# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

### **FORM 10-Q**

# [X]QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2000

OR

[ ]TRANSITION QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF $\ensuremath{^{15}}$
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)

 $98\text{-}0154400 \\ \text{(IRS Employer Identification No.)}$ 

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 X No \_\_\_\_

At May 2, 2000 there were 20,311,860 outstanding Common Shares of the registrant.

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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)

	<u>N</u>	Iarch 31, 2000	Tune 30, 1999	
	(u	maudited)		
ASSETS				
Current Assets:				
Cash and cash equivalents	\$	108,913	\$	140,256
Available for sale securities (Note 2)		788		45,920
Accounts receivable - trade, net of allowance for doubtful				
accounts of \$1,947 as at March 31, 2000 and \$1,658				
as at June 30, 1999		28,233		31,632
Deferred tax assets		-		4,000
Prepaid and other assets		3,002		7,736
Total current assets		140,936		229,544
Furniture and equipment		9,654		9,988
Goodwill, net of accumulated amortization of \$3,725 at March 31, 2000				
and \$1,946 at June 30, 1999		22,610		14,388
Deferred tax asset		3,000		1,800
Other assets	_	6,727		9,054
Total assets	\$	182,927	\$	264,774
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable - trade, and accrued liabilities (Note 3)	\$	16,200	\$	13,995
Deferred revenue		17,763		9,802
Income tax payable		10,324		-
Deferred tax liability		228		8,152
Total current liabilities		44,515		31,949
Shareholders' equity:				
Share capital		161,720		150,252
21,297,023 and 21,280,463 Common Shares				
issued and outstanding at March 31, 2000 and				
June 30, 1999 respectively				
Nil and 3,000,000 Special Warrants issued and outstanding				
at March 31, 2000 and June 30, 1999 respectively		-		97,420
Other capital		64		64
Accumulated deficit		(23,038)		(45,875)
Accumulated other comprehensive income				
Unrealized gain on available for sale securities (net of tax)		457		31,699
Cumulative translation adjustment		(791)		(735)
Total shareholders' equity		138,412		232,825
Total liabilities and shareholders' equity	\$	182,927	\$	264,774

See accompanying notes to condensed consolidated financial statements

# CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (In US Dollars)

(in thousands, except per share data)

	Th	Three months ended March 31, Nine months en 2000 1999 2000						arch 31, 1999				
		(unaudited)				(unau	dited)					
			(restated)				(resta					
Revenues:												
License	\$	14,170	\$	14,272	\$	39,643	\$	36,661				
Service		14,316		10,771		40,967		26,475				
Total Revenues		28,486		25,043		80,610		63,136				
Cost of revenues:												
License		778		446		1,801		1,356				
Service		7,532		5,142		22,506		11,030				
Total cost of revenues		8,310		5,588		24,307		12,386				
Gross profit		20,176		19,455		56,303		50,750				
Operating expenses:												
Research and development		4,893		2,999		12,962		7,998				
Sales and marketing	10,010		10,010		10,010			8,831		30,589		25,319
General and administrative		5,768		1,727		16,445		4,103				
Depreciation		1,104		1,144		3,395		3,135				
Amortization of acquired intangible assets		813		582		2,151		1,618				
Acquired in-process research and development		-		-		-		3,419				
Restructuring reserve (Note 4)		-		_		2,022						
Total operating expenses		22,588		15,283		67,564		45,592				
Income (loss) from operations		(2,412)		4,172		(11,261)		5,158				
Other income (expense)		12,453		(43)		48,979		(176)				
Interest income		1,373		341		4,742		1,181				
Income before income taxes		11,414		4,470		42,460		6,163				
Income tax expense (Note 5)		(7,024)				(19,624)						
Income for the period	\$	4,390	\$	4,470	\$	22,836	\$	6,163				
Basic earnings per share	\$	0.21	\$	0.22	\$	1.03	\$	0.31				
Diluted earnings per share	\$	0.19	\$	0.19	\$	0.91	\$	0.27				
Weighted average number of Common			-				-					
Shares outstanding - Basic		20,722		20,777		22,220		20,206				
Weighted average number of Common		<u> </u>				<u> </u>						
Shares outstanding - Diluted		23,083		23,574		25,191		22,775				

See accompanying notes to condensed consolidated financial statements

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

	Nine months en	nded March 31, 1999
		dited)
	`	(restated)
Cash flows provided by (used in) operating activities:		
Income for the period	\$ 22,836	\$ 6,163
Adjustments to reconcile net income to net cash provided by (used in)		
operating activities:		
Depreciation and amortization of acquired intangible assets	5,838	4,873
Acquired in-process research and development	-	3,419
Gain on sale of available for sale securities	(48,130)	-
Income tax expense	12,827	-
Other	99	(20)
Changes in operating assets and liabilities:		
Accounts receivable	4,303	(4,741)
Prepaid expenses and other current assets	5,191	(2,502)
Accounts payable - trade and accrued liabilities	607	(9,774)
Future tax liability	6,600	-
Deferred revenue	7,744	(1,850)
Net cash provided by (used in) operating activities	17,915	(4,432)
Cash flows provided by (used in) investing activities:		
Acquisitions of furniture and equipment	(5,030)	(3,322)
Purchase of Lava Group	-	(2,438)
Purchase of PS Software & Microstar	(6,611)	-
Increase in other investments	(1,500)	-
Proceeds from sale of other investments	1,762	-
Proceeds from sale of available for sale securities	48,322	-
Decreases in other assets	(183)	397
Net cash provided by (used in) investing activities	36,760	(5,363)
Cash flow provided by (used in) financing activities:		
Payments of obligations under capital leases, including		
current portion	(66)	(270)
Proceeds from issuance of Common Shares	7,665	7,863
Repurchase of Common Shares	(93,617)	
Net cash provided by (used in) financing activities	(86,018)	7,593
Decrease in cash and cash equivalents during the period	(31,343)	(2,202)
Cash and cash equivalents at beginning of period	140,256	40,390
Cash and cash equivalents at end of period	\$ 108,913	\$ 38,188

See accompanying notes to condensed consolidated financial statements

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended March 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 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

Comprehensive income is comprised of net income and other comprehensive income such as foreign currency translation gain/loss and unrealized capital gains and losses on available for sale marketable securities. The Company's total comprehensive earnings were as follows:

	Three months ended March 31,					e months er	ended March 31,		
	2	2000 1999		2000 1999 2000		2000	1999		
Other comprehensive income (loss)									
Foreign translation adjustment	\$	99	\$	(165)	\$	(56)	\$	43	
Change in available for sale securites (net of tax)		(15,092)		52,791		(45,132)		52,791	
Other comprehensive income (loss)	(	(14,993)		52,626		(45,188)		52,834	
Net income (loss)		4,390		4,470		22,836		6,163	
Comprehensive net income (loss)	\$ (	(10,603)	\$	57,096	\$	(22,352)	\$	58,997	

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended March 31, 2000 (unaudited)

(dollar amounts in thousands, except share data)

Earnings per share

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

#### 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 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. The closing prices for About.com's common stock as reported by Nasdaq at March 31, 2000 and December 31, 1999 were \$88.13 per share and \$89.75 per share respectively. During the three month period ended March 31, 2000, the Company sold 168,001 shares and during the three month period ended December 31, 1999, the Company sold 708,300 shares.

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 may realize on this investment is uncertain.

#### NOTE 3 - ACCOUNTS PAYABLE - TRADE AND ACCRUED LIABILITIES

Accounts payable - trade and accrued liabilities are as follows:

	arch 31, 2000	June 30, 1999		
Accounts payable - trade	\$ 2,871	\$	4,369	
Accrued trade liabilities	5,744		3,405	
Amounts payable for acquisitions	1,508		1,265	
Restructuring accrual	918		-	
Accrued salaries and commissions	5,084		4,815	
Other liabilities	 75		141	
	\$ 16,200	\$	13,995	

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended March 31, 2000 (unaudited)

(dollar amounts in thousands, except share data)

#### **NOTE 4 - RESTRUCTURING**

During the three month period ended December 31, 1999, the Company recorded a restructuring charge of \$2.0 million. The restructuring resulted in the closure of the Company's Toronto, Ontario office and the London, UK office. In addition, 45 employees were terminated, 31 in North America and 14 in Europe. The following is a breakdown of the restructuring accrual resulting from the one-time charge at December 31, 1999.

	Three months ended March 31, 2000									
	Severance &		Fac	cilities						
	Related Costs Closure		osure	Total						
Charge during the period ended December 31, 1999	\$	1,191	\$	381	\$	1,572				
Paid during the period		598		56		654				
Balance of the accrual end of the period March 31, 2000	\$	593	\$	325	\$	918				

#### **NOTE 5 – INCOME TAXES**

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

	Three mor	nths ended	Nine mont	hs ended		
	Marc	ch 31,	March 31,			
	<u>2000</u> <u>1999</u> <u>2000</u>		2000 1999 2000			
Income before income taxes	\$ 11,414	\$ 4,470	\$ 42,460	\$ 6,163		
Combined basic Federal and						
Provincial income taxes at 44.6% as						
of March 31, 2000 and 1999	\$ 5,091	\$ 1,994	\$ 18,937	\$ 2,749		
Decrease resulting from:						
Non-taxable component of gain on sale of securities	(1,050)	-	(5,050)	-		
Change in valuation allowance	4,100	(2,910)	3,000	(5,008)		
Other temporary differences	(1,117)	916	2,737	2,259		
Income tax expense	\$ 7,024	\$ -	\$ 19,624	\$ -		

Future 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, as follows:

	March 31,			June 30,
		2000		1999
Operating loss carry forwards and other temporary differences	\$	13,700	\$	19,400
Valuation allowance		10,700		7,700
Future tax income tax asset	\$	3,000	\$	11,700

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended March 31, 2000 (unaudited)

(dollar amounts in thousands, except share data)

#### NOTE 6 — LEGAL PROCEEDINGS

On April 3, 2000 the arbitration with NetSys Technology Group AB was completed. The International Arbitral Tribunal dismissed all claims brought by NetSys against the Company. In addition, the International Arbitral Tribunal declared that the distribution agreement with NetSys is cancelled by reason of NetSys' breaches thereof. Damages and costs were also awarded to the Company.

#### 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"). 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 each 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:

#### Three months ended March 31, 2000

	<del></del>							
	North America Europe		(	Other		Total		
March 31, 2000								
Revenue from external customers Operating costs	\$	16,810 21,110	\$	9,863 6,866	\$	1,813 508	\$	28,486 28,484
Contribution margin	\$	(4,300)	\$	2,997	\$	1,305	\$	2
Segment assets	\$	57,310	\$	24,123	\$	810	\$	82,243
March 31, 1999								
Revenue from external customers	\$	14,967	\$	9,789	\$	287	\$	25,043
Operating costs		11,744		7,164		187		19,095
Contribution margin	\$	3,223	\$	2,625	\$	100	\$	5,948
Segment assets	\$	50,205	\$	23,134	\$	484	\$	73,823

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# For the Nine Months Ended March 31, 2000 (unaudited)

(dollar amounts in thousands, except share data)

#### Nine months ended March 31, 2000

	ľ	North					
	A	<u>merica</u>	Europe		Other		 Total
March 31, 2000							
Revenue from external customers	\$	48,461	\$	28,636	\$	3,513	\$ 80,610
Operating costs		56,675		24,433		2,079	83,187
Contribution margin	\$	(8,214)	\$	4,203	\$	1,434	\$ (2,577)
Segment assets	\$	57,310	\$	24,123	\$	810	\$ 82,243
March 31, 1999							
Revenue from external customers	\$	38,706	\$	23,905	\$	525	\$ 63,136
Operating costs		31,170		17,964		345	 49,479
Contribution margin	\$	7,536	\$	5,941	\$	180	\$ 13,657
Segment assets	\$	50,205	\$	23,134	\$	484	\$ 73,823

For the quarter ended March 31, 2000 and 1999, 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 March 31, 2000 and 1999 is as follows:

	Three months ended March 31,			
	2000		1999	
Total contribution margin from operating				
segments above	\$	2	\$	5,948
Amortization and depreciation		2,020		1,776
Total operating loss	\$	(2,018)	\$	4,172
Interest and other income		6,408		298
Net income	\$	4,390	\$	4,470

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# For the Nine Months Ended March 31, 2000 (unaudited)

(dollar amounts in thousands, except share data)

	Nine months ended March 31,				
		2000		1999	
Total contribution margin from operating					
segments above	\$	(2,577)	\$	13,657	
Amortization and depreciation		5,845		8,499	
Total operating loss	\$	(8,422)	\$	5,158	
Interest and other income		31,258		1,005	
Net income	\$	22,836	\$	6,163	
	As of March 31,				
		2000		1999	
Segment assets	\$	82,243	\$	73,822	
Available for sale securities	*	788	7	79,225	
Term deposits		97,380		30,490	
Investments		2,516	_	3,557	
Total corporate assets	\$	182,927	\$	187,094	

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.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# For the Nine Months Ended March 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 March 31, 2000 and 1999 are as follows:

	Three mo	Three months ended March 31,			
	2000	1999			
Net revenues:					
Canada	\$ 2,3	\$41 \$ 1,929			
United States	14,4	13,038			
United Kingdom	3,4	4,753			
Netherlands	1,8	395 1,167			
Other	6,3	335 4,156			
Total revenues	\$ 28,4	\$ 25,043			
	Nine mon	Nine months ended March 31,			
	2000	1999			
Net revenues: Canada United States United Kingdom Netherlands Other Total revenues	40,2 11,3	835     8,518       885     3,014       828     12,896			
	As of March 31,				
		1999			
Segment assets:					
Canada	\$ 21,7	706 \$ 13,279			
United States	35,6	36,895			
United Kingdom	10,4	10,984			
Other	14,4	12,664			
Total segment assets	\$ 82,2	<u>\$ 73,822</u>			

#### 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 (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 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 compliance, 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 and liquidity and capital resources. Additional risks and uncertainties are described in 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 forwardlooking 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 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, complete and introduce products and product enhancements under development in a timely manner, continue to upgrade and commercialize its technologies, 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 March 31, 2000, had an accumulated deficit of \$23,038 million.

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

*Revenues.* The Company increased total revenues by 14% from \$25.0 million in the quarter ended March 31, 1999 to \$28.5 million for the quarter ended March 31, 2000. License revenue was essentially unchanged \$14.3 million in the quarter ended March 31, 1999 to \$14.2 million in the quarter ended March 31, 2000.

Service revenue increased 33% from \$10.8 million in the quarter ended March 31, 1999 to \$14.3 million in the quarter ended March 31, 2000. The increase in revenues is attributable to an increase in maintenance, professional services and training revenues. Professional services accounted for 41% of the service revenues in the quarter ended March 31, 1999 and 43% in the quarter ended March 31, 2000.

No customer accounted for greater than 10% of revenue in the quarter ended March 31, 2000 or in the quarter ended March 31, 1999. For the quarter ended March 31, 2000, 59% of revenues were from customers resident in North America, 35% of revenues were from customers in Europe and 6% of revenues were from customers in Asia and other compared with 57%, 39% and 4% respectively for North America, Europe and Asia and other for the quarter ended March 31, 1999.

Cost of revenues. Cost of license revenues increased from \$446,000 in the quarter ended March 31, 1999 to \$778,000 in the quarter ended March 31, 2000. As a percent of license revenues, cost of revenues increased from 3% in the quarter ended March 31, 1999 to 6% in the quarter ended March 31, 2000. Included in cost of license revenues in the quarter ended March 31, 2000 is the amortization of software capitalized on the purchase of acquired businesses.

Cost of service revenues increased from \$5.1 million in the quarter ended March 31, 1999 to \$7.5 million in the quarter ended March 31, 2000. As a percent of service revenues, the cost of service revenues increased from 48% in the quarter ended March 31, 1999 to 53% in the quarter ended March 31, 2000.

Research and development. Research and development costs increased by 63% from \$3.0 million in the quarter ending March 31, 1999 to \$4.9 million in the quarter ending March 31, 2000. Research and development costs consist primarily of personnel expenses, and the related facilities and equipment. As a percentage of revenues, research and development cost increased from 12% in the quarter ended March 31, 1999 to 17% in the quarter ended March 31, 2000.

Sales and marketing. Sales and marketing expense increased 13% from \$8.8 million in the quarter ended March 31, 1999 to \$10.0 million in the quarter ended March 31, 2000. As a percentage of revenues, sales and marketing expense remained constant at 35% in the quarter ending March 31, 1999 to 35% in the quarter ended March 31, 2000.

General and administrative. General and administrative expense increased 234% from \$1.7 million in the quarter ended March 31, 1999 to \$5.8 million in the quarter ended March 31, 2000. As a percent of revenues, general and administration expense increased from 7% in the quarter ended March 31, 1999 to 20% in the quarter ended March 31, 2000. This increase is largely due to legal costs and bad debt expense in the quarter ended March 31, 2000.

Depreciation. Depreciation was \$1.1 million in the quarter ended March 31, 1999 and \$1.1 million in the quarter ended March 31, 2000. As a percentage of revenues, depreciation decreased from 5% for the quarter ended March 31, 1999 to 4% for the quarter ended March 31, 2000.

Amortization of acquired intangible assets. Amortization of acquired intangible assets was \$582,000 in the quarter ended March 31, 1999 versus \$813,000 in the quarter ended March 31, 2000. As a percentage of revenue, amortization increased from 2% for the quarter ended March 31, 1999 to 3% for the quarter ended March 31, 2000.

Interest and other income. Interest and other income was \$298,000 for the quarter ended March 31, 1999 and increased to \$13.8 million for the quarter ended March 31, 2000. Other income is comprised mainly of gains and losses on the sales of investments. During the three month period ended March 31, 2000 the Company sold 168,001 shares of About.com, resulting in a gain of \$12.4 million.

Income taxes. The Company continues to have a net future tax asset. A significant valuation allowance continues to be recorded against the net future 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 future tax asset in certain situations. During the three month period ended March 31, 2000 the Company sold 168,001 shares of About.com, resulting in a gain of \$12.4 million and a tax provision of \$3.9 million. The tax provision for the three month period ended March 31, 2000 was \$nil due to the loss carry forwards available to the Company.

#### Nine Months Ended March 31, 2000 Compared with Nine Months Ended March 31, 1999

*Revenues.* The Company increased total revenues by 28% from \$63.1 million in the nine months ended March 31, 1999 to \$80.6 million for the nine months ended March 31, 2000. License revenues increased 8% from \$36.7 million in the nine months ended March 31, 1999 to \$39.6 million in the nine months ended March 31, 2000.

Service revenues increased 55% from \$26.5 million in the nine months ended March 31, 1999 to \$41 million in the nine months ended March 31, 2000. The increase in service revenues is attributable to an increase in maintenance, professional service and training revenues. Maintenance revenues accounted for 56% of the service revenues in the nine months ended March 31, 1999 and 47% of the service revenues in the nine months ended March 31, 2000.

No individual customer accounted for greater than 10% of revenues in the nine months ended March 31, 2000 or the nine months ended March 31, 1999. For the nine months ended March 31, 2000, 60% of revenues were from customers resident in North America, 36% of revenues were from customers in Europe and 4% of revenues were from customers in Asia and other compared with 60%, 38% and 2% respectively for North America, Europe and Asia and other for the nine months ended March 31, 1999.

Cost of revenues. Cost of license revenues increased from \$1.4 million in the nine months ended March 31, 1999 to \$1.8 million in the nine months ended March 31, 2000. As a percent of license revenues, cost of revenues increased from 4% for the nine months ended March 31, 1999 to 5% for the nine months ended March 31, 2000.

Cost of service revenues increased from \$11 million in the nine months ended March 31, 1999 to \$22.5 million in the nine months ended March 31, 2000. As a percent of service revenues, the cost of service revenues increased from 42% in the nine months ended March 31, 1999 to 55% in the nine months ended March 31, 2000. The increase in the cost of service as a percent of service revenue was a result of a higher percentage of higher margin maintenance revenue.

Research and development. Research and development costs increased by 62% from \$8 million in the nine months ending March 31, 1999 to \$13 million in the nine months ending March 31, 2000. Research and development costs consist primarily of personnel expenses, and the related facilities and equipment. As a percentage of revenues, research and development cost increased from 13% in the nine months ended March 31, 1999 to 16% in the nine months ended March 31, 2000.

Sales and marketing. Sales and marketing expense increased 21% from \$25.3 million in the nine months ended March 31, 1999 to \$30.6 million in the nine months ended March 31, 2000. As a percentage of revenues, sales and marketing expense decreased from 40% in the nine months ending March 31, 1999 to 38% in the nine months ended March 31, 2000. The overall increase in sales and marketing expense was due principally to an increase in the number of sales personnel.

General and administrative. General and administrative expense increased 301% from \$4.1 million in the nine months ended March 31, 1999 to \$16.4 million in the nine months ended March 31, 2000. As a percent of revenues, general and administration expense increased from 6% in the nine months ended March 31, 1999 to 20% in the nine months ended March 31, 2000. This increase is largely due to legal costs, Y2K costs and bad debt expense in the quarter.

*Depreciation.* Depreciation was \$3.1 million in the nine months ended March 31, 1999 and increased to \$3.4 million in the nine months ended March 31, 2000. Depreciation as a percent of total revenue decreased from 5% for the nine months ended March 31, 1999, to 4% for the nine months ended March 31, 2000.

Amortization of acquired intangible assets. Amortization of acquired intangible assets was \$1.6 million in the nine months ended March 31, 1999 versus \$2.2 million in the nine months ended March 31, 2000. Included in amortization of acquired intangible assets is the amortization of goodwill and core technologies on the acquisitions of Information Dimensions and Lava.

Acquired in-process research and development. Acquired research and development was \$3.4 million for the nine months ended March 31, 1999 and \$nil for the nine months ended March 31, 2000. These charges are attributable to the one time write down of software under development and related acquisition expenses as part of the OnTime and Lava software acquisitions respectively.

*Restructuring.* Restructuring expense for the nine months ended March 31, 2000 was \$2 million, compared to \$nil in the quarter ended March 31, 1999. During the quarter ended March 31, 2000, \$1.1 million was paid out, and it is expected that the remaining amounts will be paid out during the fourth quarter of fiscal year 2000.

Interest and other income. Interest and other income was \$1.0 million for the nine months ended March 31, 1999 and increased to \$53.7 million for the nine months ended March 31, 2000. Other income is comprised mainly of gains and losses on the sales of investments. During the nine month period ended March 31, 2000 the Company sold 876,301 shares, resulting in a gain of \$48.1 million.

Income taxes. The Company continues to have a net future tax asset. A significant valuation allowance continues to be recorded against the net future 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 future tax asset in certain situations. During the nine month period ended March 31, 2000 the Company sold 876,301 shares of About.com, resulting in a gain of \$48.1 million and a tax provision of \$16.5 million. The tax provision for the nine month period ended March 31, 2000 was \$nil due to the loss carry forwards available to the Company.

#### **Liquidity and Capital Resources**

At March 31, 2000, the Company had current assets of \$141 million, \$788,000 of which are available for sale securities, and current liabilities of \$45 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 March 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.

Cash provided by operations during the quarter ended March 31, 2000 was \$7 million. Acquisitions of furniture and equipment were \$2.4 million.

On January 14, 2000, the Company repurchased 4,000,000 of its Common shares at a price of \$20.00 for a net cost of \$79.4 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 the issuance of the Company's Common Shares. On May 3, 1999, the Company completed the issuance of 3.0 million Special Warrants, each convertible into one Common Share 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.

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. During the three month period ended March 31, 2000 the Company sold 168,001 shares, resulting in proceeds of \$12.5 million

Since June 30, 1995, the Company has completed several 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**

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 that 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 to date. 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 customers 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. 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.

The Company does not have material interests in derivative securities or other financial interests.

#### **PART II Other Information**

#### Item 1. Legal Proceedings

On April 3, 2000 the arbitration with NetSys Technology Group AB was completed. The International Arbitral Tribunal dismissed all claims brought by NetSys against the Company. In addition, the International Arbitral Tribunal declared that the distribution agreement with NetSys is cancelled by reason of NetSys' breaches thereof. Damages and costs were also awarded to the Company.

- Item 2. Changes in Securities None
- Item 3. <u>Defaults Upon Senior Securities</u> None
- Item 4. <u>Submission of Matters to a Vote of Security Holders</u> None
- Item 5. Other Information None
- Item 6. Exhibits and Reports on Form 8-K None

#### SIGNATURES

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

#### **OPEN TEXT CORPORATION**

(registrant)

Date: May 8, 2000

/s/P Thomas Jenkins

P Thomas Jenkins Chief Executive Officer

/s/Alan Hoverd Alan Hoverd

Chief Financial Officer