OPEN TEXT CORP
Form 10-Q
October 23, 2014

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 September 30, 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 October 21, 2014, there were 122,037,521 outstanding Common Shares of the registrant.

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

	September 30, 2014 (unaudited)	June 30, 2014
ASSETS		
Cash and cash equivalents	$492,486	$427,890
Accounts receivable trade, net of allowance for doubtful accounts of $4,535 as of September 30, 2014 and $4,499 as of June 30, 2014 (note 3)	239,762	292,929
Income taxes recoverable (note 14)	12,372	24,648
Prepaid expenses and other current assets	47,498	42,053
Deferred tax assets (note 14)	30,336	28,215
Total current assets	822,454	815,735
Property and equipment (note 4)	151,573	142,261
Goodwill (note 5)	1,940,082	1,963,557
Acquired intangible assets (note 6)	681,229	725,318
Deferred tax assets (note 14)	159,424	156,712
Other assets (note 7)	54,819	52,041
Deferred charges (note 8)	48,598	52,376
Long-term income taxes recoverable (note 14)	10,701	10,638
Total assets	$3,868,880	$3,918,638
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	$193,720	$231,954
Current portion of long-term debt (note 10)	62,105	62,582
Deferred revenues	301,341	332,664
Income taxes payable (note 14)	15,341	31,630
Deferred tax liabilities (note 14)	944	1,053
Total current liabilities	573,451	659,883
Long-term liabilities:		
Accrued liabilities (note 9)	39,126	41,999
Deferred credits (note 8)	16,382	17,529
Pension liability (note 11)	61,682	60,300
Long-term debt (note 10)	1,243,500	1,256,750
Deferred revenues	18,646	17,248
Long-term income taxes payable (note 14)	163,749	162,131
Deferred tax liabilities (note 14)	57,371	60,631
Total long-term liabilities	1,600,456	1,616,588
Shareholders' equity:		
Share capital (note 12)		
122,034,461 and 121,758,432 Common Shares issued and outstanding at September 30, 2014 and June 30, 2014, respectively; Authorized Common Shares: unlimited	800,422	792,834
Additional paid-in capital	117,242	112,398
Accumulated other comprehensive income	36,216	39,449
Retained earnings	759,898	716,317
Treasury stock, at cost (763,278 shares at September 30, 2014 and June 30, 2014, respectively)	(19,132)	(19,132)

Total OpenText shareholders' equity	1,694,646	1,641,866
Non-controlling interests	327	301
Total shareholders’ equity	1,694,973	1,642,167
Total liabilities and shareholders’ equity	$3,868,880	$3,918,638
Guarantees and contingencies (note 13)		
Related party transactions (note 21)		
Subsequent event (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 September 30, 2014	2013
Revenues:		
License	$58,615	$55,306
Cloud services	150,006	41,647
Customer support	183,906	168,440
Professional service and other	61,260	59,067
Total revenues	453,787	324,460
Cost of revenues:		
License	3,088	3,036
Cloud services	57,996	14,265
Customer support	23,218	22,170
Professional service and other	45,361	45,435
Amortization of acquired technology-based intangible assets (note 6)	18,206	21,530
Total cost of revenues	147,869	106,436
Gross profit	305,918	218,024
Operating expenses:		
Research and development	44,742	40,216
Sales and marketing	80,099	69,413
General and administrative	35,756	28,886
Depreciation	12,242	6,458
Amortization of acquired customer-based intangible assets (note 6)	25,884	17,277
Special charges (note 17)	4,169	3,731
Total operating expenses	202,892	165,981
Income from operations	103,026	52,043
Other income (expense), net	(9,873)	1,926
Interest and other related expense, net	(11,099)	(4,385)
Income before income taxes	82,054	49,584
Provision for income taxes (note 14)	17,402	18,954
Net income for the period	$64,652	$30,630
Net (income) loss attributable to non-controlling interests	(26)	—
Net income attributable to OpenText	$64,626	$30,630
Earnings per share—basic attributable to OpenText (note 20)	$0.53	$0.26
Earnings per share—diluted attributable to OpenText (note 20)	$0.53	$0.26
Weighted average number of Common Shares outstanding—basic	121,918	118,126
Weighted average number of Common Shares outstanding—diluted	122,861	118,756
Dividends declared per Common Share	$0.1725	$0.15

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 September 30,	
	2014	2013
Net income for the period	$ 64,652	$ 30,630
Other comprehensive income—net of tax:		
Net foreign currency translation adjustments	3,105	241
Unrealized gain (loss) on cash flow hedges:		
Unrealized gain (loss)	(2,900)	1,520
Loss reclassified into net income	53	584
Actuarial gain (loss) relating to defined benefit pension plans:		
Actuarial gain (loss)	(3,118)	83
Amortization of actuarial loss into net income	121	73
Unrealized loss on marketable securities	(494)	—
Total other comprehensive income (loss), net, for the period	(3,233)	2,501
Total comprehensive income	61,419	33,131
Comprehensive income attributable to non-controlling interests	(26)	—
Total comprehensive income attributable to OpenText	$ 61,393	$ 33,131

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

	Three Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income for the period	$64,652	$30,630
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	56,332	45,265
Share-based compensation expense	4,449	4,612
Excess tax benefits on share-based compensation expense	(395)	(73)
Pension expense	1,220	353
Amortization of debt issuance costs	1,143	525
Amortization of deferred charges and credits	2,631	2,967
Loss on sale and write down of property and equipment	—	21
Deferred taxes	(1,545)	(1,869)
Changes in operating assets and liabilities:		
Accounts receivable	55,543	28,778
Prepaid expenses and other current assets	(149)	(3,432)
Income taxes	17,806	7,502
Deferred charges and credits	—	2,700
Accounts payable and accrued liabilities	(34,139)	(18,093)
Deferred revenue	(26,755)	(18,560)
Other assets	(2,262)	(1,402)
Net cash provided by operating activities	138,531	79,924
Cash flows from investing activities:		
Additions of property and equipment	(30,235)	(8,315)
Purchase of Cordys Holding B.V., net of cash acquired	—	(30,588)
Purchase consideration for prior period acquisitions	(222)	(222)
Other investing activities	(7,374)	(1,500)
Net cash used in investing activities	(37,831)	(40,625)
Cash flows from financing activities:		
Excess tax benefits on share-based compensation expense	395	73
Proceeds from issuance of Common Shares	7,099	1,823
Repayment of long-term debt	(13,417)	(7,668)
Debt issuance costs	(183)	—
Payments of dividends to shareholders	(21,045)	(17,721)
Net cash used in financing activities	(27,151)	(23,493)
Foreign exchange gain (loss) on cash held in foreign currencies	(8,953)	4,896
Increase in cash and cash equivalents during the period	64,596	20,702
Cash and cash equivalents at beginning of the period	427,890	470,445
Cash and cash equivalents at end of the period	$492,486	$491,147

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 Months Ended September 30, 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 September 30, 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 liabilities related to share-based payments, including the valuation of our long-term incentive plan, (xii) the valuation of financial instruments, (xiii) the valuation of pension assets and obligations, 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	$4,499	
Bad debt expense	1,561	
Write-off /adjustments	(1,525	)
Balance as of September 30, 2014	$4,535	

Included in accounts receivable are unbilled receivables in the amount of $24.4 million as of September 30, 2014 (June 30, 2014—$41.7 million).

NOTE 4—PROPERTY AND EQUIPMENT

	As of September 30, 2014			
	Cost	Accumulated Depreciation		Net
Furniture and fixtures	$16,613	$(9,498	)	$7,115
Office equipment	1,616	(851	)	765
Computer hardware	98,867	(59,613	)	39,254
Computer software	29,825	(12,827	)	16,998
Capitalized software development costs	26,139	(2,477	)	23,662
Leasehold improvements	48,282	(25,630	)	22,652
Land and buildings	47,326	(6,199	)	41,127
Total	$268,668	$(117,095	)	$151,573

	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)
Balance as of September 30, 2014	$1,940,082

NOTE 6—ACQUIRED INTANGIBLE ASSETS

	As of September 30, 2014		
	Cost	Accumulated Amortization	Net
Technology Assets	$699,206	$(491,248)	$207,958
Customer Assets	874,257	(400,986)	473,271
Total	$1,573,463	$(892,234)	$681,229

	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 (nine months ended June 30)	$ 130,260
2016	149,415
2017	132,222
2018	119,535
2019 and beyond	149,797
Total	$ 681,229

NOTE 7—OTHER ASSETS

	As of September 30, 2014	As of June 30, 2014
Debt issuance costs	$18,874	$19,834
Deposits and restricted cash	13,380	14,251
Deferred implementation costs	7,028	5,409
Cost basis investments	8,224	7,276
Long-term prepaid expenses and other long-term assets	7,313	5,271
Total	$54,819	$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 September 30, 2014	As of June 30, 2014
Accounts payable—trade	$14,785	$16,025
Accrued salaries and commissions	55,664	80,991
Accrued liabilities	110,711	121,558
Amounts payable in respect of restructuring and other Special charges (note 17)	11,273	11,694
Asset retirement obligations	1,287	1,686
Total	$193,720	$231,954

Long-term accrued liabilities

	As of September 30, 2014	As of June 30, 2014
Amounts payable in respect of restructuring and other Special charges (note 17)	$3,587	$4,531
Other accrued liabilities*	27,643	29,331
Asset retirement obligations	7,896	8,137
Total	$39,126	$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 September 30, 2014, the present value of this obligation was $9.2 million (June 30, 2014—$9.8 million), with an undiscounted value of $9.7 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 September 30, 2014	As of June 30, 2014
Total debt		
Term Loan A	$502,500	$513,750
Term Loan B	794,000	796,000
Mortgage	9,105	9,582
	1,305,605	1,319,332
Less:		
Current portion of long-term debt		
Term Loan A	45,000	45,000
Term Loan B	8,000	8,000
Mortgage	9,105	9,582
	62,105	62,582
Non-current portion of long-term debt	$1,243,500	$1,256,750

Term Loan A and Revolver

As of September 30, 2014, one of our credit facilities consists of a $600 million term loan facility (Term Loan A) and a $100 million committed revolving credit facility (the Revolver). Borrowings under Term Loan A 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 has a five year term and repayments made under Term Loan A are 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 bears interest at a floating rate of LIBOR plus a fixed amount, depending on our consolidated leverage ratio. As of September 30, 2014, this fixed amount was 2.5%.

For the three months ended September 30, 2014, we recorded interest expense of $3.7 million relating to Term Loan A (three months ended September 30, 2013—$3.5 million).

The Revolver has a five year term with no fixed repayment date prior to the end of the term. As of September 30, 2014, 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 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. 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 months ended September 30, 2014, we recorded interest expense of $6.6 million 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 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 September 30, 2014, the carrying value of the mortgage was approximately $9.1 million (June 30, 2014—$9.6 million).

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

For the three months ended September 30, 2014, we recorded interest expense of $0.1 million, relating to the mortgage (three months ended September 30, 2013—$0.1 million).

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 September 30, 2014 and June 30, 2014:

	As of September 30, 2014		
	Total benefit obligation	Current portion of benefit obligation*	Non-current portion of benefit obligation
CDT defined benefit plan	$30,174	$595	$ 29,579
GXS Germany defined benefit plan	24,632	860	23,772
GXS Philippines defined benefit plan	5,411	—	5,411
Other plans	2,992	72	2,920
Total	$63,209	$1,527	$ 61,682

	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 September 30, 2014, there is approximately $0.3 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 September 30, 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 September 30, 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	122	80	340	542	458	173	724	1,355
Interest cost	199	190	67	456	877	408	125	1,410
Benefits paid	(126)	(215)	(23)	(364)	(522)	(461)	(66)	(1,049)
Actuarial (gain) loss	2,481	1,917	(137)	4,261	3,595	452	(818)	3,229
Foreign exchange (gain) loss	(1,846)	(1,522)	(112)	(3,480)	1,065	(27)	129	1,167
Benefit obligation—end of period	30,174	24,632	5,411	60,217	29,344	24,182	5,276	58,802
Less: Current portion	(595)	(860)	—	(1,455)	(634)	(917)	—	(1,551)
Non-current portion of benefit obligation	$29,579	$23,772	$5,411	$58,762	$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 September 30,							
	2014				2013			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Pension expense:								
Service cost	$122	$80	$340	$542	$113	$—	$—	$113
Interest cost	199	190	67	456	217	—	—	217
Amortization of actuarial gains and losses	109	—	—	109	69	—	—	69
Net pension expense	$430	$270	$407	$1,107	$399	$—	$—	$399

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

	As of September 30, 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	2.40%	2.50%	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 (nine months ended June 30)	$446	$657	$9
2016	657	913	24
2017	729	984	35
2018	779	1,063	46
2019	871	1,108	94
2020 to 2024	5,869	6,038	1,107
Total	$9,351	$10,763	$1,315

Other Plans

Other plans include certain 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 months ended September 30, 2014, pursuant to the Company’s dividend policy, we declared total non-cumulative dividends of $0.1725 per Common Share, in the amount of $21.0 million, which we paid during the same period.

For the three months ended September 30, 2013, pursuant to the Company’s dividend policy, we declared total non-cumulative dividends of $0.15 per Common Share, in the amount of $17.7 million, 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

During the three months ended September 30, 2014 and 2013, we did not repurchase any of our Common Shares for potential reissuance under our Long Term Incentive Plans (LTIP) or otherwise.

During the three months ended September 30, 2014 and 2013, we did not reissue any Common Shares from treasury stock.

Share-Based Payments

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

	Three Months Ended September 30,	
	2014	2013
Stock options	$2,569	$1,357
Performance Share Units (issued under LTIP)	591	2,168
Restricted Share Units (issued under LTIP)	743	604
Restricted Share Units (other)	75	216
Deferred Share Units (directors)	471	267
Total share-based compensation expense	$4,449	$4,612

Summary of Outstanding Stock Options

As of September 30, 2014, options to purchase an aggregate of 4,187,409 Common Shares were outstanding and 3,437,482 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 three months ended September 30, 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	397,100	56.33		
Exercised	(246,745)	25.35		
Forfeited or expired	(236,172)	37.04		
Outstanding at September 30, 2014	4,187,409	$38.85	5.33	$ 69,752
Exercisable at September 30, 2014	768,459	$23.38	3.21	$ 24,625

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 September 30,			
	2014		2013	
Weighted–average fair value of options granted	$14.30		$7.75	
Weighted-average assumptions used:				
Expected volatility	32	%	32	%
Risk–free interest rate	1.51	%	1.19	%
Expected dividend yield	1.15	%	1.80	%
Expected life (in years)	4.34		4.36	
Forfeiture rate (based on historical rates)	5	%	5	%
Average exercise share price	$56.33		$33.17	

As of September 30, 2014, the total compensation cost related to the unvested stock option awards not yet recognized was approximately $33.2 million, which will be recognized over a weighted-average period of approximately 3 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 months ended September 30, 2014, cash in the amount of $6.3 million 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 months ended September 30, 2014 from the exercise of options eligible for a tax deduction was $0.5 million.
For the three months ended September 30, 2013, cash in the amount of $1.2 million 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 months ended September 30, 2013 from the exercise of options eligible for a tax deduction was $0.1 million.
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 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. Awards made under the Fiscal 2014 LTIP will be issued in the second quarter of Fiscal 2015 in accordance with our insider trading policy, which states, in part, that stock awards may not be issued while a "trading window" is closed. We expect to settle the Fiscal 2014 LTIP awards in stock.
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 on November 1, 2013 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.

Expected and actual stock compensation expense for each of the above mentioned LTIP plans is as follows:

Grants Made Under LTIP	Equity Instrument	Grant Date	End Date	Expected Total LTIP Expense	Three Months Ended September 30, 2014	2013
Fiscal 2013 LTIP	PSU	10/29/2010	9/15/2013	6,489	—	215
Fiscal 2014 LTIP	PSU	2/3/2012	9/15/2014	7,838	420	1,370
Fiscal 2015 LTIP	PSU	12/3/2012	9/15/2015	2,313	(1)	583
Fiscal 2015 LTIP	RSU	11/2/2012	9/15/2015	3,804	211	604
Fiscal 2016 LTIP	PSU	11/1/2013	9/15/2016	1,638	85	—
Fiscal 2016 LTIP	RSU	11/1/2013	9/15/2016	4,162	329	—
Fiscal 2017 LTIP	PSU	9/4/2014	9/15/2017	3,701	87	—
Fiscal 2017 LTIP	RSU	9/4/2014	9/15/2017	8,645	203	—
				$ 38,590	$ 1,334	$ 2,772

Of the total expected LTIP expense of $38.6 million noted in the table above, $20.7 million has been recognized to date and the remaining expected total compensation cost of $17.9 million is expected to be recognized over a weighted average period of 2.3 years.

Restricted Share Units (RSUs)

On September 8, 2014, we granted 12,500 RSUs to our Chief Financial Officer, in accordance with his employment agreement. The RSUs will vest equally over three years. We expect to settle the awards in stock.

Deferred Stock Units (DSUs)

During the three months ended September 30, 2014, we granted 398 DSUs to certain non-employee directors (three months ended September 30, 2013—486 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 months ended September 30, 2014, cash in the amount of approximately $0.8 million was received from employees that will be used to purchase Common Shares in future periods (three months ended September 30, 2013—$0.7 million)

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	October 1, 2014— June 30, 2015	July 1, 2015— June 30, 2017	July 1, 2017— June 30, 2019	July 1, 2019 and beyond
Long-term debt obligations	$ 1,492,579	$ 70,162	$ 561,703	$ 66,417	$ 794,297
Operating lease obligations*	202,686	37,429	69,962	47,213	48,082
Purchase obligations	23,265	8,585	14,187	493	—
	$ 1,718,530	$ 116,176	$ 645,852	$ 114,123	$ 842,379

*Net of $3.7 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.

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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 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 subsidaries are currently being assessed by the New York State Department of Taxation and Finance (the Department) for the potential applicability of telecommunications excise and franchise taxes to its New York State revenues for certain pre-acquisition EasyLink revenue. The potential exposure under this assessment, based upon the notice issued by the Department, is approximately $10.5 million and has been accrued for by us. OpenText intends to vigorously defend against this assessment.
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 $2.7 million as of September 30, 2014. We currently have in place a bank guarantee in the amount of $3.7 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 accrued approximately $10.2 million 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 to 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 months ended September 30, 2014 and 2013, we recognized the following amounts as income tax-related interest expense and penalties:

	Three Months Ended September 30,	
	2014	2013
Interest expense	$2,004	$2,328
Penalties expense	48	238
Total	$2,052	$2,566

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

	As of September 30, 2014	As of June 30, 2014
Interest expense accrued *	$28,014	$26,235
Penalties accrued *	$7,649	$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 September 30, 2014, could decrease tax expense in the next 12 months by $18.9 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. Tax years that remain open to tax audits by local taxing authorities vary by jurisdiction up to ten years.
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, the Netherlands and Italy. 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 September 30, 2014, we have provided $8.2 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 net income before taxes) decreased to 21.2% for the three months ended September 30, 2014, from 38.2% for the three months ended September 30, 2013, primarily due to a decrease in the net change in valuation allowance in the amount of $2.0 million and a decrease in the net expense of unrecognized tax benefits with related interest and penalties in the amount of $1.2 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 September 30, 2014 and June 30, 2014:

	September 30, 2014				June 30, 2014			
		Fair Market Measurements using:				Fair Market Measurements using:		
	September 30, 2014	Quoted prices in active markets for identical assets/ (liabilities) (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	June 30, 2014	Quoted prices in active markets for identical assets/ (liabilities) (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets:								
Marketable securities	$ 5,637	$ 5,637	n/a	n/a	$ —	$ —	n/a	n/a
	$ 5,637	$ 5,637	n/a	n/a	$ —	$ —	n/a	n/a

Financial Liabilities: