

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1998

OR

TRANSITION QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 0-27544

OPEN TEXT CORPORATION

(Exact name of registrant as specified in its charter)

ONTARIO 98-0154400
(State of other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

185 Columbia Street West, Waterloo, Ontario, Canada N2L 5Z5

(Address of principal executive offices)

Registrant's telephone number, including area code: (519) 888-7111

Indicate by check mark whether the registrant (1) has filed all reports 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

At November 9, 1998 there were 20,187,478 outstanding Common Shares of the registrant.

OPEN TEXT CORPORATION

TABLE OF CONTENTS

<u>PART I Financial Information:</u>		<u>Page No.</u>
Item 1.	<u>Financial Statements</u>	
	Condensed Consolidated Balance Sheets September 30, 1998 (Unaudited) and June 30, 1997.....	3
	Condensed Consolidated Statements of Operations (Unaudited) - Three Months Ended September, 1998 and 1997	4
	Condensed Consolidated Statements of Cash Flows (Unaudited) - Three Months Ended September, 1998 and 1997	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	17
<u>PART II Other Information:</u>		
Item 1.	<u>Legal Proceedings</u>	17
Item 2.	<u>Changes in Securities</u>	17
Item 3.	<u>Defaults Upon Senior Securities</u>	17
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	17
Item 5.	<u>Other Information</u>	17
Item 6.	<u>Exhibits and Reports on Form 8-K</u>	17
Signatures	18
Exhibit 11.01	19

Part I: Financial Information
Item 1. Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In US Dollars)
(in thousands, except share data)

	September 30, 1998	June 30, 1998
	(unaudited)	(restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 36,043	\$ 40,390
Accounts receivable - trade, net of allowance for doubtful accounts of \$1,630 as of September 30, 1998 and \$1,635 as of June 30, 1998	24,151	22,924
Prepaid and other assets	<u>2,477</u>	<u>2,834</u>
Total current assets	62,671	66,148
Furniture and equipment	8,690	8,710
Other investments, at cost (approximates market value)	3,977	3,977
Goodwill, net of accumulated amortization of \$840 at September 30, 1998 and \$442 at June 30, 1998 (Note 1)	15,063	15,461
Other assets, net of accumulated amortization of \$196 at September 30, 1998 and \$40 at June 30, 1998	<u>5,901</u>	<u>6,286</u>
Total assets	<u>\$ 96,302</u>	<u>\$ 100,582</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade, and accrued liabilities (Note 3)	\$ 10,573	\$ 17,052
Deferred revenue	9,052	10,112
Obligations under capital leases	<u>237</u>	<u>344</u>
Total current liabilities	19,862	27,508
Shareholders' equity:		
Share capital		
20,032,077 and 18,087,069 Common Shares issued and outstanding at September 30, 1998 and June 30, 1998 respectively	141,273	105,108
Nil and 1,750,000 Special Warrants issued and outstanding at September 30, 1998 and June 30, 1998 respectively	-	34,800
Other shareholders' equity (Note 1)	<u>(64,833)</u>	<u>(66,834)</u>
Total shareholders' equity	76,440	73,074
Total liabilities and shareholders' equity	<u>\$ 96,302</u>	<u>\$ 100,582</u>

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (In US Dollars) (in thousands, except per share data)

	Three months ended September 30,	
	1998	1997
	(unaudited)	
	(restated)	
Revenues:		
License	\$ 9,501	\$ 4,422
Service	7,772	3,272
Total Revenues	17,273	7,694
Cost of revenues:		
License	666	232
Service	2,733	1,925
Total cost of revenues	3,399	2,157
Gross profit	13,874	5,537
Operating expenses:		
Research and development	2,204	1,804
Sales and marketing	7,658	4,382
General and administrative	1,009	1,110
Depreciation	951	475
Amortization of acquired intangible assets	518	-
Total operating expenses	12,340	7,771
Income (loss) from operations	1,534	(2,234)
Other income	532	517
Income (loss) before income taxes	2,066	(1,717)
Income tax recovery	-	250
Income (loss) for the period	\$ 2,066	\$ (1,467)
Basic earnings (loss) per share	\$ 0.11	\$ (0.08)
Diluted earnings (loss) per share	\$ 0.09	\$ (0.08)
Weighted average number of Common Shares outstanding - basic	19,658	17,468
Weighted average number of Common Shares outstanding - diluted	22,024	17,468

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

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

	Three months ended	
	September 30,	
	1998	1997
	(unaudited)	
Cash flows form operating activities:	(restated)	
Income (loss) for the period	\$ 2,066	\$ (1,467)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization of acquired intangible assets	1,505	475
Other	(64)	(153)
Changes in operating assets and liabilities:		
Accounts receivable	(1,227)	(951)
Prepaid expenses and other current assets	357	519
Accounts payable - trade and accrued liabilities	(6,479)	(403)
Deferred revenue	(1,060)	120
Net cash used in operating activities	(4,902)	(1,860)
Cash flows used in investing activities:		
Acquisitions of furniture and equipment	(931)	(272)
Decreases in other investments	-	163
(Increases) decreases in other assets	228	166
Net cash used in investing activities	(703)	57
Cash flow from financing activities:		
Payments of obligations under capital leases	(107)	(105)
Proceeds from issuance of Common Shares	1,365	84
Employee share purchase loans	-	(8)
Net cash provided by (used in) financing activities	1,258	(29)
Decrease in cash and cash equivalents during the period	(4,347)	(1,832)
Cash and cash equivalents at beginning of year	40,390	31,762
Cash and cash equivalents at end of period	\$ 36,043	\$ 29,930

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 1998

(unaudited)

(dollar amounts in thousands, except share data)

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Open Text Corporation and its wholly owned subsidiaries, collectively referred to as the "Company". All intercompany balances and transactions have been eliminated.

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared pursuant to the Securities and Exchange Commission rules and regulations for Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The accompanying unaudited condensed consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes in the Company's 1998 annual report on Form 10-K.

The information furnished reflects, in the opinion of the management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

Restatement of IPR&D and Intangible Assets

During the fourth quarter of the 1998 fiscal year, the Company acquired certain assets relating to the business of Information Dimensions from Gores Technologies, Inc and during the second quarter of the 1998 fiscal year, the Company acquired certain assets relating to the business of OnTime from Campbell Services, Inc. At the time of the acquisitions, the Company, in consultation with its independent auditors, PricewaterhouseCoopers, applied then existing, generally employed appraisal methodologies to determine the fair value of in-process research and development ("IPR&D"). Subsequent to the acquisitions and the Company's release of its year end fiscal 1998 results, in a letter dated September 9, 1998 to the American Institute of Certified Public Accountants, the Chief Accountant of the Securities and Exchange Commission (SEC) expressed new views of the SEC staff that took issue with certain appraisal practices generally employed in the determination of the fair value of the IPR&D. The Company, in consultation with its independent auditors, has voluntarily decided to adjust the amount originally allocated to acquired IPR&D in a manner to reflect the SEC staff's current views and has restated its first quarter fiscal 1999 condensed consolidated financial statements accordingly.

The Company believes it is in compliance with the interpretation of the rules surrounding IPR&D and intangible assets. However, there can be no assurance that the SEC will not seek to further refine their interpretation of the rules surrounding purchased IPR&D and that this could result in the further adjustment of the Company's amounts of IPR&D and intangible assets.

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the Three Months Ended September 30, 1998 (unaudited) (dollar amounts in thousands, except share data)

The restatement does not affect previously reported net cash flows for the periods. The following table summarizes the changes to the purchase price allocation among the acquired assets and assumed liabilities as a result of the Company's restatement (in thousands):

	As	
	Previously Reported	As Restated
Tangible net liabilities	(\$3,490)	(\$3,490)
Current software products	3,978	1,657
Core technology	-	5,003
Acquired in-process research and development	24,062	5,477
Goodwill	<u>-</u>	<u>15,903</u>
Total purchase price	<u>\$24,550</u>	<u>\$24,550</u>

The following table summarizes the changes in the Company's condensed consolidated results of operations for the three months ended September 30, 1998 and changes in its condensed consolidated balance sheet as of September 30, 1998 as a result of the Company's restatement of the purchase price allocation (in thousands):

	For the Three Months Ended September 30, 1998	
	As	
	Previously Reported	As Restated
Cost of revenue: license	\$ 912	\$ 666
Amortization of acquired intangible assets	-	518
Total operating expenses	11,822	12,340
Income from operations	1,806	1,534
Income for the period	2,338	2,066
Income per share - basic	0.12	0.11
Income per share - diluted	0.11	0.09

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 1998

(unaudited)

(dollar amounts in thousands, except share data)

	September 30, 1998	
	As	
	Previously	As
	<u>Reported</u>	<u>Restated</u>
Other assets	\$4,043	\$5,901
Goodwill	-	15,063
Other shareholders' equity	(81,754)	(64,833)

Comprehensive net income

Effective July 1998, Open Text adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income is comprised of net income and other comprehensive earnings such as foreign currency translation gain/loss and unrealized capital gains and losses on available for sale marketable securities. The Company's unrealized gains and losses on available for sale marketable securities have been insignificant for all periods presented. Open Text's total comprehensive earnings were as follows:

	Three months ended September 30,	
	<u>1998</u>	<u>1997</u>
Net income (loss)	\$ 2,066	\$ (1,467)
Foreign translation adjustment	<u>-</u>	<u>(153)</u>
Comprehensive net income	<u>\$ 2,066</u>	<u>\$ (1,620)</u>

Earnings per share

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

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months Ended September 30, 1998

(unaudited)

(dollar amounts in thousands, except share data)

These consolidated financial statements are expressed in US dollars and are prepared in accordance with US generally accepted accounting principles.

	Three months ended September 30,	
	1998	1997
Basic earnings (loss) per share		
Net Income (loss)	\$ 2,066	\$ (1,467)
Weighted average number of common shares outstanding	19,658	17,468
Basic earnings (loss) per common share	\$ 0.11	\$ (0.08)
Diluted earnings (loss) per share		
Net Income (loss)	\$ 2,066	\$ (1,467)
Weighted average number of common shares outstanding	19,658	17,468
Number of common share equivalents as a result of stock options outstanding	2,366	-
Weighted average number of common shares and common share equivalents outstanding	22,024	17,468
Diluted earnings (loss) per common share and common share equivalents	\$ 0.09	\$ (0.08)

NOTE 2 — RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 132, "Employer Disclosure about Pensions and other Post Retirement Benefits" and SFAS No. 133, "Accounting for Derivatives and Other Hedging Activities". As the Company currently does not have any post retirement benefits and does not engage in any hedging activities, the provisions of these Statements would not have a significant impact.

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months Ended September 30, 1998

(unaudited)

(dollar amounts in thousands, except share data)

NOTE 3 - ACCOUNTS PAYABLE - TRADE AND ACCRUED LIABILITIES

Accounts payable - trade and accrued liabilities are as follows:

	September 30,	June 30,
	<u>1998</u>	<u>1998</u>
Accounts payable - trade	\$ 2,330	\$ 2,734
Accrued trade liabilities	2,149	3,061
Amounts payable for acquisitions	2,015	7,196
Accrued salaries and commissions	4,079	4,173
Other liabilities	-	(112)
	<u>\$ 10,573</u>	<u>\$ 17,052</u>

NOTE 4 - RESTRUCTURING COSTS FOR ACQUISITIONS

In connection with the Company's acquisition of OnTime and Information Dimensions (the "Acquired Companies") in the year ended June 30, 1998, the Company accrued \$7.98 million for the costs to exit certain activities of the Acquired Companies as well as the cost of involuntary termination and relocation of certain employees of both of the Acquired Companies. The cost to exit certain activities includes costs to close locations of the Acquired Companies as well as the cost to discontinue development of certain products, which it expects to complete by the fourth quarter of fiscal 1999. The costs of involuntary termination represents the estimated costs to terminate employees whose positions have become redundant within the organization or who were involved in products the Company will discontinue. The Company has not yet determined the full extent of the restructuring, but it has communicated the termination and relocation plans to most of the effected employees in administration, development and customer support. The Company expects its plan of termination and relocation to be completed by the fourth quarter of fiscal 1999. During the quarter, the Company paid \$3.2 million in cost to exit certain activities and the costs were charged to the reserve.

A summary of the acquisition costs that represent the costs to exit certain activities and involuntary termination and relocation costs is as follows:

	<u>June 30, 1998</u>	<u>Charges to reserve</u>	<u>September 30, 1998</u>
		(in thousands)	
Costs to exit certain activities	\$ 1,325	\$ (1,086)	\$ 239
Involuntary termination and relocation	\$ 3,902	\$ (2,090)	\$ 1,812
	<u>\$ 5,227</u>	<u>\$ (3,176)</u>	<u>\$ 2,051</u>

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months Ended September 30, 1998

(unaudited)

(dollar amounts in thousands, except share data)

NOTE 5 —INCOME TAXES

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

	September 30,	
	1998	1997
Income (loss) before income taxes	\$ 2,066	\$ (1,467)
Combined basic Federal and Provincial income taxes at 44.6% as of September 30, 1998 and 1997	\$ (921)	\$ 654
Decrease resulting from:		
Unrecorded benefit of temporary differences	-	(654)
Reduction in valuation allowance	1,000	250
Other	(79)	-
Income tax recovery	\$ -	\$ 250

Most of the Company's taxable income is in United States tax jurisdictions. The tax rate differences compared to the Canadian jurisdiction would not be significant in the quarters ending September 30, 1997 and 1998.

The Company and its subsidiaries have approximately \$62.4 million of losses and deductions available to reduce taxable income in future years, the benefit of which has only partially been reflected in the financial statements. Deductions of \$31.3 million have no expiration date, and the balance of losses expire as follows:

Year Ended June 30	(in thousands)
1999	\$ 407
2000	748
2001	2,420
2003	13,793
2004	3,624
2005	8,081
Thereafter	1,854
	\$ 30,927

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

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months Ended September 30, 1998

(unaudited)

(dollar amounts in thousands, except share data)

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

	<u>September 30,</u> <u>1998</u>	<u>June 30,</u> <u>1998</u>
	(in thousands)	
Losses available to offset future income taxes	13,485	13,641
Acquired in-process research and development expenses deducted for accounting in excess of tax	6,118	6,202
Acquisition related expenses	2,523	3,158
Share issue costs	2,293	2,454
Other differences	<u>2,470</u>	<u>2,434</u>
Gross deferred tax assets	26,889	27,889
Less: Valuation allowance	<u>(25,889)</u>	<u>(26,889)</u>
Net deferred tax assets	<u>\$ 1,000</u>	<u>\$ 1,000</u>

A valuation allowance continues to be recorded against a significant portion of the net deferred tax asset by the Company because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax assets in certain situations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Restatement of IPR&D and Intangible Assets

During the fourth quarter of the 1998 fiscal year, the Company acquired certain assets relating to the business of Information Dimensions from Gores Technologies, Inc and during the second quarter of the 1998 fiscal year, the Company acquired certain assets relating to the business of OnTime from Campbell Services, Inc. At the time of the acquisitions, the Company, in consultation with its independent auditors, PricewaterhouseCoopers, applied then existing, generally employed appraisal methodologies to determine the fair value of in-process research and development ("IPR&D"). Subsequent to the acquisitions and the Company's release of its year end fiscal 1998 results, in a letter dated September 9, 1998 to the American Institute of Certified Public Accountants, the Chief Accountant of the Securities and Exchange Commission (SEC) expressed new views of the SEC staff that took issue with certain appraisal practices generally employed in the determination of the fair value of the IPR&D. The Company, in consultation with its independent auditors, has voluntarily decided to adjust the amount originally allocated to acquired IPR&D in a manner to reflect the SEC staff's current views and has restated its first quarter fiscal 1999 condensed consolidated financial statements accordingly.

The Company believes it is in compliance with interpretation of the rules surrounding IPR&D and intangible assets. However, there can be no assurance that the SEC will not seek to further refine their interpretation of the rules surrounding purchased IPR&D and that this could result in the further adjustment of the Company's amounts of IPR&D and intangible assets.

The restatement does not affect previously reported net cash flows for the periods. The following table summarizes the changes to the purchase price allocation among the acquired assets and assumed liabilities as a result of the Company's restatement (in thousands):

	As	
	Previously	As
	<u>Reported</u>	<u>Restated</u>
Tangible net liabilities	(\$3,490)	(\$3,490)
Current software products	3,978	1,657
Core technology	-	5,003
Acquired in-process research and development	24,062	5,477
Goodwill	<u>-</u>	<u>15,903</u>
Total purchase price	<u><u>\$24,550</u></u>	<u><u>\$24,550</u></u>

The following table summarizes the changes in the Company's condensed consolidated results of operations for the three months ended September 30, 1998 and changes in its condensed consolidated balance sheet as of September 30, 1998 as a result of the Company's restatement of the purchase price allocation (in thousands):

	For the	
	Three Months Ended	
	<u>September 30, 1998</u>	
	As	
	Previously	As
	<u>Reported</u>	<u>Restated</u>
Cost of revenue: license	\$ 912	\$ 666
Amortization of acquired intangible assets	-	518
Total operating expenses	11,822	12,340
Income from operations	1,806	1,534
Income for the period	2,338	2,066
Income per share - basic	0.12	0.11
Income per share - diluted	0.11	0.09

	September 30, 1998	
	As	
	Previously	As
	<u>Reported</u>	<u>Restated</u>
Other assets	\$4,043	\$5,901
Goodwill	-	15,063
Other shareholders' equity	(81,754)	(64,833)

Open Text develops, markets, licenses and supports collaborative knowledge management application software for use on intranets, extranets and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes, do group calendaring and scheduling and distribute and make available to users across networks or the Internet the resulting work product and other information. The Company's principal product line, *Livelink*, is a scaleable

collaborative network application that integrates several modular engines including, but not limited to, search, collaboration, workflow, group calendaring and scheduling, and document management. The Company's search engine enables users to transparently search vast amounts of data stored in a wide variety of formats and in disparate locations, including World Wide Web sites. The Company's collaboration, workflow and document management engines enable users to establish and manage knowledge and document-oriented collaborative work processes that involve a diversity of workers, computing platforms and data. The Company's group calendaring and scheduling enables users to quickly schedule personal and group meetings, reserve conference rooms and add tasks to other users' lists of things to do. In addition, the Company's products enable organizations to flexibly manage the distribution and availability of information. The Company has focused its efforts on its intranet-related software and services to provide collaborative knowledge management solutions for use on intranets.

The Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be considered in the light of the risks, expenses and difficulties frequently encountered by companies seeking to introduce new products into new and rapidly evolving markets. To address these risks and uncertainties, the Company must, among other things, successfully market its existing products and technologies and complete and introduce products and product enhancements under development in a timely manner, continue to upgrade and commercialize its technologies, and attract, retain and motivate highly qualified personnel and manage rapid growth. There can be no assurance that the Company will successfully address these challenges. The Company has incurred losses in each of its last five fiscal years and as at September 30, 1998, had an accumulated deficit in other shareholders' equity of \$65 million. The Company attained operating profitability for the last three quarters in fiscal 1998 and the first quarter of fiscal 1999, however there can be no assurance this can be sustained.

During 1998, the Company completed the acquisitions of OnTime and Information Dimensions. The results of operations of the Acquired Businesses are included in the Company's results of operations from the dates of the acquisitions. The acquisitions have been accounted for under the purchase method of accounting and resulted in the allocation of an aggregate of approximately \$28.0 million to intangible assets during the year ended June 30, 1998. Of this amount, an aggregate of \$5.5 million was allocated to purchased in process research and development and, under US GAAP, was charged immediately to expense.

On June 3, 1998 the Company acquired certain of the assets and liabilities of Information Dimensions for approximately \$8.1 million which consists of cash paid on closing of \$7.6 million and an accrual of \$500,000 for contingent consideration that the Company expects it will be obligated to pay to the vendor one year from the closing date based on the delivery of a special purpose balance sheet of the assets and liabilities assigned as at May 31, 1998. In addition, the Company accrued acquisition costs of \$8.2 million. The operations of Information Dimensions have been included in the financial statements from the purchase date.

On December 3, 1997 the Company acquired certain of the assets and liabilities of OnTime for approximately \$8.3 million, including acquisition costs of \$1.6 million, in a transaction which has been accounted for under the purchase method. The purchase price is subject to adjustment based on delivery of a special purpose balance sheet of the assets and liabilities assigned as at November 30, 1997. The operations of OnTime have been included in the financial statements from the purchase date. Cash in the amount of \$6.2 million was paid at closing. Cash in the amount of \$268,000 was paid prior to June 30, 1998 based on the final determination of OnTime's working capital.

The Company continues to seek out opportunities to acquire or invest in businesses, products and technologies that expand, compliment or are otherwise related to the Company's current business or products. The Company also considers from time to time opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. Such acquisitions, investments, joint ventures or other business initiatives may involve significant commitments of financial and other resources of the Company. There can be no assurance that any such activity will be successful in generating revenue, income or other returns to the Company, or that financial or other resources committed to such activities will not be lost.

The Company's financial statements are prepared in accordance with generally accepted accounting principles in the United States ("US GAAP") and are presented in United States dollars unless otherwise indicated. All references in this report to financial information concerning the Company refer to such information in accordance with US GAAP and all dollar amounts in this report are in United States dollars.

Results of Operations

Quarter Ended September 30, 1998 Compared with Quarter Ended September 30, 1997

Revenues. The Company increased total revenues by 124% from \$7.7 million in the quarter ended September 30, 1997 to \$17.3 million for the quarter ended September 30, 1998. License revenue increased 115% from \$4.4 million in the quarter ended September 30, 1997 to \$9.5 million in the quarter ended September 30, 1998. During the quarter ended September 30, 1998, the Company continued to expand its reseller programs. License revenues from resellers accounted for 29% of the total license revenue for the quarter ended September 30, 1997 compared with 41% for the quarter ended September 30, 1998.

Service revenue increased 138% from \$3.3 million in the quarter ended September 30, 1997 to \$7.8 million in the quarter ended September 30, 1998. The increase in revenues is attributable to an increase in maintenance revenues. Maintenance revenue accounted for 37% of the service revenues in the quarter ended September 30, 1997 and 63% of the service revenue in the quarter ended September 30, 1998.

No customer accounted for 10% of revenue in the quarter ended September 30, 1998 compared to two customers in the quarter ended September 30, 1997, which accounted for 14% and 13% respectively. For the quarter ended September 30, 1998, 80% of revenues were from customers resident in the North America, 18% of revenues were from customers in Europe and 2% of revenues were from customers in Asia and other compared with 72%, 13% and 15% respectively for North America, Europe and Asia and other for the quarter ended September 30, 1997.

Cost of revenues. Cost of license revenues increased from \$232,000 in the quarter ended September 30, 1997 to \$666,000 in the quarter ended September 30, 1998. As a percent of license revenues, cost of revenues decreased from 5% in the quarter ended September 30, 1997 to 4% in the quarter ended September 30, 1998. Included in cost of license revenues in the quarter ended September 30, 1998 is the amortization of software capitalized on the purchase of Information Dimensions.

Cost of service revenues increased from \$1.9 million in the quarter ended September 30, 1997 to \$2.7 million in the quarter ended September 30, 1998. As a percent of service revenues, the cost of service revenues decreased from 59% in the quarter ended September 30, 1997 to 35% in the quarter ended September 30, 1998. The decrease in the cost of service as a percent of service revenue was a result of a higher percentage of higher margin maintenance revenue.

Research and development. Research and development costs increased by 22% from \$1.8 million in the quarter ending September 30, 1997 to \$2.2 million in the quarter ending September 30, 1998. Research and development costs consist primarily of personnel expenses, and the related facilities and equipment. The increase in research and development expenses was a result of increased compensation expenses resulting from additional personnel. As a percentage of revenues, research and development cost decreased from 23% in the quarter ended September 30, 1997 to 13% in the quarter ended September 30, 1998.

Sales and marketing. Sales and marketing expense increased 75% from \$4.4 million in the quarter ended September 30, 1997 to \$7.7 million in the quarter ended September 30, 1998. As a percentage of revenues, sales and marketing expense decreased from 57% in the quarter ending September 30, 1997 to 44% in the quarter ended September 30, 1998. The overall increase in sales and marketing expense was due principally to an increase in the number of sales personnel, and the decrease in sales and marketing expense, as a percentage of revenue, is due to increased efficiencies in the sales force.

General and administrative. General and administrative expense decreased 9% from \$1.1 million in the quarter ended September 30, 1997 to \$1.0 million in the quarter ended September 30, 1998. As a percent of revenues, general and administration expense decreased from 14% in the quarter ended September 30, 1997 to 6% in the quarter ended September 30, 1998.

Depreciation. Depreciation was \$475,000 in the quarter ended September 30, 1997 and increased to \$951,000 in the quarter ended September 30, 1998. As a percent of revenues depreciation expense remained constant at 6% for the quarter ended September 30, 1997 and for the quarter ended September 30, 1998.

Amortization of acquired intangible assets. Amortization of acquired intangible assets was \$518,000 in the quarter ended September 30, 1998 versus nil in the quarter ended September 30, 1997. Amortization of acquired intangible assets includes the amortization of core technology and goodwill acquired in the acquisition of Information Dimensions.

Other income. Other income was \$517,000 for the quarter ended September 30, 1997 and increased to \$532,000 for the quarter ended September 30, 1998. Other income is comprised mainly of interest earned on the balances of cash and cash equivalents net of interest expense.

Income taxes. The Company continues to have a net deferred tax asset. A 100% valuation allowance continues to be recorded against the net deferred tax asset by the Company because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax asset in certain situations. The Company recorded a \$250,000 income tax recovery in the quarter ended September 30, 1997.

Liquidity and Capital Resources

To date, license and service revenues have been insufficient to satisfy the Company's cash requirements. The Company has financed its cash needs primarily through sales of securities.

At September 30, 1998, the Company had cash and cash equivalents of \$36.0 million, current assets of \$62.7 million and current liabilities of \$19.9 million. The Company has credit facilities of \$6.5 million, under which borrowings were insignificant as at September 30, 1998.

In January 1996, the Company completed an initial public offering with net proceeds of \$61.4 million. The Company received net proceeds of approximately \$20.6 million from sale of securities in private placements during fiscal 1996 before completion of the public offering. Cash used by operations during the year ended June 30, 1997 was \$15.3 million. Sale of shares in Yahoo! Corporation generated \$6.3 million. Purchase of other investments and additions to other assets were \$1.4 million and \$6.0 million respectively. Acquisitions of furniture and equipment was \$2.6 million. Net cash used for the payment of capital lease obligations was \$828,000. During fiscal 1997, the Company advanced approximately \$4.0 million to General Internet Inc. ("General Internet"), a US based Internet service development company and converted these advances to a promissory note. During 1998, the Company converted the note to 433,333 shares of Series A Convertible Preferred Stock, 1,114,327 shares of Series B Convertible Preferred Stock and a Special Warrants to purchase 67,708 shares of General Internet common stock. In fiscal 1997, the Company, together with a company controlled by a director of the Company and individuals not related to the Company, incorporated MacRAE's O.E.M. Mart, Inc. ("MacRAE's") and loaned \$1.1 million to MacRAE's in the form of a subordinated debenture.

On March 25, 1998, the Company issued 1,750,000 Special Warrants at a price of \$20.85 per Special Warrant for net proceeds to the Company of \$34.8 million. All of the Special Warrants were converted into 1,750,000 Common Shares on July 10, 1998 without payment of additional consideration. Cash used by operations during the quarter ended September 30, 1998 was \$4.9 million. Acquisitions of furniture and equipment was \$931,000. The Company anticipates additional capital expenditures for equipment as the number of employees increases and to meet new technology needs. See "Forward-Looking Statements". Net cash used for the payment of capital lease obligations was \$107,000. The Company had liabilities with respect to capital leases of \$237,000 at September 30, 1998.

In connection with the Company's acquisition of OnTime and Information Dimensions (the "Acquired Companies") in the year ended June 30, 1998, the Company accrued \$7.98 million for the costs to exit certain activities of the Acquired Companies as well as the cost of involuntary termination and relocation of certain employees of both of the Acquired Companies. During the quarter, the Company paid \$3.2 million in costs to exit certain activities and the costs were charged to the reserve.

Since June 30, 1995, the Company has completed nine acquisitions, hired additional employees, increased its sales, marketing and promotional activities, increased occupancy costs and otherwise increased the level of its business activity. This has resulted, and will continue to result, in cash requirements that significantly exceed those of previous years. The Company believes that existing cash and revenue from operations, will be sufficient to satisfy the Company's operational cash requirements until June 30, 1999. See "Forward-Looking Statements". However, the Company regularly evaluates acquisitions, investments, joint ventures and other business initiatives, and cash expenditures for acquisitions, investments, joint ventures and other business initiatives or unanticipated expenses could create a need for additional financing. In addition, if the Company's operations do not begin to generate cash sufficient to satisfy its needs, the Company ultimately would require additional financing. There can be no assurance that such financing would be available if required. See "Business — Risk Factors — Liquidity and Capital Resources".

Year 2000 Compliance

The approach of the year 2000 presents potential issues to all organizations who use computers in the conduct of their business or depend on business partners who use computers. To the extent computer use is date-sensitive, hardware or software that recognizes the year by the last two digits may erroneously recognize "00" as 1900 rather than 2000, which could result in errors or system failures.

The Company initiated its year 2000 compliance efforts in 1998. The initial focus of the Company's compliance efforts was on *Livelink*, however the review has now been expanded to include all of the Company's products and systems

(including past products). The Company has retained outside consultants to assist it in its compliance review. The review and a determination of all compliance costs is expected to be completed by the end of calendar 1998. The Company's contingency plan will be formalized at the conclusion of this review.

Livelink obtains date information, such as creation dates and modification dates, directly from the computer's operating system. Thus, it is the Company's belief that the current version of *Livelink* is year 2000 compliant provided that third party software is not embedded therein and that the underlying operating systems are fully compliant. However, the Company has not yet completed the necessary testing in order to verify this compliance. Therefore, the primary risk for the Company's customer lies with their own computer operating systems. While operating systems companies have stated that their products will continue to operate properly into the twenty-first century, the Company has not conducted any tests with the operating systems companies to verify this.

There is also the possibility that in the coming year corporations in dealing with their own Year 2000 issues will defer some software purchases except for the most urgent and those relevant to solving their own Year 2000 concerns. To the extent that this occurs, it could materially adversely affect the Company's results of operations.

In addition to any Year 2000 issues identified within the Company, it is not presently clear that all parts of the country's infrastructure, including such things as the national banking systems, electrical power, communications, and governmental activities, will be fully functioning as the Year 2000 approaches. To the extent failure occurs in such activities, which are outside the Company's control, it could affect the Company's ability to service its customers with the same degree of effectiveness with which they are served presently. The Company is identifying elements of the infrastructure that are of greater significance to its operations, obtaining information on an ongoing basis as to their expected Year 2000 readiness, and determining alternative solutions if required.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

- not applicable

PART II Other Information

Item 1. Legal Proceedings - None

Item 2. Changes in Securities - None

Item 3. Defaults Upon Senior Securities - None

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

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibit is filed herewith:

<u>Exhibit Number</u>	<u>Exhibit Title</u>
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11.01	- Statement regarding computation of per share earnings.
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(b) Reports on Form 8-K - None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned there unto duly authorized.

OPEN TEXT CORPORATION
(registrant)

Date: August 19, 1999

/s/P. Thomas Jenkins
P. Thomas Jenkins
Chief Executive Officer

/s/Thomas J. Hearne
Thomas J. Hearne
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 11.01

OPEN TEXT CORPORATION

COMPUTATION OF BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

(In thousands, except per share data)

	Three months ended	
	September,	
	1998	1997
	(restated)	
Basic earnings (loss) per share		
Net Income (loss)	<u>\$ 2,066</u>	<u>\$ (1,467)</u>
Weighted average number of common shares outstanding	19,658	17,468
Basic earnings (loss) per common share	<u>\$ 0.11</u>	<u>\$ (0.08)</u>
Diluted earnings (loss) per share		
Net Income (loss)	<u>\$ 2,066</u>	<u>\$ (1,467)</u>
Weighted average number of common shares outstanding	19,658	17,468
Number of common share equivalents as a result of stock options outstanding	<u>2,366</u>	<u>-</u>
Weighted average number of common shares and common share equivalents outstanding	<u>22,024</u>	<u>17,468</u>
Diluted earnings (loss) per common share and common share equivalents	<u>\$ 0.09</u>	<u>\$ (0.08)</u>