If we compare our fourth quarter of fiscal 2008 total expenses for sales and marketing, research and development and general and administrative versus that of the fourth quarter of fiscal 2007, we have achieved cost savings of $4.4 million over the quarter, which is largely due to the completion of our restructuring activities and foreign exchange. We expect similar decreases due to restructuring activities for the first three quarters of fiscal 2009. We also have no significant liabilities for our defined pension benefit plan, our past restructuring activities, and do not expect significant cash flows from tax uncertainties, and in particular our tax contingency with the province of Ontario.

We expect that our actions to reduce operating expenses will allow us to generate operating cash flows sufficient to sustain operations, to address the one time items above, and to offset, in whole or in part, the potential impact of a decrease in future revenues. Despite the weakening economy in the fourth quarter of fiscal 2008, we generated operating cash flows of $16.0 million, of which only $5.8 million was attributable to

a change in our operating assets and liabilities. These operating cash flows were higher then what we generated in the prior quarters of fiscal 2008. We also believe the global positioning of our diverse group of products will reduce the adversity that we face created by the uncertainty in the present economy.

Management believes that if the need arises we will be able to obtain funds through our line of credit, based on our evaluation of the status of our lender as secure. While it is unlikely that we will be able to draw down the full line of credit of $75.0 million due to debt covenants, we believe we are in a position to make draws of approximately $40.0 million based on our current financial position at November 30, 2008, without violating our current debt covenants. The available line of credit could be used to facilitate the acquisition of other companies or existing technologies. Ultimately, we would need to obtain approval from our lenders for permitted transactions as defined in the credit agreement. Given the recent failures of some financial institutions there is no guarantee that funds will be made available to us under our line of credit. Refer to risk factors, in item 1A of this 10-K, *“We are potentially exposed to default risk on our interest rate swaps and our line of credit”*.

Management believes that, despite the current economy, it is has the liquidity barring any unforeseen circumstances, to continue to operate through fiscal 2009 and pursue its planned business objectives.

Based on our current senior debt facility, a significant balloon payment will be required in fiscal 2012. We expect that we will maintain our creditworthiness over this time such that this payment can be refinanced at or prior to that date.

Working Capital

The net working capital deficit at November 30, 2008 was $6.3 million, a decrease of $8.9 million from the November 30, 2007 net working capital deficit of $15.2 million. The decreased working capital deficiency is primarily due to the additional operating cash flows we have generated, which is offset by the additional current liability of $17.5 million pertaining to an estimated cash sweep payment.

Current assets at November 30, 2008 were $94.5 million, an increase of $23.0 million from the November 30, 2007 year end balance of $71.5 million. The change is due to an increase in our cash and cash equivalents of $25.6 million and an increase in deferred tax assets of $3.1 million, which is partially offset by a decrease in accounts receivable of $5.1 million. The increase in our cash position was attributable to our continued generation of operating cash flows, while being able to minimize our financing activities, primarily our debt principal payments. The increase in the deferred tax assets is due to our assessment that it is more likely then not that we will realize the benefits of certain Taiwanese tax attributes after the re-organization of the ownership of our digital media intellectual property. The decrease in the trade accounts receivable balance is due to the timing of cash receipts from some of our largest customers.

Current liabilities at November 30, 2008 were $100.8 million, an increase of $14.1 million from November 30, 2007. The increase primarily resulted from the increase in the current portion of the long-term debt of $16.8 million which has increased due to our first cash sweep payment of approximately $17.5 million which is due in February 2009. This is partially offset by our decrease in payroll and profit sharing accruals and a decrease in our trade accounts payable.

Cash Flows

	Year Ended November 30,		
	2006	2007	2008
		(In thousands)	
Cash provided by operating activities	$36,225	$ 26,499	$35,505
Cash provided by (used in) financing activities	(3,885)	71,808	(3,060)
Cash provided by (used in) investing activities	(1,906)	(124,760)	(6,625)

Year ended November 30, 2008 compared to year ended November 30, 2007.

Cash flow from operations of $35.5 million in our fiscal year ended November 30, 2008 was an increase of $9.0 million from our fiscal year ended November 30, 2007. The increase in operating cash flows in fiscal

2008 as compared to fiscal 2007 is attributable to the timing of cash receipts from large OEM customers, and to the fact that in fiscal 2007 we had assumed and reduced a working capital deficiency in the acquisition of InterVideo. There were no significant non-operating cash receipts included in net income in our fiscal year ended November 30, 2008.

Cash flow used by financing activities was $3.1 million in our fiscal year ended November 30, 2008, a decrease of $74.9 million compared to cash provided by financing activities of $71.8 million in our fiscal year ended November 30, 2007. This decrease is largely due to an additional term loan of $70.0 million which was obtained in conjunction with the acquisition of InterVideo, and a decrease in cash generated from exercised options of $5.1 million due to terminated InterVideo employees in the prior year. In the upcoming periods, payments made to reduce debt will increase due to cash sweep obligations within our term loan agreement.

Cash used in investing activities was $6.6 million in our fiscal year ended November 30, 2008, a decrease of $118.2 million compared to $124.8 million in our fiscal year ended November 30, 2007. The additional cash outlay reflects the purchase of InterVideo on December 12, 2006 and the remaining interest in Ulead on December 28, 2006 totaling $120.9 million. This was offset by the additional purchases of long lived assets of $3.2 million of which the majority related to computer hardware, to meet our plan to invest in our infrastructure.

At the beginning of the third quarter of fiscal 2007, we received a notice of reassessment from the Ministry of Revenue of Ontario (the "Ministry") for CDN$13.4 million. The Ministry's reassessment disallows various deductions claimed on our tax returns for the 2000, 2001 and 2002 taxation years resulting in a potential disallowance of loss carryforwards and liabilities for tax and interest. In September, 2007, we received further notice that the Ministry had applied tax losses and other attributes which reduced the assessment from CDN$13.4 million to CDN$6.4 million. Subsequently, in November 2007, we received another notice of reassessment which increased the capital tax and interest for the 2000, 2001 and 2002 tax years The reassessed balance changed to CDN $7.5 million. We intend to vigorously defend against the reassessment. While management believes that they have adequately provided for potential assessments, it is possible that an adverse outcome may lead to a deficiency in its recorded income tax expense and may adversely affect its liquidity. However, we believe that the positions taken in our tax returns are correct and estimate the potential loss from the reassessment will not have a material impact on our financial condition or results of operations.

Indebtedness

On May 2, 2006, we entered into a $165.0 million senior credit facility consisting of a $90.0 million term loan with a six-year maturity and a $75.0 million revolving line of credit with a five-year term. Proceeds from this refinancing were used to repay our existing debt at that time. On December 12, 2006, this facility was amended and we completed our acquisition of InterVideo and Ulead. The acquisition was partially financed through an amendment to the credit facility for an additional $70.0 million of term loan borrowings. In addition there was a $43.0 million draw on our revolving line of credit and the remainder was financed from cash of the combined company. During the year ended November 30, 2007 we repaid the $43.0 million revolving line of credit. There was $69.4 million outstanding on the line of credit as of November 30, 2008, as we have drawn $5.6 million relating to a letter of credit.

The credit facility agreement requires us to make fixed quarterly principal repayments of 0.25% of the original principal amount on the term loan, or $225,000 from June 2006 to December 2006 and $400,000 from January 2007 through to December 2011, with the balance of the loan due in April 2012. The term loan and revolving line of credit bear interest at floating rates tied to either the Alternate Base Rate ("ABR"), which equals the higher of (i) the federal funds rate plus 50 basis points, and (ii) the prime rate plus 2.25% until December 2006 and ABR plus 3.00% thereafter, or Adjusted LIBOR plus 3.25% until December 2006 and Adjusted LIBOR plus 4.00% thereafter. On an annual basis, beginning the first quarter of fiscal 2008, we may be required to make a cash sweep payment to fund our principal balance, based on excess cash flow as defined in the agreement. No payments were made or were required to be made through November 30, 2008. We currently estimate that a $17.5 million payment will be required for the fiscal 2008 cash sweep, which is required to be made in the first quarter of fiscal 2009.

In addition to the above loans, the facility also provides us with a $25.0 million letter of credit and a $5.0 million Swingline commitment. The applicable interest rate on any borrowings is based on a leverage ratio pricing grid. As at November 30, 2008, there was $5.6 million outstanding for a letter of credit. No balance was outstanding on the Swingline commitment.

In connection with the senior credit facility, we obtained interest rate protection by entering into an interest rate swap with its principal lender for $134.5 million. The variable rate of interest is based on one-month LIBOR plus 4.00% for $90.0 million of the interest rate swaps and three-month LIBOR plus 4.00% for $44.5 million of the interest rate swaps. The fixed rates range from 8.19% to 9.49%. Currently, our exposure to default risk on our interest rate swap agreements is minimal as we are in a liability position on all interest rate swaps.

The borrowings under the senior credit facility are collateralized by a pledge of all our assets, including subsidiary stock. Under the terms of the credit agreement we are subject to restrictive covenants, such as restrictions on additional borrowing, distributions and business acquisitions/divestitures. It also includes the following financial covenants:

- a maximum total leverage ratio, which is defined as the ratio of total debt to trailing four quarter consolidated Adjusted EBITDA, as defined in the credit agreement, to be less than specified amounts over the term of the facility as follows:

Period	Ratio
Through to November 29, 2007	3.50
November 30, 2007 through November 29, 2008	3.25
November 30, 2008 through November 29, 2009	3.00
November 30, 2009 through November 29, 2010	2.75
November 30, 2010 through November 29, 2011	2.50
November 30, 2011, thereafter	2.25

- a minimum fixed charge coverage ratio, which is defined as the ratio of trailing four quarter consolidated Adjusted EBITDA to fixed charges (fixed charges include interest paid, scheduled repayment of principal on long-term debt, capital expenditures and taxes paid) as follows:

Period	Ratio
Through to Nov 29, 2010	2.00
November 30, 2010 through November 29, 2011	2.25
November 30, 2011, thereafter	2.50

The future debt payments on long-term debt as of November 30, 2008, including the annual cash sweep for fiscal 2008 as discussed above, are as follows:

	Principal	Interest	Total
2009	19,095	11,723	30,818
2010	1,596	10,590	12,186
2011	1,596	9,622	11,218
2012	134,072	3,133	137,205
Total	$156,359	$35,068	$191,427

As of November 30, 2008, we were in compliance with all debt covenants. Management continues to monitor compliance with debt covenants carefully, and at this point believes that — barring further worsening of the current global economic difficulties beyond our current projections — we will continue to be in compliance with debt covenants throughout fiscal 2009. We have included the following reconciliation from the cash flow provided by operations to the Adjusted EBITDA used in the covenant calculations. Adjusted EBITDA is a non-GAAP measure that we use to assist in evaluation of our liquidity and is used by our bank

lenders to calculate compliance with certain financial covenants. Adjusted EBITDA was $60.9 million for our fiscal year ended November 30, 2008 compared to $57.3 million for our fiscal year ended November 30, 2007.

This measure does not have any standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to the calculation of similar measures used by other companies, and should not be viewed as alternatives to measures of financial performance or changes in cash flows calculated in accordance with GAAP. We consider cash flow from operations to be the closest GAAP measure to Adjusted EBITDA. For our fiscal years ended November 30, 2008, 2007 and 2006, we had cash flow from operations of $35.5 million, $26.5 million and $36.2 million, respectively. The table below reconciles Adjusted EBITDA to cash flow from operations:

	Year-Ended November 30		
	2006	2007	2008
	(In thousands)		
Cash flow provided by operations	$36,225	$26,499	$35,505
Change in operating assets and liabilities	3,736	5,238	1,544
Interest expense, net	11,331	16,254	14,252
Income tax expense	4,668	3,443	(136)
Provision for bad debts	(195)	(252)	(1,092)
Unrealized foreign exchange losses on forward contracts	(150)	(147)	(126)
Deferred income taxes	(876)	83	4,533
Gain (loss) on interest rate swap recorded at fair value	(810)	(392)	7
Gain (loss) on disposal of fixed assets	—	(102)	(196)
Gain on sale of investment	—	—	822
Gain from defined benefit pension plan	—	—	184
Restructuring	810	1,447	2,878
Expenses related to evaluation of strategic alternatives	—	—	2,728
Integration costs	358	5,220	—
Reorganization costs	117	—	—
Adjusted EBITDA	$55,214	$57,291	$60,903

Contractual Obligations and Commitments

We have operating leases for office space. In accordance with GAAP, neither the lease liabilities nor the underlying assets are carried on the balance sheet as the terms of the leases do not meet the criteria for capitalization. Payments on these leases were approximately $5.9 million for our fiscal year ended November 30, 2008, $6.8 million for our fiscal year ended November 30, 2007 and $5.2 million for our fiscal year ended November 30, 2006.

We have debt as discussed in the indebtedness section above.

The following table outlines our contractual commitments over the next five years and thereafter at November 30, 2008:

	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years	Total
			(In thousands)		
Long-term debt	$30,818	$23,404	137,205	$ —	$191,427
Capital leases	720	887	147	—	1,754
Defined pension benefit obligations	—	—	—	1,431	1,431
Operating leases	4,574	8,811	7,147	6,373	26,905
Total	$36,112	$33,102	$144,499	$ 7,804	$221,517

Since our fiscal year ended November 30, 2004, we have funded our operations from cash flow from our operations. We believe that our current resources are adequate to meet our requirements for working capital and capital expenditures for at least the next year. At some point in the future we may require additional funds for either operating or strategic purposes and may seek to raise the additional funds through public or private debt or equity financings. If we ever need to seek additional financing, there is a risk that additional financing will not be available, or if available, will not be available on reasonable terms. Refer to risk factor in Item 1A of this 10-K document, *"We are subject to restrictive debt covenants that impose operating and financial restrictions on our operations and could limit our ability to grow our business."*

Off-Balance Sheet Arrangements

In certain agreements with customers and distributors, including OEMs and online services companies, we provide indemnifications for third-party intellectual property infringement claims, and many of these indemnification obligations are not subject to monetary limits. We evaluate estimated losses for such indemnifications under SFAS No. 5, *Accounting for Contingencies* , as interpreted by Financial Accounting Standards Board ("FASB") Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* . We consider factors such as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. To date, we have not encountered material costs as a result of such obligations and have not accrued any material liabilities related to such indemnifications in our financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States consistently applied throughout all periods. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to product returns, bad debts, long-lived assets, goodwill, income taxes, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

We recognize revenues in accordance with Statement of Position ("SOP") 97-2, *"Software Revenues Recognition,"* issued by the American Institute of Certified Public Accountants, SOP 98-9, *"Modification of 97-2, Software Recognition with Respect to Certain Transactions"* and Staff Accounting Bulletin ("SAB") No. 101 *"Revenues Recognition in Financial Statements,"* issued by the SEC.

We record revenue when persuasive evidence of an arrangement exists, there are no significant uncertainties surrounding product acceptance, the fees are fixed or determinable and collection is considered probable.

Our application of SOP 97-2 requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence ("VSOE") of fair value exists for those elements. VSOE is based on the associated price when the elements are sold separately. Some customers receive certain elements of our products over a period of time. In certain cases, these elements include post-delivery telephone support and the right to receive unspecified upgrades/enhancements on a when-and-if-available basis. When maintenance is sold separately we recognize revenues ratably over the contractual time period. Changes to the

elements in a software arrangement, the ability to identify VSOE for those elements and the fair value of the respective elements could materially affect the amount of earned and unearned revenues.

We sell maintenance contracts that include the right to unspecified upgrades of software licenses on a when-and-if-available basis and customer support. Sales of maintenance contracts are considered post contract support, and the fees are deferred and recognized as revenue ratably over the term of the maintenance arrangement, which is generally 12 or 24 months. Deferred revenue is not contingent upon any specific delivery of product since upgrades are only provided when-and-if-available.

We record product revenues from sales of our packaged software and license fees when legal title transfers, which is generally when the product ships or, in some cases, when products are delivered to retailers. We sell some of our products on consignment to resellers and retailers and recognize revenue for these consignment transactions only when the end-user sale has occurred.

We record revenue from our OEM customers based on the evidence of products sold by our OEM customers to end customers or to the OEMs sales channel partners. Under certain agreements where post contract support (“PCS”) is granted to OEMs for a period greater than a year, we recognize revenue ratably over the contractual PCS period. Typically, our OEM customers do not have the right to claim a credit or refund for returns from an OEMs sales channel partners or end customers back to the OEM.

End-user sales are made directly through the our websites without upgrades. Websales revenue is recognized, net of returns, upon the delivery of the product and the receipt of payment by credit card.

At the time of contract signing, we assess whether the fee associated with the revenues transactions is fixed or determinable based on the payment terms associated with the transaction. We consider the fee to be fixed or determinable if it is due within our normal payment terms, which are generally 30 to 90 days from invoice date.

We assess the probability of collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. If it is determined that collection of a fee is not reasonably assured, management defers the fee and recognizes revenues at the time collection becomes reasonably assured, which is generally upon receipt of cash.

Allowance for Product Returns and Rebate Programs

We allow returns of our packaged software from certain distributors and resellers for various reasons such as the release of new product versions that supersede older versions in channel inventory. Consequently we establish a return provision that is netted against revenues. In computing this provision, we use estimates and judgment based on our experience. These estimates are based on channel inventory levels, current and historical return rates, channel sell in and timing of new version and product introductions, and are in accordance with Statement of Financial Accounting Standards 48 (“FAS 48”), “Revenue Recognition when Right of Return Exists”. While our past estimates have been materially accurate, actual return rates could vary materially from our estimates. An increase in the return rate could result from changes in consumer demand or other factors. Should this variance occur, revenues could fluctuate significantly. Variances between estimated return rates and actual return rates are adjusted on a quarterly basis.

While we believe our accounting practice for establishing and monitoring our product return provision is adequate and appropriate, any adverse activity or unusual circumstances could result in an increase in reserve levels in the period in which such determinations are made and have a significant effect on revenues.

During fiscal 2008, due to the availability of improved provision related information, we changed the method for estimating the provision for product returns in order to improve on the accuracy of the amounts recorded as well as the timeliness of our financial statement preparation process. In accordance with Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* , we have determined that this is a change in estimation methodology and accordingly is a change in estimate as opposed to a change in accounting principle or error correction. The change in estimate has resulted in an increase in fiscal 2008

revenues of approximately $2.0 million and increased accounts receivable by $2.0 million as at November 30, 2008.

Accounting for Income Taxes

Effective December 1, 2007, we adopted FASB Interpretation No. 48 ("FIN 48"), which provides guidance for the recognition, derecognition and measurement in financial statements of tax positions taken in previously filed tax returns or tax positions expected to be taken in tax returns. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that has greater than a fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance for classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 requires that a liability created for unrecognized tax benefits be presented as a separate liability and not combined with deferred tax liabilities or assets.

We have operations in a number of countries worldwide. Our income tax liability is therefore a consolidation of the tax liabilities we expect to have in various locations. Our tax rate is affected by the profitability of our operations in all locations, tax rates and taxation systems of the countries in which we operate our tax policies and the impact of certain tax planning strategies which we have implemented.

To determine our worldwide tax liability we make estimates of possible tax liabilities. Our tax filings, positions and strategies are subject to review under local or international tax audit and the outcomes of such reviews are uncertain. In addition, these audits generally take place years after the period in which the tax provision in question was provided and it may take a substantial amount of time before the final outcome of any audit is known. In prior years we have had to make adjustments to taxes to account for the resolution of certain tax audits. The adjustments have on occasion been significant and have been accounted for as changes in estimates. Future final tax outcomes could also differ materially from the amounts recorded in our financial statements. These differences could have a material effect on our financial position and our net income in the period such determination is made.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have had substantial tax losses over the years and only a limited history of profitability, therefore we have recorded a valuation allowance against most tax assets. The deferred tax assets include the tax effect of $90.6 million of tax loss carryforwards of which C$51.0 million is due to expire in fiscal 2009. Given the large interest expense related to the acquisition of InterVideo and declining sales of WordPerfect it is unlikely that Corel will be able to realize the benefit of these losses. Other deferred tax assets include investment tax credits in Canada which depend on taxable income to utilize; given that there is no history of generating taxes it is unlikely that Corel will be able to realize the benefit of these investment tax credits. Therefore, we record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized.

As part of an initiative to reorganize the ownership of the digital media intellectual property, it is now more likely than not that we will be able to realize the benefit of certain Taiwanese tax attributes pertaining to loss carryforwards and investment tax credits. Therefore, we are removing the valuation allowance against $3.1 million of deferred tax assets resulting in a recovery of deferred tax expense of $1.4 million related to the post acquisition loss carryforwards and a reduction in goodwill of $1.7 million related to the pre-acquisition loss carryforwards and investment tax credits. We have reduced our deferred tax liabilities related to the Taiwanese intellectual property acquired in the purchase of InterVideo by $2.7 million in connection with the digital media reorganization, through a reduction in goodwill.

In 2008, we recorded a $1.8 million deferred tax expense related to the utilization of Taiwanese loss carryforwards which existed at the time of the InterVideo acquisition. In accordance with FAS 109, the change was recorded as a reduction to goodwill.

We provide for withholding taxes on the undistributed earnings of our foreign subsidiaries where applicable. The ultimate tax liability related to the undistributed earnings could differ materially from the liabilities recorded in our financial statements. These differences could have a material effect on our income tax liabilities and our net income.

In April 2005, WinZip sold its intellectual property and trademarks to a non-US affiliate in a taxable transaction. We did not recognize any gain on the transfer of the property based on an analysis of the fair market value of the assets transferred that was performed at the time of the transfer, and as a result did not accrue any income tax expense on the transfer. The assessment of fair market value is based on both subjective and objective factors and if applicable tax authorities disagree with the fair market value analysis, we could be subject to significant tax liabilities, penalties and interest.

Business Combinations

We account for acquisitions of businesses and technologies in accordance with Statement of Financial Accounting Standards No. 141 *Business Combinations* (“FAS 141”). We allocate the purchase price to tangible assets, intangible assets, and liabilities based on fair values, with the excess of purchase price being allocated to goodwill.

Historically, our acquisitions have resulted in the allocation of a portion of the purchase price to goodwill, acquired intangible assets and consequent adjustments to our deferred taxes. In order to determine the fair value of these intangible assets, we make estimates and judgments based on assumptions about the future income producing capabilities of these assets and related future expected cash flows. We also make estimates about the useful life of those acquired intangible assets. Should different conditions prevail, we could record write-downs of intangible assets or changes in the estimate of useful life of those intangible assets, which would result in changes to amortization expense.

Acquired definite lived intangible assets are initially recorded at fair value based on the present value of the estimated net future income-producing capabilities of the software products acquired. A significant change to the initial value assigned to the definite lived intangible assets could result if different assumptions are used in determining the present value of the estimated net future income producing capabilities of the asset.

Acquired definite lived intangible assets are amortized over the future income producing period, which we consider to be the useful life, on a straight-line basis, with the exception of customer relationships which are amortized over the pattern in which we expect to generate economic benefits from the asset.

For business combinations made subsequent to or on December 1, 2009, we will follow the guidelines of FAS 141R.

Impairment of Goodwill

In accordance with Statement of Financial Accounting Standards No. 142 *Goodwill and Other Intangible Assets* (“FAS 142”), goodwill is subject to annual impairment tests or on a more frequent basis if events or conditions indicate that goodwill may be impaired. Goodwill is tested for impairment at the beginning of the fourth quarter of each fiscal year. We also test goodwill for impairment more frequently if events or circumstances warrant. Corel as a whole is considered one reporting unit. We estimate the value of our reporting unit based on our market capitalization. If we determine that our carrying value exceeds our fair value, we would conduct the second step of the goodwill impairment test. The second step compares the implied fair value of the goodwill (determined as the excess fair value over the fair value assigned to our other assets and liabilities) to the carrying amount of goodwill. If the carrying amount of goodwill were to exceed the implied fair value of goodwill, an impairment loss would be recognized. As of November 30, 2008, our goodwill balance of approximately $82.3 million arises from the acquisition of Jasc in fiscal 2004, which generated goodwill of approximately $9.9 million, and from the acquisition of InterVideo in fiscal 2007, which generated goodwill of approximately $72.4 million.

At November 30, 2008, given the current disruption and uncertainty in the global economy, the significant decrease in our stock price over the last fiscal quarter, and our revenues being slightly lower then projected,

we determined that the appropriate triggers had been reached to perform an impairment test beyond the annual goodwill impairment test. Based on our market capitalization as at both September 1 and November 30, 2008, our fair value continues to exceed our carrying value. While this is largely attributable to the negative carrying value of our net assets, the significance of the excess of our market capitalization over carrying value supports the carrying value of our goodwill as at both September 1 and November 30, 2008. Furthermore, the financial position of our Company continues to strengthen on an annual basis as we improve our cash position and reduce our working capital deficiency. In each of the last three years, we have generated cash flows from operations of more than $26 million and the performance of the products which were acquired through the business combinations that gave rise to the goodwill continue to meet or exceed the revenues and margin projections which were built into the original valuations of these businesses. Furthermore, we have and will continue to achieve cost reductions in operating expenses through fiscal 2009, due in part to the restructuring activities performed after this acquisition. Based on the above considerations, we have concluded that there is no impairment in our goodwill as of November 30, 2008.

Long-lived Assets

We amortize our long-lived assets over the estimated useful life of the asset. We evaluate all of our long-lived assets, excluding goodwill, periodically for impairment in accordance with Statement of Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* ("FAS 144"). FAS 144 requires that long-lived assets be evaluated for impairment when events or changes in facts and circumstances indicate that their carrying value may not be recoverable. Events or changes in facts or circumstances can include a strategic change in business direction, decline or discontinuance of a product line, a reduction in our customer base or a restructuring. If one of these events or circumstances indicates that the carrying value of an asset may not be recoverable, or that our estimated amortization period was not appropriate, we would record an impairment charge against our long-lived assets. The amount of impairment would be measured as the difference between the carrying value and the fair value of the impaired asset as calculated using a net realizable value methodology. An impairment charge would be recorded as an operating expense in the period of the impairment and as a reduction in the carrying value of that asset.

At November 30, 2008, given the current disruption and uncertainty in the global economy, the significant decrease in our stock price over the last fiscal quarter, and our revenues being slightly lower then projected, we determined that the appropriate triggers had been reached for an impairment test on our definite lived intangible assets. Our definite lived intangible assets are licenses, technologies, trade names and customer relationships that we acquired with InterVideo, WinZip, and Jasc. The definite lived intangibles from these acquisitions have net book values as at November 30, 2008 of $47.4 million, $12.3 million and $6.0 million, respectively.

We performed our asset recoverability tests using undiscounted cash flows. We grouped the definite lived intangible assets at the lowest level for which we determined identifiable cash flows are largely independent of the cash flows of other assets and liabilities, and estimated the associated cash flows by the Graphics and Productivity and Digital Media product lines. Our cash flow analysis did not extend beyond four years, which is consistent with the remaining amortization period of the majority of intangibles. We used our internal forecasts for the next four years to derive revenues, including a projected decrease in revenues fiscal 2009. We included gross margins percentages consistent with those that had been achieved in fiscal 2008 and projected a reduction in operating expenses from fiscal 2008, reflective of the operating costs incurred in the final quarter of fiscal 2008, when we implemented restructuring activities and announced wage freezes for the upcoming fiscal year. These undiscounted cash flows supported the recoverability of our definite lived intangible assets.

In addition, we performed a sensitivity analysis on the cash flow forecasts which focused on revenues and cost of revenues, as we do not expect much variability in our operating costs. Given a 5% reduction in our revenues on an annual basis and a 5% reduction in gross margin, the resulting undiscounted cash flows continue to support the recoverability the definite lived intangible assets over the same period.

Due to the above considerations, which are based on our best available information, we have not recorded any impairment charge on our long-lived assets in fiscal 2008. However, given the current state of the economy, we expect to continue to perform asset recoverability tests in future periods.

Stock Option Accounting

In accordance with Statement of Financial Accounting Standards No. 123(R) *Share Based Payment* ("FAS 123 (R)") we estimate the fair value of our options for financial accounting purposes using the Black-Scholes model, which requires a number of subjective assumptions, including the expected life of the option, risk-free interest rate, dividend rate, forfeiture rate, future volatility of the price of our common shares and vesting period. The use of subjective assumptions could materially affect the fair value estimate. For a period of time prior to our initial public offering, there was no active market for our common shares. Since we have been public for less than the vesting period of our options, we do not consider the volatility of our share price to be representative of the estimated future volatility when computing the fair value of options granted. Accordingly, until such time that a representative volatility can be determined based on our share price, we will use a blended rate of our own share price volatility and the U.S. Dow Jones Software and Computer Services Index. We estimate the risk-free interest rate based on US Treasury benchmark bonds with an average yield of five to ten years. Since we do not have a sufficient level of experience relating to options granted and exercised subsequent to our IPO, we base our estimate of the expected life of the option using the simplified method based on the period for which our options can be exercised. We assess our forfeiture rate through an analysis of the turnover of our employees since we commenced issuing options in December 2003. The fair values of the options issued are being recognized as compensation expense over the applicable vesting period, which in the majority of options is for four years.

We began to issue restricted share units in fiscal 2007. We determine the fair value of our restricted share units based on our share price on the date the units are granted. The restricted share units have no characteristics which would require classification as debt, and as such they are not revalued in subsequent periods.

Based on equity awards outstanding as of November 30, 2008, we had unrecognized stock-based compensation totaling $8.5 million, and we expect to record approximately $5.0 million in stock-based compensation in our fiscal year ending November 30, 2009. To the extent we continue to grant equity awards in the future, the amounts of stock-based compensation recorded in future periods may be greater than these expectations. Stock-based compensation expense is reported in our Consolidated Statements of Operations, either as a cost of revenues, or with the operating expense which best reflects the award recipient's duties in the organization.

Prior to our initial public offering in April 2006, we did not obtain contemporaneous valuations from an unrelated valuation specialist. Instead, a retrospective valuation was performed by management, with input from Vector Capital. Contemporaneous valuations were not obtained because we were a private company and options were granted on a frequent basis. Therefore, it was impractical to obtain a valuation at each grant date. We believe that management, as a result of their experience and Vector Capital as a private equity firm, have relevant experience valuing companies. Where there was more than one class of shares outstanding, the enterprise value was equally allocated to the "as-converted" common shares to arrive at a per share fair value.

Prior to our initial public offering, determining the fair value of our common shares required making complex and subjective judgments. Management used the income approach to estimate the value of the enterprise. The income approach involves applying appropriate discount rates to estimated cash flows that are based on forecasts of revenues and costs. The enterprise value is then allocated to preferred and common shares using the probability-weighted expected return method. Under this method, management considered the specific rights and preferences of each share class, and the likelihood of future outcomes. Had management considered a different allocation method, the allocations between preferred and common shares would have been different.

In arriving at the fair value of our common shares, we made a number of estimates including a revenue growth rate and a marketability discount. We used a revenue growth rate that was based upon our financial

results available at the valuation date and the expected industry growth rate. In addition, we used a marketability discount of 40% to reflect the fact that our common shares were not trading in a public market. This rate was based upon U.S. and Canadian case law and numerous independent pre-IPO "lack of marketability" studies.

Fair Value Measurements

As of December 1, 2007, the Company has adopted Financial Accounting Standards No. 157 ("FAS 157") for the fair value measurement of recurring items. FAS 157 describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Our interest rate swaps represent our only material item impacted by the fair value measurement guidance of FAS 157. As of November 30, 2008, we have interest rate swaps totaling $134.5 million, which we use to mitigate the risk of increases in the one-month LIBOR exchange rate. We consider our interest rate swaps to be a Level 2 measurement under the FAS 157 hierarchy, as it is largely based on observable inputs over the life of the swaps in a liquid market.

The fair value of the interest rate swaps is calculated by comparing the stream of cash flows on the fixed rate debt versus the stream of cash flows that would arise under the floating rate debt. The floating and fixed rate cash flows are then discounted to the valuation date by using the one month LIBOR rate at the date of the valuation. In order to value the interest rate swaps, management used observable LIBOR rates. Linear interpolations was used to estimate the relevant rates along the zero coupon curve. To construct the zero coupon curves, we used cash rates up to three months inclusively, futures rates from three months to two years inclusively, and swap rates from two to thirty years. Through the implementation of FAS 157, the fair value of the interest rate swaps include a credit valuation adjustment. The credit adjusted valuation values the swaps using an adjusted LIBOR curve for discounting cash flows to take into account our and the counterparty's credit risk. The credit spread used for the calculation was based on our debt ratings in November 2008.

The valuation of the interest rate swap can be sensitive to changes in the current and future one month LIBOR rates, which can have a material impact on the fair value of the derivative. However, as these swaps are used to manage our cash outflows, these changes will not impact our liquidity and capital resources. Furthermore, since the majority of our interest rate swaps are deemed as effective hedging instruments, these changes do not impact our income from operations, as they would be included in other comprehensive income.

Accelerated Debt Payments

On an annual basis, we are required to make a cash sweep payment to fund our principal balance on our term loans, based on excess cash flow as defined in our senior credit facility agreement. All cash sweep payments are classified on the balance sheet based on our ability and intent to refinance the obligation on a long-term basis, the existence of financing arrangements to allow short-term obligations to be refinanced, and the remoteness of the acceleration due date. Any cash sweep payments estimated to be payable within the next year are classified as a current liability on our consolidated balance sheet. We are currently not intending to refinance this cash sweep obligation and intend to make the payments as required.

Each quarter end, with the exception of the quarter ending on November 30, we estimate our cash sweep payment based on our excess cash flow forecasts for the entire fiscal period, based on our current revenue, expense, collection and payment projections. Excess cash flow is computed in accordance with our senior credit facility agreement. In computing our excess cash flow, we use estimates and judgment based on our experience. These estimates are based on current historical trends, including new product introductions. Actual excess cash flow could vary materially from our estimates. An increase or decrease in excess cash flow could result from changes in consumer demand or other factors. Should this variance occur, our required cash sweet payment could fluctuate significantly. Variances are considered and adjusted for on a quarterly basis.

As of November 30, 2008, we estimated our cash sweep payment in accordance with the agreement, based on our excess cash flow, which is calculated based on our actual current revenue, expense, collections and certain payments. We expect to make a payment of approximately $17.5 million in February 2009, and as such this amount has been classified as a current liability.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2008, the FASB released FAS 161, *"Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133."* This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which for us is the interim period ending February 28, 2009. This statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation, in order to better convey the purpose of derivative use in terms of the risks that we are intending to manage. We are currently assessing and evaluating the new disclosure requirements for our derivative instruments, and in particular our interest rate hedges on our term loans.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. SFAS No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any noncontrolling interest at their fair values as of the acquisition date. SFAS No. 141(R) also requires that acquisition-related costs be recognized separately from the acquisition. SFAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008, which for us is the fiscal year beginning December 1, 2009.

In May 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) 142-3, *Determination of the Useful Life of Intangible Assets* , which is effective for fiscal years beginning after December 15, 2008 and for interim periods within those years, which for us is the fiscal year beginning December 1, 2009. FSP FAS 142-3 provides guidance on the renewal or extension assumptions used in the determination of the useful life of a recognized intangible asset. The intent of FSP FAS 142-3 is to better match the useful life of the recognized intangible asset to the period of the expected cash flows used to measure its fair value. We do not expect FSP FAS 142-3 to have a material effect on our consolidated financial statements.

QUARTERLY FINANCIAL DATA

2008	Feb. 28	May. 31	Aug. 30	Nov. 30	Total Year
	Quarter Ended				
	(Unaudited) (Dollars in thousands, except number of shares and per share amounts)				
Revenue:					
Product	$59,362	$60,249	$ 59,725	$62,624	$241,960
Maintenance and service	6,182	6,795	6,503	6,790	26,270
Total revenue	65,544	67,044	66,228	69,414	268,230
Cost of revenues:					
Cost of products	15,227	14,008	15,218	17,000	61,453
Cost of maintenance and services	167	132	113	116	528
Amortization of intangible assets	6,414	6,418	6,418	6,384	25,634
Total cost of revenues	21,808	20,558	21,749	23,500	87,615
Gross margin	43,736	46,486	44,479	45,914	180,615
Operating expenses:					
Sales and marketing	19,684	20,748	17,941	18,418	76,791
Research and development	12,091	11,716	10,610	10,096	44,513
General and administration	8,811	8,640	8,378	7,188	33,017
Restructuring	178	447	293	1,960	2,878
Total operating expenses	40,764	41,551	37,222	37,662	157,199
Income from operations	2,972	4,935	7,257	8,252	23,416
Other expenses (income):					
Interest expense, net	4,288	2,933	3,540	3,491	14,252
Amortization of deferred financing fees	270	270	270	271	1,081
Expenses associated with evaluation of strategic alternatives	—	705	992	1,031	2,728
Other non-operating (income) expense	(1,464)	102	1,034	2,112	1,784
Income (loss) before taxes	(122)	925	1,421	1,347	3,571
Income tax expense (recovery)	(92)	(5)	(177)	138	(136)
Net income (loss)	$ (30)	$ 930	$ 1,598	$ 1,209	$ 3,707
Other comprehensive income (loss):	$ (3,605)	$ 2,903	$ (648)	$ (2,080)	$ (3,430)
Total comprehensive loss	$ (3,635)	$ 3,833	$ 950	$ (871)	$ 277
Net income (loss) per share:					
Basic					
Corel common	$ (0.00)	$ 0.04	$ 0.06	$ 0.05	$ 0.14
Fully diluted					
Corel common	$ (0.00)	$ 0.04	$ 0.06	$ 0.05	$ 0.14

2007	Quarter Ended Feb. 28	May. 31	Aug. 30	Nov. 30	Total Year
	(Unaudited) (Dollars in thousands, except number of shares and per share amounts)				
Revenue:					
Product	$ 47,304	$59,553	$ 55,018	$66,399	$228,274
Maintenance and service	5,330	5,479	5,352	6,045	22,206
Total revenue	52,634	65,032	60,370	72,444	250,480
Cost of revenues:					
Cost of products	8,497	14,026	12,167	15,156	49,846
Cost of maintenance and services	198	221	244	133	796
Amortization of intangible assets	5,757	6,373	6,925	7,064	26,119
Total cost of revenues	14,452	20,620	19,336	22,353	76,761
Gross margin	38,182	44,412	41,034	50,091	173,719
Operating expenses:					
Sales and marketing	17,275	17,715	17,590	18,983	71,563
Research and development	11,596	11,070	11,939	11,763	46,368
General and administration	8,662	8,575	7,763	9,380	34,380
Acquired in-process research and development	7,831	—	—	—	7,831
InterVideo integration expense	785	860	2,220	1,355	5,220
Restructuring	—	—	—	1,447	1,447
Total operating expenses	46,149	38,220	39,512	42,928	166,809
Income (loss) from operations	(7,967)	6,192	1,522	7,163	6,910
Other expenses (income):					
Interest expense, net	3,921	3,718	4,195	4,420	16,254
Amortization of deferred financing fees	265	269	270	270	1,074
Other non-operating (income) expense	(632)	479	(497)	(149)	(799)
Income (loss) before taxes	(11,521)	1,726	(2,446)	2,622	(9,619)
Income tax (recovery) provision	355	(587)	4,314	(639)	3,443
Net income (loss)	$(11,876)	$ 2,313	$ (6,760)	$ 3,261	$ (13,062)
Other comprehensive (loss) income	—	—	56	(731)	(675)
Total comprehensive (loss) income	$(11,876)	$ 2,313	$ (6,704)	$ 2,530	$ (13,737)
Net income (loss) per share:					
Basic	$ (0.48)	$ 0.09	$ (0.27)	$ 0.13	$ (0.52)
Fully Diluted	$ (0.48)	$ 0.09	$ (0.27)	$ 0.13	$ (0.52)

Variance from Fourth Quarter Guidance

On December 11, 2008, we updated our financial guidance for our fourth quarter ended November 30, 2008. At that time we projected GAAP net loss in the range $0.1 million to $2.1 million and GAAP net loss per share in the amount of $0.00 to $0.08. Ultimately we achieved net income of $1.2 million during the fourth quarter, which was $1.3 million greater then the outside range in our guidance, and net earnings per share of $0.05 which was $0.05 greater then the outside range in our guidance. The principal source of the variance relates to a reduction in a loss contingency recorded in cost of products, which had been established in connection with the purchase of InterVideo, based on a dispute with one of its suppliers. The resolution to this dispute occurred subsequent to the date of this guidance, but prior to the date of issuance of our financial statements. In accordance with GAAP, we have updated this material estimate in our results for fiscal 2008.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.*

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of a loss that could affect our financial position resulting from adverse changes in the financial markets. Our primary risks relate to increases in interest rates and fluctuations in foreign currency exchange rates. Our market risk sensitive instruments were all entered into for non-trading purposes.

Interest Rate Risk

Our exposure to interest rate risk relates primarily to our long-term debt. We have significantly larger amounts of interest bearing debt as compared to interest bearing assets. The risk is associated with increases in the prime lending rate, as a significant portion of the debt has a floating rate of interest based on the LIBOR rate.

Given the amount of debt that we have, if LIBOR rates were to rise significantly, the resulting interest cost could materially affect the business. Our annual interest expense, after considering our interest rate swaps that are deemed as effective hedging instruments, would change by approximately $332,000 for each 0.5% change in interest rates based on debt outstanding as of November 30, 2008. In connection with the current debt facility, we use interest rate swaps to limit our exposure to changing interest rates and future cash outflows for interest. Interest rate swaps provide for us to pay an amount equal to a specified fixed rate of interest times a notional principal amount and to receive in return an amount equal to a variable rate of interest times the same notional amount.

As of November 30, 2008, our interest rate swaps convert an aggregate notional principal amount of $134.5 million (or approximately 86% of our interest-bearing debt) from floating rate interest payments under our term loan facility to fixed interest rate obligations. The variable rate of interest is based on one-month LIBOR plus 4.00%. The fixed rates range from 8.93% to 9.49%. During our fiscal year ended 2008, we have recorded income of $7,000 as a result of recording a portion of these interest rate swaps at fair value. As of November 30, 2008, $90.0 million of these interest rate swaps have been designated as effective hedging instruments and any gains or losses on these items are recorded in other comprehensive income.

As of November 30, 2007, our interest rate swaps converted an aggregate notional principal amount of $109.5 million (or approximately 69% of our interest-bearing debt) from floating rate interest payments under our term loan facility to fixed interest rate obligations. The variable rate of interest was based on one-month LIBOR plus 4.00%. The fixed rates ranged from 8.93% to 9.49%. During our fiscal year ended 2007, we recorded a loss of $392,000 as a result of recording these interest rate swaps at fair value.

We assess the effectiveness of our interest rate swaps as defined in Financial Accounting Standards No. 133 *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133"), on a quarterly basis. We have considered the impact of the current credit crisis in the United States and the downturn in the global economy in assessing the risk of counterparty default. We believe that it is still likely that the counterparty for these swaps will continue to act throughout the contract period, and as a result we continue to assess the swaps as effective hedging instruments. If there was to be a counterparty default during the life of the contract, there could be a material impact on future cash flows as well as interest expense recorded on our statement of operations. To the extent that the interest rate swaps continue to be in a liability position the impact would not be adverse.

Foreign Currency Risk

Most of our employees are located in Canada and Taiwan. We incur a disproportionate percentage of costs in Canadian and Taiwanese dollars as compared to Canadian and Taiwanese dollar denominated revenues. In addition we have a disproportionate amount of revenues in Euro's and Japanese Yen, as compared to costs in Euro's and Japanese Yen. We are therefore exposed to loss if the Canadian and Taiwanese dollar appreciates against the U.S. dollar, and the Euro and the Japanese Yen depreciate against the US dollar.

We manage our financial exposure to certain foreign exchange fluctuations with the objective of minimizing the impact of foreign currency exchange movements on our operations. We try to minimize the effect of changes in U.S. and Canadian dollar exchange rates on our business through the purchase of forward exchange contracts. As of November 30, 2008, Corel has three U.S. dollar foreign exchange contracts outstanding of approximately $850,000 each, which were settled by January 5, 2009. A loss of $126,000 was recorded on these contracts for the year ending November 30, 2008.

As of November 30, 2007, Corel has two U.S. dollar foreign exchange contracts of $1.2 million, which were settled on December 10, 2007 and December 21, 2007. A loss of $138,000 was recorded on these contracts for the year ending November 30, 2007.

As we also operate internationally, a portion of our business outside North America is conducted in currencies other than the U.S. dollar. Accordingly, the results of our business may also be affected by fluctuations in the U.S. dollar against certain European and Asian currencies, in particular the Pound Sterling, the Yen and the Euro. Our exposure to these and other currencies is partially mitigated due to certain hedges naturally occurring in our business as we have decentralized sales, marketing and support operations in which most costs are local currency based.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

Our consolidated financial statements and supplementary data and the report of independent auditors thereon set forth below.

Quarterly financial information set forth in this Annual Report on Form 10-K under “Item 7 — *Management’s Discussion and Analysis of Financial Condition and Results of Operations* ” is incorporated herein by reference.

Independent Auditors' Report

To the Shareholders of Corel Corporation:

We have completed integrated audits of Corel Corporation's 2008 and 2007 consolidated financial statements, an audit of its internal control over financial reporting as of November 30, 2008, and an audit of its 2006 consolidated financial statements. Our opinions, based on our audits, are presented below.

Consolidated Financial statements

We have audited the accompanying consolidated balance sheets of Corel Corporation as at November 30, 2008 and November 30, 2007, and the related consolidated statements of operations, cash flows and changes in shareholders' deficit for each of the years in the three year period ended November 30, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of the Company's financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at November 30, 2008 and November 30, 2007, and the results of its operations and its cash flows for each of the years in the three year period ended November 30, 2008 in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting

We have also audited Corel Corporation's internal control over financial reporting as at November 30, 2008 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at November 30, 2008 based on criteria established in Internal Control — Integrated Framework issued by the COSO.

/s/ PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
February 6, 2009
Ottawa, Ontario

COREL CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands, U.S. dollars)

	Note	As of November 30, 2008	As of November 30, 2007
ASSETS			
Current assets:			
Cash and cash equivalents	3	$ 50,260	$ 24,615
Restricted cash		159	217
Accounts receivable			
Trade, net	4	33,241	41,092
Other		2,932	118
Inventory	6	1,562	729
Income taxes recoverable	12	785	1,470
Deferred tax assets	12	3,138	—
Prepaids and other current assets		2,456	3,276
Total current assets		94,533	71,517
Capital assets	8	10,549	8,971
Intangible assets	8,9	67,029	92,010
Goodwill	9,10	82,343	88,643
Deferred financing and other long-term assets	2,7	4,942	5,696
Total assets		$259,396	$266,837
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable and accrued liabilities	11	$ 64,376	$ 67,290
Due to related parties	5	341	—
Income taxes payable	12	1,226	723
Deferred revenue		15,190	15,707
Current portion of long-term debt	13	19,095	2,249
Current portion of obligation under capital leases	14	621	767
Total current liabilities		100,849	86,736
Deferred revenue		2,404	2,365
Income taxes payable	12	12,960	11,693
Deferred income tax liabilities	12	13,059	20,754
Long-term debt	13	137,264	156,359
Accrued pension benefit obligation	15	261	1,116
Obligation under capital leases	14	962	2,114
Total liabilities		267,759	281,137
Commitments and contingencies	14		
Shareholders' deficit			
Share capital:			
Corel Common Shares (par value: none; authorized: unlimited; issued and outstanding: 25,823 and 25,457 shares, respectively)	16	43,992	40,652
Additional paid-in capital	16	9,198	5,926
Accumulated other comprehensive loss		(4,151)	(721)
Deficit		(57,402)	(60,157)
Total shareholders' deficit		(8,363)	(14,300)
Total liabilities and shareholders' deficit		$259,396	$266,837

See Accompanying Notes to the Consolidated Financial Statements

COREL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, U.S. dollars, except per share data)

	Note	Year Ended November 30, 2008	2007	2006
Revenues				
Product		$241,960	$228,274	$157,319
Maintenance and services		26,270	22,206	19,872
Total revenues	19	268,230	250,480	177,191
Cost of revenues				
Cost of product		61,453	49,846	21,339
Cost of maintenance and services		528	796	1,142
Amortization of intangible assets		25,634	26,119	14,366
Total cost of revenues		87,615	76,761	36,847
Gross margin		180,615	173,719	140,344
Operating expenses				
Sales and marketing		76,791	71,563	54,851
Research and development		44,513	46,368	25,883
General and administration		33,017	34,380	24,285
Acquired in-process research and development	9	—	7,831	—
InterVideo integration expense	9	—	5,220	358
Restructuring	17	2,878	1,447	810
Total operating expenses		157,199	166,809	106,187
Income from operations		23,416	6,910	34,157
Other expenses (income)				
Loss on debt retirement	13	—	—	8,292
Interest income		(459)	(724)	(978)
Interest expense		14,711	16,978	12,309
Amortization of deferred financing fees		1,081	1,074	1,180
Expenses associated with evaluation of strategic alternatives	21	2,728	—	—
Other non-operating expense (income)		1,784	(799)	(565)
Income (loss) before income taxes		3,571	(9,619)	13,919
Income tax expense (recovery)	12			
Current		4,397	3,526	3,411
Deferred		(4,533)	(83)	1,257
Total Income tax expense (recovery)		(136)	3,443	4,668
Net income (loss)		$ 3,707	$ (13,062)	$ 9,251
Other comprehensive loss, net of taxes of $nil		(3,430)	(675)	(131)
Comprehensive income (loss)		$ 277	$ (13,737)	$ 9,120
Net income (loss) per Corel common share:	18			
Basic		$ 0.14	$ (0.52)	$ 0.41
Fully diluted		$ 0.14	$ (0.52)	$ 0.40
Weighted average number of Corel common shares:				
Basic		25,631	24,951	22,410
Fully diluted		26,189	24,951	23,156

See Accompanying Notes to the Consolidated Financial Statements

COREL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, U.S. dollars)

	Note	Year Ended November 30, 2008	2007	2006
Cash flow from operating activities				
Net income (loss)		$ 3,707	$ (13,062)	$ 9,251
Depreciation and amortization		4,458	3,477	1,609
Amortization of deferred financing fees		1,081	1,074	1,180
Amortization of intangible assets		25,634	26,119	14,366
Stock-based compensation	16	6,301	5,488	3,232
Provision for bad debts		1,092	252	195
Deferred income taxes		(4,533)	(83)	876
Unrealized foreign exchange loss on forward exchange contracts		126	147	150
Acquired in-process research and development	9	—	7,831	—
Loss on disposal of fixed assets		196	102	—
Loss on early retirement of debt	13	—	—	8,292
Gain on sale of investments		(822)	—	—
Loss (gain) on interest rate swap recorded at fair value		(7)	392	810
Net gain from defined benefit pension plan		(184)	—	—
Change in operating assets and liabilities	20	(1,544)	(5,238)	(3,736)
Cash provided by operating activities		35,505	26,499	36,225
Cash flow from financing activities				
Restricted cash		58	500	249
Proceeds from operating line of credit		—	48,000	—
Repayments of operating line of credit		—	(48,000)	—
Proceeds from long-term debt	13	—	70,000	90,000
Repayments of long-term debt	13	(2,249)	(2,149)	(150,323)
Repayments of capital lease obligations		(1,084)	(315)	—
Payments on deferred purchase price		—	—	—
Financing fees incurred		—	(1,685)	(5,259)
Proceeds from public offering, net of costs of $5,176		—	—	69,132
Proceeds from exercise of stock options		311	5,406	—
Dividends		—	—	(7,500)
Other financing activities		(96)	51	(184)
Cash provided by (used in) financing activities		(3,060)	71,808	(3,885)
Cash flow from investing activities				
Proceeds on disposal of investments		475	—	—
Purchase of InterVideo, net of cash acquired	9	—	(120,912)	—
Purchase of capital assets and licences		(7,100)	(3,848)	(1,906)
Cash used in investing activities		(6,625)	(124,760)	(1,906)
Effect of exchange rate changes on cash and cash equivalents		(175)	38	(150)
Increase (decrease) in cash and cash equivalents		25,645	(26,415)	30,284
Cash and cash equivalents, beginning of period		24,615	51,030	20,746
Cash and cash equivalents, end of period		$50,260	$ 24,615	$ 51,030
Supplemental disclosures:				
Cash paid for interest		13,817	16,488	9,613
Cash paid for income taxes		3,973	3,208	5,526
Share consideration on acquisitions		—	—	35,138
Purchases of capital assets under capital lease	14	—	3,074	—

See Accompanying Notes to the Consolidated Financial Statements

COREL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT) EQUITY
(In thousands, U.S. dollars)

	Note	Corel Common Shares		Accumulated Other Comprehensive Loss	Additional Paid in Capital	Retained Earnings (Deficit)	Total Shareholders' Deficit
Balances at November 30, 2006		24,535	$30,722	$ (46)	$ 4,612	$ (47,095)	$ (11,807)
Net loss						$ (13,062)	$ (13,062)
Other comprehensive loss		—	—	$ (675)	—	—	$ (675)
Stock based compensation	16	—	—	—	$ 5,488	—	5,488
Acquisition of InterVideo options	9	—	—	—	$ 719	—	719
Options exercised, net of issue costs	16	922	$ 9,930	—	$ (4,893)	—	5,037
Balances at November 30, 2007		25,457	$40,652	$ (721)	$ 5,926	$ (60,157)	$ (14,300)
Net income		—	—	—	—	3,707	3,707
Other comprehensive loss		—	—	$ (3,430)	—	—	$ (3,430)
Stock based compensation	16	—	—	—	$ 6,301	—	6,301
Adjustment to Retained Earnings upon implementation of FIN 48	12	—	—	—	—	$ (952)	$ (952)
Options exercised	16	366	$ 3,340	—	$ (3,029)	—	311
Balances at November 30, 2008		25,823	$43,992	$ (4,151)	$ 9,198	$ (57,402)	$ (8,363)

The components of total other comprehensive loss for the years ended November 30, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
Actuarial gain recognized for defined benefit plan (note 15)	$ 506	$ 931	$ —
Loss on interest rate swaps designated as hedges (note 2)	(3,614)	(1,821)	—
Unrealized losses on securities (note 7)	(322)	215	(131)
Other comprehensive income (loss)	$(3,430)	$ (675)	$(131)

See Accompanying Notes to the Consolidated Financial Statements

COREL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, U.S. dollars, unless otherwise stated)

1. *Nature of Operations*

Founded in 1985, Corel Corporation ("Corel" or the "Company") is a global packaged software company with products for the Graphics and Productivity market and the Digital Media market. At November 30, 2008, the Company's significant Graphics and Productivity products include *CorelDRAW Graphics Suite, WinZip, WordPerfect Office Suite, iGrafx Flow Charter , Corel Painter, Corel DESIGNER Techinical Suite,* and its significant Digital Media products include *WinDVD, Corel PaintShop Pro Photo, DVD Movie Factory, VideoStudio, Photo Impact* and *MediaOne* .

2. *Summary of Significant Accounting Policies*

Basis of consolidation

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

Estimates and assumptions

The preparation of these financial statements is in conformity with US GAAP and requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements, and the disclosures made in the accompanying notes. Examples of estimates include the provisions for sales returns and bad debts, estimates related to loss contingencies; estimates associated with annual goodwill impairment tests, assumptions used to determine the fair value of interest rate swaps, estimates used to determine the cash sweep payments required under our term loan agreement and estimates of deferred income tax assets and liabilities. We also use estimates when assessing impairments in the carrying values of purchased intangible assets, equipment and other long-lived assets and in determining their remaining economic lives. In addition, we use assumptions when employing the Black-Scholes valuation model to estimate the fair value of options. Despite the Company's intention to establish accurate estimates and use reasonable assumptions, actual results may differ from these estimates.

During fiscal 2008, due to the availability of improved provision related information, the Company changed the methodology for estimating the provision for product returns in order to improve on the accuracy of the amounts recorded as well as the timeliness of its financial statement preparation process. In accordance with Statement In accordance with financial accounting standards No. 154 — *Accounting Changes and Error Corrections* , ("FAS 154"), the Company has determined that this is a change in estimation methodology and accordingly is a change in estimate. The change in estimate has resulted in an increase in fiscal 2008 revenues of approximately $2.0 million and increased accounts receivable by $2.0 million as at November 30, 2008. The effect of this change in estimate was to increase both our basic and fully diluted earnings per share by $0.07, from $0.07 to the $0.14 currently reported on our statement of operations.

Business combinations

Corel accounts for business acquisitions using the purchase method of accounting and records definite lived intangible assets separate from goodwill. Intangible assets are recorded at their fair value based on estimates as at the date of acquisition. Goodwill is recorded as the residual amount of the purchase price less the fair value assigned to the individual assets acquired and liabilities assumed as at the date of acquisition.

Software revenue recognition

The Company recognizes revenue in accordance with Statement of Position ("SOP") 97-2, *"Software Revenue Recognition,"* issued by the American Institute of Certified Public Accountants ("AICPA"), SOP 98-9, *"Modification of 97-2, Software Recognition with Respect to Certain Transactions"* and Staff Accounting

Bulletin (“SAB”) No. 101 and No. 104 *“Revenue Recognition in Financial Statements,”* issued by the Securities and Exchange Commission (“SEC”).

The Company records revenue when persuasive evidence of an arrangement exists, there are no significant uncertainties surrounding product acceptance, the fees are fixed or determinable and collection is considered probable.

The Company’s application of SOP 97-2 requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence (“VSOE”) of fair value exists for those elements. The Company’s VSOE is based on the associated price when the elements are sold separately. Some customers receive certain elements of the Company’s products over a period of time. Changes to the elements in a software arrangement, the ability to identify VSOE for those elements and the fair value of the respective elements could materially affect the amount of earned and unearned revenue.

The Company sells maintenance contracts that include the right to unspecified upgrades of software licenses on a when-and-if-available basis and customer support. Sales of maintenance contracts are considered post contract support, and the fees are deferred and recognized as revenue ratably over the term of the maintenance arrangement, which is generally 12 or 24 months. Deferred revenue is not contingent upon any specific delivery of product since upgrades are only provided when-and-if-available.

The Company recognizes revenues from the sale of its packaged software when legal title transfers, which is generally when the product ships or, in the case of certain agreements, when products are delivered to retailers. The Company sells some of its products on consignment to resellers and retailers and recognizes revenue for these consignment transactions only when the end-user sale has occurred.

Under the Company’s revenue recognition policy for OEM customers, the Company recognizes revenue based on the evidence of products sold by our OEM customers to end customers or to the OEM’s sales channel partners. Under certain agreements where post contract support (“PCS”) is granted to OEM for a period greater than a year, revenue is recognized ratably over the contractual PCS period. Typically, the Company’s OEM customers do not have the right to claim a credit or refund for returns from OEM’s sales channel partners or end customers back to the OEM. However, in the few instances where Corel has granted its OEM customers with the right to claim a refund or credit to a certain capped percentage of the contract amount, the Company defers revenue based on the contractual return cap until it is able to establish a reasonable returns estimate based on historical return activity, that is specific to the respective sales channel, product line or country.

End-user sales are made directly through the Company’s websites without upgrades. Websales revenue is recognized, net of returns, upon the delivery of the product and the receipt of payment by credit card.

At the time of contract signing, the Company assesses whether the fee associated with the revenue transactions is fixed or determinable based on the payment terms associated with the transaction and considers the fee to be fixed or determinable if it is due within the Company’s normal payment terms, which are generally 30 to 90 days from invoice date.

The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. If it is determined that collection of a fee is not reasonably assured, management defers the fee and recognizes revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash.

Cost of Revenues

Royalty costs are recorded as a cost of revenue at the times revenues are recognized on the products for which the royalty relates. Manufacturing oversight, technical support, amortization, and shipping and handling costs associated with product delivery, are expensed as incurred and included in cost of revenues.

Allowance for product returns and rebate programs

In accordance with Financial Accounting Standards Board ("FAS") 48, the Company reduces product revenues from distributors and retailers for estimated returns based on historical returns experience and other factors, such as the volume and price mix of products in the retail channel, return rates for prior releases of the product, trends in retailer inventory and economic trends that might impact customer demand for its products (including the competitive environment and the timing of new releases of its product). The Company also reduces product revenue for the estimated redemption of rebates on certain current product sales. The Company estimates provisions for distributor and retailer sales incentive rebates based on distributors and retailers actual performance against the terms and conditions of rebate programs. The Company estimates and provides for end user rebates based on the terms and conditions of the specific promotional rebate program, actual sales during the promotion, the amount of redemptions received and historical redemption trends by product and by type of promotional program.

Certain customer agreements require payment by the Company of marketing development funds, co-operative advertising fees, rebates or similar charges. The Company accounts for such fees in accordance with Emerging Issues Task Force ("EITF") Issue No. 01-09 as a reduction in revenue, unless there is an identifiable benefit and the fair value of the charges can be reasonably estimated in which case the Company records these transactions as marketing expense. Commissions paid to third-party sales representatives are included in sales and marketing expenses.

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The Company regularly reviews the accounts receivable and management uses its judgment to assess the collectibility of specific accounts. As part of the review, management considers historical bad debts, changes in customer payments and current economic trends. Based on this assessment, an allowance is maintained that represents what is believed to be ultimately uncollectible from such customers. Changes in these factors result in adjustments to the allowance for doubtful accounts which are accounted for as changes in estimates.

Other comprehensive income (loss)

Other comprehensive income (loss) is the change in equity of a business enterprise from non-shareholder transactions affecting shareholders' deficit that are not included in net income (loss) on the consolidated statement of operations and is reported as a separate component of shareholders' deficit. Other comprehensive income (loss) includes any unrealized gains or losses on available-for-sale securities, actuarial gains or losses on our defined pension benefit plans, and marked to market gains or losses incurred on our interest rate swaps that are designated as effective cash flow hedges under Statement of Financial Accounting Standards No 133 *"Accounting for Derivative Instruments and Hedging Activities"* ("FAS 133").

Foreign currency translation

The functional currency of the Company and its subsidiaries is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are re-measured to U.S. dollars using the exchange rates at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are measured in U.S. dollars using historical exchange rates. Revenues and expenses are measured using the actual exchange rates prevailing on the date of the transactions. Gains and losses resulting from re-measurement are recorded in the Company's Consolidated Statement of Operations as a component of other non-operating expense (income). The gains (losses) on foreign exchange were ($2,691), $862, and $413 for the years ending November 30, 2008, 2007, and 2006 respectively.

COREL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Cash equivalents

Cash equivalents are investments that are highly liquid and have terms to maturity of three months or less at the time of acquisition. Cash equivalents typically consist of commercial paper, term deposits and banker's acceptances issued by banks and corporate debt. Cash and cash equivalents are carried at cost, which approximates their fair value.

Restricted cash

As of November 30, 2008 and 2007, $150 is held in-trust at a law firm to pay legal fees and expenses of the former Board of Directors, as required by the acquisition agreement reached between Vector Capital and Corel Corporation dated August 28, 2003, whereby Vector capital acquired Corel. Any unused funds will be returned to Corel in 2009. As of November 30, 2008 and 2007, $9 and $67, respectively, represented cash deposits for leased premises.

Investments

Investments are made up of equity securities classified as available-for-sale. Available-for-sale securities do not qualify for accounting under the equity method because Corel's ownership interest in such investees is less than 20% and the Company does not have the ability to exercise significant influence on the investees.

All available-for-sale securities are recorded at fair value. Any unrealized gains and losses are reported as part of other comprehensive income (loss). Realized gains and losses are included in other non-operating expense (income). The Company assesses whether declines in investments are other then temporary. This assessment is determined by considering current market conditions and the financial position, earnings. and the future liquidity of the company that has been invested in. If it is determined that the decline is other then temporary the loss is recorded in the consolidated statement of operations in other expenses.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, forward exchange contracts and accounts receivable.

The Company's cash and cash equivalents are denominated predominantly in U.S. dollars and are primarily on deposit with Canadian financial institutions. Cash and cash equivalent deposits may exceed federally insured limits. As of November 30, 2008, approximately 68% of the Company's cash and cash equivalents are held on deposit with banks, and the remaining amount is held in commercial paper. The largest proportion of its bank deposits are held in Canadian banking institutions. The Company has historically made short-term investments in term deposits and commercial paper. There has been no history of any defaults on the Company's commercial paper transactions. All commercial paper on hand at November 30, 2008, has been repaid, and subsequently reinvested.

When assessing credit risk the Company considers whether the credit risk exists at both the individual and group level. Consideration is given to the activity, region and economic characteristics when assessing if there exists a group concentration risk. As at November 30, 2008 the Company has one individual customer (2007 — one) with balances greater then 10% of the total accounts receivable. This customer owed $4,303 (2007 — $5,634) or approximately 12.8% (2007 — 13.7%) of the total accounts receivable balance.

Interest rate risk

The Company's exposure to interest rate risk relates primarily to its long-term debt. The Company has significantly larger amounts of interest bearing debt as compared to interest bearing assets. The risk is

associated with increases in the prime lending rate, as a significant portion of the debt has a floating rate of interest based on prime.

Given the amount of debt that the Company has which is not hedged, if lending rates were to rise significantly, the resulting interest cost could materially affect the business. In connection with the current debt facility (note 13), the Company uses interest rate swaps to limit its exposure to changing interest rates and future cash outflows for interest. Interest rate swaps provide for the Company to pay an amount equal to a specified fixed rate of interest times a notional principal amount and to receive in return an amount equal to a variable rate of interest times the same notional amount.

Fair value of financial instruments

The carrying amounts for cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and amounts due to related parties approximates fair value due to the short maturity of these instruments.

The Company determines the fair value of its operating line of credit and long-term debt based on market information and a review of prices and terms available at the fiscal year-end for similar obligations.

The carrying amount of 86% of the long-term debt, which is the portion that equals the notional amounts of the outstanding interest rate swaps, combined with the fair value of the interest rate swaps approximate fair value because the Company has interest rate swaps which are marked to market as at November 30, 2008. The remaining long-term debt which was not hedged, has a fair value of $21.9 million.

The carrying amount of the capital leases, which is based on amortized cost, is not materially different from fair value.

Fair value measurements

In September 2006, FASB released FAS 157, *"Fair Value Measurements"* ("FAS 157") and is effective for fiscal years beginning after November 15, 2007, which is the year ending November 30, 2008 for the Company. FASB 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. In November 2007, FASB agreed to a one-year deferral associated with the effective date for nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. The Company is currently assessing the deferred portion of the pronouncement. As of December 1, 2007, the Company has adopted FAS 157 for the fair value measurement of recurring items.

FAS 157 describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following is a summary of our items measured at fair value using FAS 157 as of November 30, 2008:

	Fair Value of Assets (Liabilities) at November 30, 2008	Quoted Prices in Active Market for Identical Assets (Liabilities) (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term investments(1)	$ 96	$ 96	$ —	$ —
Forward exchange contracts(2)	(126)	—	(126)	—
Interest rate swaps(3)	(6,630)	—	(6,630)	—

(1) The fair value of our long-term investments is based on the closing market prices of the investments.

(2) The fair value of our forward exchange contracts is based on foreign currency exchange rates as of November 30, 2008. The fair value of our interest rate swap agreements is based on the present value of expected future cash flows based on observable future LIBOR rates

(3) using linear interpolation, inclusive of the risk of non-performance, using a discount rate appropriate for the duration.

Accelerated Debt Payments

All cash sweep payments are classified on the balance sheet based on the Company's ability and intent to refinance the obligation on a long-term basis and the existence of financing arrangements to allow short-term obligations to be refinanced. The Company is not currently intending to refinance its short term obligation and intends to make the payment as required. As such, the estimated cash sweep obligations due over the next 12 months have been classified as current liabilities.

Forward exchange contracts

Corel manages a portion of its financial exposure to certain foreign exchange fluctuations with the objective of minimizing the impact of foreign currency exchange movements on its operations.

To meet this objective Corel enters into foreign exchange contracts from time to time for terms of less than one year. Contracts are with major Canadian chartered banks, and therefore non-performance by a counter party is considered unlikely. As of November 30, 2008 Corel had three U.S dollar foreign exchange contracts of approximately $850 each outstanding, which were settled by January 5, 2009. An unrealized loss of $126 was recorded on this contract for the year ending November 30, 2008.

As of November 30, 2007, Corel had two U.S dollar foreign exchange contracts of $1,200 each, which were settled on December 10, 2007 and December 21, 2007. A loss of $138 was recorded on these contracts for the year ending November 30, 2007.

In accordance with the provisions of financial accounting statement no, 133 — *Accounting for Derivative Instruments and Hedgind Activities,* ("FAS 133"), Corel's forward exchange contracts qualify as derivative instruments. These contracts are not designated as hedging instruments under FAS 133. These contracts are marked-to-market at the end of each reporting period and resulting gains or losses are recorded as other non-operating expense (income) in the Company's consolidated statement of operations and the related liability is included in accrued liabilities in the consolidated balance sheet. The Company does not use derivative instruments for speculative purposes.

Interest rate swaps

As of November 30, 2008, the Company has $134.5 million of interest rate swaps which convert an aggregate notional principal amount of $134.5 million (or approximately 86% of its interest-bearing debt) from floating rate interest payments under its term loan facility to fixed interest rate obligations. Of this amount, $90.0 million have been designated as effective hedging instruments under FAS 133 and as such any changes in the value of these swaps is recorded in other comprehensive income. The Company also has $44.5 million of interest rate swaps that are not designated as effective hedging instruments under FAS 133, and as such any changes in the value of these swaps is recorded in interest expense. The Company does not use derivative instruments for speculative purposes.

As of November 30, 2008, the Company has three interest rate swaps with a notional amount of $44.5 million as required under its senior credit facility. The interest rate swaps qualify as a derivative and were not designated as a hedging instrument at the initiation of the swap, and as such, the Company has not applied hedge accounting. At the end of each period, the interest rate swaps are recorded in the consolidated balance sheet at fair value, either in other current assets or accrued liabilities, and any related gains or loses are recognized on the Company's statement of operations within interest expense. The variable rate of interest is based on three-month LIBOR plus 4.00%. The fixed rates range from 8.62% to 8.76%. During fiscal 2008 and fiscal 2007, the Company recorded income of $7 and a loss of $392, respectively, to reflect the fair value for those interest rate swaps that have not been designated as hedges.

During fiscal 2007 and fiscal 2008, the Company entered into additional interest rate swaps for $50.0 million and $40.0 million, respectively, with its principal lender to reduce the risk of changes in cash flows associated with interest payments due to changes in one-month LIBOR. The interest rate swaps expire in January 2012, which is concurrent to the period which the senior credit extends. The objective of the swaps is to hedge the risk of changes in cash flows associated with the first future interest payments on floating rate debt with a notional amount of $90.0 million which is subject to changes in the one-month LIBOR rate, and therefore the cash flow from the derivative is expected to offset any changes in the first interest payments on floating rate debt with a notional amount of $90.0 million due to changes in one-month LIBOR. This is a hedge of specified cash flows. As a result, these interest rate swaps are derivatives and were designated as hedging instruments at the initiation of the swaps. The Company has applied cash flow hedge accounting in accordance with FAS 133. At the end of each period, the interest rate swaps are recorded in the consolidated balance sheet at fair value, in either other current assets if it is an asset position, or in accrued liabilities if it is in a liability position. Any related increases or decreases in the fair value are recognized on the Company's balance sheet within accumulated other comprehensive income.

The Company assesses the effectiveness of its interest rate swaps as defined in FAS 133, on a quarterly basis. The Company has considered the impact of the current credit crisis in the United States in assessing the risk of counterparty default. The Company believes that it is still likely that the counterparty for these swaps will continue to act throughout the contract period, and as a result continues to deem the swaps as effective hedging instruments. A counterparty default risk is considered in the valuation of the interest rate swaps.

Management has assessed that its cash flow hedges have no ineffectiveness, as determined by the hypothetical derivate method. Accordingly, during the years ending November 30, 2008 and November 30, 2007, the Company has recorded its mark-to-market losses of $3.6 million and $1.8 million, respectively, to other comprehensive income. As of November 30, 2008, the accrued mark to market loss on these swaps is $5.4 million. Of this loss in other comprehensive income, approximately $2.5 million is expected to be re-classified into earnings during the fiscal period ending November 30, 2009. If the Company partially or fully extinguishes the floating rate debt payments being hedged or were to terminate the interest rate swap contract, a portion or all of the gains or losses that have accumulated in other comprehensive income would be recognized in earnings at that time. Prospective and retrospective assessments of the ineffectiveness of the hedge have been and will be made at the end of each fiscal quarter.

If the hedge of any of our interest rate swaps, was deemed ineffective, or extinguised by either counterparty, any accumulated gains or losses remaining in other comprehensive income would be fully recorded in interest expense during the period.

Inventory

Inventory of product components is valued at the lower of average cost and replacement cost. Finished goods are valued at the lower of average cost and net realizable value.

Long-lived assets

Long-lived assets are recorded at cost. Amortization of licenses commences with the market release of the associated software products and versions. Depreciation and amortization are calculated using the following rates and bases:

Capital assets	
Furniture and fixtures	20-33.3% per year declining balance
Computer equipment — general	Three years straight line
Computer equipment — research and development	20-50% per year declining balance
Computer equipment under capital lease — general	Three years straight line
Leasehold improvements	Straight line over the term of the lease
Intangible assets	
Licenses	Straight line over their useful lives, generally three to seven years
Acquired technologies	Straight line over the remaining economic life, generally estimated to be two to seven years
Tradenames	Straight line over estimated life of five to seven years
Customer relationships	The pattern in which the economic benefits are expected to be realized, over an estimated life of seven years.
Non-competition agreement	Straight line over two years, the term of the agreement

Capital assets held under capital lease are depreciated on the same basis as noted in the above table. The rates used do not result in the amortization period on these assets to exceed the terms of the associated lease.

The carrying values of long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. The determination of whether any impairment exist includes a comparison of estimated undiscounted future cash flows anticipated to be generated over the remaining life of the asset to the net carrying value of the asset. If the estimated undiscounted future cash flows associated with the asset are less than the carrying value, an impairment loss will be recorded based on the estimated fair value.

Goodwill

Goodwill represents the excess of the purchase price of acquired companies over the estimated fair value assigned to the individual assets acquired and liabilities assumed. The Company does not amortize goodwill,

but instead tests goodwill for impairment on September 1 of each year and, if necessary, records any impairment in accordance with FAS 142, *"Goodwill and Other Intangible Assets"* .

A two-step test is performed to assess goodwill for impairment. First, the fair value of each reporting unit is compared to its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. The implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the difference is recorded. The Company has one reporting unit.

Software development costs

Product development costs are charged to expense as incurred until technological feasibility is attained. The Company's internally developed software costs include application and tools development, testing, translation and localization costs incurred in production of software to be licensed to customers. Technological feasibility is attained when the Company's software has completed system testing and has been determined viable for its intended use. The time between the attainment of technological feasibility and completion of software development is traditionally short, and to date, such costs have not been material. Accordingly, the Company did not capitalize any development costs in fiscal 2008, 2007 and 2006.

The Company capitalizes software acquired through business combinations and technology purchases only if the related software under development has reached technological feasibility or if there are alternative future uses for the technology. The amortization expense is separately classified and disclosed as a component of cost of revenue.

Deferred financing charges

Deferred financing charges arise when the Company arranges long-term debt financing and are amortized over the term of the associated debt using the effective interest rate method. In fiscal 2006 and 2007, the Company entered into new debt facilities. Additions to deferred financing charges in fiscal 2008, 2007 and 2006 were $nil, $1,685, and $5,259 respectively. During fiscal 2008, 2007 and 2006, the related amortization expense was $1,081, $1,074 and $1,180, respectively.

Income taxes

The Company accounts for income taxes under the asset and liability method. Under this method, the Company recognizes deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets to an amount for which realization is more likely than not.

The Company adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), on December 1, 2007. FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing tax returns to determine whether the tax positions have met a "more-likely-than-not" threshold of being sustained by the applicable tax authority. Tax benefits related to tax positions not deemed to meet the "more-likely-than-not" threshold are not permitted to be recognized in the financial statements. Upon adoption of FIN 48, the Company has elected an accounting policy that continues to classify accrued interest and penalties related to liabilities for income taxes in income tax expense.

Investment tax credits

Investment tax credits, which are earned as a result of qualifying research and development expenditures, are recognized and applied to reduce income tax expense in the year in which the expenditures are made and their realization is reasonably assured.

Stock-based compensation

Stock-based compensation cost is measured at the date of grant, based on the fair value of the award, and is recognized as an expense on a straight-line basis over the employee's requisite service period with an equal amount recorded as additional paid in capital until such time as the fair value has been fully recognized. The Company accounts for forfeitures using an estimated rate when determining the fair value of the award.

Advertising costs

Advertising costs are expensed as incurred but do not include expenses related to coupon programs, which are applied against revenues. Advertising costs were $19,859, $19,233, and $18,951 for the years ending November 30, 2008, 2007 and 2006, respectively.

Defined employee benefit plans

The Company maintains a defined benefit pension plan in Taiwan for which current service costs are charged to operations as they accrue based on services rendered by employees during the year. Pension benefit obligations are determined by independent actuaries using management's best estimate assumptions, with accrued benefits prorated on service. Obligations are recorded under the corridor method in accordance with Statement of Financial Accountings Standard No 158, *"Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans"* ("FAS 158"). Any curtailment gains or losses are recorded in the period in which an employee is terminated, and is allocated to either operating expenses or other comprehensive income in accordance with FAS 158. The Company uses a November 30 measurement date.

Leases

Leases are classified as capital or operating depending on the terms and conditions of the contracts. The costs of assets acquired under capital leases are amortized on a straight-line basis over their estimated useful lives. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

Cash flows from lease termination penalties are discounted to their present value, and fully expensed at the inception of the penalty.

Earnings per share

The Company computes the basic earnings (loss) per share by using the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is based upon the weighted average common shares outstanding for the period plus dilutive potential common shares, including unvested stock options and restricted share units, calculated under the treasury stock method. Any stock options which have an exercise price greater than the market price at the balance sheet date are not considered as dilutive potential common shares.

Recent accounting pronouncements

In March 2008, the FASB released FAS 161, *"Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133."* This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which for the Company is the

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interim period ending February 28, 2009. This statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation, in order to better convey the purpose of derivative use in terms of the risks that the Company is intending to manage. Management is currently assessing and evaluating the new disclosure requirements for our derivative instruments, and in particular our hedges on our term loans.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. SFAS No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any noncontrolling interest at their fair values as of the acquisition date. SFAS No. 141(R) also requires that acquisition-related costs be recognized separately from the acquisition. SFAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008, which for the Company is the fiscal year beginning December 1, 2009.

In May 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) 142-3, *Determination of the Useful Life of Intangible Assets* , which is effective for fiscal years beginning after December 15, 2008 and for interim periods within those years, which for the Company is the fiscal year beginning December 1, 2009. FSP FAS 142-3 provides guidance on the renewal or extension assumptions used in the determination of the useful life of a recognized intangible asset. The intent of FSP FAS 142-3 is to better match the useful life of the recognized intangible asset to the period of the expected cash flows used to measure its fair value. The Company does not expect FSP FAS 142-3 to have a material effect on its consolidated financial statements.

3. *Cash and Cash Equivalents*

The components of cash and cash equivalents for the periods presented are as follows:

	November 30, 2008	November 30, 2007
Cash on deposit with banks		
Canadian institutions	$ 20,122	$ 5,169
American institutions	6,451	10,434
Other	7,679	4,775
Commercial paper	15,983	—
Term deposits	—	4,188
Other	25	49
Cash and Cash Equivalents	$ 50,260	$ 24,615

4. *Accounts Receivables and Allowance for Doubtful Accounts*

The Company’s trade receivables are recorded in the balance sheet at the outstanding principal amount adjusted for any allowances for doubtful accounts and provisions for rebates and returns.

The components of trade receivables for the periods presented are as follows:

	November 30, 2008	November 30, 2007
Gross accounts receivable	$ 40,306	$ 49,576
Allowance for doubtful accounts	(1,357)	(1,366)
Provisions for returns and rebates	(5,708)	(7,118)
Trade receivables	$ 33,241	$ 41,092

5. *Related Party Transactions*

In connection with certain transaction advisory work performed on the Company's behalf, the Company paid Vector Capital, the majority shareholder of the Company, transaction fees, consulting fees and reimbursements for expenses of $479, $172 and $115 in fiscal 2008, 2007 and 2006, respectively. As of November 30, 2008 and 2007, there were amounts payable to Vector Capital of $341 and nil, respectively. The amounts payable to Vector Capital are unsecured and do not have any repayment terms.

6. *Inventory*

The components of inventory for the periods presented are as follows:

	November 30, 2008	November 30, 2007
Product components	$ 844	$ 310
Finished goods	718	419
Inventory	$ 1,562	$ 729

7. *Investments*

The investments balance is a component of deferred financing and other long-term assets on the balance sheet.

Any unrealized gains and losses on the available-for-sale securities are included in accumulated other comprehensive income on the balance sheet. The Company has assessed that the declines in the fair value of investments are temporary. The following chart summarizes the Company's gross unrealized gains and losses on the available-for-sale securities:

	Year Ended November 30,		
	2008	2007	2006
Equity securities:			
Fair value	$ 96	$418	$ 203
Gross unrealized gains	96	418	203
Unrealized gains (losses) included in comprehensive income	(322)	215	(131)
Realized gain on sale of securities	—	—	—

8. *Long-Lived Assets*

The components of long-lived assets for the periods presented are as follows:

	November 30, 2008		November 30, 2007	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Capital Assets				
Furniture and fixtures	$ 2,262	$ 1,354	$ 2,321	$ 1,118
Computer equipment — general	12,827	6,988	8,287	4,891
Computer equipment — research and development	1,299	899	1,299	797
Computer equipment under capital lease — general	2,861	799	3,074	294
Leasehold improvements	2,028	688	1,372	282
	21,277	10,728	16,353	7,382
Less: Accumulated amortization	10,728		7,382	
Net book value	$10,549		$ 8,971	

	November 30, 2008		November 30, 2007	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Intangible Assets				
Licenses	$ 6,573	$ 5,114	$ 4,036	$ 2,176
Acquired technologies	115,108	70,704	116,378	55,324
Trade names	32,368	16,183	32,348	10,956
Customer relationships	10,999	6,018	10,999	3,295
	165,048	98,019	163,761	71,751
Less: Accumulated amortization	98,019		71,751	
Net book value	$ 67,029		$ 92,010	

At November 30, 2008, given the current disruption and uncertainty in the global economy, the significant decrease in the Company's stock price over the last fiscal quarter, and the Company's revenues being lower than projected, it was determined that the appropriate triggers had been reached for an impairment test of all intangible assets. The Company performed asset recoverability tests, using undiscounted cash flows based on internal projections for revenues and expenses. The Company concluded that the undiscounted cash flows exceeded the carrying value of all intangible assets tested, and therefore, no impairment was recorded.

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The following table sets forth the Company's estimated future amortization charges with respect to intangible assets for the five succeeding fiscal years.

	Estimated Amortization Expense
2009	24,865
2010	18,596
2011	17,032
2012	5,842
2013	694
Total	$ 67,029

9. *Acquisitions*

InterVideo Acquisition

On December 12, 2006, Corel completed the acquisition of 100% of the voting equity of InterVideo, a provider of Digital Media authoring and video playback software with a focus on high-definition and DVD technologies, for cash of approximately $198.6 million. In 2005, InterVideo acquired a majority interest in Ulead, a leading developer of video imaging and DVD authoring software for desktop, server, mobile and Internet platforms. As part of the Company's acquisition of InterVideo, the remaining voting equity interest in Ulead was acquired by the Company on December 28, 2006 for cash of approximately $21.7 million.

The acquisition expanded the Company's presence in the Digital Media software market by increasing its portfolio of Digital Media and DVD video products. With the addition of InterVideo, Corel has extended its presence in Asian markets, such as China, Taiwan and Japan.

The acquisition of InterVideo was accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141 ("FAS 141") " *Business Combinations* ". Assets acquired and liabilities assumed were recorded at their estimated fair values as of December 12, 2006, and the results of InterVideo have been included in the Company's consolidated operations from that date.

Purchase Price

The total purchase price of the acquisition is as follows:

Cash consideration — InterVideo acquisition	$198,624
Cash consideration — acquisition of remaining interest in Ulead	21,731
Fair value of stock options assumed	3,503
Deferred stock-based compensation	(2,784)
Direct transaction costs	3,751
Restructuring costs	3,490
Total purchase price	$228,315

Fair value of stock options assumed

Under the terms of the acquisition agreement, each InterVideo stock option that was outstanding and unexercised at the date of acquisition are, once vested, exercisable for Corel Common Shares at a ratio of 1 to 0.918 which was determined by the relative market value of Corel and InterVideo common shares at the date of closing.

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These options have a per share exercise price equal to the original exercise price of InterVideo options divided by the Option Exchange Ratio. There were InterVideo stock options outstanding at December 12, 2006 which, once vested, are exercisable into 1,700,717 Corel shares. The estimated fair value of these outstanding options was $3.5 million as determined using the Black Scholes option pricing model (“Black Scholes model”) with the following assumptions:

Expected option life (years)	3 to 7
Volatility	16.1% to 36.1%
Risk free interest rate	4.77% to 4.80%
Forfeiture rate	36.79% to 45.11%
Dividend yield	Nil

The stock price used in the valuation was $10.60, which was the average of closing prices for Corel common shares for a range of trading days (August 23, 2006 through August 31, 2006) around the announcement date (August 28, 2006) of the transaction. The risk-free interest rate used in the valuation was the zero-coupon yield implied from U.S. Treasury securities with equivalent remaining terms. The Company did not anticipate paying any cash dividends in the foreseeable future and therefore an expected dividend yield of zero was used in the valuation. Corel estimated the expected term of unvested options by taking the average of the vesting term remaining and the contractual term of the option. The volatility used in the model was based on the blended rate of the Company’s own stock price and the US Dow Jones Software and Computer Services Index.

Deferred stock-based compensation

Deferred stock-based compensation represents the portion of the estimated fair value, measured as of December 12, 2006, of unvested InterVideo stock options. The fair value of unvested options exchanged was estimated at $2.8 million using the Black Scholes model. The stock price used in the valuation is $14.16, which was the closing price of Corel shares on December 11, 2006, the last trading day before the close of the acquisition. The risk-free interest rate used in the valuation was the zero-coupon yield on December 12, 2006 implied from U.S. Treasury securities with equivalent remaining terms. The Company did not anticipate paying any cash dividends in the foreseeable future and therefore an expected dividend yield of zero was used in the valuation. Corel estimated the expected term of unvested options by taking the average of the vesting term remaining and the contractual term of the option. The volatility used in the model was based on the blended rate of the Company’s own stock price and the US Dow Jones Software and Computer Services Index. The fair value of stock options assumed has been included in additional paid-in capital.

The assumptions used to value deferred stock-based compensation are as follows:

Expected term (in years)	4 to 7
Volatility	19.7 to 34.2%
Risk free interest rate	4.45 to 4.49%
Forfeiture rate	36.79 to 45.11%
Dividend yield	Nil

The deferred stock-based compensation is being amortized to expenses over the remaining vesting periods of the underlying options.

Direct transaction costs

Direct transaction costs of $3.8 million include investment banking, legal and accounting fees, and other external costs directly related to the acquisition.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Restructuring costs

In conjunction with the acquisition, management initiated a restructuring plan ("InterVideo plan") and incurred restructuring charges related to this plan. The InterVideo plan included the reduction of headcount across all functions, the closure of certain facilities and the termination of certain redundant operational contracts. The total restructuring costs were estimated at $3.5 million.

As of November 30, 2007, all of the headcount reductions had been planned, identified and completed, and all facility closures had been planned and identified. Payments continued to be made until May 2008 in relation to lease costs for the portion of our Eden Prairie, Minnesota office which is no longer occupied.

A summary of restructuring activities related to the acquisition of InterVideo that were included as part of the purchase price allocation follows:

	Estimated Costs at Completion of Purchase Price Allocation on November 30, 2007	Cash Payments	Change in Estimates	Balance as at November 30, 2008
Termination benefits	$ 2,118	$ 2,118	—	$ —
Cost of closing redundant facilities	1,372	834	422	116
Total	$ 3,490	$ 2,952	$ 422	$ 116

Pursuant to Emerging Issues Task Force Issue No. 95-3, " *Recognition of Liabilities in Connection with a Purchase Business Combination* ", all restructuring charges related to the InterVideo acquisition were recognized as a part of the purchase price allocation and accrued for as of November 30, 2007. Cash flows from lease termination penalties are discounted to their present value.

During the year ending November 30, 2008, the Company entered into a new sublease agreement, which resulted in a $396 reduction in the previous estimate, and a reduction to our operating expenses.

Purchase Price Allocation

Under the purchase method of accounting, the total purchase price was allocated to InterVideo's net tangible and intangible assets based on their estimated fair values as at December 12, 2006. The excess of the purchase price over the value of the net tangible and identifiable intangible assets was recorded as goodwill. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on estimates and assumptions made by management. The allocation of the purchase price is as follows:

	Amount
Cash, cash equivalents, and short-term investments	$106,691
Working capital	(26,966)
Capital and other long-term assets	4,056
Identifiable definite lived intangible assets	86,577
Deferred tax liability	(20,836)
Net assets acquired	149,522
Total purchase price	228,315
Goodwill from InterVideo acquisition	78,793

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In the year ending November 30, 2008, the Company realized benefits of approximately $4.7 million related to the settlement of a dispute involving InterVideo for less then the amount estimated in the purchase price allocation.

In the year ending November 30, 2008, goodwill from this acquisition was reduced by $6.3 million related to the recognition of deferred tax assets and the reduction of deferred tax liabilities related to certain Taiwanese tax attributes (refer to note 12).

Identifiable definite lived intangible assets:

Approximately $86.6 million was allocated to definite lived intangible assets acquired, including $7.8 million related to in-process research and development ("IPR&D"). IPR&D represents new projects that, on the date of acquisition, the related technology had not reached technological feasibility and did not have an alternate future use. All IPR&D has been expensed at the date of acquisition. The values assigned to identifiable definite lived intangible assets are as follows:

	Assigned Value	First Year Amortization	Estimated Weighted Average Life (in years)
Acquired existing technologies	$ 57,520	$ 10,874	4.8
In-process research and development	7,831	—	—
Customer relationships	10,651	3,045	5.4
Trade names	10,575	2,115	5.0
Total	$ 86,577	$ 16,034	

To determine the fair value of intangible assets, management used the income approach, specifically the present value of the operating cash flows generated, to determine the fair value of existing technologies, customer relationships, and the trade names.

Deferred Tax Liability

Approximately $25.8 million was estimated as the deferred tax liability arising from the difference between the value assigned to acquired technologies, customer relationships and trade names and their related tax value. As of the date of acquisition, the fair value of the InterVideo deferred tax assets was approximately $5.0 million, for which a full valuation allowance was applied in the year ending November 30, 2007 (refer to note 12).

InterVideo Integration Expense

Integration costs relating to the acquisition of InterVideo totaling $5.2 million and $358 have been recorded for the years ending November 30, 2007 and November 30, 2006, respectively. These costs relate to the integration of the InterVideo business into our existing operations, including travel costs, retention bonuses, incremental employees engaged solely for integration activities, other incremental costs for Corel employees who worked on the integration planning process, consultants for integrating systems, and other one time charges for integrating systems.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. *Goodwill*

Changes in the carrying amount of goodwill were as follows:

Balance, November 30, 2006	$ 9,850
Addition on acquisition of InterVideo (note 9)	78,793
Balance, November 30, 2007	$88,643
Reduction of deferred tax liabilities related to Taiwan assumed in the InterVideo acquisition (note 12)	(2,761)
Recognition of deferred tax assets pertaining to tax loss carryforwards assumed in the Intervideo acquisition (note 12)	(3,539)
Balance, November 30, 2008	$82,343

At November 30, 2008, given the current disruption and uncertainty in the global economy, the significant decrease in the Company's stock price over the last fiscal quarter, and its revenues being slightly lower then projected, the Company determined that the appropriate triggers had been reached to perform an impairment test beyond the annual goodwill impairment test. Based on the testing performed, there is no impairment in our goodwill as of November 30, 2008.

All goodwill identified above is non-deductible for income tax purposes.

11. *Accounts Payable and Accrued Liabilities*

The components of accounts payable and accrued liabilities for the periods presented are as follows:

	November 30, 2008	November 30, 2007
Accrued payroll	$ 11,605	$ 15,773
Accrued interest	240	130
Trade accounts payable	8,372	13,769
Accrued royalties	30,345	26,816
Unrealized losses on interest rate swaps	6,630	3,035
Other accrued liabilities	7,184	7,767
Accounts payable and accrued liabilities	$ 64,376	$ 67,290

12. *Income Taxes*

The Company adopted the provisions of FIN 48 on December 1, 2007. As a result of the adoption of FIN 48, the Company's cumulative-effect adjustment resulted in an increase in non-current income tax liabilities of $952 with a corresponding increase to the December 1, 2007 deficit balance of $952. As of December 1, 2007 the Company had $32.4 million of unrecognized tax benefits which, if recognized, $12.6 million would impact the effective tax rate. At December 1, 2007, the Company accrued approximately $1.3 million for the potential payment of interest and penalties. For fiscal year ended November 30, 2008, the Company had $1.9 million of potential interest and penalties which represents an increase of $680.

Using the recognition and measurement criteria in FIN 48 during the year ended November 30, 2008, the total amount of unrecognized tax benefits and related interest decreased by approximately $3,546, of which $316 relates to the lapse of applicable statute of limitations.

It is reasonably possible that the amount of unrecognized tax benefits, inclusive of related interest, will change in the next twelve months. At November 30, 2008, the estimated decrease in the amount of

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

unrecognized tax benefits relating to transfer pricing, business deductions, loss carryforwards, and various credits for the next 12 months is expected to be $1,694 due to the reasonable possibility that audits will be closed or the statute of limitations will expire in various jurisdictions.

The Company or its subsidiaries file income tax returns in Canada, the United States, Taiwan and various other foreign jurisdictions. These tax returns are subject to examination by local taxing authorities provided the tax years remain open to audit under the relevant statute of limitations. The tax years 2000 to 2007 remain open to examination by some of the major taxing jurisdictions to which the Company is subject. Included below is a summary of the periods open to examination by major tax jurisdiction.

Country	Tax Years Open for Examination
Canada	2000 through 2008
United States of America	2005 through 2008
Taiwan	2003 through 2008

Income (loss) before income taxes includes foreign income of $6,060 in fiscal 2008, $1,798 in fiscal 2007, and $10,957 in fiscal 2006.

The provision for income taxes consists of the following:

	Year Ended November 30,		
	2008	2007	2006
Current:			
Canadian	$ —	$ —	$ 736
Foreign	4,397	3,526	2,675
	4,397	3,526	3,411
Deferred:			
Canadian	—	—	381
Foreign	(4,533)	(83)	876
	(4,533)	(83)	1,257
Income tax expense	$ (136)	$3,443	$4,668

A reconciliation of income tax at the statutory rate to the Company's effective tax rate is as follows:

	Year Ended November 30,		
	2008	2007	2006
Income (loss) before income taxes	$ 3,571	$(9,619)	$13,919
Expected statutory rate	33.5%	36.1%	36.1%
Expected tax expense (recovery)	1,196	(3,472)	5,025
Losses not previously benefited	(12,387)	(529)	(601)
Foreign tax rate differences	(9,385)	(9,248)	(3,258)
Change in valuation allowance	14,400	8,770	876
Non-deductible expenses and non-taxable income	3,145	5,919	1,922
Change in estimates	(1,498)	(1,759)	—
Withholding tax on foreign income	4,383	3,519	685
Other	10	243	19
Reported income tax expense	$ (136)	$ 3,443	$ 4,668

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Significant deferred tax assets and liabilities were as follows, as of the dates indicated:

	November 30, 2008	November 30, 2007
Deferred tax assets (liabilities):		
Net operating losses carried forward	$ 29,006	$ 75,282
Book and tax differences on assets	44,037	53,915
Other	34,082	37,716
Total deferred tax assets	107,125	166,913
Basis difference in InterVideo intangible assets (note 8)	(13,059)	(20,754)
Valuation allowance for tax assets	(103,987)	(166,913)
Net deferred tax liability, presented as a current deferred tax asset of $3,138 (2007 — $nil) and a long term deferred tax liability of $13,059 (2007 — $20,754)	$ (9,921)	$ (20,754)

The deferred income tax liability of $13.1 million arises from the difference between the carrying value of the InterVideo intangible assets acquired and their tax basis. A balance of $25.8 million was estimated as the deferred tax liability arising from the difference between the value assigned to acquired technologies, customer relationships and trade names and their related tax value at the date of acquisition which has decreased to $13.1 million as a result of amortization recorded against these intangibles in fiscal 2007 and fiscal 2008 and adjustments related to the re-organization of digital media intellectual property.

As of November 30, 2008, the Company has tax loss carryforwards of $90.6 million, which expire during the years 2009 to 2028. Approximately $17.1 million of these losses are restricted to amounts that may be claimed each year based on U.S. tax loss limitations. During fiscal 2008 approximately $64.0 million of tax loss carry forwards expired and CDN$51.0 million will expire in fiscal 2009. The Company also has investment tax credits of approximately $14.4 million which expire during the years 2009 to 2014.

In 2008, the Company utilized approximately $7.0 million of Taiwanese loss carryforwards which existed at the time of the InterVideo acquisition. A deferred tax asset was recorded with a full valuation allowance on the acquisition of InterVideo related to these pre-acquisition loss carryforwards. The goodwill amount on the InterVideo acquisition was higher as a result of the valuation allowance. On the utilization of the pre-acquisition loss carryforwards the goodwill related to the InterVideo acquisition was reduced by $1.8 million and a deferred tax expense for the same amount was recorded.

As part of an initiative to reorganize the ownership of the digital media intellectual property, it is now more likely than not that the Company will be able to realize the benefit of these Taiwanese tax attributes. Therefore, the Company is removing the valuation allowance against $3.1 million of deferred tax assets resulting in a recovery of deferred tax expense of $1.4 million related to the post acquisition loss carryforwards and a reduction in goodwill of $1.7 million related to the pre-acquisition loss carryforwards and investment tax credits.

The Company has reduced its deferred tax liability related to the Taiwanese intellectual property acquired in the purchase of InterVideo, by $2.7 million in connection with the digital media reorganization. This has resulted in an offsetting reduction in goodwill.

At the beginning of the third quarter of fiscal 2007, the Company received a notice of reassessment from the Ministry of Revenue of Ontario (the “Ministry”) for CDN$13.4 million. The Ministry reassessment disallows various deductions related to transactions with a foreign related party claimed on our tax returns for the 2000, 2001 and 2002 taxation years resulting in a potential disallowance of loss carryforwards and liabilities for tax and interest. In September 2007, Corel received further notice that the Ministry had applied tax losses and other attributes which reduced the assessment from CDN$13.4 million to CDN$6.4 million.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Subsequently, in November 2007, the Company received another notice of assessment regarding this issue, which increased the capital tax and interest owing for the 2000, 2001, and 2002 taxation years. This reassessment was for CDN$7.5 million. The Company has not provided any amount in income tax payable in respect of these reassessments as it has and continues to vigorously defend against the reassessment. The Company has filed a Notice of Objection for the denied deductions and is in the process of preparing a Notice of Objection for the capital tax issue. Although the Company believes that it will prevail in the appeals process, the ultimate liability for the tax and interest may differ from the amount recorded in our financial statements. While the Company believes that they have adequately provided for potential assessments, it is possible that an adverse outcome may lead to a material deficiency in recorded income tax expense and may adversely affect liquidity. As of November 30, 2008, no amounts have been accrued.

13. *Long-term Debt*

On an annual basis, the Company may be required to make a cash sweep payment to fund its principal balance, based on excess cash flow as defined in the senior credit facility agreement. The Company is not obligated to make total cash sweep payments over the period of the term loan in excess of $40.0 million or 25% of the initial debt. The Company was not required to make a payment during the first quarter of fiscal 2008. A cash sweep payment will be required in February 2009 and has been estimated to be approximately $17.5 million and is included in the current portion of long-term debt.

The components of long-term debt are as follows:

	November 30, 2008			November 30, 2007		
	Current	Long-term	Total	Current	Long-term	Total
Term loan	$19,095	$137,264	$156,359	$ 1,596	$156,359	$157,955
Promissory note	—	—	—	653	—	653
Total	$19,095	$137,264	$156,359	$ 2,249	$156,359	$158,608
Line of credit	$75,000			$75,000		
Outstanding balance — Letter of Credit	5,608			5,608		
Available line of credit	$69,392			$69,392		

The entire amount of the line of credit may not be available to the Company as certain debt covenants and ratios need to be maintained in order to access funds.

The future debt payments on long-term debt as of November 30, 2008, are as follows:

	Principal	Interest	Total
2009	19,095	11,723	30,818
2010	1,596	10,590	12,186
2011	1,596	9,622	11,218
2012	134,072	3,133	137,205
Total	$156,359	$35,068	$191,427

Term Loan

On May 2, 2006, the Company entered into a $165.0 million senior credit facility consisting of a $90.0 million term loan with a six-year maturity and a $75.0 million revolving line of credit with a five-year term as part of its debt restructuring, which included repayments of $150.3 million on its then existing credit

facilities. Proceeds from this refinancing were used to repay the Company's existing debt at that time. As a result, the Company incurred a loss on debt retirement of $8.3 million. On December 12, 2006, this facility was amended as the Company completed its acquisition of InterVideo and Ulead. The acquisition was partially financed through an amendment to the credit facility for an additional $70.0 million of term loan borrowings. In addition there was a $43.0 million draw on our revolving line of credit and the remainder from cash of the combined company. During the year ended November 30, 2007 the Company repaid $43.0 million of the revolving line of credit. There was no balance outstanding on the line of credit as of November 30, 2008 and 2007, with the exception of a letter of credit in the amount of $5.6 million.

The credit facility agreement requires the Company to make fixed quarterly principal repayments of 0.25% of the original principal amount on the term loan, or $225 from June 2006 to December 2006 and $400 from January 2007 through to December 2011, with the balance of the loan due in April 2012. The term loan and revolving line of credit bear interest at floating rates tied to either the Alternate Base Rate ("ABR", which equal the higher of (i) the federal funds rate plus 50 basis points, and (ii) the prime rate) plus 2.25% until December 2006 and ABR plus 3.00% thereafter or Adjusted LIBOR plus 3.25% until December 2006 and Adjusted LIBOR plus 4.00% thereafter. On an annual basis, beginning the first quarter of fiscal 2008, the Company is required to make a cash sweep payment to fund its principal balance, based on excess cash flow as defined in the agreement. The Company is required to make a payment for the fiscal 2008 cash sweep during the first quarter of fiscal 2009 in the amount of $17.5 million. No cash sweep payments have been required to be made under the agreement up to November 30, 2008. The Company incurs standby charges at a rate of 0.75% on the unused line of credit, which amounted to $510 for the year ending November 30, 2008.

In addition to the above loans, the facility also provides the Company with a $25.0 million letter of credit and a $5.0 million Swingline commitment. The applicable interest rate on any borrowings is based on a leverage ratio pricing grid. As at November 30, 2008, a balance of $5.6 million was outstanding on the letter of credit for Ontario tax and interest owing based on a notice of re-assessment received from the Ministry of Revenue of Ontario. As at November 30, 2008, no balance was outstanding on the Swingline commitment.

In connection with the senior credit facility, the Company obtained interest rate protection by entering into interest rate swaps with its principal lender with a total notional amount of $134.5 million. The variable rate of interest is based on one-month or three-month LIBOR plus 4.00%. The fixed rates range from 8.19% to 9.49%.

The borrowings under the senior credit facility are collateralized by a pledge of all the Company's assets, including subsidiary stock. Under the terms of the credit agreement the Company is subject to restrictive covenants, such as restrictions on additional borrowing, distributions and business acquisitions/divestitures. It also includes the following financial covenants:

- a maximum total leverage ratio, which is defined as the ratio of total debt to trailing four quarter consolidated Adjusted EBITDA, as defined in the credit agreement, to be less than specified amounts over the term of the facility as follows:

Period	Ratio
Through to November 29, 2007	3.50
November 30, 2007 through November 29, 2008	3.25
November 30, 2008 through November 29, 2009	3.00
November 30, 2009 through November 29, 2010	2.75
November 30, 2010 through November 29, 2011	2.50
November 30, 2011, thereafter	2.25

- a minimum fixed charge coverage ratio, which is defined as the ratio of trailing four quarter consolidated Adjusted EBITDA to fixed charges (fixed charges include interest paid, scheduled repayment of principal on long-term debt, capital expenditures and taxes paid and witheld) as follows:

Period	Ratio
Through to Nov 29, 2010	2.00
November 30, 2010 through November 29, 2011	2.25
November 30, 2011, thereafter	2.50

As of November 30, 2008, Corel was in compliance with all debt covenants.

Promissory Note

On November 30, 2005, the Company signed a promissory note in regards to the release from its naming rights agreement for a sporting and entertainment venue. Under the terms of the note, the Company agreed to repay CDN$2,621 to Capital Sports Properties Inc., which was recorded as other operating expense in fiscal 2005. Payments of CDN$600 were made in fiscal 2008 and the note has been fully re-paid as of November 30, 2008.

14. *Commitments and Contingencies*

Operating leases

The Company rents office space in North America, Europe, and Asia under various operating leases, which contain different renewal options. The leases begin to expire in 2009.

On August 9, 2007 management entered into a new lease agreement for the rental of office space at our corporate head office in Ottawa. The agreement extends over the period of January 1, 2008 through December 31, 2017. The committed amount for basic rent over this period is CDN$13.1 million. As part of this lease agreement the Company received leasehold improvement incentives of CDN$987.

At November 30, 2008, the minimum unaccrued commitments for our rental properties under long-term agreements are as follows:

	Operating Leases
2009	$ 4,574
2010	4,522
2011	4,289
2012	3,960
2013	3,187
2014 and thereafter	6,373
	$ 26,905

The Company recorded lease expenses of $5,901, $6,790 and $5,225 for fiscal 2008, 2007, and 2006, respectively. During fiscal 2008 the Company recorded $310 of sublease rental income. Prior to this fiscal period, sublease rental income was insignificant.

Obligations under Capital Leases

In fiscal 2007, the Company entered into various capital leases totaling $2,981. The leases expire on various dates between June 2010 and July 2012, at which time the Company has the right, but not the obligation, to purchase the equipment. Minimum lease payments for capital leases in aggregate and for the next five years are as follows:

	Capital Leases
2009	720
2010	602
2011	285
2012	147
Total minimum lease payments	$1,754
Interest included in minimum payments at rates varying between 6.94% to 7.89%	171
Present value of minimum lease payments	1,583
Less current portion	621
Obligation under capital lease long-term	$ 962

Customer Indemnification

The Company has entered into licensing agreements with customers that include intellectual property indemnification clauses. These clauses are typical in the software industry and require the Company to compensate customers for certain liabilities and damages incurred as a result of third party intellectual property claims arising from these transactions. The Company has not made any significant indemnification payment as a result of these clauses and, in accordance with FASB Interpretations No. 45, *Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (“FIN 45”), has not accrued any amounts in relation to these indemnification clauses.

Legal Proceedings

The Company is currently, and from time to time, involved in certain legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of its business, including assertions from third parties that it may be infringing patents or other intellectual property rights of others and from certain of our customers that they are entitled to indemnification from us in respect of claims that they are infringing such third party rights through the use or distribution of our products. The Company’s management evaluates the exposure to these claims and proceedings individually and in the aggregate and provides for potential losses and legal costs on such litigation if it is possible to estimate the amount of loss and determine if the loss is probable. The ultimate outcome of any litigation is uncertain and, regardless of outcome, litigation can have an adverse impact on the business because of defense costs, negative publicity, diversion of management resources and other factors. Failure to obtain any necessary license or other rights on commercially reasonable terms, or otherwise, or litigation arising out of intellectual property claims could materially adversely affect the business.

In addition, some of our agreements with customers and distributors, including OEMs and online services companies, require us to indemnify these parties for third-party intellectual property infringement claims, and many of these indemnification obligations are not subject to monetary limits. The existence of these indemnification provisions could increase our cost of litigation and could significantly increase our exposure to losses from an adverse ruling.

During fiscal 2007 the Company received an invoice from a supplier of InterVideo relating to the period prior to the acquisition date of December 12, 2006. The Company performed an audit on this invoice and the Company disputed some of the items invoiced. In the prior fiscal year, the Company accrued for what it believed to be an appropriate settlement. This accrual was included in the purchase price allocation. The Company resolved the dispute prior to the issuance of its financial statements for fiscal 2008 for $4.7 million less than what was originally accrued. This reduction was recorded as a reduction of costs of revenues in fiscal 2008.

At November 30, 2008, the Company was a defendant in the *Victor Company of Japan, Ltd (“JVC”) v. Corel Corporation, InterVideo, Inc., Cyberlink Corp. et al.,* patent infringement proceeding. JVC filed a patent infringement action on January 15, 2008, against Corel and others in the United States District Court for the Western District of Texas (Austin Division), alleging infringement of U.S. Patents: 6,493,383 issued on December 10, 2002; 6,522,692 issued February 18, 2003; 6,542,543 issued April 1, 2003; 6,570,920 issued May 27, 2003; 6,141,491 issued October 31, 2000; and 5,535,008 issued July 9, 1996. JVC alleges certain Corel video playback applications infringe the patents. The Company believes it has meritorious defenses to JVC’s claims and intends to defend the litigation vigorously. The ultimate outcome of the litigation, however, is uncertain. Any potential loss is indeterminable at this time.

15. *Employee pension plans*

Defined contribution and retirement savings plan

The Company has a retirement savings plan for its Canadian employees, and also operates various other defined contribution benefit plans for some non-Canadian employees. While the specifics of each plan are different in each country, the Company contributes amounts related to the level of employee contributions. These contributions are subject to maximum limits and vesting provisions, and can be discontinued at the Company’s discretion.

The pension costs in fiscal 2008, 2007, and 2006 were $795, $719, and $1,026, respectively.

Defined pension benefit plan

Corel sponsors a defined benefit pension plan (the “Benefit Plan”) for a group of its Taiwanese employees. Corel assumed the obligations of the Benefit Plan as a result of its acquisition of InterVideo on December 12, 2006.

No employees hired subsequent to July 1, 2005 are eligible for the Benefit Plan as per the regulations of the Taiwan government. Employees hired prior to July 1, 2005 could elect to join this defined pension benefit plan under the Taiwan Labor Standard Law, articles 53, 55, and 56.

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The funding status of the Benefit Plan and the change in the fair value of plan assets and benefit obligations, as per the November 30, 2008 and 2007 actuarial valuation measurement date, was as follows:

	2008	2007
Fair value as of December 1, 2007 and 2006, respectively	$1,111	$ —
Fair value on acquisition date of December 12, 2006	—	967
Actual return on plan assets	45	26
Employer contributions	102	118
Other	(88)	—
Fair value of plan assets at November 30	$1,170	$1,111
Projected benefit obligation at December 1, 2007 and 2006 respectively	$2,227	$ —
Projected benefit obligation on acquisition date of December 12, 2006	—	3,015
Service cost	43	59
Interest cost	60	84
Actuarial gain	(501)	(931)
Curtailment gains	(281)	—
Other	(117)	—
Projected benefit obligation at November 30	$1,431	$2,227
Unfunded balance at November 30 (non-current)	$ 261	$1,116

The weighted average assumptions used to determine benefit obligations costs for the years ended November 30, 2008 and 2007 were:

	2008	2007
Average increase in compensation levels	4.00%	4.50%
Discount rate	2.75%	2.75%

The accumulated benefit obligation as at November 30, 2008 and 2007 is $568 and $922, respectively.

Other Comprehensive Income

The Company's benefit plan recorded a pre-tax net experience gain of $470 and a curtailment gain of $66, offset by amortization of net experience gains of $30, in accumulated other comprehensive income for the year ended November 30, 2008. The experience gain recognized for the year ending November 30, 2008 is attributable to the decrease in the average increase in compensation levels decreasing from 4.50% to 4.00% and a reduction of the Taiwanese workforce eligible for the Benefit Plan subsequent to restructuring and integration activities. Curtailment gains are related to the reduction of the Taiwanese workforce during our InterVideo integration activities. Net experience gains of $23 will be amortized from accumulated other comprehensive income and recognized as components of net periodic benefit cost (credit) during fiscal 2009.

The Company's Benefit Plan had a pre-tax net experience gain of $931 in accumulated other comprehensive income for the year ended November 30, 2007. The experience gain recognized for the year ending November 30, 2007 is attributable to the decrease in the average increase in compensation levels decreasing from 6.00% to 4.50% and a reduction of the Taiwanese workforce eligible for the Benefit Plan subsequent to the acquisition.

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Pension Benefit Expense (Income)

Corel's net pension and post-retirement benefit costs were as follows for the years-ending November 30, 2008 and November 30, 2007 were:

	2008	2007
Service cost	$ 43	$ 59
Interest cost	60	84
Expected return on plan assets	(45)	(26)
Curtailment gains	(212)	—
Amortization and Deferrals	(30)	—
Net periodic costs (gains) for the year ending November 30	$(184)	$117

The weighted average assumptions used to calculate net benefit cost were as follows for the fiscal years ended November 30, 2008 and 2007:

	2008	2007
Discount rate	2.75%	2.75%
Average increase in compensation levels	4.50%	6.00%
Expected long-term return on assets	2.75%	2.75%

As required by Taiwanese law, the Company's plan assets are deposited in Bank of Taiwan in the form of cash, where Bank of Taiwan is the assigned funding vehicle for statutory retirement benefits. The expected long-term rate of return on assets for the plan reflects the expected returns for the bank accounts held with the government of Taiwan in which the plan invests and its expected volatility.

In fiscal 2009, Corel expects to contribute approximately $90 to its Benefit Plan. Corel estimates that the future benefits payable will be $nil for each of the next five fiscal years.

16. *Shareholders' Equity*

The authorized share capital of Corel consists of an unlimited number of Corel Preferred Shares, without par value, issuable in series, none of which series have been authorized and an unlimited number of Corel Common Shares.

Corel Common Shares

The holders of the Company's Common Shares are entitled to one vote for each share held at any meeting of shareholders. Subject to the prior rights of the holders of the Company's preferred shares, the holders of the Company's common shares are entitled to receive dividends as and when declared by the Board of Directors. Subject to the prior payment to the holders of the preferred shares, in the event of the Company's liquidation, dissolution or winding-up or other distribution of assets among shareholders, the holders of the common shares are entitled to share pro rata in the distribution of the balance of the Company's assets. There are no preemptive, redemption, purchase or conversion rights attaching to the Common Shares.

At November 30, 2008, there was an unlimited number of voting Corel Common Shares authorized, and 25,822,665 shares outstanding.

Corel preferred shares

At November 30, 2008 and 2007, there are unlimited amount of preferred shares authorized. There are nil shares issued and outstanding. The Company's preferred shares may be issued in one or more series. The board of directors may amend the articles of incorporation to fix the authorized number of preferred shares in,

and to determine the designation of the shares of, each series and to create, define and attach rights and restrictions to the shares of each series, subject to the rights and restrictions attached to the preferred shares as a class.

The preferred shares are entitled to preference over the Corel Common Shares with respect to the payment of dividends and the distribution of assets, whether voluntary or involuntary, or in the event of any other distribution of assets amongst shareholders for the purpose of winding-up the Company's affairs, and each series of preferred shares may also be given those preferences over the common shares and other series of preferred shares.

When the Company does not pay cumulative dividends in full with respect to a series of its preferred shares, the shares of all series of preferred shares will participate ratably with respect to the accumulated dividends in accordance with the amounts that would be payable on those shares if all the accumulated dividends were paid in full. Where amounts payable are not paid in full on the Company's winding-up, or on the occurrence of any other event as a result of which the holders of the shares of all series of the preferred shares are entitled to a return of capital, the shares of all series of preferred shares will participate ratably in a return of capital in respect of the preferred shares as a class in accordance with the amounts that would be payable on the return of capital if all amounts so payable were paid in full.

Share Option Plans

The following table shows total stock-based compensation expense included in the consolidated statement of operations:

	Year Ended November 30,		
	2008	2007	2006
Cost of products	$ 23	$ 47	$ 26
Cost of maintenance and services	8	9	8
Sales and marketing	1,873	1,465	770
Research and development	983	1,168	306
General and administration	3,414	2,799	2,122
Total stock-based compensation expense	$6,301	$5,488	$3,232

The Company estimates the fair value of its options for financial accounting purposes using the Black-Scholes option pricing model ("Black Scholes Model"), which requires the input of subjective assumptions including the expected life of the option, risk-free interest rate, dividend rate, future volatility of the price of the Company's common shares, forfeiture rate and vesting period. Changes in subjective input assumptions can materially affect the fair value estimate. Prior to the Company's public offering in April 2006 there was no active market for the Company's common shares. Since the Company has been public for less than the vesting period of its options, the Company does not consider the historic volatility of the Company's share price to be representative of the estimated future volatility when computing the fair value of options granted. Accordingly, until such time that a representative volatility can be determined based on the Company's share price, in this case once Corel has been a public company for a period equal to the estimated life of our options, the Company will use a blended rate of its own share price volatility and the US Dow Jones Software and Computer Services Index. Up to the second quarter of fiscal 2007, the Company did not use its own share price volatility in a blended rate computation, as the Company was either a private company or had been a public company for less than one year. The expected life of the option is calculated under the simplified method as the Company does not have an extended history of options issued and subsequently exercised as a public company. The majority of options that have been exercised were issued when the Company was a private entity, and the grant price was not reflective of the Company's share price since it went public in May 2006. The risk-free interest rate used in the model is the zero-coupon yield implied from U.S. Treasury securities with equivalent remaining terms.

COREL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company determines the fair value of its restricted share units based on the share price of its stock on the date the units are granted. The restricted share units have no characteristics which would require a revaluation in subsequent periods.

The fair value of all options granted during fiscal 2008, 2007 and 2006 was estimated as of the date of grant using the following weighted average assumptions:

	Year Ended November 30,		
	2008	2007	2006
Expected option life (years)	7	7	7
Volatility	29.60%	31.25%	36.13%
Risk free interest rate	3.20%	4.60%	4.33%
Dividend yield	Nil	Nil	Nil
Forfeiture rate	16.50%	16.46%	16.82%

As of November 30, 2008, there was $8,508 of unrecognized compensation cost, related to equity incentive plans, adjusted for estimated forfeitures, related to non-vested stock-based payments granted to Corel employees. This will be recognized over a weighted average period of 1.72 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. Additionally, as of November 30, 2008, there was $181 of unamortized deferred compensation, related to the acquisition of InterVideo, which will be recognized over a period of 2.03 years.

2006 Equity Incentive Plan

The 2006 Equity Incentive Plan (“2006 Plan”) was adopted by the Board of Directors in February 2006. The 2006 Plan provides for the grant of options to employees and employees of the Company’s subsidiaries, and restricted shares, share appreciation rights, restricted share units, performance share units, deferred share units, phantom shares and other share-based awards (“options”) to the Company’s employees, consultants and directors, and employees, consultants and directors of the Company’s subsidiaries and affiliates. In May 2007 and in May 2008, the Board of Directors authorized an additional 2,000,000 common shares available for issuance under the 2006 Plan. Corel has 6,249,505 remaining common shares authorized for issuance under the 2006 Plan.

The exercise price of options is determined at the date of the grant. Options generally vest equally over four years, with certain grants having a vesting period of less then four years. The only significant exception in our current outstanding options are 326,760 options granted to our interim chief executive officer in May 2007, which vest over one year in accordance with the length of his employment agreement.

Under the 2006 Plan, once employees resign they are unable to exercise any unexercised options and all unexercised options are forfeited. If any employees are terminated, they have 90 days from their termination date to exercise any options that were exercisable at their final date of employment.

COREL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Options granted under the 2006 Plan have an exercise price ranging from $8.92 to $14.29, with the exception of 73,806 options granted in the WinZip acquisition which have an exercise price of $1.15. Outstanding options assumed in the acquisition of InterVideo (note 8) have an exercise price ranging from $10.07 to $18.41, with the exception of 7.7% of options which have an exercise price ranging from $0.50 to $6.03. There were no capitalized stock-based compensation costs at November 30, 2008. Option activity is presented below:

	Year Ended November 30, 2008		
	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Outstanding at beginning of period	2,714,465	$ 12.60	$ 4.66
Options granted	928,081	10.31	3.12
Options exercised	(32,052)	5.00	5.36
Options forfeited	(826,463)	12.99	4.34
Outstanding at end of period	2,784,031	$ 11.81	$ 4.21
Exercisable at end of period	1,100,619	$ 12.19	$ 4.26
Options vested during the year	669,056		$ 4.94
Weighted average remaining life of the outstanding options	8.34 Years		
Weighted average remaining life of the exercisable options	7.68 Years		
Total intrinsic value of the exercisable options	$ 127		
Total intrinsic value of the outstanding options	$ 182		

	Year Ended November 30,		
	2008	2007	2006
Intrinsic value of options exercised	142	1,460	20
Fair value of shares vested	3,306	2,267	291

COREL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During fiscal 2008 and fiscal 2007, the Company has issued 59,000 and 110,000 units of restricted share, respectively, to senior officers of the Company under the 2006 Plan. These units vest equally over four years with the exception of 50,000 units which will vest over two years. All units will be fully vested by September 22, 2012. The units expire ten years after the grant date. Restricted share unit activity for fiscal 2008 is presented below:

	Year Ended November 30, 2008	
	Options	Weighted Average Grant Date Fair Value
Outstanding at beginning of period	$ 102,500	$ 13.26
Restricted share units granted	59,000	9.78
Restricted share units converted to common shares	(55,000)	13.45
Restricted share units forfeited	Nil	N/A
Outstanding at end of period	106,500	$ 11.24
Exercisable at end of period	10,000	$ 10.10
Restricted share units vested during the year	62,500	$ 13.52
Weighted average remaining life of the outstanding restricted share units	9.23 Years	
Weighted average remaining life of the exercisable restricted share units	9.27 Years	
Total intrinsic value of the exercisable restricted share units	42	
Total intrinsic value of the outstanding restricted share units	$ 450	

	Year Ended November 30,		
	2008	2007	2006
Intrinsic value of restricted share units exercised	553	95	n/a
Fair value of restricted share units vested	845	105	n/a

2003 Share Option and Phantom Share Unit Plan

On December 1, 2003, the Board of Directors approved the Stock Option and Phantom Share Unit Plan (“2003 Plan”). The 2003 Plan is administered by a Committee (“the Committee”), appointed by the Board of Directors. The Committee has sole and absolute discretion to grant Units, which consist of a stock option (“option”) together with a Phantom Share Unit (“PSU”), to eligible persons. All employees and officers of Corel were eligible persons. Options are no longer granted under this plan.

Upon exercise of the stock option component, the Company would deliver to the optionee common shares. A PSU allows the holder to receive a payment equal to the fair market value of a common share at the exercise date, less the exercise price of the PSU, under certain conditions. Exercise of the PSU can only occur at the approval of the Committee. Therefore, Corel has determined that the PSU does not constitute a liability and has no value. If the option component is exercised, the PSU component will be terminated and may not be exercised. If the PSU component is exercised, the option component will be terminated and may not be exercised. The exercise price is determined at the date of the grant, and shall be the same for both components of the Unit. Units vest equally over four years on the anniversary of the grant date, and generally expire ten

years after the grant date. The stock option components of the Units cannot be exercised prior to an initial public offering ("IPO"), unless authorized by the Committee.

If any employees cease to be eligible for the 2003 Plan as a result of resignation, they have 30 days after the termination date to exercise any Units that were exercisable on the termination date. If any employees cease to be eligible for the 2003 Plan as a result of termination, they have 90 days after the termination date to exercise any Units that were exercisable on the termination date.

In fiscal 2005, performance awards in respect of 149,830 common shares were issued to senior executives under the 2003 Plan, which entitles them to receive Units upon attaining identified performance goals. Vesting conditions are based solely on the satisfaction of performance conditions. No performance awards have been issued since 2005. As of November 30, 2008 the performance conditions for each of the 149,830 units have been fully met, with the exception of 10,580 units for which the performance conditions were not met and were subsequently forfeited. These awards are accounted for as equity grants with reversal of recognized compensation cost if the award fails to vest. Included in stock-based compensation expense for these performance awards are $25, $51 and $574 for the years ending November 30, 2008, 2007 and 2006, respectively.

All units granted up to November 2005, which represent 90.0% of the outstanding units, have an exercise price of $1.17. Units granted between November 2005 and March 2006, which represent 10.0% of the units outstanding, have an exercise price ranging from $13.82 to $17.57. Unit activity for fiscal 2008 is presented below:

	Year Ended November 30, 2008		
	Units	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Outstanding at beginning of period	813,940	$ 2.31	$ 7.24
Units granted	Nil	n/a	n/a
Units exercised	(286,079)	1.17	8.06
Units forfeited	(23,362)	9.82	6.20
Outstanding at end of period	504,499	$ 2.61	$ 5.35
Exercisable at end of period	468,464	$ 2.24	$ 5.14
Units vested during the year	207,624		$ 7.43
Weighted average remaining life of the outstanding units	5.88 Years		
Weighted average remaining life of exercisable units	5.81 Years		
Total intrinsic value of exercisable units	$ 1,327		
Total intrinsic value of outstanding units	$ 1,389		

	Year Ended November 30,		
	2008	2007	2006
Intrinsic value of units exercised	2,541	4,760	415
Fair value of units vested	1,542	2,346	1,897

17. *Restructuring Charges*

In September 2008, management initiated a restructuring plan to streamline the Company's global operations in order to become more operationally efficient and to increase its investment in key growth

opportunities, including sales to emerging markets and its eCommerce program. As part of this effort, the Company has reduced its workforce by approximately 90 employees worldwide. The total costs that will arise from this global restructuring are estimated to be $2.4 million, of which $2.2 million was expensed in fiscal 2008. Approximately $200 of costs will be expensed in the next fiscal period as they are related to certain individuals who will be retained by the Company into fiscal 2009.

In April 2008, the Company adopted a restructuring plan, largely focused on centralizing research and development activities, as well as some administrative activities. The total costs related to this plan were $440, and have been fully expensed in the year ending November 30, 2008.

In November 2007, management adopted a restructuring plan ("Digital Media Plan") to centralize much of the Company's Digital Media operations in Greater China and Fremont, California. Further changes have been made to staff to align and balance our global teams. This resulted in the planned closure of the Company's Minneapolis location in fiscal 2008 as well as the termination of certain individuals. The total cost related to the Digital Media Plan was $1,920. These expenses were recorded in the years ending November 30, 2008 and November 30, 2007, in the amounts of $473 and $1,447 respectively. No further termination benefit expenses or facility closure charges will be recorded from this restructuring.

In fiscal 2006, Corel incurred restructuring charges of $810 as the Company initiated a realignment of its sales and marketing teams and its research and development teams after completing an internal review of its future requirements. The only costs associated with this realignment were one-time termination benefits.

As of November 30, 2008, all of the headcount reductions have been identified and the affected employees have been notified. All facility closures have been identified and completed. Any changes from our initial estimates will be recorded against fiscal 2009 earnings.

A summary of our restructuring activities, that are accrued as of November 30, 2008 is as follows:

	Termination Benefits	Costs of Closing Redundant Facilities	Total
Balance accrued as of December 1, 2007	$ 1,184	$ 263	$ 1,447
Activity during the year ended November 31, 2008			
Additional restructuring charges	3,308	15	3,323
Changes in estimates	(201)	(244)	(445)
Cash payments	(3,780)	(34)	(3,814)
Balance accrued as of November, 2008	$ 511	$ nil	$ 511

18. *Earnings (loss) per share*

For the fiscal years ending November 30, 2008 and November 30, 2006, the dilutive impact of the outstanding options for common shares were 558,000 and 746,000, respectively. For the year ended November 30, 2007 the Company reported a loss; had there been income, the impact of the potentially dilutive instruments would have been limited to the outstanding options for common shares, the impact of which would have been 842,000.

19. *Segment Reporting*

The Company has assessed its business in accordance with Statement of Financial Accounting Standards No. 131, *"Disclosures about Segments of an Enterprise and Related Information"* ("FAS 131"). As of November 30, 2008, the Company has determined that it operates in one business operating and reportable segment, the packaged software segment.

COREL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Corel's packaged software segment derives its revenues from two product lines, identified by the markets which they serve: *Graphics and Productivity* and *Digital Media.*

The Company's Chief Executive Officer is the chief decision maker who evaluates the performance of the segment based on product net revenues and aggregate cost of goods sold and operating expenses of the packaged software segment.

The Company's operations outside Canada and the United States include wholly-owned subsidiaries in Europe, the Asia-Pacific region and Latin America. Operations in Canada and the United States are responsible for the design and development of all the products, as well as product distribution. Net revenues are attributed to each region based on the location of the customer. The majority of the revenues in North America are derived from customers in the United States.

The net book value of capital assets held in Canada as at November 30, 2008 and November 30, 2007 is $6.7 million and $5.9 million, respectively. For geographic regions other than Canada, the net book value of capital assets held as at November 30, 2008 and November 30, 2007 is $3.8 million and $3.1 million, respectively.

The net book value of intangible assets held in Canada as at November 30, 2008 and November 30, 2007 is $7.6 million and $12.1 million, respectively. For geographic regions other than Canada, the net book value of property, plant and equipment held as at November 30, 2008 and November 30, 2007 is $59.4 million and $79.9 million, respectively.

Revenues by product and region and details regarding major external customers are disclosed in the following table:

	Year Ended November 30,		
	2008	2007	2006
By product:			
Graphics and Productivity	$149,513	$141,692	$137,741
Digital Media	118,717	108,788	39,450
	$268,230	$250,480	$177,191
By geographic region:			
Americas			
Canada	$ 6,931	$ 10,122	$ 8,682
United States	116,453	111,116	91,571
Other	5,653	4,741	4,194
Europe, Middle East, Africa (EMEA)	79,164	72,932	58,253
Asia-Pacific			
Japan	42,920	36,164	8,753
Other	17,109	15,405	5,738
	$268,230	$250,480	$177,191

20. *Changes in operating assets and liabilities*

The following table outlines the details of the changes in operating assets and liabilities reflected on the statement of cash flows:

	Year Ended November 30,		
	2008	2007	2006
Accounts receivable	4,292	(8,532)	500
Due to/from related parties	341	(167)	73
Inventory	(833)	1,534	(188)
Prepaids and other current assets	172	413	43
Accounts payable and accrued liabilities	(6,622)	(2,314)	(3,389)
Income taxes	1,584	654	(1,669)
Deferred revenue	(478)	3,174	894
Total	$(1,544)	$(5,238)	$(3,736)

21. *Expenses Associated with Evaluation of Strategic Alternatives*

On March 28, 2008 the Company received an unsolicited proposal from Corel Holdings, L.P. (“CHLP”) (which is controlled by an affiliate of Vector Capital) the holder of approximately 69% of the Company’s outstanding common shares. CHLP proposed to make an offer to acquire all of Company’s outstanding common shares not currently held by CHLP at a price of US$11.00 cash per share (“Proposal”). CHLP indicated that any such offer would be conditional upon, among other things, satisfactory confirmatory due diligence and the Company’s existing credit facility remaining in place following the consummation of any transaction.

The Board of Directors of the Company formed a Special Committee of the Board, which assisted it in evaluating and responding to the CHLP proposal. In addition, the Special Committee undertook a process to evaluate other strategic alternatives to maximize value for all shareholders. The Company assumed expenses associated with the Special Committee review.

On August 18, 2008, the Company announced that CHLP had informed the Company that it withdrew its Proposal in order to facilitate pursuit by the Company of other alternatives for maximizing value for all of the Company’s shareholders. In light of the withdrawal of the CHLP Proposal and the Board’s desire to oversee evaluation of the potential strategic alternatives directly, the Board unanimously determined that there was no longer a need for the Special Committee. On October 22, 2008, the Company announced that discussions with a third party regarding a potential sale of Corel have ceased.

The Company incurred $2,728 of various professional service costs associated with the evaluation of these strategic alternatives. These items have been classified as a non-operating expense.

22. *Prior Period Balances*

In 2008, the Company re-classified some of its operating expenses related to its Information Technology group, so that costs of certain employees were better aligned with the functions they performed. As a result, for the year ended November 30, 2007, the Company has reduced its general and administrative costs by $2,703, increased its sales and marketing costs by $976, increased itsr research and development costs by $1,656, and increased its cost of products sold by $71.

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

Not applicable.

ITEM 9A. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures. We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Interim Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Interim Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of November 30, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework.* Based on our assessment using those criteria, we concluded that our internal control over financial reporting was effective as of November 30, 2008.

The effectiveness of the Company's internal control over financial reporting as of November 30, 2008, has been audited by PricewaterhouseCoopers LLP, our independent auditors, as stated in their report which appears in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the fourth quarter of fiscal year 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. *OTHER INFORMATION*

Not applicable.

PART III

ITEM 10. *DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT*

The following sets forth information about our executive officers and directors:

Name	Age	Position
Kris Hagerman	44	Interim Chief Executive Officer
Douglas McCollam	55	Chief Financial Officer
Jeffrey Hastings	44	President and General Manager, Digital Media
Nicholas Davies	46	Senior Vice President and General Manager, Graphics and Productivity
Amanda Bedborough	39	Executive Vice President, International Operations
Kevin Thornton	41	Senior Vice President, Sales and Marketing, Americas
Kazuo Sakai	57	Senior Vice President, Asia Pacific and Japan Operations and President, Corel Japan
Graham Brown	45	Chief Technology Officer
Jeremy Liang	52	Senior Vice President, Digital Media Development
Shawn Cadeau	37	Senior Vice President, Corporate Marketing
Steven Cohen(1)(2)(3)	43	Director
J. Ian Giffen(1)(2)(4)	51	Director
Amish Mehta(3)	35	Director
Alexander Slusky(3)(4)	41	Chairman, Board of Directors
Daniel T. Ciporin(1)(2)	51	Director

(1) Independent director

(2) Member of Audit Committee

(3) Member of Compensation Committee

(4) Member of Nominating and Corporate Governance Committee

Kris Hagerman has served as our Interim Chief Executive Officer since May, 2008. Prior to joining Corel, Mr. Hagerman was a Senior Advisor at Vector Capital. Prior to that, he served as Group President, Data Center Management at Symantec where he was responsible for all product development, product management, business development, and go-to-market strategies for one of Symantec's three business units, focused on enterprise infrastructure software. In addition, Mr. Hagerman has held various management positions in consulting, sales and marketing, business development, and finance at companies such as Silicon Graphics Computer Systems, McKinsey & Company, and Morgan Stanley. Mr. Hagerman holds a Master of Business Administration from Stanford Graduate School of Business. He also received a master's degree in international relations from Cambridge University and a bachelor's degree in Russian and economics from Dartmouth College.

Douglas McCollam has served as our Chief Financial Officer since January 2004. From July 1996 to January 2004 he served as Executive Vice President and Chief Financial Officer of NORDX/CDT. He previously served in various capacities at Nortel Networks, including as Vice President Finance and Administration for Nortel CALA from 1993 to 1996. He served as Chief Financial Officer of Motorola Nortel Communications from 1991 to 1993, Group Controller Switching from 1989 to 1991 and Assistant Vice President, Corporate Financial Reporting and Analysis from 1987 to 1989. Mr. McCollam is a Certified Management Accountant and has a Bachelor of Commerce from Concordia University and an M.B.A. from the University of Chicago.

Jeffrey Hastings has served as our President and General Manager, Digital Media since August 2007. Prior to joining Corel, Mr. Hastings served as general manager at Pinnacle Systems, the consumer division of

Avid. Prior to joining Pinnacle, Mr. Hastings was COO of M-Audio, another Avid company. Mr. Hastings previously served as president of Rio, the company that pioneered the MP3 space by introducing the industry's first MP3 player. Mr. Hastings holds a bachelor's degree in computer science from Purdue University and holds eight US patents.

Nicholas Davies has served as our Senior Vice President and General Manager, Graphics and Productivity, since July 2007. Prior to that, he was our General Manager, Graphics from July 2003 to July 2007 and from October 2001 to July 2003 he held the position of Vice President — Strategic Marketing. Before joining us, Mr. Davies was Vice President EMEA for Ecademy Ltd., Brand and Marketing Manager for Coleman Europe, Commercial Manager France for Virgin Cola and Marketing Director for Puma Sports. Mr. Davies holds an MBA from INSEAD Business School in France, and a BA with honors in Business Administration from the European Business School in the United Kingdom.

Amanda Bedborough has been our Executive Vice President, International Operations. Prior to that, Ms. Bedborough, was Executive Vice President, International Operations, and our Executive Vice President, Europe, the Middle East and Africa from October 2001 to December 2003. From September 1993 to March 2001 she served in a variety of capacities at 3dfx Interactive, including Vice President, Europe, the Middle East and Africa.

Kevin Thornton has served as our Senior Vice President, Sales and Marketing, Americas since September 2007. Prior to joining us, Mr. Thornton served as Sr. Vice President Sales, Small Business Division (SBD) at Sage Software. He previously held management positions with Coca-Cola Bottling Company and was the Vice President Sales, Americas for Corel. Mr. Thornton holds a Bachelor of Physical and Health Education (Honors) degree from the University of Ottawa.

Kazuo Sakai has served as our Senior Vice President, Asia Pacific & Japan Operations and President, Corel Japan since September 2008. His responsibilities currently include Japan sales and marketing and will later expand to include oversight of our sales and marketing activities in Australia, New Zealand, South East Asia, China, Korea (ANSEACK) and Taiwan. Previously, Mr. Sakai held senior executive positions at Microsoft, where most recently he served as Program Vice President, Digital Entertainment Partner Group. He also had a long career with AMD, where he served as Chairman of AMD Japan; Corporate Vice President, Sales and Marketing, South Asia Pacific; and Vice President, Sales and Marketing, North Asia Pacific. Mr. Sakai holds a Bachelor's degree in electrical engineering from Tokyo Electric University.

Graham Brown has served as our Chief Technology Officer since August 2008. Prior to that, Mr. Brown was our Executive Vice President, Software Development since April 2002. He joined us in 1991, and previously served in a variety of capacities, including Vice President of Software Development, Business Applications from 1998 to 2000. He has a Bachelor of Engineering Science in Geography and Computer Science from the University of Waterloo.

Jeremy Liang has served as our Senior Vice President, Digital Media Development since June 2007. Prior to joining us, Mr. Liang spent 10 years with Trend Micro where he served as EVP of Engineering, EVP of Information and Engineering Operations, and most recently EVP of Information and Chief Security Officer. Mr. Liang holds a masters degree in computer science from New Mexico Tech and a bachelor's degree in computer science from ChiaoTung University, Taiwan.

Shawn Cadeau has served as our Senior Vice President, Corporate Marketing since August 2008. Prior to that, Mr. Cadeau served as Vice President Global Marketing. From April 2002 to February 2006, Mr. Cadeau served as Director, Product Marketing at Adobe Systems. He previously held executive positions in product marketing and management with Accelio Corporation (formerly JetForm) and Cebra Inc., an e-business subsidiary of The Bank of Montreal. Mr. Cadeau has a B.A. from Wilfrid Laurier University.

Steven Cohen became a member of our Board in January 2006 and is independent from us. He has served in various capacities at Teknion Corporation since February 2001 and is currently Teknion Corporation's Senior Vice President, Corporate Development. He is also a Director and Chairman of the compensation committee of Pele Mountain Resources Inc., a junior exploration company listed on the TSX Venture

Exchange. He has a Bachelor of Commerce from McGill University and an M.B.A. from Harvard Business School.

J. Ian Giffen became a member of our Board in January 2006 and is independent from us. Since 1996, Mr. Giffen has been an advisor to or director of several software companies and technology investment funds. From 1992 to 1996, Mr. Giffen was Vice President and Chief Financial Officer of Alias Research until its acquisition by Silicon Graphics. Mr. Giffen is currently a director of MKS, Ruggedcom Inc., Descartes Systems, Certicom and Absolute Software, and a director or advisor to a number of other private companies. Mr. Giffen has previously served on the board of directors of a number of public and private companies including Macromedia, Financial Models, Sierra Systems, 724 Solutions, DPS, Open Text, Delano Technology, Algorithmics, DWL, Changepoint and MGI Software. He is a Chartered Accountant and has a B.A. in Business Administration from the University of Strathclyde in Glasgow, Scotland.

Amish Mehta became a member of our Board of Directors in January 2006. He served as our interim President and Chief Executive Officer from November 2003 to June 2005. He has been at Vector Capital since August 2002. He previously served as Chief Executive Officer of CommercialWare from September 1999 to April 2001. Prior to that he worked at General Atlantic Partners from 1997 to 1999 and at McKinsey & Company from 1995 to 1997. He has a B.S. in Chemical Engineering from the University of Pennsylvania, a B.S. in Economics from the Wharton School and an M.B.A. from Harvard Business School.

Alexander Slusky has been a member of our Board since August 2003 and has served as managing partner of Vector Capital since its inception in 1997. Prior to founding Vector Capital, he led the technology equity practice at Ziff Brothers Investments. Prior to joining Ziff Brothers Investments, he was employed at New Enterprise Associates. Mr. Slusky serves as a director on the boards of several private companies. He has an A.B. in Economics from Harvard University, and an M.B.A. from Harvard Business School.

Daniel T. Ciporin became a member of Corel's Board of Directors in April 2007 and is independent from us. He previously served as Chairman and Chief Executive Officer of Shopping.com from 1999 until its acquisition by eBay in June 2005. Prior to this position, Mr. Ciporin was Senior Vice President of MasterCard International. Prior to MasterCard International, Mr. Ciporin was a management consultant for Mars and Co. and Corporate Value Associates. Mr. Ciporin currently serves on the board of directors at Primedia, a publicly traded company, in addition to serving as a senior advisor and consultant to a variety of high growth private companies and boards. In March 2007, Mr. Ciporin joined Canaan Partners. He has an A.B. from Princeton University and an M.B.A. from the Yale University School of Management.

Executive officers are appointed by the Board to serve, subject to the discretion of the Board, until their successors are appointed.

Board of Directors

Our Board currently consists of five members. We expect that the term of office for each of directors will expire at the time of our next shareholders' meeting. As a "controlled company", we are not required to comply (and we do not comply) with the requirement of the Nasdaq Global Market to have our directors satisfy the independence requirements of the Nasdaq Global Market.

There are no family relationships among any of our directors or executive officers.

Committees of the Board

The standing committees of our Board consist of an audit committee, a compensation committee and a nominating and corporate governance committee. As a "controlled company" we are not required to maintain a compensation committee or a nominating and corporate governance committee under NASDAQ rules nor are we required to maintain those committees under Canadian securities regulations. Although we have formed a compensation committee and a nominating and corporate governance committee, the memberships of these committees do not comply with the independence requirements of the Nasdaq Global Market that would be applicable if we were not a controlled company.

Audit Committee and Audit Committee Financial Expert. Our audit committee is comprised of Messrs. Cohen, Giffen and Ciporin. Our Board has determined that Messrs. Cohen, Giffen and Ciporin currently meet the independence requirements of the Nasdaq Global Market, SEC rules and the rules and regulations of the Canadian provincial securities regulatory authorities. Our standing audit committee is in accordance with section 3(a)(58)(A) of the Securities Exchange Act.

The principal duties and responsibilities of our audit committee, which are included in our audit committee charter, are to assist our Board in its oversight of:

- the integrity of our financial statements;
- our compliance with legal and regulatory matters;
- our independent registered public accounting firm's qualifications and independence; and
- the performance of our internal audit function and independent registered public accounting firm.

Our audit committee is also responsible for:

- compensating, retaining and overseeing the work of our independent registered public accounting firm;
- recommending to the Board of Directors that the audited annual financial statements be included in the Company's annual report of Form 10-K for the last fiscal year;
- establishing procedures for (a) receipt and treatment of complaints on accounting and other related matters and (b) submission of confidential employee concerns regarding questionable accounting or auditing matters;
- pre-approving any non-audit services by our independent registered public accounting firm;
- reviewing and discussing the audited financial statements with management;
- discussing with the independent auditors the matters required by Auditing Standards No. 61; and
- receiving written disclosures and the letter from the independent accountants required by ISB No. 1 and discussing with the independent accountants their independence.

The audit committee has the power to investigate any matter brought to its attention within the scope of its duties. It also has the authority to retain counsel and advisors to fulfill its responsibilities and duties. The audit committee also acts as a qualified legal compliance committee.

The Board has determined Ian Giffen is an "audit committee financial expert".

Compensation Committee. Our compensation committee is comprised of Messrs. Cohen, Mehta and Slusky. The principal duties and responsibilities of the compensation committee are as follows:

- to review and approve goals and objectives relating to the compensation of our interim chief executive officer and, based upon a performance evaluation, to determine and approve the compensation of the interim chief executive officer;
- to make recommendations to our Board of Directors on the compensation of other executive officers and on incentive compensation and equity-based plans; and
- to produce reports on executive compensation to be included in our public filings to the extent required by applicable securities laws or listing requirements.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee is comprised of Messrs. Giffen and Slusky. The principal duties and responsibilities of the nominating and corporate governance committee are as follows:

- to identify individuals qualified for membership on our Board of Directors and to select, or recommend for selection, director nominees;

- to develop and recommend to our Board of Directors a set of corporate governance principles; and
- to oversee the evaluation of our Board of Directors and management.

Disclosure Policy

Our Board of Directors has adopted and periodically reviews and updates our written corporate disclosure policy. This policy, among other things:

- articulates legal obligations with respect to confidential corporate information;
- identifies spokespersons who are the persons authorized to communicate with third parties such as analysts, media and investors;
- provides guidelines on the disclosure of forward-looking information;
- establishes procedures for reviewing disclosure, prohibiting selective disclosure of material information and addressing inadvertent disclosure; and
- establishes periods prior to the disclosure of certain financial information and material changes during which trading in our common shares by insiders is prohibited.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 and the regulations of the SEC thereunder require a registrant's executive officers and directors, and persons who own more than 10% of a registered class of equity securities, to file reports of initial ownership and changes in ownership with the SEC. As we are a "foreign private issuer" pursuant to Rule 3a12-3 of the Securities Exchange Act of 1934, we and the persons referred to above are exempt from the reporting and liability provisions of Section 16(a). However, under Canadian provincial securities laws, the persons referred to above are required to file reports in electronic format through the System for Electronic Disclosure by Insiders, or SEDI, disclosing changes in beneficial ownership of, or control or direction over, our common shares and other securities. Our shareholders can access such reports at www.sedi.ca.

Code of Ethics

We have adopted a written code of ethics that applies to our Board of Directors and all of our employees, including our Interim Chief Executive Officer and Chief Financial Officer. A copy of our code of ethics is available on our website at http://investor.corel.com/documents.cfm or by contacting us directly at 1600 Carling Avenue, Ottawa, Ontario, Canada K1Z 8R7, (613) 728-0826. If we make any amendments to this Code of Ethics other then technical, administrative, or other non-substantive amendments, or grant any waivers, including implicit waivers, from a provision of this Code of Ethics to our Interim Chief Executive Officer, Chief Financial Officer or other finance executives, we will disclose the nature of the amendment or waiver, its effective date and to whom it applies on our website or in a report on Form 8-K filed with the SEC. There were no waivers of the Code of Ethics during our fiscal year ended November 30, 2008.

ITEM 11. *EXECUTIVE COMPENSATION*

Pursuant to Item 402 of Regulation S-K, we have provided in this Item 11 the information required by Items 6.B. and 6.E.2 of Form 20-F and pursuant to disclosure rules in Canada.

Summary Compensation Table

The following table provides information about the compensation earned during the fiscal years ended November 30, 2006, 2007 and 2008 by our Chief Executive Officer, our Chief Financial Officer and our three next most highly compensated executive officers (the “Named Executive Officers”). For purposes of this table, any salary or bonus paid in a currency other then the United States dollar, has been converted to United States dollars based on average exchange rates during the year, and any unpaid bonus payments have been converted based on the exchange rate as at November 30, which best reflects the rates at which these amounts were paid.

		Annual Compensation(1)			Long-Term Compensation			
Name And Principal Position	Fiscal Year	Salary	Bonus	Other Annual Compensation	Securities Underlying Options Granted	Shares Subject to Resale Restrictions	LTIP Payments	All Other Compensation
Kris Hagerman Interim Chief Executive Officer	2008	$336,000	$224,000	—	326,760	—	—	—
David Dobson Former Chief Executive Officer	2008	$239,634	$247,340	—	—	—	—	$ 194,928(2)
	2007	$385,566	$323,700	56,051(3)	200,000	—	—	—
	2006	376,820	369,284	$ 679,676(4)	—	—	—	—
Douglas McCollam Chief Financial Officer	2008	249,634	202,602	—	—	—	—	—
	2007	232,269	178,800	—	30,000	—	—	—
	2006	227,000	245,160	—	—	—	—	—
Jeff Hastings President and General Manager, Digital Media	2008	300,000	294,983	—	40,000	—	—	—
	2007	92,400	92,400	—	200,000(5)	—	—	—
Amanda Bedborough Executive VP, International Operations	2008	342,025	263,961	—	30,000	—	—	—
	2007	344,972	367,826	—	40,000(6)	—	—	—
	2006	305,688	203,254	—	—	—	—	—
Kevin Thornton Senior Vice President, Sales and Marketing, Americas	2008	264,000	215,515	—	25,000	—	—	—
	2007	66,000	44,000	—	40,000	—	—	—

(1) Excludes perquisites and other benefits because such compensation is less then CDN$50,000 and 10% of the total annual salary and bonus for any of the Named Executive Officers.

(2) In fiscal 2008, subsequent to his resignation as our Chief Executive Officer, Mr. Dobson received CDN$200,000, or US$194,928 based on the exchange rate at the time, for consulting services that he completed for the Special Committee which evaluated the Vector Capital purchase offer.

(3) In fiscal 2007, Mr. Dobson received other annual compensation of $56,051 relating to housing benefits of $35,482, vehicle allowance of $7,519, and travelling allowances of $13,050 for travel between his primary residence and our corporate head office during 2007.

(4) In fiscal 2006, Mr. Dobson received other annual compensation of $252,324 relating to loans forgiven in our fiscal year ended November 30, 2006, and $4,844 for retirement plan payments. In addition, during fiscal 2006, we repurchased options from Mr. Dobson that were previously granted to him pursuant to the terms of his employment agreement, for an aggregate amount of $427,352, of which half was applied as a repayment against a loan and half to help defray additional expenses incurred in connection with his relocation to Canada.

(5) These grants include 50,000 restricted share units

(6) These grants include 20,000 restricted share units

Option Grants during the Fiscal Year Ended November 30, 2008 to Named Executive Officers

The following table sets forth information regarding options for the purchase of common shares granted during the fiscal year ended November 30, 2008 to the Named Executive Officers.

Name	Number of Shares Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year(1)	Exercise Price Per Share ($/Security)	Market Value of Securities Underlying Options(2)	Expiration Date
Kris Hagerman	326,760	33.1	10.87	Nil	May 8,2018
David Dobson	Nil	n/a	n/a	Nil	n/a
Douglas McCollam	Nil	n/a	n/a	Nil	n/a
Jeff Hastings	40,000	4.1	10.10	Nil	March 6, 2018
Amanda Bedborough	30,000	3.0	10.10	Nil	March 6, 2018
Kevin Thornton	25,000	2.5	10.10	Nil	March 6, 2018

(1) In fiscal 2008, options were granted representing a total of 987,051 underlying shares of which 59,000 were designated as restricted share units. None of the above grants were for restricted share units.

(2) Based on the difference between the exercise price per share and the closing market price per share on the NASDAQ as at November 30, 2008, of $4.23.

Aggregate Options Exercised During the Fiscal Year Ended November 30, 2008, Most Recently Completed Financial Year and Option Values at November 30, 2008 for Named Executive Officers

The following table shows the number of options to purchase common shares exercised by the Named Executive Officers during our fiscal year ended November 30, 2008. The value of unexercised in-the-money options of those persons has been based on the closing price of the common shares on the Nasdaq Global Market on November 30, 2008.

Name	Shares Acquired On Exercise	Aggregate Value Realized	Unexercised Options at November 30, 2008		Value of Unexercised In-the-Money Options as at November 30, 2008(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Kris Hagerman	Nil	Nil	163,380	163,380	$ Nil	$ Nil
David Dobson	203,357	$ 1,776,922	13,540	Nil	41,432	Nil
Douglas McCollam	Nil	Nil	97,031	20,887	262,490	6,539
Jeff Hastings	25,000(2)	240,094	37,500	177,500(2)	Nil	105,750(2)
Amanda Bedborough	5,000(3)	54,100	78,672	60,270(3)	225,436	64,276(3)
Kevin Thornton	Nil	Nil	10,000	55,000	Nil	Nil

(1) Based on the difference between the exercise price per share and the closing market price per share on the NASDAQ as at November 30, 2008 of $4.23.

(2) All of the shares acquired by Mr. Hastings were through the exercise of restricted share units. As of November 30, 2008, Mr. Hastings has 25,000 unexercisable restricted share units which have a value of $105,750.

(3) All of the shares acquired by Ms. Bedborough were through the exercise of restricted share units. As of November 30, 2008, Ms. Bedborough has 15,000 unexercisable restricted share units which have a value of $64,276.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the Board of Directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or compensation committee.

Compensation of Directors and Executive Officers

For the fiscal year ended November 30, 2008, the compensation paid to individuals, other than members of our management, for serving as a director was $25,000 per year. The chairperson of each Board committee was paid an additional $15,000 for our fiscal year ended November 30, 2008. In addition, each independent director of our Board received compensation for services provided as members of the special committee which evaluated offers for Corel Corporation during fiscal 2008. During their time of service on the committee, Mr. Giffen received compensation of $180,000, and Mr. Cohen and Mr. Ciporin each earned compensation of $60,000.

Each new non-employee director that joins our Board will receive options to purchase 25,000 common shares. The exercise price of all such options shall be equal to the fair market value of those shares on the date of the grant. These options vest as to 25% on the first anniversary of the date of grant and as to an additional 25% each year thereafter in quarterly installments. Upon the occurrence of a significant event (such as a change in control), as defined under the 2006 Equity Incentive Plan, all options or other equity awards held by members of our Board under the plan shall immediately vest.

We also reimburse directors and officers, respectively, for reasonable out-of-pocket expenses incurred in performing their duties. Directors and officers of our subsidiaries do not receive any additional remuneration for acting in that capacity but will be reimbursed for reasonable out-of-pocket expenses incurred in performing their duties.

Material Terms and Conditions of Employment Agreements

We have employment agreements with certain of the Named Executive Officers. The agreements contain, among other things, confidentiality, non-solicitation and non-competition covenants that will apply during the term of each officer's employment and for a specific period of time after termination of their employment.

Kris Hagerman. In May 2008, we entered into an employment agreement with Kris Hagerman, our Interim Chief Executive Officer. The Agreement provides that Mr. Hagerman will receive an annual base salary of US$600,000 and will be eligible to participate in an annual bonus plan pursuant to which he may earn an annual bonus based on achievement of annual performance objectives, with a target annual bonus of US$400,000. Mr. Hagerman's bonus for the period from May 8, 2008 to November 30, 2008 is to be paid out at the 100% payout level. The agreement also provides that Mr. Hagerman will be eligible to participate in the 2006 Equity Incentive Plan as amended from time to time and such other share based incentive plans for our senior executives. Under the Equity Incentive Plan, we granted Mr. Hagerman options to acquire 326,760 common shares with an exercise price equal to $10.87 (the fair market value of the Class A common shares on the grant date). Mr. Hagerman's employment agreement runs for a term of one year. Notwithstanding the agreement's term, Mr. Hagerman's employment may be terminated at any time by either party, subject to certain notice provisions in the event of termination under certain circumstances.

David Dobson. In April 2008, David Dobson voluntarily resigned as chief executive officer to accept a senior executive position at another corporation. Mr. Dobson remained with us until the end of June 2008 where he assisted in transition and the Special Committee assigned to evaluate Vector's purchase proposal at that time. As part of the conditions of fulfilling these duties, Mr. Dobson received accelerated vesting on all his in-the-money options as well as a bonus of CDN$200,000, which was contingent on the approval of the special committee.

Douglas McCollam. In December 2003, we entered into an employment agreement with Douglas McCollam, our Chief Financial Officer and a former member of our Board. He currently receives an annual base salary of CDN$260,000 (US$209,898 based on the exchange rate in effect as of the close of business on November 30, 2008), with an annual target bonus of 100% of the base salary based on meeting financial targets set by our Board or compensation committee. If we terminate his employment without cause, we are obligated to pay to him a lump sum of one month of his then current base salary per year of service, up to a maximum of three months.

Amanda Bedborough. In January 2003, we entered into an employment agreement with Amanda Bedborough, our Executive Vice President, International Operations. She currently receives an annual base salary of £180,000, with an annual target bonus of £101,296 (US$276,786 and US$155,763, respectively, based on the exchange rate in effect as of the close of business on November 30, 2008) based on meeting targets set by our Board or compensation committee each year. In addition, she may be eligible for a target bonus at the sole discretion of our Board. If we terminate her employment without cause, we are obligated to pay to her up to 18 months of her base salary and maintain her benefits for up to 18 months. In the event there is a change of control, and we terminate Ms. Bedborough's employment during the period beginning one month before and ending six months after the change of control, she is entitled to receive 18 months written notice. In lieu of notice, we may elect to pay her up to 18 months of her base salary and maintain her benefits for up to 18 months.

Jeff Hastings. In July 2007, we entered into an employment agreement with Jeff Hastings, our President and General Manager of Digital Media. He currently receives an annual base salary of US$300,000 with an annual target bonus of 100% of the base salary based on meeting financial targets set by our Board or compensation committee. The agreement also provides that Mr. Hastings will be eligible to participate in the 2006 Equity Incentive Plan as amended from time to time and such other share based incentive plans for senior executives. Under this plan, we granted 50,000 restricted share units of the Company to be vested over the first two years of his employment. If we terminate his employment without cause, we are obligated to pay to him a lump sum of twelve months salary and to accelerate the vesting on all the restricted share units issued above.

Kevin Thornton. In August 2007, we entered into an employment agreement with Kevin Thornton, our Senior Vice President, Sales and Marketing, Americas. He currently receives an annual base salary of US$264,000 with an annual target bonus of US$176,000 based on meeting financial targets set by our Board or compensation committee. If we terminate his employment without cause, we are obligated to pay to him a lump sum of six month's base salary plus an annual incentive payment of 100% of the target level, pro-rated for a six month period.

Key Resource Bonus

In 2008, we agreed to award Doug McCollam, Chief Financial Officer, and Amanda Bedborough, Executive Vice President, International Operations, with a key resource bonus. The key resource bonus is an acknowledgment of each recipient's past and anticipated future contributions to our business and is a special bonus, separate from any merit adjustments linked to the annual performance review of either individual. The amount awarded to Mr. McCollam was $100,000 and the amount awarded to Ms. Bedborough was $100,000, each of which will be paid in two installments, in March 2009 and September 2009. Payment in full of the key resource bonus is dependent on each recipient's continued employment in good standing with us. If a recipient's employment is terminated without cause prior to September 2009, payment of the key resource bonus will be prorated based on that recipient's actual term of employment and will not offset any severance payments. If a recipient resigns or is terminated for cause prior to September 2009, that recipient is entitled to no more than that portion of the key resource bonus payment already received.

Composition of the Compensation Committee

The compensation committee assists the Board in determining and administering the compensation for the executive officers of us and our subsidiaries. During our fiscal year ended November 30, 2008, the compensation committee was comprised of three directors: Steven Cohen, Amish Mehta and Alexander Slusky (Chair).

Other than Amish Mehta, none of the members of the compensation committee is an officer, employee or former officer or employee of us or any of our affiliates. No member of the compensation committee is eligible to participate in our executive compensation program.

Report on Executive Compensation

The compensation committee's executive compensation philosophy is guided by its objective to obtain and retain executives critical to our success and the enhancement of shareholder value. We entered into employment agreements with certain of our executive officers before our initial public offering in May 2006, prior to which the Company did not have a compensation committee. Concurrent with our initial public offering, the compensation committee was established to:

- oversee our compensation and benefits policies generally;
- oversee and set compensation for our executive officers;
- evaluate executive officer performance and review our management succession plan; and
- review compensation related disclosure to be filed or submitted by us.

A copy of our compensation committee charter is available on our website at http://investor.corel.com/documents.cfm or by contacting us directly at 1600 Carling Avenue, Ottawa, Ontario, Canada, K1Z 8R7, (613) 728-0826.

Following our initial public offering, compensation matters relating to our executive officers are approved by our Board upon the recommendation of the compensation committee. The compensation committee requested that our human resources management engage outside consultation on executive compensation.

The compensation committee's executive compensation philosophy is intended to provide a competitive level of compensation and to reward individual performance. Our executive compensation program is composed of base salary as well as short-term incentives and equity incentive plan rewards (the "incentive plans"). The compensation of our executives is primarily based on the achievement by us of financial targets and on the achievement by the individual of personal goals and objectives. Our equity incentive plans are designed to encourage ownership of our common shares and our long-term growth. The short-term incentives are designed to achieve growth and efficiencies required in the short-term.

Each Named Executive Officer's performance and related salary level, annual bonus target and level of participation in the incentive plan is reviewed and approved annually by the compensation committee in conjunction with appropriate senior management.

For the fiscal year ended November 30, 2008, the compensation committee recommended awards, as short-term incentives equal to approximately 75% of each Named Executive Officer's base salary. These awards were based on the achievement of certain revenue and profit targets and personal goals and objectives.

The former chief executive officer's compensation was determined pursuant to the terms of an employment agreement with him prior to the Company's initial public offering. At that time, the Company made a determination as to appropriate compensation of its chief executive officer, as compared with other comparable companies. The interim chief executive officer's compensation for the fiscal year ended November 30, 2008 is primarily based upon a base salary plus a bonus based upon the achievement of corporate revenue and earnings targets fully described in the employment agreement between the Company and him.

No additional benefits or perquisites are provided to members of management that are not available to employees of Corel generally. These currently include vision care, health, long-term disability, dental, group life insurance and a fitness/technology/wellness benefit.

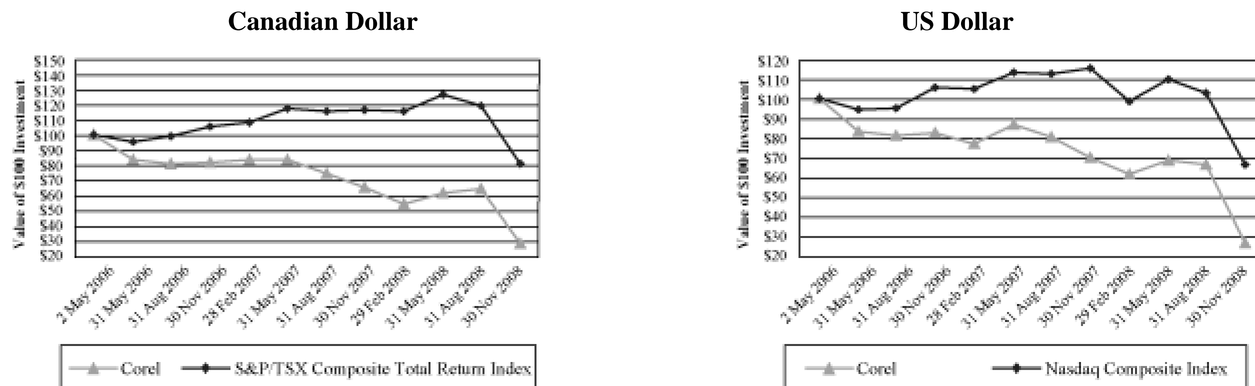
The compensation committee intends to continually evaluate the compensation of its executive officers based on the compensation objectives as fully described in the compensation committee charter.

Report Presented by:

Steven Cohen
Amish Mehta
Alexander Slusky (Chair)

Performance Graphs

As of November 30, 2008, the following graphs show the total cumulative return on a $100 investment on May 2, 2006 in common shares of Corel Corporation with the cumulative total return of the S&P/TSX Composite Index, the NASDAQ Composite Index and the NASDAQ 100 Technology Sector Index, for the period commencing on May 2, 2006 and ending on November 30, 2008, assuming reinvestment of all dividends.



Indebtedness of Directors, Officers and Others

Other than as described in “Item 13 — *Certain Relationships and Related Transactions* ,” our directors, senior officers, and their associates were not indebted to us or to any of our subsidiaries at any time during our fiscal year ended November 30, 2008.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT*

Beneficial Ownership

The following table sets forth information regarding the beneficial ownership of our common shares and shows the number of shares and percentage of outstanding common shares owned by:

- each person who is known by us to own beneficially 5% or more of our common shares;
- each member of our Board;
- each of the Named Executive Officers; and
- all members of our Board and our executive officers as a group.

Beneficial ownership is determined in accordance with SEC rules, which generally attribute beneficial ownership of securities to each person who possesses, either solely or shared with others, the power to vote or dispose of those securities. These rules also treat as outstanding all shares that a person would receive upon exercise of stock options or warrants held by that person that are immediately exercisable or exercisable within 60 days of the determination date of January 28, 2009, which in the case of the following table is March 29, 2009. Shares issuable pursuant to exercisable stock options are deemed to be outstanding for computing the percentage ownership of the person holding such options, but are not deemed outstanding for computing the percentage ownership of any other person. The percentage of beneficial ownership for the following table is based on 25,822,665 shares outstanding, as of November 30, 2008. We have only one class of equity securities outstanding and all holders of such class have the same rights, preferences and privileges. Our major shareholders do not have any voting rights that are different from the voting rights of shareholders generally. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community

property laws, the persons named in the table have sole voting and investment power with respect to all common shares shown as beneficially owned by them.

Principal Shareholders Table

Name and Address of Beneficial Owner(1)	Number of Common Shares	Percent of Class
Five Percent Shareholder		
Vector Capital	17,657,614(2)	68.38%
Executive Officers and Directors		
Alexander Slusky(3)	17,691,662(3)	68.51%
Kris Hagerman	272,300(4)	1.05%
David Dobson	13,540(5)	*
Douglas McCollam	99,440(6)	*
Jeff Hastings	63,125(7)	*
Amanda Bedborough	88,942(8)	*
Kevin Thornton	18,750(9)	*
Amish Mehta(10)	16,169(11)	*
Steven Cohen	16,969(12)	*
J. Ian Giffen	32,732(13)	*
Daniel T. Ciporin	21,875(14)	*
All directors and executive officers as a group (17 persons)	18,427,856(15)	71.35%

* Less than 1%.

(1) Except as otherwise indicated, the address for each beneficial owner is c/o Corel Corporation, 1600 Carling Avenue, Ottawa, Ontario, Canada K1Z 8R7.

(2) All of these shares are held, directly or indirectly by Corel Holdings, L.P., a Cayman Islands limited partnership. The sole general partner of Corel Holdings, L.P. is Vector Capital Partners II International Ltd., which is wholly owned by VCPII International LLC. The managing member of VCPII International LLC is Alexander Slusky. The address for Corel Holdings, L.P. is c/o Vector Capital, 456 Montgomery Street, 19th Floor, San Francisco, California 94104.

(3) Includes 34,048 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009 all of which are vested. With respect to the remaining 17,657,614 shares, Mr. Slusky, a principal of Vector Capital, has voting and investment power over the common shares owned by Vector Capital and therefore beneficially owns the common shares held by Vector Capital. Mr. Slusky, however, disclaims beneficial ownership of these common shares, except to the extent of his pecuniary interest in them. The address for Mr. Slusky is c/o Vector Capital, 456 Montgomery Street, 19th Floor, San Francisco California 94104

(4) Consists of 272,300 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009, all of which are vested.

(5) Consists of 13,540 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009, all of which are vested.

(6) Consists of 99,440 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009, all of which are vested.

(7) Consists of 63,125 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009, all of which are vested.

(8) Consists of 88,942 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009, all of which are vested.

(9) Consists of 18,750 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009, all of which are vested.

(10) Mr. Mehta, a principal of Vector Capital, does not have voting or investment power over the common shares beneficially owned by Vector Capital. The address for Mr. Mehta is c/o Vector Capital, 456 Montgomery Street, 19th Floor, San Francisco, California 94104.

(11) Consists of 16,169 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009, all of which are vested.

(12) Consists of 16,969 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009, all of which are vested.

(13) Consists of 32,732 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009, all of which are vested.

(14) Consists of 21,875 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009, all of which are vested.

(15) Includes 766,242 common shares issuable upon the exercise of options that are exercisable within 60 days of January 28, 2009, all of which are vested, and the 17,657,614 common shares of Vector Capital which are beneficially owned by Alexander Slusky.

Securities Authorized For Issuance Under Equity Compensation Plans

The following table sets forth certain information relating to our equity compensation plans as of November 30, 2008:

Plan Category	Name of Plan	Number of Common Shares to be Issued upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plan
Option Plans approved by our Shareholders	2003 Share Option and Phantom Share Unit Plan	504,499	$ 2.61	—
	2006 Equity Incentive Plan	2,890,531(1)	$ 11.37	3,358,974
Totals		3,395,030	$ 10.07	3,358,974

(1) Included in this balance are options granted by InterVideo to its employees prior to our acquisition of InterVideo, which options, upon exercise, are convertible into 300,103 of our common shares.

Equity Incentive Plan and Other Compensation Plans

Equity Incentive Plan

Our equity incentive plan was adopted by our Board and approved by our shareholders in February 2006. Our equity incentive plan provides for the grant of options to our employees and employees of our subsidiaries, and for grants of restricted shares, share appreciation rights, restricted share units, performance share units, deferred share units, phantom shares and other share-based awards to our employees, consultants and directors, and employees, consultants and directors of our subsidiaries and affiliates. Options granted to our U.S. employees may be incentive stock options or non-qualified options for U.S. federal income tax purposes. At the inception of the plan, 2,850,000 common shares were made available for issuance. In each of May 2007 and May 2008, the Board of Directors authorized an additional 2,000,000 common shares available for issuance under the equity incentive plan, which were subsequently ratified by our shareholders.

Share Reserve. A total of 6,249,505 common shares are authorized for issuance under the equity incentive plan as of November 30, 2008. Of these shares, no more than 500,000 may be issued upon exercise of incentive stock options under the plan and no more than 645,000 may be issued as restricted shares.

Appropriate adjustments will be made to the number of authorized shares under our equity incentive plan and to the shares subject to outstanding awards in the event of any reorganization, recapitalization, share split, dividend or other change in our capital structure in order to account for the changed circumstances.

Shares subject to awards under the equity incentive plan that lapse, expire, terminate, or are forfeited or settled in cash, and shares surrendered to us as payment of exercise price, withholding tax, or as part of an award exchange program, will again become available for grants under the equity incentive plan. Common shares used to satisfy awards under the plan may be authorized and unissued shares, or shares acquired by us on the open market.

No more than 500,000 common shares may be subject to the total awards granted under the equity incentive plan to any individual participant in a given calendar year.

Administration of Awards. Our Board or a committee of directors appointed by our Board, will administer our equity incentive plan. The Board or committee of directors will include the appropriate number of outside directors with the appropriate qualifications in the case of awards intended to satisfy the independence or other requirements of exceptions under U.S. Internal Revenue Code Section 162(m) for performance-based compensation, Rule 16b-3 under the Securities Exchange Act of 1934, or any applicable exchange or quotation system rules. The Board or committee has the power and discretionary authority to determine the terms and conditions of the awards, including the individuals who will receive awards, the term of awards, the exercise price, the number of shares subject to each award, the limitations or restrictions on vesting and exercisability of awards, the acceleration of vesting or the waiver of forfeiture or other restrictions on awards, the form of consideration payable on exercise, whether awards will be adjusted for dividend equivalents and the timing of grants. The Board or committee also has the power to modify, amend or adjust the terms and conditions of outstanding awards, to implement an award exchange program, to create other share-based awards for issuance under the equity incentive plan, to arrange for financing by broker-dealers (including payment by us of commissions), to establish award exercise procedures (including “cashless exercise”) and to establish procedures for payment of withholding tax obligations with cash or shares.

Stock options. The Board or the committee may grant options that are, in the case of U.S. recipients, intended to qualify as incentive stock options for U.S. federal income tax purposes or non-qualified options. The Board or the committee will determine the exercise price of options granted under our equity incentive plan, but except as required by law of a foreign jurisdiction or due to a merger or other corporate transaction, the exercise price of an option may not be less than 100% of fair market value of our common shares on the date the option is granted. For incentive stock options granted to any participant who owns at least 10% of the voting power of all classes of our understanding shares, the option award must not have a term longer than five years and must have an exercise price that is at least 110% of fair market value of our common shares on the date of grant. No options may be granted for a term longer than 10 years. Options may be exercised as provided in the applicable award agreement. Generally, when a participant is terminated by us for good cause, or a participant voluntarily resigns, outstanding unvested options granted under the equity incentive plan will be forfeited immediately. For other terminations of employment, vested options generally remain exercisable for three months after termination, except they generally remain exercisable for one year after death. Specific provisions of a written employment agreement may provide for different treatment. However, an option granted under our equity incentive plan is never exercisable after its term expires.

Share Appreciation Rights. Share appreciation rights (SARs) may be granted in conjunction with a related option, as tandem SARs, or separately as free-standing SARs. SARs generally allow the participant to receive the appreciation on the fair market value of our common shares between the date of grant and the exercise date, for the number of shares with respect to which the SAR is being exercised. Tandem SARs are generally exercisable based on certain terms and conditions of the underlying options, although the committee may grant tandem SARs with a base price that is higher than the underlying option price. Free-standing SARs are granted with a base price not less than 100% of the fair market value of our common shares on the date of grant and are subject to terms and conditions as determined by the board or the committee. The Board or the committee may provide that SARs be payable in cash, in common shares, or a combination of both, and subject to any limitations or other conditions as it deems appropriate. SARs may be payable on a deferred basis only to the extent provided for in the participant’s award agreement.

Restricted Shares. Restricted share awards are common shares that vest in accordance with restrictions that are determined by the Board or the committee. The Board or the committee has the discretion to determine the individuals who will receive a restricted share award, the number of shares granted, when the shares will be paid to the participant, whether the participant will have the right to vote the restricted shares or receive dividend amounts, whether the shares will be issued at the beginning or the end of a restricted period and any other terms and conditions with respect to vesting, deferral, payment options and other award characteristics as it deems appropriate. The committee may also provide that the participant may be granted a cash award that is payable upon the vesting of the restricted shares. Generally, unless our Board or the committee decides otherwise, upon a participant's termination of employment for any reason, restricted shares that have not vested are immediately forfeited to us. When a participant terminates employment for disability, death, retirement, early retirement or other special circumstances, the committee may waive the forfeiture requirement and other restrictions on the shares. Specific provisions of a written employment agreement may provide for different treatment.

Restricted Share Units. Restricted share unit awards may consist of grants of rights to receive common shares or the value of common shares or a combination of both, which may vest in installments or on a deferred basis.

Performance Share Units. Performance share units are awards of restricted share units that will result in the delivery of common shares or a payment of the value of common shares to a participant only if performance goals established by the Board or the committee are achieved or the awards otherwise vest. The Board or the committee will establish, in its discretion, performance goals, which will determine the number of performance share units and the value of common shares, if any, to be paid out to participants. The Board or the committee will also set time periods during which the performance goals must be met. The performance goals may be based upon the achievement of corporation-wide, divisional or individual goals, or any other basis as determined by the Board or the committee. The Board or the committee will determine whether payment for performance share units will be made in cash, common shares or a combination of both. The initial value of performance share units will be established by the Board or the committee by the date of grant and will be set at an amount equal to the fair market value of our common shares on the date of grant. The Board or the committee may modify the performance goals as necessary to align them with our corporate objectives only if there has been a material change in our business, operations or capital or corporate structure.

Deferred Share Units. Deferred share unit awards are awards similar to awards of restricted share units except that such awards may not be redeemed for common shares or for the value of common shares until the participant has ceased to hold all offices, employment and directorships with us and our affiliates.

Other Share-Based Awards. The Board or the committee may create other forms of awards in addition to the specific awards described in our equity incentive plan which may be granted alone or in tandem with other awards under the plan. The Board or the committee has complete authority to determine the persons to whom and the time or times at which such other share-based awards will be granted, the number of common shares, if any, to be granted, whether the value of the awards will be based on shares or cash, and any other terms and conditions.

Effect of a Significant Event. In the event of a significant event as defined in our equity incentive plan, and unless otherwise provided in an award agreement or a written employment contract between us and a plan participant, our Board may provide that the successor corporation will assume each award or replace it with a substitute award, or the awards will become exercisable or vested in whole or in part upon written notice, or the awards will be surrendered for a cash payment, or any combination of the foregoing will occur. Upon a significant event, all options granted to members of our Board shall immediately vest. If a participant in the equity incentive plan is entitled to receive payments that would qualify as excess "parachute payments" under Section 280G of the U.S. Internal Revenue Code, those payments may be reduced so that the participant is not subject to the excise tax under Section 4999 of the U.S. Internal Revenue Code if such a reduction would result in the participant's receiving a greater after-tax payment.

Under the plan, and unless otherwise defined in an award agreement or a written employment agreement between us and a plan participant which governs (and subject to certain exceptions described in the plan), a significant event means:

- a person or group of persons (other than Vector Capital and its affiliates) becomes the beneficial owner of securities constituting 50% or more of our voting power;
- 50% of our current Board (including any successors approved by 50% of our current Board) cease to constitute 50% of the Board;
- a merger, consolidation, amalgamation or arrangement (or a similar transaction) involving us occurs, unless after the event, 50% or more of the voting power of the combined company is beneficially owned by stockholders who owned all of our common shares immediately before the event; or
- our shareholders approve a plan of complete liquidation or winding-up of us, or the sale or disposition of all or substantially all our assets (other than a transfer to an affiliate).

Transferability. Awards under our equity incentive plan generally are not transferable other than by will or by the laws of descent and distribution or as expressly permitted by the Board. Except as noted, only the participant may exercise an award.

Section 162(m) Provisions. Awards to any participant whom the committee determines to be a “covered employee” under Section 162(m) of the U.S. Internal Revenue Code may be subject to restrictions, including the establishment of performance goals, as necessary for the award to meet the requirements for performance-based compensation.

Additional Provisions. Our equity incentive plan will automatically terminate in 2016 unless we elect to terminate it sooner. In addition, our Board has the right to amend, suspend or terminate the plan at any time provided that such action does not impair any award previously granted under the plan. We will not be responsible if awards under the equity incentive plan result in penalties to a participant under Section 409A of the U.S. Internal Revenue Code. Amendments to the plan will be submitted for shareholder approval to the extent required by applicable law.

Prior Incentive Plans

Effective December 1, 2003, we adopted a share option and phantom share unit plan (which we refer to as our prior plan). Our prior plan provided for the grant of units, options and phantom shares to our employees, officers and consultants.

As of November 30, 2008, there were units with respect to 504,499 common shares outstanding under the prior plan and there are no separate options or phantom shares outstanding. Each unit consists of a stock option that enables the holder to acquire a fixed number of common shares at a stated exercise price and a phantom share unit in respect of the same number of shares as the option, with the same stated exercise price. Upon exercise of the stock option portion of the unit, we will issue common shares to the holder. Upon exercise of the phantom share unit portion of the unit, we may pay the holder an amount of cash equal to the fair market value of the common shares underlying the phantom share unit, less the exercise price, or we may deliver common shares with a fair market value equal to such amount of cash. In addition, in the case of a stock option exercise or a phantom share unit exercise, we may effect a net settlement, in which we deliver the number of common shares equal in value to the fair market value of the common shares underlying the option, less the exercise price. A holder may not exercise both the stock option component of the unit and the phantom share unit component. When a holder exercises either the stock option component or the phantom share unit component, the other component is no longer exercisable. No additional units, options or phantom share units will be granted under our prior plan, but the outstanding units granted under our prior plan will remain outstanding in accordance with their terms.

Appropriate adjustments will be made under our prior plan to the number of shares subject to outstanding awards in the event of any future reorganization, recapitalization, share split, dividend or other change in our capital structure in order to account for the changed circumstances.

Units granted under the prior plan generally vest to 25% of the units granted on the first anniversary of the date of grant and an additional 6.25% of the units granted at the end of each three month period subsequent to the first anniversary date.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS*

Other than as described below, since December 1, 2007, there has not been, and there is not currently proposed, any transactions or similar transactions to which we were or will be a party in which the amount involved exceeded or will exceed $120,000 and in which any director, executive officer, holder of 5% or more of any class of our voting stock or any member of their immediate family had or will have a direct or indirect material interest.

In connection with certain transaction advisory work performed on our behalf, we paid Vector Capital transaction fees and reimbursements for expenses of approximately $404,000 in fiscal 2008. In addition we paid $75,000 of director fees to each of Mssrs. Slusky and Mehta, principals of Vector Capital. Payments to Vector Capital made in fiscal 2008 were made pursuant to the Expense Reimbursement Agreement (incorporated by reference as exhibit 10.16 to this annual report on Form 10-K), reimbursement of expenses of Mssrs. Slusky and Mehta and payment to Vector Capital of directors' fees earned by them. While we do not maintain a written policy with respect to related party transactions, we actively maintain a list of related parties and monitor any potential transactions with such parties, including Vector Capital and affiliates of Vector Capital.

We have determined that Messrs. Ciporin, Cohen and Giffen meet the standards of independence under applicable NASDAQ Stock Market ("NASDAQ") listing standards, including that each member is free of any relationship that would interfere with his or her individual exercise of independent judgment.

ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

PricewaterhouseCoopers LLP has audited our consolidated balance sheets as at November 30, 2008 and November 30, 2007 and the consolidated statements of operations, changes in shareholders' (deficit) equity and cash flows for the years ended November 30, 2008, November 30, 2007 and November 30, 2006 as stated in their report appearing in this Annual Report on Form 10-K. PricewaterhouseCoopers LLP has been our auditor since March 1998.

Audit Fees

PricewaterhouseCoopers LLP billed us $1,581,453 in 2008 and $2,011,957 in 2007 for professional services rendered for the audit of our annual financial statements, the filing of our registration statement on Form F-1, and the review of financial statements included in statutory and regulatory filings.

Tax Fees

PricewaterhouseCoopers LLP billed us $4,880 in 2008 and $307,497 in 2007 for professional services rendered for tax compliance, tax advice, and tax planning. The taxation advisory services provided related primarily to payroll taxation matters, taxation of stock options and preparation of corporate tax returns.

All Other Fees

PricewaterhouseCoopers LLP billed us $72,402 in 2008 and $170,814 in 2007 for professional services rendered in connection with statutory audits and other matters.

The Audit Committee has considered whether the provision of these services is compatible with maintaining PricewaterhouseCoopers LLP's independence and is of the opinion that the provision of these services does not compromise PricewaterhouseCoopers LLP's independence. The Audit Committee, in accordance with the Audit Committee's policy for the engagement of our independent auditor to provide non-audit services, must pre-approve all non-audit services provided by PricewaterhouseCoopers LLP. The policy restricts the type of non-audit services that the auditors may provide to our subsidiaries and us. It includes a mechanism for the consideration and pre-approval by the Audit Committee of all services to be provided by the auditors as well as the associated fees. In our fiscal year ended November 30, 2008, all non-audit services that were performed by the auditors were pre-approved by the Audit Committee.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

(a) The following documents are filed as part of this Report:

1. Financial Statements.

Incorporated by reference from the financial statements and notes thereto that are set forth in Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedules.

Schedule II Valuation and Qualifying Accounts

(b) The exhibits included in this Report or incorporated herein by reference are as follows:

Exhibit Number	Exhibit
2.1	Stock Purchase Agreement dated May 1, 2006 by and among Vector CC Holdings IV, SRL, WinZip Computing LLC, Cayman Ltd. Holdco and Corel Corporation, incorporated by reference to exhibit 2.2 of the Company's Form 10-Q filed with the Commission on May 5, 2006
2.2	Agreement and Plan of Merger, dated as of August 28, 2006, among Corel Corporation, Iceland Acquisition Corporation and InterVideo Inc., incorporated by reference to exhibit 2.1 to the Company's Form 8-K filed with the Commission on August 31, 2006
3.1	Certificate and Articles of Continuance, incorporated by reference to exhibit 3.1 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
3.2	Articles of Amendment, incorporated by reference to exhibit 3.2 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
3.3	By-laws, incorporated by reference to exhibit 3.2 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
4.1	Form of Registration Rights Agreement by and among Corel Corporation and the stockholders named therein, incorporated by reference to exhibit 4.1 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
4.2	Form of Corel Corporation Share Certificate, incorporated by reference to exhibit 4.2 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
10.1	Form of Credit Agreement by and among Corel Corporation, Corel US Holdings, LLC, Morgan Stanley Senior Funding Inc., J.P. Morgan Securities Inc. and Deutsche Bank Securities Inc. and a syndicate of financial institutions, incorporated by reference to exhibit 2.2 of the Company's Form 10-Q filed with the Commission on May 5, 2006
10.2	First Amendment and Waiver to Credit Agreement dated as of December 12, 2006, incorporated by reference to exhibit 99.1 of the Company's Form 8-K filed with the Commission on December 14, 2006
10.3	Employment Agreement between Corel Corporation and David Dobson, incorporated by reference to exhibit 10.2 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
10.4	Employment Agreement between Corel Corporation and Douglas McCollam, incorporated by reference to exhibit 10.3 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
10.5	Employment Agreement between Corel Corporation and Amanda Bedborough, incorporated by reference to exhibit 10.5 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
10.6*	Employment Agreement between Corel Corporation and Kris Hagerman
10.7*	Employment Agreement between Corel Corporation and Jeff Hastings
10.8*	Employment Agreement between Corel Corporation and Kevin Thornton

Exhibit Number	Exhibit
10.9	2003 Share Option and Phantom Unit Plan, incorporated by reference to exhibit 10.7 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
10.10	2006 Equity Incentive Plan, incorporated by reference to exhibit 10.8 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
10.11	Form of Equity Award, incorporated by reference to exhibit 10.9 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
10.12	InterVideo, Inc. 1998 Stock Plan, incorporated by reference to exhibit 99.1 of the Company's Registration Statement on Form S-8 filed with the Commission on December 14, 2006
10.13	InterVideo, Inc. 2003 Stock Plan, incorporated by reference to exhibit 99.2 of the Company's Registration Statement on Form S-8 filed with the Commission on December 14, 2006
10.14	Form of Officer and Director Indemnification Agreement, incorporated by reference to exhibit 10.10 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
10.15	Advisory Services Expense Reimbursement Agreement, incorporated by reference to exhibit 10.12 of the Company's Registration Statement on Form F-1 filed with the Commission on April 25, 2006
10.16*	Transition Agreement with former chief executive officer David Dobson
10.17*	Amended 2006 Equity Incentive Plan (amended for an additional 2,000,000 common shares to be made available for issuance, as authorized in May 2008)
21.1*	Subsidiaries of Corel Corporation
23.1*	Consent of PricewaterhouseCoopers LLP
31.1*	Rule 13a-14(a)/15d-14(a) Certification of the Interim Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer
32.1*	Section 1350 Certification of the Interim Chief Executive Officer
32.2*	Section 1350 Certification of the Chief Financial Officer
99.1*	Schedule II — Valuation and Qualifying Accounts

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized on February 6, 2009.

COREL CORPORATION

By: /s/ KRIS HAGERMAN
Kris Hagerman
Interim Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant in the capacities indicated and on February 6, 2009.

SIGNATURE	TITLES
/s/ KRIS HAGERMAN Kris Hagerman	Interim Chief Executive Officer (principal executive officer)
/s/ DOUGLAS MCCOLLAM Douglas McCollam	Chief Financial Officer (principal financial and accounting officer)
/s/ DANIEL J. CIPORIN Daniel J. Ciporin	Director
/s/ STEVEN COHEN Steven Cohen	Director
/s/ J. IAN GIFFEN J. Ian Giffen	Director
/s/ AMISH MEHTA Amish Mehta	Director (authorized representative in the United States)
/s/ ALEXANDER SLUSKY Alexander Slusky	Director

Exhibit 10.6

EXECUTIVE EMPLOYMENT AGREEMENT

Effective May 8 , 2008

(this " **Agreement** ")

B E T W E E N:

Corel Inc.

(the " **Corporation** ")

- and -

Kris Hagerman

(the " **Executive** ")

WHEREAS the Corporation wishes to employ the Executive and the Executive wishes to become an employee of the Corporation;

AND WHEREAS the Corporation and the Executive agree that it is desirable to enter into this Agreement to specify the terms and conditions of the Executive's employment with the Corporation;

NOW THEREFORE in consideration of the mutual covenants and agreements contained in this Agreement, and other good and valuable consideration, the sufficiency of which is hereby acknowledged, the Corporation and the Executive agree as follows.

1. Interpretation

1.1 **Definitions.** In this Agreement, the following capitalized terms have the following meanings:

(a) " **Affiliate** " means an affiliated entity and as defined in Ontario Securities Commission Rule 45-501 and "controlled" has the meaning given in that Rule, as amended or replaced from time to time, and "affiliated" has a corresponding meaning.

(b) " **Base Grant** " has the meaning set out in Section 3.4.

(c) " **Board** " means the board of directors of Corel Corporation.

(d) " **EBITDA** " has the meaning set out in Section 3.2 **.**

(e) **"Plan"** means the 2006 Corel Corporation Equity Plan as amended from time to time.

(f) " **Salary** " has the meaning set out in Section 3.1.

(g) " **Shares** " means Class A common shares of the Corporation.

(h) " **Term** " means the period from the Start Date to the Termination Date.

(i) " **Termination Date** " means the date set out in Section 2.1 and is the Executive's last day of active employment and does not include any period of statutory or reasonable

notice or any period of deemed employment and "terminate" and "terminated" have corresponding meanings.

1.2 **Headings, Sections and Plural.** The inclusion of headings in this Agreement is for convenience of reference only and shall not affect its construction or interpretation. Throughout this Agreement, whenever required by context, words importing the singular include the plural and *vice versa* . In this Agreement, references to "Sections" or to "Schedules" are references to sections in or schedules to this Agreement, unless expressly stated otherwise.

1.3 **Deductions and Withholdings.** The payments to the Executive set out in this Agreement are subject to applicable deductions and withholdings.

1.4 **Benefit Contributions and Participation.** The Corporation's contributions to, the Executive's participation in, and any conversion of, the group benefit plans as set out in this Agreement are subject to the terms and conditions of the benefit plans, and changes to or cancellations of such plans over time, as may be made with such notice to the Executive as is practical in the circumstances, and in the sole discretion of the Corporation.

1.5 **Currency** . Unless otherwise indicated, all dollar amounts referred to in this Agreement are in United States currency.

1.6 **Prevailing Agreement.** In the event of any inconsistencies between this Agreement and the Plan, the provisions in this Agreement supersede the Plan to the extent of such inconsistencies.

2. Term and Duties

2.1 **Start Date and Term.** The Corporation agrees to employ the Executive and the Executive agrees to become employed with the Corporation on the terms and conditions set out in this Agreement commencing on May 8, 2008 (the " **Start Date** "). The Executive's employment ends on the earliest of: (i) the date his employment is terminated pursuant to this Agreement; (ii) the first anniversary of the Start Date (unless the parties enter into a written agreement to extend this date); or (iii) the date a new Chief Executive Officer of the Corporation commences employment (the " **Termination Date** ").

2.2 **Position.** The Executive will serve in an executive capacity as the Interim Chief Executive Officer of Corel Corporation and in such other capacities as may be agreed upon by the Corporation and the Executive from time to time.

2.3 **Duties.** The Executive will perform the duties customarily performed in his position including, without limitation, regularly reporting his activities and the results thereof to the Board. The Executive agrees to serve as a director of the Corporation and its Affiliates if an as requested by the Corporation in good faith and without compensation other than as set out in Section 3.

2.4 **Good Faith.** The Executive shall devote his full business time and attention to the affairs of the Corporation and will use his best efforts, skills and abilities to honestly, faithfully, diligently and in good faith promote the Corporation's best interests, and he shall not have any interests that conflict with those of the Corporation. The Executive shall observe and abide by the policies of the Corporation in effect from time to time.

2.5 **Third Party Obligations.** The Executive represents and warrants that he honestly and reasonably believes after proper enquiry, that his obligations under this Agreement will not breach any obligations the Executive owes to third parties, including any of the Executive's former employers and the Executive represents and warrants that he has provided to the Corporation all documents, agreements and correspondence relating to any such obligations and that at the date hereof, he is not aware of any claims or threatened claims that he has breached any such obligations in connection with his obligations under this Agreement.

3. Compensation

3.1 **Base Salary.** The Corporation agrees to pay the Executive an annual base salary of US $600,000.00, payable in accordance with the Corporation's payroll practices in effect from time to time, subject to annual review and to increase as determined by the Board (" **Salary** ").

3.2 **Discretionary Bonus.** The Executive will be eligible to participate in the Corporation's annual bonus plan with a target bonus of $400,000 of Salary for the achievement of all targets. Any bonus payment is subject to achievement by the Executive of the performance targets established by the Board. The Executive's bonus targets, linearity and acceleration will be consistent with those established for other executives of the Corporation. Currently, the performance targets are based on a combination of revenue targets and target earnings before interest, tax, depreciation and amortization (" **EBITDA** "). To be eligible for the bonus payment, the Executive must have been actively employed throughout the fiscal year in respect of which his performance was assessed, unless provided otherwise in this Agreement. Notwithstanding the above, the Executive's bonus for the period from the Start Date to August 31, 2008 will be paid out at the 100% payout level.

3.3 **Share Based Compensation Plan Participation.** The Executive will be eligible to participate in the Plan and such other share based incentive plans or similar plans as may be established for senior executives by the Corporation. All options granted to the Executive are governed by the terms and conditions of the Plan, including any restrictions on exercise of options and any requirements to agree to conditions, restrictions or agreements set out in the Plan, except as expressly provided otherwise in this Agreement.

3.4 **Grant of Options.** On the Start Date, the Corporation will grant to the Executive options to acquire 326,760 Shares (equivalent to 1.25% of the Company) of Corel Corporation (the " **Base Grant** "), subject to the terms and conditions set out in this Agreement and the Plan. The Base Grant of options will have an exercise price of equal to fair market value as at the Start Date. The Base Grant of options will be exercisable as to 8.33% on and after the end of each month after the Start Date.

3.5 **Payments for Distributions on Base Grant of Options.** If dividends or other distributions are paid on Shares of the Corporation at a time when the Executive holds unexercised options under the Base Grant of options, the Corporation will provide the Executive with a payment equivalent to distributions the Executive would have been eligible to receive had the Base Grant of options been exercised.

4. Expenses, Benefits and Vacation

4.1 **General Expenses.** The Corporation will reimburse the Executive for his reasonable and approved business expenses, including travel expenses, incurred by him in connection with the performance of his duties under this Agreement, upon providing appropriate receipts

satisfactory to the Corporation and in accordance with the Corporation's policies in effect from time to time.

4.2 **Benefit Plans.** The Executive will be eligible to participate in the group benefit plans available to employees of the Corporation from time to time, subject to Section 1.4. To the extent permitted by the insurers, the Corporation will request the waiver of the waiting periods for participating in the benefit plans, subject to the Executive's pre-existing conditions.

4.3 **Vacation.** The Executive will be entitled to four weeks of vacation time per year to be taken at times that are consistent with the business interests of the Corporation, and in accordance with the Corporation's vacation policies. The Executive may not carry forward vacation time to subsequent vacation years except to the extent required by law.

5. Termination

5.1 **Termination by Executive.** The Executive may terminate his employment with the Corporation at any time by providing the Corporation with one month's notice in writing. If, upon receipt of the Executive's resignation, the Corporation terminates the Executive's employment before the date the resignation was to be effective, the Corporation will, in full satisfaction of its obligations to the Executive: (a) pay the Executive's Salary and vacation pay accrued until the date the resignation was to be effective; (b) reimburse the outstanding expenses properly incurred by the Executive until the date his employment ceases; (c) continue its contributions to the group benefit plans until the date the resignation was to be effective, subject to Section 1.4; and (d) pay the Executive a bonus pro-rated to the date his employment ceases (in the event that employment ceases other than at the end of a fiscal quarter or year end, any bonus component that is dependent on a target achievement measured at a fiscal quarter or year end shall be calculated at the 100% payout level pro-rated for the applicable period).

5.2 **Termination by Corporation for Cause.** The Corporation may terminate the Executive's employment at any time with cause and without prior notice or any further obligations by the Corporation, and the Executive will be ineligible for any bonus or pro-rated bonus payment. On the termination of the Executive's employment for cause, the Corporation will, in full satisfaction of its obligations to the Executive, pay the Executive's Salary and vacation pay accrued until the Termination Date, and reimburse the outstanding expenses properly incurred by the Executive until the Termination Date.

5.3 **Termination by Corporation without Cause or at the End of the Term.** The Corporation may terminate the Executive's employment at any time, without cause on providing written notification; the Executive's employment will terminate automatically on the first anniversary of the Start Date; and the Executive's employment will terminate automatically on the appointment of a Chief Executive Officer. In any such case the Corporation will: (a) pay the Executive's Salary and vacation pay accrued until the Termination Date; (b) reimburse outstanding expenses properly incurred by the Executive until the Termination Date; and (c) pay the Executive a bonus pro-rated to the date his employment ceases (in the event that employment ceases other than at the end of a fiscal quarter or year end, any bonus component that is dependent on a target achievement measured at a fiscal quarter or year end shall be calculated at the 100% payout level pro-rated for the applicable period). All vested stock options as at the Termination Date shall expire six (6) months following the Termination Date. All unvested stock options as at the Termination Date shall expire at the close of business on the Termination Date.

5.4 **Death of the Executive.** Upon the death of the Executive, this Agreement automatically terminates without notice or any further obligations by the Corporation. Upon the death of the Executive, the Corporation will, in full satisfaction of its obligations: (a) pay the outstanding accrued salary and vacation pay accrued until the date of the Executive's death; (b) reimburse the expenses properly incurred by the Executive up to the date of his death; (c) pay a bonus pro-rated to the date of the Executive's death (in the event that such occurs other than at the end of a fiscal quarter or year end, any bonus component that is dependent on a target achievement measured at a fiscal quarter or year end shall be calculated at the 100% payout level pro-rated for the applicable period); and (d) the share based compensation awarded to the Executive shall, to the extent not otherwise vested, vest so that 50% of all such vested share based compensation shall be vested and such vested share based compensation shall be exercisable for a period of 90 days following the Executive's death.

5.5 **Consequences of Termination.** The termination of the Executive's employment for any reason, including resignation and termination with cause and without cause, terminates any officer positions the Executive may hold with the Corporation or any of its Affiliates and the Executive agrees to immediately resign as a director of the Corporation and any of its Affiliates and to sign any documentation necessary to give effect to this Section 5.5.

5.6 **Conversion of Benefits on Termination.** On the earlier of the termination of Executive's participation in the group benefit plans or the cessation of his employment for any reason, the Executive may be eligible to convert the group insured benefits to private coverage within 30 days, without evidence of insurability. The Executive is responsible for promptly arranging for any conversion options he may have or obtaining alternate benefits if he chooses to do so.

5.7 **Compliance with Laws.** The Executive's entitlements under this Section 5 are provided in full satisfaction of the Executive's entitlements to notice of termination, pay in lieu of notice, and severance pay, if any, under any applicable laws.

6. Confidential Information and Return of Property

6.1 **Confidentiality Obligation.** The Executive covenants and agrees that he shall not, at any time during his employment with the Corporation or any time thereafter, without the prior written consent of the Corporation, directly or indirectly, communicate, reveal or disclose, in any manner, to anyone, or use for any purpose other than in carrying out his duties under this Agreement in furtherance of the Corporation's business interests, any confidential or proprietary information concerning, or learned as a result of his employment with, the Corporation or its predecessors, successors, Affiliates or related companies including, without limitation, information concerning their assets, businesses, affairs, pricing, costs, technical information, financial information, plans or opportunities, manufacturing, processes, sales and distribution, marketing, research and development, customers, suppliers or employees.

6.2 **Return of Property.** Upon ceasing to be employed by the Corporation or upon request of the Corporation at any time, the Executive shall return to the Corporation all property belonging to the Corporation or its predecessors, successors, Affiliates or related companies including, without limitation, all documents in any format whatsoever including electronic format, that is in his possession or control, and the Executive agrees not to retain any copies of such property in any format whatsoever including electronic format.

7. Non-Solicitation

7.1 **Employee and Contractor Non-Solicitation.** The Executive covenants and agrees that, while employed with the Corporation and for 12 months thereafter, the Executive shall not induce or solicit or attempt to induce or solicit, or assist any person to induce or solicit any employee of the Corporation or its Affiliates or any contractor who regularly provides services to the Corporation or its Affiliates, or assist or encourage any employee of the Corporation or its Affiliates or any contractor who regular who regularly provides services to the Corporation or its Affiliates to accept employment or engagement elsewhere that competes with the business of the Corporation or its Affiliates.

8. Proprietary and Moral Rights

8.1 **Proprietary Rights.** The Executive recognizes the Corporation's proprietary rights in the tangible and intangible property of the Corporation and acknowledges that Executive has not obtained or acquired and shall not obtain or acquire any rights, title or interest, in any of the property of the Corporation or its predecessors, successors, Affiliates or related companies including, without limitation, any writing, communications, manuals, documents, instruments, contracts, agreements, files, literature, data, technical information, know-how, secrets, formulas, products, methods, procedures, processes, devices, apparatuses, trademarks, trade names, trade styles, service marks, logos, copyrights, patents, inventions, discoveries, whether or not protected by patent or copyright, which the Executive may have conceived or made, or may conceive or make, either alone or in conjunction with others, and related to the business of the Corporation or its predecessors, successors, Affiliates or related companies (collectively, the " **Materials** "). The Executive agrees that during his employment with the Corporation and any time afterwards all Materials shall be the sole and exclusive property of the Corporation.

8.2 **Waiver of Moral Rights.** The Executive irrevocably waives to the greatest extent permitted by law, for the benefit of and in favour of the Corporation, all the Executive's moral rights whatsoever in the Materials including, without limitation, any right to the integrity of any Materials, any right to be associated with any Materials and any right to restrict or prevent the modification or use of any Materials in any way whatsoever. The Executive irrevocably transfers to the Corporation all rights to restrict any violations of moral rights in any of the Materials including, without limitation, any distortion, mutilation or other modification.

8.3 **Assignment of Rights.** If the Executive has acquired or does acquire, however, any right, title or interest in any of the Materials or in any intellectual property rights relating to the Materials, the Executive irrevocably assigns all such right, title and interest throughout the world exclusively to the Corporation including, without limitation, any renewals, extensions or reversions relating thereto and any right to bring an action or to collect compensation for past infringements.

8.4 **Registrations.** The Corporation will have the exclusive right to obtain copyright registrations, letters patent, industrial design registrations, trade-mark registrations or any other protection in respect of the Materials and the intellectual property rights relating to the Materials anywhere in the world. At the expense and request of the Corporation, the Executive shall, both during and after the Executive's employment with the Corporation, execute all documents and do all other acts necessary in order to enable the Corporation to protect its rights in any of the Materials and the intellectual property rights relating to the Materials.

9. Remedies

9.1 **Defences.** The Executive agrees that all restrictions in Sections 6, 7 and 8 are necessary and fundamental to the protection of the business carried on by the Corporation and that all such restrictions are reasonable and valid, and, to the extent permitted by applicable law, the Executive waives all defences of the Executive to the strict enforcement thereof by the Corporation.

9.2 **Injunctive Relief.** The Executive acknowledges that a breach by the Executive of any of his obligations in Sections 6, 7 and 8 will result in the Corporation suffering irreparable harm, which cannot be calculated or fully or adequately compensated by recovery of damages alone. Accordingly, the Executive agrees that the Corporation shall be entitled to interim and permanent injunctive relief without proof of actual damages, specific performance and other equitable remedies, in addition to any other relief to which the Corporation may become entitled.

10. Obligations Not Exhaustive

10.1 **Fiduciary.** The Executive acknowledges that the obligations contained in Sections 6, and 7 are in addition to any obligations that the Executive may now or hereafter owe to the Corporation, at law, in equity or otherwise. Nothing contained in this Agreement is a waiver, release or reduction of any fiduciary obligations that the Executive owes to the Corporation.

11. General

11.1 **Survival.** Sections 6, 7, 8, and 9, and this Section 11.1 survive the termination of this Agreement and the Executive's employment for any reason whatsoever.

11.2 **Severability.** If any provision of this Agreement is declared void or unenforceable, such provision shall be deemed severed from this Agreement to the extent of the particular circumstances giving rise to such declaration, and such provision as it applies to other persons and circumstances and the remaining terms and conditions of this Agreement shall remain in full force and effect.

11.3 **Entire Agreement.** This Agreement, including the attached Schedules and the documents referenced therein, constitutes the entire agreement between the Corporation and the Executive on the subject-matter herein and it supersedes all prior agreements and understandings, whether written or oral. There are no representations, warranties or collateral agreements on the subject-matter herein that exist outside of this Agreement.

11.4 **Amendments.** This Agreement may only be amended by written agreement executed by the Corporation and the Executive. However, changes to the Executive's position, duties, vacation, benefits and compensation, over the course of time, do not affect the validity or enforceability of Sections 5, 6, and 7.

11.5 **Governing Law.** This Agreement shall be governed by, and construed and interpreted in accordance with the laws of the State of California. The Corporation and the Executive each irrevocably attorns to the exclusive jurisdiction of the courts of California and the courts of California shall have the sole and exclusive jurisdiction to entertain any action arising under this Agreement.

11.6 **Assignment.** The Corporation may assign this Agreement, and it enures to the benefit of the Corporation, its successors or assigns.

11.7 **Independent Legal Advice.** The Executive acknowledges that he has been encouraged to obtain independent legal regarding the execution of this Agreement, and that he has either obtained such advice or voluntarily chosen not to do so, and hereby waives any objections or claims he may make resulting from any failure on his part to obtain such advice.

11.8 **Waiver.** No waiver of any of the provisions of this Agreement shall be effective or binding, unless made in writing and signed by the party purporting to give the same. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions, whether or not similar, nor shall such waiver constitute a continuing waiver, unless expressly stated otherwise.

11.9 **Effective Date.** This Agreement is effective the date it is made.

IN WITNESS WHEREOF this executive employment agreement has been executed by the Corporation and the Executive on the dates below.

COREL INC.

Per: /s/ Christopher Difrancesco
Title: Secretary

/s/ Kris Hagerman
Kris Hagerman

Exhibit 10.7

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of the July 24, 2007

B E T W E E N:

COREL INC

(the “Corporation”)

- and -

JEFF HASTINGS

(the “Executive”)

RECITAL:

The Corporation and the Executive wish to enter into this Agreement to set out the rights and obligations of each of them respecting the Executive’s employment with the Corporation.

NOW THEREFORE in consideration of the mutual covenants and agreements contained in this Agreement and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the Corporation and the Executive agree as follows:

1 Definitions

In this Agreement,

1.1 **“Agreement”** means this agreement as it may be amended from time to time;

1.2 **“Affiliate”** has the meaning attributed to such term in the *Business Corporations Act* (Ontario) as the same may be amended from time to time and any successor legislation thereto, and includes an Associate;

1.3 **“Associate”** has the meaning attributed to such term in the *Business Corporations Act* (Ontario) as the same may be amended from time to time and any successor legislation thereto;

1.4 **“Benefits”** has the meaning set out in section 6;

1.5 **“Board”** means the Board of Directors of Corel Corporation

1.6 **“Business”** means the development, marketing or sale of computer software for office productivity, graphics, or digital media, or any other software which the Corporation may be involved in developing, marketing, or selling during the term of this Agreement;

1.7 **“Commencement Date”** means August 10, 2007;

1.8 **“Confidential Information”** means all information, intellectual property (including trade secrets) and facts relating to, used or proposed to be used in the Business of the Corporation and its Affiliates, acquired by the Executive during any period in which the Executive was affiliated with the Corporation in the capacity of an employee, director or shareholder which is confidential based upon its nature or the circumstances surrounding its disclosure, and includes, without limiting the generality of the foregoing, information:

a) relating to the Corporation’s or an Affiliate’s products and services or to the Corporation’s or a Affiliate’s research and development projects or plans;

b) relating to the Corporation’s or an Affiliate’s trade secrets, technology, patentable and unpatentable inventions, discoveries, processes, test procedures and results, records, specifications, data, formulations, know-how, samples, specimens, manufacturing processes and regulatory information;

c) relating to the Corporation’s or an Affiliate’s business policies, strategies, operations, finances, plans or opportunities, including the identity of, or particulars about, the Corporation’s or an Affiliate’s clients or suppliers;

1.9 **“Change of Control”**

a) means any transaction or series of transactions, whether by way of consolidation, amalgamation, merger, reorganization or plan of amalgamation involving Corel Corporation, into any other person (other than an Affiliate of the Corporation or Vector);

b) any transfer, conveyance, sale, lease, exchange or otherwise of all or substantially all of the assets of Corel Corporation, to any other person (other than Vector); and

c) the lawful acquisition by any person, or by a group of persons acting jointly or in concert, of that number of voting shares of Corel Corporation, which is 35% or more of the total voting shares issued and outstanding immediately after such acquisition, unless Vector continues to hold a number of voting shares which represents a greater percentage than the first-mentioned person or group of persons.

Provided that shares of Corel Corporation acquired through a public offering shall be deemed to not result in a Change of Control.

1.10 **"Date of Termination"** has the meaning set out in section 7.1 of this Agreement;

1.11 **"Disability"** means the mental or physical state of the Executive such that:

a) subject to applicable human rights legislation, due to illness, disease, mental or physical disability or similar cause, the Executive cannot substantially perform his duties as an employee, officer or director of the Corporation or any of its Subsidiaries, as applicable;

b) a court of competent jurisdiction has declared the Executive to be mentally incompetent or incompetent to manage his affairs;

c) the Executive is eligible for, has applied for, and has been accepted for long-term disability benefits under the Corporation's long-term disability plan; or

d) an attorney pursuant to a continuing power of attorney for personal care or similar instrument is appointed to manage the affairs of the individual due to the Executive's mental incompetence;

1.12 **"Just Cause"** means:

a) theft, fraud, dishonesty or willful misconduct by the Executive in connection with the executive's duties or involving the property, business or affairs of the Corporation, or the carrying out of the Executive's duties;

b) the significant breach by the Executive in any material respect of the Executive's employment agreement; or

c) any other conduct that would be determined by the courts of California to constitute gross misconduct.

Anything herein to the contrary notwithstanding, Executive's employment shall not be terminated for "Just Cause" above unless written notice stating the basis for the termination is provided to Executive, Executive is given thirty (30) days after receipt of such notice to cure the neglect or conduct that is the basis of such claim (but only with respect to curable actions or failures to act), and Executive has an opportunity to be heard before the full Board of Directors, and, after such hearing, there is a majority vote of the non-employee directors of the Corporation to terminate Executive for Just Cause.

1.13 **"Good Reason"** means any of the following, unless consented to by the Executive:

a) any material reduction in the Executive's annual base salary, benefits or perquisites;

b) any material reduction in the Executive's ability to earn incentive compensation. A material reduction shall include any unreasonable change to targets and goals within any fiscal year or from year to year but shall exclude a reduction caused by the failure of the Corporation of the Executive to meet incentive compensation targets or goals; or

c) any material reduction or material adverse change in Executive's title, the nature or scope of the authorities, power, functions, responsibilities or duties of the executive;

d) any breach by the Corporation of any of it's obligations under this agreement.

e) a relocation of Executive's principal place of employment more than thirty-five (35) miles from its current location;

f) the failure of any successor-in-interest to assume all of the obligations of the Corporation under this Agreement; or

g) the assignment of duties that are substantially inconsistent with Executive's training, education, professional experience and the job for which he was initially hired hereunder.

1.14 **"Salary"** has the meaning set out in section 3(a).

1.15 **"Vector** " means any entity or fund Affiliated with, or managed directly or indirectly by, Vector Capital Corporation or its Affiliates, or any other entity controlled, directly or indirectly, by such entities or funds

2 Employment of the Executive

2.1 The Corporation shall employ the Executive in the position of President and General Manager, Digital Media, of the Corporation for an indefinite period, subject to termination pursuant to section 7;

2.2 While employed by the Corporation:

i. The Executive shall report to the Chief Executive Officer of Corel Corporation and shall perform such duties, have such responsibilities and exercise such powers and authorities as are assigned to him by the Chief Executive Officer from time to time; and

ii. The Executive shall devote substantially all of his business time, attention and ability to the Business;

iii. The Executive shall work out of the Fremont, California office, however Executive acknowledges that he will be required to spend at least 50% of his business time traveling to attend to running the business.

3 Remuneration

Commencing and effective as of the Commencement Date, the remuneration of the Executive for services hereunder shall be as follows:

3.1 The Executive shall receive an annual gross salary (before deduction for income taxes and other required deductions) of USD $300,000, which shall be reviewed periodically and which may be increased (but not decreased without the prior written consent of the Executive) at the discretion of the Board (the "Salary"), payable in accordance with the policy of the Corporation for payments of salary to senior management.

3.2 The Executive shall also be eligible for an incentive bonus of USD $300,000 (subject to statutory withholdings and deductions), at target. The incentive bonus shall be paid based upon the successful realization of objectives set on a periodic basis by the Corporation in consultation with the Executive. All payments will be made by bank credit transfer. Subject to section 8, payment of the incentive bonus for fiscal year 2007 will be paid on a pro rata basis for the period of actual employment in the fiscal year and with all targets deemed to have been attained at the 100% level.

3.3 The Executive shall be eligible to participate in the Corporation's equity incentive plan. The Executive hereby acknowledges that the granting of

options or other equity incentives is made only to full time employees; solely at the Corporation's discretion and that any such grant shall be subject to the terms and conditions of the grant and of the plan in effect, from time to time. Without limiting the foregoing, nothing in this Agreement shall in any way alter the terms and conditions of any grant or of the plan. At the first scheduled Compensation Committee meeting following Executives' first day of employment, the Corporation shall recommend for approval a grant of 150,000 stock options which would vest according to the Corporation's normal vesting schedule with 25% vesting on the one year anniversary date and remaining vesting quarterly thereafter. In addition, the Corporation will also recommend for approval a grant of 50,000 Restricted Share Units ("RSUs") to be vested during the term of Executive's employment such that 12,500 of the RSUs shall vest on the six (6) month anniversary date of the grant and the remaining 37,500 RSUs shall vest in increments of 6,250 at the end of each calendar quarter thereafter.

3.4 The Executive shall be entitled to participate in benefits as are enjoyed from time to time generally by its executives or its employees in accordance with the established practices and policies of the Corporation as the Corporation may in its absolute discretion create from time to time. In this regard, the Executive acknowledges having received a description of the benefits in force as of the date hereof.

4 Expenses

The Corporation shall reimburse the Executive for all reasonable out-of-pocket expenses incurred by the Executive while employed by the Corporation in the performance of his duties under this Agreement (including attendance at industry, financing and other conferences relevant to the Executive's performance of his duties hereunder), in accordance with the Corporation's policy for reimbursement of expenses, upon presentation of receipts or such other supporting documentation as the Corporation may reasonably require.

5 Vacation

The Executive shall be entitled while employed by the Corporation to 4 weeks vacation with pay per year, in accordance with its normal practices. Vacation shall be taken by the Executive at such time as may be reasonably acceptable to the Corporation having regard to its operations.

6 Benefits

While the Executive is employed by the Corporation, the Corporation shall provide to the Executive the benefits made generally available to its executives or its employees (the "Benefits"). The Benefits shall be provided in accordance with and subject to the terms and conditions of the applicable fund, plan or arrangement relating thereto in effect from time to time.

7 Termination

7.1 The employment of the Executive shall terminate or be terminable:

a) by retirement or resignation on not less than 1 months written notice, of the Executive;

b) by the Corporation at any time on written notice to the Executive for Just Cause;

c) by the Corporation or the Executive at any time on written notice because of the occurrence of Disability;

d) automatically upon the death of the Executive;

e) by the Corporation at any time on written notice without Just Cause; or

f) by the Executive on written notice for Good Reason

8 Payments on Termination of Employment

8.1 If the employment of the Executive is terminated for retirement or resignation, pursuant to section 7.1 (a), the Executive will receive payment for Salary, earned but unpaid incentive bonus, and accrued but unused vacation owing on the Date of Termination.

8.2 If the employment of the Executive is terminated for Just Cause, pursuant to section 7.1 (b), the Executive will receive payment for Salary and accrued but unused vacation owing on the Date of Termination.

8.3 If the employment of the Executive is terminated at any time by the Corporation for Disability pursuant to section 7.1(c), by the death of the Executive pursuant to section 7.1(d), by the Executive without Just Cause pursuant to section 7.1(e), or by the Executive for Good Reason pursuant to section 7.1(f), the following provisions shall apply conditional on the Executive (or the Executive's legal representative in the case of termination by reason of death) providing a mutual full and final release to the Corporation in the form attached hereto as Schedule A:

a) The Corporation shall pay to the Executive, immediately following the Date of Termination, if not already paid, the Executive's Salary and earned but unpaid incentive bonus, and accrued but unused vacation owing at the Date of Termination;

b) The Corporation shall pay to the Executive forthwith following the Date of Termination, a lump sum payment equivalent (less deduction for income taxes and other required deductions) to twelve (12) month's Salary.

c) The Executive shall continue to receive health benefits for a period of twelve (12) months following the Date of Termination, to the extent the Corporation is permitted by the terms of the relevant benefit plan(s) to provide such health benefits and, to the extent the Corporation is not so permitted, the Corporation shall make a payment equal to the cost to the Corporation of such benefits for said period;

d) The Corporation shall reimburse expenses incurred by the Executive on or prior to the Date of Termination for which the Executive would be entitled to reimbursement but for the termination of his employment hereunder;

e) The vesting of the Executive's RSUs referred to in 3.3 above shall accelerate, if required, such that all such RSUs shall be fully vested upon the Date of Termination; and

f) The Executive shall receive an additional twelve (12) months of accelerated vesting of any outstanding equity awards and all vested stock options shall be exercisable for twelve (12) months from the Date of Termination.

8.4 In the event the Executive is terminated by the Corporation without Just Cause within twelve (12) months following a Change of Control or the Executive terminates his employment for Good Reason within twelve (12) months following a Change of Control, then in either case, in addition to receiving the payments and benefits referred to in section 8.3, conditional on the Executive providing a full and final release to the Corporation in the form attached hereto as Schedule A, the vesting of the Executive's stock options referred to in 3.3 above shall accelerate, to the extent required, such that effective upon the Date of Termination at least 50% of the options previously granted to the Executive shall become fully vested; and exercisable for twelve (12) months from the Date of Termination.

8.5 The Executive is not obligated to mitigate his damages or to seek alternative employment. The payments refereed to in section 8.3 (b) shall not be reduced if the Executive obtains alternate employment following termination.

8.6 The Executive acknowledges and agrees that the provisions of this section 8 are in satisfaction of and substitution for any and all statutory and common law rights, including without limitation, any right to reasonable notice of termination or any incentive bonus related to any partially completed fiscal year as tat the Date of Termination or thereafter.

9 Resignation as a Director and Officer

On the Executive ceasing to be an employee of the Corporation for any reason, the Executive shall forthwith resign as a director and officer of the Corporation and all of its Affiliates (unless such position is established through a shareholder agreement or other contractual right).

10 D & O Indemnification and Insurance

The Executive shall be indemnified by the Corporation in his role as an officer thereof for all actions taken in the attempted performance in good faith of Executive's duties to the full extent permitted at law. The Corporation shall maintain appropriate Directors & Officers Insurance during the term of Executive's employment and for three (3) years following the Date of Termination.

11 Non-Solicitation

11.1 The Executive shall not, during his employment and for the period ending twelve (12) months after the Date of Termination, directly or indirectly induce or solicit or attempt to induce:

(i) any employee of the Corporation of any of its Affiliates as of the date of Termination to leave his or her employment; or

(ii) any customer of the Corporation of any of its Affiliates as of the Date of Termination to cease doing business with the Corporation or any of its Affiliates and/or to purchase products or services from any other party which products or services compete with the products and services of the Corporation.

11.2 The Executive shall not, during his employment, directly or indirectly in any manner whatsoever including either individually, or in partnership, jointly or in conjunction with any other person, or as principal, agent, owner, consultant, contractor, executive, officer, director, advisor or shareholder:

a) be engaged in any Competing Entity (as defined below);

b) have any financial or other interest (including an interest by way of royalty or compensation arrangements) inor in respect of the business of any Competing Entity; or

c) advise, render or provide services to, lend money to or guarantee the debts or obligations of any Competing Entity.

For the purposes of this Agreement, a Competing Entity are defined as Microsoft; Adobe, Google, Yahoo, Sun; Sony, Sigmaflow; ACD Systems; Autodesk; Quark, Pinnacle, Sonic, Nero, Cyberlink, Avid, Muvee, and Magix or any of their successors, and, on notice to the Executive, other entities that the Corporation may add to this definition, from time to time before termination of the Executive's employment, acting in good faith, whose business consists of developing or marketing word processing, spreadsheet, presentation, process management, flowcharting, digital imaging or graphics software which the Corporation determines is in competition with its business.

Nothing in this Agreement shall prevent the Executive from owning not more than 5% of any class of securities of an entity, the securities of which are listed on a recognized stock exchange or traded in the over the counter market in Canada which carries on a business which is the same as or which competes with the business of the Corporation or any of its Affiliates;

12 <u>Confidentiality</u>

12.1 The Executive agrees that all Confidential Information is the property of the Corporation or its Affiliates and that he shall keep the Confidential Information secret and confidential and shall not use (other than in connection with his employment with the Corporation or any of its Affiliates) or disclose to any person, directly or indirectly, any Confidential Information at any time hereafter, provided, however, that nothing in this section shall preclude the Executive from disclosing or using Confidential Information if:

a) the Confidential Information is available to the public or in the public domain at the time of such disclosure or use, without breach of this Agreement;

b) disclosure is required to be made by any law, regulation, governmental body, or authority or by court order; or

c) disclosure is made to a court or other governmental regulatory or arbitral body which is determining the rights of the parties under this Agreement;

12.2 The Executive acknowledges and agrees to return to the Corporation or destroy upon the Corporation's request, upon the termination of his employment under this Agreement, all records, books, samples, paper, notes or other

documents or assets belonging to the Corporation or any Affiliate or relating to their business and to return or destroy upon the Corporation's request, any written Confidential Information;

12.3 The Executive further acknowledges and agrees that the obligations under this section 12 shall exist and continue in full force and effect notwithstanding any breach or repudiation, or alleged breach or repudiation, of or termination of this Agreement by the Corporation;

12.4 For greater certainty, the Corporation acknowledges that this section 12 is not intended to apply to the skill, expertise, know-how and experience of the Executive gained in the performance of his employment or with respect to any skill, expertise, know-how and experience the Executive obtained prior to or outside his employment or directorship duties with the Corporation.

13 Intellectual Property

The Executive hereby assigns the Corporation his entire right, title and interest in any invention, work or formula, whether patentable or not or copyrightable or not, which is conceived or made solely by the Executive or jointly by the Executive and any other person or persons during the Executive's employment and which relates in any manner to the Business, research or other activities of the Corporation or which results from any task assigned to or performed by the Executive on behalf of the Corporation. The Executive covenants and agrees that (i) he shall promptly disclose to the Corporation any invention or work covered by this paragraph, (ii) if requested by the Corporation, he shall promptly execute a specific assignment of title to the Corporation for such invention or work, and (iii) he shall take all reasonable actions necessary to assist the Corporation, at the Corporation's expense, to secure patent or copyright protection in the United States, Canada and in foreign countries.

14 Remedies

The Executive acknowledges that a breach or threatened breach by the Executive of any provision of any of sections 11, 12 or 13 of this Agreement shall result in the Corporation and/or its Affiliates suffering irreparable harm which cannot be calculated or fully or adequately compensated by the recovery of damages alone. Accordingly, the Executive agrees that the Corporation and/or its Affiliates shall be entitled to (and the Executive shall not argue or take a position that the Corporation or any Affiliate shall not suffer irreparable harm) interim, interlocutory and permanent injunctive relief, specific performance and other equitable remedies, in addition to any other relief to which the Corporation and/or its Affiliates may become entitled.

15 Notice

Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be given by facsimile or other means of

electronic communication or by delivery by hand as hereinafter provided. Any such notice or other communication, if mailed by registered mail, shall be deemed to have been received on the day such mail is delivered by the post office, or if sent by facsimile or other means of electronic communication, shall be deemed to have been received on the business day following the sending, or if delivered by hand shall be deemed to have been received at the time it is delivered to the applicable address noted below either to the individual designated below or to an individual at such address having apparent authority to accept deliveries on behalf of the addressee. Notice of change of address shall also be governed by this section. In the event of a general discontinuance of postal service due to strike, lock-out or otherwise, notices or other communications shall be delivered by hand or sent by facsimile or other means of electronic communication and shall be deemed to have been received in accordance with this section. Notices and other communications shall be addressed as follows:

if to the Executive:

Jeff Hastings
754 Jordan Ave.,
Los Altos, CA 94022

if to the Corporation:

Corel Inc, c/o Corel Corporation
1600 Carling Avenue
Ottawa, Ontario K1Z 8R7

Attention: General Counsel
Telecopier No: (613) 725-2691

16 Assignment

This Agreement shall be assignable by the Corporation but shall not be assignable by the Executive.

17 Invalidity of Provisions

Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any such provision by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof.

18 Entire Agreement

This Agreement constitutes the entire agreement between the parties pertaining to the subject matter of this Agreement. There are no warranties, representations or agreements between the parties in connection with the subject matter of this Agreement except as specifically set forth or referred to in this Agreement. No

reliance is placed on any representation, opinion, advice or assertion of fact made by the Corporation or its directors, officers and agents to the Executive except to the extent that the same has been reduced to writing and included as a term of this Agreement. Accordingly, there shall be no liability, either in tort or in contract, assessed in relation to any such representation, opinion, advice or assertion of fact, except to the extent aforesaid. Any dispute or ambiguity between the Agreement, the terms of this Agreement shall apply, unless there is clear and convincing evidence that another agreement mutually agreed to by the parties supersedes such term of this Agreement.

19 Waiver, Amendment

Except as expressly provided in this Agreement, no amendment or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any provision of this Agreement shall constitute a waiver of any other provision nor shall any waiver of any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

20 Currency

Except as expressly provided in this Agreement, all amounts in this Agreement are stated and shall be paid in United States currency.

21 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of California.

22 Severability and Judicial Modification

If any provision of this Agreement is held by a court or arbitration panel of competent jurisdiction to be enforceable only if modified, such holding shall not affect the validity of the remainder of this Agreement, the balance of which shall continue to be binding upon the parties hereto with any such modification to become a part hereof and treated as though originally set forth in this Agreement. The parties further agree that any such court or arbitration panel is expressly authorized to modify any such unenforceable provision of this Agreement in lieu of severing such unenforceable provision from this Agreement in its entirety, whether by rewriting the offending provision, deleting any or all of the offending provision, adding additional language to this Agreement, or by making such other modifications as it deems warranted to carry out the intent and agreement of the parties as embodied herein to the maximum extent permitted by law. The parties expressly agree that this Agreement as so modified by the court or arbitration panel shall be binding upon and enforceable against each of them. In any event, should one or more of the provisions of this Agreement be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions hereof, and if such provision or provisions are not modified as provided above, this Agreement

shall be construed as if such invalid, illegal or unenforceable provisions had never been set forth herein.

23 Counterparts

This Agreement may be signed in counterparts and each of such counterparts shall constitute an original document and such counterparts, taken together, shall constitute one and the same instrument. Counterpart signature pages may be delivered by facsimile.

24 Acknowledgement

Each of the Corporation and the Executive acknowledges that:

a) he or it has had sufficient time to review and consider this Agreement thoroughly;

b) he or it has read and understands the terms of this Agreement and his or its obligations hereunder;

c) he or it was afforded the opportunity to retain independent legal advice concerning the interpretation and effect of this Agreement; and

d) this Agreement is entered into voluntarily and without any pressure.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first written above.

SIGNED, SEALED & DELIVERED	)	**For: Corel Inc.**
in the presence of	)	/s/ DAVIDDOBSON
	)	**David Dobson**
______________________	)	**For: Executive**
Witness		
______________________	)	/s/ JEFF HASTINGS
Witness Name (Printed)	)	**Jeff Hastings**

Exhibit 10.8

PERSONAL AND CONFIDENTIAL

August 8, 2007

Kevin Thornton
802 Regal Court
Highland Village, Texas 75077

Dear Kevin,

We are delighted to present to you this offer of employment with Corel Inc. as our Senior Vice President, Sales and Marketing, Americas.

The details of your employment are:

1. Title : **Senior Vice President, Sales and Marketing, Americas** , reporting to the Chief Operating Officer.

2. Place of Work : Your primary place of employment will be remote in Dallas, TX, however, you will be required to travel frequently to Ottawa, Canada as well other domestic and international locations as required to meet the business needs.

3. Term: Subject to Section 7 below, you will be employed for an indefinite period commencing **September 1, 2007.**

4. Compensation:

A base salary equivalent to **US $264,000** per annum, (subject to tax and other withholdings) subject to annual review and adjustment by the Board. You would also be eligible to participate in our Annual Incentive Plan (AIP) for executives and your target incentive under this program will be **US $176,000** (subject to tax and other withholdings). The targets would be set annually by the Board in consultation with you.

For fiscal year 2007, your AIP will be paid out at the 100% Payout level prorated for the period you are employed during fiscal year 2007. For fiscal year 2008, your AIP will be paid out at 100% Payout level for the Q1 (first quarter) period.

In addition, Corel will provide to you a one-time hiring bonus in the amount of **$35,000 US** (subject to tax and other withholdings) to be paid out upon submission of documentation referencing the bonus plan structure of your previous employer. This amount will be payable on the first pay date following September 28, 2007. Should you voluntarily leave your employment with Corel within the first six (6) months of commencing employment, monies paid to you shall become refundable to Corel. This refund obligation will reduce on a straight line basis over the six (6) month period.

5. Stock Options

At the next Board of Directors meeting, following your date of hire, your recommended stock option grant of **40,000** options will be presented for approval. These options would vest according to the terms of the plan which provides vesting of 10,000 of these options on the first anniversary following the date of grant and thereafter, 2500 options shall vest at the end of each quarter until all said options are fully vested. These options are governed by the Corel Corporation Equity Incentive Plan ("the Plan"), as it may be amended from time to time.

In addition to your new hire grant, we wish to confirm that, as an executive at Corel, you will be **eligible** to participate in our annual key performer grant program. Grants under this program are discretionary and determined annually and presented to the Board of Directors for approval. A prescribed date for this grant has not been set, however our intent is to have these grants approved and distributed to employees before the end of April each year. Nothing in this agreement or otherwise shall constitute any agreement that you will in fact receive a key performer grant.

6. Group Benefits, 401k and Vacation Plan

As a regular full-time employee, you shall be eligible to participate in our group benefits plans, 401k, and vacation plan, effective from your date of hire, in accordance with the established practices and policies of Corel and our benefit carriers.

You will be provided with a summary of our current US group benefits and 401k including pricing. It is important that you understand the details provided to ensure you have adequate coverage. Please feel free to contact your local Human Resources Advisor if you have any concerns about coverage for pre-existing conditions.

Your vacation entitlement will start at **twenty (20) days per calendar year** , pro-rated from date of hire.

7. At Will Employment

Employment with Corel will be in an at-will capacity, meaning that either you or Corel would be able to end your employment at any time for any reason or no reason with or without advance notice. Neither this Agreement nor any other oral statements, policies or procedures constitute an express or implied contract of employment or an agreement of any specific duration or otherwise limit Corel's right to terminate your employment and this agreement without notice or, except as expressly set out in this section, without payment, compensation, benefit or other consideration. Your at-will status will not be altered except in writing and signed by Corel's Vice President, Human Resources.

In the event your employment is terminated by Corel without Cause, provided that you execute a Full and Final Release in a form to be provided by Corel, you will receive:

(a) a payment equivalent to six (6) months of Base Pay plus six (6) months AIP calculated as if the AIP was earned at the 100% payout level, prorated for said six (6) month period; and

(b) family COBRA coverage for medical and dental for a period of twelve (12) months. If, prior to completion of the twelve (12) month period following the termination you commence a position with another employer, or become self-employed, then the COBRA coverage will end.

For the purposes of the foregoing "Cause" means:

(i) theft, fraud, dishonesty or willful misconduct by you in connection with your duties or involving the property, business or affairs of the company;

(ii) any breach of the Corel Code of Business Conduct and Ethics;

(iii) any material breach of any other Corel policy or procedure;

(iv) a breach by you, in any material respect, of this employment agreement;

(v) any restriction on your ability to travel freely and without difficulty to and between the USA, Canada, Taiwan and Japan; or

(vi) any conduct that would be determined by the courts of Texas to constitute misconduct **.**

8. Confidentiality Obligations and IP Assignment :

You agree to preserve the confidentiality of Corel information and to assign any industrial and intellectual property rights you may have or acquire to Corel in accordance with the provisions of Schedule A attached hereto.

9. Non-Solicitation Obligations:

You agree that, during the period of employment with Corel, and in the event of the termination of your employment for any reason whatsoever within one (1) year of the date of such termination, you will not indirectly or directly, by any means in any capacity, approach, solicit, or contact in the course of being engaged in a business competitive with Corel or attempt to direct away from Corel:

(i) any client or potential client of Corel with whom you had dealings during the term of your employment with Corel;

(ii) any client or potential client made known to you by Corel during the term of your employment,

or in any manner assist any person in any of the foregoing activities.

You agree that during the period of your employment by Corel, and in the event of the termination of your employment for any reason whatsoever within one (1) year of the date of such termination, you will not, directly or indirectly, attempt or agree to train, recruit or solicit any person employed by Corel to provide services to yourself or any person who engages in a business similar to the business of Corel or in any manner assist any person in any of the foregoing activities.

10. Non-Competition

You agree that during the period of your employment, and in the event of the termination of your employment for any reason whatsoever within one (1) year of the date of such termination, you will not, directly or indirectly, whether as principal, agent, distributor, representative, consultant, employee, director, officer, manager, trustee, owner, partner, stockholder, limited partner, joint venturer, independent contractor, other investor or in any other capacity invest in, undertake, carry on, be engaged in, be concerned with, have a financial interest in, advise, lend money to, guarantee the debts or obligations of or permit your name or any part thereof to be used or employed by or associated with any person or entity engaged in, concerned with or interested in, directly or indirectly, an undertaking or business anywhere in the world which is engaged in a business in competition with Corel, other than (1) an investment of not more than five percent (5%) of the stock, equity or other ownership interests of any person or entity whose applicable securities are publicly traded; and/or (2) as an employee, where the employer and any affiliate of the employer carries on

an undertaking or business (and you are not directly and/or actively involved in that undertaking or business) in competition with Corel and that undertaking or business amounts to less than 5% of the annual net revenue of the employer and any affiliate, on a consolidated basis.

11. Employer Policies and Regulations: You agree to abide by Corel's policies and regulations, as established from time to time including the Network Use and Security Policy which is attached hereto as Schedule B.

12. Applicable Law: This agreement and the rights and obligations of the parties hereunder shall be construed and governed in accordance with the laws of the **State of Texas** .

13. Entire Agreement: This agreement contains the entire understanding and agreement between the parties hereto with respect to your employment and any and all previous agreements and representations, written or oral, express or implied, between the parties hereto or on their behalf, are hereby void. No amendment or variation of any of the provisions of this agreement shall be valid unless made in writing and signed by each of the parties hereto.

14. Severability: In the event that any provision herein or part thereof shall be deemed void, invalid, illegal or unenforceable by a court or other lawful authority of competent jurisdiction, this agreement shall continue in force with respect to the enforceable provisions and all rights accrued under the enforceable provisions shall survive any such declaration, and any non-enforceable provision shall, to the extent permitted by law, be replaced by a provision which, being valid, comes closest to the intention underlying the invalid, illegal or unenforceable provision.

15. Corel Affiliates

For the purposes of sections 8, 9, 10, and 11 herein the term "Corel" shall include any other company which is an affiliate of Corel, including, without limitation, Corel Corporation.

* * *

It is important to us that you fully understand all of the details of your employment, including the benefits, any benefit limitations, and services that are available to you. All the attached documents need to be completed and processed prior to your start date and as a condition of your employment. Please note that this offer is also contingent upon Corel's receipt of a clean report from our third party verification agency. To indicate your acceptance of this offer, please initial each page and sign below; then return the originals by mail to Corel Corporation, 1600 Carling Avenue, Ottawa, Ontario, K1Z 8R7 to Tracey Clements, HR Advisor in Human Resources and fax a copy to (613) 761-1146. If you have any questions, please feel free to contact Tracey directly at 613-728-0826 x1738.

Kevin, we are convinced that your skills and experience are a terrific match for this position and that your contribution and commitment with Corel will be rewarding. I look forward to working with you.

Best Regards,

/s/ DAVID DOBSON

David Dobson
CEO

I, **Kevin Thornton,** acknowledge that I am aware of my right to obtain independent legal advice before signing this agreement (including Schedule B) and have either received such advice or chosen not to seek such advice. I acknowledge and agree that I have read and fully understand this agreement and agree that all such terms are reasonable and that the I sign this agreement freely, voluntarily and without duress.

/s/ KEVIN THORNTON	August 9, 2007
Kevin Thornton (signature)	**Date**

Schedule A

CONFIDENTIAL INFORMATION

1. You acknowledge that you may, in your capacity as an employee of Corel, from time to time receive Confidential Information of Corel which Corel wishes and is entitled to protect. You understand that "Confidential Information" includes, but is not limited to, any part of the computer systems, software source code, system logic, systems, marketing plans, patents, trade secrets, know-how, technical expertise, financial information, product information, customer information, your remuneration package and other information relating to the business of Corel, whether verbal or written, regardless of the form or medium, with respect to the business of Corel, as well as all proprietary and other information of a confidential nature which is provided to Corel by third parties.

2. You agree that you will hold the Confidential Information in trust and confidence for Corel, and that you will not disclose the Confidential Information to any person or entity without the prior written approval of Corel or use the Confidential Information for any purpose other than the specific purposes required by your duties with Corel.

3. You agree that you will not copy the Confidential Information without Corel's written permission or as required by your duties with Corel. You agree that you will not remove any Confidential Information from Corel's premises without the express permission of Corel. If Corel requests, you will immediately return all Confidential Information in your possession or control to Corel.

4. You agree that you will advise Corel promptly of any information known to you prior to your employment with Corel which could be included as Confidential Information but which you consider to be excluded from the provisions of this agreement.

5. You acknowledge that the disclosure or use of Confidential Information by you contrary to the terms of this agreement will cause Corel irreparable harm, for which damages may not be adequate compensation and acknowledge that Corel may apply for equitable relief, including an injunction, in order to stop any breach or threatened breach by you of this agreement. You are required to notify Corel immediately of any breach of your obligations under this agreement which comes to your attention.

6. The obligations of confidentiality hereunder shall not apply to any information that (a) is or becomes information in the public domain without any act or omission by you, (b) was in your possession free of any obligation of confidentiality before being disclosed to you by Corel, or 8 was disclosed to you by a third party without breach by such third party of any obligation to keep such information confidential. You agree to disclose any information which you believe is qualified by this paragraph before acting upon it.

7. You understand and acknowledge that the obligations of confidentiality and non-disclosure contained in this agreement shall continue in full force and effect notwithstanding the termination of your employment with Corel and that you must continue to observe these obligations when seeking new employment.

INDUSTRIAL AND INTELLECTUAL PROPERTY

8. You acknowledge that all improvements, inventions, know-how and discoveries, technology, patents, copyrightable materials, computer programs, designs, documentation, processes, techniques or procedures in any way related to Corel's business which are developed, invented, or written by you alone or together with others, including all derivative works, during the course of your employment with Corel, or at any time using Confidential Information ("Developments") are the exclusive property of Corel.

9. You agree that you will fully disclose all Developments to Corel and you hereby waive all your moral rights in all Developments as of the moment they are created and transfer all your interest in all Developments, including all derivative works, exclusively to Corel on a world-wide, royalty-free basis as of the moment they are created and, as required by Corel, will protect Corel's interest in such Developments. You agree to execute any documents which Corel feels are necessary, at Corel's expense, to enable Corel to apply for or enforce its patent, copyright, industrial design, trademark right, or any other industrial or intellectual property rights in the Developments.

10. You acknowledge that you are not a party to any prior agreements which have created, or which could create in any third party rights which are or could become inconsistent with your obligations herein, and you agree that you will fully disclose to Corel at your earliest opportunity any such prior agreements as well as any claims made or notices provided by a third party which allege any such agreement or interest.

11. You acknowledge that, from time to time, Corel uses the image, likeness, voice or other representation of its employees in connection with the production of corporate reports, advertising and promotional materials, and training videos. You hereby agree that if, during the course of your employment, you participate in such productions, Corel may use your image, likeness, voice or other representation in perpetuity, in all media and in all territories for the purposes described above without further compensation to you.

12. You are required to devote your whole working time and attention to your employment. You will not, during the term of your employment, perform work or services for any competitor of Corel. As well, you will not, during your employment with Corel, compete directly or indirectly with Corel.

13. You understand that a failure by Corel to enforce any particular provision of this agreement is not to be considered a waiver of any of its rights and will not release you of any responsibility for performance under this agreement.

14. The various sections of this agreement are independent and the invalidity of any one particular clause will not affect the enforce ability of the other provisions of this agreement.

I have read, I understand, and I hereby agree to comply with the above terms and conditions of employment with Corel Inc.

Signed:	/s/ KEVIN THORNTON	August 9, 2007
	Kevin Thornton	Date

Schedule B

NETWORK USE & SECURITY

The purpose of this policy is to establish guidelines for the proper use of computer network resources by employees and to increase the overall security of our computer network, including the Internet and all software, hardware, related equipment and/or services (the "Network"). Improper use of the Network by you can expose yourself and Corel to potential civil and criminal penalties, litigation, embarrassment and adverse publicity. Further, the use of unauthorized software on the Network can compromise Network performance or unduly complicate the work of Corel's MIS department. Accordingly, it is important that all employees be familiar with and abide by the terms of this policy.

By using the Network, you acknowledge and agree that:

The Network is owned by Corel Inc, its parent, subsidiaries and/or affiliates ("Corel"). It is to be used:

$ only by you; and,

$ primarily for authorized business purposes that are directly related to your work for Corel.

You may make personal use of the Internet, provided that such personal use does not interfere with your ability to perform your job and does not otherwise offend this policy; however you should have no expectation as to privacy with respect to any use of the Internet or the Network.

Corel has the right and ability to monitor any and all aspects of your use of the Network, including, but not limited to, monitoring sites that you visit on the Internet and the material contained in your files and e-mail. Current auditing technology allows Corel to conduct a detailed Internet audit which includes tracking the Internet sites that you visit and identifying Corel employees who visit certain sites. Anything you create, store, send, post or otherwise access and/or transmit via the Network should not be considered private. Your use of passwords, access codes, account numbers or other Network-related authorizations does not necessarily ensure privacy.

You are responsible for using the Network in an ethical and lawful manner, including as follows:

Your use of the Network must comply with all relevant intellectual property laws, inclusive of copyright and the terms and conditions of third party software license or Network-related agreements to which you or Corel are a party. Without limiting the foregoing, you are not to knowingly use the Network (I) to operate software that has been copied illegally; and/or (ii) to transmit software to third parties without written authorization from your Director. Software that is licensed to you personally may not be used on the Network without the prior written authorization of your Director.

You are not to use the Network to create, store, send, post or otherwise access and/or transmit inappropriate, offensive and/or illegal material, including but not limited to, harassing, embarrassing, sexually explicit and pornographic material (collectively referred to "Inappropriate Material"). Participation in chat groups, discussion groups, newsletters and/or other public forums that contain or make reference to Inappropriate Material is similarly prohibited. Should you encounter Inappropriate Material on the Network, you agree to report it to the Human Resources Department. Should you mistakenly access Inappropriate Material, you agree to advise the Human Resources Department.

You will not use the Network to knowingly make or disseminate any defamatory, negligent or other similar statements.

You have an obligation to safeguard the Network's integrity and security. You are responsible for all transactions and transmissions made using your password, unless your password was illegally obtained by a third party. You agree to not disclose confidential passwords, access codes, account numbers or other Network-related authorizations that are assigned to you from time to time. You are not to destroy, password protect, encrypt or remove software or data without prior written authorization from your Manager. You may be required to disclose your password or assist with the decryption of a file to allow access by authorized Corel employees. You agree not to attempt to access or use the Network through the use of another users I.D. or password or to otherwise misrepresent yourself as another user of the Network.

Remote access privileges are for Corel employees only. Any access by a third party (such as a friend, spouse or roommate) will result in immediate withdrawal of all remote access privileges and may result in further disciplinary action.

You acknowledge and agree that, from time to time, Corel may provide you with notice of changes to this policy's terms and conditions and that such changes shall be binding upon you.

Violation of this policy may result in disciplinary action, including dismissal for cause, and/or subject you to penalties or civil, criminal and/or copyright proceedings. Corel will cooperate fully with local, provincial, state and federal officials in any investigation that is Network-related.

ACKNOWLEDGMENT

I hereby acknowledge receiving and reading a copy of the above Corporate Policy — Network Use and Security on the date indicated below and I agree to abide and be bound by the above terms and conditions, as amended from time to time.

/s/ KEVIN THORNTON	August 9, 2007
Kevin Thornton	(date)

Exhibit 10.16

PERSONAL & CONFIDENTIAL

July 3, 2008

David C. Dobson

Dear David:

This letter confirms your resignation from Corel Corporation ("Corel") effective June 30, 2008 and sets out the terms on which you have agreed to provide transitional services to Corel.

The terms and conditions set out below are conditional on you signing and returning to Corel this letter and the release attached as Schedule A (the "Release") on or before July 7, 2008 after which time this letter is automatically revoked.

1. **Period of Transitional Assistance**

   a) You have agreed to provide your services to Corel until June 30, 2008, or until such earlier time as Corel may advise you at anytime after the ate of this letter (the "Transition Period"). During the Transition Period, you will continue as a Director and Office of Corel. During the Transition Period you will, to the best of your ability, work with the Special Committee that was formed in response to the proposal received from Vector Capital (the "Special Committee"). In addition, during the Transition Period you will, to the best of your ability, work with the Board of Directors of Corel (the "Board"), Corel's management team and the interim Chief Executive Officer of Corel, as requested by the Board and Interim Chief Executive Officer.

   b) During the Transition Period, you have the opportunity to earn a bonus in the based on the value you provide to the Special Committee during the Transition Period, to a maximum of $200,000. The amount, if any, payable shall be at the discretion of the independent Directors of Corel, in consultation with the Special Committee.

   c) Your base salary (of $415,000 Canadian annually) will cease effective at the end of the Transition Period and your sole entitlements to other compensation and to benefits shall be:

      (i) continued participation in Corel's benefit plans for the Transition Period.

      (ii) the discretionary bonus referred to in subparagraph 1(b) above;

      (iii) payment of the greater of:

A. $300,000 Canadian; and

B. your incentive payment pursuant to Corel's annual incentive plan to May 31, 2008, based on actual performance to May 31, 2008 (in accordance with your annual incentive plan target of $415,000 Canadian with 40% measured against Corporate Revenue attainment and 60% measured again Corporate EBITDA attainment),plus the tax gross-ups relating to your 2007 apartment and travel in the amount of $52,246 Canadian, plus pay in respect of your accrued unused vacation to the end of the Transition Period.

(d) All of your unvested options granted June 27 and October 1, 2005 will vest on June 30, 2008 and you may exercise all outstanding options until the earlier of"

(i) December 31, 2008; and

(ii) their original expiry date.

All of your options granted July 17, 2007 shall be forfeited on June 30, 2008.

2. Company Property

All company property must be returned to Corel at the end of the Transition Period, including but not limited to: financial information, customer lists, marketing and technical materials, cell phones, pagers, blackberries, desk keys, company credit cards, company calling cards, computers and computer equipment, security badges, CD ROMS and any other Corel materials you may have.

3. Taxes and Currency

All amounts payable under this Agreement are subject to applicable taxes and withholdings and you are solely responsible for the payment of all taxes owing as a result of the payments and benefits provided to you under this Agreement. All amounts referred to in this letter are in Canadian currency.

4. Resignation From Other Positions

All officer positions you hold with Corel and its affiliated entities are terminated at the end of the Transition Period, or at such earlier time as is requested by Corel and you agree to resign from all director positions you

then hold with Corel and its affiliated entities at the end of the Transition Period, or at such earlier time as is requested by Corel.

5. **Confidentiality, Non-Compete, Fiduciary Duties**

   You are reminded that you are required to comply with the Confidentiality, Non-Competition, Non-Solicitation and Intellectual Property covenants in your agreement with Corel dated effective June 17, 2005, as amended November 1, 2005. You are also reminded that you owe fiduciary obligations to Corel, which includes an obligation to act in good faith and in the best interests of Corel.

6. **Speakwell**

   You covenant and agree to speak positively of Corel and its employees, directors or affiliates at all times. Corel covenants and agrees to speak positively of you at all times. Should either you or Corel have occasion to comment on your departure or time at Corel, both parties will do so in a manner that reflects the high level of mutual respect and the amicable nature of this agreement.

You agree to keep this Agreement and its terms confidential and not to discuss it with others.

Sincerely,

/s/ KRIS HAGERMAN

Kris Hagerman
Interim Chief Executive Officer

I have read, understand and agree to the terms set out in the Agreement. I have been advised to seek independent legal advice in connection with this agreement and have sought or waive such advice.

Date July 3 2008

/s/ DAVID C. DOBSON
David C. Dobson

SCHEDULE A

FULL AND FINAL RELEASE

I, DAVID C. DOBSON, on my own behalf and that of my heirs, executors and assigns, in consideration of the terms and conditions set out in my Agreement with Corel Corporation (" COREL ") dated July 3, 2008 (the "Transition Agreement"), payments made to me pursuant to those terms and conditions and other good and valuable consideration, the sufficiency of which is hereby acknowledged, do hereby release and forever discharge Corel, its subsidiaries, parents, predecessors, successors, related companies, affiliates, divisions and their present and former directors, officers, representatives, shareholders, owners, employees, administrators, agents and lawyers (collectively, the " RELEASEES ") jointly and severally, from any and all actions, causes of action, covenants, contracts, claims, demands, complaints, proceedings, grievances, damages, costs or loss of any nature or kind, past, present or future arising out of or in any way relating to or connected with my hiring, my employment with Corel or the termination of my employment, stock options or other share based incentive plans and benefit plans.

I do hereby declare and acknowledge that the consideration set out above satisfies all obligations of the Releasees, arising from or out of my hiring, my employment with Corel or the termination of my employment, stock options or other share based incentive plans and benefit plans including, without *limitation* any obligations under *Employment Standards* , *Human Rights* and *Workplace Safety* and *Insurance* legislation, or any similar legislation in any other jurisdiction. I covenant and undertake that I will not file or advance any claims or complaints under the *Employment Standards* legislation including claims in respect of pay in lieu of notice and severance pay, *Human Rights* legislation and *Work place Safety* and *Insurance* legislation or any similar legislation in any other jurisdiction, arising out of my hiring, my employment with Corel or the termination of my employment, stock options or other share based incentive plans and benefit plans.

And for the said consideration, I further agree not to make any claim or take any other proceedings against any person, entity, corporation, partnership or Crown in which any claim could or does arise with respect to any matters which may have arisen between the parties to this release up to the present time, concerning and relating to any action I may have as against any other party as a result or my hiring, my employment with Corel or termination of my employment, stock options or other share based incentive plans and benefit plans.

Notwithstanding the foregoing, I do not release my rights and entitlements to enforce my rights under the Transition Agreement or any right or entitlement I may have to indemnity or to enforce any indemnity as a director or officer of Corel or its affiliates or to benefits under any policy of directors and officers insurance.

And for said consideration I further agree to save harmless and indemnify the Releasees from and against any and all claims, charges, taxes, penalties or demands made by the Canada Revenue Agency, its predecessors or successors, or any similar governmental authority in any other jurisdiction, requiring any of the Releasees to pay any amounts under the *Income Tax Act* (Canada) and other duly recognized federal, provincial and local taxing authorities in respect of income tax payable by me in excess of the income tax previous withheld, and from and against any and all claims, charges, taxes or penalties and demands made on behalf of or related to Employment Insurance or Canada Pension Plan under the applicable statutes and regulations, or any other similar legislation in any other jurisdiction, with respect to any amounts which may, in the future, be found to be payable by any of the Releasees with respect to the payment of the consideration referred to above.

It is understood and agreed that the giving of the consideration set out above is deemed to be no admission of liability whatsoever on the part of the Releasees and, in fact, any liability is expressly denied.

I will not say, publish or do any act or thing that disparages or casts the Releasees in any unfavorable light, or which could result in injury to their reputation. Except to the extent required by applicable law, I will make no public statements or announcements regarding my past employment with Corel or any of the matters set forth herein without first consulting with Corel and obtaining its prior written approval as to the timing and content of the proposed statements or announcements. Notwithstanding the foregoing, I understand that I may disclose particulars of my past employment with Corel and my termination therefrom in a bona fide job search or application for government employment insurance benefits.

And I hereby declare that I have read and fully understand this release. I have had the opportunity to seek independent legal advice. I understand that this release contains a full and final release of any claims, which I have or may have relating to my hiring, my employment with Corel and my resignation of employment, stock option or other share based incentive plans and benefit plans. I voluntarily accept the said consideration for the purpose of making full and final compromise, adjustment and settlement of all claims as set out above.

IN WITNESS WHEREOF, I, DAVID C. DOBSON set my hand and seal hereto this 3 day of July, 2008.

SIGNED, SEALED AND DELIVERED
In the presence of

______________________	/s/ DAVID C. DOBSON
Witness Signature	DAVID C. DOBSON
______________________	
Witness Name	

Exhibit 10.17

AMENDED 2006 EQUITY INCENTIVE PLAN

COREL CORPORATION

EQUITY INCENTIVE PLAN

SECTION 1. PURPOSE. The purposes of this Corel Corporation Equity Incentive Plan (the "Plan") are to encourage selected employees, officers, directors and consultants of, and other individuals providing services to, Corel Corporation (together with any successor, the "Company") and its Affiliates (as defined below) to acquire a proprietary interest in the growth and performance of the Company, to generate an increased incentive to contribute to the Company's future success and prosperity thus enhancing the value of the Company for the benefit of its shareholders, and to enhance the ability of the Company and its Affiliates to attract and retain exceptionally qualified individuals upon whom, in large measure, the sustained progress, growth and profitability of the Company depend.

SECTION 2. DEFINITIONS. As used in the Plan, the following terms will have the meanings set out below:

" **Affiliate** " means, with respect to any entity, any entity that, directly or through one or more intermediaries, is controlled by such entity, including any entity in which such entity owns a significant equity interest, as determined by the Committee.

" **Award** " means any Option, Share Appreciation Right, Restricted Share, Restricted Share Unit, Performance Share Unit, or Other Share-Based Award granted under the Plan.

" **Award Agreement** " means any written agreement, contract or other instrument or document evidencing any Award granted under the Plan.

" **Blackout Period** " means the period imposed by the Company, during which a Participant may not trade in the Company's securities and includes any period during which a Participant has material non-public information, but does not include any period when a regulator has halted trading in the Company's securities.

" **Board** " means the Board of Directors of the Company.

" **Cause** ", as used in connection with the termination of a Participant's employment, means (1) with respect to any Participant employed under a written employment agreement with the Company or an Affiliate of the Company which agreement includes a definition of "cause," "cause" as defined in that agreement or, if that agreement contains no such definition, a material breach by the Participant of that agreement, or (2) with respect to any other Participant, the failure to perform adequately in carrying out the Participant's employment responsibilities, including any directives from the Board, or the Participant engaging in behavior in the Participant's personal or business life as to lead the Committee in its reasonable judgment to determine that it is in the best interests of the Company to terminate the Participant's employment.

" **Code** " means the *Internal Revenue Code of 1986* , as amended from time to time, and the regulations promulgated under it.

" **Committee** " means the Compensation Committee of the Board, provided, however, to the extent deemed necessary or appropriate, a committee other than the Compensation Committee may be designated by the Board to administer the Plan and such other committee may be vested with any of the powers and responsibilities hereunder and shall be considered the Committee for any and all of such purposes hereunder. To the extent the Company desires to grant Incentive Stock Options, such committee shall be composed of not less than two directors of the Company, neither of whom shall be employees of the Company or its Affiliates and each of whom shall otherwise be "outside directors" for purposes of Section 162(m) of the Code. To the extent the Company is no longer a "foreign private issuer" as defined in Exchange Act Rule 3b-4 and wishes to have a "Qualified Plan" as defined in Rule 16b-3(b)(4), such committee shall be composed of not less than two directors of the Company, each of whom are "non-employee directors" for purposes of Exchange Act Section 16 and Rule 16b-3 thereunder.

“ **Common Shares** ” means any or all, as applicable, of the common shares of the Company and any other securities or property as may become the subject of Awards, or become subject to Awards, pursuant to an adjustment made under Section 4(b) of the Plan and any other securities of the Company or any Affiliate or any successor that may be so designated by the Committee.

“ **Consultant** ” means any consultant of, or other individual providing services to, the Company or any Affiliate, provided that, for purposes of Awards made to individuals in Canada, a consultant means a person that (1) is engaged to provide services to the Company and/or an Affiliate, other than services provided in relation to a distribution of securities, (2) provides the services under a written contract with the Company and/or the Affiliate and (3) spends or will spend a significant amount of time and attention on the affairs and business of the Company and/or the Affiliate.

“ **Control Person** ” means, with respect to any entity, a person that controls such entity.

“ **Employee** ” means any employee of the Company or of any Affiliate.

“ **Exchange** Act” means the *United States Securities Exchange Act of 1934* , as amended.

“ **Fair Market Value** ” means (1) with respect to any property other than the Common Shares, the fair market value of that property determined by those methods or procedures as may be established from time to time by the Committee and (2) with respect to the Common Shares, the closing sale price reported for such Common Shares on the date of reference on the Principal Market. If there is no closing sale price reported on any such date, the Fair Market Value will be determined by the Committee in accordance with the regulations promulgated under Section 2031 of the Code, or by any other appropriate method selected by the Committee.

“ **Good Reason** ”, as used in connection with the termination of a Participant’s employment, means (1) with respect to any Participant employed under a written employment agreement with the Company or an Affiliate of the Company, “good reason” or similar term as defined in that written agreement or, if such agreement contains no such definition, a material breach by the Company of that agreement, or (2) with respect to any other Participant, a failure by the Company to pay that Participant any amount otherwise vested and due and a continuation of that failure for 30 business days following notice to the Company of that failure.

“ **Incentive Stock Option** ” means an option granted under Section 6(a) of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision.

“ **insider** ” has the same meaning as found in the *Securities Act (Ontario)* , as amended, and also includes associates and affiliates of the insider; and “issuances to insiders” includes direct and indirect issuances to insiders.

“ **Non-Qualified Stock Option** ” means an option granted under Section 6(a) of the Plan that is not intended to be an Incentive Stock Option. Any stock option granted by the Committee which is not designated an Incentive Stock Option will be deemed a Non-Qualified Stock Option.

“ **Option** ” means an Incentive Stock Option or a Non-Qualified Stock Option.

“ **Other Share-Based Award** ” means any right granted under Section 6(e)(i) of the Plan.

“ **Participant** ” means any individual granted an Award under the Plan.

“ **Performance Share Unit** ” means any right granted under Section 6(e) of the Plan.

“ **Person** ” means any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, or government or political subdivision of a government.

“ **Principal Market** ” means the principal stock exchange, quotation system or other market on which the Common Shares are listed, admitted to trading, posted for trading or quoted upon which has occurred the greatest trading

volume of the Common Shares for the six months (or, to the extent the Common Shares have not been listed, admitted to trading, posted for trading or quoted for at least six months, the next longest period since the Common Shares were initially listed, admitted to trading, posted for trading or quoted) prior to the date of reference, provided, however, that to the extent deemed necessary or appropriate, the Principal Market shall be as determined by the Committee in accordance with applicable law, rules and regulations.

" **Released Securities** " means securities that were Restricted Shares but with respect to which all applicable restrictions have expired, lapsed or been waived in accordance with the terms of the Plan or the applicable Award Agreement.

" **Restricted Shares** " means any Common Shares granted under Section 6(c) of the Plan, any right granted under Section 6(c) of the Plan that is denominated in Common Shares or any other Award under which issued and outstanding Common Shares are held subject to certain restrictions.

" **Restricted Share Unit** " means a right to receive a Common Share or the Fair Market Value of a Common Share granted under Section 6(d) of the Plan.

" **Securities Act** " means the *United States Securities Act of 1933* , as amended.

" **Share Appreciation Right** " means any right granted under Section 6(b) of the Plan.

" **Significant Event** " means, unless otherwise defined in an Award Agreement or a written employment agreement between the Company and a Participant (which definition shall govern), the occurrence of any of the following events: (1) a person or group of persons becomes the beneficial owner of securities of the Company constituting 50% or more of the voting power of all outstanding voting securities of the Company, (2) a majority of the Company's Board as of the date of adoption of this Plan (including any successors approved by the then existing Board) cease to constitute a majority of the Board; (3) a merger, consolidation, amalgamation or arrangement of the Company (or a similar transaction) occurs, unless after the event, 50% or more of the voting power of the combined company is beneficially owned by the same person or group of persons as immediately before the event; or (4) the Company's shareholders approve a plan of complete liquidation or winding-up of the Company, or the sale or disposition of all or substantially all the Company's assets (other than a transfer to an Affiliate of the Company); provided that the following shall not constitute a Significant Event: (i) any person or group of persons becoming the beneficial owner of the threshold of securities specified in (1) as a result of the acquisition of securities by the Company or a subsidiary which, by reducing the number of securities outstanding, increases the proportional number of securities beneficially held by that person or group of persons, (ii) any acquisition of securities directly from the Company in connection with a bona fide financing or series of financings by the Company, (iii) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or its Affiliates or (iv) beneficial ownership by Corel Holdings, L.P., its Affiliates and/or its Control Persons or any increased ownership by any of them.

" **U.S. Participant** " means any Participant residing in the United States or who is a U.S. citizen.

SECTION 3. ADMINISTRATION.

(a) The Plan will be administered by the Committee subject to the Committee reporting to the Board as required by the Committee's mandate.

(b) Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee will have full power and authority to, subject to the Plan: (1) designate Participants; (2) determine the type or types of Awards to be granted to an eligible Employee or other individual under the Plan; (3) determine the number and classification of Common Shares to be covered by (or with respect to which payments, rights or other matters are to be calculated in connection with) Awards; (4) determine the terms and conditions of any Award; (5) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Common Shares, other securities, other

Awards or other property, or canceled, forfeited or suspended, and the method or methods by which Awards may be settled, exercised, canceled, forfeited or suspended; (6) determine requirements for the vesting or exercisability of Awards or performance criteria to be achieved in order for Awards to vest, the acceleration of vesting or the waiver of forfeiture or other restrictions on awards; (7) determine whether, to what extent and under what circumstances cash, Common Shares, other securities, other Awards, other property and other amounts payable with respect to an Award under the Plan will be deferred either automatically or at the election of the holder or of the Committee; (8) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (9) establish, amend, suspend or waive any rules and regulations and appoint any agents as it will deem appropriate for the proper administration of the Plan; (10) determine whether awards will be adjusted for dividend entitlements; (11) amend or adjust the terms and conditions of outstanding Awards; (12) implement an Award exchange program, (13) arrange for financing by broker-dealers (including payment by the Company of commissions) and establish award exercise procedures, (14) establish procedures for payment of withholding tax obligations with cash or shares and (15) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

(c) Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award will be within the sole discretion of the Committee, may be made at any time and will be final, conclusive and binding upon all Persons, including the Company, any Affiliate, any Participant, any holder or beneficiary of any Award, any shareholder and any Employee.

(d) Any reference in this Plan to the date of termination or cessation or a Participant's employment shall mean the Participant's last day of active employment and shall not include any period of statutory, contractual or reasonable notice or any period of deemed employment.

(e) Notwithstanding the foregoing, the maximum number of Common Shares underlying or relating to Awards which may be granted to any one Participant under this Plan in any calendar year will not exceed 500,000 Common Shares, subject to the adjustments provided in Section 4(b), and no Awards under this Plan will be granted after December 31, 2015.

(f) Notwithstanding anything to the contrary in this Plan:

(i) the maximum number of securities of the Company issuable to insiders at any time under (A) this Plan and (B) all of the Company's other security based compensation arrangements, shall not exceed ten percent (10%) of the Company's total issued and outstanding securities, subject to the adjustments provided in Section 4(b); and

(ii) the maximum number of securities of the Company issued to insiders within any one year period under (A) this Plan and (B) all of the Company's other security based compensation arrangements, shall not exceed ten percent (10%) of the Company's total issued and outstanding common shares, subject to the adjustments provided in Section 4(b).

SECTION 4. COMMON SHARES AVAILABLE FOR AWARDS.

(a) Common Shares Available . Subject to adjustment as provided in Section 4(b):

(i) Calculation of Number of Common Shares Available. The number of Common Shares available for granting Awards under the Plan will be 6,850,000 any or all of which Awards may be or may be based on Common Shares, any other related security or any combination. In addition, no more than 500,000 Common Shares may be issued on the exercise of Incentive Stock Options and no more than 700,000 Common Shares may be issued as Restricted Shares.

(ii) Shares Becoming Again Available. If, after the effective date of the Plan, any Common Shares covered by an Award granted under the Plan or to which such an Award relates lapses, expires, terminates or is forfeited; are settled in cash; or otherwise terminate or are canceled without the delivery of Common Shares or other consideration, and Common Shares surrendered to the Company as payment of exercise price, withholding tax or as part of an Award exchange program will to that extent again be, or will become, available for granting Awards under the Plan.

(iii) Accounting for Awards. For purposes of this Section 4,

(A) if an Award is denominated in or based upon Common Shares, the number of Common Shares covered by that Award or to which that Award relates will be counted on the date of grant of that Award against the total number of Common Shares available for granting Awards under the Plan and against the maximum number of Awards available to any Participant; and

(B) Awards not denominated in Common Shares may be counted against the total number of Common Shares available for granting Awards under the Plan and against the maximum number of Awards available to any participant in that amount and at such time as the Committee determines under procedures adopted by the Committee consistent with the purposes of the Plan;

provided, however, that Awards that operate in tandem with (whether granted simultaneously with or at a different time from), or that are substituted for, other Awards may be counted or not counted under procedures adopted by the Committee in order to avoid double counting.

Any Common Shares that are delivered by the Company, and any Awards that are granted by, or become obligations of, the Company, through the assumption by the Company or an Affiliate of, or in substitution for, outstanding awards previously granted by an acquired company will, in the case of Awards granted to Participants who are executive officers or directors of the Company, be counted against the Common Shares available for granting Awards under the Plan.

(iv) Sources of Common Shares Deliverable Under Awards. Any Common Shares delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued Common Shares or of outstanding Common Shares acquired on the open market.

(b) Adjustments . In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Common Shares, other securities or other property), recapitalization, stock split, stock dividend, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Common Shares or other securities of the Company, issuance of warrants or other rights to purchase Common Shares or other securities of the Company, or other similar corporate transaction or event affects the Common Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee will, in any manner as it may deem equitable, adjust any or all of (1) the number and kind of Common Shares (or other securities or property) which thereafter may be made the subject of Awards, (2) the number and kind of Common Shares (or other securities or property) subject to outstanding Awards, and (3) the grant or exercise price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; provided, however, that the number of Common Shares subject to any Award denominated in Common Shares will always be a whole number.

(c) Significant Events . If a Significant Event occurs, and unless otherwise provided in an Award Agreement or a written employment contract between the Company and a Participant and except

as otherwise set out in this paragraph, the Committee, in its sole discretion, may provide that (1) the successor corporation will assume each Award or replace it with a substitute Award, (2) the Awards will become exercisable or vested in whole or in part upon written notice, (3) the Awards will be surrendered for a cash payment, or (4) any combination of the foregoing will occur. Awards to Participants who are directors of the Company shall automatically become exercisable and vested in full on the occurrence of a Significant Event. If a U.S. Participant is entitled to receive payments that would qualify as excess "parachute payments'" under Section 280G of the Code, those payments may be reduced so that the participant is not subject to the excise tax under Section 4999 of the Code if such a reduction would result in the U.S. Participant receiving a greater after-tax payment.

SECTION 5. ELIGIBILITY. Any Employee, including any officer or employee-director of the Company or of any Affiliate, and any Consultant of the Company or any Affiliate will be eligible to be designated a Participant. A non-employee director will be eligible to receive Non-Qualified Stock Options under the Plan. No more than 500,000 Common Shares may be the subject of the total Awards granted to any one Participant in any calendar year. In the case of any "specified employee" who is a U.S. Participant, distributions may not be made prior to the date which is 6 months after the date of separation from service (or, if earlier, the date of death of the Employee). For purposes of the preceding sentence, a specified employee is a key employee (as defined in section 416(i) of the Code without regard to paragraph (5) thereof).

SECTION 6. AWARDS.

(a) Options . The Committee is hereby authorized to grant to eligible individuals options to purchase Common Shares (each, an "Option") which will contain the following terms and conditions and with any additional terms and conditions, in either case not inconsistent with the provisions of the Plan, as the Committee determines:

(i) *Exercise Price* . The purchase price per Common Share purchasable under an Option will be determined by the Committee; provided, however, that the exercise price will not be less than one hundred percent (100%) of the Fair Market Value of a Common Share on the date of grant of that Option, or any other price as required under Section 6(a)(iv).

(ii) *Time and Method of Exercise.* Subject to the terms of Section 6(a)(iii), the Committee will determine the time or times at which an Option may be exercised in whole or in part, and the method or methods by which, and the form or forms (including, without limitation, cash, Common Shares, outstanding Awards, or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price) in which, payment of the exercise price with respect thereto may be made or deemed to have been made.

(iii) *Exercisability Upon Death, Retirement and Termination of Employment* . Subject to the condition that no Option may be exercised in whole or in part after the later of: (1) the expiration of the Option period specified in the applicable Award Agreement; and (2) 10 days immediately following the end of a Blackout Period where a Unit would expire during or within 10 days following the expiration of the Blackout Period:

(A) Subject to the terms of paragraph (D) below, upon the death of a Participant while employed or within three (3) months of retirement or disability as defined in paragraph (B) below, the Person or Persons to whom such Participant's rights with respect to any Option held by such Participant are transferred by will or the laws of descent and distribution may, prior to the expiration of the earlier of: (1) the outside exercise date determined by the Committee at the time of granting the Option, or (2) twelve (12) months after such Participant's death, purchase any or all of the Common Shares with respect to which such Participant was entitled to exercise such Option immediately prior to such Participant's death,

and any Options not so exercisable will lapse on the date of such Participant's death;

(B) Subject to the terms of paragraph (D) below, upon termination of a Participant's employment with the Company (x) as a result of retirement pursuant to a retirement plan of the Company or an Affiliate or disability (as determined by the Committee) of such Participant, (y) by the Company other than for Cause, or (z) by the Participant with Good Reason, such Participant may, prior to the expiration of the earlier of: (1) the outside exercise date determined by the Committee at the time of granting the Option, or (2) three (3) months after the date of such termination, purchase any or all of the Common Shares with respect to which such Participant was entitled to exercise any Options immediately prior to such termination, and any Options not so exercisable will lapse on such date of termination;

(C) Subject to the terms of paragraph (D) below, upon termination of a Participant's employment with the Company under any circumstances not described in paragraphs (A) or (B) above, such Participant's Options will be immediately canceled to the extent not theretofore exercised;

(D) Upon (i) the death of the Participant, or (ii) termination of the Participant's employment with the Company (x) by the Company other than for Cause (y) by the Participant with Good Reason or (z) as a result of retirement or disability as defined in paragraph (B) above, the Company will have the right to cancel all of the Options such Participant was entitled to exercise at the time of such death or termination (subject to the terms of paragraphs (A) or (B) above) for a payment in cash equal to the excess, if any, of the Fair Market Value of one Common Share on the date of death or termination over the exercise price of such Option for one Common Share times the number of Common Shares subject to the Option and exercisable at the time of such death or termination.

(E) Upon expiration of the respective periods set out in each of paragraphs (A) through (B) above, the Options of a Participant who has died or whose employment has been terminated will be canceled to the extent not theretofore canceled or exercised.

(F) For purposes of paragraphs (A) through (D) above, the period of service of an individual as a director or Consultant of the Company or an Affiliate will be deemed the period of employment.

(iv) *Incentive Stock Options* . The following provisions will apply only to Incentive Stock Options granted under the Plan:

(A) No Incentive Stock Option will be granted to any eligible Employee who, at the time such Option is granted, owns securities possessing more than ten percent (10%) of the total combined voting power of all classes of securities of the Company or of any Affiliate, except that such an Option may be granted to such an Employee if, at the time the Option is granted, the exercise price is at least one hundred ten percent (110%) of the Fair Market Value of the Common Shares (determined in accordance with Section 2) subject to the Option, and the Option by its terms is not exercisable after the expiration of five (5) years from the date the Option is granted; and

(B) To the extent that the aggregate Fair Market Value of the Common Shares with respect to which Incentive Stock Options (without regard to this subsection) are exercisable for the first time by any individual during any calendar year (under

all plans of the Company and its Affiliates) exceeds $100,000, such Options will be treated as Non-Qualified Stock Options. This subsection will be applied by taking Options into account in the order in which they were granted. If some but not all Options granted on any one day are subject to this subsection, then such Options will be apportioned between Incentive Stock Option and Non-Qualified Stock Option treatment in such manner as the Committee will determine.

For purposes of this subsection, the Fair Market Value of any Common Shares will be determined, in accordance with Section 2, as of the date the Option with respect to such Common Shares is granted.

(b) Share Appreciation Rights . The Committee is hereby authorized to grant to eligible Employees "Share Appreciation Rights." Each Share Appreciation Right will consist of a right to receive the excess of (1) the Fair Market Value of one Common Share on the date of exercise or, if the Committee will so determine in the case of any such right other than one related to any Incentive Stock Option, at any time during a specified period before or after the date of exercise over (2) the grant price of the right as specified by the Committee, which will not be less than one hundred percent (100%) of the Fair Market Value of one Common Share on the date of grant of the Share Appreciation Right, which amount will be satisfied in cash or in Common Shares with a Fair Market Value determined as at the applicable date, equal to such amount or in a combination thereof. Subject to the terms of the Plan and any applicable Award Agreement, the grant price, term, methods of exercise, methods of settlement and any other terms and conditions of any Share Appreciation Right granted under the Plan will be as determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any Share Appreciation Right as it may deem appropriate, provided that Share Appreciation Rights may be payable on a deferred basis only to the extent provided for in the applicable Award Agreement. Share Appreciation Rights may be granted in conjunction with a related Option or separately as a free-standing Share Appreciation Right.

(c) Restricted Shares .

(i) *Issuance* . The Committee is hereby authorized to grant to eligible Employees "Restricted Shares" which will consist of the right to receive, by purchase or otherwise, Common Shares which are subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote such Common Shares or the right to receive any dividend or other right or property), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise, as the Committee may deem appropriate.

(ii) *Registration* . Restricted Shares granted under the Plan may be evidenced in such manner as the Committee may deem appropriate, including, without limitation, book-entry registration or issuance of a share certificate or certificates. In the event any share certificate is issued in respect of Restricted Shares granted under the Plan, that certificate will be registered in the name of the Participant and will bear an appropriate legend referring to the terms, conditions and restrictions applicable to those Restricted Shares.

(iii) *Forfeiture* . Except as otherwise determined by the Committee, upon termination of a Participant's employment for any reason during the applicable restriction period, all of the Participant's Restricted Shares which had not become Released Securities by the date of termination of employment will be forfeited and reacquired by the Company; provided, however, that the Committee may, when it finds that a waiver would be in the best interests of the Company, waive in whole or in part any or all remaining restrictions with respect to the Participant's Restricted Shares. Unrestricted Common Shares, evidenced in any manner as the Committee will deem appropriate, will be issued to the holder of Restricted Shares promptly after those Restricted Shares become Released Securities.

(d) Restricted Share Units . The Committee is hereby authorized to grant to eligible Employees "Restricted Share Units" each of which will consist of the right to receive one Common Share or cash equal to the Fair Market Value of one Common Share, subject to the terms of any applicable Award Agreement and which are subject to such restrictions as the Committee may impose which restrictions may lapse separately or in combination at any time or times, in such installments or otherwise, as the Committee may deem appropriate. The Committee may impose any conditions or restrictions on the exercise of Restricted Share Units as it may deem appropriate. The Committee may also grant Restricted Share Units that are designated as "Deferred Share Units", which may have all of the rights and restrictions that may be applicable to Restricted Share Units, except that the Deferred Share Units may not be redeemed for Common Shares or cash equal to the Fair Market Value of Common Shares until the Participant has ceased to hold all offices, employment and directorships with the Company and its Affiliates.

(e) Performance Share Units .

(i) The Committee is hereby authorized to grant to eligible Employees "Performance Share Units." Each Performance Share Unit will consist of a right, (i) denominated or payable in cash, Common Shares, other securities or other property (including, without limitation, Restricted Shares), and (ii) which will confer on the holder thereof rights valued as determined by the Committee and payable to, or exercisable by, the holder of the Performance Share Unit, in whole or in part, upon the achievement of such performance goals during such performance periods as the Committee will establish.

(ii) The initial value of a Performance Share Unit will be established by the Committee at the date of grant and, to the extent related to Common Shares, other securities or other property will initially be equal to 100% of the Fair Market Value of a Common Share, such other security or such other property on the date of grant.

(iii) Subject to the terms of the Plan and any applicable Award Agreement, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Share Unit granted, the termination of a Participant's employment and the amount of any payment or transfer to be made pursuant to any Performance Share Unit will be determined by the Committee and by the other terms and conditions of any Performance Share Unit.

(iv) The Committee will issue performance goals prior to the commencement of the performance period to which such performance goals pertain. The performance goals may be based upon the achievement of corporation-wide, divisional or individual goals, or any other basis determined by the Committee. The Committee may modify the performance goals as necessary to align them with the Company's corporate objectives if there is a subsequent material change in the Company's business, operations or capital or corporate structure.

(f) Other Share-Based Awards . The Committee is hereby authorized to grant to eligible Employees "Other Share-Based Awards." Each Other Share-Based Award will consist of a right (1) which is other than an Award or right described in Section 6(a), (b), (c), (d) or (e) above and (2) which is denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Common Shares (including, without limitation, securities convertible into Common Shares) as are deemed by the Committee to be consistent with the purposes of the Plan; provided, however, that such right will comply, to the extent deemed desirable by the Committee, with applicable law. Subject to the terms of the Plan and any applicable Award Agreement, the Committee will determine the terms and conditions of Other Share-Based Awards. Common Shares or other securities delivered pursuant to a purchase right granted under this Section 6(e)(i) will be purchased for such consideration, which may be paid by such method or methods and in such form or forms, including, without limitation, cash, Common Shares, other securities, other Awards, other property, or any combination thereof, as the Committee will determine.

(g) General .

(i) *No Cash Consideration for Awards* . Awards may be granted for no cash consideration or for such minimal cash consideration as may be required by applicable law.

(ii) *Awards May Be Granted Separately or Together* . Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for any other Award, except that in no event will an Incentive Stock Option be granted together with a Non-Qualified Stock Option in such a manner that the exercise of one Option affects the right to exercise the other. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other awards.

(iii) *Forms of Payment Under Awards* . Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee will determine, including, without limitation, cash, Common Shares, other securities, other Awards, or other property, or any combination thereof, and may be made in a single payment or transfer, in installments, or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments. In accordance with the above, the Committee may elect (1) to pay a Participant (or such Participant's permitted transferee) upon the exercise of an Option in whole or in part, in lieu of the exercise thereof and the delivery of Common Shares thereunder, an amount of cash equal to the excess, if any, of the Fair Market Value of one Common Share on the date of such exercise over the exercise price of such Option for one Common Share times the number of Common Shares subject to the Option or portion thereof so exercised or (2) to settle other share-denominated Awards in cash. The Committee may provide for financing by broker-dealers (including payment by the Company of commissions) and may establish procedures (including broker-dealer assisted cashless exercise) for payment of withholding tax obligations in cash or in Common Shares.

(iv) *Limits on Transfer of Awards* .

(A) No award (other than Released Securities), and no right under any such Award, may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution (or, in the case of Restricted Shares, to the Company) and any such purported assignment, alienation, pledge, attachment, sale or other transfer or encumbrance will be void and unenforceable against the Company or any Affiliate.

(B) Each award, and each right under any Award, will be exercisable during the Participant's lifetime only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative.

(v) *Terms of Awards* . The term of each Award will be for such period as may be determined by the Committee; provided, however, that in no event will the term of any Option exceed a period of ten years from the date of its grant.

(vi) *Common Share Certificates* . All certificates for Common Shares delivered under the Plan pursuant to any Award or the exercise thereof will be subject to any stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Common Shares are then listed, and any applicable

federal, state, provincial or territorial securities laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(vii) *Delivery of Common Shares or Other Securities and Payment by Participant of Consideration* . No Common Shares or other securities will be delivered pursuant to any Award until payment in full of any amount required to be paid pursuant to the Plan or the applicable Award Agreement is received by the Company. Such payment may be made by such method or methods and in such form or forms as the Committee will determine, including, without limitation, cash, Common Shares, other securities, other Awards or other property, or any combination thereof; provided that the combined value, as determined by the Committee, of all cash and cash equivalents and the Fair Market Value of any such Common Shares or other property so tendered to the Company, as of the date of such tender, is at least equal to the full amount required to be paid pursuant to the Plan or the applicable Award Agreement to the Company.

SECTION 7. AMENDMENTS; ADJUSTMENTS AND TERMINATION. Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award Agreement or in the Plan:

(a) Amendments to the Plan . Subject to Section 7(g) and the requirements of applicable law, rules and regulations, the Board may amend, alter, suspend, discontinue, or terminate the Plan without the consent of any shareholder, Participant, other holder or beneficiary of an Award, or other Person, provided, however, that, subject to the Company's rights to adjust Awards under Section 7(e) and (f), any amendment, alteration, suspension, discontinuation, or termination that would impair the rights of any Participant, or any other holder or beneficiary of any Award previously granted, will not to that extent be effective without the consent of that Participant, other holder or beneficiary of an Award, as the case may be. The Board or the Committee may make any amendments to the Plan without seeking shareholder approval except the following amendments for which shareholder approval will be required:

(i) amendments to the number of Common Shares issuable under the Plan, including an increase to a fixed maximum number of Common Shares or a change from a fixed maximum number of Common Shares to a fixed maximum percentage;

(ii) amendments to the Plan that increase the length of the period after a Blackout Period during which an Award may be exercised;

(iii) amendments which would reduce the exercise price of an Award or would result in the exercise price for any Award granted under the Plan being lower than the Fair Market Value of the Common Shares at the time the Award is granted, except a reduction in connection with any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin off or other distribution or other change in the capital of the Company affecting Common Shares;

(iv) any amendment expanding the categories of eligible Participant which would have the potential of broadening or increasing insider participation;

(v) any amendment extending the term of an Award held by an insider beyond its original expiry date except an extension of an Award that would otherwise expire during a Blackout Period, to 10 days following the end of the Blackout Period;

(vi) the addition of any other provision which results in participants receiving Common Shares while no cash consideration is received by the Company; and

(vii) amendments required to be approved by shareholders under applicable law.

(b) Section 409A of the Code . This Plan will be construed and interpreted to comply with Section 409A of the Code to the extent required to preserve the intended tax consequences of this Plan. The Company reserves the right to amend this Plan to the extent it reasonably determines is necessary in order to preserve the intended tax consequences of this Plan in light of Section 409A of the Code and any regulations or guidance under that section. In no event will the Company be responsible if Awards under this Plan result in penalties to a U.S. Participant under Section 409A of the Code.

(c) Section 162(m) of the Code . Performance-based awards to U.S. Participants must be made by an independent committee. Awards to any Participant whom the independent committee determines to be a "covered employee" under Section 162(m) of the Code may be subject to restrictions, including the establishment of performance goals, as necessary for the Award to meet the requirements set out in the Code for performance-based compensation.

(d) Amendments to Awards . The Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, any Award previously granted, prospectively or retroactively; provided, however, that, subject to the Company's rights to adjust Awards under Section 7(e) and (f), any amendment, alteration, suspension, discontinuation, cancellation or termination that would impair the rights of any Participant or holder or beneficiary of any Award previously granted, will not to that extent be effective without the consent of the Participant or holder or beneficiary of an Award, as the case may be.

(e) Adjustment of Awards Upon Certain Acquisitions . In the event the Company or any Affiliate assumes outstanding employee awards or the right or obligation to make future awards in connection with the acquisition of another business or another corporation or business entity, the Committee may make any adjustments, not inconsistent with the terms of the Plan, in the terms of Awards as it deems appropriate in order to achieve reasonable comparability or other equitable relationship between the assumed awards and the Awards granted under the Plan as so adjusted.

(f) Adjustments of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events . The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or non-recurring events (including, without limitation, the events described in Section 4(b) or Section 4(c)) affecting the Company, any Affiliate, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that those adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

(g) Termination . The Plan will automatically terminate on January 1, 2016 unless we elect to terminate it sooner.

SECTION 8. GENERAL PROVISIONS.

(a) No Right to Awards . No Employee or other Person will have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees, or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to each recipient.

(b) Delegation . Subject to the terms of the Plan and applicable law, the Committee may delegate to one or more officers or managers of the Company or any Affiliate, or to a committee of such officers or managers, the authority, subject to such terms and limitations as the Committee will determine, to grant Awards to, or to cancel, modify, waive rights with respect to, alter, discontinue, suspend, or terminate Awards.

(c) Correction of Defects, Omissions, and Inconsistencies . The Committee may correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it will deem desirable to carry the Plan into effect.

(d) Withholding . The Company or any Affiliate will be authorized to withhold from any Award granted, from any payment due or transfer made under any Award or under the Plan or from any compensation or other amount owing to a Participant the amount (in cash, Common Shares, other securities, other Awards, or other property) of withholding, taxes or other amounts payable by the Company, any Affiliate or the Participant and which are due or payable in respect of an Award, its exercise, or any payment or transfer under such Award or under the Plan and to take any other action as may be necessary in the opinion of the Company or Affiliate to satisfy all obligations for the payment of those taxes. Neither the Corporation nor any Participating Company shall be held responsible for any tax or other liabilities or consequences which result from the Participant's participation in this Plan, including any employment related taxes or benefit costs, whether or not such costs are the primary responsibility of the Corporation or any Participating Company.

(e) No Limit on Other Compensation Arrangements . Nothing contained in the Plan will prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation arrangements, and those arrangements may be either generally applicable or applicable only in specific cases.

(f) No Right to Employment . The grant of an Award will not be construed as giving a Participant the right to be retained in the employ, as an officer or director or as a Consultant of the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss a Participant from employment, as an office or director or as a Consultant, , free from any liability, or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement.

(g) Governing Law . The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan will be determined in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable in Ontario.

(h) Severability . If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any Person or Award under any law deemed applicable by the Committee, that provision will be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, that provision will be stricken as to that jurisdiction, Person or Award and the remainder of the Plan and any such Award will remain in full force and effect.

(i) No Trust or Fund Created . Neither the Plan nor any Award will create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, that right will be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(j) No Fractional Common Shares . No fractional Common Shares will be issued or delivered pursuant to the Plan or any Award, and the Committee will determine whether cash, other securities, or other property will be paid or transferred in lieu of any fractional Common Shares or whether those fractional Common Shares or any rights thereto will be canceled, terminated, or otherwise eliminated.

(k) Headings . Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Those headings will not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision of the Plan.

SECTION 9. ADOPTION, APPROVAL, EFFECTIVE DATE AND TERMINATION DATE OF THE PLAN. The Plan will be adopted by the Board of Directors and the shareholders of the Company prior to the completion of the Company's initial public offering (the "IPO") and will become effective immediately prior to the closing of the IPO.

Exhibit 21.1

SUBSIDIARIES OF COREL CORPORATION

ENTITY	JURISDICTION OF INCORPORATION
Corel Technologies Corp.	Ontario
Corel do Brasil Ltda.	Brazil
Corel California Inc.	California
Corel International Corp.	Barbados
Corel Japan Ltd.	Japan
Corel SARL	France
Corel UK Limited	United Kingdom
Corel Holdings US, LLC	Delaware
Corel GmbH	Germany
Corel Corporation Limited	Ireland
Corel PTY Ltd.	Australia
Cayman Limited Holdco	Cayman Islands
WinZip Computing S.L.	Spain
WinZip International LLC	Delaware
WinZip Computing LP	Delaware
WinZip Holdings Spain S.L.	Spain
WinZip Computing LLC	Delaware
WinZip Holding SGPS, Lda.	Madeira
Corel Inc.	Delaware
InterVideo Holdings Ltd.	British Virgin Islands
InterVideo International Ltd.	Cayman Islands
Corel TW Corp.	Taiwan
Win Sky Holdings Ltd.	British Virgin Islands
Strong Ace Ltd.	British Virgin Islands
InterVideo India Software Private Limited	India
Corel SH Corp	China
Talent Ease Invest. Ltd.	British Virgin Islands
Ulead Systems Inc.	United States
Ulead Systems GmbH	Germany
Beijing Ulead Systems, Inc.	China

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-139350) of Corel Corporation of our report dated February 6, 2009 relating to the financial statements which appear in this Annual Report on Form 10-K and our report dated February 6, 2009 relating to the financial statement schedule which appears as Item 15(a)(2) in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Ottawa, Canada
February 6, 2009

Exhibit 31.1

CERTIFICATION

I, Kris Hagerman, Interim Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Corel Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a -15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 6, 2009

By: /s/ KRIS HAGERMAN

Kris Hagerman
Interim Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Douglas McCollam, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Corel Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a — 15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information;

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date: February 6, 2009

By: /s/ DOUGLAS McCOLLAM

Douglas McCollam
Chief Financial Officer

Exhibit 32.1

CERTIFICATION

In connection with the periodic report of Corel Corporation (the "Company") on Form 10-K for the period ended November 30, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, Kris Hagerman, Interim Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: February 6, 2009

By: /s/ KRIS HAGERMAN

Kris Hagerman
Interim Chief Executive Officer

Exhibit 32.2

CERTIFICATION

In connection with the periodic report of Corel Corporation (the "Company") on Form 10-K for the period ended November 30, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, Douglas McCollam, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: February 6, 2009

By: /s/ DOUGLAS McCOLLAM

Douglas McCollam
Chief Financial Officer

Independent Auditors on Report of Financial Statement Schedule

To the Shareholders of Corel Corporation:

Our integrated audit of Corel Corporation's 2008 consolidated financial statements and of its internal control over financial reporting as of November 30, 2008 and our audit of its 2007 and 2006 consolidated financial statements referred to in our report dated February 6, 2009 appearing in this Annual Report on Form 10-K also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Ottawa, Ontario
February 6, 2009

Schedule II Corel Corporation
— Valuation and Qualifying Accounts
(in thousands of USD)

	Balance at Beginning of Period	Additions Charged to Expenses or Revenue	Deductions, Returns, and Write-offs	Balance at End of Period
Allowance for Doubtful Accounts				
Year ended November 30, 2008	1,366	1,092	1,101	1,357
Year ended November 30, 2007	1,003	401	38	1,366
Year ended November 20, 2006	1,117	198	312	1,003
Promotional rebates				
Year ended November 30, 2008	715	5,564	5,321	958
Year ended November 30, 2007	2,803	10,664	12,752	715
Year ended November 30, 2006	1,048	11,125	9,370	2,803
Allowance for Sales Returns				
Year ended November 30, 2008	6,403	10,997	12,650	4,750
Year ended November 30, 2007	8,024	10,071	11,692	6,403
Year ended November 30, 2006	6,900	11,919	10,795	8,024