

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1999

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
(State of other jurisdiction of
incorporation or organization)

98-0154400
(IRS Employer Identification No.)

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 October 29, 1999 there were 24,163,820 outstanding Common Shares of the registrant.

OPEN TEXT CORPORATION

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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,	June 30,
	1999	1999
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 129,620	\$ 140,256
Available for sale securities (Note 2)	50,017	45,920
Accounts receivable - trade, net of allowance for doubtful accounts of \$2,160 as of September 30, 1999 and \$1,658 as of June 30, 1999	35,765	31,632
Deferred tax asset (Note 5)	4,000	4,000
Prepaid and other assets	<u>7,842</u>	<u>7,736</u>
Total current assets	227,244	229,544
Furniture and equipment	9,989	9,988
Goodwill, net of accumulated amorization of \$2,405 at September 30, 1999 and \$1,946 at June 30, 1999	23,765	14,388
Other assets	<u>9,676</u>	<u>10,854</u>
	<u>\$ 270,674</u>	<u>\$ 264,774</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade, and accrued liabilities (Note 3)	\$ 16,124	\$ 13,995
Deferred revenues	11,201	9,802
Deferred tax liability (Note 5)	<u>9,409</u>	<u>8,152</u>
Total current liabilities	36,734	31,949
Shareholders' equity:		
Share capital		
24,153,445 and 21,280,463 Common Shares issued and outstanding at September 30, 1999 and June 30, 1999 respectively	243,301	150,252
Nil and 3,000,000 Special Warrants issued and outstanding at September 30, 1999 and June 30, 1999 respectively	-	97,420
Accumulated other comprehensive income and other capital:		
Unrealized gain on available for sale securities (net of tax)	34,538	31,699
Cumulative translation adjustment	(911)	(735)
Other	64	64
Accumulated deficit	<u>(43,052)</u>	<u>(45,875)</u>
Total shareholders' equity	<u>233,940</u>	<u>232,825</u>
	<u>\$ 270,674</u>	<u>\$ 264,774</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,	
	1999	1998
	(unaudited)	
Revenues:		
License	\$ 12,484	\$ 9,501
Service	12,912	7,772
Total Revenues	25,396	17,273
Cost of revenues:		
License	403	666
Service	6,353	2,733
Total cost of revenues	6,756	3,399
Gross profit	18,640	13,874
Operating expenses:		
Research and development	3,696	2,204
Sales and marketing	10,322	7,658
General and administrative	2,879	1,009
Depreciation	1,138	951
Amortization of acquired intangible assets	579	518
Total operating expenses	18,614	12,340
Income from operations	26	1,534
Other income	1,248	73
Interest income	1,549	459
Income for the period	\$ 2,823	\$ 2,066
Basic earnings per share	\$ 0.13	\$ 0.11
Diluted earnings per share	\$ 0.11	\$ 0.09
Weighted average number of Common Shares outstanding - basic	22,079	19,658
Weighted average number of Common Shares outstanding - diluted	26,753	22,024

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,	
	1999	1998
	(unaudited)	
Cash flows from operating activities:		
Income for the period	\$ 2,823	\$ 2,066
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of acquired intangible assets	1,812	1,505
Other	172	(64)
Changes in operating assets and liabilities net of assets acquired:		
Accounts receivable	(3,177)	(1,227)
Prepaid expenses and other current assets	337	357
Accounts payable - trade and accrued liabilities	482	(6,479)
Deferred revenue	1,182	(1,060)
Net cash provided by (used in) operating activities	3,631	(4,902)
Cash flows used in investing activities:		
Acquisitions of furniture and equipment	(1,404)	(931)
Purchase of PS Software & Microstar	(6,611)	-
Purchase of other investments	(1,500)	-
Proceeds from sale of other investments	1,318	-
(Increases) decreases in other assets	(1,681)	228
Net cash used in investing activities	(9,878)	(703)
Cash flow from financing activities:		
Payments of obligations under capital leases	(18)	(107)
Proceeds from issuance of Common Shares	1,397	1,365
Issuance of Common Shares related to acquisitions	1,015	-
Repurchase of Common Shares	(6,783)	-
Net cash (used in) provided by financing activities	(4,389)	1,258
Decrease in cash and cash equivalents during the period	(10,636)	(4,347)
Cash and cash equivalents at beginning of year	140,256	40,390
Cash and cash equivalents at end of period	\$ 129,620	\$ 36,043

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 1999

(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 1999 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.

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

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 after tax on available for sale marketable securities. Open Text's total comprehensive earnings were as follows:

	Three months ended September 30,	
	<u>1999</u>	<u>1998</u>
Net income	\$ 2,823	\$ 2,066
Foreign translation adjustment	176	-
Unrealized gain on available-for-sale securities	<u>2,839</u>	<u>-</u>
Comprehensive net income	<u><u>\$ 5,838</u></u>	<u><u>\$ 2,066</u></u>

Earnings per share

Basic earnings per share is computed using the weighted average number of common shares. Diluted earnings per share is computed using the weighted average number of common shares and stock options outstanding during the period. Stock options are excluded for the computation if their effect is anti-dilutive.

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months Ended September 30, 1999

(unaudited)

(dollar amounts in thousands, except share data)

Recent Accounting Pronouncements

In December 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 98-9 "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions" effective for fiscal years commencing after March 15, 1999 ("SOP 98-9"). The adoption of SOP 98-9 has not had a material impact on the Company's results of operations and financial position.

In April 1998, the AICPA issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1") effective for fiscal years commencing after December 15, 1998. SOP 98-1 provides guidance regarding the determination of whether computer software is internal-use software, the capitalization of costs incurred for computer software developed or obtained for internal use and accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. The adoption of SOP 98-1 has not had a material impact on the Company's results of operations and financial position.

NOTE 2—AVAILABLE FOR SALE SECURITIES

During fiscal 1997, the Company acquired a minority equity interest in About.com, Inc. ("About.com") (formerly MiningCo.com Inc. and formerly General Internet, Inc.) which presently represents 885,201 shares of common stock. In March 1999, About.com completed an initial public offering of common stock and its common stock was listed on the Nasdaq. At September 30, 1999, the closing price for About.com's common stock as reported by Nasdaq was \$56.50 per share.

In the quarter ended March 31, 1999, the Company commenced accounting for its interest in About.com as securities available for sale, and will carry the investment on its balance sheet as a current asset valued at the trading value of the securities on the balance sheet date. The Company's balance sheet also includes a current liability for the estimated future tax payable if the securities were sold at the value reflected on the balance sheet.

Securities of Internet commerce companies such as About.com have been highly volatile, and the amount the Company will realize on this investment is uncertain. The Company agreed not to offer or sell its shares in About.com until September 20, 1999 without the consent of the managing underwriter of the initial public offering. At September 30, 1999 no shares had been sold.

NOTE 3 - ACCOUNTS PAYABLE - TRADE AND ACCRUED LIABILITIES

Accounts payable - trade and accrued liabilities are as follows:

	September 30, 1999	June 30, 1999
Accounts payable - trade	\$ 4,262	\$ 4,369
Accrued trade liabilities	5,220	3,405
Amounts payable for acquisitions	2,478	1,265
Accrued salaries and commissions	4,039	4,815
Other liabilities	125	141
	<u>\$ 16,124</u>	<u>\$ 13,995</u>

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For The Three Months Ended September 30, 1999
(unaudited)
(dollar amounts in thousands, except share data)

NOTE 4 – ACQUISITIONS

On September 3, 1999 Open Text purchased for cash all of the issued and outstanding common shares of Microstar for cash consideration of approximately \$6.9 Cdn million (\$4.6 million US).

On August 25, 1999 Open Text issued 40,000 Common Shares, with an estimated fair market value of \$1 million, plus \$3.0 Cdn million (\$2 million US) of cash to purchase PS Software.

NOTE 5 —INCOME TAXES

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

	Three months ended	
	September 30,	
	1999	1998
Income before income taxes	\$ 2,823	\$ 2,066
Combined basic Federal and Provincial income taxes at 44.6% as of September 30, 1999 and 1998	\$ 1,259	\$ 921
Decrease resulting from:		
Unrecorded benefit of temporary differences	-	-
Reduction in valuation allowance	(1,259)	-
Other	-	(921)
Income tax expense	\$ -	\$ -

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, 1998 and 1999.

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months Ended September 30, 1999

(unaudited)

(dollar amounts in thousands, except share data)

The Company and its subsidiaries have approximately \$59.6 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 \$30.0 million have no expiration date, and the balance of losses expire as follows:

Year Ended June 30	(in thousands)
2000	\$ 228
2001	2,420
2003	13,793
2004	3,624
2005	8,081
Thereafter	1,854
	<u>\$ 30,000</u>

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, net of a valuation allowance.

NOTE 6 — LEGAL PROCEEDINGS

The Company is engaged in a dispute with a Swedish company that distributes its products in Scandinavia. The Company initiated an action under the arbitration provisions in Ontario of the distribution agreement claiming that the distributor is in breach of the Agreement, damage related to this breach and for payment of certain fees incurred by the distributor. The distributor subsequently brought an action in Ontario against the Company, which has been stayed by the Ontario court pending a decision by the arbitrators as to the scope of the arbitration agreement between the parties. In connection with the action brought by the distributor, the Company does not believe it will incur any material liability.

NOTE 7—SEGMENT INFORMATION

In 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the reporting by public business enterprises of information about operating segments, products and services, geographic areas, and major customers. The method of determining what information to report is based on the way that management organizes the operating segments within the Company for making operational decisions and assessments of financial performance.

The Company has two reportable segments: North America, and Europe. The Company evaluates operating segment performance based on net revenues and direct operating expenses of the segment. The accounting policies of the operating segments are the same as those described in the summary of accounting policies. No segments have been aggregated.

Information about reported segments are as follows:

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For The Three Months Ended September 30, 1999
(unaudited)
(dollar amounts in thousands, except share data)

	North America	Europe	Other	Total
	(in thousands)			
<u>September 30, 1999</u>				
Revenue from external customers	\$ 15,601	\$ 8,852	\$ 943	\$ 25,396
Operating costs	<u>14,885</u>	<u>7,998</u>	<u>676</u>	<u>23,559</u>
Contribution margin	<u>\$ 716</u>	<u>\$ 854</u>	<u>\$ 267</u>	<u>\$ 1,837</u>
Segment assets	<u>\$ 75,235</u>	<u>\$ 24,881</u>	<u>\$ 939</u>	<u>\$ 101,055</u>
 <u>September 30, 1998</u>				
Revenue from external customers	\$ 11,292	\$ 5,797	\$ 184	\$ 17,273
Operating costs	<u>9,052</u>	<u>4,870</u>	<u>106</u>	<u>14,028</u>
Contribution margin	<u>\$ 2,240</u>	<u>\$ 927</u>	<u>\$ 78</u>	<u>\$ 3,245</u>
Segment assets	<u>\$ 28,979</u>	<u>\$ 15,315</u>	<u>\$ -</u>	<u>\$ 44,294</u>

For the quarter ended September 30, 1999 and 1998, the "Other" category consists of geographic regions other than North America and Europe.

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements for the quarter ended September 30, 1999 and 1998 is as follows:

	Three months ended September 30,	
	1999	1998
	(in thousands)	
Total contribution margin from operating segments above	\$ 1,837	\$ 3,245
Amortization and depreciation	<u>(1,811)</u>	<u>(1,711)</u>
Total operating income (loss)	\$ 26	\$ 1,534
Interest and other income	<u>2,797</u>	<u>532</u>
Net income	<u>\$ 2,823</u>	<u>\$ 2,066</u>

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For The Three Months Ended September 30, 1999
(unaudited)
(dollar amounts in thousands, except share data)

	As of September 30,	
	1999	1998
	(in thousands)	
Segment assets	\$ 101,055	\$ 44,294
Available for sale securities	50,017	-
Term deposits	116,643	31,109
Investments	2,959	3,978
Intercompany balances	-	-
Total corporate assets	\$ 270,674	\$ 79,381

Contribution margin from operating segments does not include amortization of intangible assets, acquired in-process research and development and restructuring costs. Goodwill and intangibles have been included in segment assets.

The distribution of net revenues determined by location of customer, and identifiable assets, greater than 10%, by geographic areas for the quarter ended September 30, 1999, 1998 are as follows:

	Three months ended September 30,	
	1999	1998
	(in thousands)	
Net revenues:		
Canada	\$ 3,137	\$ 657
United States	12,465	10,636
United Kingdom	3,639	1,606
Other	6,155	4,374
Total revenues	\$ 25,396	\$ 17,273

	As of September 30,	
	1999	1998
	(in thousands)	
Segment assets:		
Canada	\$ 30,018	\$ 7,713
United States	45,216	21,172
United Kingdom	13,008	3,273
Other	12,813	12,136
Total segment assets	\$ 101,055	\$ 44,294

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

“Forward Looking Statements”. Certain statements in this quarterly report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance or the outcome of litigation (often, but not always, using words or phrases such as “believes”, “expects” or “does not expect”, “is expected”, “anticipates” or “does not anticipate” or “intends” or stating that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken or achieved) are not statements of historical fact and may be “forward looking statements”. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or developments in the Company’s business or its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Such factors include, but are not limited to: the Company’s limited operating history and losses, year 2000 issues, increases in expenses, unproven acceptance of the Company’s products and services, risks involving the management of growth, risks of acquisitions, including risks involved in integrating recent and future acquisitions and acquired products into the Company’s business, competition and new entrants in the market for the Company’s products and services, product development risks, risks of technological change, litigation risk and liquidity and capital resources. Litigation and arbitration proceedings are inherently uncertain and can be affected by newly discovered evidence or documents, the assertion of new claims or legal theories and other factors that make it difficult to predict the outcome of litigation with certainty. Additional risks and uncertainties are described in connection with certain of the forward-looking statements under “Overview” and the Company’s Annual Report on Form 10-K for the year ended June 30, 1999 under the heading “Business – Risk Factors”. Forward-looking statements are based on management’s current plans, estimates, opinions and projections, and the Company assumes no obligation to update forward-looking statements if assumptions of these plans, estimates, opinions or projections should change. Certain of the forward-looking statements contained in this report are identified with cross-references to this section.

Overview

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 or 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 four of its last five fiscal years and as at September 30, 1999, had an accumulated deficit of \$43 million. The Company attained operating profitability for the last eight quarters, however there can be no assurance this can be sustained.

On September 3, 1999 Open Text purchased for cash all of the issued and outstanding common shares of Microstar. The takeover bid represented total cash consideration of approximately \$6.9 Cdn million (\$4.6 million US). Microstar is recognized for its innovative standards-based solutions based on SGML and XML, providing structured information management solutions for Global 2000 Companies. Their technology expertise includes the development of XML and SGML tools such as Near & Far Designer and the Aelfred XML parser. In view of the preceding, it is believed that the acquisition of Microstar provides the Company with an opportunity to successfully advance collaborative knowledge management technology.

On August 25, 1999 Open Text issued 40,000 Common Shares, with a value of \$1 million, plus \$3.0 Cdn million (\$2 million US) of cash to purchase PS Software. PS Software’s Web client, iRIMS, facilitates the filing and retrieval of corporate records at an enterprise level, delivering its records management functionality to users via a Web browser. iRIMS productivity capabilities, considerably streamline the workflow lifecycle.

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, 1999 Compared with Quarter Ended September 30, 1998

Revenues. The Company increased total revenues by 47% from \$17.3 million in the quarter ended September 30, 1998 to \$25.4 million for the quarter ended September 30, 1999. License revenue increased 31% from \$9.5 million in the quarter ended September 30, 1998 to \$12.5 million in the quarter ended September 30, 1999. License revenues from resellers accounted for 41% of the total license revenue for the quarter ended September 30, 1998 compared with 26% for the quarter ended September 30, 1999.

Service revenues increased 66% from \$7.8 million in the quarter ended September 30, 1998 to \$ 12.9 million in the quarter ended September 30, 1999. The increase in service revenues is attributable to an increase in professional services and recurring maintenance revenues. Professional services accounted for 26% of the service revenues in the quarter ended September 30, 1998 and 43% of the service revenue in the quarter ended September 30, 1999.

No customer accounted for 10% of revenue in the quarter ended September 30, 1999 or in the quarter ended September 30, 1998. For the quarter ended September 30, 1999, 63% of revenues were from customers resident in the North America, 33% of revenues were from customers in Europe and 4% of revenues were from customers in Asia and other compared with 80%, 18% and 2% respectively for North America, Europe and Asia and other for the quarter ended September 30, 1998.

Cost of revenues. Cost of license revenues decreased from \$666,000 in the quarter ended September 30, 1998 to \$403,000 in the quarter ended September 30, 1999. As a percent of license revenues, cost of revenues decreased from 7% in the quarter ended September 30, 1998 to 3% in the quarter ended September 30, 1999. Included in cost of license revenues is the amortization of software capitalized on the purchase of Information Dimensions and Lava Systems.

Cost of service revenues increased from \$2.7 million in the quarter ended September 30, 1998 to \$ 6.3 million in the quarter ended September 30, 1999. As a percent of service revenues, the cost of service revenues increased from 35% in the quarter ended September 30, 1998 to 49% in the quarter ended September 30, 1999. The increase is mainly attributable to the increase in professional services personnel.

Research and development. Research and development costs increased by 67% from \$2.2 million in the quarter ending September 30, 1998 to \$3.7 million in the quarter ending September 30, 1999. 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 increased from 13% in the quarter ended September 30, 1998 to 15% in the quarter ended September 30, 1999.

Sales and marketing. Sales and marketing expense increased 35% from \$7.7 million in the quarter ended September 30, 1998 to \$ 10.3 million in the quarter ended September 30, 1999. As a percentage of revenues, sales and marketing expense decreased from 44% in the quarter ending September 30, 1998 to 41% in the quarter ended September 30, 1999.

General and administrative. General and administrative expense increased 185% from \$1.0 million in the quarter ended September 30, 1998 to \$ 2.9 million in the quarter ended September 30, 1999. As a percent of revenues, general and administration expense increased from 6% in the quarter ended September 30, 1998 to 11 % in the quarter ended September 30, 1999. Included in general and administrative expenses in the quarter end September 30, 1999 was \$1.1 million for bad debt expenses.

Depreciation. Depreciation was \$951,000 in the quarter ended September 30, 1998 and increased to \$ 1.1 million in the quarter ended September 30, 1999. As a percent of revenues depreciation expense decreased from 6% in the quarter ended September 30, 1998 to 5% in the quarter ended September 30, 1999.

Amortization of acquired intangible assets. Amortization of acquired intangible assets was \$ 579,000 in the quarter ended September 30, 1999 versus \$518,000 in the quarter ended September 30, 1998. Amortization of acquired intangible assets includes the amortization of core technology and goodwill acquired in the Company's acquisitions.

Other income. Other income was \$73,000 for the quarter ended September 30, 1998 and increased to \$ 1.2 million for the quarter ended September 30, 1999. Other income is comprised mainly of gains and losses on the sales of investments.

Income taxes. The Company continues to have a net deferred tax asset. A \$9 million 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.

Liquidity and Capital Resources

At September 30, 1999, the Company had current assets of \$ 227 million, \$ 50 million of which are available for sale securities, and current liabilities of \$ 37 million. The Company has a Cdn \$10 million (USD\$6.8 million) line of credit with a Canadian chartered bank, under which no borrowings were outstanding at September 30, 1999. The line of credit bears interest at the lender's prime rate plus 0.5% and is secured by all of the Company's assets, including an assignment of accounts receivable.

Cash provided by operations during the quarter ended September 30, 1999 was \$ 3.6 million. Acquisitions of furniture and equipment was \$ 1.4 million. The purchase of Microstar and PS Software resulted in a cash outflow of \$ 6.6 million.

To date, license and service revenues have been insufficient to satisfy the Company's cash requirements, as the Company continues to search for businesses to acquire. The Company has financed its cash needs primarily through issuance of the Company's Common Shares. On May 3, 1999, the Company completed the issuance of 3.0 million Special Warrants, convertible into Common Shares for no additional consideration, for net proceeds of \$97 million. On September 7, 1999 all of the Special Warrants were converted to Common Shares without payment of additional consideration. Each Special Warrant entitles the holder, upon exercise thereof in accordance with its terms, to acquire one Common Share without payment of additional consideration therefor at any time on or after June 14, 1999 and up to and including 5:00 p.m. (E.S.T.) on the date (the "Expiry Date") which is the earlier of (a) the fifth business day after the date (the "Qualification Date") as of which the last of the Ontario, Alberta and Québec Securities Commissions shall have issued a receipt for a (final) prospectus qualifying the distribution of the Common Shares (the "Underlying Shares") issuable on the conversion of the Special Warrants; (b) and May 4, 2000.

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.

During fiscal 1997, the Company advanced approximately \$4.0 million to About.com, a US based Internet service development company and converted these advances to a promissory note. During 1999, the Company converted the note to 876,301 shares common stock and a special warrant to purchase 8,900 shares of About.com common stock.

Since June 30, 1995, the Company has completed Acquisitions and expanded its workforce while increasing its sales and marketing activities. 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, 2000. 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.

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 and has retained outside consultants to assist it in this compliance review. The focus of the Company's compliance efforts includes all of the Company's present products, systems and equipment. The Company is not testing any past products. The review and testing of present products was completed in May 1999. The Company also reviewed its internal systems and equipment and this review was completed in June 1999. Any remediation necessary on these internal systems was completed by the end of September 1999. The Company has not identified any specific critical issues. It is estimated that the compliance costs will not exceed \$500,000. See "Forward-Looking Statements".

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 embedded therein is fully compliant and that the underlying operating systems are fully compliant. 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 months 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. See "Forward-Looking Statements".

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

- not applicable

PART II Other Information

Item 1. Legal Proceedings

The Company is engaged in a dispute with a Swedish company that distributes its products in Scandinavia. The Company initiated an action under the arbitration provisions in Ontario of the distribution agreement claiming that the distributor is in breach of the Agreement, damage related to this breach and for payment of certain fees incurred by the distributor. The distributor subsequently brought an action in Ontario against the Company, which has been stayed by the Ontario court pending a decision by the arbitrators as to the scope of the arbitration agreement between the parties. In connection with the action brought by the distributor, the Company does not believe it will incur any material liability.

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 - None

(b) Reports on Form 8-K – Microstar

Open Text Corporation (NASDAQ:OTEX); (TSE:OTC) announced on July 26, 1999 it has entered into an agreement with Microstar Software Ltd (TSE:MSS) of Ottawa, Ontario to acquire all the outstanding shares of Microstar for \$2.10 per share payable in cash. Microstar, which had revenues of \$6.2 million for its last fiscal year ended January 31, 1999, is a leader in the XML software field .

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: November 4, 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)