

OPEN TEXT CORP
Form 10-Q
May 05, 2006
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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, 2006

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)

275 Frank Tompa Drive, Waterloo, Ontario, Canada N2L 0A1

(Address of principal executive offices)

Registrant's telephone number, including area code: (519) 888-7111

98-0154400
(IRS Employer

Identification No.)

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(former name former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

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

At May 1, 2006 there were 48,882,090 outstanding Common Shares of the registrant.

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

	March 31, 2006 (unaudited)	June 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 113,488	\$ 79,898
Accounts receivable - net of allowance for doubtful accounts of \$3,085 as of March 31, 2006 and \$3,125 as of June 30, 2005	74,695	81,936
Income taxes recoverable	11,716	11,350
Prepaid expenses and other current assets	9,191	8,438
Deferred tax assets (note 6)	20,382	10,275
Total current assets	229,472	191,897
Capital assets (note 5)	39,367	36,070
Goodwill (note 11)	237,899	243,091
Deferred tax assets (note 6)	27,616	36,499
Acquired intangible assets (note 12)	107,469	127,981
Other assets	2,552	5,398
	\$ 644,375	\$ 640,936
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 3)	\$ 63,551	\$ 80,468
Current portion of long-term debt (note 4)	381	
Deferred revenues	78,553	72,373
Deferred tax liabilities (note 6)	11,178	10,128
Total current liabilities	153,663	162,969
Long-term liabilities:		
Accrued liabilities (note 3)	22,294	25,579
Long-term debt (note 4)	12,483	
Deferred revenues	2,728	2,957
Deferred tax liabilities (note 6)	19,987	29,245
Total long-term liabilities	57,492	57,781
Minority interest	6,124	4,431
Shareholders' equity: (note 8)		
Share capital 48,853,340 and 48,136,932 Common Shares issued and outstanding as of March 31, 2006, and June 30, 2005, respectively	413,829	406,580
Commitment to issue shares		813
Additional paid-in capital	27,011	22,341
Accumulated comprehensive income	21,184	18,124
Accumulated deficit	(34,928)	(32,103)
Total shareholders' equity	427,096	415,755
	\$ 644,375	\$ 640,936

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Commitments and contingencies (note 14)

See accompanying notes to condensed consolidated financial statements

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

	Three months ended		Nine months ended	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
Revenues:				
License	\$ 28,415	\$ 33,033	\$ 90,489	\$ 99,559
Customer support	47,588	46,902	140,710	132,236
Service	24,923	25,232	73,128	73,660
Total revenues	100,926	105,167	304,327	305,455
Cost of revenues:				
License	3,900	2,970	8,099	8,175
Customer support	7,989	9,010	23,375	24,566
Service	19,117	20,782	59,114	60,021
Amortization of acquired technology intangible assets	4,364	4,269	13,014	12,124
Total cost of revenues	35,370	37,031	103,602	104,886
	65,556	68,136	200,725	200,569
Operating expenses:				
Research and development	14,153	18,253	45,539	48,778
Sales and marketing	24,704	28,296	78,876	84,580
General and administrative	11,020	10,068	33,223	31,490
Depreciation	2,694	3,044	8,034	8,032
Amortization of acquired intangible assets	2,664	2,155	7,824	5,875
Special charges (recoveries) (note 15)	(557)	(275)	26,347	(1,724)
Total operating expenses	54,678	61,541	199,843	177,031
Income from operations	10,878	6,595	882	23,538
Other expense	(1,554)	(1,215)	(3,318)	(3,839)
Interest income	685	454	1,001	1,059
Income (loss) before income taxes	10,009	5,834	(1,435)	20,758
Provision for income taxes	2,558	1,449	928	5,479
Income (loss) before minority interest	7,451	4,385	(2,363)	15,279
Minority interest	129	(957)	462	(47)
Net income (loss) for the period	\$ 7,322	\$ 5,342	\$ (2,825)	\$ 15,326
Basic net income (loss) per share (note 10)	\$ 0.15	\$ 0.11	\$ (0.06)	\$ 0.30
Diluted income (loss) per share (note 10)	\$ 0.15	\$ 0.10	\$ (0.06)	\$ 0.29
Weighted average number of Common Shares outstanding (note 10)				
Basic	48,762	49,547	48,590	50,413

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Diluted	50,260	51,733	48,590	52,754
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See accompanying notes to condensed consolidated financial statements

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF DEFICIT

(in thousands of U.S. Dollars)

	Three months ended		Nine months ended	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
Deficit, beginning of period	\$ (42,250)	\$ (24,022)	\$ (32,103)	\$ (18,529)
Repurchase of common shares (note 8)		(10,841)		(26,318)
Net income (loss)	7,322	5,342	(2,825)	15,326
Deficit, end of period	\$ (34,928)	\$ (29,521)	\$ (34,928)	\$ (29,521)

See accompanying notes to condensed consolidated financial statements

Table of Contents**OPEN TEXT CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands of U.S. Dollars)**

	Three months ended		Nine months ended	
	March 31, 2006	2005	March 31, 2006	2005
Cash flows from operating activities:				
Net income (loss) for the period	\$ 7,322	\$ 5,342	\$ (2,825)	\$ 15,326
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	9,722	9,468	28,872	26,031
Share-based compensation	1,143		3,886	
Undistributed earnings related to minority interest	129	(957)	462	(47)
Deferred taxes	2,272	4,464	(3,773)	7,690
Impairment of capital assets				