OPEN TEXT CORP
Form 10-Q
November 01, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012.

OR

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

For the transition period from to

Commission file number: 0-27544

OPEN TEXT CORPORATION
(Exact name of registrant as specified in its charter)

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

275 Frank Tompa Drive, Waterloo, Ontario, Canada N2L 0A1
(Address of principal executive offices)
(519) 888-7111
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

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

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

At October 22, 2012, there were 58,483,175 outstanding Common Shares of the registrant.

OPEN TEXT CORPORATION
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OPEN TEXT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars, except share data)

	September 30, 2012 (unaudited)	June 30, 2012
ASSETS		
Cash and cash equivalents	$302,235	$559,747
Accounts receivable trade, net of allowance for doubtful accounts of $6,051 as of September 30, 2012 and $5,655 as of June 30, 2012 (note 3)	169,967	163,664
Income taxes recoverable (note 13)	14,588	17,849
Prepaid expenses and other current assets	45,632	44,011
Deferred tax assets (note 13)	12,450	4,003
Total current assets	544,872	789,274
Property and equipment (note 4)	85,332	81,157
Goodwill (note 5)	1,211,423	1,040,234
Acquired intangible assets (note 6)	468,699	312,563
Deferred tax assets (note 13)	142,536	115,128
Other assets (note 7)	23,760	23,739
Deferred charges (note 8)	65,592	68,653
Long-term income taxes recoverable (note 13)	13,423	13,545
Total assets	$2,555,637	$2,444,293
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	$179,213	$131,734
Current portion of long-term debt (note 10)	41,682	41,374
Deferred revenues	259,061	273,987
Income taxes payable (note 13)	16,308	27,806
Deferred tax liabilities (note 13)	1,350	1,612
Total current liabilities	497,614	476,513
Long-term liabilities:		
Accrued liabilities (note 9)	18,389	14,247
Deferred credits (note 8)	9,518	10,086
Pension liability (note 11)	23,458	22,074
Long-term debt (note 10)	547,500	555,000
Deferred revenues	11,399	12,653
Long-term income taxes payable (note 13)	162,056	147,623
Deferred tax liabilities (note 13)	77,676	26,705
Total long-term liabilities	849,996	788,388
Shareholders' equity:		
Share capital (note 12)		
58,483,175 and 58,358,990 Common Shares issued and outstanding at September 30, 2012 and June 30, 2012, respectively; Authorized Common Shares: unlimited	639,719	635,321
Additional paid-in capital	98,475	95,026
Accumulated other comprehensive income	45,723	44,364
Retained earnings	461,497	442,068
Treasury stock, at cost (793,494 shares at September 30, 2012 and at June 30, 2012, respectively)	(37,387)	(37,387)

Total shareholders’ equity	1,208,027	1,179,392
Total liabilities and shareholders’ equity	$2,555,637	$2,444,293
Guarantees and contingencies (note 18)		
Related party transactions (note 21)		

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands of U.S. dollars, except share and per share data)
(unaudited)

	Three Months Ended September 30, 2012	2011
Revenues:		
License	$55,656	$65,028
Cloud services	44,884	—
Customer support	162,096	161,997
Professional service and other	63,558	61,021
Total revenues	326,194	288,046
Cost of revenues:		
License	4,168	3,998
Cloud services	18,283	—
Customer support	25,823	26,269
Professional service and other	48,582	50,351
Amortization of acquired technology-based intangible assets (note 6)	23,782	20,790
Total cost of revenues	120,638	101,408
Gross profit	205,556	186,638
Operating expenses:		
Research and development	39,906	43,458
Sales and marketing	64,515	64,880
General and administrative	28,133	25,761
Depreciation	6,109	5,258
Amortization of acquired customer-based intangible assets (note 6)	17,252	13,041
Special charges (note 16)	9,554	7,105
Total operating expenses	165,469	159,503
Income from operations	40,087	27,135
Other income (expense), net	(71)	9,312
Interest expense, net	(4,368)	(2,786)
Income before income taxes	35,648	33,661
Provision for (recovery of) income taxes (note 13)	16,219	(1,325)
Net income for the period	$19,429	$34,986
Net income per share—basic (note 20)	$0.33	$0.61
Net income per share—diluted (note 20)	$0.33	$0.60
Weighted average number of Common Shares outstanding—basic	58,424	57,412
Weighted average number of Common Shares outstanding—diluted	58,919	58,599

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands of U.S. dollars)
(unaudited)

	Three Months Ended September 30,	
	2012	2011
Net income for the period	$ 19,429	$ 34,986
Other comprehensive income—net of tax:		
Net foreign currency translation adjustments	(476)	(10,618)
Net unrealized gain (loss) on cash flow hedges	1,944	(5,202)
Net actuarial gain (loss) relating to defined benefit pension plans	(109)	(548)
Total other comprehensive income (loss), net, for the period	$ 1,359	$ (16,368)
Total comprehensive income	$ 20,788	$ 18,618

OPEN TEXT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)
(unaudited)

	Three Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income for the period	$19,429	$34,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	47,143	39,089
Share-based compensation expense	3,102	4,844
Excess tax benefits on share-based compensation expense	(352)	(332)
Pension expense	242	137
Amortization of debt issuance costs	537	330
Amortization of deferred charges and credits	2,929	2,672
Loss on sale and write down of property and equipment	2	169
Deferred taxes	861	(14,849)
Impairment and other non cash charges	—	(1,355)
Changes in operating assets and liabilities:		
Accounts receivable	19,442	21,654
Prepaid expenses and other current assets	3,024	5,842
Income taxes	4,373	15,024
Deferred charges and credits	(436)	(9,046)
Accounts payable and accrued liabilities	(20,255)	(21,407)
Deferred revenue	(18,070)	(32,998)
Other assets	(208)	588
Net cash provided by operating activities	61,763	45,348
Cash flows from investing activities:		
Additions of property and equipment	(5,038)	(7,902)
Purchase of Operitel Corporation, net of cash acquired	—	(6,260)
Purchase of Global 360 Holding Corp., net of cash acquired	—	(247,711)
Purchase of EasyLink Services International Corporation, net of cash acquired	(315,331)	—
Purchase consideration for prior period acquisitions	(217)	(274)
Net cash used in investing activities	(320,586)	(262,147)
Cash flow from financing activities:		
Excess tax benefits on share-based compensation expense	352	332
Proceeds from issuance of Common Shares	3,993	7,837
Purchase of Treasury Stock	—	—
Proceeds from long-term debt and revolver	—	48,500
Repayment of long-term debt and revolver	(7,667)	(916)
Net cash provided by (used in) financing activities	(3,322)	55,753
Foreign exchange gain (loss) on cash held in foreign currencies	4,633	(3,800)
Increase (decrease) in cash and cash equivalents during the period	(257,512)	(164,846)
Cash and cash equivalents at beginning of the period	559,747	284,140
Cash and cash equivalents at end of the period	$302,235	$119,294

Supplementary cash flow disclosures (note 19)

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION
UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2012
(Tabular amounts in thousands, except share and per share data)

NOTE 1—BASIS OF PRESENTATION

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

These condensed consolidated financial statements are expressed in U.S. dollars and are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). The information furnished reflects all adjustments necessary for a fair presentation of the results for the periods presented and includes the financial results of EasyLink Services International Corporation (EasyLink), with effect from July 2, 2012 (see note 17).

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 condensed 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, (ii) allowance for doubtful accounts, (iii) testing of goodwill for impairment, (iv) the valuation of acquired intangible assets, (v) the valuation of long-lived assets, (vi) the recognition of contingencies, (vii) restructuring accruals, (viii) acquisition accruals and pre-acquisition contingencies, (ix) asset retirement obligations, (x) the 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, and (xiv) accounting for income taxes.

Reclassifications

Upon adoption of Accounting Standards Codification (ASC) Topic 740-10 “Income Taxes” (Topic 740-10) in the fiscal year ended June 30, 2007, we had elected to follow an accounting policy to classify interest related to liabilities for income taxes under the "Interest income (expense), net" line and penalties related to liabilities for income taxes under the "Other income (expense)" line in our Consolidated Statements of Income.

During the three months ended December 31, 2011, we elected to change this accounting policy to classify both interest and penalties relating to liabilities for income taxes to the "Provision for (recovery of) income taxes" line in our Consolidated Statements of Income.

The revised classification is more appropriate under the circumstances for the following reasons:

1. During the three months ended December 31, 2011, we entered into a new credit agreement (see note 10) which effectively doubled our bank-related borrowings. In the context of this event, we believe it is preferable for the "Interest income (expense), net" line to be reflective of financial interest income and interest expense relating to borrowings.
2. The revised policy is better aligned with the accounting policy followed by the Company’s publicly listed competitors and will lead to enhanced comparability with these companies.
3. The internal reorganization of the Company’s international subsidiaries in the fiscal year ended June 30, 2010, to consolidate our international intellectual property in certain jurisdictions, and recent business acquisitions have increased the complexity of determining the Company’s liability for income taxes in multiple jurisdictions and it is preferable to record the related interest and penalties associated with the liability for income taxes as a component of the “Provision for (recovery of) income taxes” line within our Consolidated Statements of Income.

As a result of this accounting policy change, certain prior period comparative figures have been adjusted to conform to current period presentation. "Other expense, net" was decreased by approximately $38,000 for the three months ended September 30, 2011, from previously reported amounts. ‘Interest expense, net’ was decreased by approximately $1.6

million

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for the three months ended September 30, 2011 from previously reported amounts. The "Provision for income taxes" was increased by approximately $1.6 million for the three months ended September 30, 2011, from previously reported amounts.
There was no change to income from operations, net income or net income per share in any of the periods presented as a result of these reclassifications.

Cloud Services

Starting in the first quarter for the year ended June 30, 2013 (Fiscal 2013), in light of our acquisition of EasyLink on July 2, 2012, we adopted a policy to classify revenue and cost of revenues relating to "Cloud Services" as a separate line item within "Revenues" and "Cost of Revenues", respectively, on the Condensed Consolidated Statements of Income. No prior period comparative figures have been adjusted to conform to current period presentation since such prior period amounts are not material. For a detailed explanation of the products that make up our Cloud Services offerings please see our “Management Discussion and Analysis” included under Part I, Item 2 to this Quarterly Report on Form 10-Q.

Research and Development Tax Credits

Non-refundable research and development tax credits are now being reflected as a component of "Income tax" expense on the Condensed Consolidated Statements of Income. Certain prior period comparative figures have been adjusted on the Condensed Consolidated Balance Sheets to conform to current period presentation. As of June 30, 2012, long-term “Deferred tax assets” have been increased from previously reported amounts by approximately $34.9 million, with a corresponding decrease to “Long-term income taxes recoverable”. There was no change to total assets, liabilities, or shareholders' equity as a result of this reclassification. The prior period comparative figures on the Condensed Consolidated Statements of Income have not been adjusted as the amounts are not material.

NOTE 2—NEW ACCOUNTING PRONOUNCEMENTS AND ACCOUNTING POLICY UPDATES

Recently Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, "Comprehensive Income (Topic 220)—Presentation of Comprehensive Income" (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of Shareholders' equity.
In December 2011, the FASB issued Accounting Standards Update No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income (AOCI) in Accounting Standards Update No. 2011-05" (ASU 2011-12), which indefinitely defers the requirement that companies present reclassification adjustments for each component of AOCI in both net income and other comprehensive income (OCI) on the face of the financial statements.
In the first quarter of Fiscal 2013, we adopted ASU 2011-05 and ASU 2011-12. Pursuant to the adoptions, we have presented a separate Condensed Consolidated Statement of Comprehensive Income. There were no other significant or material changes to our reporting as a result of these adoptions.

Recent Accounting Pronouncements

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, “Intangibles-Goodwill and Other (Topic 350)-Testing Indefinite-Lived Intangible Assets for Impairment” (ASU 2012-02), to allow entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. Otherwise, the quantitative impairment test is not required. ASU 2012-02 is effective for us in Fiscal 2014 and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU

2012-02 on our consolidated financial statements.

NOTE 3—ALLOWANCE FOR DOUBTFUL ACCOUNTS

Balance of allowance for doubtful accounts as of June 30, 2012	5,655
Bad debt expense for the period	946
Write-off /adjustments	(550)
Balance of allowance for doubtful accounts as of September 30, 2012	$6,051

NOTE 4—PROPERTY AND EQUIPMENT

	As of September 30, 2012		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$11,071	$5,272	$5,799
Office equipment	1,071	665	406
Computer hardware	54,267	36,772	17,495
Computer software	15,409	8,219	7,190
Leasehold improvements	29,324	15,053	14,271
Buildings	44,007	3,836	40,171
	$155,149	$69,817	$85,332

	As of June 30, 2012		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$10,828	$4,577	$6,251
Office equipment	975	596	379
Computer hardware	48,834	34,799	14,035
Computer software	13,558	7,404	6,154
Leasehold improvements	27,643	13,777	13,866
Buildings	44,034	3,562	40,472
	$145,872	$64,715	$81,157

NOTE 5—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, 2012:

Balance, June 30, 2012	1,040,234
Acquisition of EasyLink (note 17)	171,019
Adjustments on account of foreign exchange	170
Balance, September 30, 2012	$1,211,423

NOTE 6—ACQUIRED INTANGIBLE ASSETS

	As of September 30, 2012		
	Cost	Accumulated Amortization	Net
Technology Assets	$543,508	$(333,299)	$210,209
Customer Assets	501,076	(242,586)	258,490
Total	$1,044,584	$(575,885)	$468,699

	As of June 30, 2012		
	Cost	Accumulated Amortization	Net
Technology Assets	$473,008	$(309,517)	$163,491
Customer Assets	374,396	(225,324)	149,072
Total	$847,404	$(534,841)	$312,563

The weighted average amortization period for acquired technology and customer intangible assets is approximately six years and seven years, respectively.

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

	Fiscal years ending June 30,
2013 (nine months ended June 30)	$120,426
2014	102,881
2015	79,183
2016	54,233
2017 and beyond	111,976
Total	$468,699

NOTE 7—OTHER ASSETS

	As of September 30, 2012	As of June 30, 2012
Debt issuance costs	$7,926	$8,463
Deposits and restricted cash	8,665	7,515
Long-term prepaid expenses and other long-term assets	7,169	7,761
	$23,760	$23,739

Debt issuance costs relate primarily to costs incurred for the purpose of obtaining our term loan and are being amortized over the term of the loan (see note 10). Deposits and restricted cash relate to security deposits provided to landlords in accordance with facility lease agreements and cash restricted per the terms of contractual-based agreements. Long-term prepaid expenses and other long-term assets primarily relate to certain advance payments on long-term licenses that are being amortized over the applicable terms of the licenses.

NOTE 8—DEFERRED CHARGES AND CREDITS

Deferred charges and credits relate to cash taxes payable and the elimination of deferred tax balances on account of legal

entity consolidations completed as part of an internal reorganization of our international subsidiaries. Deferred charges and credits are amortized to income tax expense over a period of six years.

NOTE 9—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Current liabilities

Accounts payable and accrued liabilities are comprised of the following:

	As of September 30, 2012	As of June 30, 2012
Accounts payable—trade	$10,803	$7,574
Accrued salaries and commissions	41,119	50,821
Accrued liabilities*	114,943	64,830
Amounts payable in respect of restructuring and other Special charges (note 16)	10,215	7,068
Accruals relating to acquisitions	985	727
Asset retirement obligations	1,148	714
	$179,213	$131,734

Long-term accrued liabilities

	As of September 30, 2012	As of June 30, 2012
Amounts payable in respect of restructuring and other Special charges (note 16)	$3,134	$1,803
Accruals relating to acquisitions	1,285	1,141
Other accrued liabilities	9,767	7,678
Asset retirement obligations	4,203	3,625
	$18,389	$14,247

* The increase in accrued liabilities was primarily due to the acquisition of legacy EasyLink obligations.

Accruals relating to acquisitions

In relation to our acquisitions made before July 1, 2009, the date on which we adopted ASC Topic 805 "Business Combinations" (ASC Topic 805), we have accrued for costs relating to abandonment of excess legacy facilities. Such accruals were capitalized as part of the cost of the subject acquisition and 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 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 an abandoned 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. As of September 30, 2012, the remaining balance of our acquisition accruals is $2.3 million (June 30, 2012 - $1.9 million).

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 ASC Topic 410 “Asset Retirement and Environmental Obligations” (ASC Topic 410). As of September 30, 2012, the present value of this obligation was $5.4 million (June 30, 2012—$4.3 million), with an undiscounted value of $5.9 million (June 30, 2012—$4.8 million).

NOTE 10—LONG-TERM DEBT

Long-term debt

Long-term debt is comprised of the following:

	As of September 30, 2012	As of June 30, 2012
Long-term debt		
Term Loan	$577,500	$585,000
Mortgage	11,682	11,374
	589,182	596,374
Less:		
Current portion of long-term debt		
Term Loan	30,000	30,000
Mortgage	11,682	11,374
	41,682	41,374
Non current portion of long-term debt	$547,500	$555,000

Term Loan and Revolver

Our term loan and revolver consists of a $600 million term loan facility (the Term Loan) and a $100 million committed revolving credit facility (the Revolver). Borrowings under the credit agreement are secured by a first charge over substantially all of our assets. We entered into and borrowed from this credit agreement on November 9, 2011.

The Term Loan has a five year term and repayments made under the Term Loan are equal to 1.25% of the original principal amount at each quarter for the first 2 years, 1.88% for years 3 and 4 and 2.5% for year 5. Currently our quarterly principal payment amounts to $7.5 million. The Term Loan bears interest at a floating rate of LIBOR plus 2.50%. For the three months ended September 30, 2012, we recorded interest expense of approximately $4.1 million relating to the Term Loan.

For the three months ended September 30, 2011, we recorded interest expense of $1.8 million relating to our previously outstanding term loan.

The Revolver has a 5 year term with no fixed repayment date prior to the end of the term. As of September 30, 2012, we have not drawn any amounts on the Revolver.

Mortgage

We currently have an "open" mortgage with a bank where we can pay all or a portion of the mortgage on or before August 1, 2013. The original principal amount of the mortgage was Canadian $15.0 million and interest accrues monthly at a variable rate of Canadian prime plus 0.50%. Principal and interest are payable in monthly installments of Canadian $0.1 million with a final lump sum principal payment due on maturity. The mortgage is secured by a lien on our headquarters in Waterloo, Ontario, Canada. We first entered into this mortgage in December 2005.

As of September 30, 2012, the carrying value of the mortgage was $11.7 million (June 30, 2012—$11.4 million).

As of September 30, 2012, the carrying value of the Waterloo building that secures the mortgage was $16.3 million (June 30, 2012—$16.3 million).

For the three months ended September 30, 2012, we recorded interest expense of $0.1 million relating to the mortgage (three months ended September 30, 2011— $0.1 million).

NOTE 11—PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

The following table provides details of our defined benefit pension plans and long-term employee benefit obligations for Open Text Document Technologies GmbH (CDT) and Open Text Software GmbH (IXOS) as of September 30, 2012 and June 30, 2012:

	Total benefit obligation	Current portion of benefit obligation*	Noncurrent portion of benefit obligation
CDT defined benefit plan	$22,860	$508	$ 22,352
CDT Anniversary plan	475	88	387
CDT early retirement plan	43	43	—
IXOS defined benefit plan	719	—	719
Total as of September 30, 2012	$24,097	$639	$ 23,458

	Total benefit obligation	Current portion of benefit obligation*	Noncurrent portion of benefit obligation
CDT defined benefit plan	$21,461	$475	$ 20,986
CDT Anniversary plan	457	67	390
CDT early retirement plan	69	69	—
IXOS defined benefit plan	698	—	698
Total as of June 30, 2012	$22,685	$611	$ 22,074

* The current portion of the benefit obligation has been included within "Accounts payable and accrued liabilities" in 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 for the periods indicated:

	As of September 30, 2012	As of June 30, 2012
Benefit obligation—beginning of period	$21,461	$18,231
Service cost	113	326
Interest cost	220	873
Benefits paid	(111)	(441)
Actuarial (gain) loss	181	5,179
Foreign exchange (gain) loss	996	(2,707)
Benefit obligation—end of period	22,860	21,461
Less: current portion	(508)	(475)
Noncurrent portion of benefit obligation	$22,352	$20,986

The following are the details of net pension expense for the CDT pension plan for the periods indicated:

	Three Months Ended September 30,	
	2012	2011
Pension expense:		
Service cost	$113	$85
Interest cost	220	227

Amortization of actuarial gains and losses	68	—
Net pension expense	$401	$312

The CDT pension plan is an unfunded plan and therefore no contributions have been made since the inception of the plan. Actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or the market-related value of plan

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obligations are being amortized and recognized as a component of net periodic benefit costs over the average remaining service period of the plan's active employees. Currently there is approximately $0.2 million in accumulated other comprehensive income related to the CDT pension plan that is expected to be recognized as a component of net periodic benefit costs over the remaining fiscal year.
In determining the fair value of the CDT pension plan benefit obligations as of September 30, 2012 and June 30, 2012, respectively, we used the following weighted-average key assumptions:

	As of September 30, 2012		As of June 30, 2012	
Assumptions:				
Salary increases	2.50	%	2.50	%
Pension increases	2.00	%	2.00	%
Discount rate	3.80	%	4.00	%
Employee fluctuation rate:				
to age 30	1.00	%	1.00	%
to age 35	0.50	%	0.50	%
to age 40	—	%	—	%
to age 45	0.50	%	0.50	%
to age 50	0.50	%	0.50	%
from age 51	1.00	%	1.00	%

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

2013 (nine months ended June 30)	$381
2014	551
2015	597
2016	668
2017	740
2018 to 2022	5,180
Total	$8,117

CDT Employee Benefit Obligations
CDT’s long-term employee benefit obligations arise under CDT’s “Anniversary plan” and an early retirement plan. The obligation is unfunded and carried at a fair value of $0.5 million for the Anniversary plan and approximately $43,000 for the early retirement plan as of September 30, 2012 ($0.5 million and $0.1 million, respectively, as of June 30, 2012).
IXOS Defined Benefit Plans
Included in our pension liability, as of September 30, 2012, is a net amount of $0.7 million (June 30, 2012—$0.7 million) that relates to two IXOS defined benefit pensions plans (IXOS pension plans) in connection with certain former members of the IXOS Board of Directors and certain IXOS employees, respectively. 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.
NOTE 12—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 Preference Shares. No Preference Shares have been issued.
Treasury Stock
During the three months ended September 30, 2012 and 2011, we did not repurchase any of our Common Shares for potential future reissuance under our Long Term Incentive Plans (LTIP) or otherwise.

As of September 30, 2012, we have not reissued any Common Shares from treasury (June 30, 2012—nil).

Share-Based Payments

Total share-based compensation cost for the periods indicated below is detailed as follows:

	Three Months Ended September 30,	
	2012	2011
Stock options	$1,339	$798
Deferred stock units (Directors)	188	65
Restricted stock units	151	—
Restricted stock awards (legacy Vignette employees)	10	11
Performance stock units (Fiscal 2010, 2011 and 2012 LTIPs)	1,414	3,970
Total share-based compensation expense	$3,102	$4,844

Summary of Outstanding Stock Options

On September 27, 2012 at our Annual and Special Meeting of the Shareholders of Open Text Corporation, our shareholders approved a resolution reserving for issuance an additional 2,500,000 Common Shares under our 2004 Stock Option Plan. For more information regarding the amended 2004 Stock Option Plan, please see the Company's Form 8-K filed on October 2, 2012.

As of September 30, 2012, options to purchase an aggregate of 2,011,176 Common Shares were outstanding and 2,971,170 Common Shares were 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 NASDAQ on the trading day immediately preceding the applicable grant date.

A summary of activity under our stock option plans for the three months ended September 30, 2012 is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($'000s)
Outstanding at June 30, 2012	2,147,151	$40.07		
Granted	65,000	54.52		
Exercised	(102,600)	32.92		
Forfeited or expired	(98,375)	43.95		
Outstanding at September 30, 2012	2,011,176	$40.71	4.31	$31,242
Exercisable at September 30, 2012	932,551	$26.26	2.17	$26,951

We estimate the fair value of stock options using the Black-Scholes option pricing model, consistent with the provisions of ASC Topic 718, "Compensation—Stock Compensation" (ASC Topic 718), and SEC Staff Accounting Bulletin No. 107. The 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 periods indicated, the following weighted-average fair value of options and weighted-average assumptions used were as follows:

	Three Months Ended September 30,			
	2012		2011	
Weighted–average fair value of options granted	$18.23		$17.66	
Weighted-average assumptions used:				
Expected volatility	40	%	41	%
Risk–free interest rate	0.62	%	0.80	%
Expected dividend yield	—	%	—	%
Expected life (in years)	4.35		4.34	
Forfeiture rate (based on historical rates)	5	%	5	%

As of September 30, 2012, the total compensation cost related to the unvested stock awards not yet recognized was $16.3 million, which will be recognized over a weighted-average period of approximately three years.
No cash was used by us to settle equity instruments granted under share-based compensation arrangements.
We have not capitalized any share-based compensation costs as part of the cost of an asset in any of the periods presented.
For the three months ended September 30, 2012, cash in the amount of $3.4 million 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 months ended September 30, 2012 from the exercise of options eligible for a tax deduction was $0.8 million.
For the three months ended September 30, 2011, cash in the amount of $7.2 million 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 months ended September 30, 2011 from the exercise of options eligible for a tax deduction was $0.4 million.

Long-Term Incentive Plans
On September 10, 2007, our Board of Directors (the Board) approved the implementation of an incentive plan called the "Open Text Corporation Long-Term Incentive Plan" (LTIP). The LTIP is a rolling three year program whereby we make a series of annual grants, each of which covers the respective performance period, to certain of our employees, and which vests upon the employee and/or the Company meeting pre-determined performance and market-based criteria. One criterion we use to measure performance is, if over the three year period the relative cumulative total shareholder return (TSR) of our Company, compared to the cumulative TSR of companies comprising a peer index group, is higher than a pre-determined target percentile (that is set at the date of grant), then a payout will be made. Depending on whether this target is met or exceeded with respect to the stipulations of the individual LTIPs, the amount of payout would be determined. In calculating the TSR achievement we use the average closing price of our Common Stock, as it trades over the last 30 days ending September 15th (following the third year in the LTIPs rolling three year program).
Grants made in Fiscal 2010 under the LTIP (Fiscal 2010 LTIP) took effect in Fiscal 2010 starting on July 1, 2009. We achieved a payout of 150% of the EPS target. We did not achieve our TSR target. Awards under the Fiscal 2010 LTIP will be issued in the second quarter of Fiscal 2013 in accordance with our insider trading policy, which states, in part, that stock awards may not be issued while a "trading window" is closed.
Grants made in Fiscal 2011 under the LTIP (Fiscal 2011 LTIP) took effect in Fiscal 2011 starting on July 1, 2010. Awards under the Fiscal 2011 LTIP may be equal to 50%, 100% or 150% of the target. We expect to settle the Fiscal 2011 LTIP awards in stock.
Grants made in Fiscal 2012 under the LTIP (Fiscal 2012 LTIP) took effect in Fiscal 2012 starting on February 3, 2012. Awards under the Fiscal 2012 LTIP will be interpolated between 0% and 150% of the target. We expect to settle the Fiscal 2012 LTIP awards in stock.
Performance Share Units (PSUs) granted under the LTIP equity plans (Fiscal 2010, 2011 and 2012 LTIP) have been measured at fair value as of the effective date, consistent with ASC Topic 718, and will be charged to share-based compensation expense over the remaining life of the plan. During the three months ended September 30, 2012, $1.4

million has been charged to share-based compensation expense on account of the LTIP equity plans (three months ended September 30, 2011— $4.0 million).

Deferred Stock Units (DSUs), Performance Stock Units (PSUs) and Restricted Stock Units (RSUs)

During the three months ended September 30, 2012, we granted 299 deferred stock units (DSUs) to certain non-employee directors (three months ended September 30, 2011—263). The DSUs were issued under the Company's Deferred Share Unit Plan that came into effect on February 2, 2010 and will vest at the Company's next annual general meeting following the granting of the DSUs.

During the three months ended September 30, 2012 and 2011, we did not grant any PSUs under LTIP equity plans, respectively.

During the three months ended September 30, 2012 and 2011, we did not grant any Restricted Stock Units (RSUs), respectively.

Restricted Stock Awards (RSAs)

On July 21, 2009, we granted, as part of our acquisition of Vignette, 574,767 OpenText restricted stock awards (RSAs) to certain legacy Vignette employees and directors as replacement for similar restricted stock awards held by these employees and directors when they were employed by Vignette. These awards were valued at $13.33 per RSA on July 21, 2009 and a portion was allocated to the purchase price of Vignette. The remaining portion is amortized, as part of share-based compensation expense, over the vesting period of these awards.

Employee Share Purchase Plan (ESPP)

During the three months ended September 30, 2012, cash in the amount of approximately $0.6 million, was received from employees that will be used to purchase Common Shares in future periods (three months ended September 30, 2011— $0.6 million).

NOTE 13—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.

We recognize interest expense and penalties related to income tax matters in income tax expense.

For the three months ended September 30, 2012 and 2011, we recognized the following amounts as income tax-related interest expense and penalties:

	Three Months Ended September 30,	
	2012	2011
Interest expense	1,854	1,562
Penalties	39	38
Total	1,893	1,600

As of September 30, 2012 and June 30, 2012, the following amounts have been accrued on account of income tax-related interest expense and penalties:

	As of September 30, 2012	As of June 30, 2012
Interest expense accrued *	$22,056	$19,316
Penalties accrued *	$5,818	$4,040

* These balances have been included within "Long-term income taxes payable" within the Condensed Consolidated Balance Sheets.

Included in the accrual balances as of September 30, 2012 are accrued interest expense and penalties of $0.4 million and $1.6 million, respectively, relating to the acquisition of EasyLink.

We believe that it is reasonably possible that the gross unrecognized tax benefits, as of September 30, 2012, could decrease tax expense in the next 12 months by $17.7 million, relating primarily to the expiration of competent authority relief and tax years becoming statute barred for purposes of future tax examinations by local taxing jurisdictions.

Our four most significant tax jurisdictions are Canada, the United States, Luxembourg 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, France and Spain. On a quarterly basis we assess the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes.

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. However, we cannot predict with any level of certainty the exact nature of any future possible settlements.

As at September 30, 2012, we have not provided for additional foreign withholding taxes or deferred income tax liabilities for temporary differences related to the undistributed earnings of our non-Canadian subsidiaries other than the United States, since such earnings are considered permanently invested in those subsidiaries, or are not subject to withholding taxes. It is not practicable to reasonably estimate the amount of additional deferred income tax liabilities or foreign withholding taxes that may be payable should these earnings be distributed in the future. We do plan to make periodic repatriations that will be subject to withholding taxes from our United States subsidiaries and have accrued additional tax cost attributable to these distributions in the amount of $0.2 million.

The effective tax rate has increased and is 45.5% for the three months ended September 30, 2012 compared to a recovery of 3.9% for the three months ended September 30, 2011. The tax recovery in Fiscal 2012 was primarily due to tax benefits realized in Fiscal 2012 relating to the internal reorganization of the acquired international subsidiaries of Metastorm Inc., in the amount of $4.1 million, and a Canadian election to file tax returns in U.S. dollar functional currency, in the amount of $5.9 million. Correspondingly, the Fiscal 2013 effective tax rate increased primarily due to an increase of $4.3 million related to the impact of adjustments in the United States and Australia upon filing of tax returns. The remainder of the differences are due to normal course movements and non material items.

NOTE 14—FAIR VALUE MEASUREMENTS

ASC Topic 820 “Fair Value Measurements and Disclosures” (ASC Topic 820) defines fair value, establishes a framework for measuring fair value, and addresses disclosure requirements for fair value measurements. Fair value is 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 and addressing disclosure requirements, ASC Topic 820 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.
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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 September 30, 2012 and June 30, 2012:

	September 30, 2012				June 30, 2012			
		Fair Market Measurements using:				Fair Market Measurements using:		
	September 30, 2012	Quoted prices in active markets for identical assets/ (liabilities) (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	June 30, 2012	Quoted prices in active markets for identical assets/ (liabilities) (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets:								
Derivative financial instrument asset (note 15)	$2,925	n/a	$ 2,925	n/a	$283	n/a	$ 283	n/a
	$2,925	n/a	$ 2,925	n/a	$283	n/a	$ 283	n/a

Our valuation techniques used to measure the fair values of the derivative instruments, the counterparty to which has high credit ratings, were derived from 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 instruments. Our discounted cash flow techniques use observable market inputs, such as foreign currency spot and forward rates.

Our cash and cash equivalents, along with our accounts receivable and accounts payable and accrued liabilities balances, are measured and recognized in our consolidated financial statements at an amount which approximates their fair value (a Level 3 measurement) due to their short maturities.

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 months ended September 30, 2012 and 2011, no indications of impairment were identified and therefore no fair value measurements were required.

If applicable, we will recognize transfers into and out of levels within the fair value hierarchy at the end of the reporting period in which the actual event or change in circumstance occurs. During the three months ended September 30, 2012 and 2011, we did not have any significant transfers in or out of Level 2 or Level 3.

NOTE 15—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Foreign Currency Forward Contracts

In July 2010, we entered into a hedging program with a Canadian chartered bank to limit the potential foreign exchange fluctuations incurred on future cash flows related to a portion of the payroll expenses that are expected to be paid by our Canadian subsidiary. We operate internationally and are therefore exposed to foreign currency exchange rate fluctuations in the normal course of our business, in particular to changes in the Canadian dollar on account of large costs that are incurred from our centralized Canadian operations, and are denominated in Canadian dollars. As part of our risk management strategy, we use derivative instruments to hedge portions of our payroll exposure. We do not use these forward contracts for trading or speculative purposes. These forward contracts typically mature between one and twelve months.

We have designated these transactions as cash flow hedges of forecasted transactions under ASC Topic 815 "Derivatives and Hedging" (ASC Topic 815). As the critical terms of the hedging instrument, and of the entire hedged forecasted transaction, are the same, in accordance with ASC Topic 815 we have been able to conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. Accordingly, quarterly unrealized gains or losses on the effective portion of these forward contracts have been included within other comprehensive income. The fair value of the contracts, as of September 30, 2012, is recorded within "Prepaid expenses and other current assets".

As of September 30, 2012, the notional amount of forward contracts we held to sell U.S. dollars in exchange for Canadian dollars was $74.7 million (June 30, 2012—$99.6 million).

Fair Value of Derivative Instruments and Effect of Derivative Instruments on Financial Performance

The effect of these derivative instruments on our consolidated financial statements for the periods indicated below were as follows (amounts presented do not include any income tax effects).

Fair Value of Derivative Instruments in the Consolidated Balance Sheets (see note 14)

Derivatives	Balance Sheet Location	As of September 30, 2012 Fair Value Asset (Liability)	As of June 30, 2012 Fair Value Asset (Liability)
Foreign currency forward contracts designated as cash flow hedges	Prepaid expenses and other current assets	$2,925	$283

Effects of Derivative Instruments on Income and Other Comprehensive Income (OCI)

Three Months Ended September 30, 2012

Derivative in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign currency forward contracts	$3,398	Operating expenses	$756	N/A	$—

Three Months Ended September 30, 2011

Derivative in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign currency forward contracts	$(5,655)	Operating expenses	$1,545	N/A	N/A

NOTE 16—SPECIAL CHARGES

Special charges include costs that relate to certain restructuring initiatives that we have undertaken from time to time under our various restructuring plans, as well as acquisition related costs and other similar charges.

	Three Months Ended September 30, 2012	
	2012	2011
Fiscal 2013 Restructuring Plan	$7,578	$—
Fiscal 2012 Restructuring Plan	584	6,684
Fiscal 2011 Restructuring Plan	(15)	979
Fiscal 2010 Restructuring Plan	(2)	(18)
Acquisition-related costs	804	815
Other charges	605	(1,355)
Total	$9,554	$7,105

Reconciliations of the liability relating to each of our materially outstanding restructuring plans are provided below:
Fiscal 2013 Restructuring Plan
In the first quarter of Fiscal 2013, we began to implement restructuring activities to streamline our operations (Fiscal 2013 restructuring plan). These charges relate to workforce reductions and facility consolidations. We expect to incur more charges under the Fiscal 2013 restructuring plan, as we execute the remaining restructuring actions. As of September 30, 2012, we expect total costs to be incurred in conjunction with the Fiscal 2013 restructuring plan to be approximately $15 million, of which $7.6 million has already been recorded within Special charges to date.
The recognition of these charges requires management to make certain judgments and estimates regarding the amount and timing of restructuring charges or recoveries. Our estimated liability could change subsequent to its recognition, requiring adjustments to the expense and the liability recorded. On a quarterly basis, we will conduct an evaluation of the related liabilities and expenses and revise our assumptions and estimates as appropriate.

A reconciliation of the beginning and ending liability for the three months ended September 30, 2012 is shown below.

Fiscal 2013 Restructuring Plan	Workforce reduction	Facility costs	Total
Balance as of June 30, 2012	$—	$—	$—
Accruals and adjustments	4,872	2,706	7,578
Cash payments	(1,020)	(184)	(1,204)
Foreign exchange	48	19	67
Balance as of September 30, 2012	$3,900	$2,541	$6,441