OPEN TEXT CORP
Form 10-Q
May 07, 2009

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, 2009.

OR

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

For the transition period from to

Commission file number: 0-27544

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

CANADA (State or other jurisdiction of incorporation or organization)	98-0154400 (IRS Employer Identification No.)

275 Frank Tompa Drive, Waterloo, Ontario, Canada N2L 0A1
(Address of principal executive offices)

Registrant's telephone number, including area code: (519) 888-7111
(Former name former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T(§232.405

of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. Dollars, except share data)

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

Additional paid-in capital		50,991	39,330
Accumulated other comprehensive income		25,885	110,819
Retained earnings		84,998	47,541
Total shareholders’ equity		618,152	636,161
Total liabilities and shareholders’ equity	$	1,467,128	$ 1,434,676
Guarantees and contingencies (note 18)			
Subsequent events (note 21)			

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands of U.S. Dollars, except per share data)
(Unaudited)

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

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)
(In thousands of U.S. Dollars)
(Unaudited)

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

See accompanying Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. Dollars)
(Unaudited)

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

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

See accompanying Notes to Condensed Consolidated Financial Statements

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OPEN TEXT CORPORATION

Unaudited Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended March 31, 2009
(Tabular amounts in thousands, except per share data)

NOTE 1—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements (consolidated financial statements) include the accounts of Open Text Corporation and our wholly and partially owned subsidiaries, collectively referred to as "Open Text" or the "Company". All inter-company balances and transactions have been eliminated.

These consolidated financial statements are expressed in U.S. dollars and are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). These financial statements are based upon accounting policies and methods of their application are consistent with those used and described in our annual consolidated financial statements for the fiscal year ended June 30, 2008. The consolidated financial statements do not include certain of the financial statement disclosures included in the annual consolidated financial statements prepared in accordance with U.S. GAAP and therefore should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008.

The information furnished reflects all adjustments necessary for a fair presentation of the results for the interim periods presented and includes the financial results of Captaris Inc. (Captaris), with effect from November 1, 2008 (see Note 20). The operating results for the three and nine months ended March 31, 2009 are not necessarily indicative of the results expected for any succeeding quarter. Upon the acquisition of Captaris, we established and adopted certain additional significant accounting policies (see Note 2). Other than the establishment and adoption of these additional significant accounting policies there have been no significant changes in our significant accounting policies from those that were disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements. These estimates, judgments and assumptions are evaluated on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable at that time, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. In particular, significant estimates, judgments and assumptions include those related to: (i) revenue recognition including allowances for estimated returns and right of return, (ii) allowance for doubtful accounts, (iii) testing goodwill for impairment, (iv) the valuation of acquired intangible assets, (v) long-lived assets, (vi) the recognition of contingencies, (vii) facility and restructuring accruals, (viii) acquisition accruals and pre-acquisition contingencies, (ix) asset retirement obligations, (x) realization of investment tax credits, (xi) the valuation of stock options granted and liabilities related to share-based payments, including the valuation of our long-term incentive plan, (xii) the valuation of financial instruments, (xiii) the valuation of pension assets and obligations, (xiv) accounting for income taxes, and (xv) the valuation of inventory.

Comprehensive income (loss)

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

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

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

	Three months ended March 31, 2009	Three months ended March 31, 2008	Nine months ended March 31, 2009	Nine months ended March 31, 2008
Other comprehensive income (loss):				
Net income for the period	$ 22,035	7,267	37,457	25,752
Foreign currency translation adjustments	(27,398)	32,144	(81,622)	69,838
Unrealized loss in investment in marketable securities	(1,456)	—	(2,274)	—
Unrealized loss on cash flow hedges	(1,120)	—	(1,120)	—
Change in actuarial gains relating to defined benefit pension plans	32	—	82	—
Comprehensive income (loss) for the period	$ (7,907)	$ 39,411	$ (47,477)	$ 95,590

Reclassification and adjustments

Certain prior period comparative figures have been adjusted to conform to current period presentation including reclassifications related to a change we made in our method of allocating operating expenses.

As a result of such reclassifications, Research and development expenses increased with a corresponding decrease to Sales and marketing expenses by approximately $0.3 million and $0.8 million, respectively, for the three and nine months ended March 31, 2008, from previously reported amounts. There was no change to income from operations or net income per share in any of the periods presented as a result of these reclassifications.

Additionally, during the quarter ended March 31, 2009, the Company recorded a charge to “Other expense” of approximately $1.6 million. This charge relates to the reinstatement of a non-material liability for potential customer-related refunds previously recorded within income as a credit to bad debt expense, in the amounts of $0.2 million, $0.3 million, $0.4 million, and $0.7 million, for the fiscal years ended 2003, 2004, 2005, and 2006, respectively. No such amounts were recorded into income after July 1, 2006.

NOTE 2—NEW ACCOUNTING PRONOUNCEMENTS AND ACCOUNTING POLICY UPDATES

In November 2008, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue No. 08-06, Equity Method Investment Accounting Considerations (EITF 08-06). EITF 08-06 is effective for us beginning July 1, 2009, with early adoption prohibited. We do not currently have any investments that are accounted for under the equity method and therefore EITF 08-06 is not expected to have any impact on our consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-07, Accounting for Defensive Assets (EITF 08-07). EITF 08-07 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them and requires an acquirer (in a business combination) to account for such defensive intangible assets as a separate unit of accounting which should be amortized to expense over the period that the asset diminishes in value.   EITF 08-07 is effective for intangible assets acquired by us on or after July 1, 2009, with early adoption prohibited.

In April 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FSP FAS142-3 is effective for us beginning July 1, 2009 and early adoption is prohibited. We are currently evaluating the impact of the adoption of FSP FAS 142-3 on our consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161), which enhances the disclosure requirements under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 161 requires additional disclosures about the objectives of an entity's derivative instruments and hedging activities, the method of accounting for such instruments under SFAS 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on a company's financial position, financial performance, and cash flows. During the quarter ended March 31, 2009, we adopted SFAS 161 and the disclosures required by SFAS 161 have been included in these consolidated financial statements (see Note 13).

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51 (SFAS 160), which changes the accounting and reporting for minority interests. Minority interest will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interest that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for us beginning July 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently assessing the impact that the adoption of SFAS 160 will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R) which replaces SFAS No. 141 Business Combinations (SFAS 141). The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for us beginning July 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157, does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB issued FASB FSP 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On July 1, 2008, we adopted SFAS 157 except for those items that have been deferred under FSP FAS 157-2 and such adoption did not have a material impact on our consolidated financial statements (see Note 3). We are currently assessing the potential impact that the full adoption of SFAS 157 will have on our consolidated financial statements.

Accounting Policy Updates

As a result of our acquisition of Captaris during the quarter ended December 31, 2008, we established and adopted accounting policies relating to the following:

Accounting for Pensions, post- retirement and post-employment benefits

Pension expense, based upon management's assumptions, consists of: actuarially computed costs of pension benefits in respect of the current year of service, imputed returns on plan assets (for funded plans) and imputed interest on pension obligations. The expected costs of post retirement benefits, other than pensions, are accrued in the financial statements based upon actuarial methods and assumptions. The over-funded or under-funded status of defined benefit pension and other post retirement plans are recognized as an asset or a liability (with the offset to Accumulated Other Comprehensive Income within Shareholders' equity), respectively, on the balance sheet.

Inventories

Inventories are valued at the lower of cost (as calculated on a first in first out basis) or market value. In addition, full provisions are recorded for surplus inventory deemed to be obsolete or inventory in excess of six month's forecasted demand.

Revenue Recognition: Allowance for product returns

We provide allowances for estimated returns and return rights that exist for certain legacy Captaris customers. In general, our customers are not granted return rights at the time of sale. However, Captaris has historically accepted returns and, has therefore, reduced recognized revenue for estimated product returns. For those customers to whom we do grant return rights, we reduce revenue by an estimate of these returns. If we cannot reasonably estimate these returns, we defer the revenue until the return rights lapse. For software sold to resellers for which we have granted exchange rights, we defer the revenue until the reseller sells the software through to end-users. When customer acceptance provisions are present and we cannot reasonably estimate returns, we recognize revenue upon the earlier of customer acceptance or expiration of the acceptance period.

NOTE 3—FAIR VALUE MEASURMENTS

We adopted SFAS 157, except for those items that have been deferred under FSP FAS 157-2, on July 1, 2008. The items deferred relate to: i) non financial assets and liabilities initially measured at fair value in a business combination, but not measured at fair value in subsequent periods, ii) asset retirement obligations initially measured at fair value, and iii) non financial liabilities for exit or disposal activities initially measured at fair value under FASB Statement no. 146, Accounting for Costs Associated with Exit or Disposal Activities. The adoption of SFAS 157 did not have a material impact on our consolidated financial statements.

SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value, in this context, should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including our own credit risk.

In addition to defining fair value, SFAS 157 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which are determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 – inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis:

Our financial assets and liabilities measured at fair value on a recurring basis consisted of the following types of instruments as of March 31, 2009:

		Fair Market Measurements using:		
	March 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)

Financial Assets:				
Marketable securities	$ 6,656	$ 6,656	n/a	n/a
Financial Liabilities:				
Derivative financial instrument liabilities (note 13)	$ 4,341	n/a	$ 4,341	n/a

Our valuation techniques used to measure the fair values of our marketable securities were derived from quoted market prices as an active market for these securities exists. Our valuation techniques used to measure the fair values of the derivative instruments, the counterparty to which has high credit ratings, were derived from the pricing models including discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data, as no quoted market prices exist for the derivative instruments. Our discounted cash flow techniques use observable market inputs, such as monthly LIBOR-based yield curves, and foreign currency spot and forward rates.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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We measure certain assets at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the three and nine months ended March 31, 2009, no indications of impairment were identified and therefore no fair value measurements were required.

NOTE 4— INVENTORIES

	As of March 31, 2009
Finished goods	$ 2,148
Components	424
	2,572
Less: Provision for inventories	(633)
	$ 1,939

Inventories consist primarily of fax boards that were acquired as part of our acquisition of Captaris during the quarter ended December 31, 2008 (see Note 20). Prior to this date we did not hold any inventories.

NOTE 5—CAPITAL ASSETS

	As of March 31, 2009		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$ 9,990	$ 6,275	$ 3,715
Office equipment	8,242	7,255	987
Computer hardware	69,227	60,573	8,654
Computer software	23,349	17,332	6,017
Leasehold improvements	17,799	11,509	6,290
Land and buildings	14,836	1,297	13,539
	$ 143,443	$ 104,241	$ 39,202

	As of June 30, 2008		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$ 10,490	$ 8,877	$ 1,613
Office equipment	10,251	8,948	1,303
Computer hardware	80,499	72,654	7,845
Computer software	28,015	21,819	6,196
Leasehold improvements	15,160	11,295	3,865
Land and buildings *	24,261	1,501	22,760
	$ 168,676	$ 125,094	$ 43,582

* Includes a building that was recorded as an “asset held for sale” which was sold in December 2008 for Canadian dollars $5.8 million.

NOTE 6—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, 2007:

Balance, June 30, 2007	$ 528,312
Purchase of an asset group constituting a business (note 20)	2,199
Adjustments relating to prior acquisitions	5,930
Adjustments relating to the adoption of FIN 48	(6,480)
Adjustments on account of foreign exchange	34,687
Balance, June 30, 2008	564,648
Acquisition of a division of Spicer Corporation (note 20)	4,815
Acquisition of Captaris Inc. (note 20)	46,362
Adjustments relating to prior acquisitions	(10,688)
Adjustments on account of foreign exchange	(41,119)
Balance, March 31, 2009	$ 564,018

Adjustments relating to prior acquisitions relate primarily to: (i) adjustments to plans formulated in accordance with the FASB's Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" (EITF 95-3) relating to employee termination and abandonment of excess facilities and (ii) the evaluation of the tax attributes of acquisition-related operating loss carry forwards and deductions, including reductions in previously recognized valuation allowances, originally assessed at the various dates of acquisition.

NOTE 7—ACQUIRED INTANGIBLE ASSETS

	Technology Assets	Customer Assets	Total
Net book value, June 30, 2007	$ 179,216	$ 164,108	$ 343,324
Acquisition of Momentum	—	1,900	1,900
Amortization expense	(41,515)	(30,759)	(72,274)
Foreign exchange and other impacts	4,002	4,872	8,874
Net book value, June 30, 2008	141,703	140,121	281,824
Acquisition of Captaris Inc. (note 20)	60,000	72,000	132,000
Acquisition of eMotion LLC (note 20)	1,452	2,359	3,811
Acquisition of a division of Spicer Corporation (note 20)	5,529	1,777	7,306
Purchase of an asset group constituting a business (note 20)	—	2,081	2,081
Amortization expense	(34,171)	(29,529)	(63,700)
Foreign exchange and other impacts	(3,649)	(4,930)	(8,579)
Net book value, March 31, 2009	$ 170,864	$ 183,879	$ 354,743

The range of amortization periods for intangible assets is from 3-10 years.

The following table shows the estimated future amortization expense for the fiscal periods indicated below. This calculation assumes no future adjustments to acquired intangible assets:

	s	Fiscal years ending June 30,
2009 (three months ended June 30)	$	21,123
2010		79,893
2011		77,258
2012		73,815
2013 and beyond		102,654
Total	$	354,743

NOTE 8—OTHER ASSETS

		As of March 31, 2009		As of June 30, 2008
Debt issuance costs	$	4,993	$	5,834
Deposits and restricted cash		2,599		1,943
Long-term prepaid expenses		3,095		2,116
Pension assets		558		598
	$	11,245	$	10,491

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 our long-term debt. Deposits relate to security deposits provided to landlords in accordance with facility lease agreements and cash restricted per the terms of facility-based lease agreements. Long-term prepaid expenses 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 11), recognized under SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements 87, 88, 106 and 132(R)” (SFAS 158).

NOTE 9—ALLOWANCE FOR DOUBTFUL ACCOUNTS

Balance of allowance for doubtful accounts (AfDA) as of June 30, 2007	$	2,089
Bad debt expense for the year		2,855
Write-off /adjustments		(970)
Balance of allowance for doubtful accounts as of June 30, 2008		3,974
Bad debt expense for the period		3,670
Write-off /adjustments		(3,860)
Balance of allowance for doubtful accounts as of March 31, 2009	$	3,784

NOTE 10—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Current liabilities

Accounts payable and accrued liabilities are comprised of the following:

	As of March 31, 2009	As of June 30, 2008
Accounts payable—trade	$ 14,418	$ 3,728
Accrued salaries and commissions	25,173	34,292
Accrued liabilities	54,432	49,014
Amounts payable in respect of restructuring (note 19)	7,541	1,150
Amounts payable in respect of acquisitions and acquisition related accruals	14,808	10,851
	$ 116,372	$ 99,035

Long-term accrued liabilities

	As of March 31, 2009	As of June 30, 2008
Amounts payable in respect of restructuring (note 19)	954	299
Amounts payable in respect of acquisitions and acquisition related accruals	5,671	10,256
Other accrued liabilities	6,439	2,851
Asset retirement obligations	6,920	7,107
	$ 19,984	$ 20,513

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 FASB SFAS No.143, “Accounting for Asset Retirement Obligations” (SFAS 143). As of March 31, 2009 the present value of this obligation was $6.9 million (June 30, 2008—$7.1 million), with an undiscounted value of $8.4 million (June 30, 2008—$7.8 million).

Accruals relating to acquisitions

In accordance with EITF 95-3, and in relation to our acquisitions, we have accrued for costs relating to legacy workforce reductions and abandonment of excess legacy facilities. Such accruals are 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 excess 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, 2009.

	Balance June 30, 2008	Initial Accruals	Usage/ Foreign Exchange/ Other Adjustments	Subsequent Adjustments to Goodwill	Balance March 31, 2009
Captaris (see note 20)					
Employee termination costs	$ —	$ 9,276	$ (3,793)	$ 1,284	$ 6,767
Excess facilities	—	3,347	(582)	651	3,416
Transaction-related costs	—	797	(1,006)	209	—
	—	13,420	(5,381)	2,144	10,183
Division of Spicer Corporation					
Employee termination costs	—	—	—	—	—
Excess facilities	—	—	—	—	—
Transaction-related costs	—	262	(240)	(22)	—
	—	262	(240)	(22)	—
Hummingbird					
Employee termination costs	310	—	(48)	(13)	249
Excess facilities	4,249	—	(1,817)	(795)	1,637
Transaction-related costs	815	—	(120)	(695)	—
	5,374	—	(1,985)	(1,503)	1,886
IXOS					
Employee termination costs	—	—	—	—	—
Excess facilities	15,255	—	(6,956)	—	8,299
Transaction-related costs	—	—	(45)	45	—
	15,255	—	(7,001)	45	8,299
Eloquent					
Employee termination costs	—	—	—	—	—
Excess facilities	—	—	—	—	—
Transaction-related costs	243	—	(243)	—	—
	243	—	(243)	—	—
Centrinity					
Employee termination costs	—	—	—	—	—
Excess facilities	211	—	(100)	—	111
Transaction-related costs	—	—	—	—	—
	211	—	(100)	—	111
Artesia					
Employee termination costs	—	—	—	—	—
Excess facilities	24	—	(24)	—	—
Transaction-related costs	—	—	—	—	—
	24	—	(24)	—	—
Totals					
Employee termination costs	310	9,276	(3,841)	1,271	7,016
Excess facilities	19,739	3,347	(9,479)	(144)	13,463
Transaction-related costs	1,058	1,059	(1,654)	(463)	—

	$	21,107	$	13,682	$	(14,974)	$	664	$	20,479

The adjustments to goodwill primarily relate to employee termination costs and excess facilities accounted for in accordance with EITF 95-3. The adjustments to goodwill relating to transaction costs are accounted for in accordance with SFAS 141.

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NOTE 11— PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

CDT Defined Benefit Plan and CDT Long-term Employee Benefit Obligations:

As part of our acquisition of Captaris we acquired the following unfunded defined benefit pension plan and certain long-term employee benefit obligations in relation to Captaris Document Technologies GmbH (CDT), a wholly owned subsidiary of Captaris. As of March 31, 2009, the balances relating to these obligations were as follows:

	Total benefit obligation	Current portion of benefit obligation*	Non current portion of benefit obligation
CDT defined benefit plan	$ 14,625	$ 278	$ 14,347
CDT Anniversary plan	1,014	160	854
CDT early retirement plan	589	—	589
Total	$ 16,228	$ 438	$ 15,790

* 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 from November 1, 2008 (the date from which the results of operations of Captaris have been consolidated with Open Text) to March 31, 2009:

Benefit obligation as of November 1, 2008	$ 14,782
Service cost	224
Interest cost	351
Benefits paid	(80)
Foreign exchange	(652)
Benefit obligation as of March 31, 2009	14,625
Less: current portion	(278)
Non current portion of benefit obligation as of March 31, 2009	$ 14,347

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

Pension expense:	Three months	Nine months

	ended March 31, 2009	ended March 31, 2008
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.

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In determining the fair value of the CDT pension plan as of March 31, 2009, we used the following weighted average key assumptions:

Assumptions:	
Salary increases	2.25%
Pension increases	1.50%
Discount rate	6.00%
Employee fluctuation rate:	
to age 30	3.00%
to age 35	2.00%
to age 40	2.00%
to age 45	1.50%
to age 50	0.50%
from age 51	0.00%

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

2009	$	216
2010		356
2011		380
2012		415
2013		522
2014 to 2018		3,887
Total	$	5,776

CDT Long-term employee benefit obligation.

CDT's long-term employee benefit obligation relates to obligations to CDT employees in relation to CDT's "Anniversary plan" and an early retirement plan. The obligation is unfunded and carried at a fair value of $1.0 million for the Anniversary plan and $0.6 million for the early retirement plan, as of March 31, 2009.

The Anniversary plan is a defined 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 employees' compensation and the number of years of service.

IXOS AG Defined Benefit Plans

Included within "Other Assets" are net pension assets of $0.6 million (June 30, 2008—$0.6 million) relating to two IXOS defined benefit pensions plans (IXOS pension plans) for certain former members of the IXOS board of directors and certain IXOS employees (see Note 8). 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, 2009, is $3.3 million (June 30, 2008—$3.7 million). The fair value of our total pension obligation under the IXOS pension plans, as of March 31, 2009 is $2.7 million, (June 30, 2008—$3.1 million).

In determining the fair value of the IXOS pension plans as of March 31, 2009, we used the following weighted average key assumptions:

Assumptions : Former IXOS directors' defined benefit pension plan	
Salary increases	0.00%
Pension increases	1.50%- 3.00%
Discount rate	6.00%
Rate of expected return on plan assets	4.50%

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Assumptions : Former IXOS employees' defined benefit pension plan	
Salary increases	0.00%
Pension increases	0.00%
Discount rate	6.00%
Rate of expected return on plan assets	4.30%

Anticipated pension payments under the IXOS pension plans, for the calendar years indicated below are as follows:

	Anticipated Pension Payments
2009	$ 77
2010	14
2011	-
2012	166
2013	70
2014 to 2018	597
Total	$ 924

NOTE 12—LONG-TERM DEBT

Long-term debt

Long-term debt is comprised of the following:

	As of March 31, 2009	As of June 30, 2008
Long-term debt		
Term loan	$ 291,761	$ 294,006
Mortgage	10,820	13,781
	302,581	307,787
Less:		
Current portion of long-term debt		
Term loan	2,993	2,993
Mortgage	414	493
	3,407	3,486
Long-term portion of long-term debt	$ 299,174	$ 304,301

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 and the revolver will be used for general business purposes.

Term loan

The term loan has a seven year term and 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 to March 31, 2009 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, 2009, we recorded interest expense of $2.0 million and $9.2 million, respectively, (three and nine months ended March 31, 2008-$4.5 million and $17.7 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, 2009.

For the three and nine months ended March 31, 2009, we recorded interest expense of $56,000 and $0.2 million respectively, (three and nine months ended March 31, 2008 - $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, 2009, the carrying value of the building was $13.5 million (June 30, 2008—$17.1 million).

For the three and nine months ended March 31, 2009, we recorded interest expense of $0.1 million and $0.5 million (three and nine months ended March 31, 2008—$0.2 million and $0.6 million, respectively), relating to the mortgage.

NOTE 13—DERIVATIVE INSTRUMENTS AND HEDGING ACTVITIES

We adopted the FASB’s Statement No.161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement 133 (SFAS 161), on January 1, 2009. SFAS 161 enhances financial statement disclosures required under the FASB’s Statement No.133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and the adoption thereof had no financial statement impact on our consolidated financial statements. We have applied SFAS 161 prospectively and therefore disclosures relating to prior interim periods have not been presented.

Foreign Currency Forward Contracts

On December 30, 2008, we entered into a hedging program with a Canadian chartered bank, to limit the potential foreign exchange fluctuations on future intercompany royalties and management fees that are expected to be earned by our Canadian subsidiary from one of our U.S. subsidiaries. The program seeks to hedge, on a monthly basis, and over a future rolling twelve month period, $5.5 million of royalties and management fees. Each monthly contract settles within twelve months from inception date and we do not use these forward contracts for trading or speculative purposes.

Our hedging strategy, under this program, is to limit the potential volatility associated with the foreign currency gains and losses that may be experienced upon the eventual settlement of these transactions.

We have designated these transactions as cash flow hedges of forecasted transactions under SFAS 133. Accordingly, quarterly unrealized gains or losses on the effective portion of these forward contracts have been included within other comprehensive income. Unrealized gains or losses on the ineffective portion of these forward contracts, and the gain or loss on ineffective hedges that have been excluded from effectiveness testing have been classified within “Other income (expense)”. The fair value of the contracts at the end of the reporting period, as of March 31, 2009, is recorded within “Accounts payable and accrued liabilities”.

As of March 31, 2009, the notional amount of forward contracts we held, to sell U.S. dollars in exchange for Canadian dollars was $60.5 million.

Interest Rate Collar

As part of the requirements of the term loan credit agreement (see Note 12) we are required to maintain, from thirty days following the date on which the term loan was entered into through to the third anniversary or such earlier date on which the term loan is paid, an interest rate hedging arrangement with counter parties in respect of the term loan. Accordingly, in October 2006, we entered into a three year interest rate collar that had the economic effect of circumscribing the floating portion of the interest rate obligations associated with the term loan within an upper limit of 5.34% and a lower limit of 4.79%. As of March 31, 2009, the notional amount of the interest rate collar was $100.0 million.

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SFAS 133 requires that written options meet certain criteria in order for hedge accounting to apply. We determined that these criteria were not met and hence hedge accounting was not applied to the interest rate collar.

The quarterly unrealized gains or losses on the interest rate collar and quarterly amounts payable by us to the counter party are included within interest expense and the fair value of the interest rate collar is recorded with "Accounts payable and accrued liabilities." As of March 31, 2009, the fair value of the collar, recorded within "Accounts payable and accrued liabilities" was $2.8 million.

Fair value of Derivative Instruments and Effect of Derivative Instruments on Financial Performance

The effect of these derivative instruments on our consolidated financial statements as of, and for the three months ended March 31, 2009, were as follows (amounts presented do not include any income tax effects).

Fair value of Derivative Instruments in the Condensed Consolidated Balance Sheet (see Note 3)

Derivatives Designated as Hedging Instruments Under SFAS 133	Balance Sheet Location	Fair Value
Foreign currency forward contracts designated as cash flow hedges under SFAS 133	Accounts Payable and accrued liabilities	$ 1,556
Derivatives Not Designated as Hedging Instruments Under SFAS 133		
Interest rate collar not designated as a hedging instrument under SFAS 133	Accounts Payable and accrued liabilities	2,785
Total derivatives		$ 4,341

Effects of Derivative Instruments on Income and Other Comprehensive Income (OCI)

Derivatives in SFAS 133 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
	Three months ended March 31, 2009		Three months ended March 31, 2009		Three months ended March 31, 2009

Foreign currency forward contracts	$	(2,104)	Other income/ (expense)	$