

OPEN TEXT CORP
Form 10-Q
October 28, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009.

OR

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

For the transition period from to

Commission file number: 0-27544

OPEN TEXT CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: OPEN TEXT CORP - Form 10-Q

CANADA
(State or other jurisdiction of

98-0154400
(IRS Employer

incorporation or organization)

Identification No.)

275 Frank Tompa Drive, Waterloo, Ontario, Canada N2L 0A1

(Address of principal executive offices)

Registrant's telephone number, including area code: (519) 888-7111

(Former name former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant 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 October 26, 2009, there were 56,380,735 outstanding Common Shares of the registrant.

Table of Contents

OPEN TEXT CORPORATION

TABLE OF CONTENTS

	Page No
PART I Financial Information:	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets as of September 30, 2009 (unaudited) and June 30, 2009</u>	3
<u>Condensed Consolidated Statements of Income Three Months Ended September 30, 2009 and 2008 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Retained Earnings Three Months Ended September 30, 2009 and 2008 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows Three Months Ended September 30, 2009 and 2008 (unaudited)</u>	6
<u>Unaudited Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	40
Item 4. <u>Controls and Procedures</u>	41
PART II Other Information:	
Item 1A. <u>Risk Factors</u>	42
Item 6. <u>Exhibits</u>	43
<u>Signatures</u>	44

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

	September 30, 2009 (unaudited)	June 30, 2009
ASSETS		
Cash and cash equivalents	\$ 212,190	\$ 275,819
Short-term investments (note 3)	19,768	
Accounts receivable trade, net of allowance for doubtful accounts of \$4,464 as of September 30, 2009 and \$4,208 as of June 30, 2009 (note 4)	135,575	115,802
Income taxes recoverable (note 13)	6,225	4,496
Prepaid expenses and other current assets	27,858	18,172
Deferred tax assets (note 13)	22,185	20,621
Total current assets	423,801	434,910
Investments in marketable securities		13,103
Capital assets (note 5)	57,435	45,165
Goodwill (note 6)	718,600	576,111
Acquired intangible assets (note 7)	384,242	315,048
Deferred tax assets (note 13)	75,211	69,877
Other assets (note 8)	18,871	13,064
Long-term income taxes recoverable (note 13)	42,391	39,958
Total assets	\$ 1,720,551	\$ 1,507,236
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 128,660	\$ 115,018
Current portion of long-term debt (note 11)	3,489	3,449
Deferred revenues	205,998	189,397
Income taxes payable (note 13)	7,707	10,356
Deferred tax liabilities (note 13)	2,083	508
Total current liabilities	347,937	318,728
Long-term liabilities:		
Accrued liabilities (note 9)	21,506	23,073
Pension liability (note 10)	16,510	15,803
Long-term debt (note 11)	299,182	299,234
Deferred revenues	10,969	7,914
Long-term income taxes payable	53,465	47,131
Deferred tax liabilities (note 13)	134,543	108,889
Total long-term liabilities	536,175	502,044
Shareholders' equity:		
Share capital (note 12)		
56,373,651 and 52,716,751 Common Shares issued and outstanding at September 30, 2009 and June 30, 2009, respectively; Authorized Common Shares: unlimited	588,871	457,982
Additional paid-in capital	55,307	52,152
Accumulated other comprehensive income	86,052	71,851
Retained earnings	106,209	104,479

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Total shareholders' equity	836,439	686,464
Total liabilities and shareholders' equity	\$ 1,720,551	\$ 1,507,236

Guarantees and contingencies (note 18)

Related party transactions (note 21)

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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,	
	2009	2008
Revenues:		
License	\$ 47,329	\$ 50,074
Customer support	123,649	98,429
Service and other	40,444	34,120
Total revenues	211,422	182,623
Cost of revenues:		
License	3,145	2,893
Customer support	20,939	15,567
Service and other	33,294	27,729
Amortization of acquired technology-based intangible assets	14,142	10,747
Total cost of revenues	71,520	56,936
Gross profit	139,902	125,687
Operating expenses:		
Research and development	31,542	28,578
Sales and marketing	50,690	44,832
General and administrative	21,225	18,387
Depreciation	4,147	2,698
Amortization of acquired customer-based intangible assets	8,917	8,215
Special charges (note 16)	18,589	
Total operating expenses	135,110	102,710
Income from operations	4,792	22,977
Other income, net	3,440	729
Interest expense, net	(3,046)	(2,994)
Income before income taxes	5,186	20,712
Provision for income taxes (note 13)	3,456	5,932
Net income before minority interest	1,730	14,780
Minority interest		119
Net income for the period	\$ 1,730	\$ 14,661
Net income per share basic (note 20)	\$ 0.03	\$ 0.29

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Net income per share diluted (note 20)	\$ 0.03	\$ 0.28
Weighted average number of Common Shares outstanding basic	55,388	51,298
Weighted average number of Common Shares outstanding diluted	56,469	52,990

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

OPEN TEXT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(In thousands of U.S. dollars)

(Unaudited)

	Three months ended September 30,	
	2009	2008
Retained earnings, beginning of period	\$ 104,479	\$ 47,541
Net income	1,730	14,661
Retained earnings, end of period	\$ 106,209	\$ 62,202

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**OPEN TEXT CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands of U.S. dollars)****(Unaudited)**

	Three months ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income for the period	\$ 1,730	\$ 14,661
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,206	21,660
Share-based compensation expense	3,506	1,423
Employee long-term incentive plan	2,675	1,059
Excess tax benefits on share-based compensation expense	(691)	(6,629)
Undistributed earnings related to minority interest		119
Pension expense	192	
Amortization of debt issuance costs	266	224
Unrealized (gain) loss on financial instruments	(2,390)	(722)
Release of unrealized gain on marketable securities to income	(4,353)	
Deferred taxes	(2,957)	(256)
Changes in operating assets and liabilities:		
Accounts receivable	7,928	27,946
Prepaid expenses and other current assets	(3,218)	(1,926)
Income taxes	(4,787)	4,731
Accounts payable and accrued liabilities	(9,343)	(18,369)
Deferred revenue	(12,437)	(19,430)
Other assets	1,175	322
Net cash provided by operating activities	4,502	24,813
Cash flows from investing activities:		
Additions of capital assets-net	(7,665)	(3,887)
Purchase of Vignette Corporation, net of cash acquired	(90,600)	
Purchase of eMotion LLC, net of cash acquired		(3,635)
Purchase of a division of Spicer Corporation		(10,836)
Purchase consideration for prior period acquisitions	(4,801)	(3,293)
Investments in marketable securities		(3,608)
Maturity of short-term investments	27,171	
Net cash used in investing activities	(75,895)	(25,259)
Cash flow from financing activities:		
Excess tax benefits on share-based compensation expense	691	6,629
Proceeds from issuance of Common Shares	4,477	5,542
Repayment of long-term debt	(864)	(867)
Debt issuance costs	(1,024)	
Net cash provided by financing activities	3,280	11,304
Foreign exchange gain (loss) on cash held in foreign currencies	4,484	(15,641)
Decrease in cash and cash equivalents during the period	(63,629)	(4,783)
Cash and cash equivalents at beginning of the period	275,819	254,916

Cash and cash equivalents at end of the period

\$ 212,190