Document Imaging Report

Business Trends on Converting Paper Processes to Electronic Format

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September 5, 2003

THIS JUST IN!

OPEN TEXT BUYS GAUSS

ECM consolidation accelerating.

In last issue's article on the merger between **Interwoven** and **iManage**, we ran a quote by **Strategy Partners'** analyst Rory Staunton. Staunton questioned how smaller ECM vendors were going to compete in a market rife with consolidation that was creating larger, more powerful opponents. As a follow-up to that article, we had hoped to interview Ron Vangell, the CEO of **Gauss Interprise**. An early proponent of the ECM market, Vangell's company had stalled at less than $40 million in annual revenue and had recently been headed in reverse.

We should have suspected something was up when Gauss VP of Alliances Art Sarno volunteered to step-in for Vangell. Apparently, Vangell was busy orchestrating a deal to rectify his company's status as a smaller ECM player. Last week, $220-million **Open Text** announced plans to acquire Gauss.

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KLARFELD STEPS DOWN AT TMS

Debbie Klarfeld has resigned from her position as president of document imaging tools specialist **TMSSequoia**. Klarfeld was appointed president last summer after serving as the general manager of TMS' Component Product Technologies group. Deborah Mosier, who preceded Klarfeld as president and was serving as CFO, was appointed interim president. *DIR* would like to wish Debbie Klarfeld the best of luck in her future endeavors.

For more information, **TMSSequoia**, Stillwater, OK, PH (405) 377-0880, www.tmsinc.com. DIR

Does New Captiva Offering Threaten Kofax?

Is *InputAccel Express* (*IAX*) the **Kofax** killer it has been made out to be? Or is it just another futile attempt by **Captiva** to take its high-end business downstream? The answer probably lies somewhere in between. To us, *IAX* seems like a well thought-out product targeting a very attractive niche. Is that the same niche currently served by Kofax's *Ascent Capture*? Probably not.

"*IAX* is designed specifically to provide a channel product for distributors," Alan Abrina, Captiva's product manager for *InputAccel*, told *DIR*. "It's designed to enable distributors to push the value of image capture without the need for end users to maintain a dedicated imaging group and the cost associated with it. We envision *IAX* as a tool to enable paralegals and executive administrators to scan documents without needing to ask IT for help. The idea is to be able to install and have an *IAX* system running in a matter of 30 minutes or less."

Abrina is promoting *IAX* as a tool for front-office scanning. "For us to succeed in the image capture market, we need to get people to scan more documents," Abrina told *DIR*. "With *IAX*, we want to communicate that you don't have to have a **Documentum** system, a dedicated imaging administrator, and a formal RFP just to install imaging. Sure, *IAX* can be upgraded to a larger, full-featured *InputAccel* system, but what we're really trying to do is push out imaging to the ad hoc user."

Typically, Kofax has not marketed *Ascent Capture* to ad hoc users. *Ascent Capture* has grown to a $30-million plus annual business with some 10,000 installations and 44,000 seats by acting as an on-ramp for dedicated imaging systems. And most of *Ascent's* recent development has been focused on moving the product upstream, into more complex applications, rather than downstream. Well, that is except for the *Ricochet* application Kofax introduced in late 2001, which has flopped so far.

Abrina indicated that by targeting the ad hoc market, Captiva is hoping to take advantage of the predicted growth in sales of lower-volume document scanners.

Earlier this year, **InfoTrends Research Group** forecasted that the market for workgroup and departmental document scanners (priced under $6,000 and rated less than 36 ppm) would grow by a CAGR of greater than 25% through the five-year period 2002-2007. "We've also been talking with vendors of both digital copiers and MFPs about supporting *IAX*," acknowledged Abrina.

Kofax also targeted the digital copier market with *Ricochet* and had hoped a partnership with **Xerox** would catapult it to success. However, after little success, the partnership deteriorated, and Kofax is reportedly in talks with **Ricoh** and **Lexmark**.

"I can't give you specific numbers, but I can tell you the revenue we generated from Headway was a fraction of what was quoted. I'd say it was highly exaggerated from Captiva's perspective."

Anthony Macciola, Kofax

Meanwhile Kofax has continued to roll along with the rest of its *Ascent* business. According to company spokesperson Tom Rossi, for the quarter ended June 30, *Ascent Capture* sales were up 52% compared to the previous year's quarter.

Ascent is not without front-office applications. Kofax offers a distributed capture module that has been installed in places like **AFLAC Japan** to enable branch offices to scan insurance applications. "With *Ascent*, our resellers have come to expect an out-of-the-box solution that can be installed in two-to-four hours," Anthony Macciola, VP of marketing at Kofax, told *DIR*. "*Ascent* can be configured to scan 500 pages per day on a standalone PC or 300,000 pages per day across a distributed enterprise system."

Because *Ascent* is typically installed as part of a larger imaging initiative, Macciola said Kofax's resellers typically earn 60% of their overall revenue from service. This contrasts with Abrina's description of the *IAX* sales model, which tries to keep services to a minimum.

"With *IAX*, we want to stress that imaging is not that hard to do," said Abrina. "We've even made training optional. Currently, we are offering a 30-day, try-and-buy version of *IAX* through our Web site. Of course, if you want to connect to a back-end Documentum system, there are going to be some extra charges because of the support that type of connection requires."

And in North America, at least, it does not sound like Captiva even considers resellers to be necessary for certain *IAX* installations. "We are looking at marketing through some of the big distributors that deal directly with end users," Abrina told *DIR*.

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DIR is the leading executive report on managing documents for e-business. Areas we cover include:

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Regarding Headway

This makes Captiva's recent announcement of **Headway** as the initial distributor of *IAX* somewhat interesting. The way we understand it, Headway is a U.K.-based document imaging-focused distributor that sells mainly to value-added resellers. At this spring's **AIIM** show, Captiva made a big deal out of the fact that Headway was replacing the *Ascent Capture* line with *IAX*. On a recent conference call for investors, Captiva CEO Reynolds Bish forecasted that this switch would be bringing Captiva $4 million in annual revenue within 18 months.

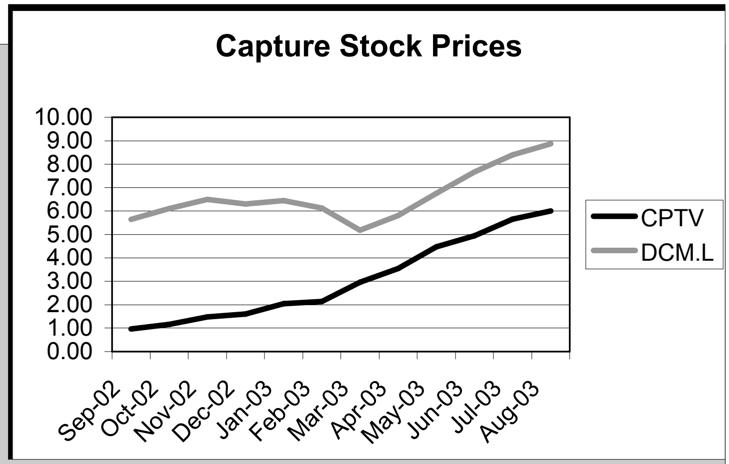
Kofax disputes Bish's numbers. "I can't give you specific numbers, but I can tell you the revenue we generated from Headway was a fraction of what was quoted," Kofax's Macciola told *DIR*. "I'd say it was highly exaggerated from Captiva's perspective."

Bish stands by his numbers. "Maybe [Kofax is] trying to publicly minimize their perceived pain," Bish told *DIR*.

According to Macciola, however, any pain Kofax is feeling from Headway's dropping the *Ascent* line, is self-inflicted. Contrary to the innuendoes Captiva has made, Macciola said it was actually Kofax's decision to drop Headway as an *Ascent* distributor and not the other way around. Headway continues to market Kofax's image processing (IP) products—its Adrenaline boards and VRS technology.

"We hold Headway in very high regard," stressed Macciola. "It was with great angst that we decided to part ways with them regarding *Ascent Capture*. It was not because of non-performance on Headway's part. It was really just the natural conclusion to Dicom's decision to acquire Kofax four years ago. Some people said they were surprised our relationship with Headway lasted as long as it did."

Like Headway, Dicom is a document imaging-focused European distributor. Although Dicom is headquartered in Switzerland, it has a satellite office in the U.K., where Headway is headquartered. "From a Kofax perspective, we tried to maintain an impartial relationship between Dicom and Headway," Macciola told *DIR*. "However, the situation reached a point where some Headway



As the competition has heated up in the image capture space, so have the stock values of the two leading players. Captiva trades on the NASDAQ under the symbol CAPV. Dicom trades on the London stock exchange under the symbol DCM.L. (For this graph, Dicom's prices have been converted to U.S. Dollars at a rate of approximately 1.6 dollars per British Pound.

CAPTURE STOCKS SURGING

Despite their squabbles, the stock values of **Captiva** and **Dicom** appear to be inexorably linked. From the end of March to August 22, the companies' combined stock value rose 83%. Actually, Captiva's stock has been steadily climbing since last September, while Dicom's started to take off in April, following the **AIIM** show. AIIM is where Dicom announced the acquisition of document classification and indexing software developer **Mohomine**.

Arnold von Büren, CEO, Dicom Group.

"I think the Mohomine acquisition brought a little bit of optimism to our share price," commented Arnold von Büren, CEO of Dicom. "Mohomine's technology gives us the opportunity to generate revenue from non paper-based applications. Before that, we were viewed as being in a paper niche, and people think paper is going to go away next week. Even though we don't expect to generate much revenue from Mohomine for the next year, we now give the perception that our technology can be applied to any form of document, be it paper, e-mail, or Web-based."

von Büren also cited the usual suspects of demand for Web-based access to documents, the recent publicity given to compliance regulations like Sarbanes-Oxley, and raised awareness for disaster recovery solutions as driving the value of capture stocks upward. He discounted the success of Captiva's stock as having much influence on Dicom's share price.

"Dicom is listed on the London stock exchange," von Büren told *DIR*. "I don't think investors in London look too much at what's happening in other markets. One thing I can say is that, for the past six quarters, we've met expectations, which is something we have not always done in the past."

For more information: **Dicom Group**, plc, Hampshire, UK, PH +44 800 6520 616, www.dicomgroup.com.

folks were questioning how much they could trust us. It became difficult to keep everybody happy. We decided to end the *Ascent* relationship while there was still something there—that being a great opportunity for us from an IP standpoint."

Reynolds Bish, president & CEO, Captiva Software.

Macciola told *DIR* that IP is much more of a commodity sale than *Ascent Capture*, thus much easier to manage. "We don't actively push our Adrenaline boards," he said. "They simply get pulled through on a lot of deals. For *Ascent*, however, both Dicom and Headway were spending significant resources to drive sales. That created conflicts in areas like account ownership and revenue opportunity."

Is Capture A Commodity?

Macciola told us that a couple dozen VARs were affected by Kofax's decision regarding Headway. "We are not comfortable projecting publicly what we've done [to provide *Ascent* resellers with incentive to switch from Headway to Dicom]," he said. "Let's just say the transition has been well thought out. It's in our best interests for Dicom to move the Headway resellers across."

For its part, Captiva is advertising *IAX* as an inexpensive alternative to *Ascent*. Captiva also recently issued a press release stating that Headway has already converted "over a dozen large resellers and several financial services customers" to *IAX*.

"Ask Captiva how many of those resellers have dropped *Ascent Capture*?" retorted Macciola. "To the best of my knowledge, all of those resellers are continuing to work with *Ascent*. Reynolds' comments make it sound like capture software is a commodity."

In a separate conversation, Dicom CEO Arnold von Büren commented, "We know a lot of our resellers like [*Ascent Capture*] and the supplier behind it. It's not that easy to convert integrators who have been using a product for years and are satisfied with its performance."

Macciola went on to criticize Captiva's techniques for working with value-added resellers. "Captiva doesn't understand that resellers count on vendors to provide them with leads they can leverage to generate professional services opportunities for themselves," he told *DIR*. "Almost half of Captiva's revenue comes from its own professional services. Even when Kofax sells professional services, which are still a very small part of our *Ascent* business, we have a model that allows our resellers to earn a commission."

No EZ Effort

Indeed, *IAX* is not Captiva's first attempt to sell through a VAR channel. A few years back, the company unsuccessfully tried marketing a desktop version of its forms processing software. Known as *Genesis*, this product line has made an exodus from Captiva's list of offerings.

In 1999, **Input Software** (the forerunner to **ActionPoint**, which was acquired by Captiva last year, *see DIR 3/22/02*), released *InputAccel EZ*. Like *IAX*, *EZ* was marketed as a low-volume version of *InputAccel*, which is typically installed in high-volume, complex applications running in the six-digit range. *EZ* largely failed, except as an introductory offering for Documentum customers. For several years, Documentum sold an OEM version of *EZ*, before upgrading to the full-version of *InputAccel* last year to meet customer demand [*see DIR 9/6/02*].

Abrina highlighted four major differences between *IAX* and *EZ*:

■ **Ease-of-use –** "*IAX* takes 15 minutes to install. You can create a document-type and capture flow by following a six-step wizard."

■ **PDF conversion –** "Ad hoc users want to scan to a format they are able to work with. With PDF, we can give them full-text searchable documents. If you give them a TIFF image with index fields, there's a problem if they don't have a document management system."

CAPTURE WARS HEATING UP

The **Headway** flap is the latest example of how the battle between **Kofax** and **Captiva** has escalated since Captiva acquired **ActionPoint** and its *InputAccel* and **Pixel Translations** businesses last summer. Until recently, Captiva's flagship forms processing product was actually built with Kofax tools. However, after the ActionPoint acquisition, Captiva immediately moved to replace those with Pixel tools.

Also, Kofax's acquisition of automated document classification and indexing specialist **Mohomine** didn't sit too well with Captiva [*see DIR 4/25/03*]. Just a few weeks before the acquisition was announced at **AIIM 2003**, Captiva had announced a partnership with Mohomine for its ballyhooed Digital Mailroom product line [*see DIR 4/3/03*]. Captiva has reportedly been shopping for a replacement for Mohomine.

■ **Easy indexing capability –** "If users want to set up indexes, we've given them a simple way to extract the indexing data. We provide full-text OCR, and they can just highlight a zone or click on a word, which will automatically be used for indexing."

■ **ODBC, XML, and file system exporters –** "For an extra charge, we also offer exporters to any of the document management systems we support with our regular *InputAccel* product."

IAX starts at a list of $995 for a single-user system for scanning 250 pages per day, or 92,000 pages per year (based on 365 days). *IAX* scales up through five levels to $19,000 for a multi-user system to scan 5,000 pages per day or 1.8 million pages per year. "With *IAX*, users don't have to spend $100,000 to install an imaging application," stressed Abrina.

Apples-To-Apples Comparison Could Go Sour

With most of the projected growth in the scanner market in the sub $6,000-range, it makes sense for Captiva to move downstream. However, positioning *IAX* as an *Ascent* replacement could be a mistake. It doesn't seem like that is what the product is intended to be.

Rather, *IAX* seems geared toward penetrating the potentially explosive ad hoc scanning market, where Kofax has struggled, but where vendors like **eCopy** and **ScanSoft** are starting to find some success. Perhaps taking on those vendors would be a more appropriate strategy. Of course, neither one has recently created any opportunities as attractive as the one Kofax created by pulling its *Ascent* product line from Headway.

You can't blame Captiva for being opportunistic. Even so, Bish's prediction that the relationship with Headway will transfer $4 million from Kofax's revenue stream to Captiva's seems a bit ridiculous. Even if *IAX* and *Ascent* were an apples-to-apples comparison, the issue of reseller loyalty and inertia would come into play. Switching software products is not a simple proposition.

Bish has about 17 months before he'll have to fully reckon with his statement. And who knows what could happen by then? After all, when Captiva's stock was trading at around a dollar per share at this time last year, who'd have predicted it would be valued at six times that as I'm writing this story?

For more information: **Captiva**, San Jose, CA, PH (408) 325-3376, aabrina@captivasoftware.com; **Kofax**, Irvine, CA, PH (949) 727-1733, www.kofax.com. DIR

Visioneer To Market Xerox-Branded Scanners

... signs 3 1/2-year licensing agreement with copier giant.

The **Xerox** brand will soon be competing for market share in the fast-growing workgroup and departmental document scanner segments. As part of its continuing efforts to move upstream into these attractive spaces, mass market scanner specialist **Visioneer** has signed a worldwide trademark licensing agreement with Xerox. Visioneer, which two years ago sold 2 million scanners in the mass market, will develop and market a line of business-focused scanners that will carry the Xerox label.

"We have started to develop a VAR channel to compete in the market for business scanners," said Murray Dennis, president and CEO of Visioneer. "We've found ourselves competing with the likes of **Canon**, **Kodak**, and **Fujitsu**. To some degree, a large company brand name plays an important role. Xerox has one of the best recognized brands in corporate America, as well as a global branding presence. This will help level the playing field."

Visioneer will announce its first Xerox-branded scanners later this month. "They will be re-engineered and revamped Visioneer products with a combination of stronger software bundles and improved firmware for increased speed," said Dennis. "Next year, we plan to introduce some new duplex models that will carry the Xerox name."

Up until now, Visioneer has been focusing on the sub-$1,000, sub-20 ppm market. Its offerings have been gradually moving upstream. This summer Visioneer introduced the 9750 PDF, a flatbed scanner with an ADF, rated at 20 ppm in a simplex, bi-tonal mode and bundled with **ScanSoft's** *PaperPort* document imaging software. In the last year, Visioneer has also announced bundling deals with **Adobe** for *Acrobat* and **LaserFiche** for a desktop version of its document management software.

"Our initial North American Xerox products will take into account that the document imaging world is controlled more by ISIS drivers and less by TWAIN," said Dennis. "Next year, as we move into the duplex market, we expect to cross the $1,000 price line. Our initial duplex Xerox offerings will be in the workgroup category, and after that we plan to move upstream into the departmental space." [***InfoTrends Research Group*** *defines workgroup scanners as priced $500-$2,000 and rated 10-20 ppm. It defines departmental scanners as priced $2,000-*

$6,000 and rated 20-36 ppm.]

In Europe, Visioneer plans to start by marketing its mass market scanners under the Xerox brand. “In North America, there is also a chance we could use the Xerox brand for some higher-end mass market scanners—3200 and 4800 dpi models,” said Dennis. “In Europe, to date, we haven’t done as much marketing of our business-class scanners. By the second quarter of next year, we expect to be investing more heavily in that area.”

Visioneer will pay Xerox royalties based on the number of scanners it sells with the Xerox brand. The initial licensing agreement is for 3 ½ years with an option for a three-year extension.

Visioneer plans to make its Xerox-branded scanners available to VARs through large distributors like **Tech Data** and **Ingram Micro**. Visioneer will also try to leverage its mass market channels to sell directly. “Our business-class scanners may show up on Web sites of large retailers,” said Dennis. “When we make a deal with someone like **OfficeMax** for our mass market scanners, it’s typically for an opening order of between 2,500 and 5,000 units. That comes out to two or three per store. That type of sales model doesn’t make sense for business-class scanners, which are often bought in bulk. It makes more sense for retailers to stock them in a central warehouse.”

Dennis adds that Visioneer’s established mass market channels will be a great asset for it as it attempts to keep up with the price/performance curve of the scanner market. “We’ve seen that any scanner introduced at $999 today, will be selling for $499 in the near future and $299 soon thereafter,” said Dennis. “Our retail relationships will give us a unique outlet for our business-class scanners as their value declines. This should enable us to keep pushing the price/performance curve in the business-class market.”

To support its move into the business market, Visioneer recently moved all its support in-house. “To reduce costs, we’ve seen a lot of vendors over the past few years outsource their tech support to offshore operations,” Dennis told *DIR*. “We recently made a huge investment to bring our support team in-house. This includes our staffing and technical infrastructure. We felt we had to elevate our service to go after the business market. We now have our engineering and tech support under one roof. This should create a faster loop for problem resolution and future fixes.”

For more information: **Visioneer**, Pleasanton, CA, PH (925) 251-6300. DIR

Electronic Medical Records Leader Buys Imaging Company

Advanced Imaging Concepts (**AIC**) was into medical records before they were hip, or should we say HIPAA. Now, as the Health Information Portability and Accountability Act (HIPAA) is driving more attention to this niche space, AIC is reaping the rewards of being a step ahead of the pack. The Louisville, KY-based vendor has emerged as a market leader providing document imaging systems to health care providers and was recently acquired for $18 million by electronic medical records (EMR) specialist **Allscripts Healthcare Solutions**.

Allscripts is an $80-million per year public company that provides services to more than 20,000 physicians across the United States. It focuses on ambulatory health care providers, which include academic medical centers, independent physicians organizations, and large integrated healthcare delivery networks. “We provide systems to manage records that are used by physicians in an office setting,” explained Lee Shapiro, president of Allscripts. “We don’t typically sell to hospitals, which are considered acute health care providers. Hospital records are typically focused on a specific event—the patient’s reason for being in the hospital.”

Shapiro described Allscripts’ *TouchWorks* EMR application as “**Microsoft** *Office* for medical practices.” “Physicians use our tools for automating their most common tasks, for supporting them in their decisions, and for automating the flow of those decisions after they are made,” Shapiro told *DIR*. “We provide electronic tools for tasks like prescribing and transcribing, and management of transcribed documents.”

Allscripts entered the EMR market in 2001 through an acquisition. Almost immediately, Allscripts realized it needed imaging to round out its solution. “We think about imaging as an on-ramp for physicians who are adopting EMR technology,” said Shapiro. “Putting physicians’ paper in an electronic format gets them used to taking care of their patients with electronic tools.”

Shapiro added that the amount of paper physicians receive from external sources makes it impossible for them to convert to a completely electronic environment. “Lab reports, transcribed documents, referral letters, EOBs, insurance cards—they all come in on paper,” he said. “Being able to view those documents as electronic images is a great benefit for a physician working with an EMR system."

Allscripts was introduced to AIC at an industry trade show in 2000 and formed a partnership in 2001. Prior to announcing AIC's acquisition this summer, Shapiro estimated the companies had "dozens" of joint customers. "We expect a very significant number of customers who have either purchased our EMR application or are considering purchasing it, will want to integrate scanning," said Shapiro. "We view imaging as an integral component of the modular set of tools we offer customers for EMR."

New Approach Answers Market Need

AIC was founded in 1998 by a healthcare-focused reseller who was unsatisfied with the document imaging software available at the time. "We were trying to take generic imaging software and apply it to medical records," explained Jeffrey Amrein, CEO of AIC. "We were mainly working with **Keyfile's** software, and we found a lot of limitations."

Amrein decided to write a new application from the ground up. The result was *Impact.md*, which has been installed at approximately 300 sites and was recently awarded first place in the "Document Imaging Solutions for Hospitals" category at this spring's **TEPR** (**Towards Electronic Patient Records**) **Conference**. "I can't quote any studies to prove it, but many people think we are the premier player in the imaging for medical records market," asserted Amrein.

When designing *Impact.md*, Amrein threw out the file-cabinet approach common to most imaging applications. "Indexes based on a file cabinet design may work well in the insurance, accounting, and legal markets," he said. "But the amount of paper and the urgency to put it on-line make it inappropriate in a medical environment."

Impact.md's indexing structure is based on patient names. "Under each name there is a structure for storing documents," explained Amrein. "Because of the chart structure we use, our customers basically never have to index anything. The program does it behind the scenes. Users just pick the patient and the folder, and the program knows which document they are getting ready to scan. We've created a tremendously consistent and fast system for scanning medical records."

According to Amrein, scanners being used with *Impact.md* range from 15 ppm workgroup models to high-volume production models.

To help move *Impact.md* into the mid-market, two years ago, AIC began working with VARs. According to the Amrein, the company currently has 40 VARs, a number it would like to double within a year. "I don't think imaging VARs have necessarily embraced the health care market in the past because they saw the limitations of the products they were working with," he told *DIR*.

Amrein said the explosive growth in the medical records space is more than 26-employee AIC could handle on its own. "We had reached profitability, but we just did not have the same reach and resources as Allscripts," Amrein told *DIR*. "In addition, the acquisition will provide us with a tighter relationship with a good EMR vendor and product. We feel Allscripts can help take us to the next level—which is to completely dominate this space."

For more information: **Allscripts Healthcare Solutions**, Chicago, IL, PH (847) 680-3515, www.allscripts.com; **Advanced Imaging Concepts**, Louisville, KY, PH (502) 412-1102, e-mail: jluber@aicsoft.com. DIR

GAUSS, FROM PAGE 1

"We were faced with a poor balance sheet," explained Vangell on a recent conference call discussing the merger. "In a very cautious IT spending environment, we were seeing concerns about a company that could not sustain itself. We were forced to walk away from some deals we would have competed for in the past."

Through the first six months of 2003, it would appear that Gauss walked away from a lot of deals. Through June 30, its reported revenue was $11.2 million. This represents a decline of 36% compared to the first six months of 2002. And total revenue in 2002 represented a 10% decline from revenue in 2001… you get the picture.

As Vangell mentioned, Gauss' balance sheet wasn't in great shape either. At the end of 2002, Gauss had reported almost $5.5 million in cash and short-term investments. Thanks to operating losses, by the end of this June, that had dwindled to $1.1 million.

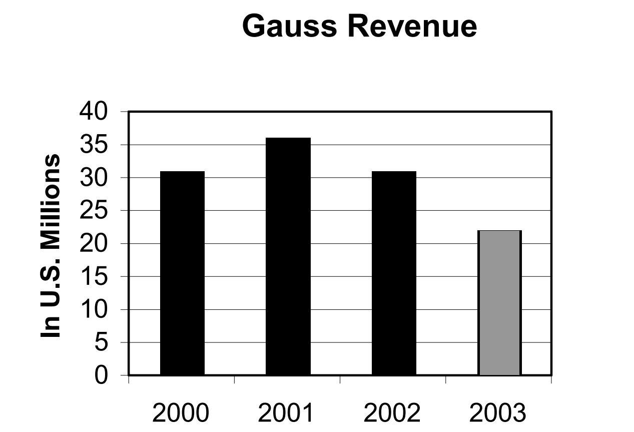
Gauss was formed in 2000 as the merger of German Web content management specialist Gauss and U.S.-based document imaging specialist **Magellan**. In its first full year of operation, 2001, the company reported $35.7 million in revenue.

From what we understand, the document imaging portion of the business remains strong. Through

June 30, the U.S. subsidiary of Gauss had reported seven consecutive profitable quarters. "We are happy with the performance of Gauss' [document imaging] business," Tom Jenkins, CEO of Open Text, stated. "It appears to be the stable part of their business. However, Gauss is experiencing some of the same issues other WCM players are."

Vangell gave a few more details. "Spending on Web sites has been one of the hardest hit areas of IT," he said. "And, as **Microsoft** has begun addressing WCM issues on the low end, the average price of WCM sales has come down significantly. We've been hit hard."

The hardest hit may be the $11 million in cash Gauss shareholders agreed to accept for the company. This is a company that once employed more than 400 people and which had a market capitalization of several hundred million dollars. In contrast, 26-employee **Advanced Imaging Concepts** was recently acquired for $18 million by electronic medical records specialist **Allscripts** [*see story on page 6*]. "I think that shows the value of having a vertical specialty," noted document imaging industry analyst Harvey Spencer of **Harvey Spencer Associates**.



FALLING REVENUE SINKS GAUSS

In 2001, the first full year after the merger of Web content management vendor Gauss and document imaging vendor Magellan, the combined company peaked at close to $36 million in revenue. Open Text, which recently announced it intends to acquire the company, estimated Gauss' 2003 run rate to be $20 million. (2003 figures are projected.)

For its $11 million in cash, Open Text will be getting a 180-employee company that reported a net loss of $2.9 million through the first six months of the year. Gauss has a reported base of 1,100 customers, including big names like **BMW**, **USA Today**, and **Korean Airlines**. In 2002, 40% of Gauss' business came in the financial services market.

Open Text will use Gauss' document imaging technology to supplement the technology it acquired with **Bluebird Systems** in 2001 [*see DIR 3/2/01*]. "We've already invested in both [document imaging] and WCM technology," said Jenkins. "This acquisition will allow us to achieve greater critical mass in both those areas."

For more information: **Open Text**, Waterloo, ON, PH (519) 888-7111, www.opentext.com; **Gauss Interprise**, North American Headquarters, Irvine, CA, PH (949) 784- 8000, www.gaussvip.com. DIR