

OPEN TEXT CORP  
Form 10-Q  
April 30, 2010  
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 March 31, 2010.

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 April 28, 2010, there were 56,779,751 outstanding Common Shares of the registrant.

---

**Table of Contents**

**OPEN TEXT CORPORATION**

**TABLE OF CONTENTS**

	<b>Page No</b>
<b>PART I Financial Information:</b>	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets as of March 31, 2010 (unaudited) and June 30, 2009</u>	3
<u>Condensed Consolidated Statements of Income Three and Nine Months Ended March 31, 2010 and 2009 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Retained Earnings Three and Nine Months Ended March 31, 2010 and 2009 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows Nine Months Ended March 31, 2010 and 2009 (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>	28
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	39
Item 4. <u>Controls and Procedures</u>	40
<b><u>PART II Other Information:</u></b>	
Item 1A. <u>Risk Factors</u>	41
Item 6. <u>Exhibits</u>	42
<u>Signatures</u>	43

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

	<b>March 31, 2010 (unaudited)</b>	<b>June 30, 2009</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 321,328	\$ 275,819
Accounts receivable trade, net of allowance for doubtful accounts of \$5,207 as of March 31, 2010 and \$4,208 as of June 30, 2009 (note 3)	122,557	115,802
Income taxes recoverable (note 12)	24,998	4,496
Prepaid expenses and other current assets	21,156	18,172
Deferred tax assets (note 12)	16,765	20,621
<b>Total current assets</b>	<b>506,804</b>	<b>434,910</b>
Investments in marketable securities		13,103
Capital assets (note 4)	54,835	45,165
Goodwill (note 5)	699,833	576,111
Acquired intangible assets (note 6)	334,770	315,048
Deferred tax assets (note 12)	64,472	69,877
Other assets (note 7)	17,760	13,064
Long-term income taxes recoverable (note 12)	46,007	39,958
<b>Total assets</b>	<b>\$ 1,724,481</b>	<b>\$ 1,507,236</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities (note 8)	\$ 114,419	\$ 116,992
Current portion of long-term debt (note 10)	15,782	3,449
Deferred revenues	212,655	189,397
Income taxes payable (note 12)	13,083	10,356
Deferred tax liabilities (note 12)	2,354	508
<b>Total current liabilities</b>	<b>358,293</b>	<b>320,702</b>
<b>Long-term liabilities:</b>		
Accrued liabilities (note 8)	16,682	21,099
Pension liability (note 9)	15,363	15,803
Long-term debt (note 10)	285,774	299,234
Deferred revenues	11,151	7,914
Long-term income taxes payable	55,740	47,131
Deferred tax liabilities (note 12)	118,961	108,889
<b>Total long-term liabilities</b>	<b>503,671</b>	<b>500,070</b>
<b>Shareholders equity:</b>		
Share capital (note 11)		
56,600,540 and 52,716,751 Common Shares issued and outstanding at March 31, 2010 and June 30, 2009, respectively; Authorized Common Shares: unlimited	593,397	457,982
Additional paid-in capital	58,623	52,152
Accumulated other comprehensive income	69,973	71,851
Retained earnings	140,524	104,479

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Total shareholders' equity	862,517	686,464
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,724,481</b>	<b>\$ 1,507,236</b>
Guarantees and contingencies (note 15)		
Related party transactions (note 18)		

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 per share data)****(Unaudited)**

	<b>Three months ended March 31,</b>		<b>Nine months ended March 31,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>				
License	\$ 49,527	\$ 51,919	\$ 169,547	\$ 166,845
Customer support	124,443	101,949	378,375	300,816
Service and other	38,807	38,167	124,067	114,648
<b>Total revenues</b>	<b>212,777</b>	<b>192,035</b>	<b>671,989</b>	<b>582,309</b>
<b>Cost of revenues:</b>				
License	3,744	4,496	11,522	12,670
Customer support	20,777	17,304	63,209	50,227
Service and other	31,314	30,288	101,036	89,898
Amortization of acquired technology-based intangible assets	15,044	11,625	44,338	34,171
<b>Total cost of revenues</b>	<b>70,879</b>	<b>63,713</b>	<b>220,105</b>	<b>186,966</b>
<b>Gross profit</b>	<b>141,898</b>	<b>128,322</b>	<b>451,884</b>	<b>395,343</b>
<b>Operating expenses:</b>				
Research and development	31,654	28,809	97,543	87,335
Sales and marketing	45,983	44,426	150,564	138,605
General and administrative	18,405	17,937	62,007	54,604
Depreciation	4,437	3,229	12,982	8,847
Amortization of acquired customer-based intangible assets	8,910	11,176	26,562	29,529
Special charges (note 13)	6,083	1,788	35,095	13,234
<b>Total operating expenses</b>	<b>115,472</b>	<b>107,365</b>	<b>384,753</b>	<b>332,154</b>
<b>Income from operations</b>	<b>26,426</b>	<b>20,957</b>	<b>67,131</b>	<b>63,189</b>
Other income (expense), net	(5,554)	11,655	(3,785)	(199)
Interest expense, net	(2,625)	(2,431)	(8,387)	(10,772)
<b>Income before income taxes</b>	<b>18,247</b>	<b>30,181</b>	<b>54,959</b>	<b>52,218</b>
Provision for income taxes (note 12)	5,133	8,146	18,914	14,761
<b>Net income for the period</b>	<b>\$ 13,114</b>	<b>\$ 22,035</b>	<b>\$ 36,045</b>	<b>\$ 37,457</b>
<b>Net income per share basic (note 17)</b>	<b>\$ 0.23</b>	<b>\$ 0.42</b>	<b>\$ 0.64</b>	<b>\$ 0.72</b>
<b>Net income per share diluted (note 17)</b>	<b>\$ 0.23</b>	<b>\$ 0.41</b>	<b>\$ 0.63</b>	<b>\$ 0.71</b>

## Edgar Filing: OPEN TEXT CORP - Form 10-Q

Weighted average number of Common Shares outstanding	basic	56,537	52,312	56,106	51,825
Weighted average number of Common Shares outstanding	diluted	57,696	53,441	57,214	53,122

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)**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Retained earnings, beginning of period	\$ 127,410	\$ 62,963	\$ 104,479	\$ 47,541
Net income	13,114	22,035	36,045	37,457
Retained earnings, end of period	\$ 140,524	\$ 84,998	\$ 140,524	\$ 84,998

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)**

	<b>Nine months ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income for the period	\$ 36,045	\$ 37,457
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	83,882	72,547
In-process research and development		121
Share-based compensation expense	7,154	3,957
Excess tax benefits on share-based compensation expense	(904)	(8,382)
Pension expense	562	1,124
Amortization of debt issuance costs	1,064	831
Unrealized gain on financial instruments	(878)	(134)
Loss on sale and write down of capital assets	136	353
Release of unrealized gain on marketable securities	(4,353)	
Deferred taxes	(3,714)	(3,577)
Impairment charges	830	
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	23,953	47,897
Prepaid expenses and other current assets	(1,306)	(3,745)
Income taxes	(18,238)	9,656
Accounts payable and accrued liabilities	(11,466)	(18,730)
Deferred revenue	(1,029)	(1,304)
Other assets	3,233	(528)
<b>Net cash provided by operating activities</b>	<b>114,971</b>	<b>137,543</b>
<b>Cash flows from investing activities:</b>		
Additions of capital assets-net	(15,269)	(6,308)
Purchase of Vignette Corporation, net of cash acquired	(90,600)	
Purchase of Captaris Inc., net of cash acquired		(101,033)
Purchase of eMotion LLC, net of cash acquired	(556)	(3,635)
Purchase of a division of Spicer Corporation		(11,437)
Purchase consideration for prior period acquisitions	(11,407)	(17,190)
Investments in marketable securities		(8,930)
Maturity of short-term investments	45,525	
<b>Net cash used in investing activities</b>	<b>(72,307)</b>	<b>(148,533)</b>
<b>Cash flow from financing activities:</b>		
Excess tax benefits on share-based compensation expense	904	8,382
Proceeds from issuance of Common Shares	8,937	17,674
Repayment of long-term debt	(2,607)	(2,570)
Debt issuance costs	(1,024)	
<b>Net cash provided by financing activities</b>	<b>6,210</b>	<b>23,486</b>
Foreign exchange loss on cash held in foreign currencies	(3,365)	(30,364)
Increase (decrease) in cash and cash equivalents during the period	45,509	(17,868)
Cash and cash equivalents at beginning of the period	275,819	254,916

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Cash and cash equivalents at end of the period	\$ 321,328	\$ 237,048
--	------------	------------

Supplementary cash flow disclosures (note 16)

See accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents**

**OPEN TEXT CORPORATION**

**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the Three and Nine Months Ended March 31, 2010**

**(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 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 the methods of their application are consistent with those used and described in our annual consolidated financial statements for the fiscal year ended June 30, 2009. The consolidated financial statements do not include certain 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, 2009.

The information furnished reflects all adjustments necessary for a fair presentation of the results for the periods presented and includes the financial results of Vignette Corporation (Vignette), with effect from July 22, 2009 (see Note 14). The operating results for the three and nine months ended March 31, 2010 are not necessarily indicative of the results expected for any succeeding quarter or the entire fiscal year ending June 30, 2010.

*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 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) 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.

**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)****Comprehensive income (loss)**

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

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Net income for the period	\$ 13,114	\$ 22,035	\$ 36,045	\$ 37,457
<i>Other comprehensive income (loss) net of tax, where applicable:</i>				
Foreign currency translation adjustments	(12,766)	(27,398)	3,779	(81,622)
Unrealized gain (loss) on short-term investments *	(3)		(37)	
Unrealized loss on investment in marketable securities		(1,456)		(2,274)
Release of unrealized gain on marketable securities to income			(4,353)	
Unrealized (loss) on cash flow hedges **		(1,120)	(1,062)	(1,120)
Actuarial gain (loss) relating to defined benefit pension plans	(5)	32	(205)	82
Comprehensive income (loss) for the period	\$ 340	\$ (7,907)	\$ 34,167	\$ (47,477)

\* As of March 31, 2010 we have settled all of our short term investments, which previously consisted of certain marketable investments in U.S government agencies.

\*\* As of March 31, 2010 we have settled all foreign currency forward contracts, including those which were designated as cash flow hedges of forecasted transactions under Accounting Standards Codification (ASC) Topic 815 Derivatives and Hedging, and those which were acquired as part of our acquisition of Vignette. The notional amount of the forward contracts, designated as cash flow hedges, as of June 30, 2009 was \$44.0 million. The notional amount of the forward contract which we acquired as part of our acquisition of Vignette, as of July 22, 2009, (the date of acquisition) was \$1.2 million.

**NOTE 2 NEW ACCOUNTING PRONOUNCEMENTS AND ACCOUNTING POLICY UPDATES****Recent Accounting Pronouncements****Revenue Recognition Updates**

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (ASU 2009-13). ASU 2009-13 applies to multiple-deliverable revenue arrangements that are currently within the scope of FASB ASC Subtopic 605-25 (previously included in Emerging Issues Task Force Issue no. 00-21, Revenue Arrangements with Multiple Deliverables). ASU 2009-13 provides principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. It also requires an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price. The guidance eliminates the use of the residual method, requires entities to allocate revenue using the relative-selling-price method, and significantly expands the disclosure requirements for multiple-deliverable revenue arrangements. Additionally, in October 2009 the FASB also issued Accounting Standards Update 2009-14 (Topic 985): Certain Revenue Arrangements that Include Software Arrangements (ASU 2009-14). ASU 2009-14



**Table of Contents**

**OPEN TEXT CORPORATION**

**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the Three and Nine Months Ended March 31, 2010**

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

focuses on determining which arrangements are within the scope of the software revenue guidance in ASC Topic 985 (previously included in AICPA Statement of Position no. 97-2, Software Revenue Recognition) and those that are not. ASU 2009-14 removes tangible products from the scope of the software revenue guidance if the products contain both software and non-software components that function together to deliver a product's essential functionality and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are within the scope of the software revenue guidance. Both of these updates are effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are currently assessing the impact of these updates on our future consolidated financial statements.

***Measuring Liabilities at Fair Value***

In August 2009, the FASB issued Accounting Standards Update 2009-05, Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value (ASU 2009-05). ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the techniques prescribed by the update. We adopted ASU 2009-05 in our first quarter of Fiscal 2010 and its adoption did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 includes certain additional disclosures about the different classes of assets and liabilities measured at fair value.

ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009 except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. We adopted this new accounting standards update in our third quarter of Fiscal 2010 and the adoption thereof did not have a material impact on our consolidated financial statements.

***Business Combinations***

On July 1, 2009, we adopted the requirements of FASB ASC Topic 805 Business Combinations (ASC Topic 805). Our acquisition of Vignette was accounted for in accordance with this new business combination standard (see Notes 5 and 14).

***Accounting Standards Codification***

In June 2009, the FASB issued Statement No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (the Codification). The Codification has become the single source of authoritative non-government U.S. generally accepted accounting principles (GAAP), superseding various existing authoritative accounting pronouncements. The Codification eliminates the GAAP hierarchy contained in Statement No. 162 and establishes one level of authoritative GAAP. All other U.S. GAAP literature is considered non-authoritative. This Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted the Codification in our first quarter of Fiscal 2010. There was no change to our consolidated financial statements due to the implementation of the Codification other than changes in reference to various authoritative accounting pronouncements in our Notes to consolidated financial statements.

**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)****NOTE 3 ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Balance of allowance for doubtful accounts as of June 30, 2009	\$ 4,208
Bad debt expense for the period	3,616
Write-offs /adjustments	(2,617)
Balance of allowance for doubtful accounts as of March 31, 2010	\$ 5,207

**NOTE 4 CAPITAL ASSETS**

	<b>As of March 31, 2010</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Furniture and fixtures	\$ 14,261	\$ 9,665	\$ 4,596
Office equipment	7,027	5,981	1,046
Computer hardware	89,957	75,078	14,879
Computer software	32,528	24,878	7,650
Leasehold improvements	24,077	13,820	10,257
Land and buildings*	18,457	2,050	16,407
	\$ 186,307	\$ 131,472	\$ 54,835

	<b>As of June 30, 2009</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Furniture and fixtures	\$ 11,472	\$ 7,677	\$ 3,795
Office equipment	8,696	7,674	1,022
Computer hardware	77,813	66,118	11,695
Computer software	28,094	20,679	7,415
Leasehold improvements	19,662	13,074	6,588
Land and buildings	16,163	1,513	14,650
	\$ 161,900	\$ 116,735	\$ 45,165

\* Included in the cost of the building is an amount which relates to the Company's construction of a new building in Waterloo, Ontario, Canada. Additions to the building amounted to \$0.2 million during the three months ended March 31, 2010. Construction of the building is in progress and therefore depreciation has not yet commenced.





**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)****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, 2009:

Balance, June 30, 2009	\$ 576,111
Acquisition of Vignette Corporation (note 14)	132,524
Adjustments relating to prior acquisitions	(793)
Adjustments on account of foreign exchange	(8,009)
 Balance, March 31, 2010	 \$ 699,833

**NOTE 6 ACQUIRED INTANGIBLE ASSETS**

	<b>Technology Assets</b>	<b>Customer Assets</b>	<b>Total</b>
Net book value, June 30, 2009	\$ 173,547	\$ 141,501	\$ 315,048
Acquisition of Vignette Corporation (note 14)	68,200	22,700	90,900
Amortization expense	(44,338)	(26,562)	(70,900)
Foreign exchange and other impacts	406	(684)	(278)
 Net book value, March 31, 2010	 \$ 197,815	 \$ 136,955	 \$ 334,770

The range of amortization periods for intangible assets is from 4-10 years.

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:

	<b>Fiscal years ending June 30,</b>
2010 (three months ended June 30)	\$ 23,652
2011	93,149
2012	90,753
2013	88,046
2014 and beyond	39,170
 Total	 \$ 334,770

**NOTE 7 OTHER ASSETS**

	<b>As of March 31, 2010</b>	<b>As of June 30, 2009</b>
Debt issuance costs	\$ 4,692	\$ 4,728
Deposits and restricted cash	8,972	4,615
Long-term prepaid expenses and other long-term assets	3,844	3,130
Pension assets	252	591
	<b>\$ 17,760</b>	<b>\$ 13,064</b>

**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)**

Debt issuance costs relate primarily to costs incurred for the purpose of obtaining long-term debt used to partially finance the Hummingbird acquisition and are being amortized over the life of the long-term debt. 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. Pension assets relate to defined benefit pension plans for legacy IXOS employees and directors (see Note 9), recognized under ASC Topic 715 Compensation Retirement Benefits .

**NOTE 8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES****Current liabilities**

Accounts payable and accrued liabilities are comprised of the following:

	As of March 31, 2010	As of June 30, 2009
Accounts payable trade	\$ 10,745	\$ 15,465
Accrued salaries and commissions	34,101	31,973
Accrued liabilities	49,430	49,527
Amounts payable in respect of restructuring (note 13)	11,299	5,061
Amounts payable in respect of acquisitions and acquisition related accruals	5,647	12,992
Asset retirement obligations	3,197	1,974
	\$ 114,419	\$ 116,992

**Long-term accrued liabilities**

	As of March 31, 2010	As of June 30, 2009
Amounts payable in respect of restructuring (note 13)	\$ 756	\$ 849
Amounts payable in respect of acquisitions and acquisition related accruals	2,979	7,128
Other accrued liabilities	8,682	7,936
Asset retirement obligations	4,265	5,186
	\$ 16,682	\$ 21,099

*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 . As of March 31, 2010 the present value of this obligation was \$7.5 million (June 30, 2009 \$7.2 million), with an undiscounted value of \$9.6 million (June 30, 2009 \$8.7 million).

## Edgar Filing: OPEN TEXT CORP - Form 10-Q

### *Accruals relating to acquisitions*

In relation to our acquisitions made before July 1, 2009, the date on which we adopted ASC Topic 805, we have accrued for costs relating to legacy workforce reductions and abandonment of excess legacy facilities. Such

**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)**

accruals were capitalized as part of the cost of the subject acquisition and in the case of abandoned facilities, 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 workforce reductions is extinguished against the payments made to the employees and in the case of 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 the 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.

The following table summarizes the activity with respect to our acquisition accruals during the nine months ended March 31, 2010.

	Balance June 30, 2009	Initial Accruals	Usage/ Foreign Exchange/ Other Adjustments	Subsequent Adjustments to Goodwill	Balance March 31, 2010
<b>Captaris</b>					
Employee termination costs	\$ 4,916	\$	\$ (4,227)	\$ (457)	\$ 232
Excess facilities	6,123		(2,066)	147	4,204
Transaction-related costs			(49)	49	
	11,039		(6,342)	(261)	4,436
<b>Hummingbird</b>					
Employee termination costs	25		(25)		
Excess facilities	1,463		(936)	(235)	292
Transaction-related costs					
	1,488		(961)	(235)	292
<b>IXOS</b>					
Employee termination costs					
Excess facilities	7,483		(3,460)	(196)	3,827
Transaction-related costs					
	7,483		(3,460)	(196)	3,827
<b>Centrinity</b>					
Employee termination costs					
Excess facilities	110		(39)		71
Transaction-related costs					
	110		(39)		71
<b>Totals</b>					
Employee termination costs	4,941		(4,252)	(457)	232
Excess facilities	15,179		(6,501)	(284)	8,394
Transaction-related costs			(49)	49	
	\$ 20,120	\$	\$ (10,802)	\$ (692)	\$ 8,626

## Edgar Filing: OPEN TEXT CORP - Form 10-Q

The adjustments to goodwill primarily relate to adjustments to amounts accrued for employee termination costs and excess facilities accounted for in accordance with EITF 95-3. The goodwill adjustments relating to amounts accrued for transaction costs are accounted for in accordance with SFAS 141, as they relate to acquisitions consummated prior to the adoption of ASC Topic 805 (on July 1, 2009).

**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)****NOTE 9 PENSION PLANS AND OTHER POST RETIREMENT BENEFITS*****CDT Defined Benefit Plan and CDT Long-term Employee Benefit Obligations:***

On November 1, 2008, the following unfunded defined benefit pension plan and long-term employee benefit obligations were acquired, relating to legacy Captaris employees of a wholly owned subsidiary of Captaris called Captaris Document Technologies GmbH (CDT). As of March 31, 2010 and June 30, 2009, the balances relating to these obligations were as follows:

	<b>Total benefit obligation</b>	<b>Current portion of benefit obligation*</b>	<b>Noncurrent portion of benefit obligation</b>
CDT defined benefit plan	\$ 14,819	\$ 435	\$ 14,384
CDT Anniversary plan	730	183	547
CDT early retirement plan	432		432
Total as of March 31, 2010	\$ 15,981	\$ 618	\$ 15,363

	<b>Total benefit obligation</b>	<b>Current portion of benefit obligation*</b>	<b>Noncurrent portion of benefit obligation</b>
CDT defined benefit plan	\$ 14,828	\$ 362	\$ 14,466
CDT Anniversary plan	960	214	746
CDT early retirement plan	591		591
Total as of June 30, 2009	\$ 16,379	\$ 576	\$ 15,803

\* 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.

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:

Edgar Filing: OPEN TEXT CORP - Form 10-Q

	As of March 31, 2010	As of June 30, 2009
Benefit obligation beginning	\$ 14,828*	\$ 13,489**
Service cost	312	349
Interest cost	668	585
Benefits paid	(252)	(134)
Curtailment (gain)/ loss	94	(271)
Actuarial gain	(95)	(734)
Foreign exchange	(736)	1,544
Benefit obligation ending	14,819	14,828
Less: current portion	(435)	(362)
Noncurrent portion of benefit obligation	\$ 14,384	\$ 14,466



**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)**

\* Benefit obligation as of June 30, 2009.

\*\* Benefit obligation as of November 1, 2008 (date of acquisition).

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

	<b>Three months ended March 31, 2010</b>	<b>Nine months ended March 31, 2010</b>
<b>Pension expense:</b>		
Service cost	\$ 99	\$ 312
Interest cost	212	668
Net pension expense	\$ 311	\$ 980

	<b>Three months ended March 31, 2009</b>	<b>Nine months ended March 31, 2009</b>
<b>Pension expense:</b>		
Service cost	\$ 125	\$ 224
Interest cost	209	351
Net pension expense	\$ 334	\$ 575

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 as of March 31, 2010 and June 30, 2009, respectively, we used the following weighted-average key assumptions:

<b>Assumptions:</b>	
Salary increases	2.25%
Pension increases	1.50%
Discount rate	6.00%
<b>Employee fluctuation rate:</b>	
to age 30	1.00%
to age 35	0.50%
to age 40	0.00%
to age 45	0.50%
to age 50	0.50%
from age 51	1.00%

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

Edgar Filing: OPEN TEXT CORP - Form 10-Q

2010 (three months ended June 30)	\$ 104
2011	428
2012	453
2013	505
2014	589
2015 to 2019	4,468
<b>Total</b>	<b>\$ 6,547</b>

**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)*****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 \$0.7 million for the Anniversary plan and \$0.4 million for the early retirement plan, as of March 31, 2010 (\$1.0 million and \$0.6 million, respectively, as of June 30, 2009).

The Anniversary plan is a defined benefit plan for long-tenured CDT employees. The plan provides for a lump-sum payment to employees of two months of salary upon reaching the anniversary of twenty-five years of service and three months of salary upon reaching the anniversary of forty years of service. The early retirement plan is designed to create an incentive for employees, within a certain age group, to transition from (full or part-time) employment into retirement before their legal retirement age. This plan allows employees, upon reaching a certain age, to elect to work full-time for a period of time and be paid 50% of their full-time salary. After working within this arrangement for a designated period of time, the employee is eligible to take early retirement and receive payments from the earned but unpaid salaries until they are eligible to receive payments under the postretirement benefit plan discussed above. Benefits under the early retirement plan are generally based on the employee's compensation and the number of years of service.

***IXOS AG Defined Benefit Plans***

Included within Other Assets are net pension assets of \$0.3 million (June 30, 2009 \$0.6 million) relating 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 (See Note 7). 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. The fair value of our total plan assets under the IXOS pension plans, as of March 31, 2010, is \$3.6 million (June 30, 2009 \$3.5 million). The fair value of our total pension obligation under the IXOS pension plans as of March 31, 2010 is \$3.3 million (June 30, 2009 \$2.9 million).

**NOTE 10 LONG-TERM DEBT****Long-term debt**

Long-term debt is comprised of the following:

	As of March 31, 2010	As of June 30, 2009
<b>Long-term debt</b>		
Term loan	\$ 288,767	\$ 291,012
Mortgage	12,789	11,671
	301,556	302,683
Less:		
<b>Current portion of long-term debt</b>		
Term loan	2,993	2,993
Mortgage	12,789	456
	15,782	3,449

<b>Long-term portion of long-term debt</b>	\$	285,774	\$	299,234
--	----	---------	----	---------

**Table of Contents**

**OPEN TEXT CORPORATION**

**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the Three and Nine Months Ended March 31, 2010**

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

***Term loan and Revolver***

On October 2, 2006, we entered into a \$465.0 million credit agreement (the credit agreement) with a Canadian chartered bank (the bank) consisting of a \$390.0 million term loan facility (the term loan) and a \$75.0 million committed revolving long-term credit facility (the revolver). The term loan was used to finance a portion of our Hummingbird acquisition. We have not drawn down any amounts under the revolver to date.

***Term loan***

The term loan has a seven year term, expires on October 2, 2013 and bears interest at a floating rate of LIBOR plus 2.25%. The quarterly scheduled term loan principal repayments are equal to 0.25% of the original principal amount, due each quarter with the remainder due at the end of the term, less ratable reductions for any non-scheduled prepayments made. From October 2, 2006 (the inception of the loan) to March 31, 2010, we have made total non-scheduled prepayments of \$90.0 million towards the principal on the term loan. Our current quarterly scheduled principal payment is approximately \$0.7 million.

For the three and nine months ended March 31, 2010, we recorded interest expense of \$1.8 million and \$5.5 million, respectively, (three and nine months ended March 31, 2009-\$2.0 million and \$9.2 million, respectively), relating to the term loan.

***Revolver***

The revolver has a five year term and expires on October 2, 2011. Borrowings under this facility bear interest at rates specified in the credit agreement. The revolver is subject to a stand-by fee ranging between 0.30% and 0.50% per annum depending on our consolidated leverage ratio. There were no borrowings outstanding under the revolver as of March 31, 2010.

For the three and nine months ended March 31, 2010, we recorded interest expense of \$57,000 and \$0.2 million respectively, (three and nine months ended March 31, 2009 \$56,000 and \$0.2 million, respectively), on account of stand-by fees relating to the revolver.

***Mortgage***

The mortgage consists of a five year mortgage agreement entered into during December 2005 with the bank. The original principal amount of the mortgage was Canadian \$15.0 million. The mortgage: (i) has a fixed term of five years, (ii) matures on January 1, 2011, and (iii) is secured by a lien on our headquarters in Waterloo, Ontario. Interest accrues monthly at 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 of Canadian \$12.6 million due on maturity. As of March 31, 2010, the carrying value of the mortgage was \$12.8 million (June 30, 2009 \$11.7 million).

As of March 31, 2010, the carrying value of the existing Waterloo building was \$16.2 million (June 30, 2009 \$14.7 million).

For the three and nine months ended March 31, 2010, we recorded interest expense of \$0.2 million and \$0.5 million (three and nine months ended March 31, 2009 \$0.1 million and \$0.5 million, respectively), relating to the mortgage.

Table of Contents

## OPEN TEXT CORPORATION

## UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Three and Nine Months Ended March 31, 2010

(Tabular amounts in thousands, except per share data)

## NOTE 11 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 first preference shares. No preference shares have been issued.

We did not repurchase any Common Shares during the three and nine months ended March 31, 2010 and 2009.

*Share-Based Payments*

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

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Stock options	\$ 1,066	\$ 1,424	\$ 6,268*	\$ 3,957
Restricted stock units	193		811	
Deferred stock units	75		75	
Total share-based compensation expense	\$ 1,334	\$ 1,424	\$ 7,154	\$ 3,957

\* Inclusive of charges of \$3.2 million booked to Special charges (see Note 13).

*Summary of Outstanding Stock Options*

As of March 31, 2010, options to purchase an aggregate of 2,674,508 Common Shares were outstanding and 1,421,095 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 trading day for the NASDAQ immediately preceding the applicable grant date.

A summary of option activity under our stock option plans for the nine months ended March 31, 2010 is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ 000s)
Outstanding at June 30, 2009	2,828,989	\$ 20.71		

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Granted	285,500		41.12		
Exercised	(430,444)		18.99		
Forfeited or expired	(9,537)		22.02		
Outstanding at March 31, 2010	2,674,508	\$	23.16	3.78	\$ 65,027
Exercisable at March 31, 2010	1,632,391	\$	18.18	2.97	\$ 47,814

**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)**

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 March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Weighted average fair value of options granted	\$ 14.98	\$ 12.10	\$ 14.11	\$ 12.47
<b>Weighted-average assumptions used:</b>				
Expected volatility	38%	40%	39%	42%
Risk free interest rate	2.0%	1.5%	2.2%	2.9%
Expected dividend yield	0%	0%	0%	0%
Expected life (in years)	4.3	4.3	4.3	4.4
Forfeiture rate (based on historical rates)	5%	5%	5%	5%

As of March 31, 2010, the total compensation cost related to the unvested stock awards not yet recognized was \$8.3 million, which will be recognized over a weighted average period of approximately 2 years.

As of March 31, 2009, the total compensation cost related to the unvested stock awards not yet recognized was \$11.3 million, which will be recognized over a weighted average period of approximately 2 years.

In each of the above periods, 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 nine months ended March 31, 2010, cash in the amount of \$2.5 million and \$8.2 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 nine months ended March 31, 2010 from the exercise of options eligible for a tax deduction was \$0.2 million and \$0.9 million, respectively, which was recorded as additional paid-in capital.

For the three and nine months ended March 31, 2009, cash in the amount of \$11.4 million and \$17.0 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 nine months ended March 31, 2009 from the exercise of options eligible for a tax deduction was \$1.7 million and \$8.4 million, respectively, which was recorded as additional paid-in capital.





**Table of Contents**

**OPEN TEXT CORPORATION**

**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the Three and Nine Months Ended March 31, 2010**

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

***Deferred Stock Units (DSUs)***

During the three months ended March 31, 2010, we granted 4,167 deferred stock units (DSUs) to certain nonemployee directors. The DSUs were issued under the Company's Deferred Share Unit Plan that came into effect on February 2, 2010. A copy of the DSU Plan has been included as an exhibit to this Quarterly Report on Form 10-Q under Item 6 Exhibits.

***Restricted Stock Awards (RSAs)***

On July 21, 2009, we granted, as part of our acquisition of Vignette, 570,548 Open Text 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 has been 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.

***Long Term Incentive Plans***

On September 10, 2007, our Board of Directors approved the implementation of a Long-Term Incentive Plan called the Open Text Corporation Long-Term Incentive Plan (LTIP). Grants made in Fiscal 2008 under the LTIP (LTIP 1) took effect in Fiscal 2008, starting on July 1, 2007. The LTIP is a rolling three year program whereby we make a series of annual grants, each of which covers a three year 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. Awards under LTIP 1 may be equal to either 100% or 150% of target. The maximum amount that an employee may receive with regard to any single performance criterion is 1.5 times the target award for that criterion. Grants made in Fiscal 2009 under the LTIP (LTIP 2) took effect in Fiscal 2009 starting on July 1, 2008. Awards under LTIP 2 may be equal to 100% of the target. We expect to settle the LTIP 1 and LTIP 2 awards in cash.

Consistent with the provisions of FASB ASC Topic 718, we have measured the fair value of the liability under the LTIP as of March 31, 2010 and recorded an expense relating to such liability to compensation cost in the amount of \$5.4 million for the three months ended March 31, 2010 and \$11.0 million for the nine months ended March 31, 2010 (three months ended March 31, 2009 - a recovery of \$0.4 million. Nine months ended March 31, 2009 expense of \$2.4 million). The outstanding liability under the LTIP as of March 31, 2010 was \$13.5 million (June 30, 2009 \$6.2 million) and is re-measured based upon the change in the fair value of the liability, as of the end of every reporting period, and a cumulative adjustment to compensation cost for the change in fair value is recognized. The cumulative compensation expense recognized upon completion of the LTIP will be equal to the payouts made.

**NOTE 12 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.

Upon adoption of FIN 48 we elected to follow an accounting policy to classify interest related to liabilities for income tax expense under the Interest income (expense), net line and penalties related to liabilities for income tax expense under the Other income (expense) line of our Condensed Consolidated Statements of Income. For the three and nine months ended March 31, 2010, we recognized interest in the amount of \$0.3 million and \$1.5

**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)**

million, respectively (three and nine months ended March 31, 2009, \$0.3 million and \$1.4 million, respectively) and penalties in the amount of nil and a recovery of \$0.2 million, respectively (three and nine months ended March 31, 2009, \$0.3 million, and \$0.3 million respectively). The amount of interest and penalties accrued as of March 31, 2010 was \$6.1 million (\$4.1 million as of June 30, 2009) and \$9.8 million (\$9.4 million as of June 30, 2009), respectively. Included in these balances as of March 31, 2010, are accrued interest and penalties of \$0.5 million and \$0.6 million, respectively, relating to the acquisition of Vignette (see Note 14).

We believe that it is reasonably possible that the gross unrecognized tax benefits, as of March 31, 2010 could increase in the next 12 months by \$1.1 million (June 30, 2009, decrease by \$0.2 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 three most significant tax jurisdictions are Canada, the United States 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, Germany, 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.

**NOTE 13 SPECIAL CHARGES**

Special charges are primarily costs related to certain restructuring initiatives that we have undertaken from time to time under our various restructuring plans. In addition, with effect from July 1, 2009, Special charges also include acquisition-related costs with respect to acquisitions made on or after July 1, 2009.

The following tables summarize total Special charges incurred during the three and nine months ended March 31, 2010.

	Three months ended March 31, 2010	Nine months ended March 31, 2010
Fiscal 2010 Restructuring Plan (cash liability portion)	\$ 5,056	\$ 25,678
Fiscal 2010 Restructuring Plan (share-based compensation expense)		3,164
<b>Total Fiscal 2010 Restructuring Plan</b>	<b>5,056</b>	<b>28,842</b>
Fiscal 2009 Restructuring Plan		2,878
Acquisition-related costs	649	2,545
Impairment charges	378	830
<b>Total</b>	<b>\$ 6,083</b>	<b>\$ 35,095</b>



**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)**

Total costs to be incurred in conjunction with the Fiscal 2010 restructuring plan are expected to be approximately \$32 million to \$40 million, of which \$28.8 million has been recorded within Special charges to date. Reconciliations of the liability relating to each of our outstanding restructuring plans are provided hereunder:

***Fiscal 2010 Restructuring Plan (cash liability portion)***

In the first quarter of Fiscal 2010, our Board approved, and we began to implement, restructuring activities to streamline our operations and consolidate certain excess facilities (Fiscal 2010 restructuring plan). These charges relate to workforce reductions and other miscellaneous direct costs. The provision related to workforce reduction is expected to be paid by December 2010. On a quarterly basis, we will conduct an evaluation of the remaining balances relating to workforce reduction and revise our assumptions and estimates as appropriate.

A reconciliation of the beginning and ending liability for the nine months ended March 31, 2010, is shown below.

<b>Fiscal 2010 Restructuring Plan</b>	<b>Workforce reduction</b>	<b>Facility costs</b>	<b>Total</b>
Balance as of June 30, 2009	\$	\$	\$
Accruals and adjustments	23,859	1,819	25,678
Cash payments	(15,551)	(586)	(16,137)
Noncash draw-downs and foreign exchange	229	63	292
Balance as of March 31, 2010	\$ 8,537	\$ 1,296	\$ 9,833

***Fiscal 2009 Restructuring Plan***

In the second quarter of Fiscal 2009, our Board approved, and we began to implement, restructuring activities to streamline our operations and consolidate certain excess facilities (Fiscal 2009 restructuring plan). These charges related to workforce reductions, abandonment of excess facilities and other miscellaneous direct costs, and do not include costs accrued for under EITF 95-3 in relation to our acquisition of Captaris (Note 8). The total costs to be incurred in conjunction with the Fiscal 2009 restructuring plan are expected to be \$17.1 million, which has been recorded within Special charges since the commencement of the plan. The \$17.1 million charge consisted primarily of costs associated with workforce reduction in the amount of \$12.4 million and abandonment of excess facilities in the amount of \$4.7 million. The provision related to workforce reduction has been substantially paid by December 2009 and the provision relating to facility costs is expected to be paid by April 2012.

A reconciliation of the beginning and ending liability for the nine months ended March 31, 2010, is shown below.

<b>Fiscal 2009 Restructuring Plan</b>	<b>Workforce reduction</b>	<b>Facility costs</b>	<b>Total</b>
Balance as of June 30, 2009	\$ 2,718	\$ 2,933	\$ 5,651
Accruals and adjustments	2,158	720	2,878
Cash payments	(4,504)	(2,052)	(6,556)
Noncash draw-downs and foreign exchange	48	16	64

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Balance as of March 31, 2010	\$ 420	\$ 1,617	\$ 2,037
------------------------------	--------	----------	----------

**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)*****Fiscal 2006 Restructuring Plan***

In the first quarter of Fiscal 2006, our Board approved, and we began to implement restructuring activities to streamline our operations and consolidate our excess facilities (Fiscal 2006 restructuring plan). These charges related to workforce reductions, abandonment of excess facilities and other miscellaneous direct costs. The total cost incurred in conjunction with the Fiscal 2006 restructuring plan was \$20.9 million which has been recorded within Special charges since the commencement of the plan. The actions related to workforce reduction were completed as of September 30, 2007. The provisions relating to facility costs are expected to be paid by January 2014.

A reconciliation of the beginning and ending liability for the nine months ended March 31, 2010 is shown below.

<b>Fiscal 2006 Restructuring Plan</b>	<b>Facility costs</b>
Balance as of June 30, 2009	\$ 259
Accruals and adjustments	
Cash payments	(77)
Noncash draw-downs and foreign exchange	3
<b>Balance as of March 31, 2010</b>	<b>\$ 185</b>

**Impairment charges**

Included within Special charges for the three and nine months ended March 31, 2010 is a charge of \$0.4 million relating to the write down of certain prepaid royalties in connection with the discontinuance of certain of our product lines.

Included within Special charges for the three and nine months ended March 31, 2010 is a charge of nil and \$0.5 million, respectively, relating to certain capital assets that were written down in connection with various leasehold improvements and redundant office equipment at abandoned facilities.

**NOTE 14 ACQUISITIONS****Fiscal 2010*****Vignette Corporation.***

On July 21, 2009, we acquired, by way of merger, all of the issued and outstanding shares of Vignette, an Austin, Texas based company that provides and develops software used for managing and delivering business content. Per the terms of the merger agreement, each share of common stock of Vignette (not already owned by Open Text) issued and outstanding immediately prior to the effective date of the merger (July 21, 2009) was converted into the right to receive \$8.00 in cash and 0.1447 of one Open Text common share (equivalent to a value of \$5.33 as of July 21, 2009). The acquisition of Vignette is expected to strengthen our ability to offer an expanded portfolio of Enterprise Content Management (ECM) solutions to further consolidate our position as an independent leader in the ECM marketplace. In accordance with ASC Topic 805, this acquisition was accounted for as a business combination.





**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)**

The results of operations of Vignette have been consolidated with those of Open Text beginning July 22, 2009.

Total consideration for this acquisition was comprised of:

Equity consideration paid	\$ 125,223
Cash consideration paid	182,909
Fair value of total consideration transferred	308,132
Vignette shares already owned by Open Text through open market purchases (at fair value)	13,283
	<b>\$ 321,415</b>
Acquisition related costs (included in Special charges in the Condensed Consolidated Statements of Income) for the nine months ended March 31, 2010	\$ 1,917

*Assets Acquired and Liabilities Assumed*

The recognized amounts of identifiable assets acquired and liabilities assumed, based upon their fair values as of July 21, 2009 are set forth below:

Current assets (inclusive of cash acquired of \$92,309)	\$ 171,959
Long-term assets	22,323
Intangible customer assets	22,700
Intangible technology assets	68,200
Total liabilities assumed	(96,291)
Total identifiable net assets	188,891
Goodwill	132,524
Net assets acquired	<b>\$ 321,415</b>

The fair value of Common shares issued as part of the consideration was determined based upon the closing price of Open Text's common shares on acquisition date.

The factors that impact the qualitative composition of goodwill, the allocation of goodwill to our reporting units and the deductibility thereof for income tax purposes are currently being assessed.

The fair value of current assets acquired includes accounts receivable with a fair value of \$27.1 million. The gross amount receivable was \$28.3 million, of which \$1.2 million was expected to be uncollectible.

## Edgar Filing: OPEN TEXT CORP - Form 10-Q

As of acquisition date, Vignette had significant deferred tax assets that were subject to valuation allowances including deferred tax assets relating to the domestic federal net operating loss (NOL) carryforwards. Internal Revenue Code Section 382 imposes substantial restrictions on the utilization of these NOLs in the event of an ownership change of the corporation. We are currently assessing our ability to utilize these tax attributes prior to their expiration. The final valuation of the deferred tax assets could result in a material change in the above indicated amount of goodwill and intangible assets.

**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)**

The fair value of the acquired intangible customer assets of \$22.7 million, and intangible technology assets of \$68.2 million, is provisional, pending any tax related impacts on the valuations of these items.

We recognized a gain of \$4.4 million as a result of re-measuring to fair value our investment in Vignette held before the date of acquisition. The gain was recognized in Other income in our consolidated financial statements during the three months ended September 30, 2009.

The amount of Vignette's revenue and net income included in Open Text's consolidated statement of operations for the three and nine months ended March 31, 2010, and the pro forma revenue and net income of the combined entity had the acquisition date been July 1, 2009 and July 1, 2008, are set forth below:

	<b>Revenue</b>	<b>Net Income</b>
Actual from January 1, 2010 to March 31, 2010	\$ 30,500	\$ 3,885

	<b>Revenue</b>	<b>Net Income</b>
Actual from July 22, 2009 to March 31, 2010	\$ 87,300	\$ 468

<i>Supplemental Pro forma Information</i>	<b>Three months ended</b>	<b>Nine months ended</b>	
	<b>March 31,</b>	<b>March 31,</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>
Total revenues	\$ 225,954	\$ 678,196	\$ 695,260
Net income	\$ 18,277	\$ 18,704	\$ 25,167

Included within net income for the periods reported above are the estimated amortization charges relating to the preliminary allocated values of intangible assets.

**NOTE 15 GUARANTEES AND CONTINGENCIES*****Guarantees and indemnifications***

We have entered into license agreements with customers that include limited intellectual property indemnification clauses. Generally, we agree to indemnify our customers against legal claims that our software products infringe certain third party intellectual property rights. In the event of such a claim, we are generally obligated to defend our customers against the claim and either settle the claim at our expense or pay damages that our customers are legally required to pay to the third-party claimant. These intellectual property infringement indemnification clauses generally are subject to limits based upon the amount of the license sale. We have not made any indemnification payments in relation to these indemnification clauses.

In connection with certain facility leases, we have guaranteed payments on behalf of our subsidiaries either by providing a security deposit with the landlord or through unsecured bank guarantees obtained from local banks.

## Edgar Filing: OPEN TEXT CORP - Form 10-Q

We have not accrued a liability for guarantees, indemnities or warranties described above in the accompanying Condensed Consolidated Balance Sheets since no material payments are expected to be made. The maximum amount of potential future payments under such guarantees, indemnities and warranties is not determinable.

**Table of Contents****OPEN TEXT CORPORATION****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Nine Months Ended March 31, 2010****(Tabular amounts in thousands, except per share data)*****Litigation***

We are subject from time to time to legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business, and accrue for these items where appropriate. While the outcome of these proceedings and claims cannot be predicted with certainty, we do not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated financial position, results of operations and cash flows. Currently, we are not involved in any litigation that we reasonably believe could materially impact our financial position or results of operations and cash flows.

**NOTE 16 SUPPLEMENTAL CASH FLOW DISCLOSURES**

Supplemental disclosure of cash flow information:

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Cash paid during the period for interest	\$ 2,061	\$ 3,034	\$ 8,547	\$ 12,074
Cash received during the period for interest	\$ 142	\$ 739	\$ 687	\$ 3,938
Cash paid during the period for income taxes	\$ 12,443	\$ 1,005	\$ 28,116	\$ 6,028

**NOTE 17 NET INCOME PER SHARE**

Basic earnings per share are computed by dividing net income by the weighted average number of Common Shares outstanding during the period. Diluted earnings per share are computed by dividing net income by the shares used in the calculation of basic net income per share plus the dilutive effect of common share equivalents, such as stock options, using the treasury stock method. Common share equivalents are excluded from the computation of diluted net income per share if their effect is anti-dilutive.

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
<b>Basic earnings per share</b>				
Net income	\$ 13,114	\$ 22,035	\$ 36,045	\$ 37,457
Basic earnings per share	\$ 0.23	\$ 0.42	\$ 0.64	\$ 0.72
<b>Diluted earnings per share</b>				
Net income	\$ 13,114	\$ 22,035	\$ 36,045	\$ 37,457
Diluted earnings per share	\$ 0.23	\$ 0.41	\$ 0.63	\$ 0.71
<b>Weighted average number of shares outstanding</b>				
Basic	56,537	52,312	56,106	51,825
Effect of dilutive securities	1,159	1,129	1,108	1,297

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Diluted	57,696	53,441	57,214	53,122
Excluded as anti-dilutive *	309	419	527	34

\* Represents options to purchase Common Shares excluded from the calculation of diluted net income per share because the exercise price of the stock options was greater than or equal to the average price of the Common Shares during the period.

**Table of Contents**

**OPEN TEXT CORPORATION**

**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the Three and Nine Months Ended March 31, 2010**

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

**NOTE 18 RELATED PARTY TRANSACTIONS**

Our procedure regarding the approval of any related party transaction is that the material facts of such transaction shall be reviewed by the independent members of our Board and the transaction approved by a majority of the independent members of our Board. The Board reviews all transactions wherein we are, or will be a participant and any related party has or will have a direct or indirect interest. In determining whether to approve a related party transaction, the Board generally takes into account, among other facts it deems appropriate: whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances; the extent and nature of the related person's interest in the transaction; the benefits to the company of the proposed transaction; if applicable, the effects on a director's independence; and if applicable, the availability of other sources of comparable services or products.

During the nine months ended March 31, 2010, Mr. Stephen Sadler, a director, earned approximately \$0.3 million (nine months ended March 31, 2009 \$0.4 million) in consulting fees from Open Text for assistance with acquisition-related business activities. Mr. Sadler abstained from voting on all transactions from which he would potentially derive consulting fees.

**NOTE 19 SUBSEQUENT EVENTS**

*Nstein Technologies Inc.*

On April 1, 2010, we acquired Nstein Technologies Inc. (Nstein) a software company based in Montreal, Quebec, Canada. Nstein provides content management solutions which help enterprises centralize, understand and manage large amounts of content. Nstein's solutions include its patented "Text Mining Engine" which allows users to more easily search through different content and data. We believe we will be able to use Nstein's solutions to leverage and enhance our own product offering, thus further strengthening our position as an independent leader in the ECM market.

Total consideration for this acquisition was \$32.8 million, of which \$24.3 million was paid in cash and the rest in Open Text shares.

*Burntsand Inc.*

On April 26, 2010, we announced our intention to acquire all issued and outstanding shares of Burntsand Inc (Burntsand) for a total of approximately CAD \$11 million. The transaction is subject to the approval of Burntsand's shareholders and is expected to close some time in our fourth quarter of Fiscal 2010. Burntsand, based in Toronto, Ontario, Canada, is a provider of technology consulting services for customers with complex information processing and information management requirements, focusing in particular in areas such as Enterprise Content Management, Collaboration and Service Management. We believe Burntsand will complement and enhance our current service offerings to further strengthen our position in the ECM market.

---

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are subject to the safe harbors within the meaning of the Private Securities Litigation Reform Act of 1995, and created under the Securities Act of 1933 and the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts are statements that could be deemed forward-looking statements.*

*Certain statements in this report may contain words such as anticipates, expects, intends, plans, believes, seeks, estimates, may, could, would and other similar language and are considered forward looking statements or information under applicable securities laws. In addition, any information or statements that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking, and based on our current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which we operate. Such forward-looking information or statements are subject to important assumptions, risks and uncertainties that are difficult to predict, and the actual outcome may be materially different. Our assumptions, although considered reasonable by us at the date of this report, may prove to be inaccurate and consequently our actual results could differ materially from the expectations set out herein.*

*We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking information or statements. You should carefully review Part II Item 1A Risk Factors and other documents we file from time to time with the Securities and Exchange Commission and other applicable securities regulators. A number of factors may materially affect our business, financial condition, operating results and prospects. These factors include but are not limited to those set forth in our Annual Report on Form 10-K and Part II Item 1A Risk Factors and elsewhere in this report. Any one of these factors may cause our actual results to differ materially from recent results or from our anticipated future results. You should not rely too heavily on the forward-looking statements contained in this Quarterly Report on Form 10-Q, because these forward-looking statements are relevant only as of the date they were made.*

*The following MD&A is intended to help readers understand the results of our operation and financial condition, and is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying Notes to Condensed Consolidated Financial Statements (the Notes) under Part I, Item 1 of this Form 10-Q.*

*Growth and percentage comparisons made herein generally refer to the three and nine months ended March 31, 2010 compared with the three and nine months ended March 31, 2009, unless otherwise noted.*

*Where we say we, us, our, Open Text or the Company, we mean Open Text Corporation or Open Text Corporation and its subsidiaries, as applicable.*

**BUSINESS OVERVIEW**

**Open Text**

We are an independent company providing Enterprise Content management (ECM) software solutions. ECM is the set of technologies used to capture, manage, store, preserve, find and retrieve structured and unstructured content. We focus solely on ECM software solutions with a view to being recognized as The Content Experts in the software industry. We endeavor to be at the leading edge of content management technology, by continually upgrading and improving on our product offering. This is done internally and through acquisitions of companies that own technologies we feel will benefit our clients.



## **Table of Contents**

Our initial public offering was on the NASDAQ in 1996 and subsequently on the Toronto Stock Exchange in 1998. We are a multinational company and currently employ approximately 3,700 people worldwide.

### **Quarterly Highlights and Features:**

Some highlights and features of our operating results for the three months ended March 31, 2010 include:

Total revenues increased by 10.8%, compared to the same period in the prior fiscal year, to \$212.8 million. Despite our overall revenues decreasing on a quarterly sequential basis, we were still able to maintain our targets on gross margin and profitability.

Customer support revenues increased to \$124.4 million; a 22.1% increase over the same period in the prior fiscal year.

Operating cash flow increased by 7.0%, compared to the same period in the prior fiscal year, to \$78.0 million.

Other highlights were as follows:

In April 2010, we acquired Nstein Technologies Inc. (Nstein). See [Acquisitions](#) below for more details. We also announced in April that we will start to integrate Nstein's technology with our own to make content analytics more pervasive across our entire ECM suite of products. The content analytics capabilities will enhance the existing information retrieval capabilities provided by the native search function inherent in our ECM suite.

In April 2010, we were recognized as one of the top 25 Canadian software companies, based on growth in revenue, as published on the [Branham300](#) list, put out by the Branham Group, a Canadian industry analyst and strategic consulting firm serving the global information technology marketplace. To be considered for the rankings of Canadian firms, organizations have to be founded and headquartered in Canada and corporate direction must be determined in Canada.

In March 2010, we announced the unveiling of a new application called [Open Text Everywhere](#), which is an application that will make the Open Text ECM Suite available via mobile devices. The [Open Text Everywhere](#) application aligns with our strategy to continue to help organizations manage content to improve productivity, which now includes managing information sent or received from mobile devices.

### **Acquisitions**

Our competitive position in the marketplace requires us to maintain a complex array of technologies, products, services and capabilities. In light of the continually evolving marketplace in which we operate, we regularly evaluate various acquisition opportunities within the ECM marketplace and elsewhere in the technology industry. We believe our acquisitions support our long-term strategic direction, strengthen our competitive position, expand our customer base and provide greater scale to accelerate innovation, grow our earnings and increase shareholder value. We expect to continue to strategically acquire companies, products, services and technologies to augment our existing business.

During Fiscal 2010 we have continued our acquisition activity.

#### *Burntsand Inc.*

On April 26, 2010, we announced our intention to acquire all issued and outstanding shares of Burntsand Inc (Burntsand) for a total of approximately CAD \$11 million. The transaction is subject to the approval of Burntsand's shareholders and is expected to close some time in our fourth quarter of Fiscal 2010. Burntsand, based in Toronto, Ontario, Canada, is a provider of technology consulting services for customers with complex information processing and information management requirements, focusing in particular in areas such as Enterprise Content Management, Collaboration and Service Management. We believe Burntsand will complement and enhance our current service offerings to

further strengthen our position in the ECM market.

**Table of Contents***Nstein Technologies Inc. (Nstein)*

On April 1, 2010, we acquired Nstein, a provider of content management solutions designed to help companies centralize, understand and manage large amounts of data. Nstein's solutions include its patented Text Mining Engine which allows users to more easily search through different content and data. Nstein is based in Montreal, Quebec, Canada, with foreign operations. We believe we will be able to use Nstein's solutions to leverage and enhance our own product offering, thus further strengthening our position as an independent leader in the ECM market. For more details relating to the acquisition of Nstein, see Note 19 Subsequent Events.

*Vignette Corporation (Vignette)*

On July 21, 2009, we acquired Vignette, a provider of ECM software products. Vignette is based in Austin, Texas with worldwide operations. We believe that this acquisition will further consolidate our position as an independent leader in the ECM marketplace and help strengthen our Web Content Management (WCM) product offering in conjunction with our existing RedDot products (see Note 14 for more details relating to this acquisition).

**Partners**

Partnerships are fundamental to the Open Text business. We have developed strong and mutually beneficial relationships with key technology partners, including major software vendors, systems integrators, and storage vendors, which give us leverage to deliver customer-focused solutions. Key partnership alliances of Open Text include, but are not limited to, Oracle®, Microsoft®, and SAP®. We rely on close cooperation with partners for sales and product development, as well as for the optimization of opportunities which arise in our competitive environment. We continually aim to strengthen our global partner program, with emphasis on developing strategic relations and achieving close integration with partners. Our partners continue to generate business in key areas such as archiving, records management and compliance.

Our revenue from partners contributed approximately 38% of our license revenues in the three months ended March 31, 2010 compared to approximately 49% during the three months ended March 31, 2009.

**Outlook for the remainder of Fiscal 2010**

We believe that we have a strong position in the ECM market and that the market for content solutions remains stable. We think that our diversified geographic profile helps strengthen our position, in that approximately half of our revenues come from outside of North America and thus helps cushion us from a downturn in any one specific region. Additionally, our focus on compliance based products also helps to partially insulate us from downturns in the macroeconomic environment. We also believe we have a strong position in the ECM market because over 50% of our revenues are from customer support revenues, which are generally a recurring source of income, and we expect this trend will continue.

**Results of Operations****Revenues****Revenue by Product Type and Geography:**

The following tables set forth our revenues by product, revenues as a percentage of total revenues and revenues by major geography for each of the periods indicated:

*Revenues by product type*

(In thousands)	Three months ended		Change/ increase (decrease)	Nine months ended		Change/ increase (decrease)
	March 31, 2010	2009		March 31, 2010	2009	
License	\$ 49,527	\$ 51,919	\$ (2,392)	\$ 169,547	\$ 166,845	\$ 2,702
Customer support	124,443	101,949	22,494	378,375	300,816	77,559
Service and other	38,807	38,167	640	124,067	114,648	9,419

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Total	\$ 212,777	\$ 192,035	\$ 20,742	\$ 671,989	\$ 582,309	\$ 89,680
-------	------------	------------	-----------	------------	------------	-----------

**Table of Contents**

(% of total revenue)	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
License	23.3%	27.0%	25.2%	28.7%
Customer support	58.5%	53.1%	56.3%	51.7%
Service and other	18.2%	19.9%	18.5%	19.6%
Total	100.0%	100.0%	100.0%	100.0%

*Revenue by Geography*

(In thousands)	Three months ended March 31,		Change/ increase (decrease)	Nine months ended March 31,		Change/ increase (decrease)
	2010	2009		2010	2009	
North America	\$ 111,410	\$ 98,357	\$ 13,053	\$ 343,691	\$ 287,594	\$ 56,097
Europe	83,831	82,107	1,724	280,880	263,912	16,968
Other	17,536	11,571	5,965	47,418	30,803	16,615
Total	\$ 212,777	\$ 192,035	\$ 20,742	\$ 671,989	\$ 582,309	\$ 89,680

% of total revenue	Three months ended March 31,		2009	Nine months ended March 31,		2009
	2010	2009		2010	2009	
North America	52.4%	51.2%		51.1%	49.4%	
Europe	39.4%	42.8%		41.8%	45.3%	
Other	8.2%	6.0%		7.1%	5.3%	
Total	100.0%	100.0%		100.0%	100.0%	

**License Revenues** consists of fees earned from the licensing of software products to customers. Our license revenues are affected by the strength of general economic and industry conditions, the competitive strength of our software products, and our acquisitions. Our license business is also characterized by long sales cycles whereby the timing of a few large software license transactions can substantially affect our quarterly new software license revenues.

License revenues decreased by approximately \$2.4 million in the three months ended March 31, 2010 as compared to the three months ended March 31, 2009. The decrease in license revenue is geographically attributable to a reduction in license sales from North America of \$0.3 million, and in Europe of \$3.4 million. These decreases were offset by an increase in license revenue from other geographies of \$1.3 million.

License revenues increased by \$2.7 million in the nine months ended March 31, 2010 as compared to the nine months ended March 31, 2009. The increase in license revenue is geographically attributable to an increase in North America license sales of \$3.2 million, and an increase in license sales in other geographies of \$3.7 million. These increases were offset by a decrease in Europe of \$4.2 million.

**Customer Support Revenues** consists of revenues from our customer support and maintenance agreements. These agreements allow our customers to receive technical support, enhancements and upgrades to new versions of our software products when and if available. Customer support revenue is generated from support and maintenance relating to current year sales of software products and from the renewal of existing maintenance agreements for software licenses sold in prior periods. Therefore changes in customer support revenues do not necessarily correlate directly to the changes in license revenues from period to period. The terms of support and maintenance agreements are typically twelve months, with customer renewal options.

**Table of Contents**

Customer support revenues increased by approximately \$22.5 million in the three months ended March 31, 2010 as compared to the three months ended March 31, 2009. The increase in customer support revenues is attributable to an increase in North America customer support sales of \$12.6 million, an increase in Europe customer support sales of \$5.9 million and the remainder of the change due to sales generated in other geographies.

Customer support revenues increased by approximately \$77.6 million in the nine months ended March 31, 2010 as compared to the nine months ended March 31, 2009. The increase in customer support revenues is attributable to an increase in North America customer support sales of \$43.9 million, an increase in Europe customer support sales of \$22.5 million and the remainder of the change due to sales generated in other geographies.

**Service and Other Revenues.** Service revenue consists of revenues from consulting contracts and contracts to provide implementation, training and integration services (Professional Services). Other revenue consists of hardware revenue. These revenues are grouped within the Service and Other category because they are relatively immaterial. Professional Services, if purchased, are typically performed after the purchase of new software licenses.

Service and other revenues increased very slightly by approximately \$0.6 million in the three months ended March 31, 2010 as compared to the three months ended March 31, 2009.

Service and other revenues increased by approximately \$9.4 million in the nine months ended March 31, 2010 as compared to the nine months ended March 31, 2009. The increase in service and other revenues is due to an increase in North America of \$9.0 million, offset by a decrease in revenues from Europe of \$1.3 million. The remainder of the difference is from revenue generated in other geographies.

**Cost of Revenues and Gross Margin by Product Type**

The following tables set forth the changes in cost of revenues and gross margin by product type for the periods indicated:

(In thousands)	Three months ended March 31,		Change/ increase (decrease)	Nine months ended March 31,		Change/ increase (decrease)
	2010	2009		2010	2009	
License	\$ 3,744	\$ 4,496	\$ (752)	\$ 11,522	\$ 12,670	\$ (1,148)
Customer Support	20,777	17,304	3,473	63,209	50,227	12,982
Service and Other	31,314	30,288	1,026	101,036	89,898	11,138
Amortization of acquired technology-based intangible assets	15,044	11,625	3,419	44,338	34,171	10,167
<b>Total</b>	<b>\$ 70,879</b>	<b>\$ 63,713</b>	<b>\$ 7,166</b>	<b>\$ 220,105</b>	<b>\$ 186,966</b>	<b>\$ 33,139</b>

Gross Margin	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
License	92.4%	91.3%	93.2%	92.4%
Customer Support	83.3%	83.0%	83.3%	83.3%
Service and Other	19.3%	20.6%	18.6%	21.6%

**Cost of license revenues** consists primarily of royalties payable to third parties and product media duplication, instruction manuals and packaging expenses.

**Table of Contents**

Cost of license revenues decreased, non-materially, by \$0.8 million and \$1.1 million, respectively, during the three and nine months ending March 31, 2010, as compared to the same periods in the prior fiscal year.

Overall gross margin on license revenues has remained relatively stable over the three and nine months ended March 31, 2010, as compared to the same periods in the prior fiscal year.

*Cost of customer support revenues* is comprised primarily of technical support personnel and related costs, as well as third party royalty type costs.

Cost of customer support revenues increased by \$3.5 million and \$13.0 million, respectively, during the three and nine months ended March 31, 2010 as compared to the same periods in the prior fiscal year. The increase in costs is primarily due to an increase in direct costs associated with the relative increase in customer support revenues.

Overall gross margin on customer support revenue has remained relatively stable over the three and nine months ended March 31, 2010.

*Cost of service and other revenues* consists primarily of the costs of providing integration, customization and training with respect to our various software products. The most significant components of these costs are personnel-related expenses, travel costs and third party subcontracting.

Cost of service and other revenues increased slightly by \$1.0 million during the three months ended March 31, 2010, as compared to the three months ended March 31, 2009. The increase is primarily related to higher training expenses incurred, in relation to an increase in services and other revenues.

Cost of services and other revenues increased by \$11.1 million in the nine months ended March 31, 2010 as a result of additional costs incurred in association with hardware revenue, (due to the fact that we had no hardware costs (and sales) in the first quarter of Fiscal 2009), and as a result of higher training and support costs associated with an increase in service and other revenues.

*Amortization of acquired technology-based intangible assets* increased by \$3.4 million in the three months ended March 31, 2010 and \$10.2 million in the nine months ended March 31, 2010, respectively, as compared to the same periods in the prior fiscal year, due to the increase in intangible assets held as of March 31, 2010, on account of acquisitions.

**Operating Expenses**

The following table sets forth total operating expenses by function and as a percentage of total revenue for the periods indicated:

(In thousands)	Three months ended		Change/ increase (decrease)	Nine months ended		Change/ increase (decrease)
	March 31, 2010	2009		March 31, 2010	2009	
Research and development	\$ 31,654	\$ 28,809	\$ 2,845	\$ 97,543	\$ 87,335	\$ 10,208
Sales and marketing	45,983	44,426	1,557	150,564	138,605	11,959
General and administrative	18,405	17,937	468	62,007	54,604	7,403
Depreciation	4,437	3,229	1,208	12,982	8,847	4,135
Amortization of acquired customer-based intangible assets	8,910	11,176	(2,266)	26,562	29,529	(2,967)
Special charges	6,083	1,788	4,295	35,095	13,234	21,861
Total	\$ 115,472	\$ 107,365	\$ 8,107	\$ 384,753	\$ 332,154	\$ 52,599

**Table of Contents**

(in % of total revenues)	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Research and development	14.9%	15.0%	14.5%	15.0%
Sales and marketing	21.6%	23.1%	22.4%	23.8%
General and administrative	8.6%	9.3%	9.2%	9.4%
Depreciation	2.1%	1.7%	1.9%	1.5%
Amortization of acquired customer-based intangible assets	4.2%	5.8%	4.0%	5.1%
Special charges	2.9%	0.9%	5.2%	2.3%

**Research and development expenses** consist primarily of personnel expenses, contracted research and development expenses, and facility costs. Research and development enables organic growth and as such we dedicate extensive efforts every quarter to update and upgrade our product offering. The primary driver is typically budgeted software upgrades and software development.

Research and development expenses increased by approximately \$2.8 million in the three months ended March 31, 2010 as compared to the same period in the prior fiscal year, primarily due to an increase in direct labour and labour-related benefits and expenses. Overhead expenses also increased by approximately \$2.2 million this quarter, however it was almost equally offset by the impact of an increase in recoverable income tax credits of \$1.2 million, and a decrease in consulting-related expenses of \$0.4 million, along with other miscellaneous costs.

Research and development expenses increased by approximately \$10.2 million in the nine months ended March 31, 2010 as compared to the same period in the prior fiscal year, primarily due to an increase in direct labour and labour-related benefits and expenses of \$11.6 million, as well as an increase in overhead expenses of \$5.0 million. These were offset by a decrease in consulting-related expenses of approximately \$2.9 million and an increase in recoverable income tax credits of \$1.9 million. The remainder of the difference can be attributed to changes in other miscellaneous items.

Overall, our research and development expenses, as a percentage of total revenues, have decreased slightly in the three and nine months ended March 31, 2010, as compared to the same periods in the prior fiscal year, as a result of efficiencies achieved.

Headcount at March 31, 2010, related to research and development activities, increased by 179 employees compared to March 31, 2009.

Our expectation for Fiscal 2010 is that research and development expenses will be in the range of 14% - 16% of total revenue. Currently, research and development expenses fall within this expectation.

**Sales and marketing expenses** consist primarily of personnel expenses and costs associated with advertising and trade shows.

Sales and marketing expenses increased by \$1.6 million in the three months ended March 31, 2010 as compared to the same period in the prior fiscal year, primarily due to an increase in direct labour and labour-related benefits and expenses of \$3.2 million. This was offset by a decrease in costs primarily associated with advertising and trade shows of approximately \$1.5 million. The remainder of the difference is due to other miscellaneous sales and marketing-related expenses.

Sales and marketing expenses increased by \$12.0 million in the nine months ended March 31, 2010 as compared to the same period in the prior fiscal year, primarily due to an increase in direct labour and labour-related benefits and expenses of \$12.4 million, as well as consulting related expenses of approximately \$1.0 million. These increases were offset by a decrease in costs associated primarily with advertising and trade shows



## **Table of Contents**

of \$1.7 million. The remainder of the difference is due to changes in other miscellaneous sales and marketing-related expenses.

Overall, our sales and marketing expenses, as a percentage of total revenues, have decreased in the three and nine months ended March 31, 2010, as compared to the same periods in the prior fiscal year, as a result of efficiencies achieved.

Headcount at March 31, 2010, related to sales and marketing activities, increased by 5 employees compared to March 31, 2009.

Our expectation for Fiscal 2010 is that sales and marketing expenses will be in the range of 24% -26% of total revenue. Currently, sales and marketing expenses are slightly below this as a result of efficiencies achieved.

**General and administrative expenses** consist primarily of personnel expenses, related overhead, audit fees, consulting expenses and public company costs.

General and administrative expenses remained relatively stable during the three months ended March 31, 2010 as compared to the same period in the prior fiscal year.

General and administrative expenses increased by \$7.4 million in the nine months ended March 31, 2010 as compared to the same period in the prior fiscal year, primarily due to an increase in direct labour and labour-related benefits and expenses of \$6.7 million, as well as an increase in consulting-related expenses of \$1.0 million. The remainder of the difference can be attributed to changes in other miscellaneous items.

Overall, our general and administrative expenses, as a percentage of total revenues, have decreased in the three and nine months ended March 31, 2010, as compared to the same periods in the prior fiscal year, as a result of efficiencies achieved.

Headcount at March 31, 2010, related to general and administrative activities, increased by 8 employees compared to March 31, 2009.

Our expectation for Fiscal 2010 is that general and administrative expenses will be in the range of 9% -10% of total revenue. Currently, general and administrative expenses fall within this expectation.

**Depreciation expenses** increased by \$1.2 million and \$4.1 million in the three and nine months ended March 31, 2010, respectively, due to capital asset acquisitions.

**Amortization of acquired intangible customer-based assets** decreased by \$2.3 million and \$3.0 million in the three and nine months ended March 31, 2010, respectively, due to a change in the allocated values of certain acquired intangible assets.

**Special charges** typically relate to amounts that we expect to pay on account of restructuring plans relating to employee workforce reduction and abandonment of excess facilities, impairment of long-lived assets, acquisition related costs (with effect from July 1, 2009 and onwards) and other non-recurring charges. Generally, we implement such plans in the context of streamlining existing Open Text operations with that of acquired entities. Actions related to such restructuring plans are, more often than not, completed within a period of one year. In certain limited situations, if the planned activity does not need to be implemented, or an expense lower than anticipated is paid out, we record a recovery of the originally recorded expense to special charges.

In accordance with the new business combination accounting rules which are applicable to us with effect from July 1, 2009, acquisition-related expenses are required to be included in the determination of income and may not, as was permitted earlier, be capitalized as part of the cost of the acquisition. As a result, we recorded an

**Table of Contents**

additional expense (within Special charges) of \$0.6 million and \$2.5 million, in the three and nine months ended March 31, 2010, respectively, on account of expenses related to these acquisitions.

For more details on Special charges, see Note 13.

**Other income (expense)** relates to certain non-operational charges consisting primarily of foreign exchange gains (losses), changes in the market value of financial assets/hedges, and tax-related penalties.

For the three months ended March 31, 2010, net other expense increased by \$17.2 million, as compared to the same period in the prior fiscal year primarily due to the impact of transactional foreign currency adjustments (which were a net loss in the current period, compared to a net gain in the prior period).

For the nine months ended March 31, 2010, net other expense increased by \$3.6 million, as compared to the same period in the prior fiscal year, primarily due to the impact of transactional foreign currency adjustments (which were a net loss for the current year compared to a net gain last year).

**Net interest expense** is primarily made up of cash interest paid on our debt facilities and the unrealized gain (loss) on our interest rate collar (which expired as of December 31, 2009), offset by interest income earned on our cash and cash equivalents.

Interest expense relates primarily to interest paid on our long-term debt obtained for the purpose of partially financing our Hummingbird acquisition (the term loan). The term loan bears floating-rate interest at LIBOR plus a fixed rate which is currently set at 2.25% per annum. The carrying value of the term loan, as of March 31, 2010, was approximately \$289 million.

Net interest expense remained relatively stable during the three months ended March 31, 2010, as compared to the same period in the prior fiscal year.

Net interest expense decreased by \$2.4 million in the nine months ended March 31, 2010 as compared to the same period in the prior fiscal year, primarily due to a decrease in the interest paid on the RBC loan on account of lower interest rates in the current period.

For more details on interest expenses see Note 10 and also the discussion under Long-term Debt and Credit Facilities under the Liquidity and Capital Resources section of this MD&A.

**Income taxes:** The tax provision rate was relatively consistent over the three months ended March 31, 2010, compared to the same period in the prior fiscal year.

The tax provision rate increased slightly from 28% in the nine months ended March 31, 2009 to 34% in the nine months ended March 31, 2010. The increased rate is primarily on account of the expiration of competent authority relief that no longer offsets the tax liability, as well as an increase in certain valuation allowances.

**Liquidity and Capital Resources**

The following table sets forth changes in cash flow from operating, investing and financing activities for the periods indicated:

(In thousands)	Nine months ended March 31,		Change/ increase (decrease)
	2010	2009	
Cash provided by operating activities	\$ 114,971	\$ 137,543	\$ (22,572)
Cash used in investing activities	72,307	148,533	(76,226)
Cash provided by financing activities	6,210	23,486	(17,276)

---

## **Table of Contents**

### ***Cash flows provided by operating activities***

Cash flows from operating activities decreased during the nine months ended March 31, 2010 as compared to the same period in the prior fiscal year, primarily due to lower cash inflows relating to changes in working capital balances of \$38.1 million, offset by increased inflows on account of the positive impact of increased non-cash charges of \$16.9 million. The remaining difference is due to a slight decrease in net income of \$1.4 million.

### ***Cash flows used in investing activities***

Cash flows used by investing activities decreased by \$76.2 million in the nine months ended March 31, 2010, primarily due to: i) \$39.7 million of additional spending on acquisitions during the comparative period and ii) \$45.5 million realized from the sale of short-term investments in the current period. These decreases were offset by \$9.0 million of additional capital asset purchases in the current period.

### ***Cash flows provided by financing activities***

Cash flows provided by financing activities consist of long-term debt financing, monies received from the issuance of shares exercised by our employees and excess tax benefits accruing upon the sale of Open Text stock options by employees. These inflows are typically offset by scheduled and non-scheduled repayments of our long-term debt financing and, when applicable, repurchases of our shares.

Cash flows from financing activities decreased by \$17.3 million in the nine months ended March 31, 2010 compared to the same period in the prior fiscal year, primarily because of a decrease in excess tax benefits on share-based compensation expense and lesser proceeds received from the issuance of common shares.

### ***Long-term Debt and Credit Facilities***

On October 2, 2006, we entered into a \$465.0 million credit agreement (the credit agreement) with a Canadian chartered bank (the bank) consisting of the term loan facility in the amount of \$390.0 million and a \$75.0 million committed revolving long-term credit facility (the revolver). The term loan was used to partially finance the Hummingbird acquisition and the revolver will be used for general business purposes, if necessary. No amount has been drawn under the revolver to date. The credit agreement is guaranteed by us and certain of our subsidiaries. For details relating to this and our other credit facilities, see Note 10.

The material financial covenants under our term loan agreement are that:

We must maintain a consolidated leverage ratio of no more than 3:1 at the end of each financial quarter. Consolidated leverage ratio is defined for this purpose as the proportion of our total debt, including guarantees and letters of credit, over our trailing twelve months net income before interest, taxes, depreciation and amortization (EBITDA); and

We must maintain a consolidated interest coverage ratio of 3:1 or more at the end of each financial quarter. Consolidated interest coverage ratio is defined for this purpose as our consolidated EBITDA over our consolidated interest expense.

As of March 31, 2010, the carrying value of the term loan was \$288.8 million and we were in compliance with all loan covenants relating to this facility.

We anticipate that our cash and cash equivalents, as well as available credit facilities and committed loan facilities will be sufficient to fund our anticipated cash requirements for working capital, contractual commitments and capital expenditures for the foreseeable future.

**Table of Contents****Commitments and Contractual Obligations**

We have entered into the following contractual obligations with minimum annual payments for the indicated Fiscal periods as follows:

		Period ending	Payments due by		
	Total	June 30,	July 1, 2010	July 1, 2012	July 1,
		2010	June	June 30,	2014 and beyond
			30, 2012	2014	
Long-term debt obligations	\$ 327,008	\$ 2,844	\$ 33,195	\$ 290,969	\$
Operating lease obligations *	109,475	7,300	40,853	25,403	35,919
Purchase obligations	3,469	510	2,567	392	
	\$ 439,952	\$ 10,654	\$ 76,615	\$ 316,764	\$ 35,919

\* Net of \$7.6 million of non-cancelable sublease income to be received from properties which we have subleased to other parties.

The long-term debt obligations are comprised of interest and principal payments on our term loan agreement and a five-year mortgage on our headquarters in Waterloo, Ontario. See Note 10.

**Litigation**

We are subject from time to time to legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, our management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated financial position, results of operations and cash flows.

**Off-Balance Sheet Arrangements**

We do not enter into off-balance sheet financing as a matter of practice except for the use of operating leases for office space, computer equipment, and vehicles. None of the operating leases described in the previous sentence has, or is expected to have, a material current or future effect on our financial condition (including any possible changes in our financial condition), revenue, expenses, results of operations, liquidity, capital expenditures or capital resources. In accordance with U.S. GAAP, neither the lease liability nor the underlying asset is carried on the balance sheet, as the terms of the leases do not meet the criteria for capitalization.

**Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amount of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent that there are material differences between these estimates, judgments and assumptions and actual results, our financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue recognition

Business combinations

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Goodwill and intangible assets Impairment Assessments

Accounting for income taxes

38

## **Table of Contents**

Legal and other contingencies

The valuation of stock options granted and liabilities related to share-based payments, including the long-term incentive plan

Allowance for doubtful accounts

Facility and restructuring accruals

Financial instruments

The valuation of pension assets and obligations

Please refer to our MD&A contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended June 30, 2009 for a more complete discussion of our critical accounting policies and estimates.

## **New Accounting Standards**

For information relating to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 2.

## **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are primarily exposed to market risks associated with fluctuations in interest rates on our term loan and foreign currency exchange rates.

### *Interest rate risk*

Our exposure to interest rate fluctuations relate primarily to our term loan, as we had no borrowings outstanding under our line of credit as of March 31, 2010. As of March 31, 2010, we had an outstanding balance of \$288.8 million on the term loan. The term loan bears a floating interest rate of LIBOR plus a fixed rate of 2.25%. As of March 31, 2010, an adverse change in LIBOR of 100 basis points (1.0%) would have the effect of increasing our annual interest payment on the term loan by approximately \$2.9 million, assuming that the loan balance as of March 31, 2010, is outstanding for the entire period.

### *Foreign currency risk*

Our reporting currency is the U.S. dollar. On account of our international operations, a substantial portion of our cash and cash equivalents is held in currencies other than the U.S. dollar. As of March 31, 2010, this balance represented approximately 55% of our total cash and cash equivalents. A 10% adverse change in foreign exchange rates versus the U.S. dollar would have decreased our reported cash and cash equivalents by approximately 6%.

Our international operations expose us to foreign currency fluctuations. Revenues and related expenses generated from subsidiaries, other than those located in the U.S., are generally denominated in the functional currencies of the local countries. These functional currencies include Euros, Canadian Dollars, Australian dollars and British Pounds. The income statements of our international operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the foreign currency conversion of these foreign currency denominated transactions into U.S. dollars results in reduced revenues, operating expenses and net income (loss) for our international operations. Similarly, our revenues, operating expenses and net income (loss) will increase for our international operations, if the U.S. dollar weakens against foreign currencies. We cannot predict the effect foreign exchange fluctuations will have on our results going forward. However, if there is a change in foreign exchange rates versus the U.S. dollar, it could have a material effect on our results of operations.



**Table of Contents**

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

As of the end of the period covered by this Quarterly Report on Form 10-Q, our management, with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2010, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that material information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Controls over Financial Reporting*

Based on the evaluation completed by our management, in which our Chief Executive Officer and Chief Financial Officer participated, our management has concluded that there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.



**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1A. Risk Factors**

**Risk Factors**

*In addition to our Quarterly Reports filed on Form 10-Q for our Fiscal 2010, you should also carefully consider the factors discussed in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for our fiscal year ended June 30, 2009. These are not the only risks and uncertainties facing us. Our business is also subject to general risks and uncertainties that affect many other companies.*

---

**Table of Contents****Item 6. Exhibits**

The following exhibits are filed with this report:

**Exhibit**

<b>Number</b>	<b>Description of Exhibit</b>
10.31	Open Text Corporation Directors' Deferred Share Unit Plan effective February 2, 2010.
31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL instance document
101.SCH	XBRL taxonomy extension schema
101.CAL	XBRL taxonomy extension calculation linkbase
101.DEF	XBRL taxonomy extension definition linkbase
101.LAB	XBRL taxonomy extension label linkbase
101.PRE	XBRL taxonomy extension presentation linkbase

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**OPEN TEXT CORPORATION**

Date: April 30, 2010

By: */s/* JOHN SHACKLETON  
**John Shackleton**

**President and Chief Executive Officer**

**(Principal Executive Officer)**

*/s/* PAUL McFEETERS  
**Paul McFeeters**

**Chief Financial Officer**

**(Principal Financial Officer)**

*/s/* SUJEET KINI  
**Sujeet Kini**

**Vice President, Controller**

**(Principal Accounting Officer)**