

OPEN TEXT CORP
Form 10-Q
February 08, 2008
[Table of Contents](#)

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, 2007

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)

Edgar Filing: OPEN TEXT CORP - Form 10-Q

CANADA
(State or other jurisdiction of

98-0154400
(IRS Employer

incorporation or organization)

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

At February 1, 2008 there were 50,897,629 outstanding Common Shares of the registrant.

Table of Contents

OPEN TEXT CORPORATION

TABLE OF CONTENTS

	Page No
PART I Financial Information:	
Item 1. Financial Statements	
<u>Unaudited Condensed Consolidated Balance Sheets as of December 31, 2007 and June 30, 2007</u>	3
<u>Unaudited Condensed Consolidated Statements of Income Three and Six Months Ended December 31, 2007 and 2006</u>	4
<u>Unaudited Condensed Consolidated Statements of Retained Earnings (Deficit) Three and Six Months Ended December 31, 2007 and 2006</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows Three and Six Months Ended December 31, 2007 and 2006</u>	6
<u>Unaudited Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	45
Item 4. <u>Controls and Procedures</u>	45
PART II Other Information:	
Item 1A. <u>Risk Factors</u>	47
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	56
Item 5. <u>Other Information</u>	56
Item 6. <u>Exhibits</u>	57
<u>Signatures</u>	58
<u>Index to Exhibits</u>	59

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands of U.S. Dollars, except share data)

	December 31, 2007 (Unaudited)	June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 159,709	\$ 149,979
Accounts receivable trade, net of allowance for doubtful accounts of \$2,966 as of December 31, 2007 and \$2,089 as of June 30, 2007 (note 6)	120,588	128,781
Income taxes recoverable (note 11)	19,599	31,060
Prepaid expenses and other current assets	10,518	10,368
Deferred tax assets (note 11)	32,410	30,248
Total current assets	342,824	350,436
Capital assets (note 3)	42,879	43,614
Goodwill (note 4)	552,079	528,312
Acquired intangible assets (note 5)	313,118	343,324
Deferred tax assets (note 11)	29,201	42,078
Other assets	11,119	9,524
Long-term income taxes recoverable (note 11)	36,945	9,557
	\$ 1,328,165	\$ 1,326,845
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 101,403	\$ 100,211
Current portion of long-term debt (note 8)	3,488	4,048
Deferred revenues	134,399	143,097
Income taxes payable (note 11)	11,701	33,705
Deferred tax liabilities (note 11)	1,198	1,601
Total current liabilities	252,189	282,662
Long-term liabilities:		
Accrued liabilities (note 7)	22,338	22,516
Long-term debt (note 8)	306,458	366,765
Deferred revenues	3,313	3,840
Long-term income taxes payable (note 11)	41,893	
Deferred tax liabilities (note 11)	102,246	120,019
Total long-term liabilities	476,248	513,140
Minority interest	7,763	6,975
Shareholders' equity:		
Share capital (note 9)		
50,872,016 and 50,180,118 Common Shares issued and outstanding at December 31, 2007 and June 30, 2007, respectively; Authorized Common Shares: unlimited	435,422	426,188
Additional paid-in capital	37,795	35,311
Accumulated other comprehensive income	105,728	68,034
Retained earnings (deficit)	13,020	(5,465)

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Total shareholders' equity	591,965	524,068
	\$ 1,328,165	\$ 1,326,845

Commitments and Contingencies (note 14)

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(In thousands of U.S. dollars, except per share data)**

	Three months ended December 31,		Six months ended December 31,	
	2007	2006	2007	2006
Revenues:				
License	\$ 55,158	\$ 51,425	\$ 99,418	\$ 80,250
Customer support	90,614	78,022	176,918	126,310
Service	36,762	33,814	70,165	57,856
Total revenues	182,534	163,261	346,501	264,416
Cost of revenues:				
License	4,649	3,322	8,203	6,122
Customer support	14,191	12,659	26,789	19,646
Service	30,192	29,108	57,696	49,408
Amortization of acquired technology-based intangible assets	10,308	10,396	20,460	15,242
Total cost of revenues	59,340	55,485	113,148	90,418
	123,194	107,776	233,353	173,998
Operating expenses:				
Research and development	25,924	22,595	49,656	36,813
Sales and marketing	42,523	43,824	80,633	68,696
General and administrative	16,955	15,474	33,965	26,693
Depreciation	3,752	3,907	6,736	6,899
Amortization of acquired customer-based intangible assets	7,514	7,369	14,929	9,751
Special charges (recoveries) (note 15)	(47)	4,843	(108)	4,375
Total operating expenses	96,621	98,012	185,811	153,227
Income from operations	26,573	9,764	47,542	20,771
Other income (expense)	(3,683)	329	(5,510)	702
Interest income (expense), net (note 8)	(7,567)	(7,512)	(15,439)	(7,120)
Income before income taxes	15,323	2,581	26,593	14,353
Provision for income taxes	4,511	173	7,854	4,507
Net income before minority interest	10,812	2,408	18,739	9,846
Minority interest	127	131	254	268
Net income for the period	\$ 10,685	\$ 2,277	\$ 18,485	\$ 9,578
Net income per share basic (note 10)	\$ 0.21	\$ 0.05	\$ 0.37	\$ 0.20
Net income per share diluted (note 10)	\$ 0.20	\$ 0.04	\$ 0.35	\$ 0.19
Weighted average number of Common Shares outstanding basic	50,736	49,152	50,511	49,063

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Weighted average number of Common Shares outstanding				
diluted	52,689	50,739	52,224	50,497

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents

OPEN TEXT CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

(In thousands of U.S. Dollars)

	Three months ended		Six months ended	
	December 31,		December 31,	
	2007	2006	2007	2006
Retained Earnings (deficit), beginning of period	\$ 2,335	\$ (19,824)	\$ (5,465)	\$ (27,125)
Net income	10,685	2,277	18,485	9,578
Retained Earnings (deficit), end of period	\$ 13,020	\$ (17,547)	\$ 13,020	\$ (17,547)

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands of U.S. Dollars)

	Three months ended December 31,		Six months ended December 31,	
	2007	2006	2007	2006
Cash flows from operating activities:				
Net income for the period	\$ 10,685	\$ 2,277	\$ 18,485	\$ 9,578
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	21,574	21,672	42,125	31,892
In-process research and development			500	
Share-based compensation expense	655	1,333	1,718	2,600
Employee long-term incentive plan	572		757	
Excess tax benefits from share-based compensation	(369)	(536)	(766)	(741)
Undistributed earnings related to minority interest	127	131	254	268
Amortization of debt issuance costs	421	257	711	257
Unrealized loss on financial instruments	1,444	212	2,851	212
Deferred taxes	(3,408)	(10,638)	(4,113)	(8,924)
Changes in operating assets and liabilities:				
Accounts receivable	(2,923)	25,191	7,579	23,497
Prepaid expenses and other current assets	302	277	(197)	894
Income taxes	8,070	(2,859)	8,554	(3,813)
Accounts payable and accrued liabilities	6,967	610	1,472	(4,913)
Deferred revenues	(5,110)	(10,475)	(8,883)	(13,437)
Other assets	336	3,976	510	3,695
Net cash provided by operating activities	39,343	31,428	71,557	41,065
Cash flows from investing activities:				
Acquisitions of capital assets	(2,170)	(1,106)	(3,386)	(3,891)
Additional purchase consideration for prior period acquisitions	(263)	(1,390)	(439)	(1,723)
Purchase of Hummingbird, net of cash acquired		(384,761)		(384,761)
Purchase of an asset group constituting a business			(2,209)	
Investments in marketable securities				(829)
Acquisition related costs	(3,813)	(17,752)	(11,842)	(20,200)
Net cash used in investing activities	(6,246)	(405,009)	(17,876)	(411,404)
Cash flows from financing activities:				
Excess tax benefits from share-based compensation	369	536	766	741
Proceeds from issuance of Common Shares	3,498	1,986	9,217	2,464
Repayment of long-term debt	(30,944)	(1,074)	(61,877)	(1,173)
Proceeds from long-term debt		390,000		390,000
Debt issuance costs		(7,412)	(349)	(7,433)
Net cash provided by (used in) financing activities	(27,077)	384,036	(52,243)	384,599
Foreign exchange gain on cash held in foreign currencies	3,383	2,722	8,292	2,787
Increase in cash and cash equivalents during the period	9,403	13,177	9,730	17,047

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Cash and cash equivalents at beginning of period	150,306	111,224	149,979	107,354
Cash and cash equivalents at end of period	\$ 159,709	\$ 124,401	\$ 159,709	\$ 124,401

Supplementary cash flow disclosures (note 13)

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents

OPEN TEXT CORPORATION

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended December 31, 2007

(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)

NOTE 1 BASIS OF PRESENTATION

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

These Interim 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 the Company s annual consolidated financial statements for the year ended June 30, 2007. The Interim Financial Statements do not include all 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 the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

The information furnished reflects all adjustments necessary for a fair presentation of the results for the interim periods presented. The operating results for the three and six months ended December 31, 2007 are not necessarily indicative of the results expected for any succeeding quarter or the entire fiscal year ending June 30, 2008. Additionally, there have been no significant changes in new accounting pronouncements or in the Company s critical accounting policies that were disclosed in its Annual Report on Form 10-K for the fiscal year ended June 30, 2007 other than the impact of the Company s adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48 Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48), which affected the Company s Accounting for Income Taxes policy (see Note 11 Income Taxes).

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the Interim Financial Statements. These estimates, judgments and assumptions are evaluated on an ongoing basis. Management bases its estimates on historical experience and on various other assumptions that it believes 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, (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, (xii) the valuation of financial instruments and (xiii) accounting for income taxes.

Reclassifications

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

As a result of such reclassifications, General and administrative expenses decreased by \$1.0 million with corresponding increases of \$256,000, \$438,000, \$39,000 and \$315,000 in Cost of revenues for Customer support, Cost of revenues for Service, Research and development expense and Sales and marketing expense, respectively, for the six months ended December 31, 2006 from previously reported amounts.

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

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

Comprehensive income

Comprehensive income is comprised of net income and other comprehensive income, including the effect of foreign currency translation resulting from the consolidation of subsidiaries where the functional currency is a currency other than the U.S. Dollar. The Company's total comprehensive income was as follows:

	Three months ended December 31,		Six months ended December 31,	
	2007	2006	2007	2006
Other comprehensive income:				
Foreign currency translation adjustment	\$ 16,825	\$ 11,026	\$ 37,694	\$ 9,189
Unrealized gain on investments in marketable securities		226		432
Net income for the period	10,685	2,277	18,485	9,578
Comprehensive income for the period	\$ 27,510	\$ 13,529	\$ 56,179	\$ 19,199

NOTE 2 NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standard (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. This statement is effective for the Company beginning July 1, 2008. The Company is currently assessing the potential impact that the adoption of SFAS 157 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. SFAS 159 is effective for the Company beginning July 1, 2008. The Company is currently assessing the potential impact that the adoption of SFAS 159 will have on its financial statements.

In June 2007, the FASB ratified Emerging Issues Task Force Issue (EITF) Issue No. 07-03 (EITF 07-03) *Accounting for Nonrefundable Advance Payments for Goods or Services for Use in Future Research and Development Activities*. EITF 07-03 requires that nonrefundable advance payments for goods or services that will be used for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. EITF 07-03 is effective for the Company beginning July 1, 2008. The Company is currently assessing the potential impact that the adoption of EITF 07-03 will have on its financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R) which replaces SFAS No. 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

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

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 the Company beginning July 1, 2009 and will apply prospectively to business combinations completed on or after that date.

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 recharacterized 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 the Company beginning July 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The Company is currently assessing the impact that the adoption of SFAS 160 will have on its financial statements.

NOTE 3 CAPITAL ASSETS

	As of December 31, 2007		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	\$ 11,487	\$ 9,122	\$ 2,365
Office equipment	9,084	8,004	1,080
Computer hardware	77,712	69,584	8,128
Computer software	23,578	19,701	3,877
Leasehold improvements	13,315	9,396	3,919
Land and Buildings *	24,813	1,303	23,510
	\$ 159,989	\$ 117,110	\$ 42,879

	As of June 30, 2007		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	\$ 10,417	\$ 8,137	\$ 2,280
Office equipment	8,642	7,579	1,063
Computer hardware	72,997	64,252	8,745
Computer software	22,232	17,368	4,864
Leasehold improvements	13,135	8,962	4,173
Land and Buildings *	23,497	1,008	22,489
	\$ 150,920	\$ 107,306	\$ 43,614

*

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Included in this balance is an asset held for sale with a fair value of approximately \$5.6 million as of December 31, 2007 (June 30, 2007 \$5.6 million). This asset is being held for sale as a result of a decision taken by the Company's management to sell a building acquired as part of the Hummingbird Ltd. (Hummingbird) acquisition. The Company expects to sell the building by way of a commercial sale and, at this point, is unable to predict the timing of its disposal. The building is being held for sale within the Company's North America reporting segment.

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)****NOTE 4 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, 2006:

Balance, June 30, 2006	\$ 235,523
Acquisition of Momentum	3,340
Acquisition of Hummingbird	272,433
Adjustments relating to prior acquisitions	4,395
Adjustments on account of foreign exchange	12,621
Balance, June 30, 2007	528,312
Purchase of an asset group constituting a business	2,199
Adjustments relating to prior acquisitions	8,744
Adjustments relating to the adoption of FIN 48	(6,480)
Adjustments on account of foreign exchange	19,304
Balance, December 31, 2007	\$ 552,079

Adjustments relating to prior acquisitions relate primarily to the finalization during the three months ended September 30, 2007, of fair value estimates of Hummingbird assets and liabilities acquired, including adjustments reflecting plans formulated in accordance with Emerging Issues Task Force 95-3, Recognition of Liabilities in Connection With a Purchase Business Combination (EITF 95-3) that commenced on the date of consummation of the acquisition relating to employee termination and abandonment of excess facilities. Prior acquisition adjustments also relate, in the case of certain other prior acquisitions, to 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.

For details relating to the reduction of goodwill upon the adoption of FIN 48 see Note 11 Income Taxes .

NOTE 5 ACQUIRED INTANGIBLE ASSETS

	Technology Assets	Customer Assets	Total
Net book value, June 30, 2006	\$ 55,174	\$ 47,152	\$ 102,326
Activity during fiscal 2007:			
Acquisition of Hummingbird	159,200	139,800	299,000
Amortization expense	(36,206)	(24,586)	(60,792)
Impairment of intangible assets	(697)		(697)
Foreign exchange impact	2,228	2,047	4,275
Other	(483)	(305)	(788)

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Net book value, June 30, 2007	179,216	164,108	343,324
Activity during fiscal 2008:			
Amortization expense	(20,460)	(14,929)	(35,389)
Foreign exchange impact	2,311	2,720	5,031
Other	96	56	152
Net book value, December 31, 2007	\$ 161,163	\$ 151,955	\$ 313,118

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

The range of amortization periods for intangible assets is from 4-10 years.

The following table shows the estimated future amortization expense for the six months ended June 30, 2008 and for each of the next four years, assuming no further adjustments to acquired intangible assets:

	Fiscal years ending June 30,
2008	\$ 35,809
2009	65,651
2010	52,602
2011	49,980
2012	47,520
Total	\$ 251,562

NOTE 6 ALLOWANCE FOR DOUBTFUL ACCOUNTS

Balance of allowance for doubtful accounts (AfDA) as of June 30, 2007	2,089
Bad debt expense for the period	1,285
Write-off /adjustments	(408)
Balance of allowance for doubtful accounts as of December 31, 2007	\$ 2,966

Included in accounts receivable are unbilled receivables in the amount of \$3.4 million and \$3.4 million as of December 31, 2007 and June 30, 2007, respectively.

As part of the acquisition of Hummingbird the company assumed an AfDA of \$17.6 million. The acquired accounts receivable were recorded at fair value, net of this amount. The balance of this AfDA was \$6.9 million as of December 31, 2007 (June 30, 2007 \$5.5 million). This information is included herein for memorandum purposes only and has no impact on the net balance of accounts receivable included in these Interim Financial Statements.

NOTE 7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**Current liabilities**

Accounts payable and accrued liabilities are comprised of the following:

Edgar Filing: OPEN TEXT CORP - Form 10-Q

	As of December 31, 2007	As of June 30, 2007
Accounts payable trade	\$ 5,637	\$ 8,140
Accrued salaries and commissions	28,814	29,437
Accrued liabilities	53,458	44,770
Amounts payable in respect of restructuring (note 15)	1,241	2,636
Amounts payable in respect of acquisitions and acquisition related accruals	12,253	15,228
	\$ 101,403	\$ 100,211

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)****Long-term accrued liabilities**

	As of December 31, 2007	As of June 30, 2007
Pension liabilities	\$ 322	\$ 322
Amounts payable in respect of restructuring (note 15)	836	1,382
Amounts payable in respect of acquisitions and acquisition related accruals	14,289	15,025
Other accrued liabilities	1,311	534
Asset retirement obligations	5,580	5,253
	\$ 22,338	\$ 22,516

Pension liabilities

The Company acquired a controlling interest in IXOS in March 2004. IXOS has pension commitments to certain employees. The actuarial cost method used in determining the net periodic pension cost, with respect to the IXOS employees, is the projected unit credit method. The liabilities and annual income or expense of the Company's pension plan are determined using methodologies that involve various actuarial assumptions, the most significant of which are the discount rate and the long-term rate of return on assets. The fair value of the plan assets as of December 31, 2007 is \$3.2 million (June 30, 2007 \$2.9 million). The fair value of the pension obligation as of December 31, 2007 is \$3.1 million, (June 30, 2007 \$2.9 million).

Asset retirement obligations

The Company is required to return certain of its leased facilities to their original state at the conclusion of the lease. The Company has accounted for such obligations in accordance with FASB SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS 143). At December 31, 2007, the present value of this obligation was \$5.6 million, (June 30, 2007 \$5.3 million), with an undiscounted value of \$7.0 million, (June 30, 2007 \$7.5 million). These leases were primarily assumed in connection with the IXOS and Hummingbird acquisitions.

Excess facility obligations and accruals relating to acquisitions

The Company has accrued for the cost of excess facilities in connection with a number of its acquisitions, including its fiscal 2007 Hummingbird acquisition. These accruals include the Company's best estimate in respect of future sub-lease income and costs incurred to achieve sub-tenancy. These liabilities have been recorded using present value discounting techniques and 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 terms of the leases range from one year to 17 years.

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

The following table summarizes the activity with respect to the Company's acquisition accruals during the six months ended December 31, 2007.

	Balance June 30, 2007	Initial Accruals	Usage/ Foreign Exchange/ Other Adjustments	Subsequent Adjustments to Goodwill	Balance December 31, 2007
Hummingbird					
Employee termination costs	\$ 7,845	\$	\$ (6,620)	\$ (279)	\$ 946
Excess facilities	2,708		(689)	3,779	5,798
Transaction-related costs		975	(160)		815
	10,553	975	(7,469)	3,500	7,559
IXOS					
Employee termination costs					
Excess facilities	18,564		(467)	(221)	17,876
Transaction-related costs					
	18,564		(467)	(221)	17,876
Eloquent					
Employee termination costs					
Excess facilities					
Transaction-related costs	243				243
	243				243
Centrinity					
Employee termination costs					
Excess facilities	838		(19)		819
Transaction-related costs					
	838		(19)		819
Artesia					
Employee termination costs					
Excess facilities	55		(10)		45
Transaction-related costs					
	55		(10)		45
Totals					
Employee termination costs	7,845		(6,620)	(279)	946
Excess facilities	22,165		(1,185)	3,558	24,538
Transaction-related costs	243	975	(160)		1,058

Edgar Filing: OPEN TEXT CORP - Form 10-Q

\$ 30,253 \$ 975 \$ (7,965) \$ 3,279 \$ 26,542

The adjustments to goodwill relate to employee termination costs and excess facilities primarily to adjustments accounted for in accordance with EITF 95-3. The adjustments to goodwill relating to transaction costs are accounted for in accordance with SFAS No. 141, Business Combinations (SFAS 141).

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)****NOTE 8 LONG-TERM DEBT AND FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES****Long-term debt**

Long-term debt is comprised of the following:

	As of December 31, 2007	As of June 30, 2007
Long-term debt		
Term loan	\$ 295,502	\$ 357,151
Mortgage	14,444	13,662
	309,946	370,813
Less:		
Current portion of long-term debt		
Term loan	2,993	3,599
Mortgage	495	449
	3,488	4,048
Long-term portion of long-term debt	\$ 306,458	\$ 366,765

Term loan and Revolver

On October 2, 2006, the Company 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 the Hummingbird acquisition and the revolver will be used for general business purposes. The credit agreement is guaranteed by the Company and certain of its subsidiaries.

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 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 prepayments made. To date the Company has made total prepayments of \$90.0 million of the principal including a prepayment of \$30.0 million in December 2007. These prepayments have reduced the quarterly principal payment to approximately \$748,000.

For the three and six months ended December 31, 2007, interest expense in the unaudited Condensed Consolidated Statements of Income includes \$6.1 million and \$13.2 million, respectively, (three and six months ended, December 31, 2006-\$7.5 million), on account of interest expense relating to the term loan.

Revolver

Edgar Filing: OPEN TEXT CORP - Form 10-Q

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 the consolidated leverage ratio of the Company. There are no borrowings outstanding under the revolver as of December 31, 2007.

Table of Contents

OPEN TEXT CORPORATION

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Three and Six Months Ended December 31, 2007

(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)

For the three and six months ended December 31, 2007, interest expense in the unaudited Condensed Consolidated Statements of Income includes \$73,000, and \$145,000, respectively, (three and six months ended, December 31, 2006 \$84,000), 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 principal amount of the mortgage is CAD \$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 the Company's headquarters in Waterloo, Ontario. Interest is to be paid monthly at a fixed rate of 5.25% per annum. Principal and interest are payable in monthly installments of CAD \$101,000 with a final lump sum principal payment of CAD \$12.6 million due on maturity.

As of December 31, 2007, the carrying value of the building was \$17.9 million. (June 30, 2007 \$16.9 million)

For the three and six months ended December 31, 2007, interest expense in the unaudited Condensed Consolidated Statements of Income includes \$188,000 and \$365,000, (three and six months ended December 31, 2006 \$170,000, and \$342,000 respectively), on account of interest expense relating to the mortgage.

Financial Instruments and Hedging Activities

In October 2006, Open Text 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 the Company 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 50% of the term loan.

SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (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. The Company determined that these criteria were not met and hedge accounting could not be applied for the three and six months ended December 31, 2007. The fair market value of the collar, which represents the cash the Company would receive or pay to settle the collar, was a payable of approximately \$2.5 million as of December 31, 2007 (June 30, 2007 receivable of approximately \$380,000), and has been included within Accounts payable and accrued liabilities (June 30, 2007 included within Prepaid expenses and other current assets) on the unaudited Condensed Consolidated Balance Sheets. The collar has a remaining term to maturity of 2.0 years.

For the three and six months ended December 31, 2007, interest expense in the unaudited Condensed Consolidated Statements of Income has been increased by \$1.4 million and \$2.8 million respectively, (three and six months ended December 31, 2006 \$ 212,000), representing the change in the fair value of the collar. Additionally, the Company records payments or receipts on the collar as adjustments to interest expense.

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

Interest expense in the unaudited Condensed Consolidated Statements of Income has been reduced by nil and \$10,000, on account of monies received under the collar for the three and six months ended December 31, 2007 respectively, (three and six months ended December 31, 2006 \$4,000).

The Company will continue to monitor changes in interest rates periodically and will assess whether hedge accounting could potentially be applied in future periods.

NOTE 9 SHARE CAPITAL AND SHARE BASED PAYMENTS*Share Capital*

The authorized share capital of the Company includes an unlimited number of Common Shares and an unlimited number of preference shares. No preference shares have been issued.

During the three and six months ended December 31, 2007 and 2006, the Company did not repurchase any of its Common Shares.

*Share-Based Payments**Summary of Outstanding Stock Options*

As of December 31, 2007, options to purchase an aggregate of 3,920,039 Common Shares are outstanding under all of the Company's stock option plans. In addition, 1,421,570 Common Shares are available for issuance under the 1998 Stock Option Plan and the 2004 Stock Option Plan. The Company's stock options generally vest over four years and expire ten years from the date of the grant. The exercise price of the options the Company grants is set at an amount that is not less than the closing price of the Company's Common Shares on the trading day for the NASDAQ immediately preceding the applicable grant date.

A summary of option activity under the Company's stock option plans for the six months ended December 31, 2007 is as follows:

	Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ 000s)
Outstanding at June 30, 2007	4,737,727	\$ 14.15		
Granted	25,000	24.87		
Exercised	(675,004)	13.16		
Forfeited or expired	(167,684)	16.20		
Outstanding at December 31, 2007	3,920,039	\$ 14.31	3.97	\$ 67,205
Exercisable at December 31, 2007	2,804,537	\$ 12.83	3.34	\$ 52,232

Edgar Filing: OPEN TEXT CORP - Form 10-Q

The Company estimates 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 the Company 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. The Company uses historical volatility as a basis for projecting the expected volatility of the underlying stock and estimates the expected life of its stock options based upon historical data.

Table of Contents

OPEN TEXT CORPORATION

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Three and Six Months Ended December 31, 2007

(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)

The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair value of the Company's 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, 2007, there were no options granted by the Company. 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.

For the three months ended December 31, 2006, the weighted-average fair value of options granted, as of the grant date, was \$5.87, using the following weighted average assumptions: expected volatility of 46%; risk-free interest rate of 4.7%; expected dividend yield of 0%; and expected life of 4.8 years. A forfeiture rate of 5%, based on historical rates, was used to determine the net amount of compensation expense recognized for each of these periods.

For the six months ended December 31, 2006, the weighted-average fair value of options granted, as of the grant date, was \$6.66, using the following weighted average assumptions: expected volatility of 46%; risk-free interest rate of 4.6%; expected dividend yield of 0%; expected life of 4.7 years; and a forfeiture rate of 5%, based on historical rates, was used to determine the net amount of compensation expense recognized for each of these periods.

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.

As of December 31, 2006, the total compensation cost related to the unvested stock awards not yet recognized was \$11.6 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 the Company to settle equity instruments granted under share-based compensation arrangements.

Share-based compensation cost included in the unaudited condensed consolidated statements of income for the three and six months ended December 31, 2007 was approximately \$655,000 and \$1.7 million respectively. Deferred tax assets of \$123,000 and \$261,000 were recorded, for the three and six months December 31, 2007 in relation to the tax effect of certain stock options that are eligible for a tax deduction when exercised. Share-based compensation cost included in the unaudited condensed consolidated statements of income for the three and six months ended December 31, 2006 was approximately \$1.3 million and \$2.6 million, respectively. Deferred tax assets of \$213,000 and \$384,000, respectively, were recorded, for the three and six months ended as of December 31, 2006 in relation to the tax effect of certain stock options that are eligible for a tax deduction when exercised. The Company has not capitalized any share-based compensation costs as part of the cost of an asset.

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.

Table of Contents

OPEN TEXT CORPORATION

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Three and Six Months Ended December 31, 2007

(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)

For the three and six months ended December 31, 2006, cash in the amount of \$1.8 million and \$ 2.1 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, 2006 from the exercise of options eligible for a tax deduction was \$ 536,000 and \$741,000 respectively, which was recorded as additional paid-in capital.

Long Term Incentive Plan

On September 10, 2007 the Company's 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 for the Company's Fiscal 2008, starting on July 1, 2007. The LTIP is a rolling three year program whereby the Company will make a series of annual grants, each of which covers a three year performance period, to certain of its employees, upon the employee meeting pre-determined performance targets. Awards may range from 100% to 150% of target, 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. The Company will pay LTIP awards in cash.

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

Absolute share price if the Company's 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, the Company's common shares appreciate at a rate which exceeds the rate of appreciation disclosed by the Standard & Poor's Mid Cap 400 Software and Services 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 the 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 net income plus certain non-operational charges that have no impact on the Company's operating decisions, as defined by the Company's Board of Directors from time to time, with the resulting sum divided by the total number of common shares outstanding).

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%.

As part of the LTIP, the Company's Board of Directors approved certain target payments, under the LTIP, to certain employees during the three and six months ended December 31, 2007. Consistent with the provisions of SFAS 123R the Company has measured the fair value of the

Edgar Filing: OPEN TEXT CORP - Form 10-Q

liability under the LTIP as of December 31, 2007 and charged the expense relating to such liability to compensation cost in the amount of \$572,000 for the three months ended December 31, 2007 (Three months ended December 31, 2006 nil) and \$757,000 for the six months ended December 31, 2007 (Six months ended December 31, 2006 nil). The outstanding liability under

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

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, 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, in prior periods, 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.

During the three months ended December 31, 2006, no Common Shares were issued under the ESPP. During the six months ended December 31, 2006, 22,209 Common Shares were issued under the ESPP for cash collected from employees, in prior periods, totaling \$305,000. In addition, cash in the amount of approximately \$160,000 and \$339,000, respectively, was received from employees for the three and six months ended December 31, 2006 that was used to purchase Common Shares in future periods.

NOTE 10 NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is 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, 2007		Six months ended December 31, 2006	
Basic net income per share				
Net income	\$ 10,685	\$ 2,277	\$ 18,485	\$ 9,578
Basic net income per share	\$ 0.21	\$ 0.05	\$ 0.37	\$ 0.20
Diluted net income per share				
Net income	\$ 10,685	\$ 2,277	\$ 18,485	\$ 9,578
Diluted net income per share	\$ 0.20	\$ 0.04	\$ 0.35	\$ 0.19
Weighted average number of shares outstanding				
Basic	50,736	49,152	50,511	49,063
Effect of dilutive securities	1,953	1,587	1,713	1,434
Diluted	52,689	50,739	52,224	50,497

Excluded as anti-dilutive *	56	2,188	60	2,402
-----------------------------	----	-------	----	-------

* Certain options to purchase Common Shares are 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, and therefore their inclusion would have been anti-dilutive.

Table of Contents

OPEN TEXT CORPORATION

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Three and Six Months Ended December 31, 2007

(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)

NOTE 11 INCOME TAXES

The Company's 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.

On July 1, 2007, the Company adopted FIN 48. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions under SFAS No. 109, Accounting for Income Taxes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not, based solely on the technical merits, that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the appropriate amount of the benefit to recognize. The amount of benefit to recognize is measured as the maximum amount which is more likely than not to be realized. The tax position is derecognized when it is no longer more likely than not of being sustained. On subsequent recognition and measurement the maximum amount which is, more likely than not, capable to be recognized at each reporting date will represent the Company's best estimate, given the information available at the reporting date, although the outcome of the tax position is not absolute or final.

The Company did not recognize an increase in its net liability for unrecognized tax obligations, or record a change to the balance of retained earnings, as a result of the adoption FIN 48.

The total amount of unrecognized tax benefits as of December 31, 2007 was \$45.4 million of which \$10.4 million of unrecognized tax benefits would affect the Company's effective tax rate, if realized, and the remaining \$35.0 million would reduce goodwill recorded in connection with the Hummingbird acquisition. In addition, consistent with the provisions of FIN 48, certain reclassifications were made to the balance sheet upon the 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 income taxes recoverable, a decrease of \$18.1 million to income taxes payable, an increase of \$39.9 million to long-term income taxes payable and a decrease of \$6.5 million to goodwill. These unrecognized tax benefits relate primarily to the deductibility of inter company charges as they relate to transfer pricing.

Upon adoption of FIN 48 the Company has elected to follow an accounting policy to classify accrued interest related to liabilities for income tax expense within the Interest expense line and penalties related to liabilities for income tax expense under the Other expense line of the Company's unaudited Condensed Consolidated Statements of Income. The gross amount of interest and penalties accrued as of December 31, 2007 was \$6.9 million.

The Company believes it is reasonably possible that the gross unrecognized tax benefits, as of December 31, 2007 could decrease in the next 12 months by approximately \$1.3 million, relating primarily to tax years becoming statute barred for purposes of future tax examinations by local taxing jurisdictions.

The Company's three most significant tax jurisdictions are Canada, the United States and Germany. The Company's tax filings remain subject to tax 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 tax examinations by local taxing authorities vary by jurisdiction up to seven years.

The Company is subject to tax examinations in all major taxing jurisdictions in which it operates and currently has examinations open in Canada, the U.S. and France. The Company regularly assesses the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes.

Table of Contents

OPEN TEXT CORPORATION

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Three and Six Months Ended December 31, 2007

(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)

Although the Company believes that it has adequately provided for any reasonably foreseeable outcomes related to its tax examinations and that any settlement will not have a material adverse effect on its consolidated financial position or results of operations, there can be no assurances as to the possible future outcomes.

NOTE 12 SEGMENT INFORMATION

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* establishes standards for the reporting, by public business enterprises, of information about operating segments, products and services, geographic areas, and major customers. The method of determining what information to report is based on the way that management organizes the operating segments within the Company for making operational decisions and assessments of financial performance.

The Company's operations fall into one dominant industry segment, being enterprise content management software. The Company manages its operations, and accordingly determines its operating segments, on a geographic basis. The Company has two reportable segments: North America and Europe. The Company evaluates operating segment performance based on revenues and direct operating expenses of the segment, based on the location of the respective customers. The accounting policies of the operating segments are the same as those described in the summary of accounting policies. No segments have been aggregated.

Included in the following operating results are allocations of certain operating costs that are incurred in one reporting segment but which relate to all reporting segments. The allocations of these common operating costs are consistent with the manner in which they are allocated for the chief operating decision maker (CODM) of the Company's analysis. For the three and six months ended December 31, 2007 and December 31, 2006, the *Other* category consists of geographic regions other than North America and Europe. Revenues from transactions that both emanate and conclude within operating segments are not considered for the purpose of this disclosure since such transactions are not reviewed by the CODM.

Goodwill and other acquired intangible assets have been assigned to segment assets based on the relative benefit that the reporting units are expected to receive from the assets, or the location of the acquired business operations to which they relate.

Contribution margin does not include amortization of intangible assets, depreciation, provision for (recovery of) special charges, other income (expense), interest income (expense), minority interest, and the provision for (recovery of) income taxes.

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

Information about reportable segments is as follows:

	North America	Europe	Other	Total
Three months ended December 31, 2007				
Revenue from external customers	\$ 84,510	\$ 87,722	\$ 10,302	\$ 182,534
Operating costs	56,862	69,565	8,007	134,434
Contribution margin	\$ 27,648	\$ 18,157	\$ 2,295	\$ 48,100
Three months ended December, 2006				
Revenue from external customers	\$ 72,852	\$ 82,933	\$ 7,476	\$ 163,261
Operating costs	58,907	61,467	6,608	126,982
Contribution margin	\$ 13,945	\$ 21,466	\$ 868	\$ 36,279
Six months ended December 31, 2007				
Revenue from external customers	\$ 163,660	\$ 164,477	\$ 18,364	\$ 346,501
Operating costs	116,344	125,429	15,169	256,942
Contribution margin	\$ 47,316	\$ 39,048	\$ 3,195	\$ 89,559
Six months ended December, 2006				
Revenue from external customers	\$ 121,584	\$ 130,384	\$ 12,448	\$ 264,416
Operating costs	98,631	96,672	12,075	207,378
Contribution margin	\$ 22,953	\$ 33,712	\$ 373	\$ 57,038

A reconciliation of the totals reported for the operating segments to the applicable line items in the Interim Financial Statements for the three and six months ended December 31, 2007 and 2006 is as follows:

	Three months ended December 31,	
	2007	2006
Total contribution margin from operating segments above	\$ 48,100	\$ 36,279
Amortization and depreciation	21,574	21,672
Special charges (recoveries)	(47)	4,843
Total income from operations	26,573	9,764
Interest, other income, taxes and minority interest	(15,888)	(7,487)

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Net income	\$ 10,685	\$ 2,277
	Six months ended December 31,	
	2007	2006
Total contribution margin from operating segments above	\$ 89,559	\$ 57,038
Amortization and depreciation	42,125	31,892
Special charges (recoveries)	(108)	4,375
Total income from operations	47,542	20,771
Interest, other income, taxes and minority interest	(29,057)	(11,193)
Net income	\$ 18,485	\$ 9,578

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

	As of December 31, 2007	As of June 30, 2007
Segment assets:		
North America	\$ 752,811	\$ 757,352
Europe	518,553	512,417
Other	56,801	57,076
Total assets	\$ 1,328,165	\$ 1,326,845

The following table sets forth the distribution of revenues determined by location of customer and identifiable assets, by significant geographic area, for the three and six months ended December 31, 2007 and 2006:

	Three months ended December 31,		Six months ended December 31,	
	2007	2006	2007	2006
Total revenues:				
Canada	\$ 14,643	\$ 11,219	\$ 25,730	\$ 17,930
United States	69,867	61,633	137,930	103,654
United Kingdom	22,515	18,429	43,511	29,267
Germany	27,430	30,759	49,759	47,002
Rest of Europe	37,777	33,745	71,207	54,115
Other	10,302	7,476	18,364	12,448
Total revenues	\$ 182,534	\$ 163,261	\$ 346,501	\$ 264,416

	As of December 31, 2007	As of June 30, 2007
Segment assets:		
Canada	\$ 242,060	\$ 217,051
United States	510,751	540,301
United Kingdom	98,877	100,440
Germany	201,607	199,312
Rest of Europe	218,069	212,665
Other	56,801	57,076
Total segment assets	\$ 1,328,165	\$ 1,326,845

The Company's goodwill has been allocated as follows to the Company's operating segments:

Edgar Filing: OPEN TEXT CORP - Form 10-Q

	As of December 31, 2007	As of June 30, 2007
North America	\$ 365,811	\$ 355,806
Europe	153,699	142,109
Other	32,569	30,397
	\$ 552,079	\$ 528,312

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)****NOTE 13 SUPPLEMENTAL CASH FLOW DISCLOSURES**

	Three months ended December 31,		Six months ended December 31,	
	2007	2006	2007	2006
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	\$ 6,359	\$ 7,755	\$ 13,686	\$ 7,984
Cash received during the period for interest	\$ 1,296	\$ 967	\$ 2,467	\$ 1,588
Cash paid during the period for income taxes	\$ 1,430	\$ 3,621	\$ 1,929	\$ 6,276

NOTE 14 COMMITMENTS AND CONTINGENCIES

The Company has entered into the following contractual obligations with minimum annual payments for the indicated fiscal periods as follows:

	Total	Payments due by period ending June 30,			
		2008	2009 to 2010	2011 to 2012	2013 and beyond
Long-term debt obligations	\$ 430,083	\$ 12,583	\$ 50,101	\$ 60,336	\$ 307,063
Operating lease obligations *	94,000	13,249	47,269	18,619	14,863
Purchase obligations	5,260	1,517	3,348	395	
	\$ 529,343	\$ 27,349	\$ 100,718	\$ 79,350	\$ 321,926

* Net of \$5.6 million of non-cancelable sublease income to be received by the Company from properties which the Company has subleased to other parties.

Rental expense of \$4.2 million and \$8.2 million was recorded during the three and six months ended December 31, 2007, (Three and six months ended December 31, 2006 \$3.8 million and \$6.1 million respectively), respectively.

The long-term debt obligations are comprised of interest and principal payments on the Company's term loan agreement and a five year mortgage on the Company's headquarters in Waterloo, Ontario. For details relating to the term loan and the mortgage see Note 8 Long-term Debt and Financial Instruments and Hedging Activities .

The Company does not enter into off-balance sheet financing arrangements as a matter of practice except for the use of operating leases for office space, computer equipment and vehicles. In accordance with U.S. GAAP, neither the lease liability nor the underlying asset is carried on the balance sheet, as the terms of the leases do not meet the criteria for capitalization.

Domination agreements***IXOS domination agreements***

Edgar Filing: OPEN TEXT CORP - Form 10-Q

On December 1, 2004, the Company announced that it had entered into a domination and profit transfer agreement (the IXOS DA) with IXOS. The IXOS DA came into force in August 2005 when it was registered in the commercial register at the local court in Munich. Under the terms of the IXOS DA, Open Text acquired authority to issue directives to the management of IXOS. Also within the terms of the IXOS DA, Open Text

Table of Contents

OPEN TEXT CORPORATION

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Three and Six Months Ended December 31, 2007

(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)

offered to purchase the remaining Common Shares of IXOS for a cash purchase price of Euro 9.38 per share (Purchase Price) which was the weighted average fair value of the IXOS Common Shares as of December 1, 2004. In connection with the offer to purchase the remaining Common Shares of IXOS the Company obtained, on December 11, 2007, a demand guarantee from a Canadian chartered bank in the amount of Euro 11.1 million for the purpose of guaranteeing the payment of the purchase consideration. The guarantee is valid for a period of one year ending on December 10, 2008 and is renewable for an additional period of one year.

Additionally, Open Text has guaranteed a payment by IXOS to the minority shareholders of IXOS of an annual compensation of Euro 0.42 per share (Annual Compensation).

The IXOS DA was registered on August 23, 2005. In the quarter ended September 30, 2005, the Company commenced accruing the amount payable to minority shareholders of IXOS on account of Annual Compensation. This amount has been accounted for as a guaranteed dividend , payable to the minority shareholders, and is recorded as a charge to minority interest in the unaudited Condensed Consolidated Statements of Income.

Based on the number of minority IXOS shareholders as of December 31, 2007, the estimated amount of Annual Compensation is approximately \$127,000 for the three months ended December 31, 2007 (three months ended December 31, 2006 \$123,000) and \$254,000 for the six months ended December 31, 2007 (six months ended December 31, 2006 \$253,000). Because the Company is unable to predict, with reasonable accuracy, the number of IXOS minority shareholders in future periods, the Company is unable to predict the amount of Annual Compensation that will be payable in future years.

Certain IXOS shareholders have filed for a procedure granted under German law at the district court of Munich, Germany, asking the court to review the proposed amount of the Annual Compensation and the Purchase Price (the IXOS Appraisal Procedures) for the amounts offered under the IXOS DA. It cannot be predicted at this stage, whether the court will increase the Annual Compensation and/or the Purchase Price in the IXOS Appraisal Procedures. The purchase offer made under the IXOS DA will expire at the end of the IXOS Appraisal Procedures.

These disputes are a normal and probable part of the process of acquiring minority shares in Germany. The costs associated with the above mentioned shareholder objections to the proposed fair value of the Annual Compensation and the Purchase Price are direct incremental costs associated with the ongoing step acquisitions of shares held by the minority shareholders and have been deferred within Goodwill pending the outcome of the objections. The Company is unable to predict the future costs associated with these activities that will be payable in future periods.

Guarantees and indemnifications

The Company has entered into license agreements with customers that include limited intellectual property indemnification clauses. Generally, the Company agrees to indemnify its customers against legal claims that the Company s software products infringe certain third party intellectual property rights. In the event of such a claim, the Company is generally obligated to defend its customers against the claim and either settle the claim at the Company s expense or pay damages that its customers are legally required to pay to the third-party claimant. These intellectual property infringement indemnification clauses generally are subject to limits based upon the amount of the license sale. The Company has not made any indemnification payments in relation to these indemnification clauses.

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

In connection with certain facility leases, the Company has guaranteed payments on behalf of its subsidiaries either by providing a security deposit with the landlord or through unsecured bank guarantees obtained from local banks.

The Company has not recorded a liability for guarantees, indemnities or warranties described above in the accompanying unaudited Condensed Consolidated Balance Sheet since the maximum amount of potential future payments under such guarantees, indemnities and warranties is not determinable.

Litigation

The Company is subject from time to time to legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, the Company's management does not believe that the outcome of any of these legal matters will have a material adverse effect on its consolidated financial position, results of operations and cash flows.

NOTE 15 SPECIAL CHARGES (RECOVERIES)**Fiscal 2007 Restructuring Plan**

In December 2006, the Board approved, and the Company commenced implementing, restructuring activities to streamline its operations and consolidate its excess facilities (Fiscal 2007 restructuring plan). Total costs to be incurred in conjunction with the plan were expected to be approximately \$7.0 million, of which \$6.4 million has been recorded within Special charges to date. The charge consisted primarily of costs associated with workforce reduction and abandonment of excess facilities, and are expected to be paid by March 31, 2008. However on a quarterly basis, the Company conducts an evaluation of these balances and revises its assumptions and estimates as appropriate. A reconciliation of the beginning and ending liability for the six months ended December 31, 2007 is shown below:

	Work force reduction	Facility costs	Other	Total
Fiscal 2007 Restructuring Plan				
Balance as of June 30, 2007	\$ 1,229	\$ 45	\$	\$ 1,274
Accruals (recoveries)	(62)	16	56	10
Cash payments	(1,023)	(61)	(56)	(1,140)
Foreign exchange and other adjustments	(90)			(90)
Balance as of December 31, 2007	\$ 54	\$	\$	\$ 54

The following table outlines restructuring charges incurred and recovered under the Fiscal 2007 restructuring plan, by segment, for the three and six months ended December 31, 2007.

	Work force reduction	Facility costs	Other	Total
Fiscal 2007 Restructuring Plan by Segment				

Edgar Filing: OPEN TEXT CORP - Form 10-Q

North America	\$	(3)	\$	\$	\$ (3)
Europe		31		(1)	30
Total charges (recoveries) by segment for the three months ended					
December 31, 2007	\$	28	\$	(1)	\$ 27

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

	Work force reduction	Facility costs	Other	Total
Fiscal 2007 Restructuring Plan by Segment				
North America	\$ (108)	\$	\$ 56	\$ (52)
Europe	46	16		62
Total charges (recoveries) by segment for the six months ended December 31, 2007	\$ (62)	\$ 16	\$ 56	\$ 10

Fiscal 2006 Restructuring Plan

In the first quarter of Fiscal 2006, the Board approved, and the Company began to implement restructuring activities to streamline its operations and consolidate its excess facilities (Fiscal 2006 restructuring plan). These charges relate to work force reductions, abandonment of excess facilities and other miscellaneous direct costs. Total costs to be incurred in conjunction with the Fiscal 2006 restructuring plan were expected to be approximately \$22.0 million, of which \$20.9 million has been recorded within Special charges to date. On a quarterly basis, the Company conducts an evaluation of these balances and revises its assumptions and estimates, as appropriate. The provision related to workforce reduction has been completed as of September 30, 2007, and the provisions relating to the abandonment of excess facilities, such as contract settlements and lease costs, are expected to be paid by January 2014.

A reconciliation of the beginning and ending liability is shown below.

	Work force reduction	Facility costs	Other	Total
Fiscal 2006 Restructuring Plan				
Balance as of June 30, 2007	\$ 134	\$ 1,346	\$	\$ 1,480
Accruals (recoveries)	(41)	(74)	(3)	(118)
Cash payments	(98)	(397)		(495)
Foreign exchange and other adjustments	5	68	3	76
Balance as of December 31, 2007	\$	\$ 943	\$	\$ 943

The following table outlines restructuring charges incurred and recovered under the Fiscal 2006 restructuring plan, by segment, for the three and six months ended December 31, 2007.

	Work force reduction	Facility costs	Other	Total
Fiscal 2006 Restructuring Plan by Segment				
North America	\$	\$ 3	\$ 3	\$ 6
Europe		(80)		(80)
Total recoveries for three months ended December 31, 2007	\$	\$ (77)	\$ 3	\$ (74)

	Work force reduction	Facility costs	Other	Total
Fiscal 2006 Restructuring Plan by Segment				
North America	\$ (41)	\$ 6	\$ (1)	\$ (36)
Europe		(80)	(2)	(82)
Total recoveries for six months ended December 31, 2007	\$ (41)	\$ (74)	\$ (3)	\$ (118)

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)*****Fiscal 2004 Restructuring Plan***

In the three months ended March 31, 2004, the Company recorded a restructuring charge of approximately \$10 million relating primarily to its North America segment. The charge consisted primarily of costs associated with a workforce reduction, excess facilities associated with the integration of the IXOS acquisition, write downs of capital assets and legal costs related to the termination of facilities. All actions relating to employer workforce reductions were completed, and the related costs expended as of March 31, 2006. On a quarterly basis the Company conducts an evaluation of these balances and revises its assumptions and estimates, as appropriate. The provision for facility costs is expected to be substantially paid by 2011. The activity of the Company's provision for the 2004 restructuring charge is as follows for the six months ended December 31, 2007:

	Facility costs
Fiscal 2004 Restructuring Plan	
Balance as of June 30, 2007	\$ 1,264
Cash payments	(218)
Foreign exchange and other adjustments	34
Balance as of December 31, 2007	\$ 1,080

NOTE 16 ACQUISITIONS**Fiscal 2008*****Purchase of an Asset Group Constituting a Business***

On September 14, 2007 the Company acquired certain miscellaneous assets from a Canadian company in the amount of \$2.2 million. Of the total purchase price of \$2.2 million, approximately \$9,000 has been allocated to the fair value of certain computer hardware and the remaining amount has been allocated to Goodwill. These allocations are preliminary and represent management's best estimate of the allocation of the purchase price and are expected to change on or before September 13, 2008.

Fiscal 2007***Momentum***

In March 2007, Open Text acquired all issued and outstanding shares of Momentum Systems Inc. (Momentum), a privately held company that specializes in providing ECM solutions to U.S. government agencies. Open Text expects that the acquisition of Momentum will enhance its ability to provide services to the U.S. government market. In accordance with SFAS 141, this acquisition is accounted for as a business combination.

Established in 1993 and based in Arlington, Virginia, Momentum has been serving the government sector for more than 12 years by providing technical expertise to automate business processes. Momentum has experience using Open Text's Livelink ECM software to develop integrated systems for its clients.

Edgar Filing: OPEN TEXT CORP - Form 10-Q

The results of operations of Momentum have been consolidated with those of Open Text beginning March 2, 2007.

Consideration for this acquisition consisted of \$4.7 million in cash, of which \$4.4 million was paid at closing, and \$300,000 was paid into escrow for a period of one year, as provided for in the share purchase agreement. The Company additionally incurred approximately \$821,000 in costs directly related to this

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

acquisition. In addition, the Company paid an amount of \$600,000 into escrow on account of a payment due to the former owner of Momentum in connection with his employment with the Company for a period of one year ending on March 1, 2008. This amount has been included as part of Prepaid expenses and other current assets in the consolidated financial statements and is being charged to operations over the 12 months commencing March 2, 2007.

Preliminary Purchase Price Allocation

Under business combination accounting the total purchase price was allocated to Momentum's net assets, based on their estimated fair values as of March 2, 2007, as set forth below. The excess of the purchase price over the net assets was recorded as goodwill. The allocation of the purchase price was based on a preliminary valuation, conducted by the Company's management, and its estimates and assumptions are subject to change upon finalization, which is expected to occur prior to March 1, 2008.

The preliminary purchase price allocation set forth below represents management's best estimate of the allocation of the purchase price and the fair value of net assets acquired.

Current assets (net of cash acquired of \$620)	\$ 1,454
Long-term assets	157
Goodwill *	3,793
Total assets acquired	5,404
Liabilities assumed	(506)
Net assets acquired	\$ 4,898

* Includes the fair value of intangible assets acquired as part of this acquisition. The Company is currently in the process of determining the fair value of such intangible assets and upon the final determination of such fair value the Company may allocate a portion of the purchase price to acquired intangible assets, resulting in a corresponding reduction to recorded goodwill.

The portion of the purchase price allocated to goodwill has been assigned to the Company's North America segment and is deductible for tax purposes.

Hummingbird

In October 2006, Open Text acquired all of the issued and outstanding shares of Hummingbird, an enterprise software solutions company that specializes in the development of decision enabling web-based environments. Open Text expects that the combination of the two companies will strengthen its ability to offer an expanded portfolio of solutions aimed at a wide range of vertical markets. In accordance with SFAS 141, this acquisition is accounted for as a business combination.

Hummingbird's software offerings fall into two principal product families: (i) Hummingbird Enterprise, and (ii) Hummingbird Connectivity. Hummingbird Enterprise is an integrated ECM suite comprised of solutions for a) document and content management, b) records management, c) knowledge management, d) collaboration, e) data integration, and f) business intelligence. Hummingbird Connectivity includes software

applications for accessing mission critical back office applications and legacy data.

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

The results of operations of Hummingbird have been consolidated with those of Open Text beginning October 2, 2006.

Consideration for this acquisition, net of cash acquired, consisted of \$412.5 million in cash including approximately \$21.0 million associated with the open market purchases of Hummingbird shares acquired in June 2006 and \$7.9 million of direct acquisition related costs.

Purchase Price Allocation

Under business combination accounting the total purchase price was allocated to Hummingbird's net tangible and identifiable intangible assets, based on their estimated fair values as of October 2, 2006, as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill.

The purchase price allocation set forth below represents management's best estimate of the allocation of the purchase price and the fair value of net assets acquired.

Current assets (net of cash acquired of \$88,287)	\$ 68,722
Long-term assets	10,594
Customer assets	139,800
Technology assets	159,200
Goodwill	280,710
Total assets acquired	659,026
Deferred tax liabilities	(84,336)
Liabilities assumed	(162,199)
Net assets acquired	\$ 412,491

The useful lives of both the customer and technology assets have been estimated to be seven years each.

The portion of the purchase price allocated to goodwill was assigned in the ratio of 96%, 2% and 2% to the Company's North America, Europe and Other segments, respectively. No amount of the goodwill is expected to be deductible for tax purposes.

As part of the purchase price allocation, the Company recognized liabilities in connection with this acquisition of approximately \$44.9 million relating primarily to employee termination charges, costs relating to abandonment of excess Hummingbird facilities and accruals for direct acquisition related costs. This was the result of management approved and initiated plans to restructure the operations of Hummingbird, commencing at the time of acquisition, to eliminate duplicative activities and to reduce costs. The liability relating to abandonment of excess facilities is expected to be paid over the terms of the various leases, the last of which expires in March 2011. The liabilities related to employee termination costs are expected to be substantially paid on or before the quarter ended March 31, 2008. For further details relating to the type and amounts of these liabilities see Note 7 Accounts payable and accrued liabilities .

Unaudited Pro Forma Results

Edgar Filing: OPEN TEXT CORP - Form 10-Q

The unaudited pro forma information relating to Hummingbird included hereunder does not include the financial impacts of the restructuring initiatives relating to former Hummingbird activities as these have been

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended December 31, 2007****(Tabular dollar amounts in thousands of U.S. Dollars, except per share data)**

capitalized as part of the purchase allocation but includes the amortization charges from acquired intangible assets and adjustments to interest expense on account of long-term debt obtained to partially finance this acquisition, as if the acquisition of Hummingbird and borrowings related thereto had taken place on July 1, 2005. See Note 8 Long-term Debt and Financial Instruments and Hedging Activities. Non-recurring charges of \$16.0 million are included in these unaudited pro forma information. These charges relate primarily to one-time business combination and compensation costs incurred by Hummingbird prior to its acquisition by Open Text. The unaudited pro forma information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition of Hummingbird had taken place at the beginning of the period presented.

(in thousands, except per share data)	Six months ended December 31, 2006 (Unaudited)
Total revenues	\$ 323,716
Net loss	\$ (35,803)
Basic net loss per share	\$ (0.73)
Diluted net loss per share	\$ (0.73)

FIN 48

Upon the adoption of FIN 48, goodwill relating to the Hummingbird acquisition was reduced by an amount of \$6.5 million (see Note 11 Income Taxes).

IXOS

As of December 31, 2007, the Company owned 96.15% (June 30, 2007 96.02%) of the outstanding shares of IXOS. The Company increased its ownership of the shares of IXOS by way of open market purchases during the three and six months ended December 31, 2007. Total consideration paid for the purchase of shares of IXOS during the three and six months ended December 31, 2007 was approximately \$263,000 and \$439,000, respectively. The minority interest in IXOS has been adjusted to reflect the proportionate reduction in minority interest ownership in IXOS as a result of such open market purchases.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation**

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, and is subject to the safe harbors created by those sections. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, may, could, would, might, will and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These forward-looking statements involve known and unknown risks as well as uncertainties, including those discussed herein and in the notes to our financial statements for the three and six month period ended December 31, 2007, certain sections of which are incorporated herein by reference as set forth in Part II item IA Risk Factors of this report. The actual results that we achieve may differ materially from any forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements. You should carefully review Part II Item IA Risk Factors and other documents we file from time to time with the Securities and Exchange Commission. A number of factors may materially affect our business, financial condition, operating results and prospects. These factors include but are not limited to those set forth in Part II Item IA Risk Factors and elsewhere in this report. Any one of these factors may cause our actual results to differ materially from recent results or from our anticipated future results. You should not rely too heavily on the forward-looking statements contained in this Quarterly Report on Form 10-Q, because these forward-looking statements are relevant only as of the date they were made.

BUSINESS OVERVIEW

We are the world's largest independent vendor of Enterprise Content Management (ECM) software solutions. ECM is the set of technologies used to capture, manage, store, preserve, find and retrieve word based business content, which includes text documents, email, reports, images and video, and transaction-based data. We offer a wide range of ECM products that help our customers ensure compliance with industry regulations and internal policies, controlling information flows, and helping solve other content-intensive business challenges. Our initial public offering was on the NASDAQ in 1996 and, subsequently, we listed on the Toronto Stock Exchange in 1998. We currently employ approximately 2,700 people worldwide.

Our operations fall into one dominant industry segment being ECM which is further divided into three revenue types: License, Customer support and Services. However, we manage and evaluate our operations primarily upon the basis of the geographic segments of North America, Europe and Other. The Other segment is a residual segment consisting of operations in regions other than North America and Europe.

Milestones:

The second quarter of fiscal 2008 has been a successful quarter for us. Significant milestones that occurred during this quarter were as follows:

Total revenue increased to \$182.5 million, equivalent to a 11.8% increase over the same quarter of the last fiscal year.

License revenue increased to \$55.2 million equivalent to a 7.3% increase over the same quarter of the last fiscal year.

Operating cash flows increased to \$39.3 million equivalent to a 25.2% increase over the same quarter of the last fiscal year.

Making a non-scheduled prepayment of \$30.0 million towards our long-term debt in December 2007.

Table of Contents

Announcement of our commitment to delivering solutions that meet Europe's new records management software standards with the introduction of our product MoReq2, which begins testing and certification this year.

Received certification for the Federal Information Processing standard 140-2 a North American standard that accredits software and hardware for its cryptographic modules in connection with the Hummingbird Cryptographic Module. Cryptographic modules offer encryption and decryption algorithms which are used to protect information when it is stored and transferred.

Open Text named as a leader in the Forrester Wave : Enterprise Content Management Suites report, citing the strength of our core ECM functionality, and breadth of ECM offerings.

Acquisitions

We have a history of both organic and acquisition-related growth and a robust and dynamic acquisition program is an integral part of our corporate strategy. We did not make any acquisitions in the second quarter of fiscal 2008; however we continue to see consolidation in our environment and will continue to regularly evaluate various acquisition opportunities within the ECM marketplace and elsewhere in the high technology industry.

Partners

We have developed strong and mutually beneficial relationships with key technology partners, including major software vendors, systems integrators, and storage vendors, to deliver customer-focused solutions. Key alliances of Open Text include Oracle®, Microsoft®, SAP®, Deloitte®, Accenture® and Hitachi®. We rely on close cooperation with partners for sales and product development, as well as for the optimization of opportunities which arise in our competitive environment. We continue to make significant progress with our global partner program, with emphasis on developing strategic relations and tight integration with partners. Business generated through areas like archiving, records management and compliance continue to be driven through our partners.

Our revenue from partners contributed to approximately 34% of our license revenues in the second quarter of fiscal 2008 compared to approximately 31% in the second quarter of fiscal 2007.

We are now targeting a goal of reaching 40% partner license revenue in the coming 15 months.

Outlook for Fiscal 2008

The consensus of ECM industry analysts is that the ECM market will grow in the 8% to 13% range and we see our license revenue growing in and around the same range. We see e-mail archiving and records management products as being the main drivers of the ECM market and we expect that our traditional customer base will continue to build upon existing ECM applications.

Overall, our focus for fiscal 2008 will be to:

continue growing license revenue;

improve profitability; and

expand on business opportunities created by our partner initiatives.

Results of Operations

As a result of our acquisition of Hummingbird, we have included the financial results of Hummingbird in our consolidated financial statements beginning October 2, 2006, the date we acquired 100% of the issued and

Table of Contents

outstanding shares of Hummingbird. The fluctuations in the operating results in the current period, compared with the same period in the prior fiscal year, are generally due to the synergies generated by this acquisition.

Immediately upon the acquisition of Hummingbird, we restructured both Hummingbird and pre-acquisition Open Text operations into one combined organization. Sales forces were aligned by either a combined vertical or within a given geography. All back office functions such as accounting and information technology were consolidated to manage the combined operations. Our research and development teams quickly prepared integration code to combine products and features between previous Hummingbird and Open Text products. Most former Hummingbird executive management and various levels of management personnel were terminated and primarily Open Text management assumed all responsibilities for sales, service, research and development, and general and administrative activities. In view of the shared resources, single line management and combined operations, presentation of the results of operations of Open Text and Hummingbird separately is, we believe, not meaningful and therefore not articulated within this discussion and analysis.

The following table presents an overview of our results of operations for the period indicated.

(in thousands)	Three months ended		
	December 31,		
	2007	2006	% Change
Total revenue	\$ 182,534	\$ 163,261	11.8%
Cost of revenue	59,340	55,485	6.9%
Gross profit	123,194	107,776	14.3%
Amortization of acquired customer intangible assets	7,514	7,369	2.0%
Special charges (recoveries)	(47)	4,843	(101.0)%
Other operating expenses	89,154	85,800	3.9%
Income from operations	26,573	9,764	172.2%
Gross margin	67.5%	66.0%	
Net income	\$ 10,685	\$ 2,277	369.3%

(in thousands)	Six months ended		
	December 31,		
	2007	2006	% Change
Total revenue	\$ 346,501	\$ 264,416	31.0%
Cost of revenue	113,148	90,418	25.1%
Gross profit	233,353	173,998	34.1%
Amortization of acquired customer intangible assets	14,929	9,751	53.1%
Special charges (recoveries)	(108)	4,375	(102.5)%
Other operating expenses	170,990	139,101	22.9%
Income from operations	47,542	20,771	128.9%
Gross margin	67.3%	65.8%	
Net income	\$ 18,485	\$ 9,578	93.0%

Table of Contents

An analysis of our Results of Operations follows:

Revenues**Revenue by Product Type and Geography:**

The following tables set forth our revenues by product, revenue as a percentage of the related product revenue and revenue by major geography for the periods indicated:

Revenue by product type

(in thousands)	Three months ended December 31,			Six months ended December 31,		
	2007	2006	% Change	2007	2006	% Change
License	\$ 55,158	\$ 51,425	7.3%	\$ 99,418	\$ 80,250	23.9%
Customer support	90,614	78,022	16.1%	176,918	126,310	40.1%
Service	36,762	33,814	8.7%	70,165	57,856	21.3%
Total	\$ 182,534	\$ 163,261	11.8%	\$ 346,501	\$ 264,416	31.0%

(% of total revenue)	Three months ended December 31,		Six months ended December 31,	
	2007	2006	2007	2006
License	30.2%	31.5%	28.7%	30.3%
Customer support	49.7%	47.8%	51.1%	47.8%
Service	20.1%	20.7%	20.2%	21.9%
Total	100.0%	100.0%	100.0%	100.0%

Revenue by Geography

(in thousands)	Three months ended December 31,			Six months ended December 31,		
	2007	2006	% Change	2007	2006	% Change
North America	\$ 84,510	\$ 72,852	16.0%	\$ 163,660	\$ 121,584	34.6%
Europe	87,722	82,933	5.8%	164,477	130,384	26.1%
Other	10,302	7,476	37.8%	18,364	12,448	47.5%
Total	\$ 182,534	\$ 163,261	11.8%	\$ 346,501	\$ 264,416	31.0%

(% of total revenue)	Three months ended December 31,		Six months ended December 31,	
	2007	2006	2007	2006
North America	46.3%	44.6%	47.2%	46.0%
Europe	48.1%	50.8%	47.5%	49.3%
Other	5.6%	4.6%	5.3%	4.7%

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Total	100.0%	100.0%	100.0%	100.0%
-------	--------	--------	--------	--------

35

Table of Contents

License Revenue

License revenue consists of fees earned from the licensing of software products to customers.

License revenue increased marginally by \$3.7 million in the three months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily as the result of growth from our North American operations. Of the total growth achieved in the three months ended December 31, 2007, North America accounted for 56.4% of the increase on account of higher partner involvement, followed by other, which added 43.9% while Europe remained relatively flat, with a slight decrease to the overall growth in license revenue.

License revenue increased by approximately \$19.2 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily as the result of growth from our North American operations. Of the total growth achieved in the six months ended December 31, 2007, North America accounted for 46.0% of the increase on account of higher partner involvement, followed by Europe, which added 42.0% and the other segment contributed approximately 12.0% of the overall growth in license revenue.

Customer Support Revenue

Customer support revenue consists of revenue from our customer support and maintenance agreements. These agreements allow our customers to receive technical support, enhancements and upgrades to new versions of our software products when and if available. Customer support revenue is generated from such support and maintenance agreements relating to current year sales of software products and from the renewal of existing maintenance agreements for software licenses sold in prior periods. As our installed base grows, the renewal rate has a larger influence on customer support revenue than the current software revenue growth. Therefore changes in customer support revenue do not necessarily correlate directly to the changes in license revenue in a given period. Typically the term of these support and maintenance agreements is twelve months, with customer renewal options. We have historically experienced a renewal rate over 90% but continue to encounter pricing pressure from our customers during contract negotiation and renewal.

Customer support revenue increased by approximately \$12.6 million in three months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily as the result of growth from our North American operations. Of the total growth achieved in the three months ended December 31, 2007, North America accounted for 63.0% of the increase, followed by Europe, which contributed 31.2% and the other segment provided for the remaining growth in customer support revenue.

Customer support revenue increased by approximately \$50.6 million in six months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily as the result of growth from our North American operations. Of the total growth achieved in the six months ended December 31, 2007, North America accounted for 54.8% of the increase, followed by Europe, which contributed 40.0% and the other segment provided for the remaining growth in customer support revenue.

Service Revenue

Service revenue consists of revenues from consulting contracts and contracts to provide training and integration services.

Service revenue increased by marginally by \$2.9 million in the three months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily as the result of growth from our North American operations. Of the total growth achieved in the three months ended December 31, 2007, North America accounted for 54.3% of the increase, followed by Europe, which added 29.4% and the other segment contributed to the rest of the overall growth in service revenue.

Service revenue increased by approximately \$12.3 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily as the result of growth from our European

Table of Contents

operations. Of the total growth achieved in the six months ended December 31, 2007, Europe accounted for 46.6% of the increase, followed by North America, which added 44.6% and the other segment contributed to the rest of the overall growth in service revenue.

Cost of Revenue and Gross Margin by Product Type

The following tables set forth the changes in cost of revenues and gross margin by product type for the periods indicated:

(In thousands)	Three months ended December 31,			Six months ended December 31,		
	2007	2006	% Change	2007	2006	% Change
License	\$ 4,649	\$ 3,322	39.9%	\$ 8,203	\$ 6,122	34.0%
Customer Support	14,191	12,659	12.1%	26,789	19,646	36.4%
Service	30,192	29,108	3.7%	57,696	49,408	16.8%
Amortization of acquired technology intangible assets	10,308	10,396	(0.8)%	20,460	15,242	34.2%
Total	\$ 59,340	\$ 55,485	6.9%	\$ 113,148	\$ 90,418	25.1%

Gross Margin	Three months ended December 31,		Six months ended December 31,	
	2007	2006	2007	2006
License	91.6%	93.5%	91.7%	92.4%
Customer Support	84.3%	83.8%	84.9%	84.4%
Service	17.9%	13.9%	17.8%	14.6%

Cost of license revenue

Cost of license revenue consists primarily of royalties payable to third parties and product media duplication, instruction manuals and packaging expenses.

Cost of license revenue increased by \$1.3 million in the three months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily due to higher royalty costs of \$1.1 million and the remainder due to miscellaneous distribution costs. All of these increases were directly related to the increase in license revenue. Overall gross margin on license revenue has decreased slightly in the three months ended December 31, 2007 when compared to the same period in the prior fiscal year.

Cost of license revenue increased by \$2.1 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily due to higher royalty costs of \$1.5 million and the remainder due to miscellaneous distribution costs. All of these increases were directly related to the increase in license revenue. Overall gross margin on license revenue has remained relatively stable in the six months ended December 31, 2007 when compared to the same period in the prior fiscal year.

Cost of customer support revenues

Cost of customer support revenues is comprised primarily of technical support personnel and related costs.

Cost of customer support revenues increased by \$1.5 million in the three months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily due to an increase in direct costs associated with increased customer service revenue. Overall gross margin on customer support revenue has remained stable over the three months ended December 31, 2007 as our overall cost structure has remained relatively unchanged.

Table of Contents

Cost of customer support revenues increased by \$7.1 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily due to an increase in direct costs associated with increased customer service revenue. Overall gross margin on customer support revenue has remained stable over the six months ended December 31, 2007 as our overall cost structure has remained relatively unchanged.

Cost of service revenues

Cost of service revenues consists primarily of the costs of providing integration, customization and training with respect to our various software products. The most significant component of these costs is personnel related expenses. The other components include travel costs and third party subcontracting.

Cost of service revenues increased by \$1.1 million in the three months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily due to an increase in direct costs associated with increased service revenue. Overall gross margins on service revenues increased in the three months ended December 31, 2007 compared to the same period in the prior fiscal year as a result of the trailing off of certain unfavorable service contracts.

Cost of service revenues increased by \$8.3 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year, primarily due to an increase in direct costs associated with increased service revenue. Overall gross margins on service revenues increased in the six months ended December 31, 2007 compared to the same period in the prior fiscal year as a result of better than expected performance in Europe and the trailing off of certain unfavorable service contracts.

Amortization of acquired technology intangible assets

Amortization of acquired technology intangible assets remained relatively stable in the three months ended December 31, 2007 compared to the same period in the prior fiscal year.

Amortization of acquired technology intangible assets increased by \$5.2 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year due to the amortization of acquired technology assets acquired as part of the Hummingbird acquisition. Acquired technology assets in the amount of \$159.2 million were acquired as part of the Hummingbird acquisition and these are being amortized over a period of 7 years.

Operating Expenses

The following tables set forth total operating expenses by function and as a percentage of total revenue for the periods indicated:

(In thousands)	Three months ended December 31,		Change Increase/ (Decrease)	Six months ended December 31,		Change Increase/ (Decrease)
	2007	2006		2007	2006	
Research and development	\$ 25,924	\$ 22,595	\$ 3,329	\$ 49,656	\$ 36,813	\$ 12,843
Sales and marketing	42,523	43,824	(1,301)	80,633	68,696	11,937
General and administrative	16,955	15,474	1,481	33,965	26,693	7,272
Depreciation	3,752	3,907	(155)	6,736	6,899	(163)
Amortization of acquired customer intangible assets	7,514	7,369	145	14,929	9,751	5,178
Special charges (recoveries)	(47)	4,843	(4,890)	(108)	4,375	(4,483)
Total	\$ 96,621	\$ 98,012	\$ (1,391)	\$ 185,811	\$ 153,227	\$ 32,584

Table of Contents

(in % of total revenue)	Three months ended		Six months ended	
	December 31,		December 31,	
	2007	2006	2007	2006
Research and development	14.2%	13.8%	14.3%	13.9%
Sales and marketing	23.3%	26.8%	23.3%	26.0%
General and administrative	9.3%	9.5%	9.8%	10.1%
Depreciation	2.1%	2.4%	1.9%	2.6%
Amortization of acquired customer intangible assets	4.1%	4.5%	4.3%	3.7%
Special charges (recoveries)	0.0%	3.0%	0.0%	1.7%

Research and development expenses

Research and development expenses consist primarily of personnel expenses, contracted research and development expenses, and facility costs.

Research and development expenses increased by \$3.3 million in the three months ended December 31, 2007 compared to the same period in the prior fiscal year, predominantly due to an increase in direct labour and labour related benefits and expenses of approximately \$2.2 million. The remaining \$1.1 million increase is the net result of changes in office and overhead expenses as well as other miscellaneous charges.

Research and development expenses increased by \$12.8 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year, predominantly due to an increase in direct labour and labour-related benefits and expenses of approximately \$8.6 million. The remaining \$4.2 million increase is the result of an In-Process Research and development expense of \$500,000 relating to our Hummingbird acquisition and a net \$3.7 million increase in office, overhead and miscellaneous expenses.

As a percentage of total revenue research and development expenses remained relatively stable at approximately 14%

In fiscal 2008 we expect research and development expenses to be in the range of 14% to 16% of total revenue.

Sales and marketing expenses

Sales and marketing expenses consist primarily of personnel expenses and costs associated with advertising and trade shows.

Sales and marketing expenses decreased by \$1.3 million in the three months ended December 31, 2007 compared to the same period in the prior fiscal year predominantly due to reductions in office, overhead and miscellaneous expenses of \$2.0 million. This decrease was off-set slightly by an increase in labour and labour-related benefits of \$500,000 and travel and marketing expenses of \$100,000.

Sales and marketing expenses increased by \$11.9 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year predominantly due to increased labour and labour-related benefits and expenses of \$10.0 million on account of a larger combined sales force and increased revenues. The remaining increase is due to the net impact of travel, overhead and miscellaneous expenses.

Overall sales and marketing expenses, as a percentage of revenue, have remained within our expected range.

In fiscal 2008 we expect sales and marketing costs to be in the range of 24% to 26% of total revenue.

General and administrative expenses

General and administrative expenses consist primarily of salaries of administrative personnel, related overhead, facility expenses, audit fees, consulting expenses and separate public company costs.

Table of Contents

General and administrative expenses increased by \$1.5 million in the three months ended December 31, 2007 compared to the same period in the prior fiscal year primarily due to increases in direct labour and labour related benefits and expenses.

General and administrative expenses increased by \$7.3 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year primarily due to increases in direct labour and labour related benefits and expenses of \$2.9 million, overhead expenses of \$2.2 million and the balance due to miscellaneous increases in expenses, as associated with the expanded scale of business.

General and administrative expenses were relatively stable and between 9% to 10% of total revenues for each of the above indicated periods.

In fiscal 2008 we expect general and administrative expenses to be in the range of 9% to 10% of total revenue.

Amortization of acquired customer intangible assets

Amortization of acquired customer intangible assets for the three months ended December 31, 2007 compared to the same period in the prior fiscal year were relatively stable .

Amortization of acquired customer intangible assets increased by \$5.2 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year due to the amortization of customer assets acquired as part of the Hummingbird acquisition. Customer assets in the amount of \$139.8 million were acquired as part of the Hummingbird acquisition and these are being amortized over a period of 7 years.

Special charges (recoveries)

The following table sets forth the details of Special charges accruals (recoveries) recorded in the three and six months ended December 31, 2007 and 2006:

(In thousands)	Three months ended December 31,		Six months ended December 31,	
	2007	2006	2007	2006
Fiscal 2007 Restructuring Plan	\$ 27	\$ 5,102	\$ 10	\$ 5,102
Fiscal 2006 Restructuring Plan	(74)	(259)	(118)	(727)
Total	\$ (47)	\$ 4,843	\$ (108)	\$ 4,375

For more details on Special charges, see Note 15 Special Charges (Recoveries) to the unaudited Notes to the Condensed Consolidated Financial Statements under Item 1 of this Quarterly Report on Form 10-Q.

Net Interest expense

Net interest expense for the three months ended December 31, 2007 compared to the same period in the prior fiscal year was relatively stable.

Net interest expense increased by \$8.3 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year. This increase was predominantly due to the interest expense incurred on our \$390 million long-term debt acquired in October 2006, which was used to partially finance our Hummingbird acquisition. For more details on interest expense see Note 8 Long-Term Debt and Financial Instruments and Hedging Activities to the unaudited Notes to the Condensed Consolidated Financial Statements under Item 1 of this Quarterly Report on Form 10-Q.

Table of Contents**Share-based compensation**

On July 1, 2005, we adopted the fair value-based method for measurement and cost recognition of employee share-based compensation under the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004)

Share-Based Payments (SFAS 123R), using the modified prospective transitional method. Previously, we had been accounting for employee share-based compensation using the intrinsic value method, which generally did not result in any compensation cost being recorded for stock options since the exercise price was equal to the market price of the underlying shares on the date of grant.

Our stock options are now accounted for under SFAS 123R. The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option-pricing model.

For more details on share-based compensation see Note 9 Share Capital and Share Based Payments to the unaudited Notes to the Condensed Consolidated Financial Statements under Item 1 of this Quarterly Report on Form 10-Q.

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 is a rolling three year program whereby Open Text will make a series of annual grants, each of which covers a three year performance period, to certain of its employees, upon the employee meeting pre-determined performance targets. Awards may range from 100% to 150% of target, 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. The LTIP awards will be paid in cash.

For more details on the LTIP see Note 9 Share Capital and Share Based Payments to the unaudited Notes to the Condensed Consolidated Financial Statements under Item 1 of this Quarterly Report on Form 10-Q.

Income taxes

The effective tax rate for the three months ended December 31, 2007 was 29.4% compared to 6.7% for the same period in the prior fiscal year. The increase in the effective rate was due to a number of factors including, but not limited to, enacted changes in domestic and foreign tax rates and the application of separate and distinct tax rates across various tax jurisdictions. The low effective tax rate in the same period in the prior fiscal year was due to higher income being earned in jurisdictions with a lower tax rate and income being earned in jurisdictions where the benefit of tax loss carry forwards and other timing differences had previously been offset by a valuation allowance.

The effective tax rate for the six months ended December 31, 2007 was relatively stable at 29.5% compared to 31.4.% for the same period in the prior fiscal year.

Liquidity and Capital Resources

The following table summarizes the changes in our cash flows over the periods indicated:

(in thousands)	Three months ended December 31,		Increase/ (Decrease) Change	Six months ended December 31,		Increase/ (Decrease) Change
	2007	2006		2007	2006	
Net cash provided by (used in):						
Operating activities	\$ 39,343	\$ 31,428	\$ 7,915	\$ 71,557	\$ 41,065	\$ 30,492
Investing activities	\$ (6,246)	\$ (405,009)	\$ 398,763	\$ (17,876)	\$ (411,404)	\$ 393,528
Financing activities	\$ (27,077)	\$ 384,036	\$ (411,113)	\$ (52,243)	\$ 384,599	\$ (436,842)

Table of Contents***Cash flows from operating activities***

Cash flows provided by operating activities increased by approximately \$7.9 million in the three months ended December 31, 2007 compared to the same period in the prior fiscal year, due to a higher net income of \$8.4 million. In addition, the favorable impact of non cash adjustments of approximately \$8.7 million offset a net decrease in operating assets and liabilities of approximately \$9.2 million.

Cash flows provided by operating activities increased by approximately \$30.5 million in the six months ended December 31, 2007 compared to the same period in the prior fiscal year, due to a higher net income of \$8.9 million, the favorable impact of non cash adjustments of approximately \$18.6 million and a net increase in operating assets and liabilities of approximately \$3.0 million.

Cash flows from investing activities

Cash flows used in investing activities for the three months ended December 31, 2007 decreased by approximately \$398.8 million compared to the same period in the prior fiscal year. This decrease was primarily due to reduced spending on acquisitions of \$385.9 million and reduced payments for acquisition-related accruals of \$14.0 million. These decreases were offset by increased spending on capital assets of \$1.1 million.

Cash flows used in investing activities for the six months ended December 31, 2007 decreased by approximately \$393.5 million compared to the same period in the prior fiscal year. This decrease was primarily due to reduced spending on acquisitions of \$384.7 million, reduced payments for acquisition-related accruals of \$8.3 million and reduced spending on capital assets of \$500,000.

In accordance with the accounting rules for setting up acquisition-related accruals, we set up accruals in the amount of \$37.0 million relating to an exit plan for workforce reductions of legacy Hummingbird employees and abandonment of legacy Hummingbird facilities. During the three and six months ended December 31, 2007 we made cash payments of approximately \$2.1 and \$8.2 million, respectively, relating to these accruals. We expect to make the balance of the payments except those relating to lease obligations on the excess facilities by the end of March 2008.

Cash flows from financing activities

Cash flows from financing activities decreased by \$411.1 million for the three months ended December 31, 2007 compared to the same period in the prior fiscal year primarily due to reduced financing cash flows of \$381.5 million on account of no additional long-term debt being obtained during the current quarter and a repayment of \$30.1 million of long-term debt being made in the current quarter offset by an increase in financing cash flows from the issuance of common shares.

Cash flows from financing activities decreased by \$436.8 million for the six months ended December 31, 2007 compared to the same period in the prior fiscal year primarily due to reduced financing cash flows of \$381.4 million on account of no additional long-term debt being obtained during the current period and a repayment of \$61.9 million of long-term debt being made during the six months ended December 31, 2007, offset by an increase in financing cash flows from the issuance of common shares.

Long-term Debt and Credit Facilities

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 partially finance the Hummingbird acquisition and the revolver will be used for general business purposes. The credit agreement is guaranteed by us and certain of our subsidiaries.

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 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 prepayments made. To date we have

Table of Contents

made total prepayments of \$90.0 million of the principal on the term loan including a prepayment of \$30.0 million in December 2007. These payments have reduced the quarterly principal payment to approximately \$748,000.

As of December 31, 2007, the carrying value of the term loan was \$295.5 million and we are in compliance with all loan covenants relating to this facility.

To limit our exposure to the floating rate portion of the interest rate on the term loan, we entered into a three year interest-rate collar that had the economic effect of circumscribing the floating portion of our 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%.

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. There were no borrowings outstanding under the revolver as of December 31, 2007 and thus far, we have not borrowed any amounts under this facility in fiscal 2008.

Demand guarantee

In connection with the offer to purchase the remaining common shares of IXOS we obtained, in December 2007, a demand guarantee from the bank in the amount of Euro11.1 million. The guarantee has a term of one year and is renewable for a further period of one year.

Outlook for Fiscal 2008

We will use any excess cash remaining after meeting operational requirements for one or more of the following purposes:

Repayment of long-term debt

Re-purchase of our shares

Business acquisitions

We currently own a building in Toronto, Canada (acquired as part of the acquisition of Hummingbird), which we have classified as an asset held for sale. Although we cannot determine the eventual selling price or the timing of the sale, we are actively marketing the property and expect to sell the building during fiscal 2008. As of December 31, 2007 the fair value of the building was \$5.6 million.

We anticipate that our cash and cash equivalents (including without limitation the net cash provided by operating activities, the net cash used in investing activities and the net cash provided by financing activities), available credit facilities and committed loan facilities will be sufficient to fund our anticipated cash requirements for working capital, contractual commitments and capital expenditures for at least the next twelve months. We do not expect to pay any dividends in fiscal 2008.

Commitments and Contractual Obligations

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

	Total	Payments due by period ending June 30,			
		2008	2009 to 2010	2011 to 2012	2013 and beyond
Long-term debt obligations	\$ 430,083	\$ 12,583	\$ 50,101	\$ 60,336	\$ 307,063
Operating lease obligations *	94,000	13,249	47,269	18,619	14,863
Purchase obligations	5,260	1,517	3,348	395	

Edgar Filing: OPEN TEXT CORP - Form 10-Q

\$ 529,343 \$ 27,349 \$ 100,718 \$ 79,350 \$ 321,926

* Net of \$5.6 million of non-cancelable sublease income we are to receive from properties which we have subleased to other parties.

Table of Contents

Rental expense of \$4.2 million and \$8.2 million was recorded during the three and six months ended December 31, 2007, (Three and six months ended December 31, 2006 \$3.8 million and \$6.1 million respectively), respectively.

The long-term debt obligations are comprised of interest and principal payments on our term loan agreement and a five year mortgage on our headquarters in Waterloo, Ontario. See Note 8 Long-term Debt and Financial Instruments and Hedging Activities in our unaudited Notes to the Condensed Consolidated Financial Statements under Item 1, in this Quarterly Report on Form 10-Q.

Litigation

From time to time, we are subject to legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, our management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated financial position, results of operations and cash flows.

Off-Balance Sheet Arrangements

We do not enter into off-balance sheet financing as a matter of practice except for the use of operating leases for office space, computer equipment, and vehicles. None of the operating leases described in the previous sentence has, or potentially may have, a material current or future effect on our financial condition (including any possible changes in our financial condition), revenue, expenses, results of operations, liquidity, capital expenditures or capital resources. In accordance with U.S. GAAP, neither the lease liability nor the underlying asset is carried on the balance sheet, as the terms of the leases do not meet the criteria for capitalization.

Critical Accounting Policies and Estimates

Our consolidated financial Statements are prepared in accordance with United States generally accepted accounting principles (U.S.GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amount of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent that there are material differences between these estimates, judgments and assumptions and actual results, our financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue recognition

Business combinations

Goodwill and intangible Assets

Accounting for income taxes

The valuation of stock options granted and liabilities related to share-based payments

Allowances for doubtful accounts

Facility and restructuring accruals

Edgar Filing: OPEN TEXT CORP - Form 10-Q

With the exception of our adoption of FASB Interpretation No.48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No 109* (FIN 48) on July 1, 2007, there were no significant changes in our critical accounting policies and estimates in the six months ended December 31, 2007. Please

Table of Contents

refer to our Management's Discussions and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended June 30, 2007 for a more complete discussion of our critical accounting policies and estimates.

For more details relating to our adoption of FIN 48, please see Note 11 – Income Taxes to the unaudited Notes to the Condensed Consolidated Financial Statements under Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are primarily exposed to market risks associated with fluctuations in interest rates on our term loan and foreign currency exchange rates.

Interest rate risk

Our exposure to interest rate fluctuations relates primarily to our term loan, as we had no borrowings outstanding under our line of credit at December 31, 2007. As of December 31, 2007 we had an outstanding balance of \$295.5 million on this loan. The term loan bears a floating interest rate of LIBOR plus 2.25%. As of December 31, 2007, an adverse change in LIBOR of 300 basis points (3.0%) would have the effect of increasing our annual interest payment on the term loan by approximately \$8.9 million, absent the impact of our interest rate collar referred to below and assuming that the loan balance as of December 31, 2007 is outstanding for the entire period.

We manage our interest rate exposure, relating to \$195.0 million of the above mentioned term loan, with an interest rate collar that partially hedges the fluctuation in LIBOR. The collar has a notional value of \$195.0 million, a cap rate of 5.34% and a floor rate of 4.79%. This has the effect of circumscribing our maximum floating interest rate risk within the range of 5.34% to 4.79%. The collar expires in December 2009.

Foreign currency risk

A substantial portion of our cash and cash equivalents are held in currencies other than the U.S. dollar, on account of our global operations. As of December 31, 2007, this balance represented approximately 82% of our total cash and cash equivalents. A 10% adverse change in foreign exchange rates versus the U.S. dollar would have decreased our reported cash and cash equivalents by approximately 8%.

Our global operations expose us to foreign currency fluctuations. Revenues and related expenses generated from our international subsidiaries are generally denominated in the functional currencies of the local countries. Our primary currencies include Euros, Canadian Dollars, Swiss Francs and British Pounds. The Consolidated Statements of Income of our global operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the foreign currency conversion of these foreign currency denominated transactions into U.S. dollars results in reduced revenues, operating expenses and net income for our international operations. Similarly, our revenues, operating expenses and net income will increase for our international operations, if the U.S. dollar weakens against foreign currencies. We cannot predict the effect foreign exchange fluctuations will have on our results going forward. However, if there is an adverse change in foreign exchange rates versus the U.S. dollar, it could have a material effect on our results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, our management, with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the

Table of Contents

effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15 (e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that material information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

Based on the evaluation completed by our management, in which our Chief Executive Officer and Chief Financial Officer participated, our management has concluded that there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1A. Risk Factors

Risk Factors

In addition to historical information, this report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, and is subject to the safe harbors created by those sections. These forward-looking statements generally are identified by the words believe, project, expect, anticipate, estimate, intend, strategy, plan, may, should, will, would, will be, will continue, will likely result, and similar expressions. These forward-looking statements involve known and unknown risks as well as uncertainties, including those discussed in the following cautionary statements and elsewhere in this report. The actual results that we achieve may differ materially from any forward-looking statements, which reflect management's opinions only as of the date hereof. You should carefully review the following factors, as well as the other information set forth herein, when evaluating us and our business. If any of the following risks were to occur, our business, financial condition and results of operations would likely suffer. In that event, the trading price of our Common Shares would likely decline. Such risks are further discussed in the information we file with the SEC throughout the course of the year. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

The risks and uncertainties described below are not the only risks and uncertainties facing us. Our business is also subject to general risks and uncertainties that affect many other companies.

Our success depends on our relationships with strategic partners

We rely on close cooperation with partners for sales and product development as well as for the optimization of opportunities which arise in our competitive environment. If any of our partners should decide for any reason to terminate or reduce its cooperative efforts with us, our business, operating results, and financial condition may be adversely affected.

If we do not continue to develop new technologically advanced products, future revenues will be negatively affected

Our success depends upon our ability to design, develop, test, market, license and support new software products and enhancements of current products on a timely basis in response to both competitive threats and marketplace demands. In addition, new software products and enhancements must remain compatible with standard platforms and file formats. We continue to enhance the capability of our Livelink software to enable users to form workgroups and collaborate on private intranets as well as on the Internet. Often, we must integrate software licensed or acquired from third parties with our proprietary software to create or improve our products. These products are important to the success of our strategy. If we are unable to achieve a successful integration with third party software, we may not be successful in developing and marketing our new software products and enhancements. If we are unable to successfully integrate the technologies to develop new software products and enhancements to existing products, or to complete products currently under development which we license or acquire from third parties, our operating results will materially suffer. In addition, if the integrated or new products or enhancements do not achieve acceptance by the marketplace, our operating results will materially suffer. Also, if new industry standards emerge that we do not anticipate or adapt to, our software products could be rendered obsolete and, as a result, our business, as well as our ability to compete in the marketplace, would be materially harmed.

Our investment in our current research and development efforts may not provide a sufficient, timely return

The development of ECM software products is a costly, complex and time-consuming process, and the investment in ECM software product development often involves a long wait until a return is achieved on such

Table of Contents

an investment. We make and will continue to make significant investments in software research and development and related product opportunities. Investments in new technology and processes are inherently speculative. Commercial success depends on many factors including the degree of innovation of the products developed through our research and development efforts, sufficient support from our strategic partners, and effective distribution and marketing. Accelerated product introductions and short product life cycles require high levels of expenditures for research and development. These expenditures may adversely affect our operating results if they are not offset by revenue increases. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts in order to maintain our competitive position. However, significant revenue from new product and service investments may not be achieved for a number of years, if at all. Moreover, new products and services may not be profitable, and even if they are profitable, operating margins for new products and businesses may not be as high as the margins we have experienced for our current or historical products and services.

If our products and services do not gain market acceptance, we may not be able to increase our revenues

We intend to pursue our strategy of growing the capabilities of our ECM software offerings through our proprietary research and the development of new product offerings. In response to customer requests, we continue: (i) to enhance Livelink and many of our optional components; and (ii) to set the standard for ECM capabilities. The primary market for our software and services is rapidly evolving which means that the level of acceptance of products and services that have been released recently or that are planned for future release by the marketplace is not certain. If the markets for our products and services fail to develop, develop more slowly than expected or become subject to intense competition, our business will suffer. As a result, we may be unable to: (i) successfully market our current products and services, (ii) develop new software products, services and enhancements to current products and services, (iii) complete customer installations on a timely basis, or (iv) complete products and services currently under development. If our products and services are not accepted by our customers or by other businesses in the marketplace, our business and operating results will be materially affected.

Current and future competitors could have a significant impact on our ability to generate future revenue and profits

The markets for our products are intensely competitive, and are subject to rapid technological change and other pressures created by changes in our industry. We expect competition to increase and intensify in the future as the pace of technological change and adaptation quickens and as additional companies enter into each of our markets. Numerous releases of competitive products have occurred in recent history and may be expected to continue in the near future. We may not be able to compete effectively with current competitors and potential entrants into our marketplace. We could lose market share if our current or prospective competitors introduce new competitive products, add new functionality to existing products, acquire competitive products, reduce prices or form strategic alliances with other companies. If other businesses were to engage in aggressive pricing policies with respect to competing products, or if the dynamics in our marketplace resulted in increasing bargaining power by the consumers of our products and services, we would need to lower the prices we charge for the products we offer. This could result in lower revenues or reduced margins, either of which may materially and adversely affect our business and operating results.

We are confronting two inexorable trends in our industry; the consolidation of our competitors and the commoditization of our products and services

Recent acquisitions by some large, well-capitalized technology companies have materially altered the competitive landscape that we face. For example, on January 31, 2008, IBM acquired Cognos, a Canadian based provider of business intelligence and performance management solutions. This acquisition is but one example of recent acquisition activity that has changed the marketplace for our goods and services by replacing competitors which are comparable in size to our company with larger and better capitalized companies. In addition, other

Table of Contents

large corporations with considerable financial resources either have products that compete with the products we offer, or have the ability to encroach on our competitive position within our marketplace. These companies have considerable financial resources; thus, they can engage in competition with our products and services on the basis of marketing, services or support. They also have the ability to introduce items that compete with our maturing products and services. The threat posed by larger competitors and the goods and services that these companies may be able to produce to our target customers at a lower cost may materially increase our expenses and reduce our revenues. Any material adverse effect on our revenue or cost structure may materially reduce the price of our Common Shares.

Acquisitions, investments, joint ventures and other business initiatives may negatively affect our operating results

We continue to seek out opportunities to acquire or invest in businesses, products and technologies that expand, complement or otherwise relate to our current business. We also consider from time to time, opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. These activities create risks such as the need to integrate and manage the businesses and products acquired with our own business and products, additional demands on our management, resources, systems, procedures and controls, disruption of our ongoing business, and diversion of management's attention from other business concerns. Moreover, these transactions could involve: (i) substantial investment of funds; (ii) substantial investment with respect to technology transfers; and (iii) the acquisition or disposition of product lines or businesses. Also, such activities could result in one-time charges and expenses and have the potential to either dilute the interests of existing shareholders or result in the assumption of debt. Such acquisitions, investments, joint ventures or other business collaborations may involve significant commitments of financial and other resources of our company. Any such activity may not be successful in generating revenue, income or other returns to us, and the financial or other resources committed to such activities will not be available to us for other purposes. Our inability to address limited growth opportunities for products, as well our inability to address other risks associated with other acquisitions or investments in businesses, may negatively affect our operating results. In addition, impairment of goodwill or other intangible assets acquired in an acquisition or in an investment, or charges to earnings associated with any acquisition or investment activity, may materially reduce our earnings which, in turn, may have an adverse material effect on the price of our common shares.

Our acquisition activity may lead to a material increase in the incurrence of debt which may adversely affect our finances

If appropriate, we may borrow money to provide the funds necessary to pay for the shares of the companies we acquire. The interest costs generated under debt obligation may materially increase our operating expenses which may materially and adversely affect our profitability as well as the price of our Common Shares. Our ability to pay the interest and repay the principal for the indebtedness we incur as a result of our acquisition activity depends upon our ability to manage our business operations and our financial resources.

Businesses we acquire may have disclosure controls and procedures and internal controls over financial reporting that are weaker than or otherwise not in conformity with ours

We have a history of acquiring complementary businesses with varying levels of organizational size and complexity. Upon consummating an acquisition, we seek to implement our disclosure controls and procedures as well as our internal controls over financial reporting at the acquired company as promptly as possible. Depending upon the size and complexity of the business acquired, the implementation of our disclosure controls and procedures as well as the implementation of our internal controls over financial reporting at an acquired company may be a lengthy process. Typically, we conduct due diligence prior to consummating an acquisition; however, our integration efforts may periodically expose deficiencies in the disclosure controls and procedures as well as in internal controls over financial reporting of an acquired company. We expect that the process involved in completing the integration of our own disclosure controls and procedures as well as our own internal controls

Table of Contents

over financial reporting at an acquired business will sufficiently correct any identified deficiencies. However, if such deficiencies exist, we may not be in a position to comply with our periodic reporting requirements and, as a result, our business and financial condition may be materially harmed.

We must continue to manage our growth or our operating results could be adversely affected

Our markets have continued to evolve at a rapid pace. Moreover, we have grown significantly through acquisitions in the past and continue to review acquisition opportunities as a means of increasing the size and scope of our business. Finally, we have been subject to increased regulation, including various NASDAQ rules and Section 404 of the Sarbanes-Oxley Act of 2002, which has necessitated a significant use of our resources to comply with the increased level of regulation on a timely basis. Our growth, coupled with the rapid evolution of our markets and more stringent regulations, have placed, and will continue to place, significant strains on our administrative and operational resources and increased demands on our internal systems, procedures and controls. Our administrative infrastructure, systems, procedures and controls may not adequately support our operations or compliance with such regulations. In addition, our management may not be able to achieve the rapid, effective execution of the product and business initiatives necessary to successfully implement our operational and competitive strategy and to comply with all regulatory rules. If we are unable to manage growth effectively, or comply with such new regulations, our operating results will likely suffer. Our inability to manage growth or adapt to regulatory changes may also adversely affect our compliance with our periodic reporting requirements or listing standards, which could result in the delisting of our common shares from the NASDAQ stock market or in our failure to comply with the rules and the regulations of the SEC.

Future changes to the securities disclosure laws may materially increase our administrative expenses and adversely affect our ability to obtain director and officer liability insurance on favorable terms

Throughout the course of the present decade, securities disclosure laws have become more thorough and exacting. As a result, we have been obliged to materially increase our administrative expenses to meet the higher standards set by these laws. For example, compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as well as with the rules and regulations of the SEC and the NASDAQ, has resulted in a higher level of internal costs and fees from our independent accounting firm and as well as from external consultants. These costs may materially increase as we respond and adapt to future changes to a complex regulatory regime. Such changes could also adversely affect our ability to obtain certain types of insurance at a reasonable cost, including director and officer liability insurance. As a result, we may be forced to accept reduced policy limits and coverage and/or incur substantially higher premiums and related costs to obtain the same or similar coverage. The increased difficulty to obtain affordable director and officer liability insurance could also make it more difficult for us to attract and retain qualified persons to serve: (i) on our Board of Directors; (ii) on committees of our Board of Directors; or (iii) as executive officers.

Changes in accounting may affect our reported earnings and operating income

Generally accepted accounting principles and accompanying accounting pronouncements, implementation guidelines, and interpretations for many aspects of our business, such as revenue recognition for our products and services, accounting for investments, and treatment of goodwill or amortizable intangible assets, are highly complex and involve subjective judgments. Changes in these rules or their interpretation could significantly change our reported earnings and operating income and could add significant volatility to those measures, but may have no effect on our generation of cash flow from operations.

If we are not able to attract and retain top employees, our ability to compete may be harmed

Our performance is substantially dependent on the performance of our executive officers and key employees. The loss of the services of any of our executive officers or other key employees could significantly harm our business. We do not maintain key person life insurance policies on any of our employees. Our

Table of Contents

success is also highly dependent on our continuing ability to identify, hire, train, retain and motivate highly qualified management, technical, sales and marketing personnel. In particular, the recruitment of top research developers and experienced salespeople remains critical to our success. Competition for such people is intense, substantial and continuous, and we may not be able to attract, integrate or retain highly qualified technical, sales or managerial personnel in the future. In addition, in our effort to attract and retain critical personnel, we may experience increased compensation costs that are not offset by either improved productivity or higher prices for our products or services.

Our awards of stock options to employees may have an adverse impact on our operations

A portion of our total compensation program for our executive officers and key personnel includes the award of options to buy our Common Shares. If the price of our Common Shares performs poorly, such performance may adversely affect our ability to retain or attract critical personnel. In addition, any changes made to our stock option policies, or to any other of our compensation practices, which are made necessary by governmental regulations or competitive pressures could affect our ability to retain and motivate existing personnel and recruit new personnel.

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

The decision by a customer to purchase our products often involves a comprehensive implementation process across our customer's network or networks. As a result, licenses of these products may entail a significant commitment of resources by prospective customers, accompanied by the attendant risks and delays frequently associated with significant expenditures and lengthy sales cycle and implementation procedures. Given the significant investment and commitment of resources required by an organization to implement our software, our sales cycle may be longer compared to companies in other industries. Over the past fiscal year, we have experienced a lengthening of our sales cycle as customers include more personnel in their decisions and focus on more enterprise-wide licensing deals. In an economic environment of reduced information technology spending, it may take several months, or even several quarters, for marketing opportunities to materialize. If a customer's decision to license our software is delayed or if the installation of our products takes longer than originally anticipated, the date on which we may recognize revenue from these licenses would be delayed. Such delays could cause our revenues to be lower than expected in a particular period.

Our international operations expose us to business risks that could cause our operating results to suffer

We intend to continue to make efforts to increase our international operations and anticipate that international sales will continue to account for a significant portion of our revenue. These international operations are subject to certain risks and costs, including the difficulty and expense of administering business and compliance abroad, compliance with domestic and foreign laws (including without limitation domestic and international import and export laws and regulations), costs related to localizing products for foreign markets, and costs related to translating and distributing products in a timely manner. International operations also tend to be subject to a longer sales and collection cycle. In addition, regulatory limitations regarding the repatriation of earnings may adversely affect the transfer of cash earned from foreign operations. Significant international sales may also expose us to greater risk from political and economic instability, unexpected changes in Canadian, United States or other governmental policies concerning import and export of goods and technology, regulatory requirements, tariffs and other trade barriers. Additionally, international earnings may be subject to taxation by more than one jurisdiction, which may materially adversely affect our effective tax rate. Also, international expansion may be more difficult, time consuming, and costly. As a result, if revenues from international operations do not offset the expenses of establishing and maintaining foreign operations, our operating results will suffer. Moreover, in any given quarter, foreign exchange rates may adversely affect our revenue, earnings or other financial measures.

Table of Contents***Unanticipated expenses may affect operating results***

We incur operating expenses based upon anticipated revenue trends. Since a high percentage of these expenses are relatively fixed, a delay in recognizing revenue from transactions related to these expenses could cause significant variations in operating results from quarter to quarter and, as a result, such a delay could materially reduce operating income. If these expenses are not subsequently followed by revenues, our business, financial condition, or results of operations could be materially and adversely affected. In addition, we often undertake initiatives to restructure or to streamline our operations. We may incur costs associated with implementing these initiatives which exceed by a material amount the estimates for these costs that we calculated when we developed these initiatives. Some of these restructuring costs may have to be treated as expenses which would decrease our net income and earnings per share for the periods in which those adjustments are made. We will continue to evaluate our operations, and may propose future restructuring actions as a result of changes in the marketplace, including the exit from less profitable operations or the decision to terminate services which are not valued by our customers. Any failure to successfully execute these initiatives on a timely basis may have a material adverse impact on our operations.

Our products may contain defects that could harm our reputation, be costly to correct, delay revenues, and expose us to litigation

Our products are highly complex and sophisticated and, from time to time, may contain design defects or software errors that are difficult to detect and correct. Errors may be found in new software products or improvements to existing products after commencement of shipments to our customers. If these defects are discovered, we may not be able to successfully correct such errors in a timely manner. In addition, despite the extensive tests we conduct on all our products, we may not be able to fully simulate the environment in which our products will operate and, as a result, we may be unable to adequately detect the design defects or software errors which may become apparent only after the products are installed in an end-user's network. The occurrence of errors and failures in our products could result in the delay or the denial of market acceptance of our products; alleviating such errors and failures may require us to make significant expenditure of our resources. The harm to our reputation resulting from product errors and failures may be materially damaging. Since we regularly provide a warranty with our products, the financial impact of fulfilling warranty obligations may be significant in the future. Our agreements with our strategic partners and end-users typically contain provisions designed to limit our exposure to claims. These agreements usually contain terms such as the exclusion of all implied warranties and the limitation of the availability of consequential or incidental damages. However, such provisions may not effectively protect us against claims and the attendant liabilities and costs associated with such claims. Although we maintain errors and omissions insurance coverage and comprehensive liability insurance coverage, such coverage may not be adequate to cover all such claims. Accordingly, any such claim could negatively affect our financial condition.

Failure to protect our intellectual property could harm our ability to compete effectively

We are highly dependent on our ability to protect our proprietary technology. We rely on a combination of copyright, patent, trademark and trade secret laws, as well as non-disclosure agreements and other contractual provisions to establish and maintain our proprietary rights. Although we hold certain patents and have other patents pending, our general strategy is to not seek patent protection. We intend to protect our rights vigorously; however, there can be no assurance that these measures will, in all cases, be successful. Enforcement of our intellectual property rights may be difficult, particularly in some nations outside of North America in which we seek to market our products. While U.S. and Canadian copyright laws, international conventions and international treaties may provide meaningful protection against unauthorized duplication of software, the laws of some foreign jurisdictions may not protect proprietary rights to the same extent as the laws of Canada or of the United States. The absence of harmonized intellectual property laws makes it more difficult to ensure consistent respect for our proprietary rights. Software piracy has been, and is expected to be, a persistent problem for the software industry, and piracy of our products represents a loss of revenue to us. Certain of our license

Table of Contents

arrangements have required us to make a limited confidential disclosure of portions of the source code for our products, or to place such source code into an escrow for the protection of another party. Despite the precautions we have taken, unauthorized third parties, including our competitors, may be able to: (i) copy certain portions of our products; or (ii) reverse engineer or obtain and use information that we regard as proprietary. Also, our competitors could independently develop technologies that are perceived to be substantially equivalent or superior to our technologies. Our competitive position may be adversely affected by our possible inability to effectively protect our intellectual property.

Other companies may claim that we infringe their intellectual property, which could materially increase costs and materially harm our ability to generate future revenue and profits

Claims of infringement are becoming increasingly common as the software industry develops and as related legal protections, including patents, are applied to software products. Although we do not believe that our products infringe on the rights of third-parties, third-parties may assert infringement claims against us in the future. Although most of our technology is proprietary in nature, we do include certain third party software in our products. In these cases, this software is licensed from the entity holding our intellectual property rights. Although we believe that we have secured proper licenses for all third-party software that is integrated into our products, third parties may assert infringement claims against us in the future. Any such assertion may result in litigation or may require us to obtain a license for the intellectual property rights of third-parties. Such licenses may not be available, or they may not be available on reasonable terms. In addition, such litigation could be disruptive to our ability to generate revenue and may result in significantly increased costs as a result of our defense against those claims or our attempt to license the patents or rework our products to ensure they comply with judicial decisions. Any of the foregoing could have a significant adverse impact on our ability to generate future revenue and profits.

The loss of licenses to use third party software or the lack of support or enhancement of such software could adversely affect our business

We currently depend upon a limited number of third-party software products. If such software products were not available, we may experience delays or increased costs in the development of licenses for our products. For a limited number of product modules, we rely on software products that we license from third-parties, including software that is integrated with internally developed software and which is used in our products to perform key functions. These third-party software licenses may not continue to be available to us on commercially reasonable terms, and the related software may not continue to be appropriately supported, maintained, or enhanced by the licensors. The loss by us of the license to use, or the inability by licensors to support, maintain, and enhance any of such software, could result in increased costs or in delays or reductions in product shipments until equivalent software is developed or licensed and integrated with internally developed software. Such increased costs or delays or reductions in product shipments could adversely affect our business.

A reduction in the number or sales efforts by distributors could materially impact our revenues

A significant portion of our revenue is derived from the license of our products through third parties. Our success will depend, in part, upon our ability to maintain access to existing channels of distribution and to gain access to new channels if and when they develop. We may not be able to retain a sufficient number of our existing distributors or develop a sufficient number of future distributors. Distributors may also give higher priority to the sale of products other than ours (which could include competitors' products) or may not devote sufficient resources to marketing our products. The performance of third party distributors is largely outside of our control and we are unable to predict the extent to which these distributors will be successful in marketing and licensing our products. A reduction in sales efforts, a decline in the number of distributors, or a decision by our distributors to discontinue the sale of our products could materially reduce revenue.

Table of Contents

Our products rely on the stability of infrastructure software that, if not stable, could negatively impact the effectiveness of our products, resulting in harm to our reputation and business

Our developments of Internet and intranet applications depend and will depend on the stability, functionality and scalability of the infrastructure software of the underlying intranet, such as the infrastructure software produced by Sun Microsystems, Inc., Hewlett-Packard Company, Oracle, Microsoft and others. If weaknesses in such infrastructure software exist, we may not be able to correct or compensate for such weaknesses. If we are unable to address weaknesses resulting from problems in the infrastructure software such that our products do not meet customer needs or expectations, our reputation, and consequently, our business may be significantly harmed.

Business disruptions may adversely affect our operations

Our business and operations are highly automated and a disruption or failure of our systems may delay our ability to complete sales and to provide services. A major disaster or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations. This possible disruption may materially and adversely affect our future operating results.

Our quarterly revenues and operating results are likely to fluctuate which could materially impact the price of our Common Shares

We experience, and we are likely to continue to experience, significant fluctuations in quarterly revenues and operating results caused by many factors, including:

Changes in the demand for our products and for the products of our competitors;

The introduction or enhancement of products by us and by our competitors;

Market acceptance of enhancements or products;

Delays in the introduction of products or enhancements by us or by our competitors;

Customer order deferrals in anticipation of upgrades and new products;

Changes in the lengths of sales cycles;

Changes in our pricing policies or those of our competitors;

Delays in product installation with customers;

The mix of distribution channels through which products are licensed;

The mix of products and services sold;

Edgar Filing: OPEN TEXT CORP - Form 10-Q

The mix of international and North American revenues;

Foreign currency exchange rates;

Acquisitions;

The timing of restructuring charges taken in connection with any completed acquisition;

General economic and business conditions; and

General political developments, such as international trade policies and the war on terrorism.

A general weakening of the global economy, or economic or business uncertainty created by North American or international political developments, could cancel or delay customer purchases. A cancellation or deferral of even a small number of licenses or delays in the installation of our products could have a material

Table of Contents

adverse effect on our operations in any particular quarter. As a result of the timing of product introductions and the rapid evolution of our business as well as of the markets we serve, we cannot predict whether seasonal patterns experienced in the past will continue. For these reasons, you should not rely upon period-to-period comparisons of our financial results to forecast future performance. Our quarterly revenue and operating results may vary significantly and this possible variance could materially reduce the market price of our Common Shares.

The volatility of our stock price could lead to losses by shareholders

The market price of our Common Shares has been subject to wide fluctuations. Such fluctuations in market price may continue in response to: (i) quarterly variations in operating results; (ii) announcements of technological innovations or new products that are relevant to our industry; (iii) changes in financial estimates by securities analysts; or (iv) other events or factors. In addition, financial markets experience significant price and volume fluctuations that particularly affect the market prices of equity securities of many technology companies. These fluctuations have often resulted from the failure of such companies to meet market expectations in a particular quarter, and thus such fluctuations may or may not be related to the underlying operating performance of such companies. Broad market fluctuations or any failure of our operating results in a particular quarter to meet market expectations may adversely affect the market price of our Common Shares. Occasionally, periods of volatility in the market price of a company's securities may lead to the institution of securities class action litigation against a company. Due to the volatility of our stock price, we may be the target of such securities litigation in the future. Such legal action could result in substantial costs to defend our interests and a diversion of management's attention and resources, each of which would have a material adverse effect on our business and operating results.

We may become involved in litigation that may materially adversely affect us

From time to time in the ordinary course of our business, we may become involved in various legal proceedings, including commercial, product liability, employment, class action and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause us to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any such actions may have a material adverse effect on our business, operations or financial condition.

We may have exposure to greater than anticipated tax liabilities

We are subject to income and other taxes in a variety of jurisdictions and our tax structure is subject to review by both domestic and foreign taxation authorities. The determination of our worldwide provision for income taxes and of other tax liabilities requires significant judgment. Although we believe our estimates are reasonable, the ultimate outcome with respect to the taxes we owe may differ from the amounts recorded in our financial statements, and this difference may materially affect our financial results in the period or periods for which such determination is made.

Table of Contents

Item 4. Submission of Matters to a Vote of Security Holders

We held our annual meeting of shareholders on December 6, 2007. The following actions were voted upon at the meeting:

1. The following individuals were elected to our Board of Directors, to hold office until the next annual meeting of shareholders, or until their successors are elected or appointed. The outcome of the vote was carried by a show of hands.

Name

P. Thomas Jenkins

John Shackleton

Randy Fowlie

Brian J. Jackman

Ken Olisa

Stephen J. Sadler

Michael Slaunwhite

Gail Hamilton

2. The shareholders approved the re-appointment of KPMG LLP as our independent auditors until the next annual meeting of shareholders and that our Board of Directors be authorized to fix the auditors' remuneration. The outcome of the vote was carried by a show of hands.

3. The shareholders approved a resolution to approve the continuation, amendment and restatement of the Company's Shareholders Rights Plan. There were 40,103,724 Common Shares voted in favour of the motion and there were 1,883,125 Common Shares voted against the motion.

Item 5. Other Information

Director Compensation

We note that there were certain non-material discrepancies relating to our disclosure of annual compensation paid to non-employee directors within Item 11 of Part III of our most recently filed Annual Report in Form 10-K for the fiscal year ended June 30, 2007.

The following table sets forth the amended information concerning fees earned or paid in cash included as part of annual compensation received by the non-employee directors of Open Text Corporation for the fiscal year ended June 30, 2007.

Director	Fees earned or paid in cash	
	(\$)	
Randy Fowlie	\$	86,375
Brian J. Jackman	\$	68,125
Ken Olisa	\$	54,500
Stephen J. Sadler	\$	42,500
Michael Slaunwhite	\$	66,875
Gail Hamilton	\$	27,500
Carol Gavin	\$	16,250
Peter Hault	\$	10,000

Table of Contents

Item 6. Exhibits

The following exhibits are filed with this report:

Exhibit

Number	Description of Exhibit
31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

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

OPEN TEXT CORPORATION

Date: February 8, 2008

By: */s/* JOHN SHACKLETON
John Shackleton
President and Chief Executive Officer

/s/ PAUL McFEETERS
Paul McFeeters
Chief Financial Officer

Table of Contents

OPEN TEXT CORPORATION

Index to Exhibits

Exhibit

Number	Description of Exhibit
31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.