

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, 2002

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 or 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 11, 2002, there were 19,288,670 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, 2002	June 30, 2002
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 103,013	\$ 109,895
Accounts receivable - net of allowance for doubtful accounts of \$1,458 as of September 30, 2002 and June 30, 2002	29,573	33,094
Income taxes recoverable	1,265	1,194
Prepaid expenses and other assets	<u>2,667</u>	<u>2,530</u>
Total current assets	136,518	146,713
Capital assets	7,290	8,401
Goodwill, net of accumulated amortization of \$12,807 at September 30, 2002 and June 30, 2002	24,587	24,587
Other assets	<u>8,035</u>	<u>7,146</u>
	<u>\$ 176,430</u>	<u>\$ 186,847</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 3)	\$ 17,595	\$ 18,889
Deferred revenues	<u>24,704</u>	<u>23,927</u>
Total current liabilities	42,299	42,816
Shareholders' equity:		
Share capital		
19,277,795 and 19,875,872 Common Shares issued and outstanding at September 30, 2002 and June 30, 2002 respectively	199,249	204,815
Accumulated other comprehensive income:		
Cumulative translation adjustment	(1,519)	(780)
Accumulated deficit (note 6)	<u>(63,599)</u>	<u>(60,004)</u>
Total shareholders' equity	<u>134,131</u>	<u>144,031</u>
	<u>\$ 176,430</u>	<u>\$ 186,847</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,	
	2002	2001
	(unaudited)	
Revenues:		
License and networking	\$ 15,476	\$ 14,707
Customer support	13,662	11,981
Service	8,517	9,083
Total revenues	37,655	35,771
Cost of revenues:		
License and networking	1,649	1,042
Customer support	2,317	2,068
Service	6,235	7,033
Total cost of revenues	10,201	10,143
Gross profit	27,454	25,628
Operating expenses:		
Research and development	6,162	6,701
Sales and marketing	11,986	11,656
General and administrative	3,242	3,136
Depreciation	1,216	1,425
Amortization of acquired intangible assets	487	1,655
Total operating expenses	23,093	24,573
Income from operations	4,361	1,055
Other income	617	181
Interest income	384	694
Income before income taxes	5,362	1,930
Provision for income taxes	-	289
Net income for the period	\$ 5,362	\$ 1,641
Basic net income per share	\$ 0.27	\$ 0.08
Diluted net income per share	\$ 0.26	\$ 0.08
Weighted average number of Common Shares outstanding - basic	19,640	19,910
Weighted average number of Common Shares outstanding - diluted	20,536	21,189

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,	
	2002	2001
	(unaudited)	
Cash flows from operating activities:		
Net income for the period	\$ 5,362	\$ 1,641
Non-cash items:		
Depreciation and amortization	1,703	3,080
Changes in operating assets and liabilities net of assets acquired:		
Accounts receivable	3,515	7,234
Prepaid expenses and other assets	264	(480)
Accounts payable and accrued liabilities	(1,608)	(3,653)
Income taxes payable	-	140
Income taxes recoverable	(26)	-
Deferred revenues	760	(3,386)
Unrealized foreign exchange loss	(367)	(647)
Net cash provided by operating activities	9,603	3,929
Cash flows used in investing activities:		
Acquisitions of capital assets	(530)	(736)
Purchase of patent	(1,246)	-
Purchase of other investments	-	(86)
Other	(132)	-
Net cash used in investing activities	(1,908)	(822)
Cash flow from financing activities:		
Payments of obligations under capital leases	-	(14)
Proceeds from issuance of Common Shares	1,711	1,556
Repurchase of Common Shares	(16,236)	(8,259)
Net cash used in financing activities	(14,525)	(6,717)
Foreign exchange gain (loss) on cash held in foreign currency	(52)	224
Decrease in cash and cash equivalents during the period	(6,882)	(3,386)
Cash and cash equivalents at beginning of period	109,895	87,526
Cash and cash equivalents at end of period	\$ 103,013	\$ 84,140

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2002

(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 “Open Text” or 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 for the fiscal year ended June 30, 2002.

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. The operating results for the three months ended September 30, 2002 are not necessarily indicative of the results expected for any succeeding quarter or the entire fiscal year ending June 30, 2003.

These condensed consolidated financial statements are expressed in US dollars and are prepared in accordance with US generally accepted accounting principles. These accounting principles were applied on a basis consistent with those of the consolidated financial statements contained in the Company’s Annual Report on Form 10-K, except as described in Note 2 of these condensed consolidated financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the US requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

Comprehensive net income

Comprehensive net income is comprised of net income and other comprehensive net income (loss), including the effect of foreign currency translation resulting from the consolidation of subsidiaries where the functional currency is a foreign currency, and the inclusion of unrealized capital gains and losses on available for sale marketable securities. The Company’s total comprehensive net income was as follows:

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2002

(unaudited)

(tabular dollar amounts in thousands, except share data)

	Three months ended September 30,	
	2002	2001
Other comprehensive net income (loss):		
Foreign currency translation adjustment	\$ (694)	\$ (58)
Unrealized loss on available for sale securities (net of tax)	(45)	-
Other comprehensive loss	(739)	(58)
Net income for the period	5,362	1,641
Comprehensive net income for the period	\$ 4,623	\$ 1,583

NOTE 2 – ACCOUNTING POLICIES

Revenue Recognition

a) License revenues

The Company recognizes revenue in accordance with Statement of Position (“SOP”) 97-2, “Software Revenue Recognition”, issued by the American Institute of Certified Public Accountants (“AICPA”) in October 1997 and as amended by SOP 98-9 issued in December 1998.

The Company records product revenue from software licenses and products when persuasive evidence of an arrangement exists, the software product has been shipped, there are no significant uncertainties surrounding product acceptance, the fees are fixed and determinable and collection is considered probable. The Company uses the residual method to recognize revenue when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If an undelivered element for the arrangement exists under the license arrangement, revenue related to the undelivered element is deferred based on vendor-specific objective evidence (“VSOE”) of the fair value of the undelivered element.

The Company’s multiple-element sales arrangements include arrangements where software licenses and the associated post contract customer support (“PCS”) are sold together. The Company has established VSOE of the fair value of the undelivered PCS element based on the contracted price for renewal PCS included in the original multiple element sales arrangement, as substantiated by contractual terms and the Company’s significant PCS renewal experience, from its large installed base of over 5 million users worldwide. The Company’s multiple element sales arrangements generally include rights for the customer to renew PCS after the bundled term ends. These rights are irrevocable to the customer’s benefit, are for specified prices and the customer is not subject to any economic or other penalty for failure to renew. Further, the renewal PCS options are for services comparable to the bundled PCS and cover similar terms.

It is the Company’s experience that customers generally exercise their renewal PCS option. In the renewal transaction, PCS is sold on a stand-alone basis to the licensees one year or more after the original multiple element sales arrangement. The renewal PCS price is consistent with the renewal price in the original multiple element sales arrangement although an adjustment to reflect consumer price changes are not uncommon.

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2002

(unaudited)

(tabular dollar amounts in thousands, except share data)

If VSOE of fair value does not exist for all undelivered elements, all revenue is deferred until sufficient evidence exists or all elements have been delivered.

The Company assesses whether payment terms are customary or extended payment terms in accordance with normal practice relative to the market in which the sale is occurring. The Company's sales arrangements generally include standard payment terms. These terms effectively relate to all customers, products, and arrangements regardless of customer type, product mix or arrangement size. The only time exceptions are made to these standard terms is on certain sales in parts of the world where local practice differs. In these jurisdictions, the Company's customary payment terms are in line with local practice.

b) Service revenues

Service revenues consist of revenues from consulting contracts as well as training and integration services contracts. Contract revenues are derived from contracts to develop applications and to provide consulting services. Contract revenues are recognized under the percentage of completion method, using a methodology that accounts for costs incurred under the contract in relation to the total estimated costs under the contract, after providing for any anticipated losses under the contract. Revenues from training and integration services are recognized in the period in which the services are performed.

c) Customer support revenues

Customer support revenues consist of revenue derived from contracts to provide technical support to license holders. These revenues are recognized ratably over the term of the contract.

d) Network revenues

Network revenues consist of revenues earned from customers under an application service provider (ASP) model. Under this model, customers pay a monthly fee that entitles them to use of the Company's software on a secure, hosted, third-party server. These revenues are recognized as the services are provided on a monthly basis over the term of the customer's contract.

Impairment of long-lived assets

The Company evaluates its long-lived assets, including goodwill and certain identifiable intangibles, in accordance with the provisions of Statement of Financial Accounting Standard No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets and for Long-Lived Assets to be Disposed of," for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. The Company considers factors such as significant changes in the business climate and projected discounted cash flows from the respective asset. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair market value. In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 142 requires goodwill to be tested for impairment at least annually, and written off when impaired, rather than being amortized as previous standards required. The Company adopted SFAS 142 beginning July 1, 2002. The Company is currently assessing the impact of SFAS 142 on its operating results and financial condition.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS no. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of", and the accounting and

OPEN TEXT CORPORATION

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For the Three Months Ended September 30, 2002

(unaudited)

(tabular dollar amounts in thousands, except share data)

reporting requirements of ABP No 30, "Reporting the Results of Operations for a Disposal of a Segment of a Business." The Company adopted SFAS 144 beginning July 1, 2002. The Company does not expect the adoption of SFAS 144 to have a material impact on its financial position or results of operations.

Accounting for Asset Retirement Obligations

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The Company adopted SFAS No. 143 on July 1, 2002. Adopting the provisions of SFAS No. 143 did not have a material impact on the Company's financial condition or results of operations.

Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections

In May 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections". Among other things, SFAS 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transaction", are met. The Company adopted the provisions of SFAS 145 regarding early extinguishment of debt during the second quarter of 2002, and does not expect that its provisions will have a material impact on its financial condition or results of operations.

Accounting for Costs Associated with Exit or Disposal Activities

In July 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes EITF Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that costs associated with exit or disposal activities be recognized when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. The Company will adopt the provisions of SFAS 146 for exit or disposal activities that are initiated after December 31, 2002.

NOTE 3 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	As of	
	September 30, 2002	June 30, 2002
Accounts payable - trade	\$ 2,322	\$ 2,288
Accrued trade liabilities	7,854	8,300
Amounts payable for acquisitions	1,141	871
Accrued salaries and commissions	6,243	7,376
Other liabilities	35	54
	<u>\$ 17,595</u>	<u>\$ 18,889</u>

NOTE 4 —INCOME TAXES

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2002

(unaudited)

(tabular dollar amounts in thousands, except share data)

As of September 30, 2002, the Company had total net deferred tax assets of \$7.2 million, the principal components of which were temporary differences associated with net operating loss carryforwards and employee stock option deductions. 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. The Company has fully provided against the deferred tax asset with a valuation allowance because it believes that sufficient uncertainty exists regarding the realization of the deferred tax assets. The Company continues to evaluate its taxable position quarterly and considers factors by taxing jurisdiction such as estimated taxable income, the history of losses for tax purposes and the growth of the Company, among others.

As of September 30, 2002, the Company and its subsidiaries had approximately \$10.1 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 \$5.7 million have no expiration date, and the balance of losses expire between 2004 and 2011.

NOTE 5—SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," 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 three-month period ended September 30, 2002 and 2001, the "Other" category consists of geographic regions other than North America and Europe.

Information about reported segments are as follows:

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2002

(unaudited)

(tabular dollar amounts in thousands, except share data)

	North America	Europe	Other	Total
Three months ended <u>September 30, 2002</u>				
Revenues from external customers	\$ 22,148	\$ 14,473	\$ 1,034	\$ 37,655
Operating costs	17,561	12,774	1,256	31,591
Contribution margin	\$ 4,587	\$ 1,699	\$ (222)	\$ 6,064
Segment assets as of September 30, 2002	\$ 52,636	\$ 28,803	\$ 1,591	\$ 83,030
Three months ended <u>September 30, 2001</u>				
Revenues from external customers	\$ 23,019	\$ 12,105	\$ 647	\$ 35,771
Operating costs	18,156	12,098	1,382	31,636
Contribution margin	\$ 4,863	\$ 7	\$ (735)	\$ 4,135
Segment assets as of September 30, 2001	\$ 53,653	\$ 26,990	\$ 1,125	\$ 81,768

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements for the three months ended September 30, 2002 and 2001 is as follows:

	Three months ended September 30,	
	2002	2001
Total contribution margin from operating segments above	\$ 6,064	\$ 4,135
Amortization and depreciation	(1,703)	(3,080)
Total operating income	\$ 4,361	\$ 1,055
Interest, other income and taxes	1,001	586
Net income for the period	\$ 5,362	\$ 1,641

	As of September 30,	
	2002	2001
Segment assets	\$ 83,030	\$ 81,768
Term deposits	93,311	80,577
Investments	89	1,262
Total corporate assets	\$ 176,430	\$ 163,607

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

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2002

(unaudited)

(tabular dollar amounts in thousands, except share data)

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, 2002 and September 30, 2001 are as follows:

	<u>Three months ended September 30,</u>	
	<u>2002</u>	<u>2001</u>
Revenues:		
Canada	\$ 2,362	\$ 2,340
United States	19,786	20,678
United Kingdom	4,346	5,337
Rest of Europe	10,127	6,769
Other	1,034	647
Total revenues	<u>\$ 37,655</u>	<u>\$ 35,771</u>

	<u>As of September 30,</u>	
	<u>2002</u>	<u>2001</u>
Segment assets:		
Canada	\$ 13,378	\$ 8,391
United States	39,258	45,262
United Kingdom	8,909	9,920
Rest of Europe	19,894	17,070
Other	1,591	1,125
Total segment assets	<u>\$ 83,030</u>	<u>\$ 81,768</u>

NOTE 6—ACCUMULATED DEFICIT

During the three months ended September 30, 2002, the Company, through its stock repurchase program, purchased 712,200 of its common shares through the facilities of The Toronto Stock Exchange and the Nasdaq National Market at an aggregate cost of \$16.2 million. \$7.3 million of the repurchase was charged to common share capital based on the average carrying value of the common stock, with the remaining \$8.9 million charged to accumulated deficit.

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2002

(unaudited)

(tabular dollar amounts in thousands, except share data)

NOTE 7—NET INCOME PER SHARE

	Three Months Ended September 30,	
	2002	2001
	(in thousands, except per share data)	
Basic net income per share		
Net income	\$ 5,362	\$ 1,641
Weighted average number of shares outstanding	19,640	19,910
Basic net income per share	\$ 0.27	\$ 0.08
Diluted net income per share		
Net income	\$ 5,362	\$ 1,641
Weighted average number of shares outstanding	19,640	19,910
Dilutive effect of stock options	896	1,279
Adjusted weighted average number of shares outstanding	20,536	21,189
Diluted net income per share	\$ 0.26	\$ 0.08

* anti-dilutive options of 1,196,478 have been excluded (fiscal 2001 - 479,773)

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

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. Such risks and uncertainties include, the factors set forth in "Cautionary Statements" beginning on page 19 of this Quarterly Report on Form 10-Q. 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 regarding these plans, estimates, opinions or projections should change. This discussion should be read in conjunction with the condensed consolidated financial statements and related notes for the periods specified. Further reference should be made to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

Overview

The Company develops, markets, licenses and supports collaboration and knowledge management 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 functions, and distribute or make available to users across networks or the Internet the resulting work product and other information. The Company's software enables thousands of organizations to effectively address a diverse range of business needs including managing information, unifying globally distributed teams, capturing market opportunities, accelerating product cycles, improving customer and partner relationships, and altering business strategies.

The Company's principal product line is its Livelink® software, a leading **collaboration and knowledge management software** for global enterprises. By effectively managing people, processes and information, Livelink enables companies to be more efficient and innovative in managing their intellectual property. Livelink integrates several engines including, but not limited to, search, collaboration, workflow, group calendaring and scheduling, and document management. Its tightly integrated functionalities deliver true dynamic collaboration and knowledge sharing between individuals, teams and organizations. This collaborative environment enables ad hoc teams to form quickly across functional and organizational boundaries, which enables information to be accessed by employees using any standard Web browser. Fully Web-based and open-architected, Livelink provides rapid out-of-the-box deployment, accelerated adoption, and low cost of ownership.

During the three months ended September 30, 2002, the Company recorded license and networking revenue of \$15.5 million and net income of \$5.4 million. In addition, the Company's cash and cash equivalents were \$103.0 million, with cash flow from operations totaling \$9.6 million. The Company's days' sales outstanding ("DSO") of 71 days at September 30, 2002, was consistent with 71 days at September 30, 2001. Segment information relating to the financial statements is presented in Note 5 to the Company's condensed consolidated financial statements.

The Company continues to seek 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. On November 1, 2002, the Company completed an acquisition of Centrinity Inc., for total proceeds of approximately \$20.2 million.

Critical Accounting Policies and Estimates

The Company's condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States ("US GAAP"), except as described in Note 2 of these condensed consolidated financial statements. These accounting principles were applied on a basis consistent with those of the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended June 30, 2002 filed with the Securities and Exchange Commission. Dollar amounts in this Report on Form 10-Q are presented in United States dollars unless otherwise indicated.

The preparation of the condensed consolidated financial statements in accordance with US GAAP necessarily requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenues, bad debts, investments, intangible assets, income taxes, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed at the time to be reasonable under the circumstances. Under different assumptions or conditions, the actual results will differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside of the Company's control.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its condensed consolidated financial statements.

Revenue Recognition. The Company recognizes revenue in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition", issued by the American Institute of Certified Public Accountants ("AICPA") in October 1997 and as amended by SOP 98-9 issued in December 1998.

The Company records product revenue from software licenses and products when persuasive evidence of an arrangement exists, the software product has been shipped, there are no significant uncertainties surrounding product acceptance, the fees are fixed and determinable and collection is considered probable. The Company uses the residual method to recognize revenue when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If an undelivered element for the arrangement exists under the license arrangement, revenue related to the undelivered element is deferred based on vendor-specific objective evidence ("VSOE") of the fair value of the undelivered element.

The Company's multiple-element sales arrangements include arrangements where software licenses and the associated post-contract customer support ("PCS") are sold together. The Company has established VSOE of the fair value of the undelivered PCS element based on the contracted price for renewal PCS included in the original multiple element sales arrangement, as substantiated by contractual terms and the Company's significant PCS renewal experience, from its large installed base of over 5 million users worldwide. The Company's multiple element sales arrangements generally include rights for the customer to renew PCS after the bundled term ends. These rights are irrevocable to the customer's benefit, are for specified prices and the customer is not subject to any economic or other penalty for failure to renew. Further, the renewal PCS options are for services comparable to the bundled PCS and cover similar terms.

It is the Company's experience that customers generally exercise their renewal PCS option. In the renewal transaction, PCS is sold on a stand-alone basis to the licensees one year or more after the original multiple element sales arrangement. The renewal PCS price is consistent with the renewal price in the original multiple element sales arrangement although an adjustment to reflect consumer price changes are not uncommon.

If VSOE of fair value does not exist for all undelivered elements, all revenue is deferred until sufficient evidence exists or all elements have been delivered.

Service revenues consist of revenues from consulting contracts, as well as training and integration services contracts. Contract revenues are derived from contracts to develop applications and to provide consulting services. Contract revenues are recognized under the percentage of completion method, using a methodology that accounts for costs incurred under the contract in relation to the total estimated costs under the contract, after providing for any anticipated losses under the contract. Revenues from training and integration services are recognized in the period in which the services are performed.

Customer support revenues consist of revenue derived from contracts to provide technical support to license holders. These revenues are recognized ratably over the term of the contract.

Network revenues consist of revenues earned from customers under an application service provider ("ASP") model. Under this model, customers pay a monthly fee that entitles them to use of the Company's software on a secure, hosted, third-party server. These revenues are recognized as the services are provided on a monthly basis over the term of the customer's contract. With respect to these revenues, the Company's customers pay exclusively for the right to use the software. The Company's customers do not receive the right to take possession of the Company's software. Further, it is not possible for customers to either run the software on their own hardware or for them to contract with another party unrelated to the Company to host the software.

Allowance for Doubtful Accounts. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company performs ongoing credit evaluations of its customers' financial condition and if the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would likely be required. Actual collections could differ materially from our estimates.

Investments. From time to time the Company may hold minority interests in companies having operations or technology in areas within its strategic focus, some of which are publicly traded and have highly volatile share prices. The Company records an investment impairment charge when it believes an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of companies in whom the Company has invested could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

Income Taxes. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is considered to be more likely than not to be realized. The Company considers estimated future taxable income and ongoing tax planning strategies in assessing the need for and size of the valuation allowance. If the Company were to conclude that it was able to realize its deferred tax assets in the future in an amount that differs from its net recorded amount, an adjustment to the deferred tax asset would be required with the change generally recognized in the determination of income for the period.

Long-Lived Assets. The Company accounts for the impairment and disposition of long-lived assets in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This statement addresses financial accounting and reporting for the impairment of long-lived assets and for the disposal of long-lived assets. The Company evaluates the carrying value of intangible assets for impairment of value based on undiscounted future cash flows. While the Company has not experienced the impairment of intangible assets in prior periods, the Company cannot guarantee that there will not be impairment in the future.

Litigation. The Company is a party, from time to time, in legal proceedings. In these cases, management assesses the likelihood that a loss will result, as well as the amount of such loss and the financial statements provide for the Company's best estimate of such losses. To the extent that any of these legal proceedings are resolved and result in the Company being required to pay an amount in excess of what has been provided for in the financial statements, the Company would be required to record, against earnings, such excess at that time. If the resolution resulted in a gain to the Company, or a loss less than that provided for, such gain is recognized when received or receivable.

Results of Operations

Three months Ended September 30, 2002 Compared with Three months Ended September 30, 2001

Revenues. The Company's total revenues increased 5% from \$35.8 million in the three months ended September 30, 2001 to \$37.7 million for the three months ended September 30, 2002. License and networking revenues increased 5% from \$14.7 million in the three months ended September 30, 2001 to \$15.5 million in the three months ended September 30, 2002. Of this amount, during the three month period ended September 30, 2002 the Company realized networking revenue totaling \$1.1 million, which was the same amount realized during the three month period ended September 30, 2001. The modest increase in license and networking revenues is a

reflection of the continued challenging economic environment. As has been the Company's experience over the past several three months, information technology spending has been severely cut back or limited within many companies. The additional levels of approval that are now required prior to licensing software in many companies has also resulted in a lengthening of the Company's sales cycles. The growth that was experienced in license and networking revenues in the three months ended September 30, 2002 as compared with the three months ended September 30, 2001 was largely a result of an increase in larger transactions concluded during the quarter. The Company completed several transactions during the quarter that will generate over \$1.0 million in revenue, the majority of which represents license revenue. This continues a trend that Company experienced beginning during the three months ended June 30, 2002 of closing larger license transactions than had been experienced throughout most of fiscal 2002. The Company is uncertain whether this trend will continue through the remaining fiscal 2003.

Customer support revenues increased 14% from \$12.0 million in the three months ended September 30, 2001 to \$13.7 million for the three months ended September 30, 2002. The increase in customer support revenues was attributable to very strong renewal rates for maintenance contracts from existing customers experienced over the past 12 months as well as incremental customer support revenues from new licenses over the past 12 months.

Service revenues decreased 6% from \$9.1 million in the three months ended September 30, 2001 to \$8.5 million in the three months ended September 30, 2002. The decrease in service revenues relates primarily to the decrease in the number of billable consultants within the Company's services organization as compared to the three months ended September 30, 2001. The revenue generated from the services organization has decreased relatively proportionately to the decrease in personnel, although utilization rates were relatively comparable between these two three months.

No single customer accounted for greater than 10% of the Company's revenue in the three months ended September 30, 2002 or in the three months ended September 30, 2001. For the three months ended September 30, 2002, 59% of total revenues were from customers located in North America, 38% of total revenues were from customers in Europe and 3% of revenues were from customers in countries outside North America and Europe ("Other"), compared with 64%, 34% and 2%, respectively, for North America, Europe and Other for the three months ended September 30, 2001.

Cost of revenues. Cost of license and networking revenues increased 58% from \$1.0 million in the three months ended September 30, 2001 to \$1.6 million in the three months ended September 30, 2002. Of these amounts, cost of networking revenues totaled \$0.1 million during each of the quarters ended September 30, 2002 and 2001. As a percentage of license and networking revenues, cost of license and networking revenues represented 11% in the three months ended September 30, 2002 compared with 7% in the three months ended September 30, 2001. The increase in cost of license and networking revenues resulted from higher costs associated with the sale of third-party software during the three months ended September 30, 2002 as compared with the same three months a year ago.

Cost of customer support revenues increased 12% from \$2.1 million in the three months ended September 30, 2001 to \$2.3 million in the three months ended September 30, 2002. As a percentage of customer support revenues, cost of customer support revenues remained consistent at 17% in both the three months ended September 30, 2001 and 2002. The increase in cost of customer support revenues in absolute dollars is primarily due to an increase in personnel-related expenses. Additionally, the Company's customer support organization also incurred increased expenses related to education and travel during the three months ended September 30, 2002 as compared with the same quarter a year ago.

Cost of service revenues decreased from \$7.0 million in the three months ended September 30, 2001 to \$6.2 million in the three months ended September 30, 2002. As a percentage of service revenues, cost of service revenues decreased from 77% in the three months ended September 30, 2001 to 73% in the three months ended September 30, 2002. The decrease in cost of service revenues in absolute dollars resulted from a decrease in the number of employees within the Company's services organization compared to a year ago. In addition to reductions in personnel-related costs, the Company realized savings in a number of other variable expense areas, including travel, communications, training, and recruiting.

Research and development. Research and development expenses decreased by 8% from \$6.7 million in the three months ended September 30, 2001 to \$6.2 million in the three months ended September 30, 2002. Research and development expenses consisted primarily of personnel expenses, and their related facilities and equipment expenses. As a percentage of revenues, research and development expenses decreased from 19% in the three

months ended September 30, 2001 to 16% in the three months ended September 30, 2002. The decrease in research and development expenses primarily resulted from a decrease in the number of employees involved with the Company's development organization during the three month period ended September 30, 2002 as compared with the same period a year ago. Additionally, research and development expenses decreased due to reduced salaries in the Company's research departments, and reduced expenses related to consulting associated with the Company's research initiatives.

Sales and marketing. Sales and marketing expenses increased 3% from \$11.7 million in the three months ended September 30, 2001 to \$12.0 million in the three months ended September 30, 2002. Sales and marketing expenses include the costs associated with the Company's salesforce including compensation costs, travel, and training, as well as the costs of marketing programs and initiatives. As a percentage of revenues, sales and marketing expenses decreased slightly from 33% in the three months ended September 30, 2001 to 32% in the three months ended September 30, 2002. The increase in sales and marketing expenses in absolute dollars during the three months ended September 30, 2002 compared with the three months ended September 30, 2001 is a result of increases in amounts spent on tradeshows as well as employee incentive programs. The decrease in sales and marketing expenses as a percentage of total revenues for the three months ended September 30, 2002 resulted from a higher total revenues base.

General and administrative. General and administrative expenses increased 3% from \$3.1 million in the three months ended September 30, 2001 to \$3.2 million in the three months ended September 30, 2002. General and administrative expenses consisted primarily of the salaries of administrative personnel and related overhead and facilities expenses. As a percentage of revenues, general and administrative expenses remained consistent at 9% in both the three months ended September 30, 2001 and 2002.

Depreciation. Depreciation expense decreased 15% from \$1.4 million in the three months ended September 30, 2001 to \$1.2 million in the three months ended September 30, 2002. As a percentage of revenues, depreciation expense decreased from 4% in the three months ended September 30, 2001 to 3% during the three months ended September 30, 2002. The decrease in depreciation expense in absolute dollars between the two periods is a result of the fact that over the past year the Company has not made significant capital expenditures, and therefore its base of capital assets has become increasingly depreciated.

Amortization of acquired intangible assets. Amortization of acquired intangible assets decreased 71% from \$1.7 million in the three months ended September 30, 2001, to \$487,000 in the three months ended September 30, 2002. As a percentage of revenues, amortization of acquired intangible assets decreased from 5% in the three months ended September 30, 2001 to 1% in the three months ended September 30, 2002. During fiscal 2002, amortization of acquired intangible assets included the amortization of core technology, purchased software and goodwill acquired pursuant to acquisitions. However, as a result of the adoption of new accounting rules, the Company has determined that it has not experienced an impairment in its goodwill, and therefore has not recorded any amortization during the three month period ended September 30, 2002. During the three month period ended September 30, 2001, the Company recorded goodwill amortization totaling \$1.0 million. As a result, during the three months ended September 30, 2002, the Company's amortization of acquired intangible assets includes only the amortization of core technology and purchased software.

Other income. Other income increased 241% from \$181,000 for the three months ended September 30, 2001 to \$617,000 for the three months ended September 30, 2002. Other income consists primarily of foreign exchange gains or losses, which reflect relative movements in the various foreign currencies in which the Company conducts business.

Interest income. Interest income decreased 45% from \$694,000 for the three months ended September 30, 2001, to \$384,000 for the three months ended September 30, 2002. The reduction in interest income is a result of both lower cash balances and lower interest rates realized in the three months ended September 30, 2002, compared to the three months ended September 30, 2001.

Income taxes. As of September 30, 2002, the Company had total net deferred tax assets of \$7.2 million, the principal components of which were temporary differences associated with net operating loss carryforwards and employee stock option deductions. 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. The Company has fully provided against the deferred tax asset with a valuation allowance because it

believes that sufficient uncertainty exists regarding the realization of the deferred tax assets. The Company continues to evaluate its taxable position quarterly and considers factors by taxing jurisdiction such as estimated taxable income, the history of losses for tax purposes and the growth of the Company, among others.

As of September 30, 2002, the Company and its subsidiaries had approximately \$10.1 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 \$5.7 million have no expiration date, and the balance of losses expire between 2004 and 2011.

Liquidity and Capital Resources

At September 30, 2002, the Company had current assets of \$136.5 million, current liabilities of \$42.3 million and working capital of \$94.2 million. These amounts compare to current assets of \$146.7 million, current liabilities of \$42.8 million, and working capital of \$103.9 million at June 30, 2002. The decrease in the Company's current assets and working capital balances since the beginning of the fiscal year are largely a result of the Company's share buyback program, offset in part by the Company's net income for the three months ended September 30, 2002. During the three months ended September 30, 2002, the Company repurchased for cancellation a total of 712,200 of its Common Shares on the open market for total consideration of \$16.2 million.

At September 30, 2002, the Company had cash and cash equivalents totaling \$103.0 million, compared to cash and cash equivalents of \$109.9 million at June 30, 2002. The decrease in this balance since the beginning of the fiscal year is primarily the result of the amounts spent on repurchasing the Company's Common Shares referred to above, partially offset by the cash generated from the Company's operations.

Net cash used in financing activities was \$14.5 million in the three months ended September 30, 2002, primarily resulting from the repurchase for cancellation of 712,200 Common shares on the open market at a cost of \$16.2 million, of which \$7.3 million has been charged to share capital and \$8.9 million has been charged to accumulated deficit, partially offset by proceeds of \$1.7 million from the sale of Common Shares related to the exercise of Company options. Net cash used in financing activities was \$6.7 million in the three months ended September 30, 2001, primarily resulting from the repurchase for cancellation of 348,700 Common Shares on the open market at a cost of \$8.3 million, of which \$3.6 million has been charged to share capital and \$4.7 million has been charged to accumulated deficit, partially offset by proceeds of \$1.6 million from the sale of Common Shares related to the exercise of Company Stock Options.

The Company has a Cdn\$10.0 million (USD\$6.3 million) line of credit with a Canadian chartered bank, under which no borrowings were outstanding at September 30, 2002, the entire amount of which was available for use. 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 three months ended September 30, 2002 was \$9.6 million, compared to \$3.9 million during the three months ended September 30, 2001. The increase was primarily a result of higher net income during the three months ended September 30, 2002 compared to the three months ended September 30, 2001.

Net cash used for investing activities was \$1.9 million during the three months ended September 30, 2002 compared to \$822,000 during the three months ended September 30, 2001. The increase during the three months ended September 30, 2002, primarily related to the purchase of a patent by the Company for \$1.2 million, related to intellectual property incorporated into certain of the Company's existing products. Also included in investing activities are the purchase of capital assets, which totaled \$736,000 during the three months ended September 30, 2001 as compared with \$530,000 during the three months ended September 30, 2002.

On September 19, 2002, the Company announced that it had entered into an agreement with Centrinity Inc. ("Centrinity") of Toronto, whereby Open Text would purchase all of the issued and outstanding shares of Centrinity for cash consideration of \$1.26 Cdn. per share. On November 1, 2002, this acquisition was formally completed when the shareholders' of Centrinity approved this transaction. Total cash consideration paid for the total share capital of Centrinity is expected to be approximately \$20.2 million and will be paid during the three months ending

December 31, 2002. The Company is currently assessing the identifiable assets and liabilities acquired in this transaction.

Over the past several three months, the Company has taken certain actions, including consolidating facilities and reducing the number of employees across the organization, in an effort to manage its operating expenses. The Company does not currently anticipate any large increases in operating expenses in the foreseeable future, with the exception of the added operating expenses related to the addition of Centrinity. Similarly, the Company does not currently anticipate significant increases in the levels of capital asset investments in the foreseeable future.

On a cumulative basis, to date, license and service revenues have been insufficient to satisfy the Company's total cash requirements, particularly as the Company has sought to repurchase its Common Shares, acquire businesses and grow its infrastructure. The Company currently anticipates that its current cash and cash equivalents and available credit facilities will be sufficient to fund its anticipated cash requirements for working capital and capital expenditures for at least the next 12 months. The Company may need to raise additional funds, however, in order to fund more rapid expansion of our business, develop new and enhance existing products and services, or acquire complimentary products, businesses or technologies. If additional funds are raised through the issuance of equity or convertible securities, the percentage ownership of the Company's stockholders may be reduced, the Company's stockholders may experience additional dilution, and such securities may have rights, preferences, or privileges senior to those of the Company's stockholders. Additional financing may not be available on terms favorable to the Company, or at all. If adequate funds are not available or are not available on acceptable terms, the Company's ability to fund its expansion, take advantage of unanticipated opportunities or develop or enhance its services or products would be significantly limited.

Cautionary Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 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 cautionary statements and elsewhere in this Quarterly Report on Form 10-Q. In addition to the other information set forth herein, the following cautionary statements should be considered carefully in evaluating Open Text and its business. If any of the following risks and uncertainties were to occur, the Company's business, financial condition and results of operations would likely suffer. In that event, the trading price of the Company's Common Shares would likely decline.

If the Company does not continue to develop new technologically advanced products, future revenues will be negatively affected

Open Text's success will depend on its ability to design, develop, test, market, license 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 its 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 the Company may not 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 operating results will materially suffer. In addition, if new industry standards emerge that the Company does not anticipate or adapt to, the Company's software products could be rendered obsolete and its business would be materially harmed.

If the Company's products and services do not gain market acceptance, the Company may not be able to increase its revenues

Open Text is continually working on the development of, and improvements to, new versions of Livelink and other products. In November 2001, the Company released *Livelink MeetingZone*[™], and in April 2001, the Company released *Livelink Wireless*[™]. In February 2002, Open Text released *Livelink 9.1*, the latest release of the Company's flagship product. 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, the Company's business will suffer. The Company may be unable to successfully market its current products and services, develop new software products, services and enhancements to current products and services, complete customer installations on a timely basis, or complete products and services currently under development. If the Company's products and services or enhancements do not achieve and sustain market acceptance, the Company's business and operating results will be materially harmed.

The Company's products may contain defects that could harm the Company's reputation, be costly to correct, delay revenues, and expose the Company to litigation

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. Errors may be found in new software products or improvements to existing products after commencement of commercial shipments, or, if discovered, the Company may not 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, the Company may not be able to fully simulate the environment in which its products will operate and, as a result, the Company may be unable to adequately detect design defects or software errors inherent in its products and which only become apparent when the products are installed in an end-user's network. The occurrence of errors and failures in the Company's products could result in loss of or delay in market acceptance of the Company's products, and alleviating such errors and failures in the Company's products could require significant expenditure of capital and other resources by the Company. Because the Company's end-user base consists of a limited number of end-users, the harm to the Company's reputation resulting from product errors and failures would be damaging to the Company. The Company regularly provides a warranty with its products and the financial impact of these warranty obligations may 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, such coverage may not be adequate and all claims may not be covered. Accordingly, any such claim could negatively affect the Company's financial condition.

The Company currently depends on certain third-party software, the loss of which could result in increased costs of, or delays in, licenses of the Company's products

The Company relies on certain software that it licenses from third parties, including software that is integrated with internally developed software and which is 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.

Current and future competitors could have a significant impact on the Company's ability to generate future revenue and profits

The markets for the Company's products are new, intensely competitive, subject to rapid technological change and are evolving rapidly. The Company expects competition to increase and intensify in the future as the markets for the Company's products continue to develop and as additional companies enter each of its markets. Numerous releases of products and services that compete with those of the Company can be expected in the near future. The Company may not be able to compete effectively with current and future competitors. If competitors were to engage in aggressive pricing policies with respect to competing products, or significant price competition were to otherwise develop, the Company would likely be forced to lower its prices. This could result in lower revenues, reduced margins, loss of customers, or loss of market share for the Company.

The length of the Company's sales cycle can fluctuate significantly which could result in significant fluctuations in license revenue being recognized from quarter to quarter

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, licenses 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. Given the significant investment and commitment of resources required by an organization in order to implement the Company's software, the Company's sales cycle tends to take considerable time to complete. Particularly in the current economic environment of reduced information technology spending, it can take several months, or even quarters, for sales opportunities to translate into revenue. If installation of the Company's products in one or more customers takes longer than originally anticipated, the date on which revenue from these licenses could be recognized would be delayed. Such delays could cause the Company's revenues to be lower than expected in a particular period.

The Company may not achieve its anticipated revenues if it does not expand its product line

Substantially all of Open Text's revenues are currently derived from its Livelink and related products and 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 expanding its product-line and related services. To achieve its revenue goals, the Company must also 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 licenses of Livelink and related services, would significantly harm the Company's business.

The Company must continue to manage its growth or its operating results could be adversely affected

Over the past several years, Open Text has experienced growth in revenues, operating expenses, and product distribution channels. In addition, Open Text's markets have continued to evolve at a rapid pace. The total number of employees of the Company has grown from 292 as of September 1, 1996 to 980, excluding contractors, as of June 30, 2002. 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. Moreover, the Company has grown significantly through acquisitions in the past and continues to review acquisition opportunities as a means of increasing the size and scope of its business. 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's administrative infrastructure, systems, procedures and controls may not adequately support the Company's operations and the Company's management may not 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 operating results will likely suffer.

Future acquisitions, investments, joint ventures and other business initiatives may negatively affect the Company's operating results

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. These activities create risks such as the need to integrate and manage the business acquired with the business of the Company, additional demands on the Company's management, resources, systems, procedures and controls, disruption of the Company's ongoing business, and diversion of management's attention from other business concerns. Moreover, these transactions could involve substantial investment of funds and/or technology transfers, the acquisition or disposition of product lines or businesses. Also, such activities could result in one-times charges and expenses and have the potential to either dilute existing shareholders or result in the assumption of debt. Such acquisitions, investments, joint ventures or other business collaborations may involve significant commitments of financial and other resources of the Company. Any such activity may not be successful in generating revenue, income or other returns to the Company, and the financial or other resources committed to such activities will not be available to the Company for other purposes. The Company's inability to address these risks could negatively affect the Company's operating results.

The Company's products rely on the stability of various infrastructure software which, if not stable, could negatively impact the effectiveness of the Company's products, resulting in harm to the reputation and business of the Company

Developments of internet and intranet applications by Open Text depends on the stability, functionality and scalability of the infrastructure software of the underlying intranet, such as that of Netscape, Microsoft and others. If weaknesses in such infrastructure software exist, the Company may not 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 and reputation may be significantly harmed.

The Company's quarterly revenues and operating results are likely to fluctuate which could impact the price of the Company's Common Shares

The Company has experienced, and is likely to continue to experience, significant fluctuations in quarterly revenues and operating results caused by many factors, including changes in the demand for the Company's products, the introduction or enhancement of products by the Company and its competitors, market acceptance of 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, delays involved in installing products with customers, the mix of distribution channels through which products are licensed, the mix of products and services sold, the mix of international and North American revenues, foreign currency exchange rates and general economic conditions.

Like many other software companies, the Company has generally recognized a substantial portion of its revenues in the last weeks of each quarter. Accordingly, the cancellation or deferrals of even a small number of licenses or delays in installations of the Company's products could have a material adverse effect on the Company's results of operations 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 revenues recorded in the quarter ended September 30 than in other quarters. Because of 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. For these reasons, no one should rely on period-to-period comparisons of the Company's financial results to forecast future performance. It is likely that the Company's quarterly revenue and operating results will vary significantly in the future and if a shortfall in revenue occurs or if operating costs increase significantly, the market price of our Common Shares could decline.

Failure to protect our intellectual property could harm the Company's ability to compete effectively

The Company is highly dependent on its ability to protect its proprietary technology. The Company's efforts to protect its intellectual property rights may not 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 a policy of seeking patent protection for its products. 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. 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, third parties may assert infringement claims against the Company in the future, and any such assertions may result in costly litigation or require the Company to obtain a license for the intellectual property rights of third parties, such licenses may not be available on reasonable terms, or at all.

If the Company is not able to attract and retain top employees, the Company's ability to compete may be harmed

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 significantly harm the Company's business. The Company does not maintain "key person" life insurance policies on any of its employees. The Company's success is also highly dependent on its continuing ability to identify, hire, train, retain and motivate highly qualified management, technical, sales and marketing personnel, including recently hired officers and other employees. Specifically, the recruitment of top research developers, along with experienced salespeople, remains critical to the Company's success. Competition for such personnel is intense, and the Company may not be able to attract, integrate or retain highly qualified technical and managerial personnel in the future.

The volatility of the Company's stock price could lead to losses by shareholders

The market price of the Common Shares has been highly volatile and subject to wide fluctuations. Such fluctuations in market price may continue in response to quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many high technology companies and that often have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations or any failure of the Company's operating results in a particular quarter to meet market expectations may adversely affect the market price of the Common Shares, resulting in losses to shareholders. 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. Due to the volatility of our stock price, the Company could be the target of securities litigation in the future. 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 and operating results.

A reduction in the number or sales efforts by distributors could materially impact the Company's revenues

A portion of the Company's revenue is derived from the license of its products through third parties. The Company's success will depend, in part, upon its ability to maintain access to existing channels of distribution and to gain access to new channels if and when they develop. The Company may not be able to retain a sufficient number of its existing or future distributors. Distributors may also give higher priority to the sale of other products (which could include products of competitors) or may not devote sufficient resources to marketing the Company's products. The performance of third party distributors is largely 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 licensing the Company's products. A reduction in sales efforts, or a decline in the number of distributors, or the discontinuance of sales of the Company's products by its distributors could lead to reduced revenue.

The Company's international operations expose the Company to business risks that could cause the Company's operating results to suffer

Open Text intends to continue to make efforts to increase its international operations and anticipates that international sales will continue to account for a significant portion of its revenue. Revenues derived outside of North America represented 40%, 41%, and 39% of total revenues for fiscal 2002, fiscal 2001, and fiscal 2000, respectively. These international operations are subject to certain risks and costs, 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. International operations also tend to expose the Company to a longer sales and collection cycle, as well as potential losses arising from currency fluctuations,

and limitations regarding the repatriation of earnings. 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, international earnings may be subject to taxation by more than one jurisdiction, which could also materially adversely affect the Company's results of operations. Moreover, international expansion may be more difficult, time consuming, and costly. As a result, if revenues from international operations do not offset the expenses of establishing and maintaining foreign operations, the Company's operating results will suffer.

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 for the year ended June 30, 2002.

Item 4. Controls and Procedures

Within the 90 days prior to the date of this Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring the reporting of material information required to be included in our periodic filings with the Securities and Exchange Commission. There were no significant changes in our internal controls or in other factors that could significantly effect these internal controls subsequent to the date of the most recent evaluation.

PART II Other Information

Item 1. Legal Proceedings

The Company has instituted an action under the Ontario Arbitrators Act against Harold Tilbury and Yolanda Tilbury as Trustees of the Tilbury Family Trust, and Harold Tilbury personally, claiming reimbursement for parts of the purchase price of Bluebird Systems ("Bluebird"), a company previously acquired. The Company is also seeking indemnification for breaches of the representations and warranties under the stock purchase agreement in the amount of approximately \$6.5 million. This claim also asks for a rescission of a facility lease assumed on the purchase of Bluebird, or damages of \$7 million, together with punitive damages of \$1 million.

In the normal course of business the Company is subject to various other legal matters. While the results of litigation and claims cannot be predicted with certainty, the Company believes that the final outcome of these other matters will not have a materially adverse effect on its consolidated results of operations or financial conditions.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
99.1	Certification of Chief Executive Officer
99.2	Certification of Chief Financial Officer

(b) Reports on Form 8-K

The Company filed no Reports on Form 8-K during the three months ended September 30, 2002.

SIGNATURES

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

OPEN TEXT CORPORATION
(registrant)

Date: November 13, 2002

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

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

I, P. Thomas Jenkins, Chief Executive Officer of Open Text Corporation certify that:

1. I have reviewed this quarterly report on Form 10-Q of Open Text Corporation.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

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

I, Alan Hoverd Chief Financial Officer of Open Text Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Open Text Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/Alan Hoverd
Alan Hoverd
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Open Text Corporation (the "Company") for the quarter ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, P. Thomas Jenkins, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Dated: November 13, 2002

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Open Text Corporation (the "Company") for the quarter ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan Hoverd, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Alan Hoverd
Alan Hoverd
Chief Financial Officer

Dated: November 13, 2002

