

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 1997

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 98-0154400
(State of other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

185 Columbia Street West, Waterloo, Ontario, Canada N2L 5Z5

(Address of principal executive offices)

Registrant's telephone number, including area code: (519) 888-7111

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

At January 22, 1998 there were 17,612,400 outstanding Common Shares of the registrant.

OPEN TEXT CORPORATION

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

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

	<u>December 31,</u> <u>1997</u>	<u>June 30,</u> <u>1997</u>
	(unaudited)	
	(restated)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 20,660	\$ 31,762
Accounts receivable - trade, net of allowance for doubtful accounts of \$400 as of December 31, 1997 and \$350 as of June 30, 1997.....	11,349	8,623
Prepaid and other assets.....	<u>2,328</u>	<u>2,407</u>
Total current assets	34,337	42,792
Furniture and equipment.....	5,170	5,054
Software (note 1).....	2,678	—
Goodwill (note 1).....	6,143	—
Other investments, at cost (approximates market value).....	3,698	1,591
Other assets.....	<u>2,214</u>	<u>2,908</u>
Total assets	<u>\$ 54,240</u>	<u>\$ 52,345</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade, and accrued liabilities (Note 3).....	7,470	7,092
Deferred revenue.....	4,913	1,857
Current portion of obligations under capital leases.....	<u>439</u>	<u>430</u>
Total current liabilities	12,822	9,379
Obligations under capital leases.....	<u>244</u>	<u>511</u>
Total liabilities	13,066	9,890
Shareholders' equity:		
Share capital		
17,598,610 and 17,204,120 Common Shares issued and outstanding at December 31, 1997 and June 30, 1997 respectively.....	102,662	101,103
Other shareholders' equity (note 1).....	<u>(61,488)</u>	<u>(58,648)</u>
Total shareholders' equity	41,174	42,455
Total liabilities and shareholders' equity	<u>\$ 54,240</u>	<u>\$ 52,345</u>

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In US Dollars)

(in thousands, except per share data)

	Three months ended December 31,		Six months ended December 31,	
	1997	1996	1997	1996
	(unaudited)		(unaudited)	
	(restated)		(restated)	
Revenues:				
License	\$ 6,787	\$ 3,064	\$ 11,209	\$ 5,212
Service	2,988	2,152	6,260	4,046
Total revenues	9,775	5,216	17,469	9,258
Cost of revenues:				
License	411	145	643	347
Service	1,594	1,605	3,519	3,048
Total cost of revenues	2,005	1,750	4,162	3,395
Gross profit	7,770	3,466	13,307	5,863
Operating expenses:				
Research and development.....	1,773	1,566	3,577	3,050
Sales and marketing.....	4,862	4,212	9,244	6,933
General and administrative	1,045	1,468	2,155	2,716
Amortization	584	435	1,059	841
Restructuring reserve	—	—	—	650
Total operating expenses.....	8,264	7,681	16,035	14,190
Loss from operations	(494)	(4,215)	(2,728)	(8,327)
Other income.....	375	406	892	964
Loss before income taxes	(119)	(3,809)	(1,836)	(7,363)
Income tax recovery	250	—	500	—
Income (loss) for the period.....	\$ 131	\$ (3,809)	\$ (1,336)	\$ (7,363)
Basic earnings per share.....	\$ 0.01	\$ (0.23)	\$ (0.08)	\$ (0.44)
Weighted average number of Common Shares outstanding, basic.....				
	17,599	16,827	17,533	16,605
Diluted earnings per share.....	\$ 0.01	\$ (0.23)	\$ (0.08)	\$ (0.44)
Weighted average number of Common Shares outstanding, diluted.....				
	19,713	16,827	17,553	16,605

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

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

	Six months ended December 31,	
	1997	1996
	(unaudited)	
	(restated)	
Cash flows from operating activities:		
Loss for the period.....	\$ (1,336)	\$ (7,363)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	1,081	841
Other	(237)	—
Changes in operating assets and liabilities: (net of OnTime assets and liabilities acquired)		
Accounts receivable	(1,992)	(1,569)
Prepaid expenses and other current assets.....	253	418
Accounts payable - trade and accrued liabilities	(2,377)	(232)
Deferred revenue	1,214	543
Provision for restructuring.....	—	(1,456)
Net cash used in operating activities	(3,394)	(8,818)
Cash flows used in investing activities:		
Acquisitions of furniture and equipment.....	(844)	(1,680)
Purchase of other investments	(2,107)	(1,181)
Purchase of OnTime group net of cash acquired.....	(5,485)	—
Additions to other assets.....	694	(4,047)
Net cash used in investing activities	(7,742)	(6,908)
Cash flow from financing activities:		
Payments of obligations under capital leases, including current portion.....	(258)	(404)
Proceeds from issuance of Common Shares.....	303	15
Employee share purchase loans	(11)	(273)
Net cash provided by (used in) financing activities.....	34	(662)
Decrease in cash and cash equivalents during the period.....	(11,102)	(16,388)
Cash and cash equivalents at beginning of year.....	31,762	51,139
Cash and cash equivalents at end of period.....	\$ 20,660	\$ 34,751

See accompanying notes to condensed consolidated financial statements

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended December 31, 1997

(unaudited)

(dollar amounts in thousands, except share data)

NOTE 1 — BASIS OF PRESENTATIONS

The accompanying unaudited condensed consolidated financial statements include the accounts of Open Text Corporation and its wholly owned subsidiaries, collectively referred to as the “Company”. All intercompany balances and transactions have been eliminated.

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared pursuant to the Securities and Exchange Commission rules and regulations for Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The accompanying unaudited condensed consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes in the Company’s 1997 annual report on Form 10-K.

The information furnished reflects, in the opinion of the management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

These consolidated financial statements are expressed in US dollars and are prepared in accordance with US generally accepted accounting principles.

Restatement of IPR&D and Intangible Assets

During the second quarter of the 1998 fiscal year, the Company acquired certain assets relating to the business of OnTime from Campbell Services, Inc. At the time of the acquisition, the Company, in consultation with its independent auditors, PricewaterhouseCoopers, applied then existing, generally employed appraisal methodologies to determine the fair value of in process research and development (IPR&D). Subsequent to the acquisition and the Company’s release of its second quarter fiscal 1998 results, in a letter dated September 9, 1998 to the American Institute of Certified Public Accountants, the Chief Accountant of the Securities and Exchange Commission (“SEC”) expressed new views of the SEC staff that took issue with certain appraisal practices generally employed in the determination of the fair value of the IPR&D. The Company, in consultation with its independent auditors, has voluntarily decided to adjust the amount originally allocated to acquired IPR&D in a manner to reflect the SEC staff’s current views and has restated its second quarter fiscal 1998 condensed consolidated financial statements accordingly.

The Company believes it is in compliance with all of the interpretations of the rules surrounding IPR&D and intangible assets. However, there can be no assurance that the SEC will not seek to further refine their interpretation of the rules surrounding IPR&D and that this could result in the further adjustment of the Company’s amounts of IPR&D and intangible assets.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Six Months Ended December 31, 1997
(unaudited)
(dollar amounts in thousands, except share data)

The restatement does not affect previously reported net cash flows for the periods. The following table summarizes the changes to the purchase price allocation among the acquired assets and assumed liabilities as a result of the Company's restatement (in thousands):

	As Previously Reported	As Restated
Tangible net liabilities	(\$614)	(\$614)
Current software products	1,728	1,088
Core technology	-	1,631
Acquired in-process research and development	7,186	-
Goodwill	<u>-</u>	<u>6,195</u>
Total purchase price	<u><u>\$8,300</u></u>	<u><u>\$8,300</u></u>

The following table summarizes the changes in the Company's condensed consolidated results of operations for the three and six month periods ended December 31, 1997 and changes in its condensed consolidated balance sheet as of December 31, 1997 as a result of the Company's restatement of the purchase price allocation (in thousands):

	For the Three Months Ended December 31, 1997		For the Six Months Ended December 31, 1997	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Cost of revenue: license	\$ 461	\$ 411	\$ 693	\$ 643
Amortization	513	584	988	1,059
Total operating expenses	15,379	8,264	23,150	16,035
Loss from operations	(7,659)	(494)	(9,893)	(2,728)
Income (loss) for the period	(7,034)	131	(8,501)	(1,336)
Income (loss) per share - basic	(0.40)	0.01	(0.48)	(0.08)
Income (loss) per share - diluted	(0.40)	0.01	(0.48)	(0.08)
	<u>December 31, 1997</u>			
	As Previously Reported	As Restated		
Software, net	\$1,656	\$2,678		
Goodwill	-	6,143		
Other shareholders' equity	(68,653)	(61,488)		

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Six Months Ended December 31, 1997
(unaudited)
(dollar amounts in thousands, except share data)

NOTE 2 — RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130 “Reporting Comprehensive Income.” SFAS No. 130 is effective for fiscal years beginning after December 15, 1997 and will require the Company to report all components of comprehensive income as well as a total amount of comprehensive income. The Company will adopt the provisions of SFAS No. 130 as they become effective on a comparative basis.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”. SFAS No. 131 is effective for fiscal periods beginning after December 15, 1997 and requires the Company to disclose information based on operating segments. The Company will adopt SFAS No. 131 as it becomes effective and the provisions of this statement would not significantly change currently reported segment information.

NOTE 3 - ACCOUNTS PAYABLE - TRADE AND ACCRUED LIABILITIES

Accounts payable - trade and accrued liabilities are as follows:

	<u>December 31,</u> <u>1997</u>	<u>June 30,</u> <u>1997</u>
Accounts payable – trade	\$ 732	\$ 1,234
Accrued trade liabilities	2,845	2,373
Amounts payable for acquisitions.....	1,916	1,037
Accrued salaries and commissions	1,482	1,237
Other liabilities	495	1,211
	<u>\$ 7,470</u>	<u>\$ 7,092</u>

NOTE 4 - ACQUISITION OF ONTIME

On December 3, 1997 the company acquired certain of the assets and liabilities of Campbell Services, Inc., (“OnTime”) for approximately \$6.7 million, in a transaction which has been accounted for under the purchase method. The purchase price is subject to adjustment based on delivery of a special purpose balance sheet of the assets and liabilities assigned as at November 30, 1997. The operations of OnTime have been included in the financial statements from the purchase date. Cash in the amount of \$6.2 million was paid at closing. The balance of cash, up to \$500,000, to be determined based on working capital delivered at closing, will be delivered on the sixth month anniversary of the closing date.

A key element of the acquisition is the company’s perception of the value of OnTime’s calendaring and scheduling technology. Although OnTime is a leading calendaring and scheduling technology, it is the company’s belief that substantial development will be required to complete the software technology to meet the company’s strategic goals. In view of the preceding, it is believed that the acquisition of OnTime provides the company with an opportunity to successfully advance collaborative knowledge management technology.

The Company allocated the total purchase price to the assets acquired as follows:

Tangible net liabilities	\$(2,214)
Current software products	1,088
Core technology	1,631
Goodwill	<u>6,195</u>
	<u>\$ 6,700</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Six Months Ended December 31, 1997
(unaudited)
(dollar amounts in thousands, except share data)

The software technology valuation was accomplished through the application of the stage of completion model. Projected debt-free income, revenue net of provision for operating expenses and income taxes were discounted to a present value. Software technology was divided into two categories:

- current software products
- core technology

Current software products include products currently in the marketplace as of the acquisition date. The fair market value of the purchased current software products was determined to be \$1.1 million. This amount was recorded as an asset and is being amortized on a straight-line basis over four years. The fair market value of core technology was determined to be \$1.6 million. This amount was recorded as an asset and is being amortized on a straight line basis over seven years.

As a result of the valuation, the fair market value of the goodwill was determined to be \$6.2 million. In accordance with applicable accounting rules, this amount was capitalized upon acquisition in the second quarter of fiscal 1998, and will be amortized on a straight-line basis over ten years.

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

Overview

Restatement of IPR&D and Intangible Assets

During the second quarter of the 1998 fiscal year, the Company acquired certain assets relating to the business of OnTime from Campbell Services, Inc. At the time of the acquisition, the Company in consultation with its independent auditors, PricewaterhouseCoopers, applied then existing, generally employed appraisal methodologies to determine the fair value of in process research and development (IPR&D). Subsequent to the acquisition and the Company's release of its second quarter fiscal 1998 results, in a letter dated September 9, 1998 to the American Institute of Certified Public Accountants, the Chief Accountant of the Securities and Exchange Commission ("SEC") expressed new views of the SEC staff that took issue with certain appraisal practices generally employed in the determination of the fair value of the IPR&D. The Company, in consultation with its independent auditors, has voluntarily decided to adjust the amount originally allocated to acquired IPR&D in a manner to reflect the SEC staff's current views and has restated its second quarter fiscal 1998 condensed consolidated financial statements accordingly.

The Company believes it is in compliance with all of the interpretations of the rules surrounding IPR&D and intangible assets. However, there can be no assurance that the SEC will not seek to further refine their interpretation of the rules surrounding IPR&D and that this could result in the further adjustment of the Company's amounts of IPR&D and intangible assets.

The restatement does not affect previously reported net cash flows for the periods. The following table summarizes the changes to the purchase price allocation among the acquired assets and assumed liabilities as a result of the Company's restatement (in thousands):

	As Previously Reported	As Restated
Tangible net liabilities	(\$614)	(\$614)
Current software products	1,728	1,088
Core technology	-	1,631
Acquired in-process research and development	7,186	-
Goodwill	<u>-</u>	<u>6,195</u>
Total purchase price	<u><u>\$8,300</u></u>	<u><u>\$8,300</u></u>

The following table summarizes the changes in the Company's condensed consolidated results of operations for the three and six month periods ended December 31, 1997 and changes in its condensed consolidated balance sheet as of December 31, 1997 as a result of the Company's restatement of the purchase price allocation (in thousands):

	For the Three Months Ended December 31, 1997		For the Six Months Ended December 31, 1997	
	As		As	
	Previously Reported	As Restated	Previously Reported	As Restated
Cost of revenue: license	\$ 461	\$ 411	\$ 693	\$ 643
Amortization	513	584	988	1,059
Total operating expenses	15,379	8,264	23,150	16,035
Loss from operations	(7,659)	(494)	(9,893)	(2,728)
Income (loss) for the period	(7,034)	131	(8,501)	(1,336)
Income (loss) per share - basic	(0.40)	0.01	(0.48)	(0.08)
Income (loss) per share - diluted	(0.40)	0.01	(0.48)	(0.08)

	As Previously Reported	As Restated
Software, net	\$1,656	\$2,678
Goodwill	-	6,143
Other shareholders' equity	(68,653)	(61,488)

“Forward Looking Statements”. This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Certain forward-looking statements are identified by a cross reference to this section. Any statement concerning future results of operations or other future events is subject to a variety of risks and uncertainties and other factors which could cause actual results or events to differ materially from those anticipated by the Company. Such risks uncertainties and other factors include those described in connection with such forward-looking statements and in the third and fourth paragraphs under “Overview” as well as those set forth in the Company’s Annual Report on Form 10-K for the year ended June 30, 1997 under the heading “Business - Risk Factors”. The Company assumes no obligations to update forward-looking statements if circumstances change.

Open Text Corporation (the “Company”) develops, markets, licenses and supports collaborative knowledge management application software for use on intranets, extranets and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes, do group calendaring and scheduling and distribute or make available to users across networks or the Internet the resulting work product and other information. The Company’s principal product line, *Livelink Intranet*, is a scaleable collaborative network application that integrates several modular engines including, but not limited to, search, collaboration, workflow, group calendaring and scheduling, and document management. The Company’s search engine enables users to transparently search vast amounts of data stored in a wide variety of formats and in disparate locations, including World Wide Web sites. The Company’s collaboration, workflow and document management engines enable users to establish and manage knowledge and document-oriented collaborative work processes that involve a diversity of workers, computing platforms and data. The Company’s group calendaring and scheduling enables users to quickly schedule personal and group meetings, reserve conference rooms and add tasks to other users lists of things to do. In addition, the Company’s products enable organizations to flexibly manage the distribution and availability of information. The Company has focused its efforts on its intranet-related software and services, and its objective is to be the leading provider of collaborative knowledge management solutions for use on intranets. The Company’s strategy is to offer information search, document management, workflow management, virtual team collaboration products, and group calendaring and scheduling that collectively represent an application suite to fill a broad range of knowledge management needs across a company’s intranet and extranet.

The Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company’s prospects must be considered in the light of the risks, expenses and difficulties frequently encountered by companies seeking to introduce new products into new and rapidly evolving markets. To address these risks and uncertainties, the Company must, among other things, successfully market its existing products and technologies and complete and introduce products and product enhancements under development in a timely manner, continue to upgrade and commercialize its technologies, and attract, retain and motivate highly qualified personnel and manage rapid growth. There can be no assurance that the Company will successfully address these challenges. The Company has incurred losses in each of its last five fiscal years and as at December 31, 1997, had an accumulated deficit in other shareholders’ equity of \$62 million. The Company is presently incurring operating losses, and there can be no assurance that the Company will be able to achieve or sustain profitability.

The primary market for the Company’s software and services has only recently begun to develop, is highly competitive and is rapidly evolving. There can be no assurance that the Company can successfully complete current or future development initiatives to improve its product. Demand for and market acceptance of products and services that have been released recently or that are planned for future release are subject to a high level of uncertainty. If the markets for the Company’s products and services fail to develop, develop more slowly than expected or become saturated with competitors, or if the Company’s products and services do not achieve market acceptance, or fails to compete successfully with new products or services introduced by competitors, the Company’s business, operating results and financial condition will be materially adversely affected.

On December 3, 1997 the Company acquired certain of the assets and liabilities of the OnTime software group of Campbell Services, Inc. for approximately \$6.7 million, in a transaction which has been accounted for under the purchase method. The purchase price is subject to adjustment based on delivery of a special purpose balance sheet of the assets and liabilities assigned as at November 30, 1997. Cash in the amount of \$6.2 million was paid at closing. The balance of cash will be delivered on the sixth month anniversary of the closing date. It is believed that the acquisition of OnTime provides the company with an opportunity to successfully advance collaborative knowledge management technology. As a result of the software technology valuation, \$6.2 million will be recorded as goodwill in the quarter ended December 31, 1997 and amortized on a straight line basis over ten years. \$1.1 million will be capitalized as software and amortized to cost of license revenue on a straight-line basis over four years. Core technology of \$1.6 million will be capitalized and amortized to amortization on a straight line basis over seven years.

The Company’s financial statements are prepared in accordance with generally accepted accounting principles in the United States (“US GAAP”) and are presented in United States dollars unless otherwise indicated. All references in this report to financial information concerning the Company refer to such information in accordance with US GAAP and all dollar amounts in this report are in United States dollars.

Results of Operations

Quarter Ended December 31, 1997 Compared with Quarter Ended December 31, 1996

Revenues. The Company increased total revenues by 87% from \$5.2 million in the quarter ended December 31, 1996 to \$9.8 million for the quarter ended December 31, 1997. License revenue increased 122% from \$3.1 million in the quarter ended December 31, 1996 to \$6.8 million in the quarter ended December 31, 1997. *Livelink Intranet* products accounted for 69% of license revenues, *Livelink Search* accounted for 23% of license revenues and other document management accounted for 8% of license revenues for the quarter ended December 31, 1996. In the quarter ended December 31, 1997, *Livelink Intranet* accounted for 100% of license revenues. During the quarter ended December 31, 1997, the Company continued to expand its reseller programs. License revenues from resellers accounted for 37% of the total license revenue for the quarter ended December 31, 1997 compared with nil for the quarter ended December 31, 1996.

Service revenue increased 39% from \$2.2 million in the quarter ended December 31, 1996 to \$3.0 million in the quarter ended December 31, 1997. The increase in revenues is attributable to a significant contract that was secured in the quarter ended June 30, 1997 and is expected to continue throughout the current fiscal year. See "Overview - Forward Looking Statements". Professional services accounted for 75% of the service revenues in the quarter ended December 31, 1996 and 53% of the service revenue in the quarter ended December 31, 1997.

One customer accounted for 10% of revenue in the quarter ended December 31, 1997. No customer accounted for greater than 10% of revenues in the quarter ended December 31, 1996. For the quarter ended December 31, 1997, 81% of revenues were from customers resident in the North America, 18% of revenues were from customers in Europe and 1% of revenues were from customers in Asia and other compared with 94%, 6% and 0% respectively for North America, Europe and Asia and other for the quarter ended December 31, 1996.

Cost of revenues. Cost of license revenues increased from \$145,000 in the quarter ended December 31, 1996 to \$411,000 in the quarter ended December 31, 1997. As a percent of license revenues, cost of revenues increased from 5% in the quarter ended December 31, 1996 to 6% in the quarter ended December 31, 1997. Included in cost of license revenues is the amortization of software capitalized on the purchase of OnTime.

Cost of service revenues were unchanged from \$1.6 million in the quarter ended December 31, 1996. As a percent of service revenues, the cost of service revenues decreased from 75% in the quarter ended December 31, 1996 to 53% in the quarter ended December 31, 1997. The decrease in the cost of service as a percent of service revenue was a result of a higher percentage of higher margin maintenance revenue.

Research and development. Research and development costs increased by 13% from \$1.6 million in the quarter ending December 31, 1996 to \$1.8 million in the quarter ending December 31, 1997. Research and development costs consist primarily of personnel expenses, and the related facilities and equipment. The increase in research and development expenses was a result of increased compensation expenses resulting from additional personnel. As a percentage of revenues, research and development cost decreased from 30% in the quarter ended December 31, 1996 to 18% in the quarter ended December 31, 1997.

Sales and marketing. Sales and marketing expense increased 15% from \$4.2 million in the quarter ended December 31, 1996 to \$4.9 million in the quarter ended December 31, 1997. As a percentage of revenues, sales and marketing expense decreased from 81% in the quarter ending December 31, 1996 to 50% in the quarter ended December 31, 1997. The overall increase in sales and marketing expense was due principally to an increase in the number of sales personnel, and the decrease in sales and marketing expense, as a percentage of revenue, is due to increased efficiencies in the sales force.

General and administrative. General and administrative expense decreased 29% from \$1.5 million in the quarter ended December 31, 1996 to \$1.0 million in the quarter ended December 31, 1997. As a percent of revenues, general and administration expense decreased from 28% in the quarter ended December 31, 1996 to 11% in the quarter ended December 31, 1997.

Amortization. Amortization was \$435,000 in the quarter ended December 31, 1996 and increased to \$584,000 in the quarter ended December 31, 1997. Amortization decreased as a percent of total revenue from 8% for the quarter ended December 31, 1996 to 6% for the quarter ended December 31, 1997. Included in the amortization is the amortization of core technology and goodwill capitalized on the purchase of Ontime.

Other income. Other income was \$406,000 for the quarter ended December 31, 1996 and decreased to \$375,000 for the quarter ended December 31, 1997. Other income is comprised mainly of interest earned on the balances of cash and cash equivalents net of interest expense. Interest expense totaled \$22,000 in the quarter ended December 31, 1996 as compared to \$46,000 in the quarter ended December 31, 1997 and related primarily to interest on capital equipment leases.

Income taxes. The Company continues to have a net deferred tax asset. A 100% valuation allowance continues to be recorded against the net deferred tax asset by the Company because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax asset in certain situations. The Company has recorded a \$250,000 income tax recovery in the quarter ended December 31, 1997.

Six Months Ended December 31, 1997 Compared with Six Months Ended December 31 1996

Revenues. The Company increased total revenues by 89% from \$9.3 million in the six months ended December 31, 1996 to \$17.5 million for the six months ended December 31, 1997. License revenue increased 115% from \$5.2 million in the six months ended December 31, 1996 to \$11.2 million in the six months ended December 31, 1997. *Livelink Intranet* products accounted for 70% of license revenues, *Livelink Search* accounted for 22% of license revenues and other document management products accounted for 8% of license revenues for the six months ended December 31, 1996. In the six months ended December 31, 1997, *Livelink Intranet* accounted for 100% of license revenues. During the six months ended December 31, 1997, the Company continued to expand its reseller programs. License revenues from resellers accounted for 34% of the total license revenue for the six months ended December 31, 1997 compared with nil for the six months ended December 31, 1996.

Service revenue increased 55% from \$4.0 million in the six months ended December 31, 1996 to \$6.3 million in the six months ended December 31, 1997. The increase in revenues is attributable to a significant contract that was secured in the six months ended June 30, 1997 and is expected to continue throughout the current fiscal year. See "Forward-Looking Statements". Professional services accounted for 75% of the service revenues in the six months ended December 31, 1996 and 59% of the service revenue in the six months ended December 31, 1997.

No individual customer accounted for 10% of revenue in the six months ended December 31, 1997 or the six months ended December 31, 1996. For the six months ended December 31, 1997, 77% of revenues were from customers resident in North America, 16% of revenues were from customers in Europe and 7% of revenues were from customers in Asia and other compared with 87%, 11% and 2% respectively for North America, Europe and Asia and other for the six months ended December 31, 1996.

Cost of revenues. Cost of license revenues increased from \$347,000 in the six months ended December 31, 1996 to \$643,000 in the six months ended December 31, 1997. As a percent of license revenues, cost of revenues decreased from 7% in the six months ended December 31, 1996 to 6% in the six months ended December 31, 1997. Included in cost of license revenues is the amortization of software capitalized on the purchase of Ontime.

Cost of service revenues increased from \$3.0 million in the six months ended December 31, 1996 to \$3.5 million in the six months ended December 31, 1997. As a percent of service revenues, the cost of service revenues decreased from 75% in the six months ended December 31, 1996 to 56% in the six months ended December 31, 1997. The decrease in the cost of service as a percent of service revenue was a result of increases in the utilization rates of professional services employees as well as a higher percentage of higher margin revenue.

Research and development. Research and development costs increased by 17% from \$3.1 million in the six months ending December 31, 1996 to \$3.6 million in the six months ending December 31, 1997. Research and development costs consist primarily of personnel expenses, and the related facilities and equipment. The increase in research and development expenses was caused by increased compensation expenses resulting from additional personnel and the development work continuing on the Company's products. As a percentage of revenues, research and development cost decreased from 33% in the six months ended December 31, 1996 to 20% in the six months ended December 31, 1997.

Sales and marketing. Sales and marketing expense increased 33% from \$6.9 million in the six months ended December 31, 1996 to \$9.2 million in the six months ended December 31, 1997. As a percentage of revenues, sales and marketing expense decreased from 75% in the six months ending December 31, 1996 to 53% in the six months ended December 31, 1997. The increase in sales and marketing expense was due principally to an increase in the number of sales personnel.

General and administrative. General and administrative expense decreased 21% from \$2.7 million in the six months ended December 31, 1996 to \$2.2 million in the six months ended December 31, 1997. As a percent of revenues, general and administration expense decreased from 29% in the six months ended December 31, 1996 to 12% in the six months ended December 31, 1997.

Amortization. Amortization was \$841,000 in the six months ended December 31, 1996 and increased to \$1.1 million in the six months ended December 31, 1997. Amortization decreased as a percent of total revenue from 9% for the six months ended December 31, 1996 to 6% for the six months ended December 31, 1997. Included in the amortization is the amortization of core technology and goodwill capitalized on the purchase of Ontime.

Restructuring reserve. A restructuring reserve for involuntary employee termination costs was taken in the first quarter of fiscal 1997 as a result of the restructuring activities announced in June of 1996. Management identified 36 employees from the areas of technical support, customer service and administrative areas whose positions were related to the above exited activities and whose positions were no longer required as a result of combination of the entities it acquired in fiscal 1996. The affected employees received their notices of termination on September 12, 1996. The total severance and outplacement costs accrued in the quarter ended September 30, 1996 was \$650,000. The Company has completed all restructuring and all amounts were paid out as of June 30, 1997.

Other income. Other income was \$964,000 for the six months ended December 31, 1996 and decreased to \$892,000 for the six months ended December 31, 1997. Other income is comprised mainly of interest earned on the balances of cash and cash equivalents net of interest expense. Interest expense totaled \$43,000 in the six months ended December 31, 1996 as compared to \$78,000 in the six months ended December 31, 1997 and related primarily to interest on capital equipment leases.

Income taxes. The Company continues to have a net deferred tax asset. A 100% valuation allowance continues to be recorded against the net deferred tax asset by the Company because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax asset in certain situations. The Company has recorded a \$500,000 income tax recovery in the six months ended December 31, 1997.

Liquidity and Capital Resources

To date, license and service revenues have been insufficient to satisfy the Company's cash requirements. The Company has financed its cash needs primarily through issuance of the Company's Common Shares.

At December 31, 1997, the Company had current assets of \$34.3 million and current liabilities of \$12.8 million. The Company has a \$7.5 million line of credit with a Canadian chartered bank, under which minimal borrowings were outstanding at December 31, 1997. The line of credit bears interest at the lender's prime rate plus 0.5% and is secured by all of the Company's assets, including an assignment of accounts receivable.

Cash used by operations during the six months ending December 31, 1997 was \$3.4 million. Cash used in investing activities was \$7.7 million, primarily due to the acquisition of OnTime software and the purchase of other investments. The Company also invested \$800,000 in furniture and equipment and paid \$258,000 on capital lease obligations. The Company anticipates additional capital expenditures for equipment as technology advances. Proceeds of issuance of Common Shares was \$303,000 upon exercise of shares options.

The Company had liabilities with respect to capital leases of \$683,000 at December 31, 1997, with a current portion of \$439,000.

The Company believes that existing cash and cash from operations, will be sufficient to satisfy the Company's cash requirements through June 1998. See "Overview - Forward-Looking Statements". The Company regularly evaluates acquisitions, investments, joint ventures and other business initiatives, and cash expenditures

for acquisitions, investments, joint ventures of other business initiatives or unanticipated expenses could create a need for additional financing. In addition, if the Company's operations do not begin to generate cash sufficient to satisfy its needs, the Company could require additional financing. There can be no assurance that such financing would be available if required.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

- not applicable

PART II Other Information

Item 1. Legal Proceedings - None

Item 2. Changes in Securities - None

Item 3. Defaults Upon Senior Securities - None

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

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibit is filed herewith:

<u>Exhibit Number</u>	<u>Exhibit Title</u>
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11.01	- Statement regarding computation of per share earnings.
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(b) Reports on Form 8-K

A Current report on Form 8-K dated December 3, 1997 was filed with the Securities and Exchange Commission to report under item 2 of that form the acquisition of some of the assets and liabilities of Campbell Services, Inc.

SIGNATURES

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

OPEN TEXT CORPORATION
(registrant)

Date: August 19, 1999

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

/s/Thomas J. Hearne
Thomas J. Hearne
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 11.01

OPEN TEXT CORPORATION

COMPUTATION OF BASIC AND FULLY DILUTED INCOME (LOSS) PER SHARE

(In thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	1997	1996	1997	1996
Basic Income (loss) per share				
Net income (loss)	\$ 131	\$ (3,809)	\$ (1,336)	\$ (7,363)
Weighted average number of common shares outstanding.....	17,599	16,827	17,533	16,605
Basic income (loss) per common share and common share equivalents	\$ 0.01	\$ (0.23)	\$ (0.08)	\$ (0.44)

	Three Months Ended December 31,		Six Months Ended December 31,	
	1997	1996	1997	1996
Fully Diluted income (loss) per share				
Net income (loss)	\$ 131	\$ (3,809)	\$ (1,336)	\$ (7,363)
Weighted average number of common shares outstanding.....	17,599	16,827	17,533	16,605
Number of common share equivalents as a result of stock options outstanding	2,114	—	—	—
Total	<u>19,713</u>	<u>16,827</u>	<u>17,533</u>	<u>16,605</u>
Fully diluted income (loss) per common share and common share equivalents	\$ 0.01	\$ (0.23)	\$ (0.08)	\$ (0.44)