

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 December 31, 2000

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 February 2, 2001 there were 19,720,179 outstanding Common Shares of the registrant.

OPEN TEXT CORPORATION

TABLE OF CONTENTS

<u>PART I Financial Information:</u>		<u>Page No.</u>
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets December 31, 2000 (Unaudited) and June 30, 2000	3
	Condensed Consolidated Statements of Operations (Unaudited) - Three Months and Six Months Ended December 31, 2000 and 1999	4
	Condensed Consolidated Statements of Cash Flows (Unaudited) - Six Months Ended December 31, 2000 and 1999	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	22
<u>PART II Other Information:</u>		
Item 1.	Legal Proceedings	22
Item 2.	Changes in Securities	22
Item 3.	Defaults Upon Senior Securities	22
Item 4.	Submission of Matters to a Vote of Security Holders	23
Item 5.	Other Information	23
Item 6.	Exhibits and Reports on Form 8-K	23
	Signatures	24

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)**

	December 31, 2000	June 30, 2000
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 81,733	\$ 113,918
Available for sale securities (note 2)	246	284
Accounts receivable - net of allowance for doubtful accounts of \$1,458 as of December 31, 2000 and \$1,033 as of June 30, 2000	34,296	27,090
Prepaid and other assets	2,424	1,983
Total current assets	118,699	143,275
Capital assets	11,349	9,470
Goodwill, net of accumulated amortization of \$5,974 at December 31, 2000 and \$4,410 at June 30, 2000	27,967	21,745
Deferred tax asset	1,800	2,200
Other assets	12,309	6,560
	<u>\$ 172,124</u>	<u>\$ 183,250</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 3)	\$ 24,991	\$ 18,422
Deferred revenues	18,011	16,481
Income tax payable (note 4)	2,652	10,310
Deferred tax liability	32	54
Total current liabilities	45,686	45,267
Shareholders' equity:		
Share capital		
19,627,025 and 20,229,822 Common Shares issued and outstanding at December 31, 2000 and June 30, 2000 respectively	200,635	206,667
Accumulated other comprehensive income:		
Unrealized gain on available for sale securities (net of tax)	112	130
Cumulative translation adjustment	(442)	(1,018)
Accumulated deficit (note 7)	(73,867)	(67,796)
Total shareholders' equity	126,438	137,983
	<u>\$ 172,124</u>	<u>\$ 183,250</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 December 31,		Six months ended December 31,	
	2000	1999	2000	1999
	(unaudited)		(unaudited)	
Revenues:				
License	\$ 20,119	\$ 12,989	\$ 34,505	\$ 25,473
Customer support	9,807	6,508	18,015	12,532
Service	7,900	7,231	15,356	14,119
Total revenues	37,826	26,728	67,876	52,124
Cost of revenues:				
License	2,359	620	3,379	1,023
Customer support	1,972	1,390	3,528	2,707
Service	5,972	7,231	11,741	12,267
Total cost of revenues	10,303	9,241	18,648	15,997
Gross profit	27,523	17,487	49,228	36,127
Operating expenses:				
Research and development	5,913	4,373	11,157	8,069
Sales and marketing	12,973	10,258	23,500	20,579
General and administrative	3,592	7,796	6,750	10,677
Depreciation	1,239	1,153	2,405	2,291
Amortization of acquired intangible assets	1,355	759	2,148	1,338
Restructuring	-	2,022	-	2,022
Total operating expenses	25,072	26,361	45,960	44,976
Income (loss) from operations	2,451	(8,874)	3,268	(8,849)
Other income (expense)	(175)	35,277	(308)	36,526
Interest income	1,305	1,820	2,898	3,369
Income before income taxes	3,581	28,223	5,858	31,046
Provision for income taxes	(398)	(12,600)	(530)	(12,600)
Net income for the period	\$ 3,183	\$ 15,623	\$ 5,328	\$ 18,446
Basic earnings per share				
	\$ 0.16	\$ 0.65	\$ 0.26	\$ 0.80
Diluted earnings per share				
	\$ 0.15	\$ 0.61	\$ 0.25	\$ 0.70
Weighted average number of Common				
Shares outstanding - basic	20,013	23,864	20,182	22,972
Weighted average number of Common				
Shares outstanding - diluted	21,394	25,470	21,607	26,172

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

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

	Six months ended December 31,	
	2000	1999
	(unaudited)	
Cash flows from operating activities:		
Net income for the period	\$ 5,328	\$ 18,446
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of acquired intangible assets	4,655	3,825
Gain on sale of available for sale securities	-	(35,691)
Income tax expense	(7,658)	6,000
Deferred taxes	400	6,600
Other	576	-
Changes in operating assets and liabilities net of assets acquired:		
Accounts receivable	(3,517)	2,943
Prepaid and other current assets	213	4,170
Deposits	38	-
Accounts payable - trade and accrued liabilities	771	2,997
Deferred revenue	(1,850)	1,982
Net cash provided by (used in) operating activities	(1,044)	11,272
Cash flows used in investing activities:		
Acquisitions of capital assets	(3,115)	(2,598)
Acquisition of companies	(10,669)	(6,611)
Increase in other investments	-	(1,500)
Proceeds from sale of other investments	-	1,762
Proceeds from sale of available for sale securities	-	35,883
Increases in other assets	-	(796)
Net cash provided by (used in) investing activities	(13,784)	26,140
Cash flow from financing activities:		
Payments of obligations under capital leases	85	(42)
Proceeds from issuance of Common Shares	4,078	3,179
Repurchase of Common Shares	(21,520)	(13,617)
Net cash used in financing activities	(17,357)	(10,480)
Decrease in cash and cash equivalents during the period	(32,185)	26,932
Cash and cash equivalents at beginning of year	113,918	140,256
Cash and cash equivalents at end of period	\$ 81,733	\$ 167,188

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2000

(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 Annual Report on Form 10-K/A as of June 30, 2000.

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

Comprehensive net income is comprised of net income and other comprehensive income such as the foreign currency translation effects of consolidation subsidiaries where the functional currency is the foreign currency and unrealized capital gains and losses on available for sale marketable securities. The Company's total comprehensive earnings were as follows:

	Three months ended		Six months ended	
	December 31,		December 31,	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Other comprehensive income (loss):				
Foreign currency translation adjustment	\$ (684)	\$ 21	\$ (576)	\$ (155)
Unrealized gain on available for sale securities (net of tax)	<u>(22)</u>	<u>(23,563)</u>	<u>(18)</u>	<u>(20,724)</u>
Other comprehensive income (loss):	(706)	(23,542)	(594)	(20,879)
Net income for the period	<u>3,183</u>	<u>15,623</u>	<u>5,328</u>	<u>18,446</u>
Comprehensive net income (loss) for the period	<u><u>\$ 2,477</u></u>	<u><u>\$ (7,919)</u></u>	<u><u>\$ 4,734</u></u>	<u><u>\$ (2,433)</u></u>

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2000

(unaudited)

(dollar amounts in thousands, except share data)

NOTE 2—AVAILABLE FOR SALE SECURITIES

About.com. 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 represented 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 National Market. At December 31, 2000 and December 31, 1999, the closing price for About.com's common stock as reported by NASDAQ was \$26.94 per share and \$89.75 per share respectively. During the year ended June 30, 2000 the Company sold 876,301 shares of About.com. Currently the Company holds 8,900 shares of About.com, which are restricted from sale until February 2001.

Beginning in the quarter ended March 31, 1999, the Company commenced accounting for its interest in About.com as securities available for sale, carrying 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 income 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.

NOTE 3 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	<u>December 31,</u> <u>2000</u>	<u>June 30,</u> <u>2000</u>
Accounts payable - trade	\$ 3,032	\$ 3,757
Accrued trade liabilities	11,944	6,173
Amounts payable for acquisitions	2,326	968
Restructuring	-	221
Accrued salaries and commissions	7,542	7,241
Other liabilities	147	62
	<u>\$ 24,991</u>	<u>\$ 18,422</u>

NOTE 4—INCOME TAXES

As at December 31, 2000, the Company had total gross deferred tax assets of \$13.2 million, the principle components of which were temporary differences associated with net operating loss carryforwards and employee stock option deductions. The Company has provided for a valuation allowance of \$11.4 million since it believes sufficient uncertainty exists regarding the realizability of these deferred tax assets.

The Company and its subsidiaries have approximately \$33.5 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 \$10.7 million have no expiration date, and the balance of losses expire between 2004 and 2011. The Company operates in several tax jurisdictions. Its income is subject to varying rates of tax, and losses incurred in one jurisdiction cannot be used to offset income taxes payable in another.

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2000

(unaudited)

(dollar amounts in thousands, except share data)

NOTE 5—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.

Information about reported segments are as follows:

	North America	Europe	Other	Total
<u>Three months ended December 31, 2000</u>				
Revenue from external customers	\$ 20,880	\$ 14,611	\$ 2,335	\$ 37,826
Operating costs	23,948	8,317	516	32,781
Contribution margin	\$ (3,068)	\$ 6,294	\$ 1,819	\$ 5,045
Segment assets	\$ 72,117	\$ 39,578	\$ 811	\$ 112,506
<u>Three months ended December 31, 1999</u>				
Revenue from external customers	\$ 16,050	\$ 9,921	\$ 757	\$ 26,728
Operating costs	20,680	9,569	895	31,144
Contribution margin	\$ (4,630)	\$ 352	\$ (138)	\$ (4,416)
Segment assets	\$ 64,612	\$ 24,796	\$ 926	\$ 90,334

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2000

(unaudited)

(dollar amounts in thousands, except share data)

	North America	Europe	Other	Total
<u>Six months ended December 31, 2000</u>				
Revenue from external customers	\$ 38,718	\$ 25,349	\$ 3,809	\$ 67,876
Operating costs	43,250	15,578	1,125	59,953
Contribution margin	<u>\$ (4,532)</u>	<u>\$ 9,771</u>	<u>\$ 2,684</u>	<u>\$ 7,923</u>
Segment assets	<u>\$ 72,117</u>	<u>\$ 39,578</u>	<u>\$ 811</u>	<u>\$ 112,506</u>

<u>Six months ended December 31, 1999</u>				
Revenue from external customers	\$ 31,651	\$ 18,773	\$ 1,700	\$ 52,124
Operating costs	35,565	17,567	1,571	54,703
Contribution margin	<u>\$ (3,914)</u>	<u>\$ 1,206</u>	<u>\$ 129</u>	<u>\$ (2,579)</u>
Segment assets	<u>\$ 64,612</u>	<u>\$ 24,796</u>	<u>\$ 926</u>	<u>\$ 90,334</u>

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements for the three months and six months ended December 31, 2000 and 1999 are as follows:

	<u>Three months ended December 31,</u>	
	<u>2000</u>	<u>1999</u>
Total contribution margin from operating segments above	\$ 5,045	\$ (4,416)
Amortization and depreciation	2,594	2,014
Total operating income (loss)	<u>\$ 2,451</u>	<u>\$ (6,430)</u>
Interest, other income and taxes	732	22,053
Net income	<u>\$ 3,183</u>	<u>\$ 15,623</u>

	<u>Six months ended December 31,</u>	
	<u>2000</u>	<u>1999</u>
Total contribution margin from operating segments above	\$ 7,923	\$ (2,579)
Amortization and depreciation	4,655	3,825
Total operating income (loss)	<u>\$ 3,268</u>	<u>\$ (6,404)</u>
Interest and other income	2,060	24,850
Net income	<u>\$ 5,328</u>	<u>\$ 18,446</u>

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2000

(unaudited)

(dollar amounts in thousands, except share data)

	As of December 31,	
	<u>2000</u>	<u>1999</u>
Segment assets	\$ 112,506	\$ 90,334
Available for sale securities	246	15,881
Term deposits	56,582	153,137
Investments	<u>2,790</u>	<u>2,516</u>
Total corporate assets	<u>\$ 172,124</u>	<u>\$ 261,868</u>

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.

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2000

(unaudited)

(dollar amounts in thousands, except share data)

The distribution of net revenues determined by location of customer and identifiable assets, greater than 10%, by geographic areas for the quarter ended December 31, 2000 and 1999 are as follows:

	Three months ended December 31,	
	2000	1999
Net revenues:		
Canada	\$ 2,522	\$ 2,779
United States	18,358	13,271
United Kingdom	5,931	4,250
Rest of Europe	8,680	5,671
Other	2,335	757
Total revenues	\$ 37,826	\$ 26,728

	Six months ended December 31,	
	2000	1999
Net revenues:		
Canada	\$ 4,261	\$ 5,916
United States	34,457	25,736
United Kingdom	10,422	7,889
Rest of Europe	14,927	10,885
Other	3,809	1,698
Total revenues	\$ 67,876	\$ 52,124

	As of December 31,	
	2000	1999
Segment assets:		
Canada	\$ 19,691	\$ 27,555
United States	52,426	37,057
United Kingdom	16,299	11,514
Rest of Europe	23,279	13,282
Other	811	926
Total segment assets	\$ 112,506	\$ 90,334

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 2000

(unaudited)

(dollar amounts in thousands, except share data)

NOTE 6—ACQUISITIONS

On October 18, 2000, the Company entered into an agreement to purchase shares of Bluebird Systems of Carlsbad, California, representing approximately 90.5% of the outstanding shares of Bluebird Systems, for approximately \$6.2 million in cash. Pursuant to the agreement, an Open Text subsidiary has agreed to merge with Bluebird Systems. After consummation of the merger, the Company will have paid a total of approximately \$8.0 million for Bluebird Systems. The Company may be required to pay an additional \$8.0 million over the next 2 years based on the performance of the acquired company.

On November 14, 2000, the Company purchased the shares of Open Image Systems Inc. for approximately \$3.0 Cdn million (approximately \$2.0 million US) in cash.

On November 21, 2000, the Company purchased the assets of the product businesses of LeadingSide Inc. for approximately \$3.0 million in cash.

NOTE 7—ACCUMULATED DEFICIT

During the quarter ended December 31, 2000, the Company repurchased 724,900 shares at a total cost of \$17.2 million, common share capital was reduced by \$7.4 million and retained earnings was reduced by \$9.8 million. During the six months ended December 31, 2000, the Company repurchased 830,100 shares at a total cost of \$21.5 million, common share capital was reduced by \$10.1 million and retained earnings was reduced by \$11.4 million. The repurchase was charged to common share capital based on the average carrying value of the common stock with the remainder being charged to accumulated deficit.

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, increases or decreases in expenses, unproven acceptance of the Company's products and services, risks regarding ASP contract and other revenues, risks involving the management of growth, risks regarding implementation of the Company's global marketing strategy and implementing any changes thereto, 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 regarding recruiting and retention of employees, risks regarding efforts to increase utilization of consulting staff, 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". 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, enabling 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 light of the risks, expenses and difficulties frequently encountered by companies seeking to introduce new products into new and rapidly evolving markets characterized by intense competition. 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, compete effectively with a large number of technologically sophisticated and well financed companies, and attract, retain and motivate highly qualified personnel, manage rapid growth and integrate the personnel, technologies and operations of acquired businesses. There can be no assurance that the Company will successfully address these challenges.

The Company has incurred losses from operations in four of its last six fiscal years and as at December 31, 2000, had an accumulated deficit in shareholders' equity of \$73.9 million. The Company attained profitability from operations in fiscal 1999 and overall the Company was profitable in fiscal 2000. The Company continues to be profitable in the quarter ended December 31, 2000. Product license revenues were \$20.1 million which is 53% of total revenue for the quarter ended December 31, 2000. Product maintenance revenues were \$9.8 million in the quarter ended December 31, 2000 and continue to grow as the Company's major products are sold with annual maintenance contracts, which in the past were typically priced at 18.5% of sale price and are

now generally priced at 18.5% of list price of the software system purchased, subject to negotiated discounts, if any. Professional service revenues, which include training and consulting services, were \$7.9 million in the quarter ended December 31, 2000. Cash and cash equivalents remain strong at \$82 million as of December 31, 2000. The cash decline during the quarter was due to acquisitions and repurchase of Common Shares by the Company. During the quarter ended December 31, 2000 the Company acquired the shares of Bluebird Systems for approximately \$6.2 million, the shares of Open Image Systems Inc. for approximately \$2.0 million, and the assets of the product businesses of LeadingSide Inc. for approximately \$3.0 million. During the quarter ended December 31, 2000 the Company repurchased 724,900 shares for a total of \$17.2 million. The Company's days sales outstanding (DSO) increased from 70 days at September 30, 2000 to 82 days at December 31, 2000 primarily due to the acquisitions' receivable balances acquired during the quarter ended December 31, 2000. Segment information is provided in Note 5 of the financial statements.

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.

Results of Operations

Quarter Ended December 31, 2000 Compared with Quarter Ended December 31, 1999

Revenues. The Company increased total revenues by 42% from \$26.7 million in the quarter ended December 31, 1999 to \$37.8 million for the quarter ended December 31, 2000. License revenue increased 55% from \$13.0 million in the quarter ended December 31, 1999 to \$20.1 million in the quarter ended December 31, 2000.

Customer support revenues increased 51% from \$6.5 million in the quarter ended December 31, 1999 to \$9.8 million for the quarter ended December 31, 2000. Customer support revenue increases can be attributed to strong license revenue growth and strong customer retention rates.

Service revenues increased 9% from \$7.2 million in the quarter ended December 31, 1999 to \$7.9 million in the quarter ended December 31, 2000, due to an increase in consulting and integration services.

No single customer accounted for greater than 10% of revenue in the quarter ended December 31, 2000 or in the quarter ended December 31, 1999. For the quarter ended December 31, 2000, 55% of revenues were from customers resident in North America, 39% of revenues were from customers in Europe and 6% of revenues were from customers in other areas outside North America and Europe ("Other") compared with 60%, 37% and 3% respectively for North America, Europe and Other for the quarter ended December 31, 1999.

Cost of revenues. Cost of license revenues increased from \$0.6 million in the quarter ended December 31, 1999 to \$2.4 million in the quarter ended December 31, 2000. As a percent of license revenues, cost of revenues increased from 5% in the quarter ended December 31, 1999 to 12% in the quarter ended December 31, 2000. The increase was due to significant one time third party product costs, which were incurred in the quarter ended December 31, 2000.

Cost of customer support revenues increased from \$1.4 million in the quarter ended December 31, 1999 to \$2.0 million in the quarter ended December 31, 2000. As a percent of customer support revenues, cost of revenues decreased from 21% in the quarter ended December 31, 1999 to 20% in the quarter ended December 31, 2000. Customer support costs in absolute dollars have increased due to an increase in staff in both the support and contract renewal areas to support the larger installed customer base.

Cost of service revenues decreased from \$7.2 million in the quarter ended December 31, 1999 to \$6.0 million in the quarter ended December 31, 2000. As a percent of service revenues, the cost of service revenues decreased from 100% in the quarter ended December 31, 1999 to 76% in the quarter ended December 31, 2000. Service revenue costs have decreased due to improved utilization and reduced use of subcontractors for professional services work.

Research and development. Research and development costs increased by 35% from \$4.4 million in the quarter ending December 31, 1999 to \$5.9 million in the quarter ending December 31, 2000. Research and development costs consist primarily of personnel expenses, and the related facilities and equipment expenses. The increase in research and development expenses was a result of increased compensation expenses resulting from additional personnel, annual increases in market compensation levels and acquisitions. As a percentage of revenues, research and development costs remained constant at 16% from the quarter ended December 31, 1999 to the quarter ended December 31, 2000.

Sales and marketing. Sales and marketing expenses increased 27% from \$10.3 million in the quarter ended December 31, 1999 to \$13.0 million in the quarter ended December 31, 2000. Sales costs increased due to expansion of the sales force, increased commissions related to sales growth and acquisitions. Marketing expenditures included user conference costs for both North America and Europe. As a percentage of revenues, sales and marketing expense decreased from 38% in the quarter ending December 31, 1999 to 34% in the quarter ended December 31, 2000.

General and administrative. General and administrative expense decreased 54% from \$7.8 million in the quarter ended December 31, 1999 to \$3.6 million in the quarter ended December 31, 2000. As a percent of revenues, general and administrative expense decreased from 29% in the quarter ended December 31, 1999 to 10% in the quarter ended December 31, 2000. This decrease is due to one time bad debt expenses and Y2K expenditures, which were incurred in the quarter ended December 31, 1999.

Depreciation. Depreciation remained constant at \$1.2 million in the quarter ended December 31, 2000. As a percent of revenues depreciation expense decreased from 4% in the quarter ended December 31, 1999 to 3% in the quarter ended December 31, 2000.

Amortization of acquired intangible assets. Amortization of acquired intangible assets increased 79% from \$0.8 million in the quarter ended December 31, 1999 to \$1.4 in the quarter ended December 31, 2000. As a percent of revenues amortization of acquired intangible assets increased from 3% in the quarter ended December 31, 1999 to 4% in the quarter ended December 31, 2000. This increase is due to amortization of purchased technology, core technology and goodwill related to the acquisitions made in the quarter ended December 31, 2000.

Other income (expense). Other income was \$35.3 million for the quarter ended December 31, 1999 and was an expense of \$0.2 million for the quarter ended December 31, 2000. Included in other income for the quarter ended December 31, 1999 was \$35.3 million of gains on the sale of investments, compared to no investment gains or losses in the quarter ended December 31, 2000. Other income (expense) is comprised mainly of gains and losses on the sales of investments and foreign exchange gain or loss.

Interest income. Interest income was \$1.8 million for the quarter ended December 31, 1999 compared to \$1.3 million for the quarter ended December 31, 2000. See "Liquidity and Capital Resources".

Income taxes. The Company continues to have a net deferred tax asset of \$1.8 million.

Results of Operations

Six Months Ended December 31, 2000 Compared with the Six Months Ended Quarter Ended December 31, 1999

Revenues. The Company increased total revenues by 30% from \$52.1 million in the six months ended December 31, 1999 to \$67.9 million for the six months ended December 31, 2000. License revenue increased 36% from \$25.5 million in the six months ended December 31, 1999 to \$34.5 million in the six months ended December 31, 2000.

Customer support revenues increased 44% from \$12.5 million in the six months ended December 31, 1999 to \$18.0 million for the six months ended December 31, 2000. Customer support revenue increases can be attributed to strong license revenue growth and strong customer retention rates.

Service revenues increased 9% from \$14.1 million in the six months ended December 31, 1999 to \$15.4 million in the six months ended December 31, 2000, due to an increase in consulting and integration services.

Cost of revenues. Cost of license revenues increased from \$1.0 million in the six months ended December 31, 1999 to \$3.4 million in the six months ended December 31, 2000. As a percent of license revenues, cost of revenues increased

from 4% in the six months ended December 31, 1999 to 10% in the six months ended December 31, 2000. The increase was due to significant one time third party product costs, which were incurred in the six months ended December 31, 2000.

Cost of customer support revenues increased from \$2.7 million in the six months ended December 31, 1999 to \$3.5 million in the six months ended December 31, 2000. As a percent of customer support revenues, cost of revenues decreased from 22% in the six months ended December 31, 1999 to 20% in the six months ended December 31, 2000. Customer support costs in absolute dollars have increased due to an increase in staff in both the support and contract renewal areas to support the larger installed customer base.

Cost of service revenues decreased from \$12.3 million in the six months ended December 31, 1999 to \$11.7 million in the six months ended December 31, 2000. As a percent of service revenues, the cost of service revenues decreased from 87% in the six months ended December 31, 1999 to 77% in the six months ended December 31, 2000. Service revenue costs have decreased due to improved utilization and reduced use of subcontractors for professional services work.

Research and development. Research and development costs increased by 38% from \$8.1 million in the six months ending December 31, 1999 to \$11.2 million in the six months ending December 31, 2000. Research and development costs consist primarily of personnel expenses, and the related facilities and equipment expenses. The increase in research and development expenses was a result of increased compensation expenses resulting from additional personnel, annual increases in market compensation levels and acquisitions. As a percentage of revenues, research and development costs remained constant at 16% from the six months ended December 31, 1999 to the six months ended December 31, 2000.

Sales and marketing. Sales and marketing expenses increased 14% from \$20.6 million in the six months ended December 31, 1999 to \$23.5 million in the six months ended December 31, 2000. Sales costs increased due to expansion of the sales force, increased commissions related to sales growth and acquisitions. Marketing expenditures included user conference costs for both North America and Europe. As a percentage of revenues, sales and marketing expense decreased from 40% in the six months ending December 31, 1999 to 35% in the six months ended December 31, 2000.

General and administrative. General and administrative expense decreased 37% from \$10.7 million in the six months ended December 31, 1999 to \$6.8 million in the six months ended December 31, 2000. As a percent of revenues, general and administrative expense decreased from 21% in the six months ended December 31, 1999 to 10% in the six months ended December 31, 2000. This decrease is due to one time bad debt expenses and Y2K expenditures, which were incurred in the six months ended December 31, 1999.

Depreciation. Depreciation increased 5% from \$2.3 million in the six months ended December 31, 1999 to \$2.4 million in the six months ended December 31, 2000. As a percent of revenues depreciation expense remained constant at 4% in the six months ended December 31, 1999 to the six months ended December 31, 2000.

Amortization of acquired intangible assets. Amortization of acquired intangible assets increased 61% from \$1.3 million in the six months ended December 31, 1999 to \$2.1 in the six months ended December 31, 2000. As a percent of revenues amortization of acquired intangible assets remained constant at 3% in the six months ended December 31, 1999 to the six months ended December 31, 2000. This increase is due to amortization of purchased technology, core technology and goodwill related to the acquisitions made in the six months ended December 31, 2000.

Other income (expense). Other income was \$36.5 million for the six months ended December 31, 1999 and was an expense of \$0.3 million for the six months ended December 31, 2000. Included in other income for the six months ended December 31, 1999 was \$36.5 million of gains on the sale of investments, compared to no investment gains or losses in the six months ended December 31, 2000. Other income (expense) is comprised mainly of gains and losses on the sales of investments and foreign exchange gain or loss.

Interest income. Interest income was \$3.4 million for the six months ended December 31, 1999 compared to \$2.9 million for the six months ended December 31, 2000. See "Liquidity and Capital Resources".

Income taxes. The Company continues to have a net deferred tax asset of \$1.8 million.

Liquidity and Capital Resources

At December 31, 2000, the Company had current assets of \$119 million, current liabilities of \$46 million and net working capital of \$73 million. At December 31, 2000 the Company had cash and cash equivalents totaling \$82 million. The

Company also has a Cdn \$10 million (USD\$6.6 million) line of credit with a Canadian chartered bank, under which no borrowings were outstanding at December 31, 2000. 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, up to the amount borrowed against the credit line.

Cash provided by operations during the three months ended December 31, 2000 was \$1.7 million. Cash used for acquisitions of furniture and equipment was \$ 1.1 million for the three months ended December 31, 2000. Cash used in operations during the six months ended December 31, 2000 was \$1.0 million, including a \$7.5 million non-recurring payment for income tax on the gain on the sale of About.com shares in fiscal 2000. Cash used for acquisitions of furniture and equipment was \$3.1 million for the six months ended December 31, 2000.

During the quarter ended December 31, 2000 the Company acquired the shares of Bluebird Systems for approximately \$6.2 million, the shares of Open Image Systems Inc. for approximately \$2.0 million, and the assets of the product businesses of LeadingSide Inc. for approximately \$3.0 million.

During the quarter ended December 31, 2000, the Company repurchased 724,900 shares at a cost of \$17.2 million. During the six months ended December 31, 2000, the Company repurchased 830,100 shares at a cost of \$21.5 million.

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. During September 1999, Special Warrants were converted into Common Shares without payment of additional consideration.

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 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 Warrant to purchase 67,708 shares of About.com common stock.

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.

Since June 30, 1995, the Company has completed 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 cashflow from operations will be sufficient to satisfy the Company's operational cash requirements. 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 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.

Risk Factors

Prospective investors should consider carefully the following factors, as well as all of the other information set forth herein, in evaluating an investment in Open Text's securities.

Limited Operating History; Losses; Accumulated Deficit; Increased Expenses

Open Text was founded in June 1991 and commenced shipment of its initial products in September 1991. *Livelink*, Open Text's principal product was first released during fiscal 1996. Accordingly, Open Text has only a limited operating history upon which an evaluation of its business and prospects can be based. The Company has incurred net losses in four of the last six fiscal years. As of December 31, 2000, the Company had an accumulated deficit of \$73.9 million. Some of the acquired businesses also sustained substantial losses prior to their acquisition by the Company. There can be no assurance that Open Text can continue to generate further revenue growth, or that any revenue growth that is achieved can be sustained. In addition, Open Text

has increased, and plans to increase further, its operating expenses in order to fund higher levels of research and development, increase its sales and marketing efforts, develop new distribution channels, broaden its customer support capabilities and increase its administrative resources with the objective of supporting future growth. To the extent that increases in such expenses precede or are not subsequently followed by increased revenues, the Company's business, operating results and financial condition will be materially adversely affected. There can be no assurance that Open Text will continue to sustain profitability. In addition, in view of recent revenue growth, the rapidly evolving nature of its business and markets, its short operating history and its completion of the recent acquisitions of PS Software Solutions Ltd., Microstar Software Ltd., Bluebird Systems, Open Image Systems Inc., and the assets of the product business of LeadingSide Inc., Open Text believes that period-to-period comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

Unproven Acceptance of the Company's Products and Services; Developing Market

Open Text is working on the development of improvements to and new versions of *Livelink*. In the past, the Company has at times experienced longer than anticipated installation times for new products as they were being integrated into customer networks, and problems were discovered with the software, as frequently occurs with new software releases. There can be no assurance that, despite testing by the Company, errors will not be found in new software products or improvements to existing products after release, or, if discovered, that the Company will be able to successfully correct such errors in a timely manner, or at all. If the Company is unable to successfully market its current products and services, develop new software products and services and enhancements to current products and services, correct errors and complete customer installations on a timely basis or complete products and services currently under development, or if the Company's products and services or enhancements do not achieve and sustain market acceptance, the Company's business, operating results and financial condition will be materially adversely affected.

The primary market for Open Text's software and services has only recently begun to develop and is rapidly evolving. As is typical in the case of a new and rapidly evolving industry, demand for and market acceptance of products and services that have been released recently or that are planned for future release are subject to a high level of uncertainty. If the markets for the Company's products and services fail to develop, develop more slowly than expected or become saturated with competitors, or if the Company's products and services do not achieve and sustain market acceptance, the Company's business, operating results and financial condition will be materially adversely affected.

Management of Growth; Integration of Acquisitions

In the past year, Open Text has experienced rapid growth in revenues, research and development activities and product distribution channels. In addition, Open Text's markets have evolved, and continue to evolve, at a rapid pace. The Company believes that continued growth in the breadth of its product lines and services and in the number of personnel will be required in order to establish and maintain the Company's competitive position. The Company has grown through acquisitions in the past and continues to review acquisition opportunities as a means of increasing the size and scope of its business. In November 2000, Open Text completed the acquisition of the assets of the product businesses of LeadingSide Inc. and the shares of Open Image Systems Inc. In October 2000, Open Text completed the acquisition of Bluebird Systems. In September 1999, Open Text completed the acquisition of Microstar. In August 1999, Open Text completed the acquisition of PS Software. In December 1998, Open Text acquired certain assets of Lava. In June 1998, Open Text completed the acquisition of Information Dimensions. In December 1997, Open Text completed the acquisition of OnTime. There can be no assurances that the Company will complete any future acquisitions, and if completed that any further such acquisitions will be successfully integrated into the Company.

Open Text's growth, coupled with the rapid evolution of the Company's markets, has placed, and is likely to continue to place, significant strains on its administrative and operational resources and increased demands on its internal systems, procedures and controls. The Company has focussed its efforts on the *Livelink* product suite and consolidating the operations of Information Dimensions, OnTime, Lava, PS Software, Microstar, Bluebird Systems, Open Image Systems Inc., and the product businesses of LeadingSide. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview". If the Company completes significant future acquisitions, the need to integrate and manage the business acquired with the business of the Company would add to the demands on the Company's management, resources, systems, procedures and controls. There can be no assurance that the Company's administrative infrastructure, systems, procedures and controls will adequately support the Company's operations or that Company management will be able to achieve the rapid, effective execution of the product and business initiatives necessary to successfully penetrate the markets for the Company's products and services and to successfully integrate any business acquisitions in the future. If the Company is unable to manage growth effectively, the Company's business, operating results and financial condition will be materially adversely affected.

New Product Development and Technological Change

Open Text's success will depend on its ability to design, develop, test, market, sell and support new software products and enhancements of current products on a timely basis in response to both competitive products and evolving demands of the marketplace. In addition, new software products and enhancements must remain compatible with standard platforms and file formats. Presently, Open Text is continuing to enhance the capability for Livelink to enable users to form workgroups and collaborate on intranets and the Internet. The Company increasingly must integrate software licensed from third parties with its own software to create or improve intranet and Internet products. These projects are key to the success of the Company's strategy, and there can be no assurance that the Company will be successful in developing and marketing these and other new software products and enhancements. If the Company is unable to successfully integrate the technologies licensed from third parties, to develop new software products and enhancements to existing products or to complete products currently under development, or if such integrated or new products or enhancements do not achieve market acceptance, the Company's business, operating results and financial condition will be materially adversely affected.

Product Defects and Product Liability

The Company's products are highly complex and sophisticated and, from time to time, may contain design defects or software errors that are difficult to detect and correct. There can be no assurance that errors will not be found in new products after commencement of commercial shipments or, if discovered, that the Company will be able to successfully correct such errors in a timely manner or at all. In addition, despite tests carried out by the Company on all its products, there is can be no assurance that the Company will be able to fully simulate the environment in which its products will operate and, as a result, the Company may be unable to adequately detect design defects or software errors inherent in its products and which only become apparent when the products are installed in an end-user's network. The occurrence of errors and failures in the Company's products could result in loss of or delay in market acceptance of the Company's products, and alleviating such errors and failures in the Company's products could require significant expenditure of capital and other resources by the Company. Because the Company's end-user base consists of a limited number of end-users, the reputational harm resulting from product errors and failures would be damaging to the Company. The consequences of such errors and failures could have a material adverse effect on the Company's businesses, results of operations and financial condition. The Company regularly provides a warranty with its products. There can be no assurance that the financial impact of these warranty obligations will not be significant in the future. The Company's agreements with its strategic partners and end-users typically contain provisions designed to limit the Company's exposure to claims, such as exclusions of all implied warranties and limitations on damage remedies and the availability of consequential or incidental damages. However, such provisions may not effectively protect the Company against claims and related liabilities and costs. Although the Company maintains errors and omissions insurance coverage and comprehensive liability insurance coverage, there can be no assurance that such coverage will be adequate or that all claims will be covered. Accordingly, any such claim could have a material adverse effect upon the Company's business, results of operations and financial condition.

Potential Acquisitions, Investments, Joint Ventures and Other Business Initiatives

Open Text continues to seek out opportunities to acquire or invest in businesses, products and technologies that expand, complement 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. The Company believes that these efforts may result in the formation, together with third parties, of new business units or joint ventures involving substantial investment of funds and/or technology transfers, the acquisition or disposition of product lines or businesses or other initiatives. 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. Such activities also could place significant strains on the Company's administrative and operational resources and its ability to manage growth.

Third Party Software

Developments of Internet and intranet applications by companies, including Open Text, must rely on the stability, functionality and scalability of the infrastructure software of the underlying intranet, such as that of Netscape, Microsoft and others. There can be no assurance that if weaknesses in third party software are detected, the Company will be able to correct or compensate for such weaknesses. If the Company is unable to address weaknesses resulting from problems in the infrastructure

software such that the Company's products do not meet customer needs or expectations, the Company's business, operating results and financial condition will be materially adversely affected.

Competition; New Entrants

The markets for the Company's products are new, intensely competitive, subject to rapid technological change and evolving rapidly. The Company expects competition to persist, increase and intensify in the future as the markets for the Company's products continue to develop and as additional companies enter each of its markets. Numerous releases of products and services that compete with those of the Company can be expected in the near future. There can be no assurance that the Company will be able to compete effectively with current and future competitors. If these or other competitors were to engage in aggressive pricing policies with respect to other competing products, or significant price competition were to otherwise develop, the Company would likely be forced to lower its prices, which could have a material adverse effect on the Company's business, operating results and financial condition.

Dependence on the Adoption of Intranets; Uncertain Adoption of Intranets

Open Text will rely heavily on the development of markets for products that support or increase the functionality of intranets with respect to *Livelink*. This product is marketed to organizations with intranets or those that are considering the creation of intranets. There are a number of concerns, including concerns relating to the effectiveness of technologies providing security for information resident on the organization's network, which may inhibit organizations from creating intranets. There can be no assurance that organizations will seek to enable users to collaborate over intranets or that the Company's products will appeal to organizations that do so. If organizations adopting intranets do not select the Company's products, the Company's business, operating results and financial condition will be materially adversely affected.

Potential Fluctuations in Quarterly Operating Results

The Company has experienced, and is likely to continue to experience, significant fluctuations in quarterly operating results caused by many factors, including changes in the demand for the Company's products, the introduction or enhancement of products by the Company and its competitors and market acceptance of those enhancements or products, delays in the introduction of products or enhancements by the Company or its competitors, customer order deferrals in anticipation of upgrades and new products, changes in the Company's pricing policies or those of its competitors, the mix of distribution channels through which products are sold, the mix of products and services sold, the mix of international and North American revenues, foreign currency exchange rates and general economic conditions.

Because the decision by a customer to purchase the Company's products often involves relatively large-scale implementation across the customer's network or networks, sales of these products may entail a significant commitment of resources by prospective customers, accompanied by the attendant risks and delays frequently associated with significant expenditures and lengthy sales cycle and implementation procedures. If installation of the Company's products in one or more customers takes longer than originally anticipated, the date on which revenue from these sales could be recognized could be delayed. Like many other software companies, the Company has generally recognized a substantial portion of its revenues in the last quarter of each year and in the last weeks of each quarter. Accordingly, the cancellation or deferrals of even a small number of purchases or delay in installations of the Company's products could have a material adverse effect on the Company's business, results of operations and financial condition in any particular quarter. The Company also has noted historically lower sales in July and August than in other months, which has resulted in proportionately lower sales in the quarter ended September 30 than in other quarters. Because of the Company's limited operating history, the impact of the timing of product introductions and the rapid evolution of the Company's business and the markets it serves, the Company cannot predict whether seasonal patterns experienced in the past will continue. Due to all of the foregoing, the Company believes that its quarterly operating results could vary significantly in the future.

Intellectual Property Rights

The Company is highly dependent on its ability to protect its proprietary technology. There can be no assurance that the Company's efforts to protect its intellectual property rights will be successful. The Company relies on a combination of copyright, trademark and trade secret laws, non-disclosure agreements and other contractual provisions to establish and maintain its proprietary rights. The Company has not sought patent protection for its products. Enforcement of the Company's intellectual property rights may be difficult, particularly in some nations outside of the United States and Canada in which the Company seeks to market its products. Despite the precautions taken by the Company, it may be possible for unauthorized

third parties, including competitors, to copy certain portions of the Company's products or to reverse engineer or obtain and use information that the Company regards as proprietary. Although the Company does not believe that its products infringe on the rights of third parties, there can be no assurance that third parties will not assert infringement claims against the Company in the future, or that any such assertions will not result in costly litigation or require the Company to obtain a license for the intellectual property rights of third parties. There can be no assurance that such licenses will be available on reasonable terms, or at all. Another company has registered the trademark "Opentext" in the United States.

Dependence on Key Personnel; Recent Changes

The Company's performance is substantially dependent on the performance of its executive officers and key employees, most of whom have worked together for a relatively short period of time. In April 2000, Alan Hoverd was promoted from the position of Vice-President, Finance to the position of Chief Financial Officer. In November 1998, the Company added John Shackleton as President. The loss of the services of any of its executive officers or other key employees could have a material adverse effect on the business, operating results and financial condition of the Company. The Company does not maintain "key person" life insurance policies on any of its employees. The Company's success is highly dependent on its continuing ability to identify, hire, train, retain and motivate highly qualified management, technical and sales and marketing personnel, including recently hired officers and other employees. Competition for such personnel is intense, and there can be no assurance that the Company will be able to attract, assimilate or retain highly qualified technical and managerial personnel in the future.

Possible Volatility of Stock Price

The market price of the Common Shares has been highly volatile and subject to wide fluctuations. Such fluctuations in market price may continue in response to quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many high technology companies and that often have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations or any failure of the Company's operating results in a particular quarter to meet market expectations may adversely affect the market price of the Common Shares. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would have a material adverse effect on the Company's business, operating results and financial condition.

Dependence on a Limited Number of Products

Substantially all of Open Text's revenues are currently derived from *Livelink* and related services offered by the Company in the Internet, intranet and extranet markets. Accordingly, the Company's future results of operations will depend, in part, on maintaining and increasing market acceptance of this product and related services, as well as on the Company's ability to continue to enhance these products and services to meet the evolving needs of its customers. A reduction in demand or increase in competition in the market for Internet or intranet applications, or a decline in sales of *Livelink* and related services, could have a material adverse effect on the Company's business, results of operations and financial condition.

Dependence on Distribution Channels

While Open Text receives most of its revenue from direct sales, a portion of the Company's revenue is derived from the sale of its products through third parties. There can be no assurance that the Company will be able to retain a sufficient number of its existing or future distributors, that such distributors will not give higher priority to the sale of other products (which could include products of competitors) or that these distributors will devote sufficient resources to marketing of the Company's products. The performance of third party distributors is outside the control of the Company and the Company is unable to predict the extent to which these distributors will be successful in marketing and selling the Company's products. A reduction in sales efforts or discontinuance of sales of the Company's products by its distributors could lead to reduced sales and could, as a result, have a material adverse effect on the Company's business, financial condition and results of operations. In addition, other methods of product distribution may become important in the future, such as on-line services and other electronic distribution. The Company's success will depend, in part, upon its ability to attract and retain sufficient direct sales personnel, to maintain access to existing channels of distribution and to gain access to new channels if and when they develop.

Risks Associated with International Sales

Open Text intends to continue to make efforts to increase international sales and anticipates that international sales will account for a significant portion of its revenue. These sales are subject to certain risks and costs associated with international operations, including the difficulty and expense of administering business abroad, complications in complying with foreign laws and domestic and international import and export laws and regulations and costs related to localizing products for foreign markets and translating and distributing products in a timely manner. Significant international sales may also expose the Company to greater risk from political and economic instability, unexpected changes in Canadian, US or other governmental policies concerning import and export of goods and technology and other regulatory requirements and tariffs and other trade barriers. In addition, while US and Canadian copyright law, international conventions and international treaties may provide meaningful protection against unauthorized duplication of software, the laws of some foreign jurisdictions may not protect proprietary rights to the same extent as the laws of Canada or the United States. Software piracy has been, and can be expected to be, a persistent problem for the software industry. Although to date the Company has not experienced any of the foregoing factors to any significant extent, there can be no assurance that these factors will not be experienced by the Company in the future or that they will not have a material adverse effect on the Company's business, results of operations and financial condition. In addition, international earnings may be subject to taxation by more than one jurisdiction, which could also materially adversely affect the Company's business, financial condition and results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There has been no material change to the information concerning the Company's market risk sensitive instruments as set forth in the Company's Annual Report on Form 10-K/A for the year ended June 30, 2000.

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

1. The following individuals were elected to the Company's Board of Directors, to hold office until the next Annual Meeting of Shareholders. The number of votes cast for each individual and the number of votes withheld are listed below.

<u>Name</u>	<u>For</u>	<u>Withheld</u>
P. Thomas Jenkins	6,974,989	29,449
Richard C. Black	6,977,024	27,414
Randy Fowlie	6,995,000	9,438
Ken Olisa	6,995,714	8,724
Stephen J. Sadler	6,977,754	26,684
John Shackleton	6,993,374	11,064
Michael Slaunwhite	6,995,266	9,172
Paul Stoyan	6,995,266	9,172

2. The shareholders approved the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors. There were 7,000,688 Common Shares voted in favour of the motion and there were 1,804 votes withheld. The shareholders authorized the Board of Directors to fix the auditor's remuneration. There were 6,990,204 Common Shares voted in favour of the motion and there were 11,711 votes withheld.
3. The shareholders approved the amendment to the Company's 1998 Stock Option Plan increasing the maximum number of Common Shares issuable thereunder from 1,800,000 Common Shares to 2,800,000 Common Shares and approved the conditional grants of options to purchase an aggregate of 100,000 Common Shares thereunder, subject to the condition that

any grant of options in respect of this further amount of 1,000,000 Common Shares and the above mentioned conditional grants be based upon the number of Common Shares purchased for cancellation by the Company, as more particularly described in the Company's Management Information Circular, dated November 10, 2000. There were 5,917,370 Common Shares voted in favour of the motion and there were 3,007,204 votes against.

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits – None
- (b) Reports on Form 8-K

Normal Course Issuer Bid

Open Text Corporation (NASDAQ:OTEX); (TSE:OTC) announced on October 30, 2000 and October 31, 2000 its intention to repurchase, from time to time as considered advisable, up to 5% of its outstanding Common Shares on the Toronto Stock Exchange and Nasdaq National Market over the next 12 months, pending required approvals. On October 31, 2000, Open Text announced that it has received approval from The Toronto Stock Exchange for its Common Share repurchase program.

Notice of Annual and Special Meeting of the Shareholders

Open Text Corporation (NASDAQ:OTEX); (TSE:OTC) issued on November 16, 2000 a notice of Annual and Special meeting of the shareholders, a Management Information Circular/Proxy Statement and a Proxy for use in voting at the Annual and Special Meeting of Shareholders to be held at The Toronto Stock Exchange on December 14, 2000 at 10:00 a.m. Eastern Standard Time.

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: February 13, 2001

/s/P. Thomas Jenkins

Thomas Jenkins

Chief Executive Officer

/s/Alan Hoverd

Alan Hoverd

Chief Financial Officer

(Principal Financial and Accounting Officer)

