OPEN TEXT CORP
Form 10-Q
February 04, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2008.

OR

¨ TRANSITION 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)

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

275 Frank Tompa Drive, Waterloo, Ontario, Canada N2L 0A1
(Address of principal executive offices)

Registrant's telephone number, including area code: (519) 888-7111
(Former name former address and former fiscal year, if changed since last report)

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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

At January 26, 2009, there were 51,900,406 outstanding Common Shares of the registrant.

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CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. Dollars, except share data)

ASSETS	December 31, 2008 (unaudited)	June 30, 2008
Current assets:		
Cash and cash equivalents	$ 172,870	$ 254,916
Accounts receivable trade, net of allowance for doubtful accounts of $4,128 as of December 31, 2008 and $3,974 as of June 30, 2008 (note 9)	126,757	134,396
Inventory (note 4)	2,227	-
Income taxes recoverable (note 15)	6,655	16,763
Prepaid expenses and other current assets	12,029	10,544
Deferred tax assets (note 15)	16,604	13,455
Total current assets	337,142	430,074
Investments in marketable securities (note 3)	2,789	-
Capital assets (note 5)	40,163	43,582
Goodwill (note 6)	577,244	564,648
Acquired intangible assets (note 7)	383,325	281,824
Deferred tax assets (note 15)	62,305	59,881
Other assets (note 8)	9,656	10,491
Long-term income taxes recoverable (note 15)	40,776	44,176
Total assets	$ 1,453,400	$ 1,434,676
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 10)	$ 123,715	$ 99,035
Current portion of long-term debt (note 12)	3,412	3,486
Deferred revenues	169,858	176,967
Income taxes payable (note 15)	140	13,499
Deferred tax liabilities (note 15)	3,366	4,876
Total current liabilities	300,491	297,863
Long-term liabilities:		
Accrued liabilities (note 10)	21,718	20,513
Pension liability (note 11)	16,243	-
Long-term debt (note 12)	300,307	304,301
Deferred revenues	6,957	2,573
Long-term income taxes payable (note 15)	51,240	54,681
Deferred tax liabilities (note 15)	144,701	109,912
Total long-term liabilities	541,166	491,980
Minority interest (note 20)	-	8,672
Shareholders' equity:		
Share capital (note 13)		
51,887,209 and 51,151,666 Common Shares issued and outstanding at December 31, 2008 and June 30, 2008, respectively; Authorized Common Shares: unlimited	444,512	438,471

Additional paid-in capital		48,441	39,330
Accumulated other comprehensive income		55,827	110,819
Retained earnings		62,963	47,541
Total shareholders' equity		611,743	636,161
Total liabilities and shareholders' equity	$	1,453,400	$ 1,434,676
Commitments and contingencies (note 18)			

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands of U.S. Dollars, except per share data)
(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Revenues:				
License	$ 64,852	$ 55,158	$ 114,926	$ 99,418
Customer support	100,438	90,614	198,867	176,918
Service and other	42,361	36,762	76,481	70,165
Total revenues	207,651	182,534	390,274	346,501
Cost of revenues:				
License	5,281	4,649	8,174	8,203
Customer support	17,356	14,191	32,923	26,789
Service and other	31,881	30,192	59,610	57,696
Amortization of acquired technology-based intangible assets	11,799	10,308	22,546	20,460
Total cost of revenues	66,317	59,340	123,253	113,148
Gross profit	141,334	123,194	267,021	233,353
Operating expenses:				
Research and development	29,948	26,147	58,526	50,130
Sales and marketing	49,347	42,300	94,179	80,159
General and administrative	18,280	16,955	36,667	33,965
Depreciation	2,920	3,752	5,618	6,736
Amortization of acquired customer-based intangible assets	10,138	7,514	18,353	14,929
Special charges (recoveries) (note 19)	11,446	(47)	11,446	(108)
Total operating expenses	122,079	96,621	224,789	185,811
Income from operations	19,255	26,573	42,232	47,542
Other income (expense), net	(12,532)	(3,683)	(11,803)	(5,510)
Interest income (expense), net	(5,347)	(7,567)	(8,341)	(15,439)
Income before income taxes	1,376	15,323	22,088	26,593
Provision for income taxes (note 15)	683	4,511	6,615	7,854
Net income before minority interest	693	10,812	15,473	18,739
Minority interest (note 18)	(68)	127	51	254
Net income for the period	$ 761	$ 10,685	$ 15,422	$ 18,485
Net income per share—basic (note 14)	$ 0.01	$ 0.21	$ 0.30	$ 0.37
Net income per share—diluted (note 14)	$ 0.01	$ 0.20	$ 0.29	$ 0.35
Weighted average number of Common Shares outstanding—basic	51,873	50,736	51,586	50,511
Weighted average number of Common Shares outstanding—diluted	53,242	52,689	52,955	52,224

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)
(In thousands of U.S. Dollars)
(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Retained earnings (deficit), beginning of period	$ 62,202	$ 2,335	$ 47,541	$ (5,465)
Net income	761	10,685	15,422	18,485
Retained earnings, end of period	$ 62,963	$ 13,020	$ 62,963	$ 13,020

See accompanying Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. Dollars)
(Unaudited)

	Six months ended December 31, 2008	Six months ended December 31, 2007
Cash flows from operating activities:		
Net income for the period	$ 15,422	$ 18,485
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,517	42,125
In-process research and development	121	500
Share-based compensation expense	2,533	1,718
Employee long-term incentive plan	2,805	757
Excess tax benefits from share-based compensation	(6,653)	(766)
Undistributed earnings related to minority interest	51	254
Pension expense	906	—
Amortization of debt issuance costs	550	711
Unrealized (gain) loss on financial instruments	807	2,851
Loss on sale and write down of capital assets	269	—
Deferred taxes	3,915	(4,113)
Changes in operating assets and liabilities:		
Accounts receivable	32,790	7,579
Inventory	(609)	—
Prepaid expenses and other current assets	(861)	(197)
Income taxes	6,469	8,554
Accounts payable and accrued liabilities	(16,097)	1,472
Deferred revenue	(25,613)	(8,883)
Other assets	1,334	510
Net cash provided by operating activities	64,656	71,557
Cash flows from investing activities:		
Additions of capital assets - net	(2,094)	(3,386)
Purchase of a division of Spicer Corporation	(10,836)	—
Purchase of eMotion LLC, net of cash acquired	(3,635)	—
Purchase of Captaris Inc., net of cash acquired	(101,499)	—
Additional purchase consideration for prior period acquisitions	(4,612)	(439)
Purchase of an asset group constituting a business	—	(2,209)
Investments in marketable securities	(3,608)	—
Acquisition related costs	(7,288)	(11,842)
Net cash used in investment activities	(133,572)	(17,876)
Cash flows from financing activities:		
Excess tax benefits on share-based compensation expense	6,653	766
Proceeds from issuance of Common Shares	6,039	9,217
Repayment of long-term debt	(1,721)	(61,877)

Debt issuance costs		—		(349)
Net cash provided by (used in) financing activities		10,971		(52,243)
Foreign exchange gain (loss) on cash held in foreign currencies		(24,101)		8,292
Increase (decrease) in cash and cash equivalents during the period		(82,046)		9,730
Cash and cash equivalents at beginning of the period		254,916		149,979
Cash and cash equivalents at end of the period	$	172,870	$	159,709

Supplementary cash flow disclosures (note 17)

See accompanying Notes to Condensed Consolidated Financial Statements

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OPEN TEXT CORPORATION

Unaudited Notes to Condensed Consolidated Financial Statements
For the Three and Six Months Ended December 31, 2008
(Tabular amounts in thousands, except per share data)

NOTE 1—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements (consolidated financial statements) include the accounts of Open Text Corporation and our wholly and partially owned subsidiaries, collectively referred to as "Open Text" or the "Company". All inter-company balances and transactions have been eliminated.

These consolidated financial statements are expressed in U.S. dollars and are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). These financial statements are based upon accounting policies and methods of their application are consistent with those used and described in our annual consolidated financial statements for the fiscal year ended June 30, 2008. The consolidated financial statements do not include certain of the financial statement disclosures included in the annual consolidated financial statements prepared in accordance with U.S. GAAP and therefore should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008.

The information furnished reflects all adjustments necessary for a fair presentation of the results for the interim periods presented and includes the financial results of Captaris Inc. (Captaris), with effect from November 1, 2008 (see Note 20). The operating results for the three and six months ended December 31, 2008 are not necessarily indicative of the results expected for any succeeding quarter. During the quarter ended December 31, 2008 we established and adopted certain additional critical accounting policies as a consequence of our acquisition of Captaris (see Note 2). Other than the establishment and adoption of these additional critical accounting policies there have been no significant changes in our critical accounting policies from those that were disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements. These estimates, judgments and assumptions are evaluated on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable at that time, the results of which form the basis for making judgments about the 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: (i) revenue recognition including allowances for estimated returns and right of return, (ii) allowance for doubtful accounts, (iii) testing goodwill for impairment, (iv) the valuation of acquired intangible assets, (v) long-lived assets, (vi) the recognition of contingencies, (vii) facility and restructuring accruals, (viii) acquisition accruals and pre-acquisition contingencies, (ix) asset retirement obligations, (x) realization of investment tax credits, (xi) the valuation of stock options granted and liabilities related to share-based payments, including the valuation of our long-term incentive plan, (xii) the valuation of financial instruments, (xiii) the valuation of pension assets and obligations, (xiv) accounting for income taxes, and (xv) valuation of inventory.

Comprehensive income (loss)

Comprehensive income (loss) is comprised of net income and other comprehensive income (loss), including the effect of foreign currency translations resulting from the consolidation of subsidiaries where the functional currency is a currency other than the U.S. Dollar. Our total comprehensive income (loss) is as follows:

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Other comprehensive income (loss):				
Foreign currency translation adjustment	$ (12,969)	$ 16,825	$ (54,224)	$ 37,694
Unrealized loss on investments in marketable securities	(509)	—	(768)	—
Net income for the period	761	10,685	15,422	18,485
Comprehensive income (loss) for the period	$ (12,717)	$ 27,510	$ (39,570)	$ 56,179

Reclassification

Certain prior period comparative figures have been adjusted to conform to current period presentation including reclassifications related to a change we made in our method of allocating operating expenses.

As a result of such reclassifications, Research and development expenses increased with a corresponding decrease to Sales and marketing expenses by approximately $223,000 and $474,000, respectively, for the three and six months ended December 31, 2007, from previously reported amounts.

There was no change to income from operations or net income (loss) per share in any of the periods presented as a result of these reclassifications.

NOTE 2—NEW ACCOUNTING PRONOUNCEMENTS AND ACCOUNTING POLICY UPDATES

In November 2008, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue No. 08-06, Equity Method Investment Accounting Considerations (EITF 08-06). EITF 08-06 is effective for us beginning July 1, 2009, with early adoption prohibited. We do not currently have any investments that are accounted for under the equity method and therefore the pending adoption of EITF 08-06 is not expected to have any impact on our consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-07, Accounting for Defensive Assets (EITF 08-07). EITF 08-07 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them and requires an acquirer (in a business combination) to account for such defensive intangible assets as a separate unit of accounting which should be amortized to expense over the period that the asset diminishes in value. EITF 08-07 is effective for intangible assets acquired by us on or after July 1, 2009, with early adoption prohibited.

In April 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FSP FAS142-3 is effective for us beginning July 1, 2009 and early adoption is prohibited. We are currently evaluating the impact of the adoption of FSP FAS 142-3 on our consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161), which enhances the disclosure requirements under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 161 requires additional disclosures about the objectives of an entity's derivative instruments and hedging activities, the method of accounting for such instruments under SFAS 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on a company’s financial position, financial performance, and cash flows. SFAS 161 is effective for us during the quarter ended March 31, 2009 and the disclosures required by SFAS 161 will be included in our future consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51 (SFAS 160), which changes the accounting and reporting for minority interests. Minority interest will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent’s equity, and purchases or sales of equity interest that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included

in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for us beginning July 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently assessing the impact that the adoption of SFAS 160 will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R) which replaces SFAS No. 141 Business Combinations (SFAS 141). The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for us beginning July 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157, does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB issued FASB FSP 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On July 1, 2008, we adopted SFAS 157 except for those items that have been deferred under FSP FAS 157-2 and such adoption did not have a material impact on our consolidated financial statements (see Note 3). We are currently assessing the potential impact that the full adoption of SFAS 157 will have on our consolidated financial statements.

Accounting Policy Updates

As a result of our acquisition of Captaris during the quarter ended December 31, 2008, we established and adopted accounting policies relating to the following:

Accounting for Pensions, post-retirement and post-employment benefits

Pension expense, based upon management's assumptions, consists of: actuarially computed costs of pension benefits in respect of the current year of service, imputed returns on plan assets (for funded plans) and imputed interest on pension obligations. The expected costs of post retirement benefits, other than pensions, are accrued in the financial statements based upon actuarial methods and assumptions. The over-funded or under-funded status of defined benefit pension and other post retirement plans are recognized as an asset or a liability, respectively, on the balance sheet.

Inventories

Inventories are valued at the lower of cost (as calculated on a first in first out basis) or market value. In addition, full provisions are recorded for surplus inventory deemed to be obsolete or inventory in excess of six month's forecasted demand.

Revenue Recognition

Allowance for product returns

We provide allowances for estimated returns and return rights that exist for certain legacy Captaris customers. In general, our customers are not granted return rights at the time of sale. However, Captaris has historically accepted returns and, therefore, reduced revenue recognized for estimated product returns. For those customers to whom we do grant return rights, we reduce revenue by an estimate of these returns. If we cannot reasonably estimate these returns, we defer the revenue until the return rights lapse. For software sold to resellers for which we have granted exchange rights, we defer the revenue until the reseller sells the software through to end-users. When customer acceptance provisions are present and we cannot reasonably estimate returns, we recognize revenue upon the earlier of customer acceptance or expiration of the acceptance period.

NOTE 3—FAIR VALUE MEASUREMENTS

We adopted SFAS 157, except for those items that have been deferred under FSP FAS 157-2, on July 1, 2008. The adoption of SFAS 157 did not have a material impact on our consolidated financial statements.

SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value, in this context, should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including our own credit risk.

In addition to defining fair value, SFAS 157 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which are determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis:

Our financial assets and liabilities measured at fair value on a recurring basis consisted of the following types of instruments as of December 31, 2008:

		Fair Market Measurements using:		
	December 31, 2008	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Marketable Securities	$ 2,789	$ 2,789	n/a	n/a
Total financial assets	$ 2,789	$ 2,789	n/a	n/a
Liabilities:				
Derivative financial instrument	$ 3,605	n/a	$ 3,605	n/a
Total financial liabilities	$ 3,605	n/a	$ 3,605	n/a

Our valuation techniques used to measure the fair values of our marketable securities were derived from quoted market prices as an active market for these securities exist. Our valuation techniques used to measure the fair values of the derivative instrument, the counterparty to which has high credit ratings, were derived from the pricing models including discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data, as no quoted market prices exist for the derivative instrument. Our discounted cash flow techniques use observable market inputs, such as three month LIBOR-based yield curves, foreign currency spot and forward rates and implied volatilities. In addition, on December 30, 2008, we entered into certain foreign currency forward contracts the fair value of which, on December 31, 2008, using Level 2 valuation methodology, was nil.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We measure certain assets at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the three and six months ended December 31, 2008, no indications of impairment were identified and therefore no fair value measurements were required.

NOTE 4— INVENTORIES

	As of December 31, 2008	
Finished Goods	$	1,680
Components		547
	$	2,227

Inventories consist primarily of fax boards that were acquired as part of our acquisition of Captaris (see Note 20).

NOTE 5—CAPITAL ASSETS

	As of December 31, 2008		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$ 10,895	$ 7,287	$ 3,608
Office equipment	8,978	7,877	1,101
Computer hardware	71,973	63,118	8,855
Computer software	23,088	16,986	6,102
Leasehold improvements	17,981	11,476	6,505
Land and buildings *	15,229	1,237	13,992
	$ 148,144	$ 107,981	$ 40,163

	As of June 30, 2008		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$ 10,490	$ 8,877	$ 1,613
Office equipment	10,251	8,948	1,303
Computer hardware	80,499	72,654	7,845
Computer software	28,015	21,819	6,196
Leasehold improvements	15,160	11,295	3,865
Land and buildings *	24,261	1,501	22,760
	$ 168,676	$ 125,094	$ 43,582

* A building that was recorded as an "asset held for sale" was sold in December 2008 for Canadian dollars $5.8 million. Inclusive of selling costs a loss of Canadian dollars $302,000 was recorded upon the sale.

NOTE 6—GOODWILL

Goodwill is recorded when the consideration paid for an acquisition of a business exceeds the fair value of identifiable net tangible and intangible assets. The following table summarizes the changes in goodwill since June 30, 2007:

Balance, June 30, 2007	$ 528,312
Purchase of an asset group constituting a business (note 20)	2,199
Adjustments relating to prior acquisitions	5,930
Adjustments relating to the adoption of FIN 48	(6,480)
Adjustments on account of foreign exchange	34,687
Balance, June 30, 2008	564,648
Acquisition of a division of Spicer Corporation (note 20)	4,815
Acquisition of Captaris Inc.(note 20)	44,692
Amount allocated to intangible assets	(2,081)
Adjustments relating to prior acquisitions	(3,846)
Adjustments on account of foreign exchange	(30,984)
Balance, December 31, 2008	$ 577,244

Adjustments relating to prior acquisitions relate primarily to: (i) adjustments to plans formulated in accordance with the FASB's Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" (EITF 95-3) relating to employee termination and abandonment of excess facilities and (ii) the evaluation of the tax attributes of acquisition-related operating loss carry forwards and deductions, including reductions in previously recognized valuation allowances, originally assessed at the various dates of acquisition.

NOTE 7—ACQUIRED INTANGIBLE ASSETS

	Technology Assets	Customer Assets	Total
Net book value, June 30, 2007	$ 179,216	$ 164,108	$ 343,324
Acquisition of Momentum	—	1,900	1,900
Amortization expense	(41,515)	(30,759)	(72,274)
Foreign exchange and other impacts	4,002	4,872	8,874
Net book value, June 30, 2008	141,703	140,121	281,824
Acquisition of Captaris Inc. (note 20)	60,000	72,000	132,000
Acquisition of eMotion LLC (note 20)	1,450	2,357	3,807
Acquisition of a division of Spicer Corporation (note 20)	5,529	1,777	7,306
Purchase of an asset group constituting a business (note 20)	—	2,081	2,081
Amortization expense	(22,546)	(18,353)	(40,899)
Foreign exchange and other impacts	(379)	(2,415)	(2,794)
Net book value, December 31, 2008	$ 185,757	$ 197,568	$ 383,325

The range of amortization periods for intangible assets is from 3-10 years.

The following table shows the estimated future amortization expense for the fiscal periods indicated below. This calculation assumes no future adjustments to acquired intangible assets:

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	Fiscal years ending June 30,
2009 (six months ended June 30)	$ 46,323
2010	80,967
2011	78,151
2012	74,348
2013	72,239
Total	$ 352,028

NOTE 8—OTHER ASSETS

	As of December 31, 2008	As of June 30, 2008
Debt issuance costs	$ 5,276	$ 5,834
Deposits	1,992	1,848
Long-term prepaid expenses	1,761	2,116
Pension assets	553	598
Miscellaneous other amounts	74	95
	$ 9,656	$ 10,491

Debt issuance costs relate primarily to costs incurred for the purpose of obtaining long-term debt used to partially finance the Hummingbird acquisition and are being amortized over the life of our long-term debt. Deposits relate to security deposits provided to landlords in accordance with facility lease agreements. Long-tem prepaid expenses relate to certain advance payments on long-term patent licenses that are being amortized over a period of seven years. Pension assets relate to a pension asset recognized under SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements 87, 88, 106 and 132(R)” (SFAS 158) relating to a pension plan for legacy IXOS employees (see Note 11).

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NOTE 9—ALLOWANCE FOR DOUBTFUL ACCOUNTS

Balance of allowance for doubtful accounts (AfDA) as of June 30, 2007	$	2,089
Bad debt expense for the year		2,855
Write-off /adjustments		(970)
Balance of allowance for doubtful accounts as of June 30, 2008		3,974
Bad debt expense for the period		2,651
Write-off /adjustments		(2,497)
Balance of allowance for doubtful accounts as of December 31, 2008	$	4,128

Included in accounts receivable are unbilled receivables in the amount of $4.7 million and $4.2 million as of December 31, 2008 and June 30, 2008, respectively.

NOTE 10—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Current liabilities

Accounts payable and accrued liabilities are comprised of the following:

		As of December 31, 2008		As of June 30, 2008
Accounts payable—trade	$	6,653	$	3,728
Accrued salaries and commissions		27,893		34,292
Accrued liabilities		62,676		49,014
Amounts payable in respect of restructuring (note 19)		9,735		1,150
Amounts payable in respect of acquisitions and acquisition related accruals		16,758		10,851
	$	123,715	$	99,035

Long-term accrued liabilities

		As of December 31, 2008		As of June 30, 2008
Amounts payable in respect of restructuring (note 19)		714		299
Amounts payable in respect of acquisitions and acquisition related accruals		7,382		10,256
Other accrued liabilities		6,734		2,851
Asset retirement obligations		6,888		7,107
	$	21,718	$	20,513

Asset retirement obligations

We are required to return certain of our leased facilities to their original state at the conclusion of our lease. We have accounted for such obligations in accordance with FASB SFAS No.143, "Accounting for Asset Retirement Obligations" (SFAS 143). As of December 31, 2008 the present value of this obligation was $6.9 million, (June 30, 2008—$7.1 million), with an undiscounted value of $8.9 million, (June 30, 2008—$7.8 million).

Accruals relating to acquisitions

In accordance with EITF 95-3, and in relation to our acquisitions, we have accrued for costs relating to legacy workforce reductions and abandonment of excess legacy facilities. Such accruals are capitalized as part of the cost of the subject acquisition and in the case of abandoned facilities, have been recorded at present value less our best estimate for future sub-lease income and costs incurred to achieve sub-tenancy. The accrual for workforce reductions is extinguished against the payments made to the employees and in the case of excess facilities, will be discharged over the term of the respective leases. Any excess of the difference between the present value and actual cash paid for the excess facility will be charged to income and any deficits will be reversed to goodwill. The provisions for abandoned facilities are expected to be paid by February 2015.

The following table summarizes the activity with respect to our acquisition accruals during the six months ended December 31, 2008.

	Balance June 30, 2008	Initial Accruals	Usage/ Foreign Exchange/ Other Adjustments	Subsequent Adjustments to Goodwill	Balance December 31, 2008
Captaris (See note 20)					
Employee termination costs	$ —	$ 9,276	$ (1,649)	$ —	$ 7,627
Excess facilities	—	3,347	(149)	—	3,198
Transaction-related costs	—	797	(466)	—	331
	—	13,420	(2,264)	—	11,156
Division of Spicer Corporation					
Employee termination costs	—	—	—	—	—
Excess facilities	—	—	—	—	—
Transaction-related costs	—	262	(240)	(22)	—
	—	262	(240)	(22)	—
Hummingbird					
Employee termination costs	310	—	(41)	(13)	256
Excess facilities	4,249	—	(1,475)	(795)	1,979
Transaction-related costs	815	—	(120)	(695)	—
	5,374	—	(1,636)	(1,503)	2,235
IXOS					
Employee termination costs	—	—	—	—	—
Excess facilities	15,255	—	(4,901)	—	10,354
Transaction-related costs	—	—	(45)	45	—
	15,255	—	(4,946)	45	10,354
Eloquent					
Employee termination costs	—	—	—	—	—
Excess facilities	—	—	—	—	—
Transaction-related costs	243	—	—	—	243
	243	—	—	—	243
Centrinity					
Employee termination costs	—	—	—	—	—
Excess facilities	211	—	(77)	—	134
Transaction-related costs	—	—	—	—	—
	211	—	(77)	—	134
Artesia					
Employee termination costs	—	—	—	—	—
Excess facilities	24	—	(6)	—	18
Transaction-related costs	—	—	—	—	—
	24	—	(6)	—	18
Totals					
Employee termination costs	310	9,276	(1,690)	(13)	7,883
Excess facilities	19,739	3,347	(6,608)	(795)	15,683

Transaction-related costs		1,058		1,059		(871)		(672)	574
	$	21,107	$	13,682	$	(9,169)	$	(1,480)	$ 24,140

The adjustments to goodwill primarily relate to employee termination costs and excess facilities accounted for in accordance with EITF 95-3. The adjustments to goodwill relating to transaction costs are accounted for in accordance with SFAS 141.

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NOTE 11— PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

CDT Defined Benefit Plan and CDT Long-term Employee Benefit Obligations:

As part of our acquisition of Captaris we acquired the following unfunded defined benefit pension plan and certain long-term employee benefit obligations in relation to Captaris Document Technologies GmbH (CDT), a wholly owned subsidiary of Captaris. As of December 31, 2008 the balances relating to these obligations were as follows:

	Total benefit obligation	Current portion of benefit obligation*	Non current portion of benefit obligation
CDT defined benefit plan	$ 14,990	$ 290	$ 14,700
CDT Anniversary plan	1,097	204	893
CDT early retirement plan	650	—	650
Total	$ 16,737	$ 494	$ 16,243

* The current portion of the benefit obligation has been included within Accounts payable and accrued liabilities within the Condensed Consolidated Balance Sheets.

CDT Defined Benefit Plan

CDT sponsors an unfunded defined benefit pension plan covering substantially all CDT employees (CDT pension plan) which provides for old age, disability and survivors´ benefits. Benefits under the CDT pension plan are generally based on age at retirement, years of service and the employee’s annual earnings. The net periodic cost of this pension plan is determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate and estimated service costs.

The following are the components of net periodic benefit costs for the CDT pension plan and the details of the change in the benefit obligation from November 1, 2008 (the date from which the results of operations of Captaris have been consolidated with Open Text) to December 31, 2008:

Benefit obligation as of November 1, 2008	$ 14,782
Service cost	99
Interest cost	142
Benefits paid	(33)
Benefit obligation as of December 31, 2008	14,990
Less: current portion	(290)
Non current portion of benefit obligation as of December 31, 2008	$ 14,700

In determining the fair value of the CDT pension plan as of December 31, 2008, we used the following weighted average key assumptions:

Assumptions:	
Salary increases	2.25%
Pension increases	1.50%
Discount rate	6.00%
Employee fluctuation rate:	
to age 30	3.00%
to age 35	2.00%
to age 40	2.00%
to age 45	1.50%
to age 50	0.50%
from age 51	0.00%

Anticipated pension payments under the CDT pension plan, for the calendar years indicated below are as follows:

2009	$	275
2010		372
2011		397
2012		434
2013		546
2014 to 2018		4,064
Total	$	6,088

CDT Long-term employee benefit obligation.

CDT's long-term employee benefit obligation relates to obligations to CDT employees in relation to CDT's "Anniversary plan" and an early retirement plan. The obligation is unfunded and carried at a fair value of $1.1 million for the long-term employee benefit obligation and $650,000 for the early retirement plan, as of December 31, 2008.

The Anniversary plan is a defined benefit plan for long-tenured CDT employees. The plan provides for a lump-sum payment to employees of two months of salary upon reaching the anniversary of twenty five years of service and three months of salary upon reaching the anniversary of forty years of service. The early retirement plan is designed to create an incentive for employees, within a certain age group, to transition from (full or part-time) employment into retirement before their legal retirement age. This plan allows employees, upon reaching a certain age, to elect to work full-time for a period of time and be paid 50% of their full time salary. After working within this arrangement for a designated period of time, the employee is eligible to take early retirement and receive payments from the earned but unpaid salaries until they are eligible to receive payments under the postretirement benefit plan discussed above. Benefits under the early retirement plan are generally based on the employees' compensation and the number of years of service.

IXOS AG Defined Benefit Plans

Included within "Other Assets" are net pension assets of $553,000 (June 30, 2008—$598,000) relating to two IXOS defined benefit pensions plans (IXOS pension plans) relating to certain former members of the IXOS board of directors and certain IXOS employees, respectively (See Note 8). The net periodic pension cost, with respect to the IXOS pension plans, is determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate and the expected return on plan assets. The fair value of our total plan assets under the IXOS pension plans, as of December 31, 2008, is $3.3 million (June 30, 2008—$3.7 million). The fair value of our total pension obligation under the IXOS pension plans, as of December 31, 2008 is $2.8 million, (June 30, 2008—$3.1 million).

In determining the fair value of the IXOS pension plans as of December 31, 2008, we used the following weighted average key assumptions:

Assumptions : Former IXOS directors' defined benefit pension plan	
Salary increases	0.00%
Pension increases	1.50%-3.00%
Discount rate	6.00%
Rate of expected return on plan assets	4.50%

Assumptions : Former IXOS employees' defined benefit pension plan

Salary increases	0.00%
Pension increases	0.00%
Discount rate	6.00%
Rate of expected return on plan assets	4.60%

Anticipated pension payments under the IXOS pension plans, for the calendar years indicated below are as follows:

	Anticipated Pension Payments
2009	$ 111
2010	15
2011	-
2012	86
2013	64
2014 to 2018	549
Total	$ 825

NOTE 12—LONG-TERM DEBT AND FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Long-term debt

Long-term debt is comprised of the following:

	As of December 31, 2008	As of June 30, 2008
Long-term debt		
Term loan	$ 292,509	$ 294,006
Mortgage	11,210	13,781
	303,719	307,787
Less:		
Current portion of long-term debt		
Term loan	2,993	2,993
Mortgage	419	493
	3,412	3,486
Long-term portion of long-term debt	$ 300,307	$ 304,301

Term loan and Revolver

On October 2, 2006, we entered into a $465.0 million credit agreement (the credit agreement) with a Canadian chartered bank (the bank) consisting of a $390.0 million term loan facility (the term loan) and a $75.0 million committed revolving long-term credit facility (the revolver). The term loan was used to finance a portion of our Hummingbird acquisition and the revolver will be used for general business purposes.

Term loan

The term loan has a seven year term and expires on October 2, 2013 and bears interest at a floating rate of LIBOR plus 2.25%. The quarterly scheduled term loan principal repayments are equal to 0.25% of the original principal amount, due each quarter with the remainder due at the end of the term, less ratable reductions for any non-scheduled prepayments made. From October 2, 2006 to December 31, 2008 we have made total non-scheduled prepayments of $90.0 million towards the principal on the term loan. These non-scheduled prepayments have reduced our total outstanding term loan to $292.5 million and our quarterly scheduled principal payment to approximately $748,000.

For the three and six months ended December 31, 2008, we recorded interest expense of $3.7 million and $7.2 million, respectively, (three and six months ended December 31, 2007-$6.1 million and $13.2 million, respectively), relating to the term loan.

Revolver

The revolver has a five year term and expires on October 2, 2011. Borrowings under this facility bear interest at rates specified in the credit agreement. The revolver is subject to a “stand-by” fee ranging between 0.30% and 0.50% per annum depending on our consolidated leverage ratio. There were no borrowings outstanding under the revolver as of December 31, 2008. During Fiscal 2008, we obtained a demand guarantee, under the revolver, in the amount of Euro 11.1 million which was cancelled on December 22, 2008 (See Note 18).

For the three and six months ended December 31, 2008, we recorded interest expense of $55,000 and $112,000 respectively, (three and six months ended December 31, 2007—$73,000 and $145,000, respectively), on account of stand-by fees relating to the revolver.

Mortgage

The mortgage consists of a five year mortgage agreement entered into during December 2005 with the bank. The original principal amount of the mortgage was Canadian $15.0 million. The mortgage: (i) has a fixed term of five years, (ii) matures on January 1, 2011, and (iii) is secured by a lien on our headquarters in Waterloo, Ontario. Interest accrues monthly at a fixed rate of 5.25% per annum. Principal and interest are payable in monthly installments of Canadian $101,000 with a final lump sum principal payment of Canadian $12.6 million due on maturity.

As of December 31, 2008, the carrying value of the building was $14.0 million. (June 30, 2008—$17.1 million).

For the three and six months ended December 31, 2008, we recorded interest expense of $144,000 and $320,000 (three and six months ended December 31, 2007—$188,000 and $365,000, respectively), relating to the mortgage.

Financial Instruments and Hedging Activities

Interest-rate collar

In October 2006, we entered into a three year interest-rate collar that had the economic effect of circumscribing the floating portion of the interest rate obligations associated with $195.0 million of the term loan within an upper limit of 5.34% and a lower limit of 4.79%. This was pursuant to a requirement in the credit agreement that required us to maintain, from thirty days following the date on which the term loan was entered into through the third anniversary or such earlier date on which the term loan is paid, interest rate hedging arrangements with counterparties in respect of a portion of the term loan. As of December 31, 2008, in accordance with the contractual terms and conditions of the term loan agreement, the hedged portion of the loan was $100.0 million (June 30, 2008— $150.0 million).

SFAS 133 requires that changes in a derivative instrument's fair value be recognized in current earnings unless specific hedge accounting criteria are met and that an entity must formally document, designate and assess the effectiveness of transactions that qualify for hedge accounting.

SFAS 133 requires that written options must meet certain criteria in order for hedge accounting to apply. We determined that these criteria were not met and hedge accounting could not be applied to this instrument. The fair market value of the collar was approximately $3.6 million as of December 31, 2008 (June 30, 2008—$2.8 million), and has been included within "Accounts payable and accrued liabilities". The collar has a remaining term to maturity of 1.0 year from December 31, 2008.

For the three and six months ended December 31, 2008, we recorded net interest expense of $1.5 million and $807,000 respectively, (for the three and six months ended December 31, 2007-an increase to interest expense of $1.4 million and $2.8 million, respectively), representing the change in the fair value of the collar during the quarter ended December 31, 2008. Additionally, we record payments or receipts on the collar as adjustments to interest expense. We recorded interest expense in the amount of $394,000 and $1.2 million, respectively, on account of monies payable under the collar for the three and six months ended December 31, 2008 (three and six months ended December 31, 2007- a reduction to interest expense of nil and $10,000, respectively).

Foreign currency forward contracts

On December 30, 2008 we entered into forward contracts to limit the exchange fluctuations on certain intercompany revenue streams that are expected to occur, on a monthly basis, over the next twelve months, in the amounts of $5.5 million per month, for a total amount of $66.0 million. These contracts have been designated as, and will be accounted for as, cash flow hedges of forecasted transactions. We do not use forward contracts for trading purposes. As of December 31, 2008 the fair value of these forward contracts individually and in the aggregate was nil.

NOTE 13—SHARE CAPITAL, OPTION PLANS AND SHARE BASED PAYMENTS

Share Capital

Our authorized share capital includes an unlimited number of Common Shares and an unlimited number of first preference shares. No preference shares have been issued.

We did not repurchase any Common Shares during the three and six months ended December 31, 2008 and 2007.

Share-Based Payments

Summary of Outstanding Stock Options

As of December 31, 2008, options to purchase an aggregate of 3,743,948 Common Shares are outstanding and 1,364,525 Common Shares are available for issuance under our stock option plans. Our stock options generally vest over four years and expire between seven and ten years from the date of the grant. The exercise price of the options we grant is set at an amount that is not less than the closing price of our Common Shares on the trading day for the NASDAQ immediately preceding the applicable grant date.

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A summary of option activity under our stock option plans for the six months December 31, 2008 is as follows:

	Options		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)		Aggregate Intrinsic Value ($'000s)
Outstanding at June 30, 2008	3,763,665	$	15.22			
Granted	706,100		32.63			
Exercised	(722,227)		7.80			
Forfeited or expired	(3,590)		17.52			
Outstanding at December 31, 2008	3,743,948	$	19.93	4.46	$	40,649
Exercisable at December 31, 2008	2,317,786	$	16.26	3.67	$	32,245

We estimate the fair value of stock options using the Black-Scholes option pricing model, consistent with the provisions of SFAS 123 (Revised 2004), “Share-Based Payment” (SFAS 123R) and SEC Staff Accounting Bulletin No. 107. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, while the options issued by us are subject to both vesting and restrictions on transfer. In addition, option-pricing models require input of subjective assumptions including the estimated life of the option and the expected volatility of the underlying stock over the estimated life of the option. We use historical volatility as a basis for projecting the expected volatility of the underlying stock and estimate the expected life of our stock options based upon historical data.

We believe that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair value of our stock option grants. Estimates of fair value are not intended, however, to predict actual future events or the value ultimately realized by employees who receive equity awards.

For the three months ended December 31, 2008, the weighted-average fair value of options granted, as of the grant date, was $10.13, using the following weighted average assumptions: expected volatility of 41%; risk-free interest rate of 1.28%; expected dividend yield of 0%; and expected life of 4.4 years. A forfeiture rate of 5%, based on historical rates, was used to determine the net amount of compensation expense recognized.

For the six months ended December 31, 2008, the weighted-average fair value of options granted, as of the grant date, was $12.47, using the following weighted average assumptions: expected volatility of 42%; risk-free interest rate of 2.9%; expected dividend yield of 0%; and expected life of 4.4 years. A forfeiture rate of 5%, based on historical rates, was used to determine the net amount of compensation expense recognized.

For the three months ended December 31, 2007, there were no options granted by us. A forfeiture rate of 5%, based on historical rates, was used to determine the net amount of compensation expense recognized during this period.

For the six months ended December 31, 2007, the weighted-average fair value of options granted, as of the grant date, was $11.12, using the following weighted average assumptions: expected volatility of 43%; risk-free interest rate of 5.0%; expected dividend yield of 0%; and expected life of 5.0 years. A forfeiture rate of 5%, based on historical rates, was used to determine the net amount of compensation expense recognized.

As of December 31, 2008, the total compensation cost related to the unvested stock awards not yet recognized was $12.5 million, which will be recognized over a weighted average period of approximately 3 years.

As of December 31, 2007, the total compensation cost related to the unvested stock awards not yet recognized was $9.0 million, which will be recognized over a weighted average period of approximately 2 years.

In each of the above periods, no cash was used by us to settle equity instruments granted under share-based compensation arrangements.

Share-based compensation cost included in the Condensed Consolidated Statements of Income for the three and six months ended December 31, 2008 was approximately $1.1 million and $2.5 million, respectively.

Share-based compensation cost included in the Condensed Consolidated Statements of Income for the three and six months ended December 31, 2007 was approximately $655,000 and $1.7 million, respectively.

We have not capitalized any share-based compensation costs as part of the cost of an asset.

For the three and six months ended December 31, 2008, cash in the amount of $382,000 and $5.6 million, respectively, was received as the result of the exercise of options granted under share-based payment arrangements. The tax benefit realized by us during the three and six months ended December 31, 2008 from the exercise of options eligible for a tax deduction was $24,000 and $6.6 million, respectively, which was recorded as additional paid-in capital.

For the three and six months ended December 31, 2007, cash in the amount of $3.4 million and $8.9 million, respectively, was received as the result of the exercise of options granted under share-based payment arrangements. The tax benefit realized by the Company, during the three and six months ended December 31, 2007 from the exercise of options eligible for a tax deduction was $369,000 and $766,000, respectively, which was recorded as additional paid-in capital.

Long Term Incentive Plan

On September 10, 2007 our Board of Directors approved the implementation of a Long-Term Incentive Plan called the "Open Text Corporation Long-Term Incentive Plan" (LTIP). The LTIP took effect in Fiscal 2008, starting on July 1, 2007. The LTIP is a rolling three year program whereby we will make a series of annual grants, each of which covers a three year performance period, to certain of our employees, upon the employee meeting pre-determined performance targets. Awards may be equal to either 100% or 150% of target, for each criterion independently, based on the employee's accomplishments over the three year period. The maximum amount that an employee may receive with regard to any single performance criterion is 1.5 times the target award for that criterion. We expect to settle the LTIP awards in cash.

Three performance criteria will be used to measure performance over the relevant three year period:

- Absolute share price – if our Common Shares appreciate to a predetermined price per share and that price is maintained for a minimum of 22 consecutive NASDAQ trading days, the absolute share price target will have been achieved;

- Relative total shareholder return – if, over a three year period, our Common Shares appreciate at a rate which exceeds the rate of appreciation disclosed by the Standard & Poor's Mid Cap 400 Software and Service Index by a prearranged percentage, the relative total shareholder return target will have been achieved; and

- Average adjusted earnings per share – if the average of our adjusted earnings per share over the latter two years of a three year period reaches a preset amount, the average adjusted earnings per share target will have been met (adjusted earnings per share means adjusted net income divided by our total number of Common Shares outstanding on a diluted basis).

The three performance criteria carry the following weightings:

- Absolute share price = 37.5%;
- Relative total shareholder return = 37.5%; and
- Average adjusted earnings per share = 25%.

Consistent with the provisions of SFAS 123R, we have measured the fair value of the liability under the LTIP as of December 31, 2008 and charged the expense relating to such liability to compensation cost in the amount of $1.7million for the three months ended December 31, 2008 (three months ended December 31, 2007—$572,000) and $2.8 million for the six months ended December 31, 2008 (six months ended December 31, 2007—$757,000). The outstanding liability under the LTIP is re-measured based upon the change in the fair value of the liability. As of the end of every reporting period, a cumulative adjustment to compensation cost for the change in fair value is recognized. The cumulative compensation expense recognized upon completion of the LTIP will be equal to the payouts made.

Employee Share Purchase Plan (ESPP)

During the three months ended December 31, 2008, no Common Shares were issued under the ESPP. During the six months ended December 31, 2008, 13,316 Common Shares were issued under the ESPP for cash collected from employees totaling $404,000. In addition, cash in the amount of $115,000 and $402,000, respectively, was received from employees for the three and six months ended December 31, 2008 that will be used to purchase Common Shares in future periods.

During the three months ended December 31, 2007, no Common Shares were issued under the ESPP. During the six months ended December 31, 2007, 16,894 Common Shares were issued under the ESPP for cash collected from employees, totaling $350,000. In addition, cash in the amount of approximately $151,000 and $332,000, respectively, was received from employees for the three and six months ended December 31, 2007 that will be used to purchase Common Shares in future periods.

NOTE 14—NET INCOME PER SHARE

Basic earnings per share are computed by dividing net income by the weighted average number of Common Shares outstanding during the period. Diluted earnings per share are computed by dividing net income by the shares used in the calculation of basic net income per share plus the dilutive effect of common share equivalents, such as stock options, using the treasury stock method. Common share equivalents are excluded from the computation of diluted net income per share if their effect is anti-dilutive.

	Three months ended December 31,		Six months ended December 31	
Basic earnings per share	2008	2007	2008	2007
Net income	$ 761	$ 10,685	$ 15,422	$ 18,485
Basic earnings per share	$ 0.01	$ 0.21	$ 0.30	$ 0.37
Diluted earnings per share				
Net income	$ 761	$ 10,685	$ 15,422	$ 18,485
Diluted earnings per share	$ 0.01	$ 0.20	$ 0.29	$ 0.35
Weighted average number of shares outstanding				
Basic	51,873	50,736	51,586	50,511
Effect of dilutive securities	1,369	1,953	1,369	1,713
Diluted	53,242	52,689	52,955	52,224
Excluded as anti-dilutive *	1,037	56	628	60

* Represents options to purchase Common Shares excluded from the calculation of diluted net income per share because the exercise price of the stock options was greater than or equal to the average price of the Common Shares during the period.

NOTE 15—INCOME TAXES

Our effective tax rate represents the net effect of the mix of income earned in various tax jurisdictions that are subject to a wide range of income tax rates.

The total amount of unrecognized tax benefits as of December 31, 2008 was $45.8 million of which $12.9 million of unrecognized tax benefits would affect our effective tax rate, if realized, and the remaining $32.9 million would reduce goodwill recognized in connection with the Hummingbird acquisition. In addition, consistent with the provisions of FIN 48, certain reclassifications were made to the balance sheet upon adoption of FIN 48 at July 1, 2007, including an increase of $1.8 million to long-term deferred tax assets, an increase of $26.5 million to long-term current income tax recoverable, a decrease of $18.1 million to current income tax payable, an increase of $39.9 million to long-term income tax payable and a decrease of $6.5 million to goodwill. These unrecognized tax benefits relate primarily to the deductibility of intercompany charges as they relate to transfer pricing.

Upon adoption of FIN 48 we have elected to follow an accounting policy to classify interest related to income tax-related receivables/payables under “Interest income (expense), net” and penalties related to liabilities for income tax expense under “Other income (expense)”, on our consolidated financial statements. The gross amount of tax –related interest and penalties accrued as of December 31, 2008 was approximately $300,000 and nil, respectively.

We believe it is reasonably possible that the gross unrecognized tax benefits, as of December 31, 2008 could increase in the next 12 months by $1.9 million, relating primarily to tax years becoming statute barred for purposes of future tax examinations by local taxing jurisdictions.

Our three most significant tax jurisdictions are Canada, the United States and Germany. Our tax filings remain subject to examination by applicable tax authorities for a certain length of time following the tax year to which those filings relate. Tax years that remain open to examinations by local taxing authorities vary by jurisdiction up to ten years.

We are subject to tax examinations in all major taxing jurisdictions in which we operate and currently have examinations open in Canada, the United States, Germany, and France. We regularly assess the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes.

Although we believe that we have adequately provided for any reasonably foreseeable outcomes related to our tax examinations and that any settlement will not have a material adverse effect on our consolidated financial position or results of operations, we cannot predict with any level of certainty the exact nature of the possible future outcomes or settlements.

NOTE 16—SEGMENT INFORMATION

SFAS No.131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) establishes standards for reporting, by public business enterprises, information about operating segments, products and services, geographic areas, and major customers. The method of determining what information, under SFAS 131, to report is based on the way that we organize our operating segments for making operational decisions and how our management and chief operating decision maker (CODM) assess our financial performance. Our operations are analyzed as being part of a single industry segment: the design, development, marketing and sales of enterprise content management software and solutions.

The following table sets forth the distribution of revenues, determined by location of customer, by significant geographic area, for the periods indicated:

	Three months ended December 31		Six months ended December 31,	
	2008	2007	2008	2007
Revenues:				
Canada	$ 13,366	$ 14,643	$ 27,481	$ 25,730
United States	91,579	69,867	161,756	137,930
United Kingdom	18,418	22,515	38,055	43,511
Germany	39,139	27,430	70,162	49,759
Rest of Europe	34,826	37,777	73,588	71,207
All other countries	10,323	10,302	19,232	18,364
Total revenues	$ 207,651	$ 182,534	$ 390,274	$ 346,501

The following table sets forth the distribution of long-lived assets, representing capital assets and intangible assets-net, by significant geographic area, as of the periods indicated below.

	As of December 31, 2008	As of June 30, 2008
Long-lived assets:		
Canada	$ 49,046	$ 53,970
United States	242,028	140,525
United Kingdom	29,510	33,080
Germany	51,493	41,143
Rest of Europe	46,320	50,823
All other countries	5,091	5,865
Total	$ 423,488	$ 325,406

It may be noted that our management and the CODM do not review the asset information hereinabove presented in order to assess performance and allocate resources.

NOTE 17—SUPPLEMENTAL CASH FLOW DISCLOSURES

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$ 4,536	$ 6,359	$ 9,040	$ 13,686
Cash received during the period for interest	$ 1,432	$ 1,296	$ 3,199	$ 2,467
Cash paid during the year for income taxes	$ 1,571	$ 1,430	$ 5,023	$ 1,929

NOTE 18—COMMITMENTS AND CONTINGENCIES

We have entered into the following contractual obligations with minimum annual payments for the indicated fiscal periods as follows: