

OPEN TEXT CORP

Form 10-Q

January 31, 2019

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As a practical expedient, we do not account for significant financing components if the period between when we transfer the promised good or service to the customer and when the customer pays for the product or service will be one year or less. We apply the practical expedient and do not disclose performance obligations that have original expected durations of one year or less. P3Y06903368167040 0001002638 2018-07-01 2018-12-31 0001002638 2019-01-29 0001002638 2018-12-31 0001002638 2018-06-30 0001002638 2017-07-01 2017-12-31 0001002638 otex:CustomerSupportMember 2017-07-01 2017-12-31 0001002638 2017-10-01 2017-12-31 0001002638 2018-10-01 2018-12-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2018-07-01 2018-12-31 0001002638 us-gaap:LicenseMember 2017-10-01 2017-12-31 0001002638 otex:ProfessionalServiceAndOtherMember 2018-07-01 2018-12-31 0001002638 otex:CustomerSupportMember 2018-07-01 2018-12-31 0001002638 us-gaap:LicenseMember 2018-10-01 2018-12-31 0001002638 otex:ProfessionalServiceAndOtherMember 2017-07-01 2017-12-31 0001002638 us-gaap:LicenseMember 2017-07-01 2017-12-31 0001002638 otex:CustomerSupportMember 2018-10-01 2018-12-31 0001002638 otex:CustomerSupportMember 2017-10-01 2017-12-31 0001002638 us-gaap:LicenseMember 2018-07-01 2018-12-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2018-10-01 2018-12-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2017-10-01 2017-12-31 0001002638 otex:ProfessionalServiceAndOtherMember 2018-10-01 2018-12-31 0001002638 otex:ProfessionalServiceAndOtherMember 2017-10-01 2017-12-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2017-07-01 2017-12-31 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2017-06-30 0001002638 us-gaap:RetainedEarningsMember 2017-09-30 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2017-07-01 2017-09-30 0001002638 us-gaap:RetainedEarningsMember 2017-07-01 2017-09-30 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2017-12-31 0001002638 us-gaap:NoncontrollingInterestMember 2017-06-30 0001002638 us-gaap:TreasuryStockMember 2017-12-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-06-30 0001002638 2017-07-01 2017-09-30 0001002638 us-gaap:TreasuryStockMember 2017-10-01 2017-12-31 0001002638 us-gaap:NoncontrollingInterestMember 2017-12-31 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2017-09-30 0001002638 us-gaap:TreasuryStockMember 2017-07-01 2017-09-30 0001002638 us-gaap:TreasuryStockMember 2017-09-30 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2017-10-01 2017-12-31 0001002638 us-gaap:RetainedEarningsMember 2017-12-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-10-01 2017-12-31 0001002638 us-gaap:TreasuryStockMember 2017-06-30 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0001002638 us-gaap:NoncontrollingInterestMember 2017-10-01 2017-12-31 0001002638 us-gaap:RetainedEarningsMember 2017-06-30 0001002638 2017-06-30 0001002638 2017-12-31 0001002638 us-gaap:RetainedEarningsMember 2017-10-01 2017-12-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-07-01 2017-09-30 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-09-30 0001002638 2017-09-30 0001002638 us-gaap:NoncontrollingInterestMember 2017-07-01 2017-09-30 0001002638 us-gaap:NoncontrollingInterestMember 2017-09-30 0001002638 us-gaap:TreasuryStockMember 2018-10-01 2018-12-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2018-12-31 0001002638 us-gaap:TreasuryStockMember 2018-12-31 0001002638 us-gaap:RetainedEarningsMember 2018-12-31 0001002638 us-gaap:RetainedEarningsMember 2018-10-01 2018-12-31 0001002638 2018-07-01 2018-09-30 0001002638 us-gaap:NoncontrollingInterestMember 2018-07-01 2018-09-30 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2018-07-01 2018-09-30 0001002638

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## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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### FORM 10-Q

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

For the quarterly period ended December 31, 2018.

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

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## OPEN TEXT CORPORATION

(Exact name of Registrant as specified in its charter)

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

**275 Frank Tompa Drive, Waterloo, Ontario, Canada N2L 0A1**  
(Address of principal executive offices)  
**(519) 888-7111**  
(Registrant's telephone number, including area code)

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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 every Interactive Data File required to be submitted 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 such files).    Yes     No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.  
Large accelerated filer     Accelerated filer     Non-accelerated filer   
Smaller reporting company     Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.   

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

At January 29, 2019, there were 268,768,010 outstanding Common Shares of the registrant.

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

	<b>December 31, 2018</b>	<b>June 30, 2018</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 595,069	\$ 682,942
Accounts receivable trade, net of allowance for doubtful accounts of \$16,256 as of December 31, 2018 and \$9,741 as of June 30, 2018 (note 4)	482,289	487,956
Contract assets (note 3)	13,607	—
Income taxes recoverable (note 14)	39,388	55,623
Prepaid expenses and other current assets	82,188	101,059
Total current assets	1,212,541	1,327,580
Property and equipment (note 5)	246,726	264,205
Long-term contract assets (note 3)	11,804	—
Goodwill (note 6)	3,732,669	3,580,129
Acquired intangible assets (note 7)	1,284,299	1,296,637
Deferred tax assets (note 14)	1,085,272	1,122,729
Other assets (note 8)	124,414	111,267
Deferred charges	—	38,000
Long-term income taxes recoverable (note 14)	31,678	24,482
<b>Total assets</b>	<b>\$ 7,729,403</b>	<b>\$ 7,765,029</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 282,870	\$ 302,154
Current portion of long-term debt (note 10)	10,000	10,000
Deferred revenues	572,915	644,211
Income taxes payable (note 14)	45,680	38,234
Total current liabilities	911,465	994,599
Long-term liabilities:		
Accrued liabilities (note 9)	53,023	52,827
Deferred credits	—	2,727
Pension liability (note 11)	65,265	65,719
Long-term debt (note 10)	2,607,706	2,610,523
Deferred revenues	45,538	69,197
Long-term income taxes payable (note 14)	172,641	172,241
Deferred tax liabilities (note 14)	87,753	79,938
Total long-term liabilities	3,031,926	3,053,172
Shareholders' equity:		
Share capital and additional paid-in capital (note 12)		
268,569,471 and 267,651,084 Common Shares issued and outstanding at December 31, 2018 and June 30, 2018, respectively; authorized Common Shares: unlimited	1,731,299	1,707,073
Accumulated other comprehensive income	25,971	33,645
Retained earnings	2,056,831	1,994,235
Treasury stock, at cost (816,704 shares at December 31, 2018 and 690,336 shares at June 30, 2018, respectively)	(29,241 )	(18,732 )
Total OpenText shareholders' equity	3,784,860	3,716,221
Non-controlling interests	1,152	1,037
Total shareholders' equity	3,786,012	3,717,258
<b>Total liabilities and shareholders' equity</b>	<b>\$ 7,729,403</b>	<b>\$ 7,765,029</b>
Guarantees and contingencies (note 13)		

Related party transactions (note 21)

Subsequent events (note 22)

See accompanying Notes to Condensed Consolidated Financial Statements

**OPEN TEXT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands of U.S. dollars, except share and per share data)  
(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Revenues:				
License	\$132,756	\$135,244	\$209,643	\$213,475
Cloud services and subscriptions	219,233	208,121	427,316	401,974
Customer support	310,354	308,070	621,905	603,474
Professional service and other	72,888	82,970	143,524	156,169
Total revenues	735,231	734,405	1,402,388	1,375,092
Cost of revenues:				
License	3,655	4,587	7,527	7,547
Cloud services and subscriptions	88,698	90,485	176,401	174,619
Customer support	31,273	33,117	61,738	65,887
Professional service and other	56,030	64,886	112,826	124,314
Amortization of acquired technology-based intangible assets (note 7)	48,366	47,128	95,843	91,088
Total cost of revenues	228,022	240,203	454,335	463,455
Gross profit	507,209	494,202	948,053	911,637
Operating expenses:				
Research and development	75,753	80,123	153,223	157,697
Sales and marketing	126,193	129,151	246,375	251,766
General and administrative	52,198	48,954	103,122	97,856
Depreciation	23,834	22,071	47,688	40,949
Amortization of acquired customer-based intangible assets (note 7)	45,919	46,268	91,795	90,057
Special charges (recoveries) (note 17)	9,380	715	32,691	18,746
Total operating expenses	333,277	327,282	674,894	657,071
Income from operations	173,932	166,920	273,159	254,566
Other income (expense), net	378	5,547	1,900	15,771
Interest and other related expense, net	(33,613 )	(34,404 )	(68,144 )	(68,215 )
Income before income taxes	140,697	138,063	206,915	202,122
Provision for (recovery of) income taxes (note 14)	36,236	53,146	66,086	80,515
Net income for the period	\$104,461	\$84,917	\$140,829	\$121,607
Net (income) loss attributable to non-controlling interests	(29 )	194	(73 )	100
Net income attributable to OpenText	\$104,432	\$85,111	\$140,756	\$121,707
Earnings per share—basic attributable to OpenText (note 20)	\$0.39	\$0.32	\$0.52	\$0.46
Earnings per share—diluted attributable to OpenText (note 20)	\$0.39	\$0.32	\$0.52	\$0.46
Weighted average number of Common Shares outstanding—basic (in '000's)	268,524	265,504	268,276	265,153
Weighted average number of Common Shares outstanding—diluted (in '000's)	269,400	266,857	269,396	266,549

See accompanying Notes to Condensed Consolidated Financial Statements

**OPEN TEXT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In thousands of U.S. dollars)  
(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net income for the period	\$104,461	\$84,917	\$140,829	\$121,607
Other comprehensive income (loss)—net of tax:				
Net foreign currency translation adjustments	(3,418 )	(1,446 )	(6,938 )	(540 )
Unrealized gain (loss) on cash flow hedges:				
Unrealized gain (loss) - net of tax expense (recovery) effect of (\$677) and (\$60) for the three months ended December 31, 2018 and 2017, respectively; (\$496) and \$403 for the six months ended December 31, 2018 and 2017, respectively	(1,877 )	(168 )	(1,375 )	1,117
(Gain) loss reclassified into net income - net of tax (expense) recovery effect of \$169 and (\$141) for the three months ended December 31, 2018 and 2017, respectively; \$301 and (\$428) for the six months ended December 31, 2018 and 2017, respectively	467	(391 )	833	(1,188 )
Actuarial gain (loss) relating to defined benefit pension plans:				
Actuarial gain (loss) - net of tax expense (recovery) effect of (\$519) and (\$153) for the three months ended December 31, 2018 and 2017, respectively; (\$213) and (\$236) for the six months ended December 31, 2018 and 2017, respectively	(1,521 )	(48 )	(324 )	(163 )
Amortization of actuarial (gain) loss into net income - net of tax (expense) recovery effect of \$72 and \$43 for the three months ended December 31, 2018 and 2017, respectively; \$145 and \$85 for the six months ended December 31, 2018 and 2017, respectively	64	56	130	112
Release of unrealized gain on marketable securities - net of tax effect of nil	—	—	—	(617 )
Total other comprehensive income (loss) net, for the period	(6,285 )	(1,997 )	(7,674 )	(1,279 )
Total comprehensive income	98,176	82,920	133,155	120,328
Comprehensive (income) loss attributable to non-controlling interests	(29 )	194	(73 )	100
Total comprehensive income attributable to OpenText	\$98,147	\$83,114	\$133,082	\$120,428
See accompanying Notes to Condensed Consolidated Financial Statements				

**OPEN TEXT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(In thousands of U.S. dollars and shares)  
(unaudited)

	Six Months Ended December 31, 2018							
	Common Shares and Additional Paid in Capital		Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total
	Shares	Amount	Shares	Amount				
<b>Balance as of June 30, 2018</b>	267,651	\$ 1,707,073	(691 )	\$ (18,732 )	\$ 1,994,235	\$ 33,645	\$ 1,037	\$ 3,717,258
Adoption of ASU 2016-16 - cumulative effect	—	—	—	—	(26,780 )	—	—	(26,780 )
Adoption of Topic 606 - cumulative effect	—	—	—	—	29,786	—	—	29,786
Issuance of Common Shares								
Under employee stock option plans	494	12,431	—	—	—	—	—	12,431
Under employee stock purchase plans	187	5,569	—	—	—	—	—	5,569
Share-based compensation	—	6,555	—	—	—	—	—	6,555
Purchase of treasury stock	—	—	(304 )	(11,719 )	—	—	—	(11,719 )
Issuance of treasury stock	—	(70 )	3	70	—	—	—	—
Dividends declared (\$0.1518 per Common Share)	—	—	—	—	(40,466 )	—	—	(40,466 )
Other comprehensive income - net	—	—	—	—	—	(1,389 )	—	(1,389 )
Non-controlling interest	—	(625 )	—	—	—	—	42	(583 )
Net income for the quarter	—	—	—	—	36,324	—	44	36,368
<b>Balance as of September 30, 2018</b>	<b>268,332</b>	<b>\$ 1,730,933</b>	<b>(992 )</b>	<b>\$ (30,381 )</b>	<b>\$ 1,993,099</b>	<b>\$ 32,256</b>	<b>\$ 1,123</b>	<b>\$ 3,727,030</b>
Issuance of Common Shares								
Under employee stock option plans	62	1,740	—	—	—	—	—	1,740
Under employee stock purchase plans	175	5,696	—	—	—	—	—	5,696
Share-based compensation	—	6,885	—	—	—	—	—	6,885
Purchase of treasury stock	—	—	(370 )	(12,815 )	—	—	—	(12,815 )
Issuance of treasury stock	—	(13,955 )	545	13,955	—	—	—	—
Dividends declared (\$0.1518 per Common Share)	—	—	—	—	(40,700 )	—	—	(40,700 )
Other comprehensive income - net	—	—	—	—	—	(6,285 )	—	(6,285 )
Net income for the quarter	—	—	—	—	104,432	—	29	104,461
<b>Balance as of December 31, 2018</b>	<b>268,569</b>	<b>\$ 1,731,299</b>	<b>(817 )</b>	<b>\$ (29,241 )</b>	<b>\$ 2,056,831</b>	<b>\$ 25,971</b>	<b>\$ 1,152</b>	<b>\$ 3,786,012</b>
	Six Months Ended December 31, 2017							
	Common Shares and Additional Paid in Capital		Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total
	Shares	Amount	Shares	Amount				
<b>Balance as of June 30, 2017</b>	264,060	\$ 1,613,454	(1,102 )	\$ (27,520 )	\$ 1,897,624	\$ 48,800	\$ 961	\$ 3,533,319
Issuance of Common Shares								
Under employee stock option plans	1,048	16,154	—	—	—	—	—	16,154
Under employee stock purchase plans	180	4,837	—	—	—	—	—	4,837
Share-based compensation	—	8,235	—	—	—	—	—	8,235
Issuance of treasury stock	—	(178 )	9	178	—	—	—	—
Dividends declared (\$0.1320 per Common Share)	—	—	—	—	(35,017 )	—	—	(35,017 )
Other comprehensive income - net	—	—	—	—	—	718	—	718
Net income for the quarter	—	—	—	—	36,596	—	94	36,690
<b>Balance as of September 30, 2017</b>	<b>265,288</b>	<b>\$ 1,642,502</b>	<b>(1,093 )</b>	<b>\$ (27,342 )</b>	<b>\$ 1,899,203</b>	<b>\$ 49,518</b>	<b>\$ 1,055</b>	<b>\$ 3,564,936</b>
Issuance of Common Shares								
Under employee stock option plans	145	\$ 3,374	—	\$ —	\$ —	\$ —	\$ —	\$ 3,374



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Under employee stock purchase plans	193	5,275	—	—	—	—	—	5,275
Share-based compensation	—	7,158	—	—	—	—	—	7,158
Issuance of treasury stock	—	(8,092	) 379	8,092	—	—	—	—
Dividends declared (\$0.1320 per Common Share)	—	—	—	—	(34,811	) —	—	(34,811 )
Other comprehensive income - net	—	—	—	—	—	(1,997	) —	(1,997 )
Net income for the year	—	—	—	—	85,111	—	(194	) 84,917
<b>Balance as of December 31, 2017</b>	<b>265,626</b>	<b>\$1,650,217</b>	<b>(714 )</b>	<b>\$(19,250 )</b>	<b>\$1,949,503</b>	<b>\$ 47,521</b>	<b>\$ 861</b>	<b>\$3,628,852</b>

See accompanying Notes to Condensed Consolidated Financial Statements

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

	<b>Six Months Ended</b>	
	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Net income for the period	\$ 140,829	\$ 121,607
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	235,326	222,094
Share-based compensation expense	13,440	