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PRELIMINARY TRANSCRIPT

OTC.TO - Q3 2013 Open Text Earnings Conference Call

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OVERVIEW:

OTC.TO reported 3Q13 total revenue of $337.7m. YTD adjusted net income was $244.4m and 3Q13 GAAP net income was $25.8m or $0.44 per diluted share.

CORPORATE PARTICIPANTS

Greg Secord *OpenText Corp - VP, IR*

Paul McFeeters *OpenText Corp - CFO*

Mark Barrenechea *OpenText Corp - President & CEO*

PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the OpenText Corporation third-quarter fiscal year 2013 financial results conference call. During today's presentation, all participants will be in a listen-only mode. Following the presentation, the conference will be open for questions.

(Operator Instructions)

This conference is being recorded today, Wednesday, April 24, 2013. And I would now like to turn the conference over to Mr. Greg Secord, Vice President of Investor Relations. Please go ahead, sir.

Greg Secord - ***OpenText Corp - VP, IR***

Thank you, and good afternoon, everybody. I would like to start the call off by reading of our Safe Harbor statement. Please note that during the course of this conference call, we may make statements relating to the future performance of OpenText that contain forward-looking information. While these forward-looking statements represent our current judgment, actual results could differ materially from a conclusion, forecast, or projection in the forward-looking statements made today. Certain material factors or assumptions were applied in drawing any such conclusion, while making any such forecast or projection, as reflected in the forward-looking information. Additional information about the material factors that could actual results to differ materially from the conclusion, forecast or projection in the forward-looking information. And the material factors or assumptions that were applied in the drawing the conclusion while making a forecast or projection as reflected in the forward-looking information. As well as risk factors that may affect the future performance and results of OpenText are contained in OpenText Form 10-K and Form 10-Q, as well as in our press release that was issued earlier today. Each of which can be found on the website.

We undertake no obligation to update these forward-looking statements unless required by law. In addition, our conference call will include a discussion of certain non-GAAP financial measures. Reconciliations of all non-GAAP financial measures to their most directly comparable GAAP measures have been included in today's press release, which may be found on our website. With that, I would like to welcome everybody to the call. With me today is OpenText President and CEO Mark Barrenechea, as well as our CFO, Paul McFeeters. As with previous calls, we will read prepared remarks, followed by question-and-answer session. The call will last approximately one hour, with a replay available shortly thereafter. I would also like to direct investors to the Investor Relations section of our website, where we have posted an updated PowerPoint that will be referred to in the call. We've also posted a summary table highlighting OpenText historical-trended financial metrics. And with that, I will hand the call over to Paul McFeeters.

Paul McFeeters - ***OpenText Corp - CFO***

Thank you, Greg. Turning to the finance results, I will highlight our third quarter of fiscal year 2013. Total revenue for the quarter was USD337.7 million, up 15.5% compared to [USD292.3] million for the same period last year. Regionally, the Americas contributed 53.1%, EMEA 37.3% and Asia Pacific 9.6%. License revenue for the quarter was USD69 million, up 13.3% compared to USD61 million reported for the same period last year. We saw license revenue broken down by vertical sector as 19% from services, 18% from technology, 15% from consumer goods, 12% from financial services, 12% from basic materials, 10% from public sector, 6% from utilities, 5% for industrial goods, and 3% from healthcare. Cloud services revenue was USD44.4 million for the quarter compared to USD46.2 in the second quarter. Customer Support revenue for the quarter was USD166.6 million, up [0.3]% compared to USD166.1 million in the previous year. On a constant currency basis, Customer Support revenue grew by 2%. Professional Services and Other revenue in the quarter was USD57.7 million, down 11.8% compared to USD65.3 million in the same period last year. Professional Services margin was 16.3% in the current quarter versus 19.5% in the same period last year. We expect the margin to improve in Q4.

And year-to-date, our Professional Services margins are 22.5%, up from 20.3% year-to-date in fiscal '12. The Q3 impact of this from our internal targets are a negative USD0.06 per share impact on EPS. Gross margin for the quarter before amortization of acquired technology was relatively stable at 71% for both the current quarter and the same period last year. Pre-tax adjusted operating margin before interest expense and stock compensation was USD90.4 million this quarter, up 23% compared to USD73.6 million in Q3 of last fiscal year. Adjusted net income increased by 25% to USD74.2 million this quarter, up from USD59.2 million in Q3 of the last fiscal year. On a year-to-date basis, adjusted net income was USD244.4 million compared to USD201.2 million in the same period last year, an increase of 22%. Adjusted EPS was USD1.26 per share on a diluted basis, up from USD1.01 per share in Q3 of the prior fiscal year, an increase of 25%. Operating costs for the quarter was USD116.8 million compared to USD96.6 million the same period of the prior fiscal year. On a year-to-date basis, operating cash flow was USD253.3 million compared to USD186.6 million in same period last year, an increase of USD66.7 million or 36%.

The sequential effect of foreign currency movement on adjusted EPS for Q3 was a positive USD0.02. On a year-over-year basis, foreign currency had a negative impact of USD0.01. The adjusted tax rate for the quarter was 14%, the same as it was last fiscal year. On a GAAP basis, income from operations before interest and taxes for the third quarter was USD40.9 million, up 50% from USD27.3 million in the third quarter last year. GAAP net income before taxes was USD37 million in the current quarter versus USD20.7 million in the same period last year. Net income for the third quarter in accordance with GAAP was USD25.8 million or USD0.44 per share on a diluted basis, compared to USD34.8 million or USD0.59 per share on a diluted basis the same period a year ago. This year-over-year reduction in GAAP net income was entirely due to the impact of certain one-time tax benefits realized in Q3 of this fiscal 2012 that were not repeated in the current quarter.

There were approximately 59.1 million shares outstanding on a fully diluted basis for the third quarter of fiscal 2013. On the balance sheet at March 31, 2013, deferred revenues were USD308 million compared to USD286.6 million as at June 30, 2012, and USD303.5 million as at March 31, 2012. Accounts receivable is USD174.6 million compared to USD163.6 million at June 30, 2012, and USD 176 million as at March 31, 2012. Days sales outstanding were 47 days at March 31, 2013 compared to 48 days as of June 30, 2012, and 54 days as at March 31, 2012. On March 31, 2013, our head count was approximately 5,100, comprised of 1,300 in R&D, 240 in Cloud services, 740 in Customer Support, 970 in Professional Services, 1,100 in Sales and Marketing, and 750 in G&A. Our Board of Directors approved a policy to declare quarterly non-cumulative dividends of USD0.30 per share. The record day for this quarter's dividend is May 31, and the payment date is June 21.

On April 23, 2013, we entered into a settlement on a legacy EasyLink litigation matter relating to a patent infringement lawsuit filed by j2 Global Inc. The terms of the settlement include a one-time fee of USD27 million, which after taxes equate to a USD16 million financial statement adjustment to goodwill. This amount was built to the purchase price allocation for EasyLink and did not have an income statement impact. We disclosed these [listings] to this litigation in our previous 10-Qs. On March 5, we acquired Resonate Technology Limited, a company based in Cardiff, UK, for $20 million. Prior to acquiring Resonate, we were a primary customer, reselling their products. [Less] their revenue was mostly from [Multitext], and the consolidated impact of the acquisition will mostly affect our cost of sales, and not revenues. In our operating model, the full details [of the purchase] are available on our website. We show our expected annual operating net margin to be in the range of 26% to 30%. For fiscal 2013, we expect our adjusted operating margin to be in upper end of that range. Now I'll turn the call over to Mark.

Mark Barrenechea - ***OpenText Corp - President & CEO***

Thank you, Paul. And welcome, everyone, to the fiscal '13 Q3 earnings call. We are committed to delivering value to our stockholders, to technology innovation, strategic acquisitions, and now through a dividend program. Over the last 12 months we have generated USD333 million in operating cash flow, and we are running our business at record operating margins. We have always been committed to rewarding our stockholders' investment in OpenText. And the Board has decided that it is the right time to adopt a quarterly dividend program, and announced a USD0.30 a share dividend. On an annual basis, this is roughly equivalent to 20% of our annual cash flow. We have built an engine at OpenText that delivers superior cash flows and value. Today's dividend program announcement is a clear indication of the Company's confidence in our financial model, EIM strategy and execution.

On to the quarter. Within Q3 we generated USD338 million in revenues, up 16% year over year. Adjusted net income was USD74 million, up 25% year over year. We generated a record cash flow of USD117 million, up 21% year over year. Our fiscal 2013 target model range for adjusted margins is 26% to 30%. And we expect to finish the full fiscal year at the upper end of this range. Adjusted EPS was USD1.26, up 24.8% year over year. Further, we delivered USD69 million in license revenues, or 13% organic license growth year over year. The sales teams executed well against a solid pipeline. We closed eight license deals over USD1 million, compared to five deals over USD1 million last quarter, and one deal over USD1 million in fiscal '12 Q3. Q3 ASP was $297,000, our highest ASP in six quarters. 39% of our sales were to new customers, 47% were partner-related. These metrics are right in line with our expectations.

As for industries, public sector, technology, financial services, services, consumer goods, and basic materials were all double-digit contributors. America's license contribution was 46%, EMEA 44%, and APJ 10%. EMEA and the Americas executed well within the quarter, and APJ was in line. We continue to invest in sales, and we expect these investments will yield results over time. As I discussed in the past, the investment areas include improved field leadership. There's a direct relationship between leadership and results. We have attracted a new generation of leadership to deliver against our EIM opportunity. Second, expanding our sales capacity and coverage, including emerging markets. This includes India, Latin America, South Africa and the sub-Sahara, Eastern Europe, to name a few. Improving our selling productivity. Cross-selling new products into our install base. Increased pipeline and revenue generation from our existing partners while attracting new partners and building new channels. Telesales, a newly formed group that will contribute in the coming quarters. And new product introduction into the field. Our sales strategy and execution is working. With Q3 performance and Q4 pipeline, we continue to expect second-half fiscal 2013 over second-half fiscal 2012 license growth.

Let me spend some time on our services lines. The Customer Support business performed at historic highs of USD166.6 million in revenue. With adjusted margins of 83.6%, the renewal rates in the low 90% range, both metrics were in line with our expectations. The Cloud services businesses delivered USD44.4 million in revenues within the quarter. And within the quarter, we delivered SecureiX, a new secured email service. In the first 30 days, we have approximately 100 companies trialing this new service. Our Cloud service delivers secure transactions, fax, EDI notifications, and now secure email. We are focusing on secure, enterprise-quality, reliable information exchange. As for our Professional Services business, we delivered USD57.6 million in revenues and 16.8% in adjusted margins. Third-quarter revenues and margins were down due to timing of customer projects in North America and APJ. Customers clearly value OpenText Professional Services. And this is reflected in our margin performance. Year to date, our cumulative margin is 23%, up 11% year over year.

We also delivered seven new or upgraded products within the quarter. Let me walk through these by pillar. First discovery, our new product, InfoFusion. InfoFusion is our Information Access platform, and is now [GA], and is an important new product for us. This is a smart in-context enterprise search product allowing customers to fuse together content platforms with single sign-on, easy search, and semantic navigation. Next pillar, our BPM Assure. Our BPM focus is Assure. Assure provides pre-built processed components and a library of out-of-the-box solutions that accelerate time-to-market and time-to-value for horizontal line of business and applications, from case management across HR, IT, finance and more. Assure emphasizes our recent leadership position in the Forrester's smart process application wave, and points to a promising future in our BPM business.

In the next pillar, CEM, we introduced StreamServe 5.6. StreamServe is our market-leading customer communications platform. With enhanced usability, support for non-technical business users, to create high-impact communications in Microsoft Word and deep integration across CEM, BPM and ECM. StreamServe is built for high-volume, multi-channel customer communications across the web and print. Also in CEM, Media Management. Media Management is our next generation digital asset management solution. Media Management 7.2 is the proven market leader, recognized by Forrester and other energy analysts for helping marketing organizations create and manage their brand assets, and accelerate time-to-revenue for high-impact, multi-channel customer campaigns. In the information exchange pillar, we introduced SecureiX. This is our innovative, secure messaging platform for any secure email communication, an exciting growth at opportunity for us.

An ECM pillar, OpenText Archive, is our new solution for maximally scalable archival of critical enterprise information across SAP, Exchange, SharePoint and OpenText. We have integrated our archiving solutions into a single data management platform, providing faster times to deployment, single source for information for archiving and discovery, while allowing for reduced hardware costs. With OpenText Archive, we have offered enterprises a true, single source to truth, an ideal platform for compliance and discovery. And lastly, SAP Employee File Management. We continue to innovate in our SAP franchise with our new Employee File Management solution. With this software, we deliver on the promise of managing unstructured information, tied to back-end transitional systems and unstructured data. This is our unique position of strength, enabling us to truly manage unstructured content where effort may live within the enterprise, including ERP. It was a strong quarter of innovation, across the five pillars.

Let we turn to customer successes in the quarter. Freescale, who is extending its deployment with our information exchange solutions to build a virtual desktop infrastructure, allowing for a centralized virtual infrastructure for worldwide EDA application access. This has and will fully result in enhanced productivity for engineers, design wins, and quicker time to market, and thus increased revenues. The Planning Inspectorate, the UK government agency responsible for handling over 20,000 planning cases every year, has invested in OpenText Content Server, OpenText Template Workspaces, and OpenText StreamServe. This will enable them to greatly improved their efficiency and readiness for the changing planning landscape in the UK. RS Components, the trading brand of Electrocomponents plc, has invested in OpenText Archiving for SAP Solutions for robust, secure and easy access to all archived invoices. This has enabled them to be highly organized and has given them access to all the tools they need to leverage their global presence. Other customer wins include Hydro Quebec, CGI, Volvo, and Hoffman-LaRoche.

Let me provide a few additional important highlights from the quarter. Our executive management team is now complete with the hiring of Kevin Cochrane as our CMO. Kevin joins us from Adobe and brings to OpenText an incredible track record and perspective on the products. With the market strategies and [field enablement], Kevin is a real talent and a great addition to the executive leadership team. We completed the acquisition of Resonate Knowledge Technologies, aka RKT. RKT was an OpenText partner, and their products are fully integrated into our ECM products. RKT brings OpenText customers the ability to easily create compelling user interfaces and report-writing. Ease-of-use is a main focus for us to drive further adoption of content server.

Further to this, our customers can expect us to place more of an emphasis on the developer and developer software. The developer makes all things possible. And we see a opportunity to create a larger ecosystem around our software and our Company. Further, OpenText was honored as being named the SAP 2013 Pinnacle Award winner, as SAP's number one go-to-market partner. The relationship between SAP and OpenText has never been stronger. We had a strong Q3 with SAP. And I'm pleased to announce that OpenText will be supporting SAP's HANA platform, and offering a set of products and upgrades for OpenText SAP customers to leverage the HANA platform. Our first native HANA solution will be available in the second half of the calendar year.

Let me wrap up my prepared remarks by saying our sales strategy, our EIM strategy, and our financial model are working. Our operating cash flows increased 21% year over year. We expect to complete fiscal 2013 in the upper end of our target range for adjusted operating margins. Our adjusted EPS is up 25% year over year. I'm pleased with our 13% organic license growth. And we expect second-half over second-half license growth. We are investing in products in the sales force, which I'm confident will yield results. We are committed to delivering value to our stockholders through technology innovation, strategic acquisitions, and now a quarterly dividend program. With that, let's open the call for your questions.

QUESTION AND ANSWER

NEW SPEAKER

(Operator Instructions).

NEW SPEAKER

Thanos Moschopoulos, BMO Capital Markets.

NEW SPEAKER

Good afternoon. Marketing you cut of spending environment over the past month we obviously seen some source software from the links of Oracle, SAP and in the context of the comment you delivered a good license number. Can you talk about customer demand progressed in the quarter? How the demand environment is shaping up from your perspective as you afford into Q4?

NEW SPEAKER

Thanks. What we are seeing is steady demand around the governance compliance and risk management solutions. I would say growing demand around security ability, cloud and smart applications and a talked demand around the developer. These are the aspects that I see driving our pipeline, part of the delivery in Q3 and are second-half organic license growth now in terms of the economy, we all read the same economists and new service, most economists have VGA in Eurozone between 1% and 2% growth of course, we are focused on our plans and what we control. Again we see steady demand and governance of Hunter on -demand security mobility? Are absolutely quite on top of virginity around the developer.

NEW SPEAKER

Should be be taken about organic license growth in Q4 as well? You are for sure items around second half?

NEW SPEAKER

We do not give quarterly guidance as you know, Mike, Sir second-half over second-half.

NEW SPEAKER

Okay. One more for me the cloud revenue was down a little bit relative to Q2 with that currency was that some I guess follow as you're integrating EasyLink?

NEW SPEAKER

I do not think it is either actually. I mean we look at the business is a third-quarter operating the business, and we look at -- we set the expectations for the first year the annual revenue will be flattish. We bought the business that had declining revenues and this year we are looking to have the revenues be flattish. We becoming on a annual basis we will be right where we expected to be.

NEW SPEAKER

Great Mark. I will pass it along.

NEW SPEAKER

Richard Tse, Cormark Securities. Thanks. Market in terms of your description of the service revenue decline. Timing of deals, can you elaborate on that a little bit more?

NEW SPEAKER

Well I mean I think I will reemphasize when we look at PX honestly we like them to be better. But the net impact is roughly 6 cents as Paul highlighted in PS. We always control the timing of customer acceptance is. In this case we had some project delays in North America and in a PG that contributed to the downtick in revenue. Notes again year to date our adjusted margin is 23% up 11% year-over-year. PS will be back on track in a quarter or two.

NEW SPEAKER

In your previous Congress you talked about increasing the sales capacity and the numbers of an about 20%. Can you fully there now in terms of the sales capacity? Secondly related to that, all the cells guidance positions there status on the quarter? Are they all trained up? Can you leave that elaborate on that.

NEW SPEAKER

We hit the internal goals of capacity at the end of the center. And it takes us 2 to 4 quarters to get a new AE onto quota and up to productivity. Of course not all AEs make it, for whatever reason, we are at our capacity at the end of December and at the end of Q2, it is anywhere between 2-4 quarters to be AE to be productive.

NEW SPEAKER

Essentially based on that, you would probably think that coming in a new fiscal year, the cells momentum should accelerate?

NEW SPEAKER

You know next quarter we will talk about the FY 14 plan.

NEW SPEAKER

Okay. Just 10 final question, what is the environment like for acquisition of sedan? How we balance that against the organic growth initiatives?

NEW SPEAKER

Yes I will point to my macro comments, is we are going to committed to delivering value through technology innovation, strategic acquisitions. And now dividend. We will continue to acquire. We there has not been a lot of M&A activity in the market in the last 90 days. We are patient we look for value. We know what we want and we will remain patient.

NEW SPEAKER

Okay. Thank you.

NEW SPEAKER

Scott Penner, TD Securities. Thank you Mark and I just have two questions for you, ask for you to repeat were you talking about the SAP Honda when the product you talking about deploying into Honda and the gold have this is farthest the solution?

NEW SPEAKER

Sure thing. So we looked at Hanna and we think there is value for OpenText to have a into memory solutions for ECM. So customers who are searching millions of documents, millions of invoices, doing work on X millions of semi-structure unstructured documents, we think the joint customers can benefit from having that in memory versus on the desk. I am really proud and pleased to say that we will natively support hanna specifically ECM as a engineering leveraging Honda. We will have as part of the relationship as ACP.

NEW SPEAKER

Second half of the calendar year?

NEW SPEAKER

That is correct, second-half of the calendar year.

NEW SPEAKER

Other question, the products that you ran through on the difference pillars of the E I am. Would you think the most opportunity is our? Into fusion that you talked more about or some of the other solutions?

NEW SPEAKER

Yes it is -- I will poke on a few. I think our archive solution is really quite phenomenal. We had a standalone archive solution for SAP, a different solution and standalone solution for exchange, SAP share point, are now integrated. And have a great user experience. So archive I am quite excited about. I also think the BPM assure solution in having a flexible case management solution. The Congo across multiple lines of business. I also highlight of course into fusion, we are working on version 2 Mac and some interesting things

NEW SPEAKER

I will note a fourth at was not in the script, it was the Temple line. Tempo box plus tempo social, then build in the EIM days Temple notes. Like ever notes. All three solutions integrated together tempo box, Temple social, Temple notes. To the back and as content server and archive, Temple note GAF the end of the quarter. So I think the Temple series is easy to understand by customers, easy to understand the sales force. Archive our Temple line much into fusion and PPM are sure would be my top four.

NEW SPEAKER

I will pass it along. Thank you.

NEW SPEAKER

Thanks Scott.

NEW SPEAKER

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Tom Liston, Cantor Fitzgerald. Figure and good afternoon. Mark you alluded to -- can you talk about the callous around the dividend was? How it relates to M&A activity is should be slowing down a bit? Or just simply paving if you want to get there, and probably going forward, whether triggers provincially increase including talk about organic growth in the step function investment kind of done obviously begun investment? VTech, the levers and why now to what might potentially increase that down the road?

NEW SPEAKER

Sure thinks tempered I will start by why dividend? First and foremost, we want to widen the investor base. We Inc. by issuing a dividend we will open up the conversation and attract a new class to the stock and I think that is good for everybody. Second, is our committed to delivering value not just through innovation or acquisitions, but now dividends. Now I point to the fantastic engine we have built to deliver superior cash flows we had record cash flow of 17 million in the quarter of 20% year-over-year, last four quarters, $33 million of operating cash flow. In our business is getting more efficient and our expectations to finish the full year at the upper and that the adjusted margin target range. So for all of those regions, the board felt it was the right time to initiate a dividend. We have all the cash that we need to operate our business to invest in product, acquire companies and now to issue a dividend.

NEW SPEAKER

Quick follow-up on the license revenue, one of the most impressive aspects was a big deals. Can you achieve that to anyone that are is vertical or just sales force getting into properly up to speed? A couple of key partners? One or two angles that contributed to the large deals being up so substantially?

NEW SPEAKER

I would say was just broad-based good execution. We have large deals in every GL. I think it was execution.

NEW SPEAKER

Great. Thanks. I will pass it along.

NEW SPEAKER

Paul Treiber, RBC Capital Markets. Thanks very much. Going back to the license revenue again. Despite the environment as you mentioned the execution was very good, did you see any impact from Eastern March for sequestration? Or did you or would you manage around that in the is a reflection of you new operations team you put in place and the sales force ramping up?

NEW SPEAKER

Paul thank you for the question. Look we are pleased with the 69 $69 million in license, 13% growth year-over-year. So it was very. We are pleased with that. We are focused on building our plans around what we control. Again you look at the G-8, advanced economies or the Eurozone, the GP projection for 2013 is 1% to 2%. So license growth is hard thoughts, we hard thoughts for the 13% growth. Sequester is not helpful. We executed around it but it is not certainly not helpful. What we are focused on, I have the teams focused on is what we own, what we control. I think our emerging market focus has been a big hedge against some of the advanced economies, I will point back to what we are seeing growing demand around security and security solutions. Which is sort of a new secular a new segment for us. Mobility as well, a high driven demand for the mobility. And smart applications are the new assure solution we are quite hopeful around. So since $9 million we are pleased with execution of we are aware of the backdrop of percent to 2% growth we navigated around it quite well in the quarter.

NEW SPEAKER

In speaking very broadly about perhaps the trend in would rates over the last several quarters from the last year and also the growth in the pipeline, would you say both of those metrics are ramping in line with your expectations at a high level as a sales force and the sales force comes on board?

NEW SPEAKER

Yes. I am pleased with our pipeline growth. And printing Kevin Cochrane on board he's been on board a couple of months, he is a joy to work with. He is a product oriented CMO, go to market specialist. Sales force from the in the pipeline as first principle and first mission. So Kevin will have quite a impact on the business. So I'm pleased with our pipeline growth. That also gives us the confidence of the second-half over second-half license growth that I commented on earlier. In terms of's would rates on this early seen any differences in the Timex percent.

NEW SPEAKER

Great. I will pass the line, you mentioned the quarterly license is that model still intact?

NEW SPEAKER

Quarterly license model?

NEW SPEAKER

Releases no license model.

NEW SPEAKER

Yes Paul. I think every time I commented on in the past, I made the comments at that if you look back over the last year there has been too much variability in note to have a consistent range. The only thing I will comment on certainly from a seasonality standpoint, we would expect Q4 to be higher than Q3 that's probably the best I can offer at this point.

NEW SPEAKER

Okay thanks very much.

NEW SPEAKER

Thank you Paul.

NEW SPEAKER

Kris Thompson, National Bank Financial. Great thanks Paul on the maintenance renewal of the cash generated from the deferred revenue this quarter were strong. But as bit lower than I expected in the year-over-year was down. Can you give us some color on the figure?

NEW SPEAKER

Yes first of all I think the cash cost were quite strong. We would have the anything to do Chris you're asking about the actual renewal rate itself stay consistent as in the low limeys. If anything it will be a timing on the collections. Again I think the collections overall is very very strong as you see the deferred revenue is up as you expect there's always a high percentage of renewals as we indicated in the past on December. Usually a little bit of lag on that volume for collections of the very first quarter of renewal, so it I think you'll see that recover up in the second I am sorry in the fourth-quarter.

NEW SPEAKER

Okay that is good. Paul or Mark the 8 multimillion dollar deal, and can you give us some color how many our existing versus new customer across

NEW SPEAKER

I would say looking at the list, it looks out well in line with that general new existing. So the of a 40 new and 60 existing.

NEW SPEAKER

The last couple of quarters you've been focusing I think to use your words, going more modules and your customer base that is still a strategy or it looks like you new salespeople bringing in new relationships and giving you adjust a new customers that what we are experiencing?

NEW SPEAKER

I think is a variety of things. Install bases is certainly a focus. For us. In a pretty new products or existing products to expand the number of modules existing customers use. Our capacity expansion includes places where we have not covered before. I had some of the emerging markets that's helping as well, I say it is new coverage, install base to focus.

NEW SPEAKER

Okay on the financial service vertical. To pick a weak area, it was down year-over-year, it is happening in that vertical and new products we require there? Does have some slippage in there?

NEW SPEAKER

No this really nothing to highlight there. I do not see any dynamic change. I think it is just quarter to quarter and mix and variability.

NEW SPEAKER

Okay guys I will leave it there. Thank you a lot.

NEW SPEAKER

Blair Abernethy, Stifel Nicolaus.

NEW SPEAKER

Thank you very much. Just a couple of things Paul, just on the resignation acquisition, what was their annual revenue run rate?

NEW SPEAKER

We will not disclosing any revenue ramping on that as I said in my comments. You know when we bring that together with OpenText with the primary customer. And so since we are reselling the products will not change our revenue run rate you will affect our cost of sales were not disclosing the amounts.

NEW SPEAKER

Okay. And on the meet its revenue, the minute space if you will, what you talk about the renewals how about the pricing environment for maintenance contracts? Particularly in Europe given the ongoing recession there?

NEW SPEAKER

We not see real difference in the trends. I mean we are still will be can getting some increases over renewals. Hardly any negotiating down. Maintenance as always been a mainstay for us in terms of getting renewals, rates are they have been quite consistent, getting increases, on it and we really have not seen much downward movement from either cancellation or reduction of renewal rates.

NEW SPEAKER

Okay great. On the partner side of the equation, obviously SAP continues to be the leading partner, but I want to perhaps drive this a bit more on some of the other partners outside of SAP and how they have been performing for you?

NEW SPEAKER

Well you know we look at our partner mix, within the quarter. Roughly 47% touching partners that is a fine ratio for us. Look we are still focus on surrounding Microsoft SharePoint, so SAP and Microsoft course of the two most invisible that we are making progress in sort of -- you know what I would say as in the country volume partners. Our partner program is also holding think of the top five partners in France, top bipartisan journey, top five partners in the UK but those partners will not have a brand recognition as some of the larger software houses, there has been a real focus from the partner team as well. We are taking a multi tier strategy. We are looking for a large strategic partners like SAP, technology partner relationship, some distributors, as well as whatever call in country value added partners. We think that's on the right shoji for us.

NEW SPEAKER

Okay great and one last quick one on a sure if I missed this on that, what is the current sales head count?

NEW SPEAKER

We have not disclose the actual headcount where for a few quarters that.

NEW SPEAKER

It will you give it on a annual basis?

NEW SPEAKER

No. We have a fair mix and the type of salespeople that we talked about in the past. We will talk about total sales which is 1100 people.

NEW SPEAKER

Fair enough. Thank you very much guys.

NEW SPEAKER

Paul Steep, Scotia Capital. Market you can back on the dividend, what is the target pay ratio and maybe how did the board Inc. about that in the initial level of dividends? More importantly, what is the growth target or plan going forward parks

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NEW SPEAKER

Paul this is Paul. We look at in terms what we thought was available operating cash. The mix of you will and about 20% over annual operating cash flow the general have the board looked at it. We've a significant amount of available for continued acquisitions. From a gross some point we cannot specify have the dividends will grow over time, as we have targeted cash flow in using our cash flow compound in 25% over last -- seven years. Probably how we will think about it as the board makes a declaration quarter to quarter and year to year.

NEW SPEAKER

That helps. Just a clarification on the litigation is that clear up the Captaris peace and basically put in place a license a longer-term license around that?

NEW SPEAKER

Yes and yes.

NEW SPEAKER

Great.

NEW SPEAKER

Stephanie Price, CIBC World Markets. Hello. Getting back to the cloud and the cloud revenue that you saw in the quarter can you talk a bit about how much of your products are actually rolled out in the cloud so far? Where you are with those initiatives and what the customer response has been?

NEW SPEAKER

Thank you Stephanie. So we have two summary offerings, we have the EasyLink products. That are fully in the cloud from as a service as we call it. And our second component, a much smaller components, though it, that we are looking to grow. Is our managed hosting services. I would say that are ECM platform is fully within the available sets for managed hosting today. A good part of the CEM offering, and BPM and IX is next, I say half of the problems are available in MHS for the cloud, and probably over the next year as we are philosophy as we go through the next release cycle, we want to make sure that their products are integrated into our cloud services layer. To be able to provide all the services necessary for management, monitoring, billing, customer care, supports. I would think over the next year as we go through every we release cycle, our products will be available on Trent and in our cloud.

NEW SPEAKER

Okay. Last one for me on the cross-selling initiative we talked about how those are going to the EIM shoji? How is that uptick been so far?

NEW SPEAKER

So two questions there. I will start with integrated EIM. There are no further questions in the queue.

NEW SPEAKER

Very good I like to leave you with a few select highlight the quarter. Record cash flows, dividend for program, expected annual adjusted margins in the upper end of the fiscal 13 target model range. 13% year-over-year. second-half over second-half license growth. Our EIM strategy and financial model are working. Thank you everyone for purchase bidding today that ends today's conference.

NEW SPEAKER

Ladies and gentlemen this concludes the conference for today. Thank you for your participation. You may now disconnect.

NEW SPEAKER

The Mac [End of Transcript]

NEW SPEAKER