

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2001

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 required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

At November 8, 2001 there were 19,788,404 outstanding Common Shares of the registrant.

OPEN TEXT CORPORATION

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

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

	September 30,	June 30,
	<u>2001</u>	<u>2001</u>
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 84,140	\$ 87,526
Accounts receivable - net of allowance for doubtful accounts of \$1,458 as of September 30, 2001 and June 30, 2001	28,047	34,212
Prepaid and other assets	<u>2,627</u>	<u>2,267</u>
Total current assets	114,814	124,005
Capital assets	11,241	11,815
Goodwill, net of accumulated amortization of \$9,156 at September 30, 2001 and \$8,096 at June 30, 2001	27,576	29,112
Other assets	<u>9,976</u>	<u>10,070</u>
	<u>\$ 163,607</u>	<u>\$ 175,002</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 2)	\$ 15,177	\$ 18,535
Deferred revenues	18,442	21,622
Income tax payable (note 3)	<u>1,964</u>	<u>1,818</u>
Total current liabilities	35,583	41,975
Shareholders' equity:		
Share capital		
19,687,005 and 19,937,968 Common Shares issued and outstanding at September 30, 2001 and June 30, 2001 respectively	201,628	203,636
Accumulated other comprehensive income:		
Cumulative translation adjustment	(1,338)	(1,396)
Accumulated deficit (note 5)	<u>(72,266)</u>	<u>(69,213)</u>
Total shareholders' equity	<u>128,024</u>	<u>133,027</u>
	<u>\$ 163,607</u>	<u>\$ 175,002</u>

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

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

	Three months ended September 30,	
	2001	2000
	(unaudited)	
Revenues:		
License	\$ 14,707	\$ 14,386
Customer support	11,981	8,208
Service	8,627	7,456
Total revenues	35,315	30,050
Cost of revenues:		
License	1,042	1,020
Customer support	2,068	1,556
Service	6,577	5,769
Total cost of revenues	9,687	8,345
Gross profit	25,628	21,705
Operating expenses:		
Research and development	6,701	5,244
Sales and marketing	11,656	10,527
General and administrative	3,136	3,158
Depreciation	1,425	1,166
Amortization of acquired intangible assets	1,655	793
Total operating expenses	24,573	20,888
Income from operations	1,055	817
Other income (expense)	181	(133)
Interest income	694	1,593
Income before income taxes	1,930	2,277
Provision for income taxes	316	132
Net income for the period	\$ 1,614	\$ 2,145
Basic earnings per share	\$ 0.08	\$ 0.11
Diluted earnings per share	\$ 0.08	\$ 0.10
Weighted average number of Common Shares outstanding - basic	19,910	20,411
Weighted average number of Common Shares outstanding - diluted	21,189	21,887

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

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

	Three months ended September 30,	
	2001	2000
	(unaudited)	
Cash flows from operating activities:		
Net income for the period	\$ 1,614	\$ 2,145
Non-cash items:		
Depreciation and amortization	3,080	2,061
Other	(247)	(108)
Changes in operating assets and liabilities net of assets acquired:		
Accounts receivable	7,234	3,511
Prepaid and other assets	(480)	(42)
Income tax paid on disposition of available for sale securities	-	(7,481)
Accounts payable and accrued liabilities	(3,406)	(2,047)
Income taxes payable	140	-
Deferred revenues	(3,386)	(820)
Unrealized foreign exchange loss	(620)	-
Net cash provided by (used in) operating activities	3,929	(2,781)
Cash flows used in investing activities:		
Acquisitions of capital assets	(736)	(1,036)
Purchase of other investments	(86)	-
Net cash used in investing activities	(822)	(1,036)
Cash flow from financing activities:		
Payments of obligations under capital leases	(14)	(14)
Proceeds from issuance of Common Shares	1,556	1,911
Repurchase of Common Shares	(8,259)	(2,702)
Net cash used in financing activities	(6,717)	(805)
Foreign exchange gain on cash held in foreign currency	224	0
Decrease in cash and cash equivalents during the period	(3,386)	(4,622)
Cash and cash equivalents at beginning of year	87,526	113,918
Cash and cash equivalents at end of period	\$ 84,140	\$ 109,296

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2001

(unaudited)

(tabular 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, 2001.

The information furnished reflects, in the opinion of 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 the consolidation of 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 September 30,	
	<u>2001</u>	<u>2000</u>
Other comprehensive income:		
Foreign currency translation adjustment	\$ (58)	\$ 108
Unrealized gain on available for sale securities (net of tax)	<u>-</u>	<u>4</u>
Other comprehensive income	(58)	112
Net income for the period	<u>1,614</u>	<u>2,145</u>
Comprehensive net income for the period	<u>\$ 1,556</u>	<u>\$ 2,257</u>

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2001

(unaudited)

(tabular dollar amounts in thousands, except share data)

NOTE 2 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	As of September 30,	
	<u>2001</u>	<u>2000</u>
Accounts payable - trade	\$ 2,548	\$ 2,593
Accrued trade liabilities	6,082	6,862
Amounts payable for acquisitions	823	944
Restructuring	16	92
Accrued salaries and commissions	5,603	5,822
Other liabilities	<u>105</u>	<u>48</u>
	<u>\$ 15,177</u>	<u>\$ 16,361</u>

NOTE 3 —INCOME TAXES

As at September 30, 2001, the Company had total net deferred tax assets of \$16.9 million, the principal components of which were temporary differences associated with net operating loss carryforwards and employee stock option deductions. The Company has fully provided against the deferred tax asset with a valuation allowance because it believes that sufficient uncertainty exists regarding its realizability.

The Company and its subsidiaries have approximately \$31.7 million of losses and deductions available to reduce taxable income in future years, the benefit of which has not been reflected in the financial statements. Deductions of \$9.3 million have no expiration date, and the balance of losses expire between 2004 and 2011. The Company operates in several tax jurisdictions. The Company's income is subject to varying rates of tax, and losses incurred in one jurisdiction cannot be used to offset income taxes payable in another.

NOTE 4—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 the purpose of 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 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.

Included in the following operating results are allocations of certain operating costs which are incurred in one reporting segment but which relate to all reporting segments. The allocations of these common operating costs are consistent with the manner in which they are allocated for presentation to, and analysis by, the chief operating decision maker of the Company. For the year ended June 30, 2001 and 2000, the "Other" category consists of geographic regions other than North America and Europe.

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2001

(unaudited)

(tabular dollar amounts in thousands, except share data)

Information about reported segments are as follows:

	North America	Europe	Other	Total
<u>September 30, 2001</u>				
Revenues from external customers	\$ 22,739	\$ 11,930	\$ 646	\$ 35,315
Operating costs	17,876	11,923	1,380	31,179
Contribution margin	\$ 4,863	\$ 7	\$ (734)	\$ 4,136
Segment assets	\$ 53,653	\$ 26,990	\$ 1,125	\$ 81,768
<u>September 30, 2000</u>				
Revenues from external customers	\$ 17,838	\$ 10,738	\$ 1,474	\$ 30,050
Operating costs	14,832	11,610	730	27,172
Contribution margin	\$ 3,006	\$ (872)	\$ 744	\$ 2,878
Segment assets	\$ 50,780	\$ 31,808	\$ 364	\$ 82,952

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements for the quarters ended September 30, 2001 and 2000 is as follows:

	Three months ended September 30,	
	2001	2000
Total contribution margin from operating segments above	\$ 4,136	\$ 2,878
Amortization and depreciation	(3,080)	(2,061)
Total operating income (loss)	\$ 1,056	\$ 817
Interest, other income and taxes	585	1,328
Net income	\$ 1,641	\$ 2,145

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2001
(unaudited)
(tabular dollar amounts in thousands, except share data)

	As of September 30,	
	<u>2001</u>	<u>2000</u>
Segment assets	\$ 81,767	\$ 82,952
Available for sale securities	-	293
Term deposits	80,578	87,938
Investments	<u>1,262</u>	<u>2,791</u>
Total corporate assets	<u>\$ 163,607</u>	<u>\$ 173,974</u>

Contribution margin from operating segments does not include amortization of intangible assets or restructuring costs. Goodwill and intangibles have been included in segment assets.

The distribution of revenues determined by location of customer and by identifiable assets, that represent greater than 10% of the Company's revenues by geographic area for the quarters ended September 30, 2001 and September 30, 2000 are as follows:

	<u>Three months ended September 30,</u>	
	<u>2001</u>	<u>2000</u>
Revenues:		
Canada	\$ 2,333	\$ 1,739
United States	20,405	16,098
United Kingdom	5,217	4,490
Rest of Europe	6,714	6,248
Other	<u>646</u>	<u>1,475</u>
Total revenues	<u>\$ 35,315</u>	<u>\$ 30,050</u>

	As of September 30,	
	<u>2001</u>	<u>2000</u>
Segment assets:		
Canada	\$ 8,391	\$ 20,200
United States	45,261	30,580
United Kingdom	9,920	11,915
Rest of Europe	17,070	19,893
Other	<u>1,125</u>	<u>364</u>
Total segment assets	<u>\$ 81,767</u>	<u>\$ 82,952</u>

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2001

(unaudited)

(tabular dollar amounts in thousands, except share data)

NOTE 5—ACCUMULATED DEFICIT

During the quarter ended September 30, 2001, the Company, through its stock repurchase program, purchased 348,700 of its common shares through the facilities of The Toronto Stock Exchange and the Nasdaq National Market at an aggregate cost of \$8.3 million. The repurchase was charged to common share capital based on the average carrying value of the common stock, with the remainder charged to accumulated deficit.

NOTE 6—NET INCOME PER SHARE

	<u>Three Months Ended September 30,</u>	
	<u>2001</u>	<u>2000</u>
	(in thousands, except per share data)	
Basic income per share		
Net income	<u>\$ 1,614</u>	<u>\$ 2,145</u>
Weighted average number of shares outstanding	<u>19,910</u>	<u>20,411</u>
Basic income per share	<u>\$ 0.08</u>	<u>\$ 0.11</u>
Diluted income per share		
Net income	<u>\$ 1,614</u>	<u>\$ 2,145</u>
Weighted average number of shares outstanding	19,910	20,411
Dilutive effect of stock options	<u>1,279</u>	<u>1,476</u>
Adjusted weighted average number of shares outstanding	<u>21,189</u>	<u>21,887</u>
Diluted income per share	<u>\$ 0.08</u>	<u>\$ 0.10</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. 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. These uncertainties include the risk that the tragedies of September 11th and their aftermath will have an adverse effect on markets and businesses and exacerbates the following risks and uncertainties. Such factors include, but are not limited to: the Company's limited operating history and losses, increases in expenses, unproven acceptance of the Company's products and services, risks involving the management of growth, risks of acquisitions, including risks involved in integrating recent and future acquisitions and acquired products into the Company's business, competition and new entrants in the market for the Company's products and services, product development risks, risks of technological change, litigation risk and the Company's 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 risk and uncertainties are described in connection with certain of the forward-looking statements under "Overview". Readers should not place undue reliance on any such forward-looking statements which speak only as at the date they are made. 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.

Overview

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

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, perform 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 which provide the user with, among other things, the ability to search, collaborate, manage workflow, utilize group calendaring and scheduling, as well as 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' "to do" lists. 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 and extranets.

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 new 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, attract, retain and motivate highly qualified personnel, manage rapid growth and integrate 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 seven fiscal years and, as at September 30, 2001, had an accumulated deficit in shareholders' equity of \$72.3 million. During the quarter ended September 30, 2001, the Company recorded license revenue of \$14.7 million and net income of \$1.6 million. In addition, the Company's cash and cash equivalents were \$84.1 million, with positive cash flow from operations. During the quarter, the Company completed a repurchase of 348,700 common shares through The Toronto Stock Exchange and The Nasdaq National Market for a total purchase price of \$8.3 million. The Company's days' sales outstanding (DSO) remained relatively constant, up slightly from 70 days at September 30, 2000 to 72 days at September 30, 2001. Segmented information to the financial statements is presented in Note 4 to the Company's 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.

Results of Operations

Quarter Ended September 30, 2001 Compared with Quarter Ended September 30, 2000

Revenues. The Company's total revenues increased by 18% from \$30.0 million in the quarter ended September 30, 2000 to \$35.3 million for the quarter ended September 30, 2001. License revenues increased 2% from \$14.4 million in the quarter ended September 30, 2000 to \$14.7 million in the quarter ended September 30, 2001. The modest increase in license revenue is a reflection of the current economic climate. A number of potential contracts were adversely affected by the aftermath of the September 11th terrorist activities, and at this time it is unclear when or if such contracts will be completed.

Customer support revenues increased 46% from \$8.2 million in the quarter ended September 30, 2000 to \$12.0 million for the quarter ended September 30, 2001. The increase in customer support revenues was attributable to strong renewal rates as well as incremental customer support revenues from new licenses sold over the past 12 months.

Service revenues increased 16% from \$7.5 million in the quarter ended September 30, 2000 to \$8.6 million in the quarter ended September 30, 2001, primarily due to an increase in consulting and integration services.

No single customer accounted for greater than 10% of the Company's revenue in the quarter ended September 30, 2001 or in the quarter ended September 30, 2000. For the quarter ended September 30, 2001, 64% of revenues were from customers located in North America, 34% of revenues were from customers in Europe and 2% of revenues were from customers in countries outside North America and Europe ("Other"), compared with 59%, 34% and 7%, respectively, for North America, Europe and Other for the quarter ended September 30, 2000.

Cost of revenues. Cost of license revenues remained unchanged at \$1 million for both the quarter ended September 30, 2001 and the quarter ended September 30, 2000. Similarly, as a percent of license revenues, cost of revenues totaled 7% in the quarter ended September 30, 2001 as well as in the quarter ended September 30, 2000.

Cost of customer support revenues increased from \$1.6 million in the quarter ended September 30, 2000 to \$2.1 million in the quarter ended September 30, 2001. As a percent of customer support revenues, cost of revenues decreased from 19% in the quarter ended September 30, 2000 to 17% in the quarter ended September 30, 2001. Customer support costs overall have increased due to an increase in staff in both the support and contract renewal areas.

Cost of service revenues increased from \$5.8 million in the quarter ended September 30, 2000 to \$6.6 million in the quarter ended September 30, 2001. As a percent of service revenues, the cost of service revenues decreased from 77% in the quarter ended September 30, 2000 to 76% in the quarter ended September 30, 2001. Service revenue costs have increased due to an increase in the number of employees, primarily as a result of acquisitions completed over the past twelve months.

Research and development. Research and development costs increased by 28% from \$5.2 million in the quarter ending September 30, 2000 to \$6.7 million in the quarter ending September 30, 2001. Research and development costs consisted primarily of personnel expenses, and their related facilities and equipment expenses. The increase in research and development expenses was the result of increased compensation expenses resulting from additional personnel and annual increases in compensation levels. As a percentage of revenues, research and development cost increased from 17% in the quarter ended September 30, 2000 to 19% in the quarter ended September 30, 2001.

Sales and marketing. Sales and marketing expenses increased 11% from \$10.5 million in the quarter ended September 30, 2000 to \$11.7 million in the quarter ended September 30, 2001. Training and development costs for sales staff increased during the quarter ended September 30, 2001, as did marketing program spending. As a percentage of revenues, sales and marketing expense decreased from 35% in the quarter ending September 30, 2000 to 33% in the quarter ended September 30, 2001.

General and administrative. General and administrative expenses decreased slightly from \$3.2 million in the quarter ended September 30, 2000 to \$3.1 million in the quarter ended September 30, 2001. As a percentage of revenues, general and administration expense decreased from 11% in the quarter ended September 30, 2000 to 9% in the quarter ended September 30, 2001.

Depreciation. Depreciation was \$1.2 million in the quarter ended September 30, 2000 and increased to \$1.4 million in the quarter ended September 30, 2001. As a percentage of revenues, depreciation expense remained constant at 4% in the quarters ended September 30, 2000 and September 30, 2001.

Amortization of acquired intangible assets. Amortization of acquired intangible assets was \$793,000 in the quarter ended September 30, 2000, compared to \$1.7 million in the quarter ended September 30, 2001. As a percentage of revenues, amortization of acquired intangible assets increased from 3% in the quarter ended September 30, 2000 to 5% in the quarter ended September 30, 2001. The increase in this expense since the prior year is reflective of a number of acquisitions which were completed in the last twelve months. Amortization of acquired intangible assets includes the amortization of core technology, purchased software and goodwill acquired pursuant to acquisitions.

Other income. For the quarter ended September 30, 2000, other income represented an expense of \$133,000, compared to income of \$181,000 for the quarter ended September 30, 2001. Other income is comprised primarily of foreign exchange gains or losses, and these amounts are reflective of relative movements in the various foreign currencies that the Company conducts business in.

Interest income. Interest income was \$1.6 million for the quarter ended September 30, 2000, compared to \$694,000 for the quarter ended September 30, 2001. The reduction in interest income since the prior year is a result of both lower cash balances, and lower interest rates realized, in the quarter ended September 30, 2001, compared to the quarter ended September 30, 2000. See "Liquidity and Capital Resources".

Income taxes. The Company continues to have a net deferred tax asset of \$nil. The Company made income tax installments amounting to \$nil for the quarter ended September 30, 2001 and \$132,000 for the quarter ended September 30, 2000.

Liquidity and Capital Resources

At September 30, 2001, the Company had current assets of \$114.8 million, current liabilities of \$35.6 million and working capital of \$79.2 million. At September 30, 2001, the Company had cash and cash equivalents totaling \$84.1 million. The Company also has a Cdn\$10 million (USD\$6.5 million) line of credit with a Canadian chartered bank, under which no borrowings were outstanding at September 30, 2001. 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 generated by operations during the quarter ended September 30, 2001 was \$3.9 million. Cash used for acquisitions of capital assets was \$0.7 million.

To date, license and service revenues have been insufficient to satisfy the Company's total cash requirements, particularly as the Company has sought to acquire businesses and grow its infrastructure. As a result, the Company's overall cash requirements have involved funding more than simply its regular operations. The Company has financed its cash needs primarily through issuance of the Company's Common Shares and Special Warrants. During the quarter ended September 30, 2001, the Company repurchased 348,700 of its common shares at an aggregate cost of \$8.3 million, compared with 105,200 common shares at an aggregate cost of \$2.7 million during the quarter ended September 30, 2000.

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 acquired a minority equity interest in Primedia Inc. (formerly About.com, formerly MiningCo.com Inc.) which represented 885,201 shares of common stock. In March 1999, Primedia completed an initial public offering of common stock and its common stock was listed on the NASDAQ Stock Market's National Market. During fiscal 2000, the Company sold 876,301 shares resulting in a gain of \$48.1 million. During fiscal 2001, the Company sold its remaining interest of 8,900 shares.

Risk Factors

This form 10-Q contains forward-looking statements, which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, without limitation, those set forth in the following risk factors and elsewhere in this Form 10-Q. In addition to the other information included, the following risk factors should be considered carefully in evaluating the Company and its business.

Losses; Accumulated Deficit

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. The Company has incurred net losses in four of the last seven fiscal years. As of September 30, 2001, the Company had an accumulated deficit of \$72.3 million. Some of the businesses that the Company has acquired have 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 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 the rapidly evolving nature of its business and markets and the completion of a number of acquisitions during that time, 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 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 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 total number of employees of the Company has grown from 292 as of September 1, 1996 to 1106, excluding contractors, as of September 30, 2001. 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. In the past, the Company has grown through acquisitions and it continues to review acquisition opportunities as a means of increasing the size and scope of its business. In October 2000, Open Text completed the acquisition of Bluebird Systems. In November 2000, Open Text purchased the product business of LeadingSide and also acquired Open Image. In January 2001, Open Text acquired Base4. 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 focused its efforts on the Livelink product suite and consolidating the operations of Information Dimensions, OnTime, Lava, PS Software, Microstar, Bluebird, LeadingSide, Open Image, and Base4. 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 of 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 products 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 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 that may 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 time, 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. Open Text relies on certain software that it licenses from third parties, including software that is integrated with internally developed software and used in its products to perform key functions. These third party software licenses may not continue to be available to us on commercially reasonable terms, and the related software may not continue to be appropriately supported, maintained, or enhanced by the licensors. The loss of license to use, or the inability of licensors to support, maintain, and enhance any of such software, could result in increased costs, delays, or reductions in product shipments until equivalent software is developed or licensed, if at all, and integrated.

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 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. See "Business of the Company-competition".

Cash Flow from Operations

Open Text's cash and cash equivalents was \$84.1 million at September 30, 2001. During the quarter ended September 30, 2001, the Company's operations provided cash in the amount of \$3.9 million. During the quarter, the Company repurchased 348,700 of its common shares in the open market for a total cost of \$8.3 million. 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 would require additional financing. There can be no assurance that such financing would be available on reasonable terms, if at all, if required. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources".

Dependence on the Adoption of Intranets; Uncertain Adoption of Intranets

Open Text relies heavily on the development of markets for products that support or increase the functionality of intranets. Livelink 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 as a result of 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 deferral 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.

Dependence on 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.

Dependence on Key Personnel

The Company's performance is substantially dependent on the performance of its executive officers and key employees. 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, integrate 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, world events 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 the majority 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. 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, compliance with foreign laws, compliance with domestic and international import and export laws and regulations, costs related to localizing products for foreign markets, and costs related to 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 laws, 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, 2001.

PART II Other Information

Item 1. Legal Proceedings

The Company is not currently a party to any material legal proceedings.

Item 2. Changes in Securities - None

Item 3. Defaults Upon Senior Securities - None

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

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits – None

(b) Reports on Form 8-K - 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: November 12, 2001

/s/P Thomas Jenkins
Thomas Jenkins
Chief Executive Officer

/s/Alan Hoverd
Alan Hoverd
Chief Financial Officer
(Principal Financial and Accounting Officer)