OPEN TEXT CORP
Form 10-Q
January 27, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2014.

OR

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

For the transition period from to

Commission file number: 0-27544

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý 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 ý 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 ý

At January 26, 2015, there were 122,108,151 outstanding Common Shares of the registrant.

1

OPEN TEXT CORPORATION
TABLE OF CONTENTS

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

	December 31, 2014 (unaudited)	June 30, 2014
ASSETS		
Cash and cash equivalents	$542,810	$427,890
Accounts receivable trade, net of allowance for doubtful accounts of $6,211 as of December 31, 2014 and $4,727 as of June 30, 2014 (note 3)	258,230	292,929
Income taxes recoverable (note 14)	16,374	24,648
Prepaid expenses and other current assets	52,533	42,053
Deferred tax assets (note 14)	31,375	28,215
Total current assets	901,322	815,735
Property and equipment (note 4)	153,841	142,261
Goodwill (note 5)	1,940,304	1,963,557
Acquired intangible assets (note 6)	637,660	725,318
Deferred tax assets (note 14)	152,030	156,712
Other assets (note 7)	57,823	52,041
Deferred charges (note 8)	44,820	52,376
Long-term income taxes recoverable (note 14)	8,517	10,638
Total assets	$3,896,317	$3,918,638
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	$193,510	$231,954
Current portion of long-term debt (note 10)	65,289	62,582
Deferred revenues	292,162	332,664
Income taxes payable (note 14)	11,729	31,630
Deferred tax liabilities (note 14)	834	1,053
Total current liabilities	563,524	659,883
Long-term liabilities:		
Accrued liabilities (note 9)	33,098	41,999
Deferred credits (note 8)	15,236	17,529
Pension liability (note 11)	65,346	60,300
Long-term debt (note 10)	1,226,500	1,256,750
Deferred revenues	18,022	17,248
Long-term income taxes payable (note 14)	161,036	162,131
Deferred tax liabilities (note 14)	54,177	60,631
Total long-term liabilities	1,573,415	1,616,588
Shareholders' equity:		
Share capital (note 12)		
122,078,994 and 121,758,432 Common Shares issued and outstanding at December 31, 2014 and June 30, 2014, respectively; Authorized Common Shares: unlimited	801,810	792,834
Additional paid-in capital	114,951	112,398
Accumulated other comprehensive income	39,632	39,449
Retained earnings	813,131	716,317
Treasury stock, at cost (407,725 shares at December 31, 2014 and 763,278 at June 30, 2014, respectively)	(10,680)	(19,132)

Total OpenText shareholders' equity	1,758,844	1,641,866
Non-controlling interests	534	301
Total shareholders' equity	1,759,378	1,642,167
Total liabilities and shareholders' equity	$3,896,317	$3,918,638
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,	
	2014	2013	2014	2013
Revenues:				
License	$75,824	$81,164	$134,439	$136,470
Cloud services	151,269	42,131	301,275	83,778
Customer support	179,466	174,425	363,372	342,865
Professional service and other	61,286	65,787	122,546	124,854
Total revenues	467,845	363,507	921,632	687,967
Cost of revenues:				
License	3,412	3,304	6,500	6,340
Cloud services	56,974	15,963	114,970	30,228
Customer support	23,942	24,409	47,160	46,579
Professional service and other	46,641	51,245	92,002	96,680
Amortization of acquired technology-based intangible assets (note 6)	18,206	13,035	36,412	34,565
Total cost of revenues	149,175	107,956	297,044	214,392
Gross profit	318,670	255,551	624,588	473,575
Operating expenses:				
Research and development	46,170	41,917	90,912	82,133
Sales and marketing	90,010	81,290	170,109	150,703
General and administrative	39,849	32,815	75,605	61,701
Depreciation	12,465	6,898	24,707	13,356
Amortization of acquired customer-based intangible assets (note 6)	25,364	12,432	51,248	29,709
Special charges (recoveries) (note 17)	(5,759)	6,268	(1,590)	9,999
Total operating expenses	208,099	181,620	410,991	347,601
Income from operations	110,571	73,931	213,597	125,974
Other income (expense), net	(9,314)	(740)	(19,187)	1,186
Interest and other related expense, net	(8,455)	(3,040)	(19,554)	(7,425)
Income before income taxes	92,802	70,151	174,856	119,735
Provision for income taxes (note 14)	18,308	16,651	35,710	35,605
Net income for the period	$74,494	$53,500	$139,146	$84,130
Net (income) loss attributable to non-controlling interests	(207)	—	(233)	—
Net income attributable to OpenText	$74,287	$53,500	$138,913	$84,130
Earnings per share—basic attributable to OpenText (note 20)	$0.61	$0.45	$1.14	$0.71
Earnings per share—diluted attributable to OpenText (note 20)	$0.60	$0.45	$1.13	$0.71
Weighted average number of Common Shares outstanding—basic	122,051	118,272	121,984	118,200
Weighted average number of Common Shares outstanding—diluted	122,985	119,186	122,934	118,950

Dividends declared per Common Share	$0.1725	$0.1500	$0.3450	$0.3000

As a result of the two-for-one stock-split, effected February 18, 2014 by way of a stock dividend, all historical per share data and number of Common Shares outstanding in these Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements are presented on a post stock-split basis.

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,	
	2014	2013	2014	2013
Net income for the period	$74,494	$53,500	$139,146	$84,130
Other comprehensive income—net of tax:				
Net foreign currency translation adjustments	5,241	113	8,346	354
Unrealized gain (loss) on cash flow hedges:				
Unrealized gain (loss)	(1,316)	(1,433)	(4,216)	87
Loss reclassified into net income	944	589	997	1,173
Actuarial gain (loss) relating to defined benefit pension plans:				
Actuarial gain (loss)	(3,937)	944	(7,055)	1,027
Amortization of actuarial loss into net income	84	73	205	146
Unrealized gain on marketable securities	2,400	—	1,906	—
Total other comprehensive income (loss), net, for the period	3,416	286	183	2,787
Total comprehensive income	77,910	53,786	139,329	86,917
Comprehensive income attributable to non-controlling interests	(207)	—	(233)	—
Total comprehensive income attributable to OpenText	$77,703	$53,786	$139,096	$86,917

5

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

	Six Months Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net income for the period	$139,146	$84,130
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	112,367	77,630
Share-based compensation expense	9,378	11,289
Excess tax benefits on share-based compensation expense	(1,627)	(1,081)
Pension expense	2,422	790
Amortization of debt issuance costs	2,275	1,044
Amortization of deferred charges and credits	5,263	5,934
Loss on sale and write down of property and equipment	—	15
Deferred taxes	1,219	(3,198)
Changes in operating assets and liabilities:		
Accounts receivable	40,249	9,176
Prepaid expenses and other current assets	(697)	(4,161)
Income taxes	11,599	2,409
Deferred charges and credits	—	8,488
Accounts payable and accrued liabilities	(37,326)	(10,846)
Deferred revenue	(32,745)	(40,134)
Other assets	(3,420)	(686)
Net cash provided by operating activities	248,103	140,799
Cash flows from investing activities:		
Additions of property and equipment	(48,261)	(20,228)
Purchase of patents	—	(192)
Purchase of Cordys Holding B.V., net of cash acquired	—	(30,588)
Purchase of a division of Spicer Corporation	(222)	—
Purchase consideration for prior period acquisitions	(443)	(443)
Other investing activities	(8,433)	(974)
Net cash used in investing activities	(57,359)	(52,425)
Cash flows from financing activities:		
Excess tax benefits on share-based compensation expense	1,627	1,081
Proceeds from issuance of Common Shares	9,138	5,429
Repayment of long-term debt	(26,830)	(19,087)
Debt issuance costs	(1,403)	(273)
Payments of dividends to shareholders	(42,099)	(35,468)
Net cash used in financing activities	(59,567)	(48,318)
Foreign exchange gain (loss) on cash held in foreign currencies	(16,257)	4,853
Increase in cash and cash equivalents during the period	114,920	44,909
Cash and cash equivalents at beginning of the period	427,890	470,445
Cash and cash equivalents at end of the period	$542,810	$515,354

Supplementary cash flow disclosures (note 19)
See accompanying Notes to Condensed Consolidated Financial Statements

6

OPEN TEXT CORPORATION
UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended December 31, 2014
(Tabular amounts in thousands, except share and per share data)

NOTE 1—BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements include the accounts of Open Text Corporation and our wholly-owned and majority-owned subsidiaries, collectively referred to as "OpenText" or the "Company". Our majority owned subsidiaries include Open Text South Africa Proprietary Ltd. (OT South Africa), GXS, Inc. (GXS Korea) and EC1 Pte. Ltd. (GXS Singapore), which as of December 31, 2014, were 90%, 85% and 81% owned, respectively, by OpenText.

Throughout this Quarterly Report on Form 10-Q: (i) the term “Fiscal 2015” means our fiscal year beginning on July 1, 2014 and ending June 30, 2015; (ii) the term “Fiscal 2014” means our fiscal year beginning on July 1, 2013 and ending June 30, 2014; (iii) the term “Fiscal 2013” means our fiscal year beginning on July 1, 2012 and ending June 30, 2013; and (iv) the term “Fiscal 2012” means our fiscal year beginning on July 1, 2011 and ending June 30, 2012.

These Condensed Consolidated Financial Statements are expressed in U.S. dollars and are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). The information furnished reflects all adjustments necessary for a fair presentation of the results for the periods presented.

Additionally, as a result of a two-for-one stock-split effected February 18, 2014 by way of a stock dividend, all historical per share data, number of Common Shares outstanding, and share-based compensation awards presented in the unaudited Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements have been presented on a post stock-split basis.

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 Condensed Consolidated Financial Statements. These estimates, judgments and assumptions are evaluated on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable at that time, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. In particular, significant estimates, judgments and assumptions include those related to: (i) revenue recognition, (ii) allowance for doubtful accounts, (iii) testing of goodwill for impairment, (iv) the valuation of acquired intangible assets, (v) the valuation of long-lived assets, (vi) the recognition of contingencies, (vii) restructuring accruals, (viii) acquisition accruals and pre-acquisition contingencies, (ix) asset retirement obligations, (x) the realization of investment tax credits, (xi) the valuation of stock options granted and obligations 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.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year's presentation. Such reclassifications were not considered material and did not affect our consolidated total revenues, consolidated income from operations or consolidated net income.

NOTE 2—ACCOUNTING POLICIES UPDATE AND RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements

Disclosure of Going Concern Uncertainties:

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-15 "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" (ASU 2014-15). ASU 2014-15 provides guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. ASU 2014-15 is effective for our fiscal year ending June 30, 2017, with early adoption permitted. We do not believe the pending adoption of ASU 2014-15 will have a material impact on our consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers: Topic 606” (ASU 2014-09). This update supersedes the revenue recognition requirements in Accounting Standard Codification (ASC) Topic 605, "Revenue Recognition" and nearly all other existing revenue recognition guidance under U.S. GAAP. The core principal of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 identifies five steps to be followed to achieve this core principal, which includes (i) identifying contract(s) with customers, (ii) identifying performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the performance obligations in the contract(s) and (v) recognizing revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for us in the first quarter of our fiscal year ending June 30, 2018. Early adoption is not permitted. When applying ASU 2014-09 we can either apply the amendments: (i) retrospectively to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09 or (ii) retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined within ASU 2014-09. We are currently evaluating the impact of the pending adoption of ASU 2014-09 on our consolidated financial statements.

NOTE 3—ALLOWANCE FOR DOUBTFUL ACCOUNTS

Balance as of June 30, 2014	$4,727	
Bad debt expense	2,740	
Write-off /adjustments	(1,256	)
Balance as of December 31, 2014	$6,211	

Included in accounts receivable are unbilled receivables in the amount of $23.2 million as of December 31, 2014 (June 30, 2014—$41.7 million).

NOTE 4—PROPERTY AND EQUIPMENT

	As of December 31, 2014			
	Cost	Accumulated Depreciation		Net
Furniture and fixtures	$16,592	$(10,103	)	$6,489
Office equipment	1,586	(846	)	740
Computer hardware	105,297	(63,501	)	41,796
Computer software	30,798	(14,251	)	16,547
Capitalized software development costs	30,858	(3,959	)	26,899
Leasehold improvements	47,362	(26,927	)	20,435
Land and buildings	47,469	(6,534	)	40,935
Total	$279,962	$(126,121	)	$153,841

	As of June 30, 2014			
	Cost	Accumulated Depreciation		Net
Furniture and fixtures	$16,089	$(8,856	)	$7,233
Office equipment	1,573	(869	)	704
Computer hardware	90,469	(55,433	)	35,036
Computer software	28,556	(10,656	)	17,900
Capitalized software development costs	19,965	(1,542	)	18,423
Leasehold improvements	45,934	(24,251	)	21,683
Land and buildings	47,149	(5,867	)	41,282
Total	$249,735	$(107,474	)	$142,261

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, 2014:

Balance as of June 30, 2014	$1,963,557
Acquisition of GXS Group, Inc. (note 18)	(23,475)
Adjustments relating to prior acquisitions	$222
Balance as of December 31, 2014	$1,940,304

NOTE 6—ACQUIRED INTANGIBLE ASSETS

	As of December 31, 2014		
	Cost	Accumulated Amortization	Net
Technology Assets	$696,014	$(506,262)	$189,752
Customer Assets	858,360	(410,452)	447,908
Total	$1,554,374	$(916,714)	$637,660

	As of June 30, 2014		
	Cost	Accumulated Amortization	Net
Technology Assets	$699,206	$(473,043)	$226,163
Customer Assets	874,257	(375,102)	499,155
Total	$1,573,463	$(848,145)	$725,318

The weighted average amortization periods for acquired technology and customer intangible assets are approximately five years and six years, respectively.

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

	Fiscal years ending June 30,
2015 (six months ended June 30)	$86,691
2016	149,415
2017	132,222
2018	119,535
2019 and beyond	149,797
Total	$637,660

NOTE 7—OTHER ASSETS

	As of December 31, 2014	As of June 30, 2014
Debt issuance costs	$18,962	$19,834
Deposits and restricted cash	12,335	14,251
Deferred implementation costs	7,902	5,409
Cost basis investments	9,261	7,276
Long-term prepaid expenses and other long-term assets	9,363	5,271
Total	$57,823	$52,041

Debt issuance costs relate primarily to costs incurred for the purpose of obtaining our term loans and are being amortized over the term of the loans (see note 10).
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.
Deferred implementation costs relate to deferred direct and relevant costs on implementation of long-term contracts, to the extent such costs can be recovered through guaranteed contract revenues.
Cost basis investments relate to investments for which the Company holds less than a 20% interest, is a limited partner and does not exert significant influence over operational or investment decisions.
Long-term prepaid expenses and other long-term assets primarily relate to advance payments on long-term licenses that are being amortized over the applicable terms of the licenses.

NOTE 8—DEFERRED CHARGES AND CREDITS

Deferred charges and credits relate to cash taxes payable and the elimination of deferred tax balances relating to legal entity consolidations completed as part of internal reorganizations of our international subsidiaries. Deferred charges and credits are amortized to income tax expense over a period of 6 to 15 years.

NOTE 9—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Current liabilities

Accounts payable and accrued liabilities are comprised of the following:

	As of December 31, 2014	As of June 30, 2014
Accounts payable—trade	$13,880	$16,025
Accrued salaries and commissions	57,801	80,991
Accrued liabilities	110,089	121,558
Amounts payable in respect of restructuring and other Special charges (note 17)	9,844	11,694
Asset retirement obligations	1,896	1,686
Total	$193,510	$231,954

Long-term accrued liabilities

	As of December 31, 2014	As of June 30, 2014
Amounts payable in respect of restructuring and other Special charges (note 17)	$2,006	$4,531
Other accrued liabilities*	24,234	29,331
Asset retirement obligations	6,858	8,137
Total	$33,098	$41,999

* Other accrued liabilities consist primarily of tenant allowances, deferred rent and lease fair value adjustments relating to certain facilities acquired through business acquisitions.

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” (Topic 410). As of December 31, 2014, the present value of this obligation was $8.8 million (June 30, 2014—$9.8 million), with an undiscounted value of $9.3 million (June 30, 2014—$10.4 million).

NOTE 10—LONG-TERM DEBT

Long-term debt

Long-term debt is comprised of the following:

	As of December 31, 2014	As of June 30, 2014
Total debt		
Term Loan A	$491,250	$513,750
Term Loan B	792,000	796,000
Mortgage	8,539	9,582
	1,291,789	1,319,332
Less:		
Current portion of long-term debt		
Term Loan A	48,750	45,000
Term Loan B	8,000	8,000
Mortgage	8,539	9,582
	65,289	62,582
Non-current portion of long-term debt	$1,226,500	$1,256,750

Term Loan A and Revolver

As of December 31, 2014, one of our credit facilities consisted of a $600 million term loan facility (Term Loan A) and a $300 million committed revolving credit facility (the Revolver), together defined as the "2011 Credit Agreement". We entered into a second amendment to the 2011 Credit Agreement (the Second Amendment) on December 22, 2014 whereby the 2011 Credit Agreement was amended to, among other things, (i) increase the total commitments under the Revolver to $300 million from $100 million, (ii) reduce the interest rate margin for the Revolver, (iii) extend the maturity date of the Revolver to December 22, 2019, (iv) make certain technical and other amendments to the 2011 Credit Agreement and (v) provide for the further amendment and restatement of the 2011 Credit Agreement in the event of certain circumstances and the satisfaction of certain conditions precedent (which were satisfied upon the repayment of Term Loan A).

Borrowings under Term Loan A and the Revolver are secured by a first charge over substantially all of our assets, and as of January 16, 2014, on a pari passu basis with Term Loan B (as defined below). We entered into this credit facility and borrowed the full amount under Term Loan A on November 9, 2011.

Term Loan A had a five year term and repayments made under Term Loan A were equal to 1.25% of the original principal amount at each quarter for the first 2 years, approximately 1.88% for years 3 and 4 and 2.5% for year 5. Term Loan A bore interest at a floating rate of LIBOR plus a fixed amount, depending on our consolidated leverage ratio. As of December 31, 2014, this fixed amount was 2.5%.

For the three and six months ended December 31, 2014, we recorded interest expense of $3.4 million and $7.1 million, respectively, relating to Term Loan A (three and six months ended December 31, 2013—$3.4 million and $6.9 million, respectively).

The Revolver will mature on December 22, 2019 with no fixed repayment date prior to the end of the term. As of December 31, 2014, we have not drawn any amounts on the Revolver.

On January 15, 2015, we used a portion of the net proceeds of the offering of our 5.625% Senior Notes due 2023 (the notes), as described below, to repay in full the outstanding Term Loan A.

For further details on recent developments related to the 2011 Credit Agreement, see note 22 "Subsequent Events - Senior Unsecured Fixed Rate Notes and Repayment of Term Loan A" and "Second Amendment to 2011 Credit Agreement".

Term Loan B

In connection with the acquisition of GXS Group, Inc. (GXS), on January 16, 2014, we entered into a second credit facility, which provides for a $800 million term loan facility (Term Loan B).

Borrowings under Term Loan B are secured by a first charge over substantially all of our assets on a pari passu basis with Term Loan A (prior to the repayment of Term Loan A) and the Revolver. We entered into Term Loan B and borrowed the full amount on January 16, 2014.

11

Term Loan B has a seven year term and repayments made under Term Loan B are equal to 0.25% of the original principal amount in equal quarterly installments for the life of Term Loan B, with the remainder due at maturity. Borrowings under Term Loan B currently bear a floating rate of interest at a rate per annum equal to 2.5% plus the higher of LIBOR or 0.75%.

For the three and six months ended December 31, 2014, we recorded interest expense of $6.6 million and $13.2 million, respectively, relating to Term Loan B.

Mortgage

We currently have an "open" mortgage with a Canadian bank where we can pay all or a portion of the mortgage on or before August 1, 2015. The original principal amount of the mortgage was Canadian $15.0 million and interest accrues monthly at a variable rate of Canadian prime plus 0.50%. Principal and interest are payable in monthly installments of approximately Canadian $0.1 million with a final lump sum principal payment due on maturity. The mortgage is secured by a lien on our headquarters in Waterloo, Ontario, Canada. We first entered into this mortgage in December 2005.

As of December 31, 2014, the carrying value of the mortgage was approximately $8.5 million (June 30, 2014—$9.6 million).

As of December 31, 2014, the carrying value of the Waterloo building that secures the mortgage was $15.5 million (June 30, 2014—$15.6 million).

For the three and six months ended December 31, 2014, we recorded interest expense of approximately $0.1 million and $0.2 million, respectively, relating to the mortgage (three and six months ended December 31, 2013—$0.1 million and $0.2 million, respectively).

NOTE 11—PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

The following table provides details of our defined benefit pension plans and long-term employee benefit obligations for Open Text Document Technologies GmbH (CDT), GXS GmbH (GXS GER) and GXS Philippines, Inc. (GXS PHP) as of December 31, 2014 and June 30, 2014:

	As of December 31, 2014		
	Total benefit obligation	Current portion of benefit obligation*	Non-current portion of benefit obligation
CDT defined benefit plan	$31,119	$585	$ 30,534
GXS Germany defined benefit plan	26,445	846	25,599
GXS Philippines defined benefit plan	6,502	18	6,484
Other plans	2,834	105	2,729
Total	$66,900	$1,554	$ 65,346

	As of June 30, 2014		
	Total benefit obligation	Current portion of benefit obligation*	Non-current portion of benefit obligation
CDT defined benefit plan	$29,344	$634	$ 28,710
GXS Germany defined benefit plan	24,182	917	23,265
GXS Philippines defined benefit plan	5,276	—	5,276
Other plans	3,148	99	3,049
Total	$61,950	$1,650	$ 60,300

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

Defined Benefit Plans

CDT 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

12

estimated service costs. No contributions have been made since the inception of the plan. Actuarial gains or losses in excess of 10% of the projected benefit obligation are being amortized and recognized as a component of net periodic benefit costs over the average remaining service period of the plan's active employees. As of December 31, 2014, there is approximately $0.2 million in accumulated other comprehensive income related to the CDT pension plan that is expected to be recognized as a component of net periodic benefit costs over the next fiscal year.

GXS Germany Plan

As part of our acquisition of GXS, we acquired an unfunded defined benefit pension plan covering certain German employees which provides for old age, disability and survivors' benefits. The GXS GER plan has been closed to new participants since 2006. Benefits under the GXS GER plan are generally based on a participant's remuneration, date of hire, years of eligible service and age at retirement. 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. No contributions have been made since the inception of the plan. If actuarial gains or losses are in excess of 10% of the projected benefit obligation, such gains or losses will be amortized and recognized as a component of net periodic benefit costs over the average remaining service period of the plan's active employees. All information presented below for the GXS GER plan is presented for the period indicated, starting on January 16, 2014, when such plan was assumed by us with the acquisition of GXS.

GXS Philippines Plan

As part of our acquisition of GXS, we acquired a primarily unfunded defined benefit pension plan covering substantially all of the GXS Philippines employees which provides for retirement, disability and survivors' benefits. Benefits under the GXS PHP plan are generally based on a participant's remuneration, years of eligible service and age at retirement. 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. Aside from an initial contribution which had a fair value of approximately $36.0 thousand as of December 31, 2014, no additional contributions have been made since the inception of the plan. If actuarial gains or losses are in excess of 10% of the projected benefit obligation, such gains or losses will be amortized and recognized as a component of net periodic benefit costs over the average remaining service period of the plan's active employees. All information presented below for the GXS PHP plan is presented for the period indicated, starting on January 16, 2014, when such plan was assumed by us with the acquisition of GXS.

The following are the details of the change in the benefit obligation for each of the above mentioned pension plans for the periods indicated:

	As of December 31, 2014				As of June 30, 2014			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Benefit obligation—beginning of period	$29,344	$24,182	$5,276	$58,802	$23,871	$23,637 *	$5,182 *	$52,690
Service cost	240	157	697	1,094	458	173	724	1,355
Interest cost	390	372	135	897	877	408	125	1,410
Benefits paid	(272)	(421)	(23)	(716)	(522)	(461)	(66)	(1,049)
Actuarial (gain) loss	4,535	4,716	525	9,776	3,595	452	(818)	3,229
Foreign exchange (gain) loss	(3,118)	(2,561)	(108)	(5,787)	1,065	(27)	129	1,167
Benefit obligation—end of period	31,119	26,445	6,502	64,066	29,344	24,182	5,276	58,802
Less: Current portion	(585)	(846)	(18)	(1,449)	(634)	(917)	—	(1,551)
Non-current portion of benefit obligation	$30,534	$25,599	$6,484	$62,617	$28,710	$23,265	$5,276	$57,251

* Beginning benefit obligation as of January 16, 2014.

The following are details of net pension expense relating to the following pension plans:

	Three Months Ended December 31,							
	2014				2013			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Pension expense:								
Service cost	$118	$77	$357	$552	$115	$—	$—	$115
Interest cost	191	182	68	441	219	—	—	219
Amortization of actuarial gains and losses	105	—	—	105	69	—	—	69
Net pension expense	$414	$259	$425	$1,098	$403	$—	$—	$403

	Six Months Ended December 31,							
	2014				2013			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Pension expense:								
Service cost	$240	$157	$697	$1,094	$228	$—	$—	$228
Interest cost	390	372	135	897	436	—	—	436
Amortization of actuarial gains and losses	214	—	—	214	138	—	—	138
Net pension expense	$844	$529	$832	$2,205	$802	$—	$—	$802

In determining the fair value of the pension plan benefit obligations as of December 31, 2014 and June 30, 2014, respectively, we used the following weighted-average key assumptions:

	As of December 31, 2014			As of June 30, 2014		
	CDT	GXS GER	GXS PHP	CDT	GXS GER	GXS PHP
Assumptions:						
Salary increases	2.50%	2.00%	7.00%	2.50%	2.00%	7.00%
Pension increases	2.00%	2.00%	6.00%	2.00%	2.00%	6.00%
Discount rate	2.00%	2.15%	4.50%	2.90%	3.00%	5.15%
Normal retirement age	N/A	65-67	60	N/A	65-67	60
Employee fluctuation rate:						
to age 30	1.00%	N/A	N/A	1.00%	N/A	N/A
to age 35	0.50%	N/A	N/A	0.50%	N/A	N/A
to age 40	—%	N/A	N/A	—%	N/A	N/A
to age 45	0.50%	N/A	N/A	0.50%	N/A	N/A
to age 50	0.50%	N/A	N/A	0.50%	N/A	N/A
from age 51	1.00%	N/A	N/A	1.00%	N/A	N/A

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

	Fiscal years ending June 30,		
	CDT	GXS GER	GXS PHP
2015 (six months ended June 30)	$292	$424	$9
2016	630	876	25
2017	695	945	35
2018	747	1,021	46
2019	820	1,063	83
2020 to 2024	5,874	6,415	1,152
Total	$9,058	$10,744	$1,350

Other Plans

Other plans include defined benefit pension plans that are offered by certain of our foreign subsidiaries. Many of these plans were assumed through our acquisitions or are required by local regulatory requirements. These other plans are primarily unfunded, with the aggregate projected benefit obligation included in our pension liability. The net periodic cost of these plans are determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate and estimated service costs.

NOTE 12—SHARE CAPITAL, OPTION PLANS AND SHARE-BASED PAYMENTS

Dividends

Stock Dividend

On January 23, 2014, we announced that our Board of Directors approved a two-for-one stock-split of our outstanding Common Shares. The two-for-one stock-split was implemented by way of a stock dividend whereby shareholders received one Common Share for each Common Share held. The record date for the stock dividend was February 7, 2014 and the payment date was February 18, 2014.

As a result of the two-for-one stock-split, all historical per share data, number of Common Shares outstanding and share-based compensation awards are presented on a post stock-split basis.

Cash Dividends

For the three and six months ended December 31, 2014, pursuant to the Company’s dividend policy, we declared total non-cumulative dividends of $0.1725 and $0.3450, respectively, per Common Share, in the amount of $21.1 million and $42.1 million, respectively, which we paid during the same period.

For the three and six months ended December 31, 2013, pursuant to the Company’s dividend policy, we declared total non-cumulative dividends of $0.15 and $0.30, respectively, per Common Share, in the amount of $17.7 million and $35.5 million, respectively, which we paid during the same period.

Share Capital

Our authorized share capital includes an unlimited number of Common Shares and an unlimited number of Preference Shares. No Preference Shares have been issued.

Treasury Stock

Repurchase

During the three and six months ended December 31, 2014 and 2013, we did not repurchase any of our Common Shares for potential reissuance under our Long Term Incentive Plans (LTIP) or otherwise.

Reissuance

During the three and six months ended December 31, 2014, we reissued 355,553 Common Shares from treasury stock (three and six months ended December 31, 2013—388,342 Common Shares). For more details on this, see "Long Term Incentive Plans" below.

Share-Based Payments

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Stock options	$2,845	$1,653	$5,414	$3,010
Performance Share Units (issued under LTIP)	554	876	1,145	3,044
Restricted Share Units (issued under LTIP)	1,361	515	2,104	1,119
Restricted Share Units (fully vested)	—	3,300	—	3,300
Restricted Share Units (other)	169	126	244	342
Deferred Share Units (directors)	—	207	471	474
Total share-based compensation expense	$4,929	$6,677	$9,378	$11,289

Summary of Outstanding Stock Options

As of December 31, 2014, options to purchase an aggregate of 4,178,091 Common Shares were outstanding and 3,402,267 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 is set at an amount that is not less than the closing price of our Common Shares on the NASDAQ on the trading day immediately preceding the applicable grant date.

A summary of activity under our stock option plans for six months ended December 31, 2014 is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($'000s)
Outstanding at June 30, 2014	4,273,226	$36.35		
Granted	600,910	55.00		
Exercised	(291,278)	26.24		
Forfeited or expired	(404,767)	38.44		
Outstanding at December 31, 2014	4,178,091	$39.53	5.13	$ 78,254
Exercisable at December 31, 2014	852,684	$25.02	3.21	$ 28,342

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" (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 weighted-average fair value of options and weighted-average assumptions were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Weighted–average fair value of options granted	$12.94	$10.03	$13.84	$9.08
Weighted-average assumptions used:				
Expected volatility	32 %	32 %	32 %	32 %
Risk–free interest rate	1.34 %	1.15 %	1.45 %	1.17 %
Expected dividend yield	1.27 %	1.40 %	1.19 %	1.60 %
Expected life (in years)	4.33	4.36	4.33	4.36
Forfeiture rate (based on historical rates)	5 %	5 %	5 %	5 %
Average exercise share price	$52.42	$41.61	$55.00	$38.09