OPEN TEXT CORP
Form 10-Q
April 28, 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 March 31, 2015.
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 April 27, 2015, there were 122,213,136 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)

	March 31, 2015 (unaudited)	June 30, 2014
ASSETS		
Cash and cash equivalents	$613,177	$427,890
Short-term investments	19,029	—
Accounts receivable trade, net of allowance for doubtful accounts of $6,818 as of March 31, 2015 and $4,727 as of June 30, 2014 (note 3)	251,826	292,929
Income taxes recoverable (note 14)	20,543	24,648
Prepaid expenses and other current assets	53,563	42,053
Deferred tax assets (note 14)	35,936	28,215
Total current assets	994,074	815,735
Property and equipment (note 4)	155,129	142,261
Goodwill (note 5)	2,155,243	1,963,557
Acquired intangible assets (note 6)	730,673	725,318
Deferred tax assets (note 14)	149,570	156,712
Other assets (note 7)	84,223	52,041
Deferred charges (note 8)	41,043	52,376
Long-term income taxes recoverable (note 14)	8,587	10,638
Total assets	$4,318,542	$3,918,638
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	$212,397	$231,954
Current portion of long-term debt (note 10)	15,802	62,582
Deferred revenues	364,728	332,664
Income taxes payable (note 14)	4,529	31,630
Deferred tax liabilities (note 14)	2,220	1,053
Total current liabilities	599,676	659,883
Long-term liabilities:		
Accrued liabilities (note 9)	30,802	41,999
Deferred credits (note 8)	14,089	17,529
Pension liability (note 11)	64,000	60,300
Long-term debt (note 10)	1,582,000	1,256,750
Deferred revenues	20,042	17,248
Long-term income taxes payable (note 14)	163,232	162,131
Deferred tax liabilities (note 14)	65,659	60,631
Total long-term liabilities	1,939,824	1,616,588
Shareholders' equity:		
Share capital (note 12)		
122,207,636 and 121,758,432 Common Shares issued and outstanding at March 31, 2015 and June 30, 2014, respectively; Authorized Common Shares: unlimited	806,532	792,834
Additional paid-in capital	120,246	112,398
Accumulated other comprehensive income	43,720	39,449
Retained earnings	818,666	716,317
Treasury stock, at cost (407,725 shares at March 31, 2015 and 763,278 at June 30, 2014, respectively)	(10,680)	(19,132)
Total OpenText shareholders' equity	1,778,484	1,641,866

Non-controlling interests	558	301
Total shareholders’ equity	1,779,042	1,642,167
Total liabilities and shareholders’ equity	$4,318,542	$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 March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Revenues:				
License	$63,958	$73,083	198,397	$209,553
Cloud services	143,822	128,400	445,097	212,178
Customer support	184,335	180,290	547,707	523,155
Professional service and other	55,462	60,981	178,008	185,835
Total revenues	447,577	442,754	1,369,209	1,130,721
Cost of revenues:				
License	3,014	3,527	9,514	9,867
Cloud services	59,989	49,464	174,959	79,692
Customer support	24,092	25,206	71,252	71,785
Professional service and other	44,330	49,218	136,332	145,898
Amortization of acquired technology-based intangible assets (note 6)	22,136	17,147	58,548	51,712
Total cost of revenues	153,561	144,562	450,605	358,954
Gross profit	294,016	298,192	918,604	771,767
Operating expenses:				
Research and development	53,222	47,199	144,134	129,332
Sales and marketing	95,787	93,700	265,896	244,403
General and administrative	45,722	39,336	121,327	101,037
Depreciation	12,809	10,527	37,516	23,883
Amortization of acquired customer-based intangible assets (note 6)	28,250	24,679	79,498	54,388
Special charges (note 17)	5,622	15,902	4,032	25,901
Total operating expenses	241,412	231,343	652,403	578,944
Income from operations	52,604	66,849	266,201	192,823
Other income (expense), net	(9,550)	1,652	(28,737)	2,838
Interest and other related expense, net	(16,872)	(9,734)	(36,426)	(17,159)
Income before income taxes	26,182	58,767	201,038	178,502
Provision for (recovery of) income taxes (note 14)	(309)	12,971	35,401	48,576
Net income for the period	$26,491	$45,796	$165,637	$129,926
Net (income) loss attributable to non-controlling interests	119	88	(114)	88
Net income attributable to OpenText	$26,610	$45,884	$165,523	$130,014
Earnings per share—basic attributable to OpenText (note 20)	$0.22	$0.38	$1.36	$1.09
Earnings per share—diluted attributable to OpenText (note 20)	$0.22	$0.38	$1.35	$1.08
Weighted average number of Common Shares outstanding—basic	122,158	120,873	122,042	119,048
Weighted average number of Common Shares outstanding—diluted	123,054	122,100	122,980	120,031
Dividends declared per Common Share	$0.1725	$0.1500	$0.5175	$0.4500

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 March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Net income for the period	$ 26,491	$ 45,796	$ 165,637	$ 129,926
Other comprehensive income—net of tax:				
Net foreign currency translation adjustments	9,280	(1,087)	17,626	(733)
Unrealized gain (loss) on cash flow hedges:				
Unrealized gain (loss)	(2,801)	(1,604)	(7,017)	(1,517)
Loss reclassified into net income	2,488	1,237	3,485	2,410
Actuarial gain (loss) relating to defined benefit pension plans:				
Actuarial gain (loss)	(3,052)	(1,808)	(10,107)	(781)
Amortization of actuarial loss into net income	75	74	280	220
Unrealized gain on short-term investments	4	—	4	—
Unrealized gain on marketable securities (Actuate)	—	—	1,906	—
Release of unrealized gain on marketable securities (Actuate)	(1,906)	—	(1,906)	—
Total other comprehensive income (loss), net, for the period	4,088	(3,188)	4,271	(401)
Total comprehensive income	30,579	42,608	169,908	129,525
Comprehensive income attributable to non-controlling interests	119	88	(114)	88
Total comprehensive income attributable to OpenText	$ 30,698	$ 42,696	$ 169,794	$ 129,613

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

	Nine Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income for the period	$165,637	$129,926
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	175,562	129,983
Share-based compensation expense	15,940	15,707
Excess tax benefits on share-based compensation expense	(1,611)	(1,675)
Pension expense	3,602	1,964
Amortization of debt issuance costs	3,410	2,060
Amortization of deferred charges and credits	7,893	8,640
Loss on sale and write down of property and equipment	118	15
Deferred taxes	(4,037)	(4,203)
Release of unrealized gain on marketable securities to income	(3,098)	—
Write off of unamortized debt issuance costs	2,919	—
Changes in operating assets and liabilities:		
Accounts receivable	76,560	19,129
Prepaid expenses and other current assets	(4,001)	(18,625)
Income taxes	1,354	5,578
Deferred charges and credits	—	9,870
Accounts payable and accrued liabilities	(53,747)	(32,878)
Deferred revenue	6,705	20,022
Other assets	(1,992)	(3,300)
Net cash provided by operating activities	391,214	282,213
Cash flows from investing activities:		
Additions of property and equipment	(60,586)	(28,443)
Proceeds from maturity of short-term investments	7,092	—
Purchase of patents	—	(192)
Purchase of Actuate Corporation, net of cash acquired	(291,768)	—
Purchase of Informative Graphics Corporation, net of cash acquired	(35,180)	—
Purchase of GXS Group, Inc., net of cash acquired	—	(1,077,671)
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	(590)	(665)
Other investing activities	(8,915)	(2,547)
Net cash used in investing activities	(390,169)	(1,140,106)
Cash flows from financing activities:		
Excess tax benefits on share-based compensation expense	1,611	1,675
Proceeds from issuance of Common Shares	12,827	19,718
Equity issuance costs	—	(144)
Purchase of Treasury Stock	(1,251)	(1,275)
Proceeds from long-term debt	800,000	800,000
Repayment of long-term debt	(520,485)	(32,499)
Debt issuance costs	(18,076)	(16,032)
Payments of dividends to shareholders	(63,174)	(53,692)

Net cash used in financing activities	211,452	717,751
Foreign exchange gain (loss) on cash held in foreign currencies	(27,210)	5,768
Increase (decrease) in cash and cash equivalents during the period	185,287	(134,374)
Cash and cash equivalents at beginning of the period	427,890	470,445
Cash and cash equivalents at end of the period	$613,177	$336,071

Supplementary cash flow disclosures (note 19)

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION
UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended March 31, 2015
(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 March 31, 2015, 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 and includes the financial results of Informative Graphics Corporation (IGC), with effect from January 2, 2015, and Actuate Corporation (Actuate), with effect from January 16, 2015 (see note 18).

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

Accounting Policy Updates

Short-Term Investments

In accordance with Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) Topic 320 "Investments - Debt and Equity Securities" (Topic 320) related to accounting for certain investments in debt and equity securities, and based on our intentions regarding these instruments, we classify our marketable securities as available for sale and account for these investments at fair value. Marketable securities consist primarily of high quality debt securities with original maturities over 90 days, and may include corporate notes, United States government agency notes and municipal notes.

Recent Accounting Pronouncements

Presentation of Debt Issuance Costs

In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03 "Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03). This update amended the ASC Subtopic 835-30, "Interest - Imputation of Interest" to simplify the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. ASU 2015-03 is effective for our fiscal year ending June 30, 2017, with early adoption permitted. We believe the pending adoption of ASU 2015-03 will not have a material impact on our consolidated financial statements.

Disclosure of Going Concern Uncertainties:

In August 2014, the FASB issued 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 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. On April 1, 2015 the FASB voted to defer the effective date of ASU 2014-09 for one year. ASU 2014-09 is now effective for us in the first quarter of our fiscal year ending June 30, 2019. 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	4,685	
Write-off /adjustments	(2,594	)
Balance as of March 31, 2015	$6,818	

Included in accounts receivable are unbilled receivables in the amount of $25.0 million as of March 31, 2015 (June 30, 2014—$41.7 million).

NOTE 4—PROPERTY AND EQUIPMENT

	As of March 31, 2015		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$17,468	$(10,655)	$6,813
Office equipment	1,540	(826)	714
Computer hardware	106,558	(67,192)	39,366
Computer software	31,996	(15,664)	16,332
Capitalized software development costs	34,797	(5,478)	29,319
Leasehold improvements	50,084	(28,110)	21,974
Land and buildings	47,481	(6,870)	40,611
Total	$289,924	$(134,795)	$155,129

	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)
Acquisition of Informative Graphics Corporation (note 18)	24,295
Acquisition of Actuate Corporation (note 18)	190,644
Adjustments relating to prior acquisitions	222
Balance as of March 31, 2015	$2,155,243

NOTE 6—ACQUIRED INTANGIBLE ASSETS

	As of March 31, 2015		
	Cost	Accumulated Amortization	Net
Technology Assets	$768,714	$(528,398)	$240,316
Customer Assets	929,060	(438,703)	490,357
Total	$1,697,774	$(967,101)	$730,673

	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 (three months ended June 30)	$51,197
2016	181,453
2017	164,266
2018	151,573
2019 and beyond	182,184
Total	$730,673

NOTE 7—OTHER ASSETS

	As of March 31, 2015	As of June 30, 2014
Debt issuance costs	$31,580	$19,834
Deposits and restricted cash	12,335	14,251
Deferred implementation costs	9,911	5,409
Cost basis investments	9,724	7,276
Marketable securities	11,182	—
Long-term prepaid expenses and other long-term assets	9,491	5,271
Total	$84,223	$52,041

Debt issuance costs relate primarily to costs incurred for the purpose of obtaining our credit facilities and the Senior Notes (as defined in note 10 below), and are being amortized over the respective terms of the debt agreements. During the three and nine months ended March 31, 2015 we wrote off $2.9 million, respectively, of unamortized debt issuance costs associated with the repayment of Term Loan A (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.

Marketable securities are classified as available for sale securities and are recorded on our Condensed Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of Accumulated Other Comprehensive Income.

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 March 31, 2015	As of June 30, 2014
Accounts payable—trade	$18,003	$16,025
Accrued salaries and commissions	68,550	80,991
Accrued liabilities	106,651	121,558
Accrued interest on the Senior Notes	9,375	—
Amounts payable in respect of restructuring and other Special charges (note 17)	8,438	11,694
Asset retirement obligations	1,380	1,686
Total	$212,397	$231,954

Long-term accrued liabilities

	As of March 31, 2015	As of June 30, 2014
Amounts payable in respect of restructuring and other Special charges (note 17)	$1,115	$4,531
Other accrued liabilities*	22,397	29,331
Asset retirement obligations	7,290	8,137
Total	$30,802	$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 March 31, 2015, the present value of this obligation was $8.7 million (June 30, 2014—$9.8 million), with an undiscounted value of $9.2 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 March 31, 2015	As of June 30, 2014
Total debt		
Senior Notes	$800,000	$—
Term Loan A	—	513,750
Term Loan B	790,000	796,000
Mortgage	7,802	9,582
	1,597,802	1,319,332
Less:		
Current portion of long-term debt		
Term Loan A	—	45,000
Term Loan B	8,000	8,000
Mortgage	7,802	9,582
	15,802	62,582
Non-current portion of long-term debt	$1,582,000	$1,256,750

Senior Unsecured Fixed Rate Notes

On January 15, 2015, we issued $800.0 million in aggregate principal amount of our 5.625% Senior Notes due 2023 (the Senior Notes) in a private placement to initial purchasers in connection with offerings pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The Senior Notes bear interest at a rate of 5.625% per annum and are payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2015. The Senior Notes will mature on January 15, 2023, unless earlier redeemed, in accordance with their terms, or repurchased.

For the three and nine months ended March 31, 2015, we recorded interest expense of $9.4 million, respectively, relating to the Senior Notes.

Term Loan A and Revolver

Prior to January 15, 2015, 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 and, together with Term Loan A, defined as the 2011 Credit Agreement).

On January 15, 2015, concurrently with the closing of the offering of the Senior Notes, we used a portion of the net proceeds from the offering of the Senior Notes to repay in full, the outstanding balance of Term Loan A.

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. Prior to the repayment of Term Loan A, the fixed amount was 2.5%.

For the three and nine months ended March 31, 2015, we recorded interest expense of $0.6 million and $7.7 million, respectively, relating to Term Loan A (three and nine months ended March 31, 2014—$3.2 million and $10.1 million, respectively).

On January 15, 2015, concurrently with the closing of the offering of the Senior Notes and effective upon the repayment in full of Term Loan A with a portion of the net proceeds of the offering, the 2011 Credit Agreement was amended and restated as described in the second amendment to the 2011 Credit Agreement to, among other things, remove the provisions related to Term Loan A and modify certain provisions related to the incurrence of debt and liens and the making of acquisitions, investments and restricted payments, replace the covenants to maintain a “consolidated leverage” ratio of no more than 3:1 and a “consolidated interest coverage” ratio of 3:1 or more with a covenant to maintain a “consolidated net leverage” ratio of no more than 4:1, and make other changes, in each case, generally to conform with Term Loan B, as further described below.

Borrowings under 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). As part of the second amendment to the 2011 Credit Agreement, the commitments available under the Revolver was increased to $300 million from $100 million. The Revolver

will mature on December 22, 2019 with no fixed repayment date prior to the end of the term. As of March 31, 2015, we have not drawn any amounts on the Revolver.

Term Loan B

In connection with the acquisition of GXS Group, Inc. (GXS), on January 16, 2014, we entered into a 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 the Revolver. We entered into Term Loan B and borrowed the full amount on January 16, 2014.

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 nine months ended March 31, 2015, we recorded interest expense of $6.4 million and $19.6 million, respectively, relating to Term Loan B (three and nine months ended March 31, 2014—$5.3 million, respectively).

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 March 31, 2015, the carrying value of the mortgage was approximately $7.8 million (June 30, 2014—$9.6 million).

As of March 31, 2015, 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 nine months ended March 31, 2015, we recorded interest expense of approximately $0.1 million and $0.3 million, respectively, relating to the mortgage (three and nine months ended March 31, 2014—$0.1 million and $0.3 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 March 31, 2015 and June 30, 2014:

	As of March 31, 2015		
	Total benefit obligation	Current portion of benefit obligation*	Non-current portion of benefit obligation
CDT defined benefit plan	$29,851	$547	$ 29,304
GXS Germany defined benefit plan	26,485	767	25,718
GXS Philippines defined benefit plan	6,446	25	6,421
Other plans	2,660	103	2,557
Total	$65,442	$1,442	$ 64,000

	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 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 March 31, 2015, there is approximately $0.1 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 March 31, 2015, 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 March 31, 2015				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	344	257	1,113	1,714	458	173	724	1,355
Interest cost	560	497	208	1,265	877	408	125	1,410
Benefits paid	(378)	(604)	(47)	(1,029)	(522)	(461)	(66)	(1,049)
Actuarial (gain) loss	6,508	7,611	27	14,146	3,595	452	(818)	3,229
Foreign exchange (gain) loss	(6,527)	(5,458)	(131)	(12,116)	1,065	(27)	129	1,167
Benefit obligation—end of period	29,851	26,485	6,446	62,782	29,344	24,182	5,276	58,802
Less: Current portion	(547)	(767)	(25)	(1,339)	(634)	(917)	—	(1,551)

Non-current portion of benefit obligation	$29,304	$25,718	$6,421	$61,443	$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 March 31,							
	2015				2014			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Pension expense:								
Service cost	$104	$100	$416	$620	$116	$87	$358	$561
Interest cost	170	125	73	368	222	206	62	490
Amortization of actuarial gains and losses	93	—	—	93	70	—	—	70
Net pension expense	$367	$225	$489	$1,081	$408	$293	$420	$1,121

	Nine Months Ended March 31,							
	2015				2014			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Pension expense:								
Service cost	$344	$257	$1,113	$1,714	$344	$87	$358	$789
Interest cost	560	497	208	1,265	658	206	62	926
Amortization of actuarial gains and losses	307	—	—	307	208	—	—	208
Net pension expense	$1,211	$754	$1,321	$3,286	$1,210	$293	$420	$1,923

In determining the fair value of the pension plan benefit obligations as of March 31, 2015 and June 30, 2014, respectively, we used the following weighted-average key assumptions:

	As of March 31, 2015			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%	2.15%	2.00%	2.00%	6.00%
Discount rate	1.43%	1.55%	5.00%	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 (three months ended June 30)	$137	$189	$6
2016	557	780	27
2017	596	841	36
2018	641	909	47
2019	717	947	75
2020 to 2024	5,324	4,875	1,298
Total	$7,972	$8,541	$1,489

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

Cash Dividends

For the three and nine months ended March 31, 2015, pursuant to the Company’s dividend policy, we declared total non-cumulative dividends of $0.1725 and $0.5175, respectively, per Common Share, in the amount of $21.1 million and $63.2 million, respectively, which we paid during the same period.

For the three and nine months ended March 31, 2014, pursuant to the Company’s dividend policy, we paid total non-cumulative dividends of $0.15 and $0.45, respectively, per Common Share, in the amount of $18.2 million and $53.7 million, respectively.

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 nine months ended March 31, 2015, we repurchased 22,222 of our Common Shares, respectively, in the amount of $1.3 million, respectively, for potential reissuance under our Long Term Incentive Plans (LTIP) or otherwise.

During the three and nine months ended March 31, 2014, we repurchased 25,760 of our Common Shares, respectively, in the amount of $1.3 million, respectively, for potential reissuance under our LTIPs or otherwise.

Reissuance

During the three and nine months ended March 31, 2015, we reissued 22,222 and 377,775 Common Shares, respectively, from treasury stock (three and nine months ended March 31, 2014— 22,222 and 410,564 Common Shares, respectively), in connection with the settlement of our LTIPs and other awards. 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 March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Stock options	$3,461	$2,437	$8,875	$5,447
Performance Share Units (issued under LTIP)	600	945	1,745	3,989
Restricted Share Units (issued under LTIP)	1,287	371	3,391	1,490
Restricted Share Units (fully vested)	—	—	—	3,300
Restricted Share Units (other)	320	77	564	419
Deferred Share Units (directors)	894	588	1,365	1,062
Total share-based compensation expense	$6,562	$4,418	$15,940	$15,707

Summary of Outstanding Stock Options

As of March 31, 2015, options to purchase an aggregate of 4,625,555 Common Shares were outstanding and 2,856,328 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. Currently we also have options outstanding that vest over five years, as well as options outstanding that vest based on meeting certain market conditions. The exercise price of all our 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 nine months ended March 31, 2015 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	1,240,910	54.57		
Exercised	(389,753)	27.40		
Forfeited or expired	(498,828)	38.86		
Outstanding at March 31, 2015	4,625,555	$41.72	5.22	$53,975
Exercisable at March 31, 2015	1,263,959	$31.58	3.83	$26,931

We estimate the fair value of stock options using the Black-Scholes option-pricing model or, where appropriate, the Monte Carlo Valuation Method, 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 techniques 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 March 31,				Nine Months Ended March 31,			
	2015		2014		2015		2014	
Weighted–average fair value of options granted	$13.35		$12.60		$13.59		$11.53	
Weighted-average assumptions used:								
Expected volatility	32	%	32	%	32	%	32	%
Risk–free interest rate	1.14	%	1.40	%	1.43	%	1.33	%
Expected dividend yield	1.27	%	1.20	%	1.20	%	1.30	%
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	$54.17		$50.08		$54.57		$46.43	
Derived service period (in years)*	2.07		N/A		2.07		N/A	

*Options valued using Monte Carlo Valuation Method

As of March 31, 2015, the total compensation cost related to the unvested stock option awards not yet recognized was approximately $37.1 million, which will be recognized over a weighted-average period of approximately 2.6 years.

No cash was used by us to settle equity instruments granted under share-based compensation arrangements.

We have not capitalized any share-based compensation costs as part of the cost of an asset in any of the periods presented.

For the three and nine months ended March 31, 2015, cash in the amount of $3.1 million and $10.7 million, respectively, was received as the result of the exercise of options granted under share-based payment arrangements. The tax benefit realized by us during the three and nine months ended March 31, 2015 from the exercise of options eligible for a tax deduction was $0.1 million and $0.9 million, respectively.

For the three and nine months ended March 31, 2014, cash in the amount of $13.5 million and $17.7 million, respectively, was received as the result of the exercise of options granted under share-based payment arrangements. The tax benefit realized by us during the three and nine months ended March 31, 2014 from the exercise of options eligible for a tax deduction was $0.8 million and $1.4 million, respectively.

Long-Term Incentive Plans

We incentivize our executive officers, in part, with long term compensation pursuant to our LTIP. The LTIP is a rolling three year program that grants eligible employees a certain number of target Performance Share Units (PSUs) and/or Restricted Share Units (RSUs). Target PSUs become vested upon the satisfaction of certain financial and/or operational performance criteria (the Performance Conditions) that are determined at the time of the grant. Target RSUs become vested when an eligible employee remains employed throughout the vesting period. LTIP grants that have recently vested, or have yet to vest, are described below. LTIP grants will be referred to in this Quarterly Report on Form 10-Q based upon the year in which the grants are expected to vest and be settled.

Grants made in Fiscal 2012 under the LTIP (collectively referred to as Fiscal 2014 LTIP) took effect in Fiscal 2012 starting on February 3, 2012. Grants made under the Fiscal 2014 LTIP consisted of PSUs and the Performance Conditions for vesting relating to grants were based solely on market conditions. We met these performance conditions and settled Fiscal 2014 LTIP by issuing 355,553 Common Shares from our treasury stock in the three months ended December 31, 2014, with a cost of approximately $8.5 million.

Grants made in Fiscal 2013 under the LTIP (collectively referred to as Fiscal 2015 LTIP) took effect in Fiscal 2013 starting on November 2, 2012 for the RSUs and December 3, 2012 for the PSUs. The Performance Conditions for vesting of the PSUs are based solely upon market conditions. RSUs granted are employee service-based awards and vest over the life of the Fiscal 2015 LTIP. We expect to settle the Fiscal 2015 LTIP awards in stock.

Grants made in Fiscal 2014 under the LTIP (collectively referred to as Fiscal 2016 LTIP) took effect in Fiscal 2014 starting on November 1, 2013. The Performance Conditions for vesting of the PSUs are based solely upon market conditions. RSUs granted are employee service-based awards and vest over the life of the Fiscal 2016 LTIP. We expect to settle the Fiscal 2016 LTIP awards in stock.

Grants made in Fiscal 2015 under the LTIP (collectively referred to as Fiscal 2017 LTIP), consisting of PSUs and RSUs, took effect in Fiscal 2015 starting on September 4, 2014. The Performance Conditions for vesting of the PSUs are based solely upon market conditions. The RSUs are employee service-based awards and vest over the life of the Fiscal 2017 LTIP. We expect to settle the Fiscal 2017 LTIP awards in stock.

PSUs and RSUs granted under the LTIPs have been measured at fair value as of the effective date, consistent with Topic 718, and will be charged to share-based compensation expense over the remaining life of the plan. Stock options granted under the LTIPs have been measured using the Black-Scholes option-pricing model, consistent with Topic 718. We estimate the fair value of PSUs using the Monte Carlo pricing model and RSUs have been valued based upon their grant date fair value.

As of March 31, 2015, the total expected compensation cost related to the unvested LTIP awards not yet recognized was $13.4 million, which is expected to be recognized over a weighted average period of 1.9 years.

Restricted Share Units (RSUs)

During the three and nine months ended March 31, 2015, we granted 30,000 and 45,000 RSUs, respectively, to certain employees in accordance with their employment agreements. The RSUs will vest equally over three years from the respective date of grants. We expect to settle the awards in stock.

Deferred Stock Units (DSUs)

During the three and nine months ended March 31, 2015, we granted 37,199 and 37,597 DSUs, respectively, to certain non-employee directors (three and nine months ended March 31, 2014—13,336 and 42,298, respectively, on a post stock-split basis). The DSUs were issued under our Deferred Share Unit Plan. DSUs granted as compensation for directors fees vest immediately, whereas all other DSUs granted vest at our next annual general meeting following the granting of the DSUs. No DSUs are payable by us until the director ceases to be a member of the Board.

Employee Share Purchase Plan (ESPP)

During the three and nine months ended March 31, 2015, cash in the amount of approximately $0.7 million and $2.2 million, respectively, was received from employees that will be used to purchase Common Shares in future periods (three and nine months ended March 31, 2014—$0.8 million and $2.1 million, respectively).

NOTE 13—GUARANTEES AND CONTINGENCIES

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

	Payments due between				
	Total	April 1, 2015— June 30, 2015	July 1, 2015— June 30, 2017	July 1, 2017— June 30, 2019	July 1, 2019 and beyond
Long-term debt obligations*	$2,104,616	$8,707	$165,195	$156,417	$1,774,297
Operating lease obligations**	212,250	13,057	83,577	57,310	58,306
Purchase obligations	18,415	3,173	14,421	821	—
	$2,335,281	$24,937	$263,193	$214,548	$1,832,603

*Long-term debt obligations include our Senior Notes issued on January 15, 2015. For more details relating to the Senior Notes and repayment of our Term Loan A, see note 10.

**Net of $3.2 million of sublease income to be received from properties which we have subleased to third parties.

Guarantees and Indemnifications

We have entered into customer agreements which may include provisions to indemnify our customers against third party claims that our software products or services infringe certain third party intellectual property rights and for liabilities related to a breach of our confidentiality obligations. We have not made any material payments in relation to such indemnification provisions and have not accrued any liabilities related to these indemnification provisions in our Condensed Consolidated Financial Statements.

Litigation

We are currently involved in various claims and legal proceedings.

Quarterly, we review the status of each significant legal matter and evaluate such matters to determine how they should be treated for accounting and disclosure purposes in accordance with the requirements of ASC Topic 450-20 "Loss

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Contingencies" (Topic 450-20). Specifically, this evaluation process includes the centralized tracking and itemization of the status of all our disputes and litigation items, discussing the nature of any litigation and claim, including any dispute or claim that is reasonably likely to result in litigation, with relevant internal and external counsel, and assessing the progress of each matter in light of its merits and our experience with similar proceedings under similar circumstances.

If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss in accordance with Topic 450-20. As of the date of this Quarterly Report on Form 10-Q, such aggregated losses were not material to our consolidated financial position or result of operations and we do not believe as of the date of this filing that it is reasonably possible that a loss exceeding the amounts already recognized will be incurred that would be material to our consolidated financial position or results of operations.

Contingencies

EasyLink Services International Corporation (EasyLink) and its United States subsidiaries were assessed by the New York State Department of Taxation and Finance for the potential applicability of telecommunications excise and franchise taxes to its New York State revenues for certain pre-acquisition EasyLink revenue. As of March 31, 2015 a settlement was reached with the New York State Department of Taxation and Finance for $2.8 million, which was paid during the three months ended March 31, 2015.

As part of our acquisition of GXS, we have inherited a tax dispute in Brazil between the Company’s subsidiary, GXS Tecnologia da Informação (Brasil) Ltda. (GXS Brazil), and the municipality of São Paulo, in connection with GXS Brazil’s judicial appeal of a tax claim in the amount of $2.2 million as of March 31, 2015. We currently have in place a bank guarantee in the amount of $3.0 million in recognition of this dispute. However, we believe that the position of the São Paulo tax authorities is not consistent with the relevant facts and based on information available on the case and other similar matters provided by local counsel, we believe that we can defend our position and that no tax is owed. Although we believe that the facts support our position, the ultimate outcome of this matter could result in a loss of up to the claim amount discussed above, plus future interest or penalties that may accrue.

Historically, prior to our acquisition of GXS, GXS would charge certain costs to its subsidiaries, including GXS Brazil, primarily based on historical transfer pricing studies that were intended to reflect the costs incurred by subsidiaries in relation to services provided by the parent company to the subject subsidiary. GXS recorded taxes on amounts billed, that were considered to be due based on the intercompany charges. GXS subsequently re-evaluated its intercompany charges to GXS Brazil and related taxes and, upon taking into consideration the current environment and judicial proceedings in Brazil, concluded that it was probable that certain indirect taxes would be assessable and payable based upon the accrual of such intercompany charges and has approximately $6.2 million accrued for the probable amount of a settlement related to the indirect taxes, interest and penalties.

Our Indian subsidiary, GXS India Technology Centre Private Limited (GXS India), is subject to potential assessments by Indian tax authorities in the city of Bangalore. GXS India has received assessment orders from the Indian tax authorities alleging that the transfer price applied to intercompany transactions was not appropriate. Based on advice from our tax advisors, we believe that the facts that the Indian tax authorities are using to support their assessment are incorrect. We have filed appeals and anticipate an eventual settlement with the Indian tax authorities. We have accrued $1.4 million to cover our anticipated financial exposure in this matter.

The United States Internal Revenue Service (IRS) is examining certain of our tax returns for Fiscal 2010 through Fiscal 2012, and in connection with those examinations is reviewing our internal reorganization in Fiscal 2010 to consolidate certain intellectual property ownership in Luxembourg and Canada and our integration of certain acquisitions into the resulting structure. These examinations may lead to proposed adjustments to our taxes, which may be material, individually or in the aggregate. As of the date of this Quarterly Report on Form 10-Q, no adjustments have been proposed by the IRS, and we have not recorded any material accruals for any such potential adjustments in our Condensed Consolidated Financial Statements.

Please also see "Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended June 30, 2014.

NOTE 14—INCOME TAXES

Our effective tax rate represents the net effect of the mix of income earned in various tax jurisdictions that are subject to a wide range of income tax rates.

We recognize interest expense and penalties related to income tax matters in income tax expense.

For the three and nine months ended March 31, 2015 and 2014, we recognized the following amounts as income tax-related interest expense and penalties:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Interest expense	1,587	2,030	$5,098	$6,262
Penalties expense (recoveries)	(90)	7	(385)	167
Total	$1,497	$2,037	$4,713	$6,429

As of March 31, 2015 and June 30, 2014, the following amounts have been accrued on account of income tax-related interest expense and penalties:

	As of March 31, 2015	As of June 30, 2014
Interest expense accrued *	$30,098	$26,235
Penalties accrued *	$6,488	$7,858

* These balances have been included within "Long-term income taxes payable" within the Condensed Consolidated Balance Sheets.

We believe that it is reasonably possible that the gross unrecognized tax benefits, as of March 31, 2015, could decrease tax expense in the next 12 months by $35.9 million, relating primarily to the expiration of competent authority relief and tax years becoming statute barred for purposes of future tax examinations by local taxing jurisdictions.

Our four most significant tax jurisdictions are Canada, the United States, Luxembourg and Germany. Our tax filings remain subject to audits by applicable tax authorities for a certain length of time following the tax year to which those filings relate. For Canada, the United States, Luxembourg and Germany, the earliest fiscal years open for examination are 2006, 2010, 2011 and 2008, respectively.

We are subject to tax audits in all major taxing jurisdictions in which we operate and currently have tax audits open in Canada, the United States, France, Spain, Germany, India, Japan and the Netherlands. On a quarterly basis we assess the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes. Statements regarding the United States audits are included in note 13.

The timing of the resolution of income tax audits is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ from the amounts accrued. It is reasonably possible that within the next 12 months we will receive additional assessments by various tax authorities or possibly reach resolution of income tax audits in one or more jurisdictions. These assessments or settlements may or may not result in changes to our contingencies related to positions on tax filings. The actual amount of any change could vary significantly depending on the ultimate timing and nature of any settlements. We cannot currently provide an estimate of the range of possible outcomes.

As at March 31, 2015, we have provided $8.9 million (June 30, 2014—$7.6 million) in respect of both additional foreign withholding taxes or deferred income tax liabilities for temporary differences related to the undistributed earnings of certain non-United States subsidiaries, and planned periodic repatriations from certain United States and Luxembourg subsidiaries, that will be subject to withholding taxes upon distribution. We have not provided for additional foreign withholding taxes or deferred income tax liabilities related to undistributed earnings of all other non-Canadian subsidiaries, since such earnings are considered permanently invested in those subsidiaries, or are not subject to withholding taxes. It is not practicable to reasonably estimate the amount of additional deferred income tax liabilities or foreign withholding taxes that may be payable should these earnings be distributed in the future.

The effective GAAP tax rate (which is the provision for taxes expressed as a percentage of income before taxes) decreased to a recovery, representing 1.2% of income for the three months ended March 31, 2015, compared to a charge of 22.1% for the three months ended March 31, 2014, resulting in a reduction of tax expense in the amount of $13.3 million. This decrease is primarily the result of (i) lower net income, having an impact of $10.8 million, (ii) a decrease in the impact of adjustments on filing tax returns in the amount of $1.5 million, and (iii) a decrease in the impact of permanent differences in the amount of $1.3 million, offset by an increase in the net change in valuation allowance in the amount of $1.5 million. The remainder of the differences are due to normal course movements and non-material items.

The effective GAAP tax rate (which is the provision for taxes expressed as a percentage of income before taxes) decreased to 17.6% for the nine months ended March 31, 2015, from 27.2% for the nine months ended March 31, 2014, resulting in a reduction of tax expense in the amount of $13.2 million. This decrease is primarily due to a decrease in the impact of non-deductible amortization expense in the amount of $4.8 million, a decrease in the net change in valuation allowance in the amount of $1.3 million, a decrease in the net expense of unrecognized tax benefits with related interest and penalties in the amount of $2.4 million, and a decrease in the impact of adjustments on filing of tax returns in the amount of $3.8 million. The remainder of the differences are due to normal course movements and non-material items.

NOTE 15—FAIR VALUE MEASUREMENTS

ASC Topic 820 "Fair Value Measurements and Disclosures" (Topic 820) defines fair value, establishes a framework for measuring fair value, and addresses disclosure requirements for fair value measurements. Fair value is 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 and addressing disclosure requirements, Topic 820 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, 2015 and June 30, 2014:

	March 31, 2015				June 30, 2014			
		Fair Market Measurements using:				Fair Market Measurements using:		
	March 31, 2015	Quoted prices in active markets for identical assets/ (liabilities)	Significant other observable inputs	Significant unobservable inputs	June 30, 2014	Quoted prices in active markets for identical assets/ (liabilities)	Significant other observable inputs	Significant unobservable inputs
		(Level 1)	(Level 2)	(Level 3)		(Level 1)	(Level 2)	(Level 3)
Financial Assets:								
Commercial paper*	$ 5,999	n/a	$ 5,999	n/a	—	n/a	$ —	n/a
Corporate bonds*	24,212	n/a	24,212	n/a	—	n/a	—	n/a
Derivative financial instrument asset (note 16)	—	n/a	—	n/a	756	n/a	756	n/a
	$ 30,211	n/a	$ 30,211	n/a	$ 756	n/a	$ 756	n/a

Financial Liabilities:								
Derivative financial instrument liability (note 16)	$	(4,050)	n/a	$ (4,050)	n/a	$—	n/a	$ —	n/a
	$	(4,050)	n/a	$ (4,050)	n/a	$—	n/a	$ —	n/a

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*These assets in the table above are classified as Level 2 as certain specific assets included within may not have quoted prices that are readily accessible in an active market or we may have relied on alternative pricing methods that do not rely exclusively on quoted prices to determine the fair value of the investments.

Our valuation techniques used to measure the fair values of the derivative instruments, the counterparty to which has high credit ratings, were derived from 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 these instruments. Our discounted cash flow techniques use observable market inputs, such as, where applicable, foreign currency spot and forward rates.

Our cash and cash equivalents, along with our accounts receivable and accounts payable and accrued liabilities balances, are measured and recognized in our Condensed Consolidated Financial Statements at an amount that approximates their fair value (a Level 2 measurement) due to their short maturities.

A summary of our marketable securities as of March 31, 2015 is as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Commercial paper	$ 5,999	$ —	$ —	$ 5,999
Corporate bonds	24,208	4	—	24,212
Total	$ 30,207	$ 4	$ —	$ 30,211

The long-term portion of the marketable securities are included within "Other Assets" in the Condensed Consolidated Balance Sheets.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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, 2015 and 2014, no indications of impairment were identified and therefore no fair value measurements were required.

If applicable, we will recognize transfers between levels within the fair value hierarchy at the end of the reporting period in which the actual event or change in circumstance occurs. During the three and nine months ended March 31, 2015 and 2014, we did not have any transfers between Level 1, Level 2 or Level 3.

Marketable Securities

Marketable Securities are classified as available for sale securities and are recorded on our Condensed Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of Accumulated Other Comprehensive Income.

NOTE 16—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Foreign Currency Forward Contracts

We are engaged in hedging programs with Canadian chartered banks to limit the potential foreign exchange fluctuations incurred on future cash flows relating to a portion of our Canadian dollar payroll expenses. We operate internationally and are therefore exposed to foreign currency exchange rate fluctuations in the normal course of our business, in particular to changes in the Canadian dollar on account of large costs that are incurred from our centralized Canadian operations, which are denominated in Canadian dollars. As part of our risk management strategy, we use foreign currency forward contracts to hedge portions of our payroll exposure with typical maturities of between one and twelve months. We do not use derivatives for speculative purposes.

We have designated these transactions as cash flow hedges of forecasted transactions under ASC Topic 815 “Derivatives and Hedging” (Topic 815). As the critical terms of the hedging instrument, and of the entire hedged forecasted transaction, are the same, in accordance with Topic 815 we have been able to conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. Accordingly, quarterly unrealized gains or losses on the effective portion of these forward contracts have been included within other comprehensive income. The fair value of the contracts, as of March 31, 2015, is recorded within “Accounts payable and accrued liabilities”.

As of March 31, 2015, the notional amount of forward contracts we held to sell U.S. dollars in exchange for Canadian dollars was $82.0 million (June 30, 2014—$99.6 million).

Fair Value of Derivative Instruments and Effect of Derivative Instruments on Financial Performance
The effect of these derivative instruments on our Condensed Consolidated Financial Statements for the periods indicated below were as follows (amounts presented do not include any income tax effects).
Fair Value of Derivative Instruments in the Condensed Consolidated Balance Sheets (see note 15)

		As of March 31, 2015	As of June 30, 2014
Derivatives	Balance Sheet Location	Fair Value Asset (Liability)	Fair Value Asset (Liability)
Foreign currency forward contracts designated as cash flow hedges	Prepaid expenses and other current assets (Accounts payable and accrued liabilities)	$(4,050)	$756

Effects of Derivative Instruments on Income and Other Comprehensive Income (OCI)
Three and Nine Months Ended March 31, 2015

Derivatives in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivatives (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 Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months Ended March 31, 2015	Nine Months Ended March 31, 2015		Three Months Ended March 31, 2015	Nine Months Ended March 31, 2015		Three Months Ended March 31, 2015	Nine Months Ended March 31, 2015
Foreign currency forward contracts	$(3,811)	$(9,548)	Operating expenses	$(3,385)	$(4,742)	N/A	—	—

Three and Nine Months Ended March 31, 2014

Derivatives in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivatives (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 Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)

	Three Months Ended March 31, 2014	Nine Months Ended March 31, 2014		Three Months Ended March 31, 2014	Nine Months Ended March 31, 2014		Three Months Ended March 31, 2014	Nine Months Ended March 31, 2014
Foreign currency forward contracts	$(2,182)	$(2,064)	Operating expenses	$(1,683)	$(3,278)	N/A	—	—

NOTE 17—SPECIAL CHARGES (RECOVERIES)

Special charges include costs that relate to certain restructuring initiatives that we have undertaken from time to time under our various restructuring plans, as well as acquisition-related costs and other similar charges.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
OpenText/Actuate Restructuring Plan	$2,071	$—	$2,071	$—
OpenText/GXS Restructuring Plan	455	11,538	4,647	11,538
Restructuring Plans prior to OpenText/GXS Restructuring Plan	(1,275)	1,385	(1,600)	8,002
Acquisition-related costs	1,506	3,491	4,284	9,229
Other charges (recoveries)	2,865	(512)	(5,370)	(2,868)