Quotient Ltd
Form 424B5
December 07, 2018
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-226800

PROSPECTUS SUPPLEMENT

(To Prospectus dated August 24, 2018)

9,230,770 Shares

Ordinary Shares

We are offering 9,230,770 of our ordinary shares of no par value per share. Our ordinary shares are listed on The Nasdaq Global Market under the symbol QTNT. The last reported sale price of our ordinary shares on December 6, 2018 was $6.97 per share.

We are an emerging growth company under the federal securities laws and are subject to reduced public company reporting requirements.

Investing in our ordinary shares involves a high degree of risk. You should carefully review the risks and uncertainties described under the heading Risk Factors beginning on page S-9 of this prospectus supplement and under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE $	TOTAL $
Public offering price	6.50	60,000,005
Underwriting discounts and commissions [1]	0.39	3,600,000
Proceeds, before expenses, to us	6.11	56,400,005

(1) See Underwriting for additional information regarding the compensation payable to the underwriters.
Delivery of the ordinary shares is expected to be made on or about December 11, 2018. We have granted the underwriters an option for a period of 30 days to purchase up to an additional 1,384,615 ordinary shares from us. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $4,140,000, and the total proceeds to us, before expenses, will be $64,860,002.

Joint Book-Running Managers

Jefferies **Cowen**

Prospectus Supplement dated December 6, 2018.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is part of a registration statement that was filed with the Securities and Exchange Commission, or the SEC, using a shelf registration process and consists of two parts. The first part is the prospectus supplement, including the documents incorporated by reference herein, which describes the specific terms of this offering. The second part, the accompanying prospectus, including the documents incorporated by reference therein, provides more general information. In general, when we refer only to the prospectus, we are referring to both parts of this document combined. Before you invest, you should carefully read this prospectus supplement, the accompanying prospectus, all information incorporated by reference herein and therein, as well as the additional information described under the heading Where You Can Find More Information. These documents contain information you should carefully consider when deciding whether to invest in our ordinary shares.

This prospectus supplement may add, update or change information contained in the accompanying prospectus. To the extent there is a conflict between the information contained in this prospectus supplement and the accompanying prospectus, you should rely on information contained in this prospectus supplement, provided that if any statement in, or incorporated by reference into, one of these documents is inconsistent with a statement in another document having a later date, the statement in the document having the later date modifies or supersedes the earlier statement. Any statement so modified will be deemed to constitute a part of this prospectus only as so modified, and any statement so superseded will be deemed not to constitute a part of this prospectus.

We have not, and the underwriters have not, authorized anyone to provide you with information different than or inconsistent with the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and in any free writing prospectus that we have authorized for use in connection with this offering. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may provide to you. The information contained in this prospectus supplement, the accompanying prospectus, and in the documents incorporated by reference herein or therein is accurate only as of the date such information is presented. Our business, financial condition, results of operations and prospects may have changed since that date.

We further note that the representations, warranties and covenants made by us in any agreement that is filed as an exhibit either to the registration statement of which the accompanying prospectus is a part or any document incorporated by reference in this prospectus supplement or the accompanying prospectus were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreement, and should not be deemed to be a representation, warranty or covenant made to you or for your benefit. Moreover, such representations, warranties or covenants were accurate only as of the date they were made. Accordingly, such representations, warranties and covenants should not be relied on as accurately representing the current state of our affairs.

This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the ordinary shares to which this prospectus supplement relates, nor do this prospectus supplement and the accompanying prospectus constitute an offer to sell securities, or the solicitation of an offer to buy securities, in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Our trademark portfolio includes both United States and foreign trademark registrations and pending United States and foreign trademark applications. Other trademarks or trade names referred to in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference herein or therein are the property of their respective owners. Solely for convenience, the trademarks and trade names in this prospectus and the documents incorporated by reference herein and therein are generally referred to without the ® and symbols, but such references should not be construed as any indicator that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto.

Certain market and industry data and forecasts included in or incorporated by reference in this prospectus supplement and the accompanying prospectus were obtained from independent market research, industry publications and surveys, governmental agencies and publicly available information. We did not fund and are not otherwise affiliated with the third-party sources that we cite. Industry surveys, publications and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. While we are not aware of any misstatements regarding the market or industry data presented or incorporated by reference in this prospectus supplement and the accompanying prospectus, our estimates involve risks and uncertainties and are subject to change based on various factors, including those described under the heading Risk Factors in this prospectus supplement and under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018, which are incorporated by reference in this prospectus supplement. These and other important factors could result in our estimates and assumptions being materially different from future results. You should read the information contained in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus completely and with the understanding that future results may be materially different and worse from what we expect. See the information included under the heading Forward-Looking Statements.

Our fiscal year ends on March 31. Unless otherwise noted, any reference to a year preceded by the word fiscal refers to the twelve months ended March 31 of that year. For example, references to fiscal 2018 refer to the twelve months ended March 31, 2018. Any reference to a year not preceded by fiscal refers to a calendar year.

For investors outside of the United States: We have not done anything that would permit possession or distribution of this prospectus supplement and the accompanying prospectus in any jurisdiction where action for that purpose is required, other than the United States. Persons outside of the United States who come into possession of this prospectus supplement and the accompanying prospectus must inform themselves about, and observe any restrictions relating to, the offering of the securities and the distribution of this prospectus supplement and the accompanying prospectus outside of the United States.

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PROSPECTUS SUPPLEMENT SUMMARY

This prospectus supplement summary highlights certain information appearing elsewhere in this prospectus supplement, in the accompanying prospectus and in the documents we incorporate by reference herein and therein. However, as this is a summary, it does not contain all of the information that you should consider before deciding to invest in our ordinary shares. You are encouraged to carefully read this entire prospectus supplement and the accompanying prospectus, together with all documents incorporated by reference herein and therein, and any related free writing prospectus, including the information provided under the heading Risk Factors in this prospectus supplement and under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018, which we refer to as our FY 2018 10-K and is incorporated by reference into this prospectus supplement, and under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes in our FY 2018 10-K and in our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2018 and September 30, 2018 and are also incorporated by reference into this prospectus supplement.

Unless the context requires otherwise, references in this prospectus supplement to Quotient, the Company, we, us and our refer to Quotient Limited and its consolidated subsidiaries.

Overview

We are a commercial-stage diagnostics company committed to reducing healthcare costs and improving patient care through the provision of innovative tests within established markets. Our initial focus is on blood grouping and donor disease screening, which is commonly referred to as transfusion diagnostics. Blood grouping involves specific procedures performed at donor or patient testing laboratories to characterize blood, which includes antigen typing and antibody detection. Disease screening involves the screening of donor blood for unwanted pathogens using two different methods, a serological approach (testing for specific antigens or antibodies) and a molecular approach (testing for DNA or RNA).

We have over 30 years of experience developing, manufacturing and commercializing conventional reagent products used for blood grouping within the global transfusion diagnostics market. We are developing MosaiQ , our proprietary technology platform, to better address the comprehensive needs of this large and established market. MosaiQ will initially comprise two separate microarrays, one for immunohematology (blood grouping), or IH, and one for serological disease screening, or SDS, and a high-throughput instrument. We are also developing a third microarray for molecular disease screening. We believe MosaiQ has the potential to transform transfusion diagnostics, significantly reducing the cost of blood grouping in the donor and patient testing environments, while improving patient outcomes.

We have designed MosaiQ to offer a breadth of diagnostic tests that is unmatched by existing commercially available transfusion diagnostic instrument platforms. Time to result for MosaiQ is expected to be significantly quicker than existing methods for extended antigen typing and antibody detection and is expected to be equivalent to the time to result for current instrument platforms performing basic antigen typing. We believe that customer adoption of MosaiQ will lead to improved patient outcomes through better and easier matching of donor and patient blood, given cost-effective extended antigen typing offered by MosaiQ. Improved patient outcomes using MosaiQ include the potential for reduced incidence of alloimmunization, where the patient develops antibodies to foreign antigens introduced to the body through transfused blood. Cost savings and efficiencies should also be available to customers that adopt MosaiQ, as a result of:

comprehensive characterization of donor or patient blood, eliminating the need for routine manual testing typically undertaken by skilled technicians;

simplification of required consumables and testing processes;

consolidation of multiple instrument platforms in donor testing laboratories;

significant reduction of sample volume requirements;

reduction of consumable and reagent waste; and

more streamlined processes for matching donor units to patients.

We have designed MosaiQ to match the existing performance of automated platforms used by donor testing laboratories for serological disease screening. We also believe the incorporation of molecular disease screening on MosaiQ will offer considerable advantages over existing approaches in use by donor testing laboratories, delivering operational cost savings and a reduced time to result, while also eliminating the need to pool samples.

Our initial aim is to provide donor testing laboratories with a single instrument platform to be utilized for blood grouping and, if applicable, both serological and molecular disease screening for donated red blood cells and plasma. We expect there to be two blood grouping microarrays, one for the donor testing market and one for the patient testing market. We refer to the blood grouping microarrays as the MosaiQ IH Microarray. We refer to the serological disease screening microarrays as the MosaiQ SDS Microarray. The initial MosaiQ SDS Microarray will comprise assays to detect CMV and Syphilis. We expect to follow our initial MosaiQ SDS Microarray launch with the launch of a range of additional MosaiQ SDS II Microarrays incorporating all remaining mandated serological disease screening assays, depending upon the final application for the product. Based on historical annual blood donations collected by our key target donor testing customers, we estimate that the potential market for MosaiQ microarrays (for blood grouping, serological disease screening and molecular disease screening) should exceed 100 million microarrays per annum following receipt of applicable regulatory clearances and approvals for MosaiQ.

We also believe that MosaiQ may have the potential for use beyond transfusion diagnostics in the larger clinical diagnostics market, and are evaluating the potential for our technology as a platform for diagnosis and monitoring of other disease states. We have identified opportunities for future partnership and development in relation to disease states for which a broad array of tests are required using multiple testing modalities for a single diagnosis or for ongoing therapy monitoring.

We have a proven track record and significant expertise in product development, manufacturing and quality assurance, tailored to the highly regulated transfusion diagnostics market. We currently derive revenue from a portfolio of products used for blood grouping, as well as whole blood controls used daily for quality assurance testing of third-party blood grouping instruments. We have introduced a range of U.S. Food and Drug Administration, or the FDA, licensed products in the United States under the Quotient brand, which we sell directly to donor testing laboratories, hospitals and independent patient testing laboratories. We also develop, manufacture and sell conventional reagent products to original equipment manufacturers, or OEMs, such as Ortho-Clinical Diagnostics, Inc., or Ortho, Bio-Rad Laboratories, Inc. and Grifols S.A. In March and June 2017, the FDA licensed a range of conventional reagent products developed and manufactured by us for use on instrument and semi-manual testing platforms commercialized by Ortho.

Recent Developments

MosaiQ Update

In June 2018, we reported the preliminary concordance results from the European Union field trial for our initial MosaiQ IH Microarray.

In September 2018, we submitted the completed dossier for the CE marking of the initial MosaiQ IH Microarray, and we successfully completed a regulatory audit required for the consolidation of our liquid reagent manufacturing into our recently completed new conventional reagents manufacturing facility near Edinburgh, Scotland.

In addition, in September 2018, we reported the final concordance results of our field trials for the MosaiQ IH Microarray, and, in December 2018, we reported verification and validation, or V&V, concordance data for the initial MosaiQ SDS Microarray.

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MosiaQ IH Microarray Assay Performance

Greater than 3,000 donor samples were tested in the field trial and the results compared with predicate technologies. A summary of the internally audited head-to-head data submitted with the CE mark filing is set out below:

Antigen Typing

BLOOD GROUP ANTIGEN	A	B	D	C	C	E	E	CW	K	K
Concordance	99.9%	99.4%	99.5%	99.9%	99.6%	100.0%	99.9%	100.0%	99.9%	100.0%

The above results imply overall concordance of 99.8% for MosaiQ as compared to an established target of 99%.

Antibody Detection

The internally audited field trial head-to-head data for antibody detection achieved 97.4% concordance as compared to an established target of 95%.

In October 2018, we completed the self certification process required to CE mark the MosaiQ instrument and also successfully concluded the ISO 13485 : 2016 audit of the MosaiQ microarray manufacturing facility in Eysins, Switzerland. Both are critical steps to pave the way for the future commercialization of the MosaiQ microarray once approved for sale in Europe.

MosaiQ SDS Microarray Assay Performance

Results of the V&V head-to-head study for the initial MosaiQ SDS Microarray used for the detection of CMV and Syphilis achieved the required performance compared with predicate technologies. The V&V data, which were derived using microarrays manufactured in our ISO-audited manufacturing facility and run on the recently CE-marked MosaiQ instrument, represent the final step before moving to field trials for the initial MosaiQ SDS Microarray currently planned for early 2019.

A summary of the V&V head-to-head study results for our initial MosaiQ SDS Microarray are set out below:

PATHOGEN

	SENSITIVITY %	SPECIFICITY %
CMV	98.5%	98.8%
Syphilis	100.0%	99.9%

In this V&V study, a total of 1,126 samples were tested for both CMV and Syphilis.

Regulatory and Commercial Milestones

Having filed for European CE marking of our initial MosaiQ IH Microarray in September 2018, we expect to file for European CE marking of our initial MosaiQ SDS Microarray in the first half of 2019.

We expect to commence U.S. field trials for our initial MosaiQ SDS Microarray in the first half of 2019, and to file for U.S. regulatory approval of our initial MosaiQ SDS Microarray in the second half of 2019.

We have already received invitations to participate in tenders in Europe subject to regulatory approval of our initial MosaiQ IH Microarray.

We plan to continue to expand MosaiQ s IH antigen testing menu and we expect to commence U.S. field trials with the expanded IH antigen testing menu during the first half of 2019.

We expect to file for U.S. and European regulatory approval for the expanded MosaiQ IH Microarray during the second half of 2019.

We expect to commence field trials in the U.S. and Europe for the MosaiQ SDS II Microarray in the first half of 2020.

We expect to commence field trials in the U.S. and Europe for MosaiQ s IH Microarray for the patient testing market in the first half of 2020.

We expect to file for U.S. and European regulatory approval for MosaiQ s IH Microarray for the patient testing market in the second half of 2020.

Modifications to our Senior Notes

On December 4, 2018, we announced the receipt of consents from all of the holders, or the Consenting Holders, of our outstanding $120.0 million aggregate principal amount of 12% senior secured notes due 2023, or our Senior Notes, to certain amendments, or the Proposed Amendments, to the indenture governing the Senior Notes and the Senior Notes. The Proposed Amendments include a six-month extension of the final maturity of the Senior Notes to April 2024 and a revision of the Senior Notes principal amortization (currently scheduled to commence semi-annually beginning April 2019) to commence April 2021, in order to better align the maturity and amortization schedule with our financial goals. The revised amortization schedule will defer approximately $39.6 million of principal amortization currently scheduled to occur between April 2019 and April 2021. In addition, the Proposed Amendments include a one-year extension of the optional redemption call schedule to October 2022. The Consenting Holders also approved amendments to permit us to issue up to an additional $25.0 million aggregate principal amount of Senior Notes following the European CE marking of our initial MosaiQ IH Microarray.

In consideration for these modifications, we have agreed to pay to the Consenting Holders a one-time consent payment of $32.50 per $1,000 principal amount of Senior Notes, representing an aggregate consent payment of $3.9 million, or the Consent Payment. In addition, we have agreed to enter into royalty rights agreements, or the Consent Royalty Rights Agreements, with each of the Consenting Holders, pursuant to which we will issue to such holders the right to receive, in the aggregate, a payment equal to 1.0% of the aggregate net sales of MosaiQ instruments and consumables in the donor testing market in the European Union and the United States, which will effectively increase the aggregate amount of royalty rights we have issued in connection with the Senior Notes from 2% to 3%.

On December 4, 2018, we entered into a supplemental indenture, or the Supplemental Indenture, to the indenture governing the Senior Notes, which provides for the Proposed Amendments. The Supplemental Indenture became effective on December 4, 2018, but the Proposed Amendments will not become operative until the Depository Trust Company issues certain proxies formally confirming the Consenting Holders ability to act as record holders of our Senior Notes, we pay in full the Consent Payment and we and each of the Consenting Holders enter into the Consent Royalty Rights Agreements. We expect to pay the Consent Payment and enter into the Consent Royalty Rights Agreements promptly following the receipt of such proxies, which we expect to occur by December 31, 2018.

For additional information about the terms of the consents and the Supplemental Indenture, and the expected terms of the Consent Royalty Rights Agreements, see our Current Report on Form 8-K filed with the SEC on December 5, 2018, and incorporated by reference herein.

Short-Term Liquidity

The audited consolidated financial statements appearing in our FY 2018 10-K were prepared assuming we would continue as a going concern. In the notes to these financial statements, we disclosed that: (i) we had incurred net losses and negative cash flows from operations in each year since we commenced operations in 2007; (ii) as of March 31, 2018, we had an accumulated deficit of $275.6 million; and (iii) we had expenditure plans for the year ending March 31, 2018 that were in excess of our current cash and short-term investment balances, raising substantial doubt about our ability to continue as a going concern. On June 29, 2018, we issued an additional $36.0 million aggregate principal amount of Senior Notes and, from April 1, 2018 through July 31, 2018, 8,414,683 warrants issued in our October 2017 private placement of ordinary shares and warrants were exercised for 8,414,683 ordinary shares at $5.80 per share, generating $48.8 million of proceeds.

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In its audit report related to these financial statements, our independent registered public accounting firm, Ernst & Young LLP, made reference to our disclosure regarding substantial doubt about our ability to continue as a going concern. We expect to fund our operations, including the ongoing development of MosaiQ to commercialization from our existing cash and short-term investment balances and the issuance of new equity (including this offering) or debt (including, following the date the Proposed Amendments become operative and subject to certain conditions, additional Senior Notes, as described above under Recent Developments Modifications to our Senior Notes). We expect additional financing to be available from these funding sources.

Corporate History and Information

Quotient Limited is a limited liability no par value company incorporated under the laws of Jersey, Channel Islands. Our registered address is 28 Esplanade, St. Helier, JE2 3QA, Jersey, Channel Islands. Our agent for service of process is our wholly owned U.S. subsidiary, Quotient Biodiagnostics, Inc., 301 South State Street, Suite S-204, Newton, Pennsylvania 18940.

We were incorporated in Jersey, Channel Islands in 2012. Our principal executive offices are located at B1, Business Park Terre Bonne, Route de Crassier 13, 1262 Eysins, Switzerland, and our telephone number is 011-41-22-716-9800. Our website address is *www.quotientbd.com*. Information contained on, or accessible through, our website is not incorporated by reference into this prospectus supplement and should not be considered to be part of this prospectus supplement, and you should not rely on any such information in making the decision whether to purchase our securities.

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THE OFFERING

Issuer:	Quotient Limited
Ordinary shares offered by us:	9,230,770 shares
Ordinary shares to be outstanding immediately after this offering:	63,460,273 shares
Option to purchase additional shares:	We have granted the underwriters an option for a period of 30 days to purchase up to an additional 1,384,615 ordinary shares.
Use of proceeds:	We currently anticipate that we will use the net proceeds received by us to fund the ongoing scale up and, if approved, commercialization of MosaiQ and for working capital and other general corporate purposes. See the information included under the heading Use of Proceeds.
Risk factors:	Investing in our ordinary shares involves a high degree of risk. Before buying any of our ordinary shares, you should carefully read the discussion of material risks of investing in our ordinary shares. Please see the information included under the heading Risk Factors in this prospectus supplement and under the heading Risk Factors in our FY 2018 10-K, which is incorporated by reference in this prospectus supplement.
Nasdaq Global Market symbol:	QTNT

The number of ordinary shares to be outstanding immediately after this offering is based on 54,229,503 ordinary shares outstanding as of September 30, 2018, and excludes the following:

- 725,525 ordinary shares issuable upon the exercise of warrants outstanding as of September 30, 2018, at a weighted average exercise price of $3.32 per ordinary share;

- 2,099,306 ordinary shares issuable upon the exercise of options outstanding as of September 30, 2018, at a weighted-average exercise price of $7.76 per ordinary share;

- 1,071,256 ordinary shares issuable upon the vesting of restricted share units, or RSUs, and multi-year, performance-based restricted share units, or MRSUs, outstanding as of September 30, 2018; and

- 64,357 ordinary shares reserved for future grant or issuance under the Quotient Limited 2014 Stock Incentive Plan as of September 30, 2018 (we refer to this plan, as in effect on September 30, 2018, as the Amended and Restated 2014 Plan).

On October 31, 2018, our shareholders approved the second amendment and restatement of the Quotient Limited 2014 Stock Incentive Plan. We refer to this plan, as amended and restated on October 31, 2018, as the Second Amended and Restated 2014 Plan. The amendments increased the number of ordinary shares authorized for issuance by 550,000 additional ordinary shares pursuant to the terms of the Second Amended and Restated 2014 Plan.

The information set forth above does not reflect the grant of options to purchase 159,552 ordinary shares, the exercise of options to purchase 160 ordinary shares, the grant of 398,673 RSUs, or the vesting of 119,859 RSUs, in each case subsequent to September 30, 2018.

Unless otherwise noted, the information in this prospectus supplement assumes no exercise of the underwriters option to purchase additional shares.

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RISK FACTORS

Investing in our ordinary shares involves a high degree of risk. Before buying any of our ordinary shares, you should carefully consider the risks described below, together with all of the other information included in this prospectus supplement and the accompanying prospectus, together with the information incorporated by reference herein and therein, and any free writing prospectus, including the risks described under the heading Risk Factors in our FY 2018 10-K. Any of these risks could materially adversely affect our business, financial condition and results of operations. As a result, the market price of our ordinary shares could decline, and you could lose all or part of your investment. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations and could result in complete or partial loss of your investment. Certain statements below are forward-looking statements. See the information included under the heading Forward-Looking Statements.

Risks Related to this Offering and our Ordinary Shares

Galen Partners LLP and management own a significant percentage of our ordinary shares and will be able to exercise significant influence over matters subject to shareholder approval.

Certain entities affiliated with Galen Partners LLP and our executive officers and directors, together with their respective affiliates, held 13.5% of our outstanding ordinary shares, as of September 30, 2018. These shareholders will be able to exert a significant degree of influence over our management and affairs and over matters requiring shareholder approval, including the election of our Board of Directors and approval of significant corporate transactions. This concentration of ownership could have the effect of entrenching our management and/or our Board of Directors, delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could have a material and adverse effect on the fair market value of our ordinary shares.

If securities analysts do not continue to cover our ordinary shares or publish unfavorable research or reports about our business, this may have a negative impact on the market price of our ordinary shares.

The trading market for our ordinary shares depends on the research and reports that securities analysts publish about our business and our company. We do not have any control over these analysts. There is no guarantee that securities analysts will continue to cover our ordinary shares. If securities analysts do not cover our ordinary shares, the lack of research coverage may adversely affect the market price of our ordinary shares. If our shares are the subject of an unfavorable report, our share price and trading volume would likely decline. If one or more of these analysts ceases to cover our company or fails to publish regular reports on our company, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

The price of our ordinary shares is likely to be volatile, and purchasers of our ordinary shares could incur substantial losses.

Like other emerging life sciences companies, the market price of our ordinary shares is likely to be volatile. The factors below may also have a material adverse effect on the market price of our ordinary shares:

- fluctuations in our results of operations;

- delays in the planned commercialization of MosaiQ;
- speed and timing of adoption of MosaiQ by key target customers;
- our ability to enter new markets;
- negative publicity;
- changes in securities or industry analyst recommendations regarding our company, the sectors in which we operate, the securities market generally, conditions in the financial markets and the perception of our ability to raise additional funding;
- regulatory developments affecting MosaiQ or our industry, including announcement of new adverse regulatory decisions affecting our industry or MosaiQ;
- announcements of studies and reports relating to our products, including MosaiQ, or those of our competitors;
- changes in economic performance or market valuations of our competitors;

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- actual or anticipated fluctuations in our annual and quarterly financial results;
- conditions in the industries in which we operate;
- announcements by us or our competitors of new products, acquisitions, strategic relations, joint ventures or capital commitments;
- additions to or departures of our key executives and employees;
- fluctuations of exchange rates;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares subject to such restrictions; and
- sales or perceived sales of additional ordinary shares.

In addition, the securities of life sciences companies have recently experienced significant volatility. The volatility of the securities of life sciences companies often does not relate to the operating performance of those companies. As we operate in a single industry, we are especially vulnerable to these factors to the extent that they affect our industry or our products, or to a lesser extent our markets. In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management s attention and resources, and could also require us to make substantial payments to satisfy judgments or to settle litigation.

You will incur immediate and substantial dilution as a result of this offering.

Since the price per share of the ordinary shares being offered is substantially higher than the net tangible book value per share of our ordinary shares, you will suffer immediate and substantial dilution in the net tangible book value of the ordinary shares you purchase in this offering. Based on the public offering price of $6.50 per share, if you purchase ordinary shares in this offering, you will suffer immediate dilution of $5.86 per share with respect to the net tangible book value of the ordinary shares. See Dilution.

Substantial future sales of our ordinary shares in the public market, or the perception that these sales could occur, could cause the price of our ordinary shares to decline, irrespective of the underlying performance of our business.

Additional sales of our ordinary shares in the public market after this offering, and in particular sales by our directors, executive officers and principal shareholders, or the perception that these sales could occur, could cause the market price of our ordinary shares to decline. Approximately 8,306,556 ordinary shares directly or indirectly owned by our executive officers, directors and certain of our other existing shareholders as of December 4, 2018 will be subject to lock-up agreements with the underwriters of this offering that restrict the sale of ordinary shares by those parties for a period of 90 days after the date of this prospectus supplement. However, all of the ordinary shares sold in this offering and the remaining ordinary shares outstanding prior to this offering (which include certain shares that are held by persons that beneficially own more than 5% of our outstanding ordinary shares) will not be subject to lock-up agreements with the underwriters and, except to the extent such shares are held by our affiliates, will be freely tradable without restriction under the Securities Act. To the extent any of these shares are sold into the market, particularly in substantial quantities, the market price of our ordinary shares could decline.

Management will have broad discretion as to the use of the proceeds from this offering, and we may not use the proceeds effectively.

Our management will have broad discretion as to the application of the net proceeds of this offering and could use them for purposes other than those currently contemplated and may not use them effectively. Our shareholders may not agree with the manner in which our management chooses to allocate and spend the net proceeds. Moreover, our management may use the net proceeds for corporate purposes that may not increase our profitability or our market value. See Use of Proceeds for a description of our management s intended use of the proceeds from this offering. The failure by our management to apply these funds effectively could result in financial losses, and those financial losses could have a material adverse effect on our business and cause the price of our ordinary shares to decline. Pending their use, our management may invest the net proceeds from this offering in a manner that does not produce income.

We may need to raise additional capital, which may not be available on favorable terms, if at all, and which may cause dilution to shareholders, restrict our operations or adversely affect our ability to operate our business.

We expect to fund our operations in the near-term, including the ongoing development of MosaiQ to commercialization, from our existing cash and short-term investment balances and the issuance of new equity (including this offering) or debt (including, following the date the Proposed Amendments become operative and subject to certain conditions, additional Senior Notes, as described in Prospectus Supplement Summary Recent Developments Modifications to our Senior Notes). Our ability to raise additional capital may be significantly affected by general market conditions, the market price of our ordinary shares, our financial condition, uncertainty about the future commercial success of MosaiQ, regulatory developments, the status and scope of our intellectual property, any ongoing litigation, our compliance with applicable laws and regulation and other factors, many of which are outside our control. Furthermore, the indenture governing our Senior Notes contains limitations on our ability to incur debt and issue preferred and/or disqualified stock. Accordingly, we cannot be certain that we will be able to obtain additional financing on favorable terms or at all. If we are unable to obtain needed financing on acceptable terms, or otherwise, we may not be able to implement our business plan, which could have a material adverse effect on our business, financial condition and results of operations, and result in a decline in the trading price of our ordinary shares. Any additional equity financings we pursue could result in additional dilution to our then existing shareholders. In addition, we may enter into additional financings that restrict our operations or adversely affect our ability to operate our business and, if we issue equity, debt or other securities to raise additional capital or restructure or refinance our existing indebtedness, the new equity, debt or other securities may have rights, preferences and privileges senior to those of our existing shareholders.

We have never paid cash dividends and do not intend to pay cash dividends on our ordinary shares in the foreseeable future.

We have never paid dividends on ordinary shares and do not anticipate paying any cash dividends on our ordinary shares in the foreseeable future. In addition, the indenture governing our Senior Notes contains covenants that limit our ability to pay dividends on our ordinary shares. Under Jersey, Channel Islands law, any payment of dividends would be subject to relevant legislation and our Amended Articles of Association provide that all dividends must be approved by our Board of Directors and, in some cases, our shareholders, and may only be paid from our distributable profits available for the purpose, determined on an unconsolidated basis.

Risks Related to Government Regulation

Recent global economic and political conditions could result in significant changes to legislation, government policies, rules and regulations, which may have a material adverse effect on our business.

The impact of recent political and economic developments in the United States, the United Kingdom and Europe, including the election of Mr. Donald Trump as president of the United States and the referendum in the United Kingdom in which voters approved an exit from the European Union, commonly referred to as Brexit, are uncertain. These political and economic developments could result in changes to legislation or reformation of government policies, rules and regulations pertaining to the U.S. healthcare system, tax and trade. Such changes could have a significant impact on our business by increasing the cost of doing business, affecting our ability to sell our products and negatively impacting our profitability.

Efforts to repeal and replace the U.S. Patient Protection and Affordable Care Act, or the PPACA, have been ongoing since the 2016 election, but it is unclear if these efforts will be successful. Since January 2017, President Trump has signed two Executive Orders to delay, circumvent or loosen the implementation of certain requirements mandated by the PPACA or otherwise circumvent some of the requirements for health insurance mandated by the PPACA.

In addition, as part of the December 2017 Tax Cuts and Jobs Act, the individual mandate, which required individuals to purchase insurance, was repealed. The PPACA significantly impacts the pharmaceutical and medical device industries and clinical laboratories, and the repeal, replacement or modification of the PPACA, or other legislative or regulatory actions, could meaningfully further change the way healthcare services are delivered and may materially impact aspects of our business. We cannot predict whether future healthcare initiatives will be implemented at the federal or state level or in countries outside of the United States in which we may do business, or the effect any future legislation or regulation will have on us.

Our conventional reagent products are manufactured in Scotland and our MosaiQ instruments and Microarrays will be manufactured in Germany and Switzerland, respectively. There have been public announcements by members of the U.S. Congress, President Trump and his administration regarding the possible implementation of a border tax, tariff or increase in custom duties on products manufactured outside of and imported into the United States, as well as the renegotiation of U.S. trade agreements, and, in March 2018, President Trump issued two proclamations imposing tariffs on imports of certain steel and aluminum products. The implementation of a border tax, tariff or higher customs duties on our products imported into the United States, or any potential corresponding actions by other countries in which we do business, could negatively impact our financial performance.

Lastly, on November 13, 2018, the United Kingdom reached a draft agreement with the European Union as part of its negotiations on the terms of its exit from the European Union. Although it is unknown what the final terms will be, it is possible that there will be greater restrictions on imports and exports between the United Kingdom and European Union countries and increased regulatory complexities. These changes may adversely affect our operations and financial results. For instance, our current notified body for our CE marking of the MosaiQ Microarrays, UL International (UK) Ltd., is located in the United Kingdom. If, as a result of the United Kingdom s exit from the European Union, we must utilize a separate notified body located in the European Union in order to commercialize MosaiQ in the European Union, our ability to commercialize MosaiQ in the European Union may be interrupted or delayed, which may adversely affect our operations and financial results.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, and the documents incorporated by reference herein and therein contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which involve substantial risk and uncertainties. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, and other future conditions, and include estimates and projections. Forward-looking statements can be identified by words such as strategy, objective, anticipate, believe, estimate, expect, intend, may, plan target, potential, will, would, could, should, continue, contemplate, might, design and other simil although not all forward-looking statements contain these identifying words. Although we believe that we have a reasonable basis for each forward-looking statement contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain, and are subject to numerous known and unknown risks and uncertainties.

Forward-looking statements include statements about:

- the development, regulatory approval and commercialization of MosaiQ;
- the design of blood grouping and disease screening capabilities of MosaiQ and the benefits of MosaiQ for both customers and patients;
- future demand for and customer adoption of MosaiQ, the factors that we believe will drive such demand and our ability to address such demand;
- our expected profit margins for MosaiQ;
- the size of the market for MosaiQ;
- the regulation of MosaiQ by the FDA or other regulatory bodies, or any unanticipated regulatory changes or scrutiny by such regulators;
- future plans for our conventional reagent products;
- the status of our future relationships with customers, suppliers, and regulators relating to our conventional reagent products;

- future demand for our conventional reagent products and our ability to meet such demand;
- our ability to manage the risks associated with international operations;
- anticipated changes, trends and challenges in our business and the transfusion diagnostics market;
- the effects of competition;
- the expected outcome or impact of litigation;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- the timing of the completion of the modifications to our outstanding Senior Notes described in Prospectus Supplement Summary Recent Developments Modifications to our Senior Notes;
- our anticipated use of the net proceeds of this offering;
- our anticipated cash needs and our expected sources of funding, including proceeds from the issuance of additional Senior Notes, and our estimates regarding our capital requirements and capital expenditures; and
- our plans for executive and director compensation for the future.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place significant reliance on our forward-looking statements. The inclusion of forward- looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations that we contemplate will be achieved. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. Important factors that could cause actual results and events to differ materially from those indicated in the forward-looking statements include those identified under the heading Risk Factors in this prospectus supplement, the accompanying prospectus or any related free writing prospectus and the factors referenced in our FY 2018 10-K, which is incorporated by reference herein, including those set forth under Risk Factors , Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk therein. These factors should not be construed as exhaustive, and should be read in conjunction with the other cautionary statements included in and incorporated by reference in this prospectus supplement, the accompanying prospectus or any other offering material. As a result of these factors, we cannot assure you that the forward-looking statements in this prospectus supplement will prove to be accurate. Further, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us that we will achieve our objectives and plans in any specified time frame, or at all.

Many important factors, in addition to the factors described in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein or therein, may adversely and materially affect our results as indicated in forward-looking statements. You should read this prospectus supplement, the accompanying prospectus, the documents incorporated by reference herein and therein and the documents that we have filed as exhibits to either the registration statement of which the accompanying prospectus is a part or any document incorporated by reference herein or therein, as well as any prospectus supplement or other offering material, completely and with the understanding that our actual future results may be materially different and worse from what we expect.

The forward-looking statements in this prospectus supplement, the accompanying prospectus, and the documents incorporated by reference herein and therein represent our views as of the date of this prospectus supplement or such document, as applicable. Subsequent events and developments may cause our views to change. While we may elect to update these forward-looking statements at some point in the future, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future developments or otherwise, except as required by law. You should, therefore, not rely on these forward-looking statements as representing our view as of any date subsequent to the date of this prospectus supplement.

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USE OF PROCEEDS

We estimate that the net proceeds of the sale of our ordinary shares in this offering will be approximately $56.1 million, or approximately $64.6 million if the underwriters exercise in full their option to purchase additional ordinary shares from us, after deducting the underwriting discount and estimated offering expenses payable by us.

We currently anticipate that we will use the net proceeds received by us to fund the ongoing scale up and, if approved, commercialization of MosaiQ and for working capital and other general corporate purposes.

Our expected use of the net proceeds from this offering is based upon our present plans and business condition. As of the date of this prospectus supplement, we cannot predict with certainty all of the particular uses for the net proceeds to be received upon the completion of this offering or the amounts that we will actually spend on the uses set forth above. The amounts and timing of our actual use of proceeds will vary depending on numerous factors, including the factors described under the heading Risk Factors in this prospectus supplement and under the heading Risk Factors beginning on page 15 of our FY 2018 10-K, which is incorporated by reference in this prospectus supplement. As a result, management will retain broad discretion over the allocation of the net proceeds from this offering, and investors will be relying on the judgment of our management regarding the application of the net proceeds.

Pending the use of the net proceeds of this offering as described above, we plan to invest the net proceeds of this offering on an interim basis in high-quality, short-term, interest-bearing obligations, investment-grade instruments or certificates of deposit.

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CAPITALIZATION

The following table sets forth our cash, cash equivalents and capitalization as of September 30, 2018:

- on an actual basis;
- on an as adjusted basis, to give effect to our issuance and sale of 9,230,770 ordinary shares at the public offering price of $6.50 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

As described in Prospectus Supplement Summary Recent Developments Modifications to our Senior Notes, we have agreed, subject to certain conditions, to pay the Consent Payment of $3.9 million to, and to enter into the Consent Royalty Rights Agreements with, the Consenting Holders (which agreements will effectively increase the aggregate amount of royalty rights we have issued in connection with the Senior Notes from 2% to 3%). We expect to make this payment and enter into these agreements by December 31, 2018. As described in more detail in the notes to our consolidated financial statements, which are incorporated by reference in this prospectus supplement, the existing royalty rights we have issued are treated as debt in our financial statements, and we expect the royalty rights issued pursuant to the Consent Royalty Rights Agreements will be accounted for similarly. The following table does not reflect the payment of the Consent Payment or the entry into the Consent Royalty Rights Agreements.

	AS OF SEPTEMBER 30, 2018	
	ACTUAL	**AS ADJUSTED**
	(In thousands, except share data)	
Cash and cash equivalents	$ 3,562	$ 59,662
Short-term investments	64,916	64,916
Term debt	$ 122,006	$ 122,006
7% Cumulative redeemable preference shares	18,850	18,850
Shareholders equity (deficit):		
Ordinary shares (no par value), 54,229,503 issued and outstanding actual; 63,460,273 issued and outstanding as adjusted	303,176	359,276
Additional paid in capital	26,211	26,211
Accumulated other comprehensive loss	(15,946)	(15,946)
Accumulated deficit	(328,177)	(328,177)
Total shareholders equity (deficit)	(14,736)	41,364
Total Capitalization	**$ 126,120**	**$ 182,220**

The above does not include:

- 725,525 ordinary shares issuable upon the exercise of warrants outstanding as of September 30, 2018, at a weighted average exercise price of $3.32 per ordinary share;

- 2,099,306 ordinary shares issuable upon the exercise of options outstanding as of September 30, 2018, at a weighted-average exercise price of $7.76 per ordinary share;

- 1,071,256 ordinary shares issuable upon the vesting of RSUs and MRSUs outstanding as of September 30, 2018; and

- 64,357 ordinary shares reserved for future grant or issuance under the Amended and Restated 2014 Plan as of September 30, 2018.

On October 31, 2018, our shareholders approved the Second Amended and Restated 2014 Plan, which increased the number of ordinary shares authorized for issuance by 550,000 additional ordinary shares pursuant to the terms of the Second Amended and Restated 2014 Plan. These ordinary shares are also not included in the table above.

The information set forth above does not reflect the grant of options to purchase 159,552 ordinary shares, the exercise of options to purchase 160 ordinary shares, the grant of 398,673 RSUs, or the vesting of 119,859 RSUs, in each case subsequent to September 30, 2018.

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You should read this table in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in our FY 2018 10-K and our audited consolidated financial statements and related notes for the year ended March 31, 2018 included therein and Management s Discussion and Analysis of Financial Condition and Results of Operations in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 and our unaudited condensed consolidated financial statements and related notes for the quarter and six months ended September 30, 2018 included therein, which are incorporated by reference in this prospectus supplement.

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DIVIDEND POLICY

We have never declared or paid cash dividends on our ordinary shares. We currently intend to retain all available funds and any future earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. Any future determination as to the declaration and payment of dividends, if any, will be made at the discretion of our Board of Directors and will depend on then existing conditions, including our results of operations, financial conditions, contractual restrictions, capital requirements, business prospects and other factors our Board of Directors may deem relevant. In particular, the indenture governing our Senior Notes contains certain restrictive covenants that limit our ability to pay dividends.

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DILUTION

Our net tangible book value as of September 30, 2018 was approximately $(15.5) million, or $(0.29) per share. Net tangible book value per share is determined by dividing our total tangible assets, less total liabilities, by the number of ordinary shares outstanding as of September 30, 2018. Dilution in net tangible book value per share represents the difference between (i) the amount per share paid by investors purchasing ordinary shares in this offering and (ii) the net tangible book value per share immediately after this offering.

After giving effect to the sale of 9,230,770 ordinary shares in this offering at the public offering price of $6.50 per share, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us, our as adjusted net tangible book value as of September 30, 2018 would have been approximately $40.6 million, or $.64 per share. This represents an immediate increase in net tangible book value of $.93 per share to existing shareholders and an immediate dilution in net tangible book value of $5.86 per share to investors purchasing our ordinary shares in this offering.

The following table illustrates this dilution on a per share basis:

Public offering price per share		$ 6.50
Net tangible book value per share as of September 30, 2018	$ (0.29)	
Increase in net tangible book value per share attributable to this offering	$ 0.93	
As adjusted net tangible book value per share after this offering		$ 0.64
Dilution per share to new investors purchasing ordinary shares in this offering		$ 5.86

If the underwriters exercise in full their option to purchase an additional 1,384,615 ordinary shares at the public offering price of $6.50 per share, our as adjusted net tangible book value per share would be $0.76 per share, representing an immediate increase in net tangible book value of $1.05 per share to existing shareholders and immediate dilution in net tangible book value of $5.74 per share to investors purchasing ordinary shares in this offering.

The number of ordinary shares to be outstanding after this offering is based on 54,229,503 ordinary shares outstanding as of September 30, 2018, and excludes the following:

- 725,525 ordinary shares issuable upon the exercise of warrants outstanding as of September 30, 2018, at a weighted average exercise price of $3.32 per ordinary share;

- 2,099,306 ordinary shares issuable upon the exercise of options outstanding as of September 30, 2018, at a weighted-average exercise price of $7.76 per ordinary share;

- 1,071,256 ordinary shares issuable upon the vesting of restricted share units, or RSUs, and multi-year, performance-based restricted share units, or MRSUs, outstanding as of September 30, 2018; and

64,357 ordinary shares reserved for future grant or issuance under the Amended and Restated 2014 Plan as of September 30, 2018.

On October 31, 2018, our shareholders approved the Second Amended and Restated 2014 Plan, which increased the number of ordinary shares authorized for issuance by 550,000 additional ordinary shares pursuant to the terms of the Second Amended and Restated 2014 Plan. These ordinary shares are also not included in the number of ordinary shares to be outstanding after this offering.

The information set forth above does not reflect the grant of options to purchase 159,552 ordinary shares, the exercise of options to purchase 160 ordinary shares, the grant of 398,673 RSUs, or the vesting of 119,859 RSUs, in each case subsequent to September 30, 2018.

To the extent that new options are issued under the Second Amended and Restated 2014 Plan or we issue additional ordinary shares in the future (including upon any exercise of our warrants or options), there will be further dilution to investors participating in this offering. See Risk Factors You will incur immediate and substantial dilution as a result of this offering.

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CERTAIN U.S. FEDERAL TAX CONSIDERATIONS APPLICABLE TO HOLDERS OF ORDINARY SHARES

The following discussion is the opinion of Clifford Chance US LLP as to the material U.S. federal income tax consequences of the investment in an ordinary share, based upon the U.S. Internal Revenue Code of 1986, as amended (the Code), the U.S. Treasury regulations promulgated thereunder, judicial decisions, revenue rulings and revenue procedures of the Internal Revenue Service (IRS), and other administrative pronouncements of the Internal Revenue Service, all available as of the date hereof. This discussion is applicable to U.S. Holders (as defined below) that hold our ordinary shares as capital assets for U.S. federal income tax purposes (generally property held for investment).

For purposes of this discussion you are a U.S. Holder if you are a beneficial owner of an ordinary share that is:

- an individual citizen or resident of the United States, as determined for U.S. federal income tax purposes;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust.

This discussion does not address all U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

- a broker or dealer in securities, commodities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- an S corporation;

- a tax exempt organization;
- a person holding our ordinary shares as part of a hedging, wash sale, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark to market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a U.S. expatriate or former U.S. citizen or long-term resident;
- an investor that holds ordinary shares through a financial account at a foreign financial institution that does not meet the requirements for avoiding withholding with respect to certain payments under Section 1471 of the Code;
- persons who acquired ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation;
- a person who actually or constructively owns 10% or more of our stock by vote or value;
- a person whose functional currency is not the U.S. dollar; or
- a person holding the ordinary shares who is required to accelerate the recognition of any item of gross income for U.S. federal income tax purposes with respect to the ordinary shares as a result of such item being taken into account in an applicable financial statement.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds ordinary shares, the tax treatment of a partner will depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding ordinary shares you should consult your tax advisors.

The authorities upon which this discussion is based are subject to change, which could apply retroactively, and are subject to differing interpretations, either of which could affect the U.S. federal income tax consequences discussed below. This discussion does not address all of the U.S. federal income tax consequences that may apply to you in light of your particular circumstances. Moreover, this discussion does not address any state, local or non-U.S. tax consequences, or any aspects of U.S. federal tax law other than income taxation. **If you are considering an investment in ordinary shares you should consult your own tax advisors concerning the U.S. federal income tax consequences to you in light of your particular circumstances as well as any consequences arising under the laws of any other taxing jurisdiction.**

The discussion below under Distributions and Sale or Other Disposition of Ordinary Shares is subject to the passive foreign investment company (PFIC) rules discussed under Passive Foreign Investment Company. See the discussion under Passive Foreign Investment Company.

Distributions on Ordinary Shares

We currently do no expect to make any distributions to holders of our ordinary shares. If we make any distributions in respect of our ordinary shares, however, such distributions will be includible in a U.S. Holder s income as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax free return of capital, and the balance in excess of a U.S. Holder s adjusted tax basis in the shares will be taxed as capital gain recognized on a sale or exchange. However, we do not expect to calculate our earnings and profits in accordance with U.S. federal income tax principles, and, accordingly, U.S. Holders should expect that a distribution will generally be reported as a dividend (as discussed above) even if that distribution (or a portion thereof) would otherwise be treated as a tax-free return of capital or as capital gain. Such dividends will not be eligible for the dividends received deduction allowed to U.S. corporations for dividends received from other U.S. corporations.

Dividends received from a qualified foreign corporation are treated as qualified dividends provided that an investor holds the stock for at least 61 days within a specified 121-day period beginning on the date which is 60 days before the ex-dividend date and other requirements are satisfied. A non-U.S. corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on shares that are readily tradable on an established securities market in the United States. U.S. Department of the Treasury guidance indicates that shares are considered to be readily tradable on an established securities market in the United States if they are listed on The Nasdaq Global Market, where our ordinary shares are currently listed. Qualified dividends received by non-corporate U.S. Holders, including individuals, are taxed at the rates applicable to long-term capital gains, which are lower than the rates applicable to ordinary income. We should be treated as a qualified foreign corporation so long as we are listed on The Nasdaq Global Market. U.S. Holders should consult their own tax advisors regarding the application of these rules given their particular circumstances.

Generally, dividends will constitute non-U.S. source passive category income for U.S. foreign tax credit purposes. U.S. Holders should consult their own tax advisors regarding how to account for dividends that are paid in a currency other than the U.S. dollar.

Sale or Other Taxable Disposition of Ordinary Shares

A U.S. Holder will recognize U.S. source capital gain or loss upon the sale or other taxable disposition of ordinary shares in an amount equal to the difference between the U.S. dollar value of the amount realized upon the disposition and the U.S. Holder s adjusted tax basis in such ordinary shares. Any capital gain or loss will be long-term if the ordinary shares have been held for more than one year at the time of the sale or other taxable disposition. Certain non-corporate U.S. Holders, including individuals, are eligible for reduced rates of taxation on long-term capital gains.

The deductibility of capital losses is subject to limitations. U.S. Holders should consult their own tax advisors regarding how to account for sale or other disposition proceeds that are paid in a currency other than the U.S. dollar.

Medicare Contribution Tax

Certain U.S. Holders that are individuals, estates or certain trusts must pay a 3.8% tax, or Medicare contribution tax, on their net investment income. Net investment income generally includes, among other things, dividend income and net gains from the disposition of stock. A U.S. Holder that is an individual, estate or trust should consult its tax advisor regarding the applicability of the Medicare contribution tax to its income and gains in respect of its investment in our ordinary shares.

Passive Foreign Investment Company

In general, a non-U.S. corporation is treated as a PFIC for any taxable year in which: (i) at least 75% of its gross income for such year is passive income or (ii) at least 50% of the value (determined on a quarterly basis) of its assets during such year is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, certain royalties and rents and gains from the disposition of passive assets. If a non-U.S. corporation owns, directly or indirectly, at least 25% (by value) of the stock of another corporation, such non-U.S. corporation will be treated, for purposes of the PFIC tests, as owning its proportionate share of the other corporation s assets and receiving its proportionate share of the other corporation s income.

Based on the composition of our income and value of our assets (determined using their fair market values), we do not believe we were a PFIC for our taxable year ended March 31, 2018 and do not currently expect to be a PFIC for the taxable year ending March 31, 2019 or in the foreseeable future. There can be no assurance in this regard, however, because our status as a PFIC is determined by all of the facts, which may change over time, on an annual basis and such determination depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. A non-U.S. corporation is classified as a PFIC in any year in which it meets either the gross income or gross asset test discussed above. This depends on the actual financial results for each tax year in question. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. Because we value our goodwill based on the market value of our equity, a decrease in the price of our ordinary shares may also result in our becoming a PFIC. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raised in offerings.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ordinary shares, such U.S. Holder will be subject to special tax rules with respect to any excess distribution received and any gain realized from a sale or other disposition, including a pledge, of ordinary shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or a U.S. Holder s holding period for the ordinary shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over a U.S. Holder s holding period for the ordinary shares;

- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and

- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to taxable years prior to the year of disposition or excess distribution in which we were a PFIC cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale or other disposition of the ordinary shares cannot be treated as capital gains, even if a U.S. Holder holds the ordinary shares as capital assets. In addition, non-corporate U.S. Holders will not be eligible for reduced rates of taxation on any dividends received from us, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. A U.S. Holder will be required to file Internal Revenue Service Form 8621 (or any other form specified by the U.S. Department of the Treasury) if such U.S. Holder holds our ordinary shares in any year in which we are a PFIC.

If we are a PFIC for any taxable year during which a U.S. Holder holds ordinary shares, our ordinary shares will continue to be treated as interests in a PFIC with respect to that U.S. Holder for all succeeding taxable years during which that U.S. Holder holds our ordinary shares unless we cease to be a PFIC and a U.S. Holder makes a deemed sale election with respect to the ordinary shares. If a U.S. Holder makes a deemed sale election, such U.S. Holder will be deemed to have sold ordinary shares held at their fair market value as of the last day of the last year during which we were a PFIC (the termination date). U.S. Holders are urged to consult their tax advisors regarding our possible status as a PFIC as well as the benefit of making an actual or protective deemed sale election.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, a U.S. Holder may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such stock is regularly traded on a qualified exchange. In general, our ordinary shares will be treated as regularly traded for a given calendar year if more than a *de minimis* quantity of our ordinary shares is traded on a qualified exchange on at least 15 days during each calendar quarter of such calendar year. Our ordinary shares are currently listed on The Nasdaq Global Market, which should be a qualified exchange for this purpose. Consequently, if we are a PFIC and our ordinary shares remain listed and regularly traded on The Nasdaq Global Market, the mark-to-market election will be available to U.S. Holders.

If a U.S. Holder makes an effective mark-to-market election, such U.S. Holder will include in each year as ordinary income the excess of the fair market value of the ordinary shares at the end of the year over the adjusted tax basis in the ordinary shares. Such U.S. Holder will be entitled to deduct as an ordinary loss each year the excess of the adjusted tax basis in the ordinary shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder s adjusted tax basis in the ordinary shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. Any distributions that we make generally will be subject to the rules discussed above under Distributions, except that the lower rate applicable to qualified dividend income will not apply. If a U.S. Holder makes a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years (provided that, for any subsequent taxable year in which we are not a PFIC, a U.S. Holder will not include in income mark-to-market gain or loss) unless the ordinary shares are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. U.S. Holders are urged to consult their tax advisors about the availability and advisability of the mark-to-market election in their particular circumstances.

Investors in certain PFICs can elect to be taxed on their share of the PFIC s ordinary income and net capital gain by making a qualified electing fund election (a QEF election), which, if made, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above under the excess distribution regime. We do not expect that a U.S. Holder will be eligible to make a QEF election with respect to our ordinary shares.

Each U.S. Holder is urged to consult its own tax advisor concerning the U.S. federal income tax consequences of holding ordinary shares if we are a PFIC in any taxable year during its holding period.

Holder Reporting Requirements

Certain U.S. Holders, including individuals and certain entities, that hold specified foreign financial assets, as defined in the Treasury regulations (which may include ordinary shares), other than in an account at a U.S. financial institution or the U.S. branch of a non-U.S. financial institution, are required to report certain information relating to such assets on Internal Revenue Service Form 8938 (Statement of Specified Foreign Financial Asset). U.S. Holders are urged to consult their tax advisors regarding the effect, if any, of this and any other reporting requirements on their ownership and disposition of our ordinary shares. Failure to comply with applicable reporting requirements could result in the imposition of substantial penalties.

A U.S. Holder who acquires ordinary shares for cash may be required to file Internal Revenue Service Form 926 (Return by a U.S. Transferor of Property to a Foreign Corporation) with the IRS and to supply certain additional information to the IRS if the amount of cash transferred to us in exchange for ordinary shares, when aggregated with all related transfers under applicable regulations, exceeds US$100,000. Substantial penalties may be imposed on a U.S. Holder that fails to comply with this reporting requirement.

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Information Reporting and Backup Withholding

A U.S. Holder may be subject to information reporting on amounts received by such U.S. Holder from a distribution on, or disposition of ordinary shares, unless such U.S. Holder establishes that it is exempt from these rules. If a U.S. Holder does not establish that it is exempt from these rules, it may be subject to backup withholding on the amounts received unless it provides a taxpayer identification number and otherwise complies with the requirements of the backup withholding rules. Backup withholding is not an additional tax and the amount of any backup withholding from a payment that is received will be allowed as a credit against a U.S. Holder s U.S. federal income tax liability and may entitle such U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

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JERSEY CHANNEL ISLANDS REGULATORY AND TAX MATTERS

Regulatory Matters

It was a condition to the consummation of this offering that, prior to the pricing of this offering, a copy of this prospectus supplement and the accompanying prospectus shall have been delivered to the registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the registrar shall have given, and not withdrawn, consent to its circulation. Such consent was received on December 5, 2018.

It was a condition to the consummation of this offering that, prior to the pricing of this offering, the Jersey Financial Services Commission shall have given, and not withdrawn, its consent under Article 2 of the Control of Borrowing (Jersey) Order 1958 to the issue of our ordinary shares by our company. Such consent was received on January 1, 2017.

It must be distinctly understood that, in giving these consents, neither the registrar of companies nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of our company or for the correctness of any statements made, or opinions expressed, with regard to it.

As a result of changes to Jersey law on September 25, 2014 permitting us to participate in The Nasdaq Stock Markets direct registration system, in August 2015, we enabled direct registration ownership of our ordinary shares. Please contact your broker-dealer for additional information.

In response to concerns raised in 2017 by the EU Code of Conduct Group on Business Taxation in relation to the need for relevant businesses to demonstrate economic substance in Jersey (among other jurisdictions), Jersey has lodged the draft Taxation (Companies Economic Substance) (Jersey) Law 201, which we refer to as the Substance Law . The Substance Law is due to be debated by Jersey s parliament during 2018, and is expected to take effect for financial periods starting on or after January 1, 2019. The Substance Law will be administered by the Jersey Comptroller of Taxes, who will produce guidance as to its application. As of the date of this prospectus supplement, only limited guidance has been published.

The Substance Law is expected to apply to Jersey tax resident companies that carry on banking, insurance, fund management, financing and leasing, headquarters, shipping, and holding company or intellectual property activities, and impose certain requirements including that such companies be directed and managed in Jersey, have core income generating activities in Jersey and have an adequate level of employees, expenditures and premises in Jersey.

When enacted in its final form, the Substance Law may apply to our company and certain of our subsidiaries. The manner in which the Substance Law will apply to our company and/or our subsidiaries will be dependent on the final form of the Substance Law as enacted, and the final guidance. It is our intention to seek appropriate advice and take appropriate steps to ensure that we and each of our subsidiaries (to the extent they fall within the scope of the Substance Law) are fully compliant with the Substance Law in accordance with the guidance.

If you are in any doubt about the contents of this prospectus supplement and the accompanying prospectus you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser.

The directors of our company have taken all reasonable care to ensure that the facts stated in this prospectus supplement and the accompanying prospectus are true and accurate in all material respects, and that there are no other facts the omission of which would make misleading any statement in this prospectus supplement and the accompanying prospectus, whether of facts or of opinion. All the directors accept responsibility accordingly.

It should be remembered that the price of securities and the income from them can go down as well as up.

Tax Matters

Taxation of Quotient

We are regarded as resident for tax purposes in Jersey, Channel Islands. On the basis that we are neither a financial services company nor a utility company for the purposes of the Income Tax (Jersey) Law 1961, as amended, we are subject to income tax in Jersey at a rate of 0%. Dividends on ordinary shares may be paid by us without withholding

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or deduction for or on account of Jersey income tax and holders of ordinary shares (other than residents of Jersey) will not be subject to any tax in Jersey in respect of the holding, sale or other disposition of such ordinary shares.

Goods and Services Tax

Jersey charges a tax on goods and services supplied in the Island (which we refer to as GST). On the basis that we do not belong in Jersey for the purposes of the Goods and Services Tax (Jersey) Law 2007, GST is not chargeable on supplies of services made by us. Our Directors intend to conduct our business such that no GST will be incurred by us.

Stamp Duty

In Jersey, no stamp duty is levied on the issue or transfer of the ordinary shares except that stamp duty is payable on Jersey grants of probate and letters of administration, which will generally be required to transfer ordinary shares on the death of a holder of such ordinary shares. In the case of a grant of probate or letters of administration, stamp duty is levied according to the size of the estate (wherever situate in respect of a holder of ordinary shares domiciled in Jersey, or situate in Jersey in respect of a holder of ordinary shares domiciled outside Jersey) and is payable on a sliding scale at a rate of up to 0.75% of such estate.

Jersey does not otherwise levy taxes upon capital, inheritances, capital gains or gifts nor are there other estate duties.

If you are in any doubt as to your tax position you should consult your professional tax adviser.

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UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement, dated December 6, 2018, between us and Jefferies LLC and Cowen and Company, LLC, as representatives of the underwriters named below and the joint book-running managers of this offering, we have agreed to sell to the underwriters and each of the underwriters has agreed, severally and not jointly, to purchase from us, the respective number of ordinary shares shown opposite its name below.

Underwriters	NUMBER OF SHARES
Jefferies LLC	4,961,539
Cowen and Company, LLC.	4,269,231
Total	**9,230,770**

The underwriting agreement provides that the obligations of the several underwriters are subject to certain conditions precedent such as the receipt by the underwriters of officers certificates and legal opinions and approval of certain legal matters by its counsel. The underwriting agreement provides that the underwriters will purchase all of the ordinary shares if any of them are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated. We have agreed to indemnify the underwriters and certain of their controlling persons against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect of those liabilities.

The underwriters have advised us that, following the completion of this offering, they currently intend to make a market in the ordinary shares as permitted by applicable laws and regulations. However, the underwriters are not obligated to do so, and the underwriters may discontinue any market-making activities at any time without notice in their sole discretion. Accordingly, no assurance can be given as to the liquidity of the trading market for the ordinary shares, that you will be able to sell any of the ordinary shares held by you at a particular time or that the prices that you receive when you sell will be favorable.

The underwriters are offering the ordinary shares subject to their acceptance of the ordinary shares from us and subject to prior sale. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Frederick Hallsworth, a member of our Board of Directors, has agreed to purchase 10,000 ordinary shares at the public offering price. The underwriters will receive the same underwriting discount on any ordinary shares purchased by Mr. Hallsworth as it will on any other ordinary shares sold to the public in this offering.

Commission and Expenses

The underwriters have advised us that they propose to offer the ordinary shares to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers, which may include the underwriters, at that price less a concession not in excess of $0.234 per ordinary share. After the offering, the initial public offering price and concession may be reduced by the representative. No such reduction will change the amount of proceeds to be received by us as set forth on the cover page of this prospectus.

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The following table shows the public offering price, the underwriting discounts and commissions that we are to pay the underwriters and the proceeds, before expenses, to us in connection with this offering. Such amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional shares.

	PER SHARE		TOTAL	
	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES
Public offering price	$ 6.50	$ 6.50	$ 60,000,005	$ 69,000,002
Underwriting discounts and commissions	$ 0.39	$ 0.39	$ 3,600,000	$ 4,140,000
Proceeds to us, before expenses	$ 6.11	$ 6.11	$ 56,400,005	$ 64,860,002

We estimate expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately $300,000. We have also agreed to reimburse the underwriters up to $10,000 for their FINRA counsel fee. In accordance with FINRA Rule 5110, this reimbursed fee is deemed underwriting compensation for this offering.

Listing

Our ordinary shares are listed on The Nasdaq Global Market under the trading symbol QTNT .

Stamp Taxes

If you purchase ordinary shares offered in this prospectus, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of this prospectus.

Option to Purchase Additional Shares

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase, from time to time, in whole or in part, up to an additional 1,384,615 ordinary shares from us at the public offering price set forth on the cover page of this prospectus, less underwriting discounts and commissions. If the underwriters exercise this option, each underwriter will be obligated, subject to specified conditions, to purchase a number of additional shares proportionate to that underwriter s initial purchase commitment, as indicated in the table above.

No Sales of Similar Securities

We have agreed that we will not (i) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise dispose of, directly or indirectly, (ii) file with the SEC a registration statement under the Securities Act relating to, any of our ordinary shares or securities convertible into or exchangeable or exercisable for any ordinary shares, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, or (iii) enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any ordinary shares or any such other securities (regardless of whether any of these transactions are to be settled by the delivery of ordinary shares or such other securities, in cash or otherwise), in each case without the prior written consent of the representatives for a period of 90 days after the date of this prospectus supplement other than (a) the ordinary shares to be sold hereunder, (b) issuances of ordinary shares upon the exercise or vesting of options, warrants, restricted share units or multi-year restricted share units disclosed as outstanding in this prospectus supplement, the accompanying prospectus and any documents incorporated by reference herein or therein, (c) any issuance to directors, executive officers or employees of ordinary shares, share options or other equity awards not exercisable for a period of 90 days after the date of this prospectus supplement under our existing equity incentive plans, (d) issuances of ordinary shares, or any securities convertible, exercisable or exchangeable for ordinary shares, issued by us in connection with the acquisition of businesses, technologies, assets or intellectual property as long as (x) the aggregate amount of any such securities does not exceed 5% of the number of ordinary shares outstanding immediately after the issuance and sale of the ordinary shares to be sold hereunder and (y) each

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person to whom such securities are issued agrees in writing with the representatives to be bound by a lock-up agreement or (e) post-effective amendments in respect of our registration statement on Form S-3 (Registration Nos. 333-203818 and 333-221470), as amended.

For a period of 90 days after the date of this prospectus supplement, our directors, executive officers and certain shareholders, holding in the aggregate approximately 8,306,556 of our ordinary shares as of December 4, 2018, have agreed that they will not, without the prior written consent of the representatives, (1) sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, or file (or participate in the filing of) a registration statement in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act with respect to, any ordinary shares or any securities convertible into or exercisable or exchangeable for our ordinary shares (including, without limitation, ordinary shares or such other securities which may be deemed to be beneficially owned by such directors, executive officers, managers and members in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of a stock option or warrant), (2) enter into any swap or other agreement that transfers to another, in whole or in part, any of the economic consequences of ownership of the ordinary shares or any of our other securities that are substantially similar to the ordinary shares, or any securities convertible into or exercisable for, or any warrants or other rights to acquire, our ordinary shares, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of ordinary shares or such other securities, in cash or otherwise, or (3) publicly announce an intention to effect any transaction specified in clause (1) or (2) other than (a) the registration of the offer or sale of the ordinary shares to be sold hereunder, (b) *bona fide* gifts, (c) dispositions to any trust for the direct or indirect benefit of the director, executive officer or shareholder and/or their immediate family, (d) dispositions by will, other testamentary document or intestate succession to the legal representative, heir, beneficiary or a member of the immediate family of the director, executive officer or shareholder, (e) as a distribution to the limited partners, members, trust beneficiaries or shareholders of the shareholder, (f) dispositions to the director s, executive officer s or shareholder s affiliates, or to any investment fund or other entity controlled or managed by, directly or indirectly, the director, executive officer or shareholder, (g) the entry into any trading plan established pursuant to Rule 10b5-1 under the Exchange Act, provided that such plan does not provide for any sales or other dispositions of ordinary shares during the 90 days after the date of this prospectus supplement, no public announcement or public disclosure of entry into such plan is made or required to be made, and the director, executive officer or shareholder does not otherwise voluntarily effect any public announcement or public disclosure regarding the entry into or existence of any such plan, or (h) dispositions of ordinary shares pursuant to any trading plan established pursuant to Rule 10b5-1 under the Exchange Act existing as of the date of the lock-up agreement; provided, however, that (A) in the case of any transfer or disposition pursuant to clauses (b) through (f), (i) each transferee, distributee or recipient shall execute and deliver to the representatives a lock-up agreement, (ii) no public announcement or public disclosure of entry into such plan is voluntarily made or required to be made and (iii) any such transfer or distribution shall not involve a disposition for value; and (B) in the case of any disposition pursuant to clause (h), no filing under the Exchange Act or other public announcement shall be required or shall be made voluntarily in connection with such disposition unless such filing or announcement clearly states that such disposition was made pursuant to an established trading plan meeting the requirements of Rule 10b5-1 under the Exchange Act. For purposes of this paragraph, immediate family shall mean the undersigned and the spouse, any lineal descendent, father, mother, brother or sister of the undersigned.

The representatives may, in their sole discretion and at any time or from time to time before the termination of the 90-day period, release all or any portion of the securities subject to lock-up agreements. There are no existing agreements between the underwriters and any of our shareholders who will execute a lock-up agreement, providing consent to the sale of shares prior to the expiration of the lock-up period.

Stabilization

The underwriters have advised us that, pursuant to Regulation M under the Exchange Act, certain persons participating in the offering may engage in short sale transactions, stabilizing transactions, syndicate covering transactions or the imposition of penalty bids in connection with this offering. These activities may have the effect of stabilizing or maintaining the market price of the ordinary shares at a level above that which might otherwise prevail in the open market. Establishing short sales positions may involve either covered short sales or naked short sales.

Covered short sales are sales made in an amount not greater than the underwriters option to purchase additional shares of our ordinary shares in this offering. The underwriters may close out any covered short position by either exercising their option to purchase additional ordinary shares or purchasing ordinary shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option to purchase additional shares.

Naked short sales are sales in excess of the option to purchase additional ordinary shares. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the ordinary shares in the open market after pricing that could adversely affect investors who purchase in this offering.

A stabilizing bid is a bid for the purchase of ordinary shares on behalf of the underwriters for the purpose of fixing or maintaining the price of the ordinary shares. A syndicate covering transaction is the bid for or the purchase of ordinary shares on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering. Similar to other purchase transactions, the underwriters purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our ordinary shares or preventing or retarding a decline in the market price of our ordinary shares. As a result, the price of our ordinary shares may be higher than the price that might otherwise exist in the open market. A penalty bid is an arrangement permitting the underwriters to reclaim the selling concession otherwise accruing to a syndicate member in connection with the offering if the ordinary shares originally sold by such syndicate member are purchased in a syndicate covering transaction and therefore have not been effectively placed by such syndicate member.

Neither we nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of ordinary shares. The underwriters are not obligated to engage in these activities and, if commenced, any of the activities may be discontinued at any time.

The underwriters may also engage in passive market making transactions in our ordinary shares on The Nasdaq Global Market in accordance with Rule 103 of Regulation M during a period before the commencement of offers or sales of our ordinary shares in this offering and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker s bid, that bid must then be lowered when specified purchase limits are exceeded.

Electronic Distribution

A prospectus in electronic format may be made available by e-mail or on the web sites or through online services maintained by the underwriters or their affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of ordinary shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations. Other than the prospectus in electronic format, the information on the underwriters web sites and any information contained in any other web site maintained by any of the underwriters is not part of this prospectus, has not been approved and/or endorsed by us or the underwriters and should not be relied upon by investors.

Other Activities and Relationships

The underwriters and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and certain of their affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for us and our affiliates, for which they received or will receive customary fees and expenses.

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In the ordinary course of their various business activities, the underwriters and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments issued by us and our affiliates. If the underwriters or their affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. The underwriters and their affiliates may hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities or the securities of our affiliates, including potentially the ordinary shares offered hereby. Any such short positions could adversely affect future trading prices of the ordinary shares offered hereby. The underwriters and certain of their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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NOTICE TO INVESTORS

Canada

Resale Restrictions

The distribution of the securities in Canada is being made only in the provinces of Ontario, Quebec, Alberta and British Columbia on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of these securities are made. Any resale of the securities in Canada must be made under applicable securities laws which may vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the securities.

Representations of Canadian Purchasers

By purchasing the securities in Canada and accepting delivery of a purchase confirmation, a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the securities without the benefit of a prospectus qualified under those securities laws as it is an accredited investor as defined under National Instrument 45-106 Prospectus Exemptions;

- the purchaser is a permitted client as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations;

- where required by law, the purchaser is purchasing as principal and not as agent; and

- the purchaser has reviewed the text above under Resale Restrictions.

Conflicts of Interest

Canadian purchasers are hereby notified that is the underwriters are relying on the exemption set out in section 3A.3 or 3A.4, if applicable, of National Instrument 33-105 Underwriting Conflicts from having to provide certain conflict of interest disclosure in this document.

Statutory Rights of Action

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if the prospectus (including any amendment thereto) such as this document contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser s province or territory. The purchaser of these securities in Canada should refer to any applicable provisions of the securities legislation of the purchaser s province or territory for particulars of these rights or consult with a legal advisor.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of the securities should consult their own legal and tax advisors with respect to the tax consequences of an investment in the securities in their particular circumstances and about the eligibility of the securities for investment by the purchaser under relevant Canadian legislation.

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Australia

This prospectus is not a disclosure document for the purposes of Australia s Corporations Act 2001 (Cth) of Australia, or Corporations Act, has not been lodged with the Australian Securities & Investments Commission and is only directed to the categories of exempt persons set out below. Accordingly, if you receive this prospectus in Australia:

You confirm and warrant that you are either:

a sophisticated investor under section 708(8)(a) or (b) of the Corporations Act;

a sophisticated investor under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant s certificate to the company which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;

a person associated with the company under Section 708(12) under the Corporations Act; or

a professional investor within the meaning of section 708(11)(a) or (b) of the Corporations Act.

To the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this prospectus is void and incapable of acceptance.

You warrant and agree that you will not offer any of the shares issued to you pursuant to this prospectus for resale in Australia within 12 months of those securities being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), an offer to the public of any securities which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any securities may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

to any legal entity which is a qualified investor as defined in the Prospectus Directive;

to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the underwriters nominated by us for any such offer; or

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Amortization of acquired customer-based intangible assets	10,138	7,514	18,353	14,929
Special charges (recoveries) (note 19)	11,446	(47)	11,446	(108)
Total operating expenses	122,079	96,621	224,789	185,811
Income from operations	19,255	26,573	42,232	47,542
Other income (expense), net	(12,532)	(3,683)	(11,803)	(5,510)
Interest income (expense), net	(5,347)	(7,567)	(8,341)	(15,439)
Income before income taxes	1,376	15,323	22,088	26,593
Provision for income taxes (note 15)	683	4,511	6,615	7,854
Net income before minority interest	693	10,812	15,473	18,739
Minority interest (note 18)	(68)	127	51	254
Net income for the period	$ 761	$ 10,685	$ 15,422	$ 18,485
Net income per share—basic (note 14)	$ 0.01	$ 0.21	$ 0.30	$ 0.37
Net income per share—diluted (note 14)	$ 0.01	$ 0.20	$ 0.29	$ 0.35
Weighted average number of Common Shares outstanding—basic	51,873	50,736	51,586	50,511
Weighted average number of Common Shares outstanding—diluted	53,242	52,689	52,955	52,224

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION

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

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

See accompanying Notes to Condensed Consolidated Financial Statements

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

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

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

Supplementary cash flow disclosures (note 17)

See accompanying Notes to Condensed Consolidated Financial Statements

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OPEN TEXT CORPORATION

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

NOTE 1—BASIS OF PRESENTATION

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

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

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

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements. These estimates, judgments and assumptions are evaluated on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable at that time, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. In particular, significant estimates, judgments and assumptions include those related to: (i) revenue recognition including allowances for estimated returns and right of return, (ii) allowance for doubtful accounts, (iii) testing goodwill for impairment, (iv) the valuation of acquired intangible assets, (v) long-lived assets, (vi) the recognition of contingencies, (vii) facility and restructuring accruals, (viii) acquisition accruals and pre-acquisition contingencies, (ix) asset retirement obligations, (x) realization of investment tax credits, (xi) the valuation of stock options granted and liabilities related to share-based payments, including the valuation of our long-term incentive plan, (xii) the valuation of financial instruments, (xiii) the valuation of pension assets and obligations, (xiv) accounting for income taxes, and (xv) valuation of inventory.

Comprehensive income (loss)

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

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

Reclassification

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

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

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

NOTE 2—NEW ACCOUNTING PRONOUNCEMENTS AND ACCOUNTING POLICY UPDATES

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

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

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

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

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51 (SFAS 160), which changes the accounting and reporting for minority interests. Minority interest will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent’s equity, and purchases or sales of equity interest that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for us beginning July 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently assessing the impact that the adoption of SFAS 160 will have on our consolidated financial statements.

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

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

Accounting Policy Updates

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

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

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

Inventories

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

Revenue Recognition

Allowance for product returns

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

NOTE 3—FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

NOTE 4— INVENTORIES

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

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

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NOTE 5—CAPITAL ASSETS

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

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

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

NOTE 6—GOODWILL

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

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

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

NOTE 7—ACQUIRED INTANGIBLE ASSETS

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

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

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

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

NOTE 8—OTHER ASSETS

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

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

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NOTE 9—ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

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

NOTE 10—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Current liabilities

Accounts payable and accrued liabilities are comprised of the following:

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

Long-term accrued liabilities

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

Asset retirement obligations

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

Accruals relating to acquisitions

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

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

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

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

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

NOTE 11— PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

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

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

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

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

CDT Defined Benefit Plan

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

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

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

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

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

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

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

CDT Long-term employee benefit obligation.

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

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

IXOS AG Defined Benefit Plans

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

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

Assumptions : Former IXOS directors' defined benefit pension plan

Salary increases	0.00%
Pension increases	1.50%- 3.00%
Discount rate	6.00%
Rate of expected return on plan assets	4.50%

Assumptions : Former IXOS employees' defined benefit pension plan

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

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

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

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

Long-term debt

Long-term debt is comprised of the following:

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

Term loan and Revolver

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

Term loan

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

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

Revolver

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

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

Mortgage

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

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

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

Financial Instruments and Hedging Activities

Interest-rate collar

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

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

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

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

Foreign currency forward contracts

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

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

Share Capital

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

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

Share-Based Payments

Summary of Outstanding Stock Options

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Long Term Incentive Plan

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

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

- Absolute share price – if our Common Shares appreciate to a predetermined price per share and that price is maintained for a minimum of 22 consecutive NASDAQ trading days, the absolute share price target will have been achieved;
- Relative total shareholder return – if, over a three year period, our Common Shares appreciate at a rate which exceeds the rate of appreciation disclosed by the Standard & Poor's Mid Cap 400 Software and Service Index by a prearranged percentage, the relative total shareholder return target will have been achieved; and
- Average adjusted earnings per share – if the average of our adjusted earnings per share over the latter two years of a three year period reaches a preset amount, the average adjusted earnings per share target will have been met (adjusted earnings per share means adjusted net income divided by our total number of Common Shares outstanding on a diluted basis).

The three performance criteria carry the following weightings:

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

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

Employee Share Purchase Plan (ESPP)

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

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

NOTE 14—NET INCOME PER SHARE

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

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

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

NOTE 15—INCOME TAXES

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

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

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

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

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

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

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

NOTE 16—SEGMENT INFORMATION

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

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

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

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

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

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

NOTE 17—SUPPLEMENTAL CASH FLOW DISCLOSURES

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

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NOTE 18—COMMITMENTS AND CONTINGENCIES

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

	Payments due by period ending June 30,				
	Total	2009	2010 to 2011	2012 to 2013	2014 and beyond
Long-term debt obligations	$ 401,049	$ 12,275	$ 58,774	$ 46,049	$ 283,951
Operating lease obligations *	90,816	13,996	44,623	15,469	16,728
Purchase obligations	4,884	1,525	2,766	593	—
	$ 496,749	$ 27,796	$ 106,163	$ 62,111	$ 300,679

* Net of $4.7 million of non-cancelable sublease income to be received from properties which we have subleased to other parties.

Rental expense of $4.4 million and $8.6 million was recorded during the three and six months ended December 31, 2008, respectively (three and six months ended December 31, 2007- $4.2 million and $8.2 million, 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. For details relating to the term loan and the mortgage, see Note 12.

We do 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.

IXOS Squeeze out and Annual Compensation.

In December 2008, we acquired the remaining minority interest in IXOS for approximately $12.4 million and successfully concluded the “Squeeze Out” (SO) process. As a result, a guaranteed payment to the minority shareholders of IXOS of an annual compensation of Euro 0.42 per share (“Annual Compensation”) is not payable for Fiscal 2009. Annual Compensation in the amount of Euro 335,000 relating to Fiscal 2008 has been accrued for and is expected to be paid during the quarter ending March 31, 2009.

In connection with the SO we had obtained in December 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 remaining IXOS purchase consideration. As we now own 100% of IXOS, this guarantee was cancelled in December 2008.

Guarantees and indemnifications

We have entered into license agreements with customers that include limited intellectual property indemnification clauses. Generally, we agree to indemnify our customers against legal claims that our software products infringe certain third party intellectual property rights. In the event of such a claim, we are generally obligated to defend our customers against the claim and either settle the claim at our expense or pay damages that our 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. We have not made any indemnification payments in relation to these indemnification clauses.

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

We have not disclosed a liability for guarantees, indemnities or warranties described above in the accompanying Condensed Consolidated Balance Sheets since the maximum amount of potential future payments under such guarantees, indemnities and warranties is not determinable.

Litigation

We are subject from time to time to legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business, and accrue for these items where appropriate. 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. Currently, we are not involved in any litigation that we reasonably believe could materially impact our financial position or results of operations and cash flows.

NOTE 19—SPECIAL CHARGES (RECOVERIES)

Fiscal 2009 Restructuring Plan

In the second quarter of Fiscal 2009, our Board approved, and we began to implement, restructuring activities to streamline our operations and consolidate our excess facilities (Fiscal 2009 restructuring plan). These charges related to work force reductions, abandonment of excess facilities and other miscellaneous direct costs, and do not include costs accrued for under EITF 95-3 in relation to our acquisition of Captaris (see Note 10). The total costs to be incurred in conjunction with the Fiscal 2009 restructuring plan are expected to be approximately $20 million, of which $11.3 million has been recorded within Special charges during the three months ended December 31, 2008. The $11.3 million charge consisted primarily of costs associated with workforce reduction in the amount of $10.0 million and abandonment of excess facilities in the amount of $1.3 million. The provision related to workforce reduction is expected to be paid by December 2009 and the provisions relating to contract settlements and lease costs are expected to be paid by December 2010. The remaining charge of approximately $9.0 million is expected to relate mainly to excess facilities. However, on a quarterly basis, we will conduct an evaluation of the balances relating to workforce reduction and excess facilities and revise our assumptions and estimates as appropriate.

A reconciliation of the beginning and ending liability for the six months ended December 31, 2008 is shown below.

Fiscal 2009 Restructuring Plan	Workforce reduction	Facility costs	Total
Balance as of June 30, 2008	$ -	$ -	$ -
Accruals	9,973	1,334	11,307
Cash payments	(1,544)	(3)	(1,547)
Foreign exchange and other adjustments	266	(8)	258
Balance as of December 31, 2008	$ 8,695	$ 1,323	$ 10,018

Fiscal 2006 Restructuring Plan

In the first quarter of Fiscal 2006, our Board approved, and we began to implement restructuring activities to streamline our operations and consolidate our excess facilities (Fiscal 2006 restructuring plan). These charges related to work force reductions, abandonment of excess facilities and other miscellaneous direct costs. The total cost incurred in conjunction with the Fiscal 2006 restructuring plan was $20.9 million which has been recorded within Special charges to date. The provision related to workforce reduction was completed as of September 30, 2007. On a quarterly basis, we conduct an evaluation of the balances relating to excess facilities and revise our assumptions and estimates, as appropriate. 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 for the six months ended December 31, 2008 is shown below.

Fiscal 2006 Restructuring Plan	Facility costs
Balance as of June 30, 2008	$ 906
Accruals (recoveries)	—
Cash payments	(366)

Foreign exchange and other adjustments		(109)
Balance as of December 31, 2008	$	431

Impairment Charges

Special charges also includes an impairment charge of $139,000 against certain capital assets that were written down in connection with various leasehold improvements and redundant office equipment at abandoned facilities.

NOTE 20—ACQUISITIONS

Fiscal 2009

Captaris Inc.

On October 31, 2008, we acquired all of the issued and outstanding shares of Captaris, a provider of software products that automate "document-centric" processes. The acquisition of Captaris is expected to strengthen our ability to offer an expanded portfolio of solutions that integrate with SAP, Microsoft and Oracle solutions. In accordance with SFAS 141, this acquisition is accounted for as a business combination.

The results of operations of Captaris have been consolidated with those of Open Text beginning November 1, 2008.

Total consideration for this acquisition was $101.5 million, which consisted of $101.0 million in cash, net of cash acquired, and approximately $467,000 of direct acquisition related costs.

Purchase Price Allocation

Under business combination accounting, the total purchase price was allocated to Captaris' net assets, based on their estimated fair values as of October 31, 2008, 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 management, and its estimates and assumptions are subject to change upon finalization, which is expected to occur on or before the one-year anniversary of the closing date of this acquisition.

Current assets (net of cash acquired of $30,043)	$	28,664
Long-term assets		27,423
Customer assets		72,000
Technology assets		60,000
In-process research and development *		121
Goodwill		44,692
Total assets acquired		232,900
Total liabilities assumed and acquisition related accruals		(131,401)
Net assets acquired	$	101,499

* Included as part of research and development expense in the quarter ended December 31, 2008.

The useful lives of customer assets have been estimated to be between three and five years. The useful lives of technology assets have been estimated to be between five and six years.

No amount of the goodwill is expected to be deductible for tax purposes.

As part of the purchase price allocation, we recognized liabilities in connection with this acquisition of approximately $13.4 million relating to employee termination charges, costs relating to abandonment of excess Captaris facilities and accruals for unpaid direct acquisition related costs. This was the result of our management approved and initiated plans to restructure the operations of Captaris by way of workforce reduction and abandonment of excess legacy facilities. 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 February 2015. The liabilities related to employee termination costs are expected to be paid on or before the one-year anniversary of the closing date of this acquisition. (See Note 10).

A director of the Company earned approximately $270,000 in consulting fees for assistance with the acquisition of Captaris. These fees are included in the purchase price allocation. The director abstained from voting on the transaction.

Proforma financial information (unaudited)

The unaudited proforma financial information in the table below summarizes the combined result of Open Text and Captaris, on a proforma basis, as though the companies had been combined as of July 1, 2007. This information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of each period presented.

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The proforma information included hereunder does not include the financial impacts of the restructuring initiatives undertaken by Open Text in connection with the Captaris acquisition, as these have been capitalized as part of the preliminary purchase allocation, but does include the estimated amortization charges relating to the allocation of values to acquired intangible assets (see Note 7).

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Total revenues	$ 219,283	$ 210,619	$ 436,402	$ 397,851
Net income (loss)	$ *(11,603)	$ 6,945	$ *(1,161)	$ 11,354
Basic net income (loss) per share	$ (0.22)	$ 0.14	$ (0.02)	$ 0.22
Diluted net income (loss) per share	$ (0.22)	$ 0.13	$ (0.02)	$ 0.22

* Included herein are non-recurring charges in the amount of $9.3 million, recorded by Captaris in relation to business combination costs incurred by Captaris and the acceleration of the vesting of (Captaris) employee stock options.

eMotion LLC

In July 2008, we acquired eMotion LLC (eMotion), a division of Corbis Corporation. eMotion specializes in managing and distributing digital media assets and marketing content. The acquisition of eMotion will enhance our capabilities in the “digital asset management” market, giving us a broader portfolio of offerings for marketing and advertising agencies, adding capabilities that complement our existing enterprise asset-management solutions. eMotion is based in Seattle, Washington. In accordance with SFAS 141, this acquisition is accounted for as a business combination.

The results of operations of eMotion have been consolidated with those of Open Text beginning July 3, 2008.

Total consideration for this acquisition was $3.8 million which consisted of $3.6 million in cash, net of cash acquired, and approximately $198,000 in costs directly related to this acquisition. An amount of $500,000 has been held back, as provided for in the purchase agreement, to provide for any adjustments to the purchase price in the one year period following the closing date of the acquisition. This additional amount, if payable, shall be paid subject to any adjustments, on July 3, 2009 and will increase the cost of the acquisition.

Purchase Price Allocation

Under business combination accounting the total purchase price, excluding the amount of $500,000 which has been held back, was allocated to eMotion’s net assets, based on their estimated fair values as of July 3, 2008, 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 management, and its estimates and assumptions are subject to change upon finalization, which is expected to occur on or before the one-year anniversary of the closing date of this acquisition.

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

Current assets (net of cash acquired of $608)	$	648
Long-term assets		238
Customer assets		2,357
Technology assets		1,450
Goodwill		-
Total assets acquired		4,693
Liabilities assumed		(868)
Net assets acquired	$	3,825

The useful lives of customer and technology assets have been estimated to be five and seven years, respectively.

A director of the Company earned approximately $35,000 in consulting fees for assistance with the acquisition of eMotion. These fees are included in the purchase price allocation. The director abstained from voting on the transaction.

Division of Spicer Corporation

In July 2008, we announced the acquisition of a division of Spicer Corporation (Spicer), a privately-held company based in Kitchener, Ontario, Canada. Spicer specializes in “file format” viewer solutions for desktop applications, integrated business process management systems and reprographics. The acquisition will complement and extend our existing enterprise content management suite, providing flexible document viewing options and enhanced document security functionality. In accordance with SFAS 141, this acquisition is accounted for as a business combination.

The results of operations of Spicer have been consolidated with those of Open Text beginning July 1, 2008.

Total consideration for this acquisition was $11.7 million which consisted of $10.8 million in cash, approximately $239,000 in costs directly related to this acquisition and approximately $594,000 related to amounts held back under the purchase agreement, which have been paid in January 2009. In addition, a further amount of $224,000 has been held back from the purchase price and will be recorded as part of the purchase only upon the resolution of certain contingencies.

Purchase Price Allocation

Under business combination accounting the total purchase price, excluding the amount of $224,000 which has been held back, was allocated to Spicer's net assets, based on their estimated fair values as of July 1, 2008, 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 management, and its estimates and assumptions are subject to change upon finalization, which is expected to occur on or before the one-year anniversary of the closing date of this acquisition.

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

Current assets	$	932
Long-term assets		23
Customer assets		1,777
Technology assets		5,529
Goodwill		4,815
Total assets acquired		13,076
Liabilities assumed		(1,323)
Net assets acquired	$	11,753

The useful life of the customer and technology assets has been estimated to be five and seven years, respectively.

The portion of the purchase price allocated to goodwill has been assigned to our North America reporting unit and 75% of it is deductible for tax purposes.

A director of the Company earned approximately $54,000 in consulting fees for assistance with the acquisition of Spicer. These fees are included in the purchase price allocation. The director abstained from voting on the transaction.

Fiscal 2008

Purchase of an Asset Group Constituting a Business

On September 14, 2007 we 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 $2.1 million has been allocated to customer assets.

The useful life of customer assets has been estimated to be five years.

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,” “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 condensed consolidated financial statements for the three and six months ended December 31, 2008, certain sections of which are incorporated herein by reference. 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 1A “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 1A “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.

The following MD&A is intended to help readers understand the results of our operation and financial condition, and is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and our accompanying Notes under Part I, Item I of this Form 10-Q.

All growth and percentage comparisons made herein refer to the three and six months ended December 31, 2008 compared with the three and six months ended December 31, 2007, unless otherwise noted. All references to “Notes” made herein are references to the Notes to our consolidated financial statements.

BUSINESS OVERVIEW

Open Text

We are an independent company providing Enterprise Content management (ECM) software solutions. ECM is the set of technologies used to capture, manage, store, preserve, find and retrieve “word” based content. We focus solely on ECM software solutions with a view to being recognized as “The Content Experts” in the software industry.

Our initial public offering was on the NASDAQ in 1996 and subsequently on the Toronto Stock Exchange in 1998. We are a multinational company and currently employ approximately 3,400 people worldwide.

Quarterly Highlights:

The second quarter of Fiscal 2009 was overall a successful quarter for us. We generated $64.9 million in license revenue, equivalent to a 17.6% increase over the second quarter of Fiscal 2008, and total revenue increased by $25.1 million, to $207.7 million, equivalent to a 13.8% increase. Of the total license revenue generated, approximately 25%

came from new customers and 75% came from our existing customer base.

Additionally, we successfully completed the acquisition of Captaris Inc. (Captaris) which we acquired for $101.5 million (net of cash acquired); also we acquired the residual minority shareholdings in IXOS Software AG (IXOS), one of our significant German subsidiaries, for approximately $12.4 million.

In the second quarter of Fiscal 2009, we also commenced the implementation of a significant restructuring initiative, which we had previously announced in the first quarter of Fiscal 2009, to reduce our worldwide workforce and rationalize and consolidate our facilities. As a result we took a charge to our earnings of $11.4 million primarily in connection with this restructuring initiative.   We expect to record a further charge of approximately $9.0 million before the end of our Fiscal 2009 year.

Other significant highlights for the quarter ended December 31, 2008 (and up to the date of the filing of this report) were as follows:

- In December 2008, we introduced a new release of "Open Text Fax Server" for Microsoft Office SharePoint, which is the latest version of our electronic fax and document delivery software, with new features designed to help customers to lower installation and ongoing maintenance costs. This product was previously marketed by Captaris under the "RightFax" name.

- In December 2008, we announced a major expansion to our "eDiscovery" capabilities, with an early case assessment solution designed to assist organizations in reducing the costs associated with eDiscovery activities. This solution allows organizations to assess the legal merits of a case and manage legal holds and collection for discovery, regulatory and compliance requests.

- In November 2008, we hosted our annual global conference event "Open Text Content World" in Orlando, Florida. The event featured "content experts" from across the industry, and was our largest conference ever, with over 1,600 attendees.

- In October 2008, we unveiled a new release of our "Web Solutions", aimed at delivering a complete set of "Web 2.0" tools to help meet the demands of new digital strategies. We believe our new tools will give customers greater security and control over social media than what was previously offered.

- In October 2008, we announced the release of our version 2.0 "Open Text Employee Information Management solution" (EIM). The new version includes improved user navigation, closer integration with SAP ERP Human Capital management solution, as well as a new feature that allows guest users to temporarily access content in personnel folders, subject to security policies.

- In October 2008, we introduced an expansion of our "Content Lifecycle Management" services for Microsoft Office SharePoint 2007, extending the solution to our eDOCS customers. This solution is intended to provide eDOCS customers with integrated records management and archiving capabilities to improve compliance initiatives to meet regulatory demands and risk management concerns.

Significant customer purchases during the quarter include:

- SBB AG, a Swiss travel and transport company, who purchased our Lifecycle Management solution;
- The City of London Corporation, who purchased a comprehensive corporate records management and archiving solution; and
- Getty Images, a creator and distributor of digital content, who purchased our Digital Media solutions.

Acquisitions

Our competitive position in the marketplace requires us to maintain a complex and evolving array of technologies, products, services and capabilities. In light of the continually evolving marketplace in which we operate, we regularly evaluate various acquisition opportunities within the ECM marketplace and elsewhere in the high technology industry. We seek acquisitions that support our long-term strategic direction, strengthen our competitive position, expand our customer base and provide greater scale to accelerate innovation, grow our earnings and increase shareholder value. We expect to continue to strategically acquire companies, products, services and technologies to augment our existing business.

During Fiscal 2009, we have, to date, made the following acquisitions:

Captaris

On October 31, 2008 we acquired all the issued and outstanding shares of Captaris, a provider of software products that automates "document-centric" processes. Captaris is based in Bellevue, Washington. We believe that this acquisition will be meaningfully accretive to Open Text and will strengthen our position as the ECM market's independent leader and broaden the suite of solutions we offer that integrate with SAP, Microsoft and Oracle solutions.

Total consideration for this acquisition was $101.5 million, net of cash acquired.

eMotion LLC

In July 2008, we acquired eMotion LLC (eMotion), a division of Corbis Corporation, based in Seattle, Washington. eMotion specializes in managing and distributing digital media assets and marketing content. We believe the acquisition of eMotion will enhance our capabilities in the "digital asset management" market, giving us a broader portfolio of offerings for marketing and advertising agencies, adding capabilities that complement our existing enterprise asset-management solutions. Total consideration for this acquisition was $3.6 million, net of cash acquired.

Division of Spicer Corporation

In July 2008, we announced the acquisition of a division of Spicer Corporation (Spicer), a privately-held company based in Kitchener, Ontario, Canada. Spicer specializes in "file format" viewer solutions for desktop applications, integrated business process management systems and reprographics. We believe this acquisition will complement and extend our existing enterprise content management suite, providing flexible document viewing options and enhanced document security functionality. Total consideration for this acquisition was $10.8 million.

Partnerships

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 partnership 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 achieving close integration with partners. Business generated through areas like archiving, records management and compliance continue to be driven through our partners.

During the second quarter of Fiscal 2009, we announced that SAP will resell our "Vendor Invoice Management" (VIM) products and our "Document Capture" solution, which was recently acquired as part of the acquisition of Captaris. The VIM product reduces the manual effort associated with data entry, helping customers keep costs low.

In addition, we announced a strategic partnership with Deloitte Canada. Under this partnership, Deloitte Canada will provide Open Text EIM solutions including "ECM for SAP", "e-Discovery", and "Records Management".

Finally, we also announced that our "eDOCS" product line would leverage new integrations with the Microsoft platform. These enhancements will include support for new Microsoft platform products such as "Microsoft SQL Server 2008" and "Windows Server 2008".

Our revenue from partners contributed approximately 38% of our license revenues in the three months ended December 31, 2008 compared to approximately 34% during the three months ended December 31, 2007.

Outlook for Fiscal 2009

We believe that we have a strong position in the ECM market despite the current general economic "slow-down". We have a diversified "footprint", in that approximately 50% of our revenues are from outside of North America, which helps to insulate us from the slowdown currently being experienced in the U.S. economy. Also, approximately 50% of our revenues are from maintenance revenues, which are a recurring source of income and as such, we expect this trend to continue, as historically our renewal rate for maintenance services is in excess of 90%. Additionally, we believe our focus on compliance-based products, (with approximately 70% of our license revenue emanating from compliance-based products), along with our strong partnerships, will help insulate us from "downturns" being experienced in the current macro-economic environment.

We expect our revenue "mix" for Fiscal 2009 to be in the following ranges:

(% of total revenue)	
License	30% to 35%
Customer support	45% to 50%
Services	20% to 25 %

Our focus for Fiscal 2009 will be to:

- continue to grow license revenue;
- continue to focus on partner-influenced sales; and
- continue to manage our costs effectively and reduce costs as appropriate.

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Results of Operations

Overview

Absent the impact of special charges, our income from operations went up by $4.2 million and $6.2 million during the three and six months ended December 31, 2008 compared to the same periods in the prior fiscal year. All growth and percentage comparisons refer to the three and six months ended December 31, 2008, as compared with the three and six months ended December 31, 2007, unless otherwise noted. An analysis of our operational results (including the impacts of Special charges) 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 each of the periods indicated:

Revenue by product type

	Three months ended December 31,			Six months ended December 31,		
(in thousands)	2008	2007	Change - Increase (decrease)	2008	2007	Change - Increase (decrease)
License	$ 64,852	$ 55,158	9,694	$ 114,926	$ 99,418	15,508
Customer support	100,438	90,614	9,824	198,867	176,918	21,949
Service and other	42,361	36,762	5,599	76,481	70,165	6,316
Total	$ 207,651	$ 182,534	25,117	$ 390,274	$ 346,501	43,773

(% of total revenue)	Three months ended December 31, 2008	2007	Six months ended December 31, 2008	2007
License	31.2%	30.2%	29.4%	28.7%
Customer support	48.4%	49.7%	51.0%	51.1%
Service and other	20.4%	20.1%	19.6%	20.2%
Total	100.0%	100.0%	100.0%	100.0%

Revenue by Geography

(in thousands)	Three months ended December 31, 2008	2007	Change - Increase/ (decrease)	Six months ended December 31, 2008	2007	Change - Increase/ (decrease)
North America	$ 104,945	$ 84,510	20,435	$ 189,237	$ 163,660	25,577
Europe	92,383	87,722	4,661	181,805	164,477	17,328
Other	10,323	10,302	21	19,232	18,364	868
Total	$ 207,651	$ 182,534	25,117	$ 390,274	$ 346,501	43,773

(% of total revenue)	Three months ended December 31, 2008	2007	Six months ended December 31, 2008	2007
North America	50.5%	46.3%	48.5%	47.2%
Europe	44.5%	48.1%	46.6%	47.5%
Other	5.0%	5.6%	4.9%	5.3%
Total	100.0%	100.0%	100.0%	100.0%

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

License revenue increased by approximately $9.7 million in the three months ended December 31, 2008, primarily as the result of increased revenues from our North America operations and the impact of increased partner influenced sales. Of the total growth achieved, North America accounted for 68% of the increase, while Europe contributed to the rest. The "Other" geographic area remained relatively flat. Partner influenced sales comprised of 38% of our license revenues in the second quarter of Fiscal 2009 compared to 34% in the second quarter of Fiscal 2008.

Overall, our average license transaction size (for license transactions in excess of $75,000) was $240,000 in the second quarter of Fiscal 2009, which is slightly higher when compared to the second quarter of Fiscal 2008, in which the average license transaction size was $225,000.

In addition, we had four individual license transactions of $1.0 million or greater in the second quarter of Fiscal 2009, compared to five such transactions in the second quarter of Fiscal 2008.

License revenue increased by approximately $15.5 million in the six months ended December 31, 2008, primarily as the result of increased revenues from our European operations and the impact of increased partner influenced sales. Of the total growth achieved, Europe accounted for 66% of the increase, while North America accounted for the remainder of the increase.

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 it is not atypical to encounter pricing pressure from our customers during contract negotiation and renewal. New license sales create additional customer support agreements which contribute substantially to the increase in our customer support revenue.

Customer support revenues increased by approximately $9.8 million in the three months ended December 31, 2008, primarily as the result of growth from our operations in North America. Of the total growth achieved, North America accounted for over 90% of the increase, while Europe and the Other geographic area remained relatively flat on a quarter over quarter basis.

Customer support revenues increased by approximately $21.9 million in the six months ended December 31, 2008, primarily as the result of growth from our operations in North America and Europe. Of the total growth achieved, North America accounted for 70% of the increase, while Europe contributed 25% of the increase and the Other geographic area contributed to the remainder.

Service and Other Revenue Service revenue consists of revenues from consulting contracts, contracts to provide training and integration services. “Other” revenue consists of hardware sales. It may be noted that “Other” revenue is a new revenue stream, and starting in the second quarter of Fiscal 2009, these revenues are being “grouped” (on account of their relative immateriality), within this category.

Service and other revenues increased by approximately $5.6 million in the three months ended December 31, 2008, of which $3.7 million related to sale of hardware. Of the total growth North America contributed 79%, while the Other geographic area contributed 18%, and Europe contributed to the remainder of the growth.

Service and other revenues increased by approximately $6.3 million in the six months ended December 31, 2008, of which $3.7 million related to the sale of hardware. Of the total growth North America contributed 56%, while the Europe contributed 27%, and the Other geographic area contributed to the remainder of the growth.

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:

	Three months ended December 31,			Six months ended December 31,		
	2008	2007	Change- Increase/ (decrease)	2008	2007	Change- Increase/ (decrease)

(In thousands)									
License	$	5,281	$	4,649	632	$	8,174	$	8,203	(29)
Customer Support		17,356		14,191	3,165		32,923		26,789	6,134
Service and other		31,881		30,192	1,689		59,610		57,696	1,914
Amortization of acquired technology intangible assets		11,799		10,308	1,491		22,546		20,460	2,086
Total	$	66,317	$	59,340	6,977	$	123,253	$	113,148	10,105

	Three months ended December 31,		Six months ended December 31,	
Gross Margin	2008	2007	2008	2007
License	91.9%	91.6%	92.9%	91.7%
Customer Support	82.7%	84.3%	83.4%	84.9%
Service and other	24.7%	17.9%	22.1%	17.8%

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 as a percentage of license revenue (and gross margin) remained stable during the three and six months ended December 31, 2008.

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

Cost of customer support revenues increased by $3.2 million in the three months ended December 31, 2008, and $6.1 million in the six months ended December 31, 2008, primarily due to increased revenue. Overall gross margin on customer support revenue has remained relatively stable within a range of 83% to 85%.

As compared to the corresponding periods in Fiscal 2008, overall headcount related to customer support activities has increased in Fiscal 2009 by 136 employees.

Cost of service and other revenues consists primarily of the costs of providing integration, customization and training with respect to our various software products. The most significant components of these costs are personnel related expenses, travel costs and third party subcontracting. Also, starting in the second quarter of Fiscal 2009, the costs of selling hardware has been grouped within this category. As noted earlier, this is a new revenue stream and these are the direct costs of sale related to the sale of hardware.

Cost of service and other revenues increased by $1.7 million in the three months ended December 31, 2008, primarily due to an increase in costs associated with the sale of hardware of $1.9 million, offset by a reduction in cost of services of $200,000. Overall gross margin on service and other revenues have improved as a result of improved execution of billable utilization and the higher margins related to hardware sales.

Cost of service and other revenues increased by $1.9 million in the six months ended December 31, 2008, primarily due to an increase in costs associated with the sale of hardware. Overall gross margin on service and other revenues have improved as a result of improved execution of billable utilization and the grouping of higher margin hardware revenue within this category.

Amortization of acquired technology intangible assets increased by $1.5 million in the three months ended December 31, 2008 and $2.1 million in the six months ended December 31, 2008, primarily due to the overall impact of increased levels of intangible assets relating to our Fiscal 2009 acquisitions.

Operating Expenses

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

	Three months ended December 31,		Six months ended December 31,	
(in thousands)	2008	2007	2008	2007

					Change - Increase (decrease)					Change - Increase (decrease)
Research and development	$	29,948	$	26,147	3,801	$	58,526	$	50,130	8,396
Sales and marketing		49,347		42,300	7,047		94,179		80,159	14,020
General and administrative		18,280		16,955	1,325		36,667		33,965	2,702
Depreciation		2,920		3,752	(832)		5,618		6,736	(1,118)
Amortization of acquired customer-based intangible assets		10,138		7,514	2,624		18,353		14,929	3,424
Special charges (recoveries)		11,446		(47)	11,493		11,446		(108)	11,554
Total	$	122,079	$	96,621	25,458	$	224,789	$	185,811	38,978

(in % of total revenue)	Three months ended December 31, 2008	2007	Six months ended December 31, 2008	2007
Research and development	14.4%	14.3%	15.0%	14.5%
Sales and marketing	23.8%	23.2%	24.1%	23.1%
General and administrative	8.8%	9.3%	9.4%	9.8%
Depreciation	1.4%	2.1%	1.4%	1.9%
Amortization of acquired customer intangible assets	4.9%	4.1%	4.7%	4.3%
Special charges (recoveries)	5.5%	0.0%	2.9%	0.0%

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

Research and development expenses increased by $3.8 million in the three months ended December 31, 2008, primarily due to an increase in direct labour and labour-related benefits and expenses of $1.8 million. The remaining increase in expenses is the result of miscellaneous other expenses.

Research and development expenses increased by $8.4 million in the six months ended December 31, 2008, primarily due to an increase in direct labour and labour-related benefits and expenses of $5.7 million. The remaining increase in expenses is the result of miscellaneous other expenses.

As compared to the corresponding periods in Fiscal 2008, overall headcount related to research and development activities has increased in Fiscal 2009 by 178 employees.

In Fiscal 2009, we expect research and development expenses to be in the range of 14% to 16% of total revenue.

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

Sales and marketing expenses increased by $7.0 million in the three months ended December 31, 2008, primarily due to an increase in direct labour and labour-related benefits and expenses of $4.5 million. The remaining increase is the result of an increase in miscellaneous expenses of approximately $1.4 million and a net increase in travel, office and overhead expenses of approximately $1.1 million.

Sales and marketing expenses increased by $14.0 million in the six months ended December 31, 2008, primarily due to an increase in direct labour and labour-related benefits and expenses of $8.7 million. The remaining increase is the result of an increase in miscellaneous expenses of $3.6 million, and a net increase of approximately $1.7 million in travel, office and overhead expenses.

As compared to the corresponding periods in Fiscal 2008, overall headcount related to sales and marketing activities has increased in Fiscal 2009 by 191 employees.

In Fiscal 2009, we expect sales and marketing costs to be in the range of 24% to 26% of total revenue.

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

General and administrative expenses increased slightly by $1.3 million in the three months ended December 31, 2008 and $2.7 million in the six months ended December 31, 2008, primarily due to an increase in direct labour and labour-related benefits and expenses.

As compared to the corresponding periods in Fiscal 2008, overall head count related to general and administrative activities has increased in Fiscal 2009 by 95 employees.

In Fiscal 2009, we expect general and administrative expenses to be in the range of 9% to 10% of total revenue.

Amortization of acquired customer-based intangible assets increased by $2.6 million in the three months ended December 31, 2008, and $3.4 million in the six months ended December 31, 2008, primarily due to the overall impact of increased levels of intangible assets relating to our Fiscal 2009 acquisitions.

Special charges As indicated earlier, we communicated the implementation of a restructuring initiative in the second quarter of Fiscal 2009 to restructure our workforce and to rationalize and consolidate our facilities (the Fiscal 2009 Restructuring Plan). The charge to earnings in the second quarter of Fiscal 2009 was $11.4 million consisting primarily of $10.0 million relating to workforce reduction and $1.3 million relating to abandonment of excess facilities. We expect that the Fiscal 2009 Restructuring Plan will result in future cost savings and operational efficiencies of approximately $40.0 million.

In addition to the charge booked in the current quarter, we expect to book an additional charge relating to the Fiscal 2009 Restructuring Plan, of approximately $9.0 million before the end of our Fiscal 2009 year.

Net interest expense is primarily made up of cash interest paid on our debt facilities and payments/receipts on the interest rate collar, as well as the unrealized gain (loss) on our interest rate collar, offset by interest income earned on our cash and cash equivalents. Net interest expense decreased by $2.2 million in the three months ended December 31, 2008, of which $2.1 million was the result of lower interest expenses and $100,000, the result of lower interest income earned. This decrease in interest expense is primarily due to a decrease of $2.4 million in the interest paid on the term loan, offset by an increase in the amount paid on the collar of $400,000. The remainder of the change in interest expense is due to miscellaneous items.

Net interest expense decreased by $7.1 million in the six months ended December 31, 2008, of which $6.4 million was the result of lower interest expenses and approximately $700,000, the result of lower interest income earned. This decrease in interest expense is primarily due to a decrease of $5.9 million in the interest paid on the term loan and a decrease in the unrealized loss on the fair value of the collar of $2.0 million. The decreases were offset by an increase in the amount paid on the collar of $1.2 million, and an increase in tax-related interest expense of $500,000. The remainder of the change in interest expense is due to miscellaneous items.

For the three and six months ended December 31, 2008, the decrease in the interest paid on our term loan is due to declining interest rates and the decrease in interest income is due to a lower pool of investible cash and declining interest rates.

For more details on interest expenses see Note 12 and also the discussion under “Long-term Debt and Credit Facilities” under the “Liquidity and Capital Resources” section of this MD&A.

Other income (expense) relates to certain non-operational charges relating primarily to foreign exchange gains/ losses, tax-related penalties, and gains/losses on disposals of assets.

For the three months ended December 31, 2008, net other expenses increased by $8.8 million and by $6.3 million for the six months ended December 31, 2008, primarily due to the impact of foreign currency charges.

Liquidity and Capital Resources

As of December 31, 2008, our cash and cash equivalents was made up of cash and bank-issued term deposits with maturities of 30 days or less. We are able to access our cash easily, for regular operational use, and we have no exposure to illiquid investments or distressed securities.

Cash flows provided by operating activities

Cash flows from operating activities decreased by $6.9 million in the six months ended December 31, 2008, due to a decrease in operating assets and liabilities of $11.6 million and a decrease in net income of $3.1 million, both offset by an increase in non-cash adjustments of $7.8 million.

The decrease in operating assets and liabilities of $11.6 million for the six months ended December 31, 2008, is primarily due to decreases in (i) taxes payable $2.1 million, (ii) accounts payable and accrued liabilities of $17.6 million, and (iii) deferred revenue balances in the amount of $16.7 million. These decreases were offset by an increase in accounts receivable of $25.2 million. The remainder of the change relates to miscellaneous items.

The increase in non-cash adjustments of $7.8 million for the six months ended December 31, 2008, was primarily due to increases in (i) deferred taxes of $8.0 million, (ii) depreciation and amortization of $4.4 million, (iii) the valuation of our employee long term incentive plan of $2.0 million, and (iv) pension accruals in the amount of $900,000. These increases were offset by a decrease on our excess tax benefit on share based compensation expenses of $5.9 million, and an unrealized loss on the fair value of our collar by $2.0 million. The remainder of the change relates to miscellaneous items.

The overall decrease in working capital during the six months ended December 31, 2008, was due to overall cash collections being offset by payments of higher levels of accrued liabilities and deferred revenue relating to Fiscal 2008 year end accruals.

Cash flows used in investing activities

Our cash flows used in investing activities are primarily on account of business acquisitions. In the aftermath of our more significant acquisitions, such as IXOS, Hummingbird and Captaris, we typically implement exit plans for reduction of legacy workforces and legacy real estate facilities of the acquired companies. These plans are recognized in accordance with the accounting rules governing acquisition-related accruals. Payments against these accruals are recorded as a use of cash in investing activities. In addition we also spend recurring amounts on purchases of miscellaneous capital assets.

In the six months ended December 31, 2008, cash flows used in investing activities were higher by $115.7 million. This increase was due to (i) an increase of $118.0 million relating to acquisitions, (inclusive of $101.5 million for Captaris), and (ii) an increase in investments of $3.6 million. These increases were offset by (i) a reduction of payments related to acquisition accruals of $4.6 million and (ii) a reduction of spending on capital assets of $1.3 million due to the impact of the sale of a building held as an asset held for sale, for $4.5 million.

Cash flows from financing activities

Our cash flows from financing activities consist of long-term debt financing, monies received from the issuance of shares exercised by our employees and excess tax benefits on the exercise of stock options by our US employees. These inflows are typically offset by scheduled and non-scheduled repayments of our long-term debt financing and, when applicable, the repurchases of our shares.

During the six months ended December 31, 2008, cash flow from financing activities increased by $63.2 million compared to the same period in the prior fiscal year, primarily due to the fact that we did not make any non-scheduled prepayments on our long-term debt financing, whereas during the six months ended December 31, 2007, we made total non-scheduled prepayments of $60.0 million. In addition there was an increase in cash flow from the excess tax benefits on share-based compensation of $5.9 million. These increases were offset by a reduction in the proceeds from the issuance of Common Shares in the amount of $3.2 million, with the remaining change in cash flows due to miscellaneous items. We did not enter in enter into any new or additional long-term debt arrangements in the first or second quarter of Fiscal 2009.

Long-term Debt and Credit Facilities

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

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 (i.e. from the inception of the term loan in October, 2006, to December 31, 2008) we have made total prepayments of $90.0 million of the principal on the term loan. These payments have reduced the current quarterly principal payment to approximately $748,000. There were no prepayments made during the six months ended, December 31, 2008.

As of December 31, 2008, the carrying value of the term loan was $292.5 million and we are in compliance with all loan covenants relating to this facility.

We have entered into a three-year interest-rate collar that has 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%. As of December 31, 2008, the hedged portion of the loan is $100.0 million (June 30, 2008 - $150.0 million). The collar expires on December 31, 2009.

Revolver

The revolver has a five-year term and expires on October 2, 2011. Borrowings under this revolver 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. During Fiscal 2008, we obtained a demand guarantee, under the revolver, in the amount of Euro 11.1 million which was cancelled in December, 2008.

There were no borrowings outstanding under the revolver as of December 31, 2008, and through to the date hereof, we have not borrowed any amounts under the revolver.

Pensions

As part of the acquisition of Captaris, we acquired an unfunded pension plan and certain long-term employee benefit plans. As of December 31, 2008, our total unfunded pension plan obligation was $15.0 million and the total unfunded long-term employee benefit obligation was $1.7 million. We expect to be able to make the payments related to these obligations, in the normal course. For a detailed discussion see Note 11.

Commitments and Contractual Obligations

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

	Payments due by period ending June 30,				
	Total	2009	2010 to 2011	2012 to 2013	2014 and beyond
Long-term debt obligations	$ 401,049	$ 12,275	$ 58,774	$ 46,049	$ 283,951
Operating lease obligations *	90,816	13,996	44,623	15,469	16,728
Purchase obligations	4,884	1,525	2,766	593	—
	$ 496,749	$ 27,796	$ 106,163	$ 62,111	$ 300,679

* Net of $4.7 million of non-cancelable sublease income to be received from properties which we have subleased to other parties.

Rental expense of $4.4 million and $8.6 million was recorded during the three and six months ended December 31, 2008, respectively (three and six months ended December 31, 2007- $4.2 million and $8.2 million, 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. For details relating to the term loan and the mortgage, see Note 12.

Litigation

We are 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, 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, and results of operations, liquidity, capital expenditures or capital resources. In accordance with United States generally accepted accounting principles (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 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 – Impairment Assessments
- Accounting for income taxes
- Legal and other contingencies
- The valuation of stock options granted and liabilities related to share-based payments, including the long-term incentive plan
- Allowance for doubtful accounts
- Facility and restructuring accruals
- Financial instruments
- The valuation of pension assets and obligations

Please refer to our MD&A contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended June 30, 2008 and Note 2 to Part I of this Form 10-Q for a more complete discussion of our critical accounting policies and estimates.

New Accounting Standards

For information relating to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 2.

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 relate primarily to our term loan, as we had no borrowings outstanding under our line of credit as of December 31, 2008. As of December 31, 2008, we had an outstanding balance of $292.5 million on this loan. The term loan bears a floating interest rate of LIBOR plus a fixed rate of 2.25%. As of December 31, 2008, 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 $8.8 million, absent the impact of our interest rate collar referred to below and assuming that the loan balance as of December 31, 2008 is outstanding for the entire period.

We manage our interest rate exposure, relating to $100.0 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 $100.0 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. As of December 31, 2008, the fair value of the collar was a payable in the amount of $3.6 million.

Foreign currency risk

Our reporting currency is the U.S dollar. On account of our international operations, a substantial portion of our cash and cash equivalents is held in currencies other than the U.S. dollar. As of December 31, 2008, this balance represented approximately 62% 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 6%.

Our international operations expose us to foreign currency fluctuations. Revenues and related expenses generated from subsidiaries, other than those located in the U.S, are generally denominated in the functional currencies of the local countries. These functional currencies include Euros, Canadian Dollars, Swiss Francs and British Pounds. The income statements of our international 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 (loss) for our international operations. Similarly, our revenues, operating expenses and net income (loss) 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 a 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 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 December 31, 2008, 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, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

Risk Factors

In addition to the information set forth below, you should carefully consider the factors discussed in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for our fiscal year ended June 30, 2008. These are not the only risks and uncertainties facing us. Our business is also subject to general risks and uncertainties that affect many other companies.

Stress in the global financial system may adversely affect our finances and operations in ways that may be hard to predict or to defend against

Recent events have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, events seemingly unrelated to us or to our industry may adversely affect us over the course of time. For example, rapid changes to the foreign currency exchange regime may adversely affect our financial results. Material increases in LIBOR may increase the debt payment costs for the portion of our credit facilities that we have not hedged. Credit contraction in financial markets may hurt our ability to access credit in the event that we identify an acquisition opportunity or some other opportunity that would require a significant investment in resources. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that collectively constitute a significant portion of our customer base. As a result, these customers may need to reduce their purchases of our products or services, or we may experience greater difficulty in receiving payment for the products or services that these customers purchase from us. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on our business, operating results, and financial condition.

In connection with our acquisition of Captaris Inc., we assumed certain unfunded pension liabilities. We have no assurance that we will generate sufficient cash flow to satisfy these obligations

In October 2008, we acquired Captaris Inc. and, as a part of the transaction, assumed its unfunded pension plan liabilities. We will be required to fund these obligations through current and future cash flows. Going forward, our net pension liability and cost may be materially affected by the discount rate used to measure these pension obligations and the longevity and actuarial profile of the relevant workforce. A change in the discount rate would result in a significant increase or decrease in the valuation of these pension obligations, affecting the net periodic pension cost in the year the change is made and following years. We have no assurance that we will generate cash flow sufficient to satisfy these obligations. This could have a material adverse effect on our business and results of operations.

Our acquisition of Captaris may adversely affect our operations in the short term

On October 31, 2008 we acquired all of the issued and outstanding common shares of Captaris. The Captaris acquisition represents a significant opportunity for our business. However, certain inevitable integration challenges may result from the acquisition and may divert management’s attention from the normal daily operations of our existing businesses, products and services. We cannot ensure that we will be successful in retaining key Captaris employees. In addition, our operations may be disrupted if we fail to adequately retain and motivate all of the employees of the newly merged entity.

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

We held our annual meeting of shareholders on December 9, 2008. 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.

Names
P. Thomas Jenkins
John Shackleton
Randy Fowlie
Brian J. Jackman
Stephen J. Sadler
Michael Slaunwhite
Gail Hamilton
H. Garfield Emerson Q.C.
Katherine B. Stevenson

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

3. The shareholders approved a resolution to amend the Company's 2004 Stock Option Plan to (a) further restrict the grant of options that may be made under the 2004 Stock Option Plan and to other share compensation arrangements of the Company that may be entered into with non-executive directors of the Company; (b) reserve for issuance an additional 1,000,000 Common Shares under the 2004 Stock Option Plan; and (c) specify that amendments to the provisions governing amendment of the 2004 Stock Option Plan must be approved by the holders of Common shares. There were 27,856,056 Common Shares voted in favour of the motion and there were 11,567,403 voted against the motion.

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.

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 4, 2009

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

/s/ PAUL MCFEETERS
Paul McFeeters
Chief Financial Officer