OPEN TEXT CORP
Form 10-Q
February 02, 2012
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 December 31, 2011.

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	**98-0154400**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**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 x 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 x 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 x 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 x

At January 16, 2012, there were 57,898,032 outstanding Common Shares of the registrant.

Table of Contents

OPEN TEXT CORPORATION

TABLE OF CONTENTS

Table of Contents

OPEN TEXT CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	December 31, 2011 (Unaudited)	June 30, 2011
ASSETS		
Cash and cash equivalents	$ 413,911	$ 284,140
Accounts receivable trade, net of allowance for doubtful accounts of $5,630 as of December 31, 2011 and $5,424 as of June 30, 2011 (note 3)	166,675	154,568
Income taxes recoverable (note 13)	13,665	18,911
Prepaid expenses and other current assets	32,983	29,678
Deferred tax assets (note 13)	30,729	27,861
Total current assets	657,963	515,158
Capital assets (note 4)	83,537	77,825
Goodwill (note 5)	1,040,143	832,481
Acquired intangible assets (note 6)	381,922	344,995
Deferred tax assets (note 13)	74,141	42,737
Other assets (note 7)	28,460	19,359
Deferred charges (note 8)	63,583	54,989
Long-term income taxes recoverable (note 13)	51,831	44,819
Total assets	$ 2,381,580	$ 1,932,363
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	$ 138,437	$ 126,249
Current portion of long-term debt (note 10)	41,665	15,545
Deferred revenues	225,743	254,531
Income taxes payable (note 13)	20,501	18,424
Deferred tax liabilities (note 13)	2,068	624
Total current liabilities	428,414	415,373
Long-term liabilities:		
Accrued liabilities (note 9)	13,433	13,727
Deferred credits (note 8)	6,197	6,878
Pension liability (note 11)	17,180	18,478
Long-term debt (note 10)	570,000	282,033
Deferred revenues	11,644	11,466
Long-term income taxes payable (note 13)	153,424	101,434
Deferred tax liabilities (note 13)	53,877	43,529
Total long-term liabilities	825,755	477,545
Shareholders equity:		
Share capital (note 12)		
57,879,063 and 57,301,812 Common Shares issued and outstanding at December 31, 2011 and June 30, 2011, respectively; Authorized Common Shares: unlimited	625,357	614,279
Additional paid-in capital	83,008	74,301
Accumulated other comprehensive income	46,222	60,470
Retained earnings	399,323	316,894

Treasury stock, at cost (572,413 shares at December 31, 2011 and 572,413 shares at June 30, 2011, respectively)	(26,499)	(26,499)
Total shareholders equity	1,127,411	1,039,445
Total liabilities and shareholders equity	$ 2,381,580	$ 1,932,363

Guarantees and contingencies (note 18)

Related party transactions (note 21)

See accompanying Notes to Condensed Consolidated Financial Statements

3

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 December 31, 2011	Three months ended December 31, 2010	Six months ended December 31, 2011	Six months ended December 31, 2010
Revenues:				
License	$ 89,703	$ 79,204	$ 154,731	$ 121,850
Customer support	165,386	136,702	327,383	266,459
Service and other	66,367	51,582	127,388	96,584
Total revenues	321,456	267,488	609,502	484,893
Cost of revenues:				
License	5,370	5,463	9,368	8,965
Customer support	28,468	21,542	54,737	40,898
Service and other	50,604	41,158	100,955	76,271
Amortization of acquired technology-based intangible assets (note 6)	21,253	16,420	42,043	31,847
Total cost of revenues	105,695	84,583	207,103	157,981
Gross profit	215,761	182,905	402,399	326,912
Operating expenses:				
Research and development	42,652	34,268	86,110	65,231
Sales and marketing	68,451	58,603	133,331	102,783
General and administrative	25,126	19,478	50,887	39,288
Depreciation	5,634	5,258	10,892	10,133
Amortization of acquired customer-based intangible assets (note 6)	13,445	9,256	26,486	18,057
Special charges (note 16)	5,221	3,461	12,326	6,656
Total operating expenses	160,529	130,324	320,032	242,148
Income from operations	55,232	52,581	82,367	84,764
Other income (expense), net	2,637	(6,321)	11,949	(3,738)
Interest expense, net	(3,607)	(2,136)	(6,393)	(4,375)
Income before income taxes	54,262	44,124	87,923	76,651
Provision for income taxes (note 13)	6,819	7,014	5,494	17,870
Net income for the period	$ 47,443	$ 37,110	$ 82,429	$ 58,781
Net income per share basic (note 20)	$ 0.82	$ 0.65	$ 1.43	$ 1.03
Net income per share diluted (note 20)	$ 0.81	$ 0.64	$ 1.41	$ 1.01

Weighted average number of Common Shares outstanding basic	57,846	57,019	57,642	56,950
Weighted average number of Common Shares outstanding diluted	58,672	58,088	58,647	58,007

See accompanying Notes to Condensed Consolidated Financial Statements

4

Table of Contents

OPEN TEXT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(Unaudited)

	Six months ended December 31, 2011	Six months ended December 31, 2010
Cash flows from operating activities:		
Net income for the period	$ 82,429	$ 58,781
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	79,421	60,037
Share-based compensation expense	8,241	5,337
Excess tax benefits on share-based compensation expense	(495)	(562)
Pension expense	306	231
Amortization of debt issuance costs	578	667
Loss on sale and write down of capital assets	203	
Deferred taxes	(6,958)	(3,831)
Impairment and other non cash charges	1,345	
Changes in operating assets and liabilities:		
Accounts receivable	(27)	9,670
Prepaid expenses and other current assets	8,041	(689)
Income taxes	10,936	36,859
Deferred charges and credits	(17,327)	(29,267)
Accounts payable and accrued liabilities	(16,799)	(21,312)
Deferred revenue	(57,806)	(24,772)
Other assets	(2,042)	(2,212)
Net cash provided by operating activities	90,046	88,937
Cash flows from investing activities:		
Additions of capital assets-net	(16,687)	(14,582)
Purchase of Patents	(193)	
Purchase of System Solutions Australia Pty Limited (MessageManager), net of cash acquired	(1,524)	
Purchase of Operitel Corporation, net of cash acquired	(6,260)	
Purchase of Global 360 Holding Corp., net of cash acquired	(245,653)	
Purchase of Stream Serve Inc., net of cash acquired		(57,221)
Purchase consideration for prior period acquisitions	(609)	(2,814)
Investments in marketable securities		(668)
Net cash used in investing activities	(270,926)	(75,285)
Cash flow from financing activities:		
Excess tax benefits on share-based compensation expense	495	562
Proceeds from issuance of Common Shares	11,261	4,553
Purchase of Treasury Stock		(12,499)
Proceeds from long-term debt and revolver	648,500	
Repayment of long-term debt and revolver	(333,856)	(1,760)
Debt issuance costs	(9,309)	(29)
Net cash provided by (used in) financing activities	317,091	(9,173)
Foreign exchange gain (loss) on cash held in foreign currencies	(6,440)	10,112
Increase in cash and cash equivalents during the period	129,771	14,591

Cash and cash equivalents at beginning of the period	284,140	326,192
Cash and cash equivalents at end of the period	$ 413,911	$ 340,783

Supplementary cash flow disclosures (note 19)

See accompanying Notes to Condensed Consolidated Financial Statements

5

Table of Contents

OPEN TEXT CORPORATION

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended December 31, 2011

(Tabular amounts in thousands, except share and per share data)

NOTE 1 BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Open Text Corporation and our wholly 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). The information furnished reflects all adjustments necessary for a fair presentation of the results for the periods presented and includes the financial results of System Solutions Australia Pty Limited (MessageManager), which is the sole shareholder of MessageManager Solutions Pty Limited, with effect from October 31, 2011, Operitel Corporation (Operitel), with effect from September 1, 2011, and Global 360 Holding Corp. (Global 360), with effect from July 13, 2011 (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 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.

Change in Accounting Policy

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 Condensed 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 in the Provision for (recovery of) income taxes line in our Condensed 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.

Table of Contents

2) The revised policy is more aligned with the accounting policy followed by the Company s publicly listed competitors and would lead to enhanced comparability with the Company s publicly listed competitors;

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 Condensed 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 increased by approximately \$0.3 million and \$0.2 million, respectively, for the three and six months ended December 31, 2010 from previously reported amounts. Interest (expense), net was reduced by approximately \$0.3 million and \$2.2 million, respectively, for the three and six months ended December 31, 2010 from previously reported amounts. The Provision for income taxes was increased by approximately \$0.02 million and \$2.0 million, respectively, for the three and six months ended December 31, 2010.

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.

Comprehensive income

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

	Three months ended December 31,		Six months ended December 31,	
	2011	**2010**	**2011**	**2010**
Net income for the period	$ 47,443	$ 37,110	$ 82,429	$ 58,781
Other comprehensive income net of tax, where applicable:				
Foreign currency translation adjustments	(1,354)	1,168	(11,972)	7,145
Unrealized gain (loss) on cash flow hedges	3,132	1,419	(2,070)	2,989
Unrealized gain on marketable securities		57		101
Actuarial gain (loss) relating to defined benefit pension plans	342		(206)	
Comprehensive income for the period	$ 49,563	$ 39,754	$ 68,181	$ 69,016

NOTE 2 NEW ACCOUNTING PRONOUNCEMENTS AND ACCOUNTING POLICY UPDATES

Recent Accounting Pronouncements

Comprehensive Income

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 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

Table of Contents

AOCI in both net income and other comprehensive income (OCI) on the face of the financial statements. Companies will continue to be required to present amounts reclassified out of AOCI on the face of the financial statements or disclose those amounts in the notes to the financial statements. During the deferral period, there is no requirement to separately present or disclose the reclassification adjustments into net income. The ASU does not affect the main provision of ASU 2011-05.

ASU 2011-05 and ASU 2011-12 are effective for us in our first quarter of the fiscal year ending June 30, 2013 (Fiscal 2013) and will be applied retrospectively.

Fair Value Measurement and Disclosures

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) Fair Value Measurement (ASU 2011-04) , to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements (as defined in note 14). ASU 2011-04 is effective for us in our third quarter of the fiscal year ending June 30, 2012 (Fiscal 2012) and we do not believe these provisions will have a material impact on our consolidated financial statements.

Testing Goodwill for Impairment

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment (ASU 2011-08), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for us in Fiscal 2013 and earlier adoption is permitted. We do not expect the adoption of ASU 2011-08 to materially impact the carrying value of our recorded goodwill.

Balance Sheet Offsetting Disclosures

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, Disclosures About Offsetting Assets and Liabilities (ASU 2011-11), which creates new disclosure requirements about the nature of an entity s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The purpose of ASU 2011-11 is to create a converged offsetting model that would eliminate a significant quantitative difference between balance sheets prepared under U.S. GAAP and IFRS. ASU 2011-11 is effective for us in our third quarter of Fiscal 2013 and will be applied retrospectively for comparative periods presented. We are currently evaluating the impact of our pending adoption of ASU 2011-11 on our consolidated financial statements.

NOTE 3 ALLOWANCE FOR DOUBTFUL ACCOUNTS

Balance of allowance for doubtful accounts as of June 30, 2011	5,424
Bad debt expense for the period	1,631
Write-off /adjustments	(1,425)
Balance of allowance for doubtful accounts as of December 31, 2011	$ 5,630

8

Table of Contents

NOTE 4 CAPITAL ASSETS

	As of December 31, 2011		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$ 9,774	$ 3,462	$ 6,312
Office equipment	1,062	692	370
Computer hardware	49,084	34,414	14,670
Computer software	12,514	5,908	6,606
Leasehold improvements	26,743	11,542	15,201
Buildings	43,393	3,015	40,378
	$ 142,570	$ 59,033	$ 83,537

	As of June 30, 2011		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$ 7,421	$ 2,667	$ 4,754
Office equipment	1,214	657	557
Computer hardware	43,961	30,191	13,770
Computer software	9,668	3,858	5,810
Leasehold improvements	26,483	9,599	16,884
Buildings	38,648	2,598	36,050
	$ 127,395	$ 49,570	$ 77,825

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, 2011:

Balance, June 30, 2011	$ 832,481
Acquisition of MessageManager (note 17)	2,058
Acquisition of Operitel (note 17)	4,282
Acquisition of Global 360 (note 17)	201,934
Adjustments on account of foreign exchange	(612)
Balance, December 31, 2011	$ 1,040,143

NOTE 6 ACQUIRED INTANGIBLE ASSETS

	Technology Assets	Customer Assets	Total
Net book value, June 30, 2011	$ 203,630	$ 141,365	$ 344,995
Purchase of Patents*	575		575
Acquisition of MessageManager (note 17)	580	1,186	1,766

Acquisition of Operitel (note 17)	2,761	1,840	4,601
Acquisition of Global 360 (note 17)	40,600	58,100	98,700
Amortization expense	(42,043)	(26,486)	(68,529)
Adjustments on account of foreign exchange	(83)	(103)	(186)
Net book value, December 31, 2011	$ 206,020	$ 175,902	$ 381,922

9

Table of Contents

The weighted average amortization period for acquired technology and customer intangible assets is approximately 5 years and 7 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,
2012 (six months ending June 30)	$ 69,376
2013	135,571
2014	76,990
2015	53,203
2016 and beyond	46,782
Total	$ 381,922

* On November 15, 2011, we acquired certain patents. The total purchase price was $0.6 million. Payment terms under the agreement require us to pay $0.2 million upon signing the purchase agreement, $0.2 million 18 months following the purchase date and a final payment of $0.2 million two years following the purchase date. The purchase of these patents is considered to be the acquisition of defensive intangible assets and has been accounted for under ASC Topic 350-30-25 General Intangibles Other than Goodwill , as well as in accordance with ASC Topic 805-50-05 Acquisition of Assets Rather than a Business . The patents have an amortization period of approximately 11 years.

NOTE 7 OTHER ASSETS

	As of December 31, 2011	As of June 30, 2011
Debt issuance costs	$ 9,245	$ 3,032
Deposits and restricted cash	10,625	10,379
Long-term prepaid expenses and other long-term assets	8,590	5,948
	$ 28,460	$ 19,359

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 and note 16). As of December 31, 2011, approximately $0.2 million of these costs have been accrued. 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 6 years.

Table of Contents

NOTE 9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Current liabilities

Accounts payable and accrued liabilities are comprised of the following:

	As of December 31, 2011	As of June 30, 2011
Accounts payable trade	$ 8,135	$ 10,772
Accrued salaries and commissions	45,609	45,630
Accrued liabilities	77,402	60,060
Amounts payable in respect of restructuring and other Special charges (note 16)	5,652	6,504
Accruals relating to acquisitions	863	1,042
Asset retirement obligations	776	2,241
	$ 138,437	$ 126,249

Long-term accrued liabilities

	As of December 31, 2011	As of June 30, 2011
Amounts payable in respect of restructuring and other Special charges (note 16)	$ 370	$ 652
Accruals relating to acquisitions	1,424	2,301
Other accrued liabilities	7,747	6,950
Asset retirement obligations	3,892	3,824
	$ 13,433	$ 13,727

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.

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 December 31, 2011, the present value of this obligation was $4.7 million (June 30, 2011 $6.1 million), with an undiscounted value of $5.2 million (June 30, 2011 $6.5 million). Also see note 16 for Other charges related to asset retirement obligations.

Table of Contents

NOTE 10 LONG-TERM DEBT

Long-term debt

Long-term debt is comprised of the following:

	As of December 31, 2011	As of June 30, 2011
Long-term debt		
Term loan	$ 600,000	$ 285,026
Mortgage	11,665	12,552
	611,665	297,578
Less:		
Current portion of long-term debt		
Term loan	30,000	2,993
Mortgage	11,665	12,552
	41,665	15,545
Long-term portion of long-term debt	$ 570,000	$ 282,033

Term Loan and Revolver

On November 9, 2011, we and certain of our subsidiaries entered into a $700 million Amended and Restated Credit Agreement (the Agreement) with certain financial institutions. The Agreement provides for a $600 million term loan facility (the Term Loan) and a $100 million committed revolving credit facility (the Revolver).

On November 9, 2011, the Company borrowed $600 million under the Term Loan. The Term Loan has a 5 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. Our first quarterly scheduled principal payment is approximately $7.5 million and is due during the third quarter of Fiscal 2012. The Term Loan bears interest at a floating rate of LIBOR plus 2.50%. For the three and six months ended December 31, 2011, we recorded interest expense of $2.5 million relating to the Term Loan.

For the three and six months ended December 31, 2011, we recorded interest on our old term loan (up until November 9, 2011) of approximately $0.9 million and $2.7 million, respectively (three and six months ended December 31, 2010 $1.8 million and $3.7 million, respectively).

The Revolver has a 5 year term with no fixed repayment date prior to the end of the term. As of December 31, 2011, we have not drawn down from the Revolver.

On November 9, 2011, we used a portion of the proceeds from the Term Loan to repay all of our previously outstanding credit facility debt in the amount of $332.9 million.

Mortgage

In December 2005, we entered into a 5 year mortgage agreement with the bank. The principal amount of the mortgage was for Canadian $15.0 million and was originally scheduled to mature on January 1, 2011. During Fiscal 2011, the mortgage was extended and is now open for Open Text to pay all or a portion of the mortgage prior to July 1, 2012. The principal amount of the mortgage did not change upon extension, however, interest now accrues monthly at a variable rate of Canadian prime plus 0.50% (instead of a fixed rate of 5.25% per annum). 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 continues to be secured by a lien on our headquarters in Waterloo, Ontario, Canada.

12

Table of Contents

As of December 31, 2011, the carrying value of the mortgage was $11.7 million (June 30, 2011 $12.6 million).

As of December 31, 2011, the carrying value of the Waterloo building that secures the mortgage was $16.5 million (June 30, 2011 $15.4 million).

For the three and six months ended December 31, 2011, we recorded interest expense of $0.1 million and $0.2 million, respectively, relating to the mortgage (three and six months ended December 31, 2010 $0.2 million and $0.3 million, respectively).

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 IXOS AG (IXOS) as of December 31, 2011 and June 30, 2011:

	Total benefit obligation	Current portion of benefit obligation*	Noncurrent portion of benefit obligation
CDT defined benefit plan	$ 17,119	$ 480	$ 16,639
CDT Anniversary plan	486	93	393
CDT early retirement plan	129		129
IXOS defined benefit plan	19		19
Total as of December 31, 2011	$ 17,753	$ 573	$ 17,180

	Total benefit obligation	Current portion of benefit obligation*	Noncurrent portion of benefit obligation
CDT defined benefit plan	$ 18,231	$ 489	$ 17,742
CDT Anniversary plan	550	57	493
CDT early retirement plan	234		234
IXOS defined benefit plan	9		9
Total as of June 30, 2011	$ 19,024	$ 546	$ 18,478

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

CDT Defined Benefit Plan

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

Table of Contents

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 December 31, 2011	As of June 30, 2011
Benefit obligation beginning of period	$ 18,231	$ 15,507
Service cost	166	350
Interest cost	444	868
Benefits paid	(213)	(423)
Actuarial (gain) loss	209	(688)
Foreign exchange (gain) loss	(1,718)	2,617
Benefit obligation end of period	17,119	18,231
Less: current portion	(480)	(489)
Noncurrent portion of benefit obligation	$ 16,639	$ 17,742

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

	Three months ended December 31,		Six months ended December 31,	
	2011	2010	2011	2010
Pension expense:				
Service cost	$ 81	$ 83	$ 166	$ 169
Interest cost	217	206	444	420
Net pension expense	$ 298	$ 289	$ 610	$ 589

The CDT pension plan is an unfunded plan and therefore no contributions have been made since the inception of the plan.

In determining the fair value of the CDT pension plan benefit obligations as of December 31, 2011 and June 30, 2011, respectively, we used the following weighted-average key assumptions:

	As of December 31, 2011	As of June 30, 2011
Assumptions:		
Salary increases	2.25%	2.25%
Pension increases	1.75%	1.50%
Discount rate	5.30%	5.25%
Employee fluctuation rate:		
to age 30	1.00%	1.00%
to age 35	0.50%	0.50%
to age 40	0.00%	0.00%
to age 45	0.50%	0.50%

to age 50	0.50%	0.50%
from age 51	1.00%	1.00%

Table of Contents

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

2012 (six months ending June 30)	$ 224
2013	513
2014	598
2015	637
2016	731
2017 to 2021	4,685
Total	$ 7,388

CDT Long-term 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 $0.1 million for the early retirement plan as of December 31, 2011 ($0.6 million and $0.2 million, respectively, as of June 30, 2011).

IXOS AG Defined Benefit Plans

Included in our pension liability, as of December 31, 2011, is a net amount of $19,000 (June 30, 2011 $9,000) 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 and six months ended December 31, 2011, we did not purchase any of our Common Shares.

During the three months ended December 31, 2010, we repurchased 264,834 Open Text Common Shares, in the amount of $12.5 million, for potential future reissuance under our Long Term Incentive Plans (LTIP). No such purchases were made in the three months ended September 30, 2010.

As of December 31, 2011, we have not reissued any Common Shares from treasury (June 30, 2011 nil).

Table of Contents

Share-Based Payments

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

	Three months ended December 31, 2011	Three months ended December 31, 2010	Six months ended December 31, 2011	Six months ended December 31, 2010
Stock options	$ 974	$ 784	$ 1,772	$ 1,781
Restricted stock units (legacy Vignette employees)	9	28	20	76
Deferred stock units (Directors)	64	53	129	105
Performance stock units (LTIP 3 and LTIP 4)	2,350	1,872	6,320	3,375
Total share-based compensation expense	$ 3,397	$ 2,737	$ 8,241	$ 5,337

Summary of Outstanding Stock Options

As of December 31, 2011, options to purchase an aggregate of 1,837,552 Common Shares were outstanding and 1,207,795 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 NASDAQ on the trading day immediately preceding the applicable grant date.

A summary of option activity under our stock option plans for the six months ended December 31, 2011 is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($ 000s)
Outstanding at June 30, 2011	2,277,733	$ 24.51		
Granted	142,000	52.16		
Exercised	(562,931)	18.19		
Forfeited or expired	(19,250)	34.25		
Outstanding at December 31, 2011	1,837,552	$ 28.48	3.20	$ 42,083
Exercisable at December 31, 2011	1,333,177	$ 22.71	2.42	$ 37,903

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.

Table of Contents

For the periods indicated, the following weighted-average fair value of options and weighted-average assumptions used were as follows:

	Three months ended December 31,		Six months ended December 31,	
	2011	2010	2011	2010
Weighted average fair value of options granted	$ 17.99	$ 14.97	$ 17.71	$ 14.97
Weighted-average assumptions used:				
Expected volatility	41%	40%	41%	40%
Risk free interest rate	0.74%	1.4%	0.79%	1.4%
Expected dividend yield	0%	0%	0%	0%
Expected life (in years)	4.3	4.3	4.3	4.3
Forfeiture rate (based on historical rates)	5%	5%	5%	5%

As of December 31, 2011, the total compensation cost related to the unvested stock awards not yet recognized was $5.7 million, which will be recognized over a weighted average period of approximately 2 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 and six months ended December 31, 2011, cash in the amount of $3.0 million and $10.2 million, respectively, was received as the result of the exercise of options granted under share-based payment arrangements. The tax benefit realized by us during the three and six months ended December 31, 2011 from the exercise of options eligible for a tax deduction was $0.4 million and $0.8 million, respectively.

For the three and six months ended December 31, 2010, cash in the amount of $1.0 million and $3.9 million, respectively, was received as the result of the exercise of options granted under share-based payment arrangements. The tax benefit realized by us during the three and six months ended December 31, 2010 from the exercise of options eligible for a tax deduction was $0.2 million and $1.1 million, respectively.

Deferred Stock Units (DSUs) and Performance Stock Units (PSUs)

During the three and six months ended December 31, 2011, we granted 6,760 and 7,023 deferred stock units (DSUs), respectively, to certain nonemployee directors (DSUs granted during the three and six months ended December 31, 2010 4,721 and 4,878). 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.

We did not grant any PSUs under the Fiscal 2011 Long Term incentive Plan (LTIP 4) or the Fiscal 2010 Long Term Incentive Plan (LTIP 3) during the three and six months ended December 31, 2011. During the three and six months ended December 31, 2010, we granted 264,834 PSUs, respectively, under LTIP 4 and nil under LTIP 3. Awards achieved under the LTIP 3 and LTIP 4 will be settled over the three-year period ending June 30, 2012 and June 30, 2013, respectively.

Restricted Stock Awards (RSAs)

On July 21, 2009, we granted, as part of our acquisition of Vignette, 574,767 Open Text 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.