

OPEN TEXT CORP  
Form 10-Q  
April 24, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 10-Q

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

For the quarterly period ended March 31, 2014.

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

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

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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)

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

Indicate by check mark whether the registrant 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 ☒ 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 ☒ 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 ☒

At April 23, 2014, there were 121,592,348 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)

|   | March 31, 2014<br>(unaudited) | June 30, 2013 |
|---|-------------------------------|---------------|
| <b>ASSETS</b>   |                               |               |
| Cash and cash equivalents   | \$336,071                     | \$470,445     |
| Accounts receivable trade, net of allowance for doubtful accounts of \$3,800 as of March 31, 2014 and \$4,871 as of June 30, 2013 (note 3)              | 257,292                       | 174,927       |
| Income taxes recoverable (note 14)  | 23,405                        | 17,173        |
| Prepaid expenses and other current assets   | 71,157                        | 43,464        |
| Deferred tax assets (note 14)   | 10,844                        | 11,082        |
| Total current assets  | 698,769                       | 717,091       |
| Property and equipment (note 4)   | 129,571                       | 88,364        |
| Goodwill (note 5)   | 2,105,596                     | 1,246,872     |
| Acquired intangible assets (note 6)   | 770,160                       | 363,615       |
| Deferred tax assets (note 14)   | 133,170                       | 135,695       |
| Other assets (note 7)   | 50,071                        | 25,082        |
| Deferred charges (note 8)   | 56,190                        | 67,633        |
| Long-term income taxes recoverable (note 14)  | 10,994                        | 10,465        |
| Total assets  | \$3,954,521                   | \$2,654,817   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                               |               |
| Current liabilities:  |                               |               |
| Accounts payable and accrued liabilities (note 9)   | \$230,162                     | \$188,443     |
| Current portion of long-term debt (note 10)   | 62,384                        | 51,742        |
| Deferred revenues   | 334,665                       | 282,387       |
| Income taxes payable (note 14)  | 9,118                         | 4,184         |
| Deferred tax liabilities (note 14)  | 1,441                         | 1,127         |
| Total current liabilities   | 637,770                       | 527,883       |
| Long-term liabilities:  |                               |               |
| Accrued liabilities (note 9)  | 41,486                        | 17,849        |
| Deferred credits (note 8)   | 18,675                        | 11,608        |
| Pension liability (note 11)   | 55,917                        | 24,509        |
| Long-term debt (note 10)  | 1,270,000                     | 513,750       |
| Deferred revenues   | 17,726                        | 11,830        |
| Long-term income taxes payable (note 14)  | 158,856                       | 140,508       |
| Deferred tax liabilities (note 14)  | 187,917                       | 69,672        |
| Total long-term liabilities   | 1,750,577                     | 789,726       |
| Shareholders' equity:   |                               |               |
| Share capital (note 12)   |                               |               |
| 121,592,348 and 118,057,772 Common Shares issued and outstanding at March 31, 2014 and June 30, 2013, respectively; Authorized Common Shares: unlimited | 788,316                       | 651,642       |
| Additional paid-in capital  | 109,769                       | 101,865       |
| Accumulated other comprehensive income  | 39,489                        | 39,890        |
| Retained earnings   | 649,207                       | 572,885       |
| Treasury stock, at cost (836,952 shares at March 31, 2014 and 1,221,756 at June 30, 2013, respectively)   | (20,871)                      | (29,074)      |
| Total OpenText shareholders' equity   | 1,565,910                     | 1,337,208     |

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|  |             |             |
|--|-------------|-------------|
| Non-controlling interests                  | 264         | —           |
| Total shareholders' equity                 | 1,566,174   | 1,337,208   |
| Total liabilities and shareholders' equity | \$3,954,521 | \$2,654,817 |
| Guarantees and contingencies (note 13)     |             |             |
| Related party transactions (note 21)       |             |             |
| Subsequent events (note 22)                |             |             |

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<br>March 31, |          | Nine Months Ended<br>March 31, |           |
|--|---------------------------------|----------|--------------------------------|-----------|
|  | 2014                            | 2013     | 2014                           | 2013      |
| Revenues:  |                                 |          |                                |           |
| License  | \$73,083                        | \$69,035 | \$209,553                      | \$200,816 |
| Cloud services   | 128,400                         | 43,194   | 212,178                        | 131,909   |
| Customer support   | 180,290                         | 166,573  | 523,155                        | 493,327   |
| Professional service and other                                       | 60,981                          | 58,893   | 185,835                        | 190,017   |
| Total revenues   | 442,754                         | 337,695  | 1,130,721                      | 1,016,069 |
| Cost of revenues:  |                                 |          |                                |           |
| License  | 3,527                           | 3,079    | 9,867                          | 12,578    |
| Cloud services   | 49,464                          | 18,741   | 79,692                         | 54,669    |
| Customer support   | 25,206                          | 27,497   | 71,785                         | 81,597    |
| Professional service and other                                       | 49,218                          | 49,701   | 145,898                        | 148,995   |
| Amortization of acquired technology-based intangible assets (note 6) | 17,147                          | 23,058   | 51,712                         | 70,031    |
| Total cost of revenues   | 144,562                         | 122,076  | 358,954                        | 367,870   |
| Gross profit   | 298,192                         | 215,619  | 771,767                        | 648,199   |
| Operating expenses:  |                                 |          |                                |           |
| Research and development   | 47,199                          | 43,003   | 129,332                        | 121,627   |
| Sales and marketing  | 93,700                          | 77,327   | 244,403                        | 209,819   |
| General and administrative   | 39,336                          | 25,762   | 101,037                        | 81,468    |
| Depreciation   | 10,527                          | 6,064    | 23,883                         | 18,278    |
| Amortization of acquired customer-based intangible assets (note 6)   | 24,679                          | 17,149   | 54,388                         | 51,548    |
| Special charges (note 17)  | 15,902                          | 5,444    | 25,901                         | 17,267    |
| Total operating expenses   | 231,343                         | 174,749  | 578,944                        | 500,007   |
| Income from operations   | 66,849                          | 40,870   | 192,823                        | 148,192   |
| Other income (expense), net  | 1,652                           | 237      | 2,838                          | 1,707     |
| Interest and other related expense, net                              | (9,734)                         | (4,109)  | (17,159)                       | (12,992)  |
| Income before income taxes   | 58,767                          | 36,998   | 178,502                        | 136,907   |
| Provision for income taxes (note 14)                                 | 12,971                          | 11,187   | 48,576                         | 30,559    |
| Net income for the period  | \$45,796                        | \$25,811 | \$129,926                      | \$106,348 |
| Add: net loss attributable to non-controlling interests              | 88                              | —        | 88                             | —         |
| Net income attributable to OpenText                                  | \$45,884                        | \$25,811 | \$130,014                      | \$106,348 |
| Earnings per share—basic attributable to OpenText (note 20)          | \$0.38                          | \$0.22   | \$1.09                         | \$0.91    |
| Earnings per share—diluted attributable to OpenText (note 20)        | \$0.38                          | \$0.22   | \$1.08                         | \$0.90    |
| Weighted average number of Common Shares outstanding—basic           | 120,873                         | 117,192  | 119,048                        | 117,028   |
| Weighted average number of Common Shares outstanding—diluted         | 122,100                         | 118,154  | 120,031                        | 118,002   |

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|                                     |        |     |        |     |
|-------------------------------------|--------|-----|--------|-----|
| Dividends declared per Common Share | \$0.15 | \$— | \$0.45 | \$— |
|-------------------------------------|--------|-----|--------|-----|

As a result of the two-for-one stock-split, effected February 18, 2014 by way of a stock dividend, all historical per share data and number of Common Shares outstanding in these Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements are presented on a post stock-split basis.

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<br>March 31, |          | Nine Months Ended<br>March 31, |           |
|---|---------------------------------|----------|--------------------------------|-----------|
|   | 2014                            | 2013     | 2014                           | 2013      |
| Net income for the period   | \$45,796                        | \$25,811 | \$129,926                      | \$106,348 |
| Other comprehensive income—net of tax:                            |                                 |          |                                |           |
| Net foreign currency translation adjustments                      | (1,087                          | ) (3,325 | ) (733                         | ) (4,790  |
| Unrealized gain (loss) on cash flow hedges                        |                                 |          |                                |           |
| Unrealized gain (loss)  | (1,604                          | ) (908   | ) (1,517                       | ) 1,097   |
| (Gain) loss reclassified into net income                          | 1,237                           | 75       | 2,410                          | (1,439    |
| Actuarial gain (loss) relating to defined benefit pension plans   |                                 |          |                                |           |
| Actuarial gain (loss)   | (1,808                          | ) 124    | (781                           | ) (752    |
| Amortization of actuarial loss into net income                    | 74                              | 72       | 220                            | 219       |
| Total other comprehensive income (loss), net, for the period      | (3,188                          | ) (3,962 | ) (401                         | ) (5,665  |
| Total comprehensive income  | 42,608                          | 21,849   | 129,525                        | 100,683   |
| Add: comprehensive loss attributable to non-controlling interests | 88                              | —        | 88                             | —         |
| Total comprehensive income attributable to OpenText               | \$42,696                        | \$21,849 | \$129,613                      | \$100,683 |

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

|   | Nine Months Ended<br>March 31, |            |
|---|--------------------------------|------------|
|   | 2014                           | 2013       |
| Cash flows from operating activities:   |                                |            |
| Net income for the period   | \$ 129,926                     | \$ 106,348 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |            |
| Depreciation and amortization of intangible assets                                | 129,983                        | 139,857    |
| Share-based compensation expense  | 15,707                         | 10,153     |
| Excess tax benefits on share-based compensation expense                           | (1,675)                        | (612)      |
| Pension expense   | 1,298                          | 692        |
| Amortization of debt issuance costs   | 2,060                          | 1,591      |
| Amortization of deferred charges and credits                                      | 8,640                          | 8,620      |
| Loss on sale and write down of property and equipment                             | 15                             | 24         |
| Deferred taxes  | (4,203)                        |            |