

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 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 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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ___
No

At February 7, 2003 there were 19,385,686 outstanding Common Shares of the registrant.

OPEN TEXT CORPORATION

TABLE OF CONTENTS

<u>PART I Financial Information:</u>		<u>Page No.</u>
Item 1.	<u>Financial Statements</u>	
	Condensed Consolidated Balance Sheets as of December 31, 2002 (Unaudited) and June 30, 2002	3
	Condensed Consolidated Statements of Operations (Unaudited) - Three and Six Months Ended December 31, 2002 and 2001	4
	Condensed Consolidated Statements of Cash Flows (Unaudited) - Three and Six Months Ended December 31, 2002 and 2001	5
	Notes to Condensed Consolidated Financial Statements.....	6
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	30
Item 4.	Controls and Procedures.....	31
<u>PART II Other Information:</u>		
Item 4.	Submissions of Matters to a Vote of Security Holders.....	32
Item 6.	Exhibits and Reports on Form 8-K	32
Signatures	33
Certifications	34

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

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

	December 31, 2002	June 30, 2002
	<u>(unaudited)</u>	<u></u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 102,341	\$ 109,895
Accounts receivable - net of allowance for doubtful accounts of \$1,633 as of December 31, 2002 and \$1,458 as of June 30, 2002	29,567	33,094
Income taxes recoverable	34	1,194
Prepaid expenses and other current assets	2,799	2,530
Deferred tax asset	<u>1,407</u>	<u>-</u>
Total current assets	136,148	146,713
Capital assets		
Goodwill, net of accumulated amortization of \$12,807 at December 31, 2002 and June 30, 2002	8,380	8,401
Future tax asset	29,599	24,587
Other assets	<u>12,413</u>	<u>-</u>
	<u>13,543</u>	<u>7,146</u>
	<u><u>\$ 200,083</u></u>	<u><u>\$ 186,847</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 3)	\$ 25,843	\$ 18,889
Deferred revenues	<u>27,207</u>	<u>23,927</u>
Total current liabilities	53,050	42,816
Long-term liabilities:		
Deferred revenues	2,975	-
Accrued Liabilities	<u>4,047</u>	<u>-</u>
Total long-term liabilities	7,022	-
Shareholders' equity:		
Share capital		
19,298,235 and 19,875,872 Common Shares issued and outstanding at December 31, 2002 and June 30, 2002, respectively	199,578	204,815
Accumulated other comprehensive income	(1,564)	(780)
Accumulated deficit (note 6)	<u>(58,003)</u>	<u>(60,004)</u>
Total shareholders' equity	<u>140,011</u>	<u>144,031</u>
	<u><u>\$ 200,083</u></u>	<u><u>\$ 186,847</u></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)

	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues:				
License and networking	\$ 17,368	\$ 15,875	\$ 32,844	\$ 30,582
Customer support	14,883	12,230	28,545	24,211
Service	<u>10,763</u>	<u>11,553</u>	<u>19,280</u>	<u>20,180</u>
Total revenues	43,014	39,658	80,669	74,973
Cost of revenues:				
License and networking	1,618	1,585	3,267	2,627
Customer support	2,401	2,190	4,718	4,258
Service	<u>7,447</u>	<u>7,163</u>	<u>13,682</u>	<u>13,740</u>
Total cost of revenues	<u>11,466</u>	<u>10,938</u>	<u>21,667</u>	<u>20,625</u>
Gross profit	31,548	28,720	59,002	54,348
Operating expenses:				
Research and development	6,851	5,330	13,013	12,031
Sales and marketing	13,815	14,049	25,801	25,705
General and administrative	3,544	3,273	6,786	6,409
Depreciation	1,228	1,470	2,444	2,895
Amortization of acquired intangible assets	<u>738</u>	<u>1,658</u>	<u>1,225</u>	<u>3,313</u>
Total operating expenses	<u>26,176</u>	<u>25,780</u>	<u>49,269</u>	<u>50,353</u>
Income from operations	5,372	2,940	9,733	3,995
Other income	498	55	1,115	236
Interest income	<u>348</u>	<u>498</u>	<u>732</u>	<u>1,192</u>
Income before income taxes	6,218	3,493	11,580	5,423
Provision for income taxes (note 4)	-	-	-	(289)
Net income for the period	<u>\$ 6,218</u>	<u>\$ 3,493</u>	<u>\$ 11,580</u>	<u>\$ 5,134</u>
Basic net income per share (note 7)	<u>\$ 0.32</u>	<u>\$ 0.18</u>	<u>\$ 0.60</u>	<u>\$ 0.26</u>
Diluted net income per share (note 7)	<u>\$ 0.31</u>	<u>\$ 0.16</u>	<u>\$ 0.57</u>	<u>\$ 0.24</u>
Weighted average number of Common Shares outstanding - basic	<u>19,282</u>	<u>19,835</u>	<u>19,461</u>	<u>19,873</u>
Weighted average number of Common Shares outstanding - diluted	<u>20,359</u>	<u>21,302</u>	<u>20,437</u>	<u>21,262</u>

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 December 31,		Six months ended December 31,	
	2002	2001	2002	2001
	(unaudited)		(unaudited)	
Cash flows from operating activities:				
Net income for the period	\$ 6,218	\$ 3,493	\$ 11,580	\$ 5,134
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of acquired intangible assets	1,966	3,128	3,669	6,208
Other	-	-	-	(247)
Changes in operating assets and liabilities net of assets acquired:				
Accounts receivable	2,608	(1,650)	6,123	5,557
Prepaid expenses and other current assets	1,072	32	1,336	(448)
Accounts payable - trade and accrued liabilities	532	3,692	(1,076)	286
Income taxes payable	-	(1,965)	-	(1,825)
Income taxes recoverable	(151)	(315)	(177)	(315)
Deferred revenue	(364)	(173)	396	(3,559)
Unrealized foreign exchange loss	(214)	(200)	(581)	(820)
Net cash provided by operating activities	<u>11,667</u>	<u>6,042</u>	<u>21,270</u>	<u>9,971</u>
Cash flows from investing activities:				
Acquisitions of capital assets	(918)	(1,015)	(1,448)	(1,751)
Purchase of Centrinity Inc., net of cash acquired	(11,368)	-	(11,368)	-
Purchase of patent	-	-	(1,246)	-
Purchase of investments	-	(623)	-	(709)
Business acquisition costs	-	(212)	-	(212)
Other	-	-	(132)	-
Net cash used in investing activities	<u>(12,286)</u>	<u>(1,850)</u>	<u>(14,194)</u>	<u>(2,672)</u>
Cash flows from financing activities:				
Payments of obligations under capital leases	-	-	-	(14)
Proceeds from issuance of Common Shares	775	2,900	2,486	4,456
Repurchase of Common Shares	(1,066)	-	(17,302)	(8,259)
Net cash provided by (used in) financing activities	<u>(291)</u>	<u>2,900</u>	<u>(14,816)</u>	<u>(3,817)</u>
Foreign exchange gain (loss) on cash held in foreign currency	<u>238</u>	<u>(45)</u>	<u>186</u>	<u>179</u>
Increase (decrease) in cash and cash equivalents during the period	(672)	7,047	(7,554)	3,661
Cash and cash equivalents at beginning of period	<u>103,013</u>	<u>84,140</u>	<u>109,895</u>	<u>87,526</u>
Cash and cash equivalents at end of period	<u>\$ 102,341</u>	<u>\$ 91,187</u>	<u>\$ 102,341</u>	<u>\$ 91,187</u>
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	\$ 5	\$ 4	\$ 9	\$ 12
Cash paid during the period for taxes	-	-	-	150

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(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 Quarterly Report on 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 both the three months and six months ended December 31, 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 (“US GAAP”). 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 – Accounting Policies 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, judgments and assumptions, which are evaluated on an ongoing basis, that affect the amounts reported in the financial statements. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable at that time under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. In particular, significant estimates, judgments and assumptions include those related to revenue recognition, allowance for doubtful accounts, investments, long-lived assets and litigation.

Comprehensive net income

Comprehensive net income is comprised of net income and other comprehensive 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
(unaudited)
(tabular dollar amounts in thousands, except share data)

	Three months ended December 31,		Six months ended December 31,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Other comprehensive income (loss):				
Foreign currency translation adjustment	\$ (104)	\$ 79	\$ (798)	\$ 21
Unrealized gain on available for sale securities	<u>59</u>	<u>-</u>	<u>14</u>	<u>-</u>
Other comprehensive income (loss):	(45)	79	(784)	21
Net income for the period	<u>6,218</u>	<u>3,493</u>	<u>11,580</u>	<u>5,134</u>
Comprehensive net income for the period	<u>\$ 6,173</u>	<u>\$ 3,572</u>	<u>\$ 10,796</u>	<u>\$ 5,155</u>

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
(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

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 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 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. Adopting the provisions of SFAS No. 144 did not have a material impact on the Company's financial condition or results of operations.

Goodwill and Other Intangible Assets

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 has assessed the impact of SFAS 142 on its operating results and financial condition, and has determined that there currently exists no impairment in its goodwill.

OPEN TEXT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(tabular dollar amounts in thousands, except share data)

Adjusted net income and per share amounts for the three and six months ended December 31, 2002 and 2001 as if the principles in SFAS 142 had been applied in both periods would be as follows:

	Three months ended		Six months ended	
	December 31, 2002	December 31, 2001	December 31, 2002	December 31, 2001
Net income for the period	\$ 6,218	\$ 3,493	\$ 11,580	\$ 5,134
Add back: goodwill amortization	-	1,063	-	2,122
Adjusted net income for the period	<u>\$ 6,218</u>	<u>\$ 4,556</u>	<u>\$ 11,580</u>	<u>\$ 7,256</u>
Adjusted net income per share				
Basic	\$ 0.32	\$ 0.23	\$ 0.60	\$ 0.37
Diluted	\$ 0.31	\$ 0.21	\$ 0.57	\$ 0.34

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 fiscal 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.

Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), which requires certain disclosures of obligations under guarantees. The disclosure requirements of FIN 45 are effective for the Company's interim period ended December 31, 2002. Effective for 2003, FIN 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees entered into or

OPEN TEXT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(tabular dollar amounts in thousands, except share data)

modified after December 31, 2002, based on the fair value of the guarantee. The Company has adopted the disclosure requirements, but has not determined the impact of the measurement requirements of FIN 45.

Consolidation of Variable Interest Entities

In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). The consolidation provisions of FIN 46 are effective for all newly created entities created after January 31, 2003, and are applicable to existing entities as of the quarter beginning July 1, 2003. The Company has not determined the impact of the of the requirements of FIN 46.

NOTE 3 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	As of December 31, 2002	As of June 30, 2002
	(unaudited)	
Accounts payable - trade	\$ 4,631	\$ 2,288
Accrued trade liabilities	10,028	8,300
Amounts payable for acquisitions	2,582	871
Accrued salaries and commissions	8,248	7,376
Other liabilities	354	54
	\$ 25,843	\$ 18,889

NOTE 4 —INCOME TAXES

As of December 31, 2002, the Company had total net deferred tax assets of \$20.3 million, the principal component of which is temporary differences associated with net operating loss carryforwards. 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 provided against the deferred tax asset with a valuation allowance of \$6.5 million because it believes that sufficient uncertainty exists regarding the realization of certain 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 December 31, 2002, the Company and its subsidiaries had approximately \$46.0 million of losses and deductions available to reduce taxable income in future years, the benefit of which is reflected in the deferred tax assets. Deductions of \$6.0 million have no expiration date, and the balance of losses expire between 2004 and 2011.

The net deferred income tax asset as at December 31, 2002, of \$13.8 million arises from available income tax losses and future income tax deductions. The Company's ability to use these income tax losses and future income tax deductions is dependent upon the operations of the Company in the tax jurisdictions in which such losses or deductions arose. Management records a valuation allowance against deferred income tax assets when management believes it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Based on the reversal of deferred income tax liabilities, projected future taxable income, the character of

OPEN TEXT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(tabular dollar amounts in thousands, except share data)

the income tax asset and tax planning strategies, management has determined that a valuation allowance of \$6.5 million is required in respect of its deferred income tax assets as at December 31, 2002. A valuation allowance of \$9.3 million was required for the deferred income tax assets as at June 30, 2002. In order to fully utilize the net deferred income tax assets of \$13.8 million, the Company will need to generate future taxable income in applicable jurisdictions of approximately \$35 million. Based on the Company's current projection of taxable income for the periods in which the deferred income tax assets are deductible, it is more likely than not that the Company will realize the benefit of the net deferred income tax assets as at December 31, 2002.

NOTE 5—SEGMENT INFORMATION

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, based on the location of the respective customers. 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. The "Other" category consists of geographic regions other than North America and Europe.

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

Information about reported segments are as follows:

	North America	Europe	Other	Total
<u>Three months ended December 31, 2002</u>				
Revenue from external customers	\$ 26,088	\$ 15,570	\$ 1,356	\$ 43,014
Operating costs	24,864	9,762	1,050	35,676
Contribution margin	<u>\$ 1,224</u>	<u>\$ 5,808</u>	<u>\$ 306</u>	<u>\$ 7,338</u>
Segment assets as of December 31, 2002	<u>\$ 74,768</u>	<u>\$ 33,058</u>	<u>\$ 1,620</u>	<u>\$ 109,446</u>
<u>Three months ended December 31, 2001</u>				
Revenue from external customers	\$ 23,602	\$ 14,548	\$ 1,508	\$ 39,658
Operating costs	21,994	10,421	1,175	33,590
Contribution margin	<u>\$ 1,608</u>	<u>\$ 4,127</u>	<u>\$ 333</u>	<u>\$ 6,068</u>
Segment assets as of December 31, 2001	<u>\$ 59,197</u>	<u>\$ 26,854</u>	<u>\$ 1,730</u>	<u>\$ 87,781</u>

OPEN TEXT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(tabular dollar amounts in thousands, except share data)

	North America	Europe	Other	Total
<u>Six months ended December 31, 2002</u>				
Revenue from external customers	\$ 48,236	\$ 30,043	\$ 2,390	\$ 80,669
Operating costs	42,425	22,536	2,306	67,267
Contribution margin	<u>\$ 5,811</u>	<u>\$ 7,507</u>	<u>\$ 84</u>	<u>\$ 13,402</u>
<u>Six months ended December 31, 2001</u>				
Revenue from external customers	\$ 46,683	\$ 26,663	\$ 2,084	\$ 75,430
Operating costs	40,212	22,529	2,486	65,227
Contribution margin	<u>\$ 6,471</u>	<u>\$ 4,134</u>	<u>\$ (402)</u>	<u>\$ 10,203</u>

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements for the three months and six months ended December 31, 2002 and 2001 are as follows:

	<u>Three months ended December 31,</u>	
	<u>2002</u>	<u>2001</u>
Total contribution margin from operating segments above	\$ 7,338	\$ 6,068
Amortization and depreciation	1,966	3,128
Total operating income	<u>5,372</u>	<u>2,940</u>
Interest, other income, and taxes	846	553
Net income	<u>\$ 6,218</u>	<u>\$ 3,493</u>
	<u>Six months ended December 31,</u>	
	<u>2002</u>	<u>2001</u>
Total contribution margin from operating segments above	\$ 13,402	\$ 10,203
Amortization and depreciation	3,669	6,208
Total operating income	<u>9,733</u>	<u>3,995</u>
Interest, other income, and taxes	1,847	1,139
Net income	<u>\$ 11,580</u>	<u>\$ 5,134</u>

OPEN TEXT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(tabular dollar amounts in thousands, except share data)

	December 31, 2002	June 30, 2002
	<u> </u>	<u> </u>
Segment assets	\$ 109,446	\$ 86,240
Term deposits	90,557	100,473
Investments	147	134
Total corporate assets	<u>\$ 200,150</u>	<u>\$ 186,847</u>

The following table sets forth the distribution of net revenues determined by location of customer and identifiable assets, by geographic area where the net revenue for such location is greater than 10% of total revenue, for the three and six months ended December 31, 2002 and 2001:

	<u>Three months ended December 31,</u>	
	<u>2002</u>	<u>2001</u>
Net revenues:		
Canada	\$ 3,728	\$ 2,874
United States	22,360	20,728
United Kingdom	5,073	4,268
Rest of Europe	10,497	10,280
Other	1,356	1,508
Total revenues	<u>\$ 43,014</u>	<u>\$ 39,658</u>

	<u>Six months ended December 31,</u>	
	<u>2002</u>	<u>2001</u>
Net revenues:		
Canada	\$ 6,090	\$ 5,307
United States	42,146	41,333
United Kingdom	9,419	9,585
Rest of Europe	20,624	17,051
Other	2,390	2,154
Total revenues	<u>\$ 80,669</u>	<u>\$ 75,430</u>

	December 31, 2002	June 30, 2002
	<u> </u>	<u> </u>
Segment assets:		
Canada	\$ 36,030	\$ 16,472
United States	38,738	36,105
United Kingdom	11,609	9,556
Other	23,069	24,107
Total segment assets	<u>\$ 109,446</u>	<u>\$ 86,240</u>

OPEN TEXT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(tabular dollar amounts in thousands, except share data)

NOTE 6 – ACCUMULATED DEFICIT

During the three months ended December 31, 2002, the Company, pursuant to its stock repurchase program, purchased 43,500 of its common shares on The Toronto Stock Exchange and the Nasdaq National Market at an aggregate cost of \$1.1 million. \$0.5 million of the repurchase was charged to common share capital based on the average carrying value of the common stock, with the remaining \$0.6 million charged to accumulated deficit. During the six months ended December 31, 2002, the Company purchased 755,700 of its common shares pursuant to its stock repurchase program at an aggregate cost of \$17.3 million. \$7.8 million of the repurchase was charged to common share capital based on the average carrying value of the common stock, with the remaining \$9.5 million charged to accumulated deficit.

The Company did not repurchase any common shares during the three months ended December 31, 2001. During the six months ended December 31, 2001, the Company purchased 348,700 of its common shares pursuant to its stock repurchase program at an aggregate cost of \$8.3 million. \$3.6 million of the repurchase was charged to common share capital based on the average carrying value of the common stock, with the remaining \$4.7 million charged to accumulated deficit.

NOTE 7—NET INCOME PER SHARE

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
Basic net income per share				
Net income	\$ 6,218	\$ 3,493	\$ 11,580	\$ 5,134
Weighted average number of shares outstanding	19,282	19,835	19,461	19,873
Basic income per share	\$ 0.32	\$ 0.18	\$ 0.60	\$ 0.26
Diluted net income per share				
Net income	\$ 6,218	\$ 3,493	\$ 11,580	\$ 5,134
Weighted average number of shares outstanding	19,282	19,835	19,461	19,873
Dilutive effect of stock options	1,077	1,467	976	1,389
Adjusted weighted average number of shares outstanding	20,359	21,302	20,437	21,262
Diluted income per share	\$ 0.31	\$ 0.16	\$ 0.57	\$ 0.24

NOTE 8 – BUSINESS COMBINATIONS

On November 1, 2002, the Company completed the acquisition of all of the issued and outstanding shares of Centrinity Inc. (“Centrinity”) for cash consideration of \$20.3 million. The transaction was completed by way of

OPEN TEXT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(tabular dollar amounts in thousands, except share data)

an amalgamation of Centrinity with 3801853 Canada Inc., a wholly-owned subsidiary of Open Text. The results of operations of Centrinity have been consolidated with those of Open Text beginning November 1, 2002. Toronto-based Centrinity, which has developed a communications and messaging platform, has over 8 million users worldwide. Open Text intends on further developing this technology, and plans for it to be integrated into its flagship product, Livelink.

The following table summarizes the purchase price allocation:

Cash and cash equivalents	\$ 8,931
Accounts receivable	1,682
Prepaid expenses and other current assets	1,138
Capital assets	1,655
Future tax assets	12,413
Customer contracts	1,000
Customer relationships	1,400
Purchased technology	4,000
Goodwill	<u>5,012</u>
Total assets acquired	37,231
Accounts payable and accrued liabilities	(5,600)
Deferred revenues	(5,522)
Liabilities recognized in connection with the business combination	<u>(5,809)</u>
Total liabilities assumed	<u>(16,931)</u>
Net assets acquired	<u><u>\$ 20,300</u></u>

The total purchase price allocated to goodwill of \$5.0 million was assigned to the Company's reportable geographic segments as follows:

North America	\$ 2,757
Europe	<u>2,255</u>
	<u><u>\$ 5,012</u></u>

In accordance with SFAS 142, the goodwill will not be amortized but will be reviewed for impairment on an annual basis.

The customer contracts of \$1.0 million was assigned a useful life of 3 years, while the customer relationships of \$1.4 million were assigned a useful life of 7 years. The purchased technology of \$4.0 million has been separated into subcomponents, whose useful lives have been assigned as either 5 or 7 years.

As part of the purchase price allocation, the Company recognized liabilities in connection with the acquisition of Centrinity totaling \$5.8 million. The liabilities recognized include severance and related charges in connection with a worldwide reduction in the Centrinity workforce, in addition to transaction costs and costs relating to provisioning for excessive facilities. Of the total liabilities recognized in connection with the acquisition totaling \$5.8 million, \$5.1 million remains accrued at December 31, 2002.

OPEN TEXT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(tabular dollar amounts in thousands, except share data)

The following pro forma results of operations reflect the combined results of Open Text and Centrinity for the three and six-month periods ended December 31, 2002 and 2001, as if the business combination occurred as of the beginning of Open Text's fiscal year. The information used for this pro forma disclosure was obtained from unaudited reports filed with the Ontario Securities Commission for the periods ended September 30, 2001, December 31, 2001, and internal financial reports prepared by Centrinity from June 1, 2002 through the date of acquisition, November 1, 2002.

	Pro Forma Results of Operations			
	Three months ended		Six months ended	
	December 31, 2002	December 31, 2001	December 31, 2002	December 31, 2001
Revenue	\$ 46,057	\$ 42,345	\$ 87,074	\$ 82,840
Net Income	4,872	1,363	7,758	(368)
Basic net income per share	\$ 0.25	\$ 0.07	\$ 0.40	\$ (0.02)
Shares used in computing basic net income per share (in thousands)	19,640	19,910	19,461	19,873
Diluted net income per share	\$ 0.24	\$ 0.07	\$ 0.38	\$ (0.02)
Shares used in computing diluted net income per share (in thousands)	20,536	19,910	20,437	19,873

Item 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 25 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 December 31, 2002, the Company recorded total revenue of \$43.0 million, of which license and networking revenue was \$17.4 million, as well as net income of \$6.2 million. In addition, the Company's cash and cash equivalents were \$102.3 million, with cash flow from operations totaling \$11.7 million. The Company's days' sales outstanding ("DSO") of 62 days at December 31, 2002, decreased from 71 days at December 31, 2001. Segment information relating to the financial statements is presented in Note 5 to the Company's condensed consolidated financial statements.

On November 1, 2002, the Company completed the acquisition of all of the issued and outstanding shares of Centrinity Inc., of Toronto, for cash consideration of \$20.3 million. The transaction was completed by way of an amalgamation of Centrinity with 3801853 Canada Inc., a wholly-owned subsidiary of Open Text. 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 January 9, 2003, Open Text announced that it entered into a definitive acquisition agreement to acquire all of the issued and outstanding capital stock of Eloquent Inc. ("Eloquent"), of San Mateo, California. The purchase price will consist of cash consideration of up to \$6.7 million, or approximately \$0.34 per outstanding share of Eloquent Common Stock, of which \$1.0 million will be held in escrow to secure certain representations, warranties and covenants of Eloquent in the acquisition agreement. The purchase price is subject to a downward closing adjustment based on Eloquent's net cash at closing as described in the acquisition agreement. The companies expect the transaction to close within approximately 90 days of the signing of the definitive agreement subject to certain closing conditions, including approval by Eloquent's stockholders.

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"). 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, except as described in Note 2 of these condensed consolidated financial statements. Dollar amounts in this Quarterly 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 and then recognized as revenue as that element is delivered.

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 worldwide installed base. 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.

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.

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.

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.

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 but 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 against deferred income tax assets when management believes it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Management considers factors such as the reversal of deferred income tax liabilities, projected future taxable income, the character of the income tax asset and tax planning strategies. A change to these factors could impact the estimated valuation allowance and income tax expense.

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, which are calculated by management based on financial plans and expectations, taking into account current business trends, economic outlook, business strategies and other relevant information. 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 December 31, 2002 Compared with Three Months Ended December 31, 2001

Revenues. The Company's total revenues increased 8% from \$39.7 million in the three months ended December 31, 2001 to \$43.0 million for the three months ended December 31, 2002. License and networking revenues increased 9% from \$15.9 million in the three months ended December 31, 2001 to \$17.4 million in the three months ended December 31, 2002. Networking revenue increased slightly to \$1.1 million in the three month period ended December 31, 2002 compared to \$1.0 million during the three-month period ended December 31, 2001. The increase in license and networking revenues is a reflection of both the acquisition of Centrinity during the quarter ended December 31, 2002, as well as modest organic growth despite a continued challenging economic environment. As has been the Company's experience over the past several quarters, 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 during the three months ended December 31, 2002 as compared with the three months ended December 31, 2001 was in part due to 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 the Company has experienced over the past several quarters of closing larger license transactions than had been experienced throughout most of fiscal 2002. The Company is uncertain, however, as to whether this trend will continue throughout the remaining fiscal 2003.

Customer support revenues increased 22% from \$12.2 million in the three months ended December 31, 2001 to \$14.9 million for the three months ended December 31, 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. Also impacting customer support revenue during the quarter ended December 31, 2002 was customer support revenue generated by Centrinity.

Service revenues decreased 7% from \$11.6 million in the three months ended December 31, 2001 to \$10.8 million in the three months ended December 31, 2002. The decrease in service revenues relates primarily to the decrease in the number of billable personnel within the Company's services organization during the three month period ended December 31, 2002 as compared to the three months ended December 31, 2001. The revenue generated from the services organization has decreased relatively proportionately to the decrease in personnel. Also impacting service revenues during the three months ended December 31, 2002 was revenue generated as a result of the Company's North American user's conference, which was down slightly from the amount recognized during the three months ended December 31, 2001.

No single customer accounted for greater than 10% of the Company's revenue in the three months ended December 31, 2002 or in the three months ended December 31, 2001. For the three months ended December 31, 2002, 61% of total revenues were from customers located in North America, 36% 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 59%, 37% and 4%, respectively, for North America, Europe and Other for the three months ended December 31, 2001.

Cost of revenues. Cost of license and networking revenues remained consistent at \$1.6 million in both the three months ended December 31, 2001 and 2002. Cost of networking revenues totaled \$0.1 million during each of the quarters ended December 31, 2002 and 2001. Included in cost of license and networking revenues are costs relating to packaging the Company's products, as well as royalties relating to licensed software and other third party software costs. As a percentage of license and networking revenues, cost of license and networking revenues represented 9% in the three months ended December 31, 2002 compared with 10% in the three months ended December 31, 2001 due to a higher total revenue base.

Cost of customer support revenues increased 10% from \$2.2 million in the three months ended December 31, 2001 to \$2.4 million in the three months ended December 31, 2002. As a percentage of customer support

revenues, cost of customer support revenues decreased from 18% in the three months ended December 31, 2001 to 16% during the three months ended December 31, 2002. The increase in cost of customer support revenues in absolute dollars is primarily due to an increase in personnel-related expenses, including those associated with the Centrinity acquisition.

Cost of service revenues increased 4% from \$7.2 million in the three months ended December 31, 2001 to \$7.4 million in the three months ended December 31, 2002. As a percentage of service revenues, cost of service revenues increased from 62% in the three months ended December 31, 2001 to 69% in the three months ended December 31, 2002. The increase in cost of service revenues in absolute dollars was primarily a result of the fact that during the three months ended December 31, 2001 there were more investment tax credits earned by the Company's services organization than during three months ended December 31, 2002.

Research and development. Research and development expenses increased 29% from \$5.3 million in the three months ended December 31, 2001 to \$6.9 million in the three months ended December 31, 2002. Research and development expenses consist primarily of personnel expenses, and their related facilities and equipment expenses. As a percentage of revenues, research and development expenses increased from 13% in the three months ended December 31, 2001 to 16% in the three months ended December 31, 2002. The increase in research and development expenses primarily resulted from a decrease in the amount of research and development tax credits earned during the three month period ended December 31, 2002 as compared with the three month period ended December 31, 2001. Research and development expenses also increased as a result of the acquisition of the Centrinity development organization during the three months ended December 31, 2002.

Sales and marketing. Sales and marketing expenses decreased 2% from \$14.0 million in the three months ended December 31, 2001 to \$13.8 million in the three months ended December 31, 2002. Sales and marketing expenses include the costs associated with the Company's sales-force 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 35% in the three months ended December 31, 2001 to 32% in the three months ended December 31, 2002. The decrease in sales and marketing expenses in absolute dollars during the three months ended December 31, 2002 compared with the three months ended December 31, 2001 is a result of reduced spending associated with discretionary external marketing initiatives. The decrease in sales and marketing expenses as a percentage of total revenues for the three months ended December 31, 2002 resulted from lower absolute dollar spending and a higher total revenue base.

General and administrative. General and administrative expenses increased 8% from \$3.3 million in the three months ended December 31, 2001 to \$3.5 million in the three months ended December 31, 2002. General and administrative expenses consist 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 8% in both the three months ended December 31, 2001 and 2002. The increase in general and administrative expenses during the three month period ended December 31, 2002 as compared with the three month period ended December 31, 2001 is primarily a result of additional personnel assumed as a result of the Centrinity acquisition. Some of these additional personnel will be terminated in future periods following the integration of the two organizations. (See Note 8 of the condensed consolidated financial statements).

Depreciation. Depreciation expense decreased 16% from \$1.5 million in the three months ended December 31, 2001 to \$1.2 million in the three months ended December 31, 2002. As a percentage of revenues, depreciation expense decreased from 4% in the three months ended December 31, 2001 to 3% during the three months ended December 31, 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 55% from \$1.7 million in the three months ended December 31, 2001 to \$738,000 in the three months ended December 31, 2002. As a percentage of revenues, amortization of acquired intangible assets decreased from 4% in the three months ended December 31, 2001 to 2% in the three months ended December 31, 2002. This decrease is due to the fact that beginning in fiscal 2002, the Company discontinued its amortization of goodwill consistent with recent accounting pronouncements requiring a change in accounting policy. The 2001 period includes \$1.1 million of goodwill amortization. This reduction in amortization of acquired intangible assets was slightly offset by a partial period of amortization associated with the acquisition of Centrinity.

Other income. Other income increased 805% from \$55,000 for the three months ended December 31, 2001 to \$498,000 for the three months ended December 31, 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 30% from \$498,000 for the three months ended December 31, 2001 to \$348,000 for the three months ended December 31, 2002. The reduction in interest income is a result of the fact that lower interest rates realized during the three month period ended December 31, 2002 more than offset the fact that the Company had higher cash balances during the three months ended December 31, 2002.

Income taxes. The net deferred income tax asset as at December 31, 2002, of \$13.8 million arises from available income tax losses and future income tax deductions. The Company's ability to use these income tax losses and future income tax deductions is dependent upon the operations of the Company in the tax jurisdictions in which such losses or deductions arose. Management records a valuation allowance against deferred income tax assets when management believes it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Based on the reversal of deferred income tax liabilities, projected future taxable income, the character of the income tax asset and tax planning strategies, management has determined that a valuation allowance of \$6.5 million is required in respect of its deferred income tax assets as at December 31, 2002. A valuation allowance of \$9.3 million was required for the deferred income tax assets as at June 30, 2002. In order to fully utilize the net deferred income tax assets of \$13.8 million, the Company will need to generate future taxable income in applicable jurisdictions of approximately \$35 million. Based on the Company's current projection of taxable income for the periods in which the deferred income tax assets are deductible, it is more likely than not that the Company will realize the benefit of the net deferred income tax assets as at December 31, 2002.

Results of Operations

Six Months Ended December 31, 2002 Compared with the Six Months Ended December 31, 2001

Revenues. The Company's total revenues increased by 7% from \$75.4 million for the six months ended December 31, 2001 to \$80.7 million for the six months ended December 31, 2002. License and networking revenue also increased by 7% from \$30.6 million in the six months ended December 31, 2001 to \$32.8 million in the six months ended December 31, 2002, largely as a result of the Company closing a greater number of larger license transactions during fiscal 2002.

Customer support revenues increased 18% from \$24.2 million in the six months ended December 31, 2001 to \$28.5 million for the six months ended December 31, 2002. The customer support revenue increase primarily resulted from growth in the Company's user base through new licenses, as well as strong customer renewal rates for maintenance and the addition of Centrinity's customer support revenues beginning November 1, 2002.

Service revenues decreased 6% from \$20.6 million in the six months ended December 31, 2001 to \$19.3 million in the six months ended December 31, 2002, due to a decrease in the number of billable resources employed in the Company's services organization compared with a year ago.

Cost of revenues. Cost of license and networking revenues increased 24% from \$2.6 million in the six months ended December 31, 2001 to \$3.3 million in the six months ended December 31, 2002. As a percent of license and networking revenues, cost of license and networking revenues increased from 9% in the six months ended December 31, 2001 to 10% in the six months ended December 31, 2002. The increase in cost of license and networking revenues was largely the result of increases in certain expenses that increase proportionately with license revenue, such as third-party software costs and royalties.

Cost of customer support revenues increased 11% from \$4.3 million in the six months ended December 31, 2001 to \$4.7 million in the six months ended December 31, 2002. As a percent of customer support revenues, cost of revenues decreased from 18% in the six months ended December 31, 2001 to 17% in the six months ended December 31, 2002. Customer support costs in absolute dollars increased due to an increase in personnel in both

the support and contract renewal areas to support the Company's growing installed customer base, increased expenses related to education and travel, and costs related to its acquisition of Centrinity.

Cost of service revenues decreased from \$14.2 million during the six months ended December 31, 2001 to \$13.7 million in the six months ended December 31, 2002. As a percentage of service revenues, the cost of service revenues increased from 68% in the six months ended December 31, 2001 to 71% in the six months ended December 31, 2002. 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, which were partially offset by lower investment tax credits earned by the Company's services organization during the six months ended December 31, 2002.

Research and development. Research and development costs increased 8% from \$12.0 million in the six months ending December 31, 2001 to \$13.0 million in the six months ending December 31, 2002. As a percentage of revenues, research and development costs remained constant at 16% for the six months ended December 31, 2001 to the six months ended December 31, 2002. Research and development costs consist primarily of personnel expenses, and their related facilities and equipment expenses. The increase in research and development expense in absolute dollars resulted primarily from increased compensation expenses resulting from additional personnel, some of whom were obtained through the Centrinity acquisition. The increase in research and development expenses was partially due to the fact that the Company's research and development tax credit claim in the six month period ended December 31, 2001 was more significant than the tax credits earned during the six month period ended December 31, 2002.

Sales and marketing. Sales and marketing expenses increased from \$25.7 million in the six month period ended December 31, 2001 to \$25.8 million in the six month period ended December 31, 2002. As a percentage of revenues, sales and marketing expenses decreased from 34% for the six months ending December 31, 2001 to 32% during the six months ended December 31, 2002. Although the total sales and marketing expenses were relatively consistent between the two periods, the Company increased personnel expenses and employee incentive programs, while decreasing external marketing programs over the past year. Sales and marketing expenses as a percentage of revenues decreased due to a higher total revenue base.

General and administrative. General and administrative expenses increased 6% from \$6.4 million in the six months ended December 31, 2001 to \$6.8 million in the six months ended December 31, 2002. As a percentage of revenues, general and administrative expense increased from 8% in the six months ended December 31, 2001 to 9% in the six months ended December 31, 2002. The increase in general and administrative expense since the prior year was a result of increases in personnel-related costs, including additional personnel assumed in the Centrinity acquisition.

Depreciation. Depreciation decreased 16% from \$2.9 million in the six months ended December 31, 2001 to \$2.4 million in the six months ended December 31, 2002. As a percentage of revenues depreciation expense decreased from 4% in the six months ended December 31, 2001 to 3% in the six months ended December 31, 2002. This decrease is due to reduced expenditures on capital assets resulting in an increasingly depreciated capital asset base.

Amortization of acquired intangible assets. Amortization of acquired intangible assets decreased 63% from \$3.3 million in the six months ended December 31, 2001 to \$1.2 in the six months ended December 31, 2002. As a percentage of revenues, amortization of acquired intangible assets decreased from 4% in the six months ended December 31, 2001 to 2% in the six months ended December 31, 2002. This decrease is due to the fact that beginning in fiscal 2002, the Company discontinued its amortization of goodwill consistent with recent accounting pronouncement requiring a change in accounting policy.

Other income. Other income increased 372% from \$236,000 in the six months ended December 31, 2001 to \$1.1 million in the six month period ended December 31, 2002, due to gains in foreign currency exchange.

Interest income. Interest income decreased 39% from \$1.2 million in the six months ended December 31, 2001 to \$732,000 in the six months ended December 31, 2002, as a result of lower interest rates, despite the fact that the Company maintained higher average cash balances during the six month period ended December 31, 2002 as compared with the six month period ended December 31, 2001.

Liquidity and Capital Resources

At December 31, 2002, the Company had current assets of \$136.2 million, current liabilities of \$53.1 million and working capital of \$83.1 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 as well as the consideration paid for the Centrinity acquisition, both of which were partially offset by cash generated by the Company's operations over the six month period ended December 31, 2002. During the three months ended December 31, 2002, the Company repurchased for cancellation a total of 45,300 of its Common Shares on the open market for total consideration of \$1.1 million. At December 31, 2002, the Company had cash and cash equivalents totaling \$102.3 million, compared to cash and cash equivalents of \$109.9 million at June 30, 2002.

Net cash provided by operating activities during the three months ended December 31, 2002 was \$11.7 million, compared to \$6.0 million during the three months ended December 31, 2001. The increase was primarily a result of higher net income and stronger cash collections related to the Company's accounts receivables during the three months ended December 31, 2002 as compared to the three months ended December 31, 2001.

Net cash provided by operating activities during the six months ended December 31, 2002 was \$21.3 million, compared to \$10.0 million during the six months ended December 31, 2001. The increase was primarily a result of higher net income and stronger cash collections related to the Company's accounts receivables during the six months ended December 31, 2002 as compared to the six months ended December 31, 2001.

Net cash used for investing activities was \$12.3 million during the three months ended December 31, 2002 compared to \$1.9 million during the three months ended December 31, 2001. During the three month period ended December 31, 2002, the Company paid \$11.4 million to purchase Centrinity, as well as \$918,000 to the purchase of capital assets. During the three month period ended December 31, 2001, the Company spent approximately \$1.0 million on the purchase of capital assets, along with \$623,000 for the purchase of certain investments and \$212,000 relating to business acquisition costs.

Net cash used for investing activities was \$14.2 million during the six months ended December 31, 2002 compared to \$2.7 million during the six months ended December 31, 2001. During the six month period ended December 31, 2002, the Company paid \$11.4 million to purchase Centrinity, as well as \$1.4 million relating to the purchase of capital assets and \$1.2 million relating to the purchase of a patent. During the six month period ended December 31, 2001, the Company spent approximately \$1.8 million on the purchase of capital assets, along with \$709,000 for the purchase of certain investments and \$212,000 relating to business acquisition costs.

Net cash used in financing activities was \$291,000 in the three months ended December 31, 2002, resulting from the repurchase for cancellation of 45,300 Common Shares on the open market at a cost of \$1.1 million, of which \$0.5 million has been charged to share capital and \$0.6 million has been charged to accumulated deficit, partially offset by proceeds of \$775,000 from the sale of Common Shares related to the exercise of Company options. Net cash provided by financing activities was \$2.9 million in the three months ended December 31, 2001, which consisted entirely of the proceeds from the sale of Common Shares related to the exercise of Company stock options.

Net cash used in financing activities was \$14.8 million in the six months ended December 31, 2002, resulting from the repurchase for cancellation of 757,500 Common Shares on the open market at a cost of \$17.3 million, partially offset by proceeds of \$2.5 million from the sale of Common Shares related to the exercise of Company stock options. Net cash used in financing activities was \$3.8 million in the six months ended December 31, 2001, resulting from the repurchase for cancellation of 348,700 Common Shares on the open market at a cost of \$8.3 million, partially offset by proceeds of \$4.5 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 December 31, 2002 and 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.

On January 9, 2003, the Company announced that it had entered into a definitive acquisition agreement with Eloquent Inc. ("Eloquent") of San Mateo, California, whereby Open Text will acquire all of the issued and outstanding capital stock of Eloquent for cash consideration of up to \$6.7 million, or approximately \$0.34 per outstanding share of Eloquent Common Stock, of which \$1.0 million will be held in escrow to secure certain representations, warranties and covenants of Eloquent in the acquisition agreement. The purchase price is subject to a downward closing adjustment based on Eloquent's net cash at closing as described in the acquisition agreement. The companies expect the transaction to close within 90 days of the signing of the agreement, subject to certain closing conditions, including approval by Eloquent's stockholders.

With the acquisition of Centrinity, the Company has assumed additional expenses relating to its ongoing operations. The Company does not currently anticipate any large increases in operating expenses in the foreseeable future, with the exception of the operating expenses related to the potential acquisition of Eloquent. Similarly, the Company does not currently anticipate significant increases in the levels of capital asset investments in the foreseeable future.

The Company is committed to the following minimum lease payments on operating leases for office premises and equipment for the fiscal years ending June 30 (in thousands):

2003	\$ 4,089
2004	5,189
2005	4,022
2006	3,879
thereafter	<u>15,768</u>
	<u>\$ 32,947</u>

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 beyond 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 1,113, excluding contractors, as of December 31, 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-time 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

The Company is primarily exposed to market risks associated with fluctuations in interest rates and foreign currency exchange rates.

Interest rate risk

The Company's exposure to interest rate fluctuations relates primarily to its investment portfolio, since the Company had no borrowings outstanding under its line of credit at December 31, 2002. The Company primarily invests its cash in short-term high-quality securities with reputable financial institutions. The primary objective of the Company's investment activities is to preserve principal while at the same time maximizing the income the Company receives from its investments without significantly increasing risk. The Company does not use derivative financial instruments in its investment portfolio. The interest income from the Company's investments is subject to interest rate fluctuations, which the Company believes would not have a material impact on the financial position of the Company.

All highly liquid investments with a maturity of less than three months at the date of purchase are considered to be cash equivalents. All investments with maturities of three months or greater are classified as available-for-sale and considered to be short-term investments. Some of the securities that the Company has invested in may be subject to market risk. This means that a change in the prevailing interest rates may cause the principal amount of the investment to fluctuate. The impact on net interest income of a 100 basis point adverse change in interest rates for the quarter ended December 31, 2002 would have been approximately \$0.3 million.

Foreign currency risk

The Company has net monetary asset and liability balances in foreign currencies other than the US Dollar, including the Canadian Dollar ("CDN"), the Pound Sterling ("GBP"), the Australian dollar ("AUD"), the Swiss Franc ("CHF"), the German Mark ("DEM"), the French Franc ("FRF"), the Dutch Guilder ("NLG"), the Danish Kroner ("DKK"), the Arabian Durham ("AED"), and the Euro ("EUR"). The Company's cash and cash equivalents are primarily held in US Dollars.

The Company's net income is affected by fluctuations in the value of the US dollar as compared to foreign currencies as a result of transactions in foreign markets. Approximately 40%, 41%, and 39% of the Company's total revenues in fiscal 2002, 2001, and 2000, respectively, were derived from operations outside of North America. Approximately 45%, 42%, and 44% of the Company's operating expenses in fiscal 2002, 2001 and 2000, respectively, were incurred from operations outside of North America. The Company does not currently use

financial instruments to hedge operating expenses in foreign currencies. The Company intends to assess the need to utilize financial instruments to hedge currency exposures on an ongoing basis.

The following tables provide a sensitivity analysis on the Company's exposure to changes in foreign exchange rates. For foreign currencies where the Company engages in material transactions, the following table quantifies the impact that a 10% decrease against the U.S. dollar would have had on the Company's total revenues, operating expenses, and net income for the three month period ended December 31, 2002. This analysis is presented in both functional and transactional currency. The impact of changes in foreign exchange rates for those foreign currencies not presented in these tables is not material.

	10% Change in Functional Currency		
	Total Revenue	Operating Expenses	Net Income
Euro	\$ 758	\$ 653	\$ 105
British Pound	507	441	66
Swiss Franc	196	163	32

	10% Change in Transactional Currency		
	Total Revenue	Operating Expenses	Net Income
Euro	\$ 738	\$ 413	\$ 325
British Pound	472	328	144
Canadian Dollar	435	896	(461)
Swiss Franc	94	159	(65)

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 4. Submission of Matters to a Vote of Security Holders

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

<u>Name</u>	<u>For</u>	<u>Withheld</u>
P. Thomas Jenkins	9,538,408	1,730
Richard C. Black	9,538,341	1,797
Randy Fowlie	9,538,241	1,897
Peter J. Hoult	9,538,191	1,941
Brian J. Jackman	9,538,341	1,797
David Johnston	9,538,341	1,797
Ken Olisa	9,538,391	1,747
Stephen J. Sadler	9,538,391	1,747
John Shackleton	9,538,428	1,730
Michael Slaunwhite	9,538,441	1,697

2. The shareholders approved the appointment of KPMG LLP as the Company's independent auditors. There were 9,417,451 Common Shares voted in favour of the motion and there were 99,599 votes withheld. The shareholders authorized the Board of Directors to fix the auditor's remuneration.

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

Acquisition of Centrinity Inc.

On November 18, 2002, Open Text filed a Form 8-K to announce the acquisition of on November 1, 2002, of all of the issued and outstanding share capital of Centrinity for cash consideration of CDN \$1.26 per share (\$20.3 million total) by way of an amalgamation with 3801853 Canada Inc., a wholly-owned subsidiary of Open Text.

Acquisition of Centrinity Inc.

On January 17, 2003, Open Text filed a Form 8-K/A to amend the Form 8-K filed on November 18, 2002 relating to its acquisition of Centrinity Inc. This Form 8-K/A included audited financial statements for Centrinity for the years ended September 30, 2001 and 2002, as well as pro forma financial information.

Acquisition of Eloquent Inc.

On January 9, 2003, Open Text issued a press release announcing that it had entered into an agreement with Eloquent Inc. ("Eloquent") of San Mateo, California, whereby Open Text will acquire all of the issued and outstanding shares of Eloquent for cash consideration of up to \$6.7 million, or approximately \$0.34 per share, of which \$1.0 million will be held in escrow to secure

certain representations, warranties and covenants of Eloquent in the acquisition agreement. The purchase price is also subject to downward closing adjustment based on Eloquent's net cash at closing as described in the acquisition agreement. The companies expect the transaction to close within 90 days of the announcement, subject to certain conditions, including approval by Eloquent's stockholders.

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: February 14, 2003

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: February 14, 2003

/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: February 14, 2003

/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 December 31, 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: February 14, 2003

**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 December 31, 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: February 14, 2003

