

OPEN TEXT CORP
Form 10-Q
May 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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)

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)

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

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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 20, 2009, there were 52,622,018 outstanding Common Shares of the registrant.

OPEN TEXT CORPORATION

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CONDENSED CONSOLIDATED BALANCE SHEETS

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

	March 31, 2009	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 237,048	\$ 254,916
Accounts receivable trade, net of allowance for doubtful accounts of \$3,784 as of March 31, 2009 and \$3,974 as of June 30, 2008 (note 9)	111,731	134,396
Inventory (note 4)	1,939	-
Income taxes recoverable (note 16)	6,895	16,763
Prepaid expenses and other current assets	14,401	10,544
Deferred tax assets (note 16)	16,838	13,455
Total current assets	388,852	430,074
Investments in marketable securities (note 3)	6,656	-
Capital assets (note 5)	39,202	43,582
Goodwill (note 6)	564,018	564,648
Acquired intangible assets (note 7)	354,743	281,824
Deferred tax assets (note 16)	61,339	59,881
Other assets (note 8)	11,245	10,491
Long-term income taxes recoverable (note 16)	41,073	44,176
Total assets	\$ 1,467,128	\$ 1,434,676
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 10)	\$ 116,372	\$ 99,035
Current portion of long-term debt (note 12)	3,407	3,486
Deferred revenues	193,676	176,967
Income taxes payable (note 16)	1,705	13,499
Deferred tax liabilities (note 16)	3,315	4,876
Total current liabilities	318,475	297,863
Long-term liabilities:		
Accrued liabilities (note 10)	19,984	20,513
Pension liability (note 11)	15,790	-
Long-term debt (note 12)	299,174	304,301
Deferred revenues	7,305	2,573
Long-term income taxes payable (note 16)	51,472	54,681
Deferred tax liabilities (note 16)	136,776	109,912
Total long-term liabilities	530,501	491,980
Minority interest	-	8,672
Shareholders' equity:		
Share capital (note 14)		
52,618,018 and 51,151,666 Common Shares issued and outstanding at March 31, 2009 and June 30, 2008, respectively; Authorized Common Shares: unlimited	456,278	438,471

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Additional paid-in capital	50,991	39,330
Accumulated other comprehensive income	25,885	110,819
Retained earnings	84,998	47,541
Total shareholders' equity	618,152	636,161
Total liabilities and shareholders' equity	\$ 1,467,128	\$ 1,434,676
Guarantees and contingencies (note 18)		
Subsequent events (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 per share data)

(Unaudited)

	Three months ended March 31,		Nine months ended March 31,	
	2009	2008	2009	2008
Revenues:				
License	\$ 51,919	\$ 51,534	\$ 166,845	\$ 150,952
Customer support	101,949	91,606	300,816	268,524
Service and other	38,167	35,622	114,648	105,787
Total revenues	192,035	178,762	582,309	525,263
Cost of revenues:				
License	4,496	3,093	12,670	11,296
Customer support	17,304	14,292	50,227	41,081
Service and other	30,288	28,856	89,898	86,552
Amortization of acquired technology-based intangible assets	11,625	10,440	34,171	30,900
Total cost of revenues	63,713	56,681	186,966	169,829
Gross profit	128,322	122,081	395,343	355,434
Operating expenses:				
Research and development	28,809	27,990	87,335	78,120
Sales and marketing	44,426	41,307	138,605	121,466
General and administrative	17,937	18,268	54,604	52,233
Depreciation	3,229	2,909	8,847	9,645
Amortization of acquired customer-based intangible assets	11,176	8,077	29,529	23,006
Special charges (recoveries) (note 19)	1,788	(14)	13,234	(122)
Total operating expenses	107,365	98,537	332,154	284,348
Income from operations	20,957	23,544	63,189	71,086
Other income (expense), net	11,655	(6,831)	(148)	(12,341)
Interest expense, net	(2,431)	(6,684)	(10,772)	(22,123)
Income before income taxes	30,181	10,029	52,269	36,622
Provision for income taxes (note 16)	8,146	2,594	14,761	10,448
Net income before minority interest	22,035	7,435	37,508	26,174
Minority interest	-	168	51	422
Net income for the period	\$ 22,035	\$ 7,267	\$ 37,457	\$ 25,752
Net income per share—basic (note 15)	\$ 0.42	\$ 0.14	\$ 0.72	\$ 0.51
Net income per share—diluted (note 15)	\$ 0.41	\$ 0.14	\$ 0.71	\$ 0.49
Weighted average number of Common Shares outstanding—basic				
	52,312	50,979	51,825	50,666
Weighted average number of Common Shares outstanding—diluted				
	53,441	52,789	53,122	52,424

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		Nine months ended	
	March 31,		March 31,	
	2009	2008	2009	2008
Retained earnings (deficit), beginning of period	\$ 62,963	\$ 13,020	\$ 47,541	\$ (5,465)
Net income	22,035	7,267	37,457	25,752
Retained earnings, end of period	\$ 84,998	\$ 20,287	\$ 84,998	\$ 20,287

See accompanying Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. Dollars)

(Unaudited)

	Nine months ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income for the period	\$ 37,457	\$ 25,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	72,547	63,551
In-process research and development	121	500
Share-based compensation expense	3,957	2,795
Employee long-term incentive plan	2,396	1,490
Excess tax benefits from share-based compensation	(8,382)	(867)
Undistributed earnings related to minority interest	51	422
Pension expense	1,124	—
Amortization of debt issuance costs	831	1,004
Unrealized (gain) loss on financial instruments	(134)	5,579
Loss on sale and write down of capital assets	353	—
Deferred taxes	(3,577)	(4,619)
Changes in operating assets and liabilities:		
Accounts receivable	47,897	(7,018)
Inventory	(320)	—
Prepaid expenses and other current assets	(3,425)	(2,008)
Income taxes	9,656	5,892
Accounts payable and accrued liabilities	(21,177)	(7,849)
Deferred revenue	(1,304)	36,055
Other assets	(528)	686
Net cash provided by operating activities	137,543	121,365
Cash flows from investing activities:		
Additions of capital assets - net	(6,308)	(5,414)
Purchase of a division of Spicer Corporation	(11,437)	—
Purchase of eMotion LLC, net of cash acquired	(3,635)	—
Purchase of Captaris Inc., net of cash acquired	(101,033)	—
Additional purchase consideration for prior period acquisitions	(4,612)	(451)
Purchase of an asset group constituting a business	—	(2,209)
Investments in marketable securities	(8,930)	—
Acquisition related costs	(12,578)	(14,907)
Net cash used in investment activities	(148,533)	(22,981)
Cash flows from financing activities:		
Excess tax benefits on share-based compensation expense	8,382	867
Proceeds from issuance of Common Shares	17,674	11,415
Repayment of long-term debt	(2,570)	(62,746)
Debt issuance costs	—	(349)

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Net cash provided by (used in) financing activities	23,486	(50,813)
Foreign exchange gain (loss) on cash held in foreign currencies	(30,364)	18,212
Increase (decrease) in cash and cash equivalents during the period	(17,868)	65,783
Cash and cash equivalents at beginning of the period	254,916	149,979
Cash and cash equivalents at end of the period	\$ 237,048	\$ 215,762

Supplemental cash flow disclosures (note 17)

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION

Unaudited Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended March 31, 2009
(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 nine months ended March 31, 2009 are not necessarily indicative of the results expected for any succeeding quarter. Upon the acquisition of Captaris, we established and adopted certain additional significant accounting policies (see Note 2). Other than the establishment and adoption of these additional significant accounting policies there have been no significant changes in our significant 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) the valuation of inventory.

Comprehensive income (loss)

Comprehensive income (loss) comprises (net of income tax effects) the following items:

- (i) Net income;
- (ii) Translation gains and losses from converting foreign currency subsidiaries to our parent company's currency;
- (iii) Unrealized gains and losses relating to certain foreign currency forward contracts accounted for as cash flow hedges;
- (iv) Unrealized gains and losses relating to marketable securities classified as "available for sale" investments; and
 - (v) Changes in unrealized actuarial gains relating to defined benefit pension plans.

The following table sets forth the components of comprehensive income for the reporting periods indicated:

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2009	2008	2009	2008
Other comprehensive income (loss):				
Net income for the period	\$ 22,035	7,267	37,457	25,752
Foreign currency translation adjustments	(27,398)	32,144	(81,622)	69,838
Unrealized loss in investment in marketable securities	(1,456)	—	(2,274)	—
Unrealized loss on cash flow hedges	(1,120)	—	(1,120)	—
Change in actuarial gains relating to defined benefit pension plans		32		