

OPEN TEXT CORP  
Form 10-Q  
April 27, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

---

FORM 10-Q

---

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

For the quarterly period ended March 31, 2016.

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 (IRS Employer  
incorporation or organization) 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  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  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  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

At April 25, 2016, there were 121,289,277 outstanding Common Shares of the registrant.

OPEN TEXT CORPORATION  
TABLE OF CONTENTS

	Page No
PART I Financial Information:	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets</u> as of March 31, 2016 (unaudited) and June 30, 2015	<u>3</u>
<u>Condensed Consolidated Statements of Income</u> - Three and Nine Months Ended March 31, 2016 and 2015 (unaudited)	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u> - Three and Nine Months Ended March 31, 2016 and 2015 (unaudited)	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u> - Nine Months Ended March 31, 2016 and 2015 (unaudited)	<u>6</u>
Notes to Condensed Consolidated Financial Statements (unaudited)	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>60</u>
<u>Item 4. Controls and Procedures</u>	<u>61</u>
PART II Other Information:	
<u>Item 1A. Risk Factors</u>	<u>62</u>
<u>Item 6. Exhibits</u>	<u>62</u>
<u>Signatures</u>	<u>63</u>

OPEN TEXT CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

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

	March 31, 2016 (unaudited)	June 30, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$877,405	\$699,999
Short-term investments	13,008	11,166
Accounts receivable trade, net of allowance for doubtful accounts of \$7,932 as of March 31, 2016 and \$5,987 as of June 30, 2015 (note 3)	266,450	284,131
Income taxes recoverable (note 14)	15,577	21,151
Prepaid expenses and other current assets	56,030	53,191
Deferred tax assets (note 14)	27,952	30,711
Total current assets	1,256,422	1,100,349
Property and equipment (note 4)	172,020	160,419
Goodwill (note 5)	2,169,637	2,161,592
Acquired intangible assets (note 6)	558,571	679,479
Deferred tax assets (note 14)	156,148	155,411
Other assets (note 7)	75,286	85,576
Deferred charges (note 8)	26,575	37,265
Long-term income taxes recoverable (note 14)	8,706	8,404
Total assets	\$4,423,365	\$4,388,495
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$212,886	\$241,370
Current portion of long-term debt (note 10)	8,000	8,000
Deferred revenues	368,020	358,066
Income taxes payable (note 14)	20,906	17,001
Deferred tax liabilities (note 14)	734	997
Total current liabilities	610,546	625,434
Long-term liabilities:		
Accrued liabilities (note 9)	31,357	34,682
Deferred credits (note 8)	9,503	12,943
Pension liability (note 11)	58,292	56,737
Long-term debt (note 10)	1,574,000	1,580,000
Deferred revenues	33,868	28,223
Long-term income taxes payable (note 14)	142,616	151,484
Deferred tax liabilities (note 14)	52,701	69,185
Total long-term liabilities	1,902,337	1,933,254
Shareholders' equity:		
Share capital (note 12)		
121,220,097 and 122,293,986 Common Shares issued and outstanding at March 31, 2016 and June 30, 2015, respectively; Authorized Common Shares: unlimited	809,708	808,010
Additional paid-in capital	140,406	126,417
Accumulated other comprehensive income	51,248	51,828
Retained earnings	933,791	863,015
Treasury stock, at cost (633,647 shares at March 31, 2016 and 625,725 at June 30, 2015, respectively)	(25,268 )	(19,986 )
Total OpenText shareholders' equity	1,909,885	1,829,284

Non-controlling interests	597	523
Total shareholders' equity	1,910,482	1,829,807
Total liabilities and shareholders' equity	\$4,423,365	\$4,388,495
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 March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Revenues:				
License	\$64,397	\$63,561	\$197,584	\$197,137
Cloud services and subscriptions	147,505	147,513	444,394	456,342
Customer support	183,636	184,204	553,440	547,576
Professional service and other	45,005	52,299	145,007	168,154
Total revenues	440,543	447,577	1,340,425	1,369,209
Cost of revenues:				
License	2,480	2,980	7,190	9,388
Cloud services and subscriptions	61,298	60,776	179,132	178,886
Customer support	22,427	24,084	64,624	70,878
Professional service and other	37,599	42,396	114,038	129,999
Amortization of acquired technology-based intangible assets (note 6)	17,630	22,136	56,244	58,548
Total cost of revenues	141,434	152,372	421,228	447,699
Gross profit	299,109	295,205	919,197	921,510
Operating expenses:				
Research and development	48,160	53,222	140,310	144,134
Sales and marketing	84,600	97,146	248,420	269,167
General and administrative	37,731	45,552	107,067	120,962
Depreciation	13,754	12,809	39,998	37,516
Amortization of acquired customer-based intangible assets (note 6)	27,966	28,250	83,564	79,498
Special charges (recoveries) (note 17)	(1,671 )	5,622	24,754	4,032
Total operating expenses	210,540	242,601	644,113	655,309
Income from operations	88,569	52,604	275,084	266,201
Other income (expense), net	2,120	(9,550 )	(1,832 )	(28,737 )
Interest and other related expense, net	(16,228 )	(16,872 )	(54,461 )	(36,426 )
Income before income taxes	74,461	26,182	218,791	201,038
Provision for (recovery of) income taxes (note 14)	5,353	(309 )	20,629	35,401
Net income for the period	\$69,108	\$26,491	\$198,162	\$165,637
Net (income) loss attributable to non-controlling interests	7	119	(75 )	(114 )
Net income attributable to OpenText	\$69,115	\$26,610	\$198,087	\$165,523
Earnings per share—basic attributable to OpenText (note 20)	\$0.57	\$0.22	\$1.63	\$1.36
Earnings per share—diluted attributable to OpenText (note 20)	\$0.57	\$0.22	\$1.62	\$1.35
Weighted average number of Common Shares outstanding—basic	121,159	122,158	121,514	122,042
Weighted average number of Common Shares outstanding—diluted	121,706	123,054	122,044	122,980
Dividends declared per Common Share	\$0.2000	\$0.1725	\$0.6000	\$0.5175
See accompanying Notes to Condensed Consolidated Financial Statements				

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Net income for the period	\$69,108	\$26,491	\$198,162	\$165,637
Other comprehensive income—net of tax:				
Net foreign currency translation adjustments	988	9,280	(40 )	17,626
Unrealized gain (loss) on cash flow hedges:				
Unrealized gain (loss)	2,115	(2,801 )	(2,704 )	(7,017 )
Loss reclassified into net income	1,086	2,488	2,412	3,485
Actuarial gain (loss) relating to defined benefit pension plans:				
Actuarial loss	(1,848 )	(3,052 )	(87 )	(10,107 )
Amortization of actuarial loss into net income	88	75	261	280
Unrealized net gain (loss) on short-term investments	(557 )	4	(422 )	4
Unrealized gain on marketable securities (Actuate)	—	—	—	1,906
Release of unrealized gain on marketable securities (Actuate)	—	(1,906 )	—	(1,906 )
Total other comprehensive income (loss), net, for the period	1,872	4,088	(580 )	4,271
Total comprehensive income	70,980	30,579	197,582	169,908
Comprehensive (income) loss attributable to non-controlling interests	7	119	(75 )	(114 )
Total comprehensive income attributable to OpenText	\$70,987	\$30,698	\$197,507	\$169,794

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(unaudited)

	Nine Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net income for the period	\$ 198,162	\$ 165,637
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	179,806	175,562
Share-based compensation expense	19,080	15,940
Excess tax benefits on share-based compensation expense	(257 )	(1,611 )
Pension expense	3,459	3,602
Amortization of debt issuance costs	3,470	3,410
Amortization of deferred charges and credits	7,250	7,893
Loss on sale and write down of property and equipment	1,108	118
Release of unrealized gain on marketable securities to income	—	(3,098 )
Write off of unamortized debt issuance costs	—	2,919
Deferred taxes	(15,692 )	(4,037 )
Changes in operating assets and liabilities:		
Accounts receivable	22,152	76,560
Prepaid expenses and other current assets	(2,589 )	(4,001 )
Income taxes	3,290	1,354
Accounts payable and accrued liabilities	(27,434 )	(53,747 )
Deferred revenue	12,564	6,705
Other assets	2,233	(1,992 )
Net cash provided by operating activities	406,602	391,214

Cash flows from investing activities:			
Additions of property and equipment	(48,897)	)	(60,586)
Proceeds from maturity of short-term investments	9,239		7,092
Purchase of Daegis Inc., net of cash acquired	(22,146)	)	—
Purchase of Actuate Corporation, net of cash acquired	(8,153)	)	(291,768)
Purchase of Informative Graphics Corporation, net of cash acquired	(3,464)	)	(35,180)
Purchase of ICCM Professional Services Limited, net of cash acquired	(2,027)	)	—
Purchase of a division of Spicer Corporation	—		(222)
Purchase consideration for prior period acquisitions	—		(590)
Other investing activities	(6,124)	)	(8,915)
Net cash used in investing activities	(81,572)	)	(390,169)
Cash flows from financing activities:			
Excess tax benefits on share-based compensation expense	257		1,611
Proceeds from issuance of Common Shares	11,828		12,827
Purchase of Treasury Stock	(10,627)	)	(1,251)
Common Shares repurchased	(65,509)	)	—
Proceeds from long-term debt and revolver	—		800,000
Repayment of long-term debt	(6,000)	)	(520,485)
Debt issuance costs	—		(18,076)
Payments of dividends to shareholders	(71,627)	)	(63,174)
	(141,678)	)	211,452



Net cash provided by (used in) financing activities			
Foreign exchange loss on cash held in foreign currencies	(5,946	)	(27,210
Increase in cash and cash equivalents during the period	177,406		185,287
Cash and cash equivalents at beginning of the period	699,999		427,890
Cash and cash equivalents at end of the period	\$ 877,405		\$ 613,177

Supplementary cash flow disclosures (note 19)

See accompanying Notes to Condensed Consolidated Financial Statements

## OPEN TEXT CORPORATION

## UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended March 31, 2016

(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 subsidiaries, collectively referred to as "OpenText" or the "Company". We wholly own all of our subsidiaries with the exception of Open Text South Africa Proprietary Ltd. (OT South Africa), GXS, Inc. (GXS Korea) and EC1 Pte. Ltd. (GXS Singapore), which as of March 31, 2016, were 90%, 85% and 81% owned, respectively, by OpenText.

Throughout this Quarterly Report on Form 10-Q: (i) the term "Fiscal 2016" means our fiscal year beginning on July 1, 2015 and ending June 30, 2016; (ii) the term "Fiscal 2015" means our fiscal year beginning on July 1, 2014 and ended June 30, 2015; (iii) the term "Fiscal 2014" means our fiscal year beginning on July 1, 2013 and ended June 30, 2014; and (iv) the term "Fiscal 2013" means our fiscal year beginning on July 1, 2012 and ended June 30, 2013.

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.

## Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates, judgments and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements. These estimates, judgments and assumptions are evaluated on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable at that time, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. In particular, significant estimates, judgments and assumptions include those related to: (i) revenue recognition, (ii) allowance for doubtful accounts, (iii) testing of goodwill for impairment, (iv) the valuation of acquired intangible assets, (v) the valuation of long-lived assets, (vi) the recognition of contingencies, (vii) restructuring accruals, (viii) acquisition accruals and pre-acquisition contingencies, (ix) asset retirement obligations, (x) the realization of investment tax credits, (xi) the valuation of stock options granted and obligations related to share-based payments, including the valuation of our long-term incentive plan, (xii) the valuation of financial instruments, (xiii) the valuation of pension assets and obligations, and (xiv) accounting for income taxes.

## Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation including the reclassification related to a change in the method of allocating operating expenses within the Company. As a result of such reclassifications, the following expenses have been reclassified for the three and nine months ended March 31, 2015 as follows:

	Three Months Ended March 31, 2015	Nine Months Ended March 31, 2015
Reclassifications within cost of revenue		
Decrease to cost of revenue - Cloud services and subscriptions	\$(1,174)	\$(1,878)
Decrease to cost of revenue - Customer support	(8 )	(374 )
Decrease to cost of revenue - Professional services and other	(7 )	(654 )
Reclassifications within operating expenses		
Decrease to operating expense - General and administrative	\$(170 )	\$(365 )
Increase to operating expense - Sales and marketing	1,359	3,271

Starting in the fourth quarter of Fiscal 2015, we combined revenues from Cloud services and revenues from subscriptions into one line item named "Cloud services and subscriptions" revenue. In addition, we reclassified certain

license revenue, Customer support revenue and Professional services revenue to “Cloud services and subscriptions” revenue to better align the nature of revenues that are now depicted under “Cloud services and subscriptions” revenue. As a result, revenue and cost of revenues previously reflected in "License", "Customer support" and "Professional services and other" were reclassified to

7

---

“Cloud services and subscriptions”. These revenues and expenses have been reclassified in the Condensed Consolidated Statements of Income for the three and nine months ended March 31, 2015 to conform with the current period presentation as follows:

	Three Months Ended March 31, 2015	Nine Months Ended March 31, 2015
Reclassifications within revenue		
Decrease to License	\$ (397 )	\$(1,260 )
Decrease to Customer support	(131 )	(131 )
Decrease to Professional services and other	(3,163 )	(9,854 )
Increase to Cloud services and subscriptions	3,691	11,245
Reclassifications within cost of revenue		
Decrease to cost of revenue - License	\$ (34 )	\$(126 )
Decrease to cost of revenue - Professional services and other	(1,927 )	(5,679 )
Increase to cost of revenue - Cloud services and subscriptions	1,961	5,805

There was no change to income from operations, net income or net income per share in any of the periods presented as a result of these reclassifications.

#### NOTE 2—RECENT ACCOUNTING PRONOUNCEMENT

##### Share-based Compensation

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09, "Compensation-Stock Compensation (Topic 718)." This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for us during the first quarter of our fiscal year ending June 30, 2018, with early adoption permitted. We are currently assessing how the adoption of this standard will impact our Condensed Consolidated Financial Statements.

##### Leases

In February 2016, the FASB issued ASU 2016-02 “Leases (Topic 842)” (ASU 2016-02), which supersedes the guidance in former ASC Topic 840 “Leases”. The most significant change will result in the recognition of lease assets for the right to use the underlying asset and lease liabilities for the obligation to make lease payments by lessees, for those leases classified as operating leases under current guidance. The new guidance will also require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. This standard is effective for us for our fiscal year ending June 30, 2020, with early adoption permitted. Upon adoption of ASU 2016-02, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. We believe adoption of this standard will have a significant impact on our Condensed Consolidated Balance Sheets. Although we have not completed our assessment, we do not expect the adoption to change the recognition, measurement or presentation of lease expenses within the Condensed Consolidated Statements of Operations and Cash Flows.

##### Financial Instruments

In January 2016, the FASB issued ASU 2016-01 “Financial Instruments - Overall (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities” (ASU 2016-01). This update requires that all equity investments be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). This update also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, this update eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities

that are not public business entities and eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public entities. ASU 2016-01 is effective for our fiscal year ending June 30, 2019. We are currently evaluating the impact of the pending adoption of ASU 2016-01 on our Condensed Consolidated Financial Statements.

#### Income Taxes - Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU 2015-17 "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" (ASU 2015-17). This update eliminates the current requirement to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, under ASU 2015-17, entities will be required to classify all deferred tax assets and liabilities as noncurrent. ASU 2015-17 is effective for our fiscal year ending June 30, 2018. We are still evaluating whether to early adopt this guidance. We expect adoption will cause significant balance sheet reclassifications.

#### Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued ASU 2015-16 "Simplifying the Accounting for Measurement-Period Adjustments" (ASU 2015-16). This update amended Accounting Standards Codification (ASC) Topic 805 "Business Combinations" to simplify the presentation of adjustments to the initial purchase price allocation identified during the measurement period of a business combination. ASU 2015-16 requires that the acquirer record, in the reporting period in which the adjustment amounts are determined, the effect on earnings of changes in depreciation, amortization or their income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. An entity must present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination. During the third quarter of Fiscal 2016 we early adopted ASU 2015-16. The early adoption of ASU 2015-16 did not have an impact on our Condensed Consolidated Financial Statements for this period.

#### Presentation of Debt Issuance Costs

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

#### Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606" (ASU 2014-09). This update supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition" and nearly all other existing revenue recognition guidance under U.S. GAAP. The core principal of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 identifies five steps to be followed to achieve this core principal, which include (i) identifying contract(s) with customers, (ii) identifying performance obligations in the contract(s), (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. In August 2015, the FASB voted to defer the effective date of ASU 2014-09 for one year. The new guidance will now be effective for us in the first quarter of our fiscal year ending June 30, 2019. Early adoption, prior to the original effective date, 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. In March 2016, the FASB issued ASU 2016-08 "Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue versus Net)" (ASU 2016-08), which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard. ASU 2016-08 clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. In

April 2016, the FASB has issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing”. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments however did not change the core principle of the guidance in Topic 606. We are currently evaluating the effect that the pending adoption of the above mentioned ASUs will have on our Condensed Consolidated Financial Statements and related disclosures. Although it is expected to have a significant impact on our revenue recognition policies and disclosures, we have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

## NOTE 3—ALLOWANCE FOR DOUBTFUL ACCOUNTS

Balance as of June 30, 2015	\$5,987
Bad debt expense	4,498
Write-off /adjustments	(2,553 )
Balance as of March 31, 2016	\$7,932

Included in accounts receivable are unbilled receivables in the amount of \$28.4 million as of March 31, 2016 (June 30, 2015—\$26.7 million).

## NOTE 4—PROPERTY AND EQUIPMENT

	As of March 31, 2016		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	\$18,894	\$(12,205 )	\$6,689
Office equipment	819	(215 )	604
Computer hardware	124,322	(86,049 )	38,273
Computer software	44,029	(23,146 )	20,883
Capitalized software development costs	50,253	(14,099 )	36,154
Leasehold improvements	63,174	(33,709 )	29,465
Land and buildings	48,173	(8,221 )	39,952
Total	\$349,664	\$(177,644 )	\$172,020

	As of June 30, 2015		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	\$17,571	\$(11,334 )	\$6,237
Office equipment	1,532	(879 )	653
Computer hardware	110,076	(72,479 )	37,597
Computer software	37,981	(17,525 )	20,456
Capitalized software development costs	38,576	(7,353 )	31,223
Leasehold improvements	53,391	(29,458 )	23,933
Land and buildings	47,525	(7,205 )	40,320
Total	\$306,652	\$(146,233 )	\$160,419

## 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, 2015:

Balance as of June 30, 2015	\$2,161,592
Acquisition of Daegis Inc. (note 18)	8,045
Balance as of March 31, 2016	\$2,169,637



## NOTE 6—ACQUIRED INTANGIBLE ASSETS

As of March 31, 2016

	Cost	Accumulated Amortization	Net
Technology Assets	\$306,973	\$ (137,855 )	\$ 169,118
Customer Assets	707,806	(318,353 )	389,453
Total	\$ 1,014,779	\$ (456,208 )	\$ 558,571

As of June 30, 2015

	Cost	Accumulated Amortization	Net
Technology Assets	\$428,724	\$ (210,862 )	\$ 217,862
Customer Assets	716,525	(254,908 )	461,617
Total	\$ 1,145,249	\$ (465,770 )	\$ 679,479

The above balances as of March 31, 2016 have been reduced to reflect the impact of intangible assets relating to acquisitions where the gross cost has become fully amortized during the nine months ended March 31, 2016. The impact of this resulted in a reduction of \$129.3 million related to Technology Assets and \$20.1 million related to Customer Assets.

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,
2016 (three months ending June 30)	\$ 43,670
2017	167,614
2018	154,917
2019	127,513
2020	58,210
2021 and beyond	6,647
Total	\$ 558,571

## NOTE 7—OTHER ASSETS

	As of March 31, 2016	As of June 30, 2015
Debt issuance costs	\$27,160	\$30,630
Deposits and restricted cash	12,158	12,137
Deferred implementation costs	15,726	13,736
Cost basis investments	14,833	11,386
Marketable securities	—	9,108
Long-term prepaid expenses and other long-term assets	5,409	8,579
Total	\$75,286	\$85,576

Debt issuance costs relate primarily to costs incurred for the purpose of obtaining our credit facilities and Senior Notes (as defined in note 10 below), and are being amortized over the respective terms of the Term Loan B, the Revolver, and Senior Notes (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.

Marketable securities are classified as available for sale securities and are recorded on our Condensed Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of Accumulated Other Comprehensive Income. As of March 31, 2016, all of our marketable securities are recorded as short-term investments.

Long-term prepaid expenses and other long-term assets primarily relate to advance payments on long-term licenses that are being amortized over the applicable terms of the licenses.

#### NOTE 8—DEFERRED CHARGES AND CREDITS

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

#### NOTE 9—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Current liabilities

Accounts payable and accrued liabilities are comprised of the following:

	As of March 31, 2016	As of June 30, 2015
Accounts payable—trade*	\$43,643	\$15,558
Accrued salaries and commissions	66,393	83,888
Accrued liabilities	82,104	107,870
Accrued interest on Senior Notes	9,375	20,625
Amounts payable in respect of restructuring and other Special charges	9,025	12,065
Asset retirement obligations	2,346	1,364
Total	\$212,886	\$241,370

\*Accounts payable - trade has increased primarily as a result of an active working capital management program.

Long-term accrued liabilities

	As of March 31, 2016	As of June 30, 2015
Amounts payable in respect of restructuring and other Special charges	\$4,310	\$2,034
Other accrued liabilities*	20,228	24,826
Asset retirement obligations	6,819	7,822
Total	\$31,357	\$34,682

\* 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". As of March 31, 2016, the present value of this obligation was \$9.2 million (June 30, 2015—\$9.2 million), with an undiscounted value of \$9.8 million (June 30, 2015—\$9.8 million).

## NOTE 10—LONG-TERM DEBT

## Long-term debt

Long-term debt is comprised of the following:

	As of March 31, 2016	As of June 30, 2015
Total debt		
Senior Notes	\$800,000	\$800,000
Term Loan B	782,000	788,000
	1,582,000	1,588,000
Less:		
Current portion of long-term debt		
Term Loan B	8,000	8,000

Non-current portion of long-term debt \$1,574,000 \$1,580,000

## Senior Unsecured Fixed Rate Notes

On January 15, 2015, we issued \$800 million in aggregate principal amount of 5.625% Senior Notes due 2023 (Senior Notes) in an unregistered offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (Securities Act), and to certain persons in offshore transactions pursuant to Regulation S under the Securities Act. Senior Notes bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2015. Senior Notes will mature on January 15, 2023, unless earlier redeemed, in accordance with their terms, or repurchased.

For the three and nine months ended March 31, 2016, we recorded interest expense of \$11.2 million and \$33.7 million, respectively, relating to Senior Notes (three and nine months ended March 31, 2015—\$9.4 million, for both periods respectively).

## Term Loan B

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

Borrowings under Term Loan B are secured by a first charge over substantially all of our assets on a pari passu basis with the Revolver (defined below). We entered into Term Loan B and borrowed the full amount on January 16, 2014. Term Loan B has a seven year term and repayments made under Term Loan B are equal to 0.25% of the original principal amount in equal quarterly installments for the life of Term Loan B, with the remainder due at maturity. Borrowings under Term Loan B currently bear a floating rate of interest at a rate per annum equal to 2.5% plus the higher of LIBOR or 0.75%.

For the three and nine months ended March 31, 2016, we recorded interest expense of \$6.4 million and \$19.5 million, respectively, relating to Term Loan B (three and nine months ended March 31, 2015—\$6.4 million and \$19.6 million, respectively).

## Revolver

We currently have a \$300 million committed revolving credit facility (the Revolver). Borrowings under the Revolver are secured by a first charge over substantially all of our assets, and on a pari passu basis with Term Loan B. The Revolver will mature on December 22, 2019 with no fixed repayment date prior to the end of the term. As of March 31, 2016, we have not drawn any amounts on the Revolver.

## NOTE 11—PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

The following table provides details of our defined benefit pension plans and long-term employee benefit obligations for Open Text Document Technologies GmbH (CDT), GXS GmbH (GXS GER) and GXS Philippines, Inc. (GXS PHP) as of March 31, 2016 and June 30, 2015:

	As of March 31, 2016		
	Total benefit obligation	Current portion of benefit obligation*	Non-current portion of benefit obligation
CDT defined benefit plan	\$28,433	\$ 615	\$ 27,818
GXS Germany defined benefit plan	23,140	784	22,356
GXS Philippines defined benefit plan	6,318	33	6,285
Other plans	2,995	1,162	1,833
Total	\$60,886	\$ 2,594	\$ 58,292

  

	As of June 30, 2015		
	Total benefit obligation	Current portion of benefit obligation*	Non-current portion of benefit obligation
CDT defined benefit plan	\$26,091	\$ 575	\$ 25,516
GXS Germany defined benefit plan	22,420	774	21,646
GXS Philippines defined benefit plan	7,025	26	6,999
Other plans	2,751	175	2,576
Total	\$58,287	\$ 1,550	\$ 56,737

\*The current portion of the benefit obligation has been included within "Accrued salaries and commissions", all within "Accounts payable and accrued liabilities" in the Condensed Consolidated Balance Sheets (see Note 9).

## Defined Benefit Plans

## CDT Plan

CDT sponsors an unfunded defined benefit pension plan covering substantially all CDT employees (CDT pension plan) which provides for old age, disability and survivors' benefits. Benefits under the CDT pension plan are generally based on age at retirement, years of service and the employee's annual earnings. The net periodic cost of this pension plan is determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate and estimated service costs. No contributions have been made since the inception of the plan. Actuarial gains or losses in excess of 10% of the projected benefit obligation are being amortized and recognized as a component of net periodic benefit costs over the average remaining service period of the plan's active employees. As of March 31, 2016, there is approximately \$0.1 million in accumulated other comprehensive income related to the CDT pension plan that is expected to be recognized as a component of net periodic benefit costs over the remainder of the 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. Actuarial gains or losses in excess of 10% of the projected benefit obligation are being amortized and recognized as a component of net periodic benefit costs over the average remaining service period of the plan's active employees. As of March 31, 2016, there is approximately \$5.7 thousand in accumulated other comprehensive income related to the GXS GER plan that is expected to be recognized as a component of net periodic benefit costs over the remainder of the fiscal year.

## 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 has a fair value of approximately \$36.0 thousand as of March 31, 2016, 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.

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

	As of March 31, 2016				As of June 30, 2015			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Benefit obligation—beginning of period	\$26,091	\$22,420	\$7,025	\$55,536	\$29,344	\$24,182	\$5,276	\$58,802
Service cost	317	274	1,244	1,835	452	360	1,518	2,330
Interest cost	458	405	240	1,103	735	625	289	1,649
Benefits paid	(413 )	(577 )	(86 )	(1,076 )	(495 )	(793 )	(78 )	(1,366 )
Actuarial (gain) loss	1,988	597	(1,912 )	673	1,676	2,701	201	4,578
Foreign exchange (gain) loss	(8 )	21	(193 )	(180 )	(5,621 )	(4,655 )	(181 )	(10,457 )
Benefit obligation—end of period	28,433	23,140	6,318	57,891	26,091	22,420	7,025	55,536
Less: Current portion	(615 )	(784 )	(33 )	(1,432 )	(575 )	(774 )	(26 )	(1,375 )
Non-current portion of benefit obligation	\$27,818	\$22,356	\$6,285	\$56,459	\$25,516	\$21,646	\$6,999	\$54,161

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

	Three Months Ended March 31, 2016				2015			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Pension expense:								
Service cost	\$106	\$86	\$393	\$585	\$104	\$100	\$416	\$620
Interest cost	153	140	78	371	170	125	73	368
Amortization of actuarial gains and losses	107	6	—	113	93	—	—	93
Net pension expense	\$366	\$232	\$471	\$1,069	\$367	\$225	\$489	\$1,081
	Nine Months Ended March 31, 2016				2015			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Pension expense:								
Service cost	\$317	\$274	\$1,244	\$1,835	\$344	\$257	\$1,113	\$1,714
Interest cost	458	405	240	1,103	560	497	208	1,265
Amortization of actuarial gains and losses	319	17	—	336	307	—	—	307
Net pension expense	\$1,094	\$696	\$1,484	\$3,274	\$1,211	\$754	\$1,321	\$3,286

In determining the fair value of the pension plan benefit obligations as of March 31, 2016 and June 30, 2015, respectively, we used the following weighted-average key assumptions:

	As of March 31, 2016			As of June 30, 2015		
	CDT	GXS GER	GXS PHP	CDT	GXS GER	GXS PHP
Assumptions:						
Salary increases	2.00%	2.00%	6.20%	2.00%	2.00%	7.00%
Pension increases	1.75%	2.00%	4.00%	1.75%	2.00%	3.50%
Discount rate	1.94%	2.13%	4.75%	2.36%	2.54%	4.75%
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
2016 (three months ending June 30)	\$ 144	\$ 193	\$ 7
2017	629	787	30
2018	672	876	39
2019	753	936	65
2020	820	988	101
2021 to 2025	5,034	5,368	1,262
Total	\$ 8,052	\$ 9,148	\$ 1,504

#### Other Plans

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

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

##### Cash Dividends

For the three and nine months ended March 31, 2016, pursuant to the Company's dividend policy, we declared total non-cumulative dividends of \$0.2000 and \$0.6000, respectively, per Common Share, in the aggregate amount of \$24.1 million and \$71.6 million, respectively, which we paid during the same period.

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

##### Share Capital

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



### Treasury Stock Repurchase

During the three months ended March 31, 2016, we did not repurchase any of our Common Shares for potential reissuance under our Long Term Incentive Plans (LTIP) or other plans. During the nine months ended March 31, 2016, we repurchased 225,000 Common Shares, in the amount of \$10.6 million, for potential reissuance under our LTIP or other plans.

During the three and nine months ended March 31, 2015, we repurchased 22,222 Common Shares, in the amount of \$1.3 million, for potential reissuance under our LTIP or other plans. See below for more details on our various plans.

### Reissuance

During the three and nine months ended March 31, 2016, we reissued 10,000 and 217,078 Common Shares, respectively, from treasury stock (three and nine months ended March 31, 2015—22,222 and 377,775 Common Shares, respectively), in connection with the settlement of our LTIP and other awards.

### Share Repurchase Plan

On July 28, 2015, our board of directors (the Board) authorized the repurchase of up to \$200 million of Common Shares (Share Repurchase Plan). Shares may be repurchased from time to time in the open market, private purchases through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise.

During the three months ended March 31, 2016, we did not repurchase any of our Common Shares under the Share Repurchase Plan (three months ended March 31, 2015—nil).

During the nine months ended March 31, 2016, we repurchased and cancelled 1,476,248 Common Shares for approximately \$65.5 million under our Share Repurchase Plan (nine months ended March 31, 2015—nil). Of the \$65.5 million repurchased, \$55.7 million was recorded to retained earnings to reflect the difference between the market price of Common Shares repurchased and its book value.

As of March 31, 2016, approximately \$134.5 million remained available for the repurchase of Common Shares under the Share Repurchase Plan.

### Share-Based Payments

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Stock options	\$3,025	\$3,461	\$9,785	\$8,875
Performance Share Units (issued under LTIP)	610	600	1,957	1,745
Restricted Share Units (issued under LTIP)	1,150	1,287	3,754	3,391
Restricted Share Units (other)	330	320	1,041	564
Deferred Share Units (directors)	533	894	2,225	1,365
Employee Share Purchase Plan	318	—	318	—
Total share-based compensation expense	\$5,966	\$6,562	\$19,080	\$15,940

### Summary of Outstanding Stock Options

As of March 31, 2016, an aggregate of 4,214,440 options to purchase Common Shares were outstanding and an additional 2,856,391 options to purchase Common Shares were available for issuance under our stock option plans. Our stock options generally vest over four years and expire between seven and ten years from the date of the grant. Currently we also have options outstanding that vest over five years, as well as options outstanding that vest based on meeting certain market conditions. The exercise price of all our options is set at an amount that is not less than the closing price of our Common Shares on the NASDAQ on the trading day immediately preceding the applicable grant date.

Edgar Filing: OPEN TEXT CORP - Form 10-Q

A summary of activity under our stock option plans for the nine months ended March 31, 2016 is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$'000s)
Outstanding at June 30, 2015	4,375,365	\$ 42.26		
Granted	585,140	46.13		
Exercised	(324,702 )	25.57		
Forfeited or expired	(421,363 )	48.87		
Outstanding at March 31, 2016	4,214,440	\$ 43.42	4.67	\$ 38,565
Exercisable at March 31, 2016	1,605,470	\$ 37.13	3.61	\$ 24,015

We estimate the fair value of stock options using the Black-Scholes option-pricing model or, where appropriate, the Monte Carlo Valuation Method, consistent with the provisions of ASC Topic 718, "Compensation—Stock Compensation" (Topic 718) and SEC Staff Accounting Bulletin No. 107. The option-pricing models require input of subjective assumptions, including the estimated life of the option and the expected volatility of the underlying stock over the estimated life of the option. We use historical volatility as a basis for projecting the expected volatility of the underlying stock and estimate the expected life of our stock options based upon historical data.

We believe that the valuation techniques and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair value of our stock option grants. Estimates of fair value are not intended, however, to predict actual future events or the value ultimately realized by employees who receive equity awards.

For the periods indicated, the weighted-average fair value of options and weighted-average assumptions were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Weighted-average fair value of options granted	\$10.81	\$13.35	\$11.06	\$13.59
Weighted-average assumptions used:				
Expected volatility	31.53 %	31.68 %	32.23 %	31.94 %
Risk-free interest rate	1.08 %	1.14 %	1.34 %	1.43 %
Expected dividend yield	1.70 %	1.27 %	1.66 %	1.20 %
Expected life (in years)	4.33	4.33	4.33	4.33
Forfeiture rate (based on historical rates)	5 %	5 %	5 %	5 %
Average exercise share price	\$47.01	\$54.17	\$46.13	\$54.57

As of March 31, 2016, the total compensation cost related to the unvested stock option awards not yet recognized was approximately \$27.1 million, which will be recognized over a weighted-average period of approximately 2.3 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 and nine months ended March 31, 2016, cash in the amount of \$2.0 million and \$8.3 million, respectively, was received as the result of the exercise of options granted under share-based payment arrangements. The tax benefit realized by us during the three and nine months ended March 31, 2016 from the exercise of options eligible for a tax deduction was \$0.4 million and \$0.6 million, respectively.

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

Long-Term Incentive Plans

We incentivize our executive officers, in part, with long term compensation pursuant to our LTIP. The LTIP is a rolling three year program that grants eligible employees a certain number of target Performance Share Units (PSUs) and/or Restricted

Share Units (RSUs). Target PSUs become vested upon the satisfaction of certain financial and/or operational performance criteria (the Performance Conditions) that are determined at the time of the grant. Target RSUs become vested when an eligible employee remains employed throughout the vesting period. LTIP grants that have recently vested, or have yet to vest, are described below. LTIP grants will be referred to in this Quarterly Report on Form 10-Q based upon the year in which the grants are expected to vest.

#### Fiscal 2015 LTIP

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. We settled the Fiscal 2015 LTIP by issuing 202,078 Common Shares from our treasury stock during the three months ended December 31, 2015, with a cost of \$5.0 million.

#### Fiscal 2016 LTIP

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

#### Fiscal 2017 LTIP

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.

#### Fiscal 2018 LTIP

Grants made in Fiscal 2016 under the LTIP (collectively referred to as Fiscal 2018 LTIP), consisting of PSUs and RSUs, took effect in Fiscal 2016 starting on August 23, 2015. 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 2018 LTIP. We expect to settle the Fiscal 2018 LTIP awards in stock.

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

As of March 31, 2016, the total expected compensation cost related to the unvested LTIP awards not yet recognized was \$15.2 million, which is expected to be recognized over a weighted average period of 1.9 years.

#### Restricted Share Units (RSUs)

During the three and nine months ended March 31, 2016, we granted 25,000 RSUs to employees in accordance with employment agreements (three and nine months ended March 31, 2015—30,000 and 45,000, respectively). The RSUs will vest over a specified contract date, typically three years from the respective date of grants. We expect to settle the awards in stock.

During the three and nine months ended March 31, 2016, we issued 10,000 and 15,000 Common Shares, respectively, from our treasury stock, with a cost of \$0.2 million and \$0.3 million, respectively, in connection with the settlement of vested RSUs (three and nine months ended March 31, 2015—22,222, with a cost of \$1.3 million, for both periods respectively).

#### Deferred Stock Units (DSUs)

During the three and nine months ended March 31, 2016, we granted 1,287 and 54,660 DSUs, respectively, to certain non-employee directors (three and nine months ended March 31, 2015—37,199 and 37,597, respectively). 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)

We recently implemented a number of amendments to our ESPP, including increasing the purchase price discount from 5% to 15% and permitting Common Shares to be purchased on the open market by the trustee of a trust, or by an agent or broker designated by an administrator, and transferred to eligible employees under the ESPP, as an alternative to the issuance of Common Shares from treasury (the Amendments). The Amendments apply to purchase periods commencing on or after January 1, 2016 unless otherwise determined by the Board or the compensation committee of the Board.

In accordance with the Amendments, during the three months ended March 31, 2016, we have determined that 40,900 Common Shares are eligible for issuance to employees enrolled in the ESPP, after factoring a purchase price discount of 15%. Any Common Shares that have been issued under the ESPP prior to the purchase period commencing on January 1, 2016 were issued at a purchase price discount of 5%.

During the three and nine months ended March 31, 2016, cash in the amount of approximately \$1.8 million and \$3.5 million, respectively, was received from employees relating to the ESPP (three and nine months ended March 31, 2015—\$0.7 million and \$2.2 million, respectively).

### NOTE 13—GUARANTEES AND CONTINGENCIES

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

	Total	Payments due between			
		April 1, 2016—July 1, 2016— June 30, 2016	July 1, 2016—July 1, 2018— June 30, 2018	July 1, 2018—July 1, 2020— June 30, 2020	July 1, 2020 and beyond
Long-term debt obligations	\$2,017,741	\$ 8,424	\$ 156,944	\$ 155,957	\$1,696,416
Operating lease obligations*	188,797	11,136	74,506	51,022	52,133
Purchase obligations	9,921	2,732	6,661	528	—
	\$2,216,459	\$ 22,292	\$ 238,111	\$ 207,507	\$1,748,549

\*Net of \$6.9 million of sublease income to be received from properties which we have subleased to third parties.

#### Guarantees and Indemnifications

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

#### Litigation

We are currently involved in various claims and legal proceedings.

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

As we have previously disclosed, the United States Internal Revenue Service (IRS) is examining certain of our tax returns for our fiscal year ended June 30, 2010 (Fiscal 2010) through our fiscal year ended June 30, 2012 (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. We also

previously disclosed that the examinations may lead to proposed adjustments to our taxes that may be material, individually or in the aggregate, and that we have not recorded any material accruals for any such potential adjustments in our Condensed Consolidated Financial Statements.

As part of these examinations, (which are ongoing), on July 17, 2015 we received from the IRS a Notice of Proposed Adjustment (NOPA) in draft form proposing a one-time approximately \$280 million increase to our U.S. federal taxes arising from the reorganization in Fiscal 2010 and proposing penalties equal to 20% of the additional taxes, plus interest at the applicable statutory rate (which will continue to accrue until the matter is resolved and may be substantial). A NOPA is an IRS position and does not impose an obligation to pay tax. The draft NOPA may be changed before the final NOPA is issued, including because the IRS reserved the right in the draft NOPA to increase the adjustment. Based on our discussions with the IRS, we expect we will receive an additional NOPA proposing an approximately \$80 million increase to our U.S. federal taxes for Fiscal 2012 arising from the integration of Global 360 Holding Corp. into the structure that resulted from the reorganization, accompanied by proposed penalties and interest (although there can be no assurance that this will be the amount reflected in the NOPA when received). Depending upon the outcome of these matters, additional state income taxes plus penalties and interest may be due. We currently estimate that, as of March 31, 2016, adjustments under the draft NOPA in its present form and the anticipated additional NOPA could result in an aggregate liability of approximately \$550 million, inclusive of U.S. federal and state taxes, penalties and interest.

We strongly disagree with the IRS' position and intend to vigorously contest the proposed adjustments to our taxable income. We are examining various alternatives available to taxpayers to contest the proposed adjustments. Any such alternatives could involve a lengthy process and result in the incurrence of significant expenses. As of the date of this Quarterly Report on Form 10-Q, we have not recorded any material accruals in respect of these examinations in our Condensed Consolidated Financial Statements. An adverse outcome of these tax examinations could have a material adverse effect on our financial position and results of operations.

As part of our acquisition of GXS, we have inherited a tax dispute in Brazil between the Company's subsidiary, GXS Tecnologia da Informação (Brasil) Ltda. (GXS Brazil), and the municipality of São Paulo, in connection with GXS Brazil's judicial appeal of a tax claim in the amount of \$2.2 million as of March 31, 2016. We currently have in place a bank guarantee in the amount of \$3.4 million in recognition of this dispute. However, we believe that the position of the São Paulo tax authorities is not consistent with the relevant facts and based on information available on the case and other similar matters provided by local counsel, we believe that we can defend our position and that no tax is owed. Although we believe that the facts support our position, the ultimate outcome of this matter could result in a loss of up to the claim amount discussed above, plus future interest or penalties that may accrue.

Historically, prior to our acquisition of GXS, GXS would charge certain costs to its subsidiaries, including GXS Brazil, primarily based on historical transfer pricing studies that were intended to reflect the costs incurred by subsidiaries in relation to services provided by the parent company to the subject subsidiary. GXS recorded taxes on amounts billed, that were considered to be due based on the intercompany charges. GXS subsequently re-evaluated its intercompany charges to GXS Brazil and related taxes and, upon taking into consideration the current environment and judicial proceedings in Brazil, concluded that it was probable that certain indirect taxes would be assessable and payable based upon the accrual of such intercompany charges and has approximately \$4.5 million accrued for the probable amount of a settlement related to the indirect taxes, interest and penalties.

Our Indian subsidiary, GXS India Technology Centre Private Limited (GXS India), is subject to potential assessments by Indian tax authorities in the city of Bangalore. GXS India has received assessment orders from the Indian tax authorities alleging that the transfer price applied to intercompany transactions was not appropriate. Based on advice from our tax advisors, we believe that the facts that the Indian tax authorities are using to support their assessment are incorrect. We have filed appeals and anticipate an eventual settlement with the Indian tax authorities. We have accrued \$1.5 million to cover our anticipated financial exposure in this matter.

Please also see "Risk Factors" included in our Annual Report on Form 10-K for Fiscal 2015.

#### NOTE 14—INCOME TAXES

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

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





For the three and nine months ended March 31, 2016 and 2015, we recognized the following amounts as income tax-related interest expense and penalties:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Interest expense	\$949	\$1,587	\$3,921	\$5,098
Penalties expense (recoveries)	7	(90)	(2,719)	(385)
Total	\$956	\$1,497	\$1,202	\$4,713

As of March 31, 2016 and June 30, 2015, the following amounts have been accrued on account of income tax-related interest expense and penalties:

	As of March 31, 2016	As of June 30, 2015
Interest expense accrued *	\$31,791	\$28,827
Penalties accrued *	\$1,687	\$5,040

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

We believe that it is reasonably possible that the gross unrecognized tax benefits, as of March 31, 2016, could decrease tax expense in the next 12 months by \$3.8 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. The earliest fiscal years open for examination are 2008 for both Canada and Germany, 2010 for the United States, and 2011 for Luxembourg.

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, Germany, India, the Netherlands and Japan. 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. For more information relating to certain tax audits, please refer to note 13.

As at March 31, 2016, we have provided \$13.6 million (June 30, 2015—\$12.1 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 tax rate (which is the provision for taxes expressed as a percentage of net income before taxes) increased to an expense of 7.2% for the three months ended March 31, 2016, compared to a recovery of 1.2% for the three months ended March 31, 2015. The increase to tax expense of \$5.7 million is primarily the result of higher net income, having an impact of \$12.8 million, partially offset by (i) variances in income among jurisdiction resulting in an increased benefit of foreign rates in the amount of \$4.4 million and (ii) a decrease in the amount of tax filings in

excess of amounts booked in the amount of \$3.4 million. The remainder of the differences are due to normal course movements and non-material items.

The effective tax rate decreased to 9.4% for the nine months ended March 31, 2016, compared to 17.6% for the nine months ended March 31, 2015. The decrease to tax expense of \$14.8 million is primarily the result of a decrease in the net expense of unrecognized tax benefits with related interest and penalties in the amount of \$14.5 million. The remainder of the differences are due to normal course movements and non-material items.

## NOTE 15—FAIR VALUE MEASUREMENT

ASC Topic 820 “Fair Value Measurement” (Topic 820) defines fair value, establishes a framework for measuring fair value, and addresses disclosure requirements for fair value measurements. Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value, in this context, should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including our own credit risk.

In addition to defining fair value and addressing disclosure requirements, Topic 820 establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which are determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1—inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2—inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

## Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis:

Our financial assets and liabilities measured at fair value on a recurring basis consisted of the following types of instruments as of March 31, 2016 and June 30, 2015:

	March 31, 2016			June 30, 2015				
	March 31, 2016	Fair Market Measurements using: Quoted prices in active markets for identical assets/ (liabilities) (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	June 30, 2015	Fair Market Measurements using: Quoted prices in active markets for identical assets/ (liabilities) (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets:								
Short-term investments*	\$ 13,008	n/a	\$ 13,008	n/a	\$ 20,274	n/a	\$ 20,274	n/a
Derivative financial instrument asset (note 16)	—	n/a	—	n/a	273	n/a	273	n/a
	\$ 13,008	n/a	\$ 13,008	n/a	\$ 20,547	n/a	\$ 20,547	n/a
Financial Liabilities:								
Derivative financial instrument liability (note 16)	\$(125 )	n/a	\$(125 )	n/a	\$—	n/a	\$—	n/a
	\$(125 )	n/a	\$(125 )	n/a	\$—	n/a	\$—	n/a

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

Our valuation techniques used to measure the fair values of the derivative instruments, the counterparty to which has high credit ratings, were derived from pricing models including discounted cash flow techniques, with all significant inputs derived

from or corroborated by observable market data, as no quoted market prices exist for these instruments. Our discounted cash flow techniques use observable market inputs, such as, where applicable, foreign currency spot and forward rates.

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

#### Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We measure certain assets at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the three and nine months ended March 31, 2016 and 2015, no indications of impairment were identified and therefore no fair value measurements were required.

If applicable, we will recognize transfers between levels within the fair value hierarchy at the end of the reporting period in which the actual event or change in circumstance occurs. During the three and nine months ended March 31, 2016 and 2015, we did not have any transfers between Level 1, Level 2 or Level 3.

#### Short-term Investments

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

A summary of our short-term investments outstanding as of March 31, 2016 and June 30, 2015 is as follows:

	As of March 31, 2016			As of June 30, 2015				
Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	
Short-term investments	\$ 13,442	\$ 5	\$ (439 )	\$ 13,008	\$ 20,286	\$ 2	\$ (14 )	\$ 20,274

#### NOTE 16—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

##### Foreign Currency Forward Contracts

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

We have designated these transactions as cash flow hedges of forecasted transactions under ASC Topic 815 “Derivatives and Hedging” (Topic 815). As the critical terms of the hedging instrument, and of the entire hedged forecasted transaction, are the same, in accordance with Topic 815 we have been able to conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. Accordingly, quarterly unrealized gains or losses on the effective portion of these forward contracts have been included within other comprehensive income. The fair value of the contracts, as of March 31, 2016, is recorded within “Accounts payable and accrued liabilities”.

As of March 31, 2016, the notional amount of forward contracts we held to sell U.S. dollars in exchange for Canadian dollars was \$44.8 million (June 30, 2015—\$76.4 million).

##### Fair Value of Derivative Instruments and Effect of Derivative Instruments on Financial Performance

The effect of these derivative instruments on our Condensed Consolidated Financial Statements for the periods indicated below were as follows (amounts presented do not include any income tax effects).

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Fair Value of Derivative Instruments in the Condensed Consolidated Balance Sheets (see note 15)

Derivatives	Balance Sheet Location	As of	As of
		March 31, 2016	June 30, 2015
		Fair Value Asset (Liability)	Fair Value Asset (Liability)
Foreign currency forward contracts designated as cash flow hedges	Prepaid expenses and other current assets (Accounts payable and accrued liabilities)	\$ (125 )	\$ 273

Effects of Derivative Instruments on Income and Other Comprehensive Income (OCI)  
Three and Nine Months Ended March 31, 2016

Derivatives in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)			
	Three Months Ended March 31, 2016	Nine Months Ended March 31, 2016	Three Months Ended March 31, 2016	Nine Months Ended March 31, 2016		Three Months Ended March 31, 2016	Nine Months Ended March 31, 2016		
Foreign currency forward contracts	\$2,877	\$(3,679)	Operating expenses		\$ (1,477)	\$(3,281)	N/A	\$ —	\$ —

Three and Nine Months Ended March 31, 2015

Derivatives in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months Ended March 31, 2015	Nine Months Ended March 31, 2015	Three Months Ended March 31, 2015	Nine Months Ended March 31, 2015		Three Months Ended March 31, 2015	Nine Months Ended March 31, 2015

Edgar Filing: OPEN TEXT CORP - Form 10-Q

	Three Months Ended March 31, 2015	Nine Months Ended March 31, 2015	Operating expenses	Three Months Ended March 31, 2015	Nine Months Ended March 31, 2015	N/A	Three Months Ended March 31, 2015	Nine Months Ended March 31, 2015
Foreign currency forward contracts	\$(3,811)	\$(9,548)		\$(3,385)	\$(4,742)		\$ —	\$ —

## NOTE 17—SPECIAL CHARGES (RECOVERIES)

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

	Three Months		Nine Months	
	Ended March 31,		Ended March 31,	
	2016	2015	2016	2015
Fiscal 2015 Restructuring Plan	751	2,071	21,780	2,071
OpenText/GXS Restructuring Plan	28	455	(2,006 )	4,647
Restructuring Plans prior to OpenText/GXS Restructuring Plan	—	(1,275 )	4	(1,600 )
Acquisition-related costs	855	1,506	2,015	4,284
Other charges (recoveries)	(3,305 )	2,865	2,961	(5,370 )
Total	\$(1,671)	\$5,622	\$24,754	\$4,032

## Fiscal 2015 Restructuring Plan

In the third quarter of Fiscal 2015 and in the context of the acquisition of Actuate Corporation (Actuate), we began to implement restructuring activities to streamline our operations (OpenText/Actuate Restructuring Plan). We subsequently announced, on May 20, 2015 that we were initiating a restructuring program in conjunction with organizational changes to support our cloud strategy and drive further operational efficiencies. These charges are combined with the OpenText/Actuate Restructuring Plan (collectively referred to as the Fiscal 2015 Restructuring Plan) and are presented below. The Fiscal 2015 Restructuring Plan charges relate to workforce reductions and facility consolidations. These charges require management to make certain judgments and estimates regarding the amount and timing of restructuring charges or recoveries. Our estimated liability could change subsequent to its recognition, requiring adjustments to the expense and the liability recorded. On a quarterly basis, we conduct an evaluation of the related liabilities and expenses and revise our assumptions and estimates as appropriate.

As of March 31, 2016, we expect total costs to be incurred in conjunction with the Fiscal 2015 Restructuring Plan to be approximately \$32.0 to \$35.0 million, of which \$30.1 million has already been recorded within Special charges to date. We expect the Fiscal 2015 Restructuring Plan to be substantially completed by the end of Fiscal 2016.

A reconciliation of the beginning and ending liability for the nine months ended March 31, 2016 is shown below.

Fiscal 2015 Restructuring Plan	Workforce reduction	Facility costs	Total
Balance as of June 30, 2015	\$ 3,842	\$ 2,126	\$5,968
Accruals and adjustments	16,971	4,809	21,780
Cash payments	(15,129 )	(1,829 )	(16,958 )
Foreign exchange	(666 )	368	(298 )
Balance as of March 31, 2016	\$ 5,018	\$ 5,474	\$10,492

## OpenText/GXS Restructuring Plan

In the third quarter of Fiscal 2014 and in the context of the acquisition of GXS, we began to implement restructuring activities to streamline our operations (OpenText/GXS Restructuring Plan). These charges relate to workforce reductions, facility consolidations and other miscellaneous direct costs. These charges require management to make certain judgments and estimates regarding the amount and timing of restructuring charges or recoveries. Our estimated liability could change subsequent to its recognition, requiring adjustments to the expense and the liability recorded. On a quarterly basis, we conduct an evaluation of the related liabilities and expenses and revise our assumptions and estimates as appropriate.

Since the inception of the plan \$25.3 million has been recorded within Special charges. We do not expect to incur any further significant charges related to this plan.



A reconciliation of the beginning and ending liability for the nine months ended March 31, 2016 are shown below.

OpenText/GXS Restructuring Plan	Workforce reduction	Facility costs	Total
Balance as of June 30, 2015	\$ 2,846	\$ 4,436	\$ 7,282
Accruals and adjustments	(458 )	(1,547 )	(2,005 )
Cash payments	(494 )	(1,541 )	(2,035 )
Foreign exchange	(208 )	(566 )	(774 )
Balance as of March 31, 2016	\$ 1,686	\$ 782	\$ 2,468

#### Acquisition-related costs

Included within "Special charges" for the three and nine months ended March 31, 2016 are costs incurred directly in relation to acquisitions in the amount of \$0.7 million and \$1.9 million, respectively (three and nine months ended March 31, 2015—\$1.4 million and \$3.9 million, respectively). We incurred \$0.1 million costs relating to financial advisory, legal, valuation and audit services and other miscellaneous costs necessary to integrate acquired companies into our organization during the three and nine months ended March 31, 2016 (three and nine months ended March 31, 2015—\$0.1 million and \$0.4 million, respectively).

#### Other charges (recoveries)

##### ERP Implementation Costs

We are currently involved in a one-time project to implement a broad enterprise resource planning (ERP) system. The project is expected to be completed within our fiscal year ended June 30, 2017.

For the three and nine months ended March 31, 2016, we incurred costs of \$1.1 million and \$5.9 million, respectively, relating to this project.

#### Other costs

For the three months ended March 31, 2016, "Other costs" primarily includes (i) a charge of \$0.6 million relating to post-acquisition integration costs necessary to streamline an acquired company into our operations and to reorganize certain legal entities and (ii) \$0.2 million relating to assets disposed in connection with a restructured facility. These charges were offset by (i) a recovery of \$4.7 million relating to certain pre-acquisition sales and use tax liabilities being released upon settlement and (ii) the release of \$0.6 million relating to interest on certain pre-acquisition liabilities becoming statute barred.

For the nine months ended March 31, 2016, "Other costs" primarily includes (i) a charge of \$1.5 million relating to post-acquisition integration costs necessary to streamline an acquired company into our operations and to reorganize certain legal entities, (ii) \$1.1 million relating to the assets disposed in connection with a restructured facility and (iii) \$0.4 million of other miscellaneous charges. These charges were offset by (i) a recovery of \$5.2 million relating to certain pre-acquisition sales and use tax liabilities being released upon settlement or becoming statute barred and (ii) a recovery of \$0.7 million relating to interest being released on certain pre-acquisition liabilities becoming statute barred.

Included within "Other costs" for the three months ended March 31, 2015 is (i) a charge of \$2.9 million relating to the write-off of unamortized debt issuance costs associated with the repayment of our previously existing \$600 million term loan facility (Term Loan A) and (ii) a charge of \$2.1 million relating to post-business combination compensation obligations, associated with the acquisition of Actuate. These charges were offset by a recovery of \$2.8 million relating to certain pre-acquisition sales and use tax liabilities being released upon settlement.

Included within "Other recoveries" for the nine months ended March 31, 2015 is (i) a recovery of \$8.8 million relating to certain pre-acquisition tax liabilities being released upon settlement, (ii) a recovery of \$2.4 million relating to certain pre-acquisition sales and use tax liabilities becoming statute barred and (iii) a recovery of \$1.3 million relating to interest released on certain pre-acquisition liabilities. These recoveries were offset by charges of \$2.9 million relating to the write-off of unamortized debt issuance costs associated with the repayment of Term Loan A and \$2.1 million relating to post-business combination compensation obligations associated with the acquisition of Actuate.

## NOTE 18—ACQUISITIONS

## Fiscal 2016 Acquisitions

## Acquisition of Daegis Inc.

On November 23, 2015, we acquired Daegis Inc. (Daegis), a global information governance, data migration solutions and development company, based in Irvine, Texas, United States. Total consideration for Daegis was \$23.3 million (\$22.1 million - net of cash acquired). In accordance with Topic 805 "Business Combinations" (Topic 805), this acquisition was accounted for as a business combination. We believe this acquisition enables OpenText to strengthen our current information governance capabilities.

The finalization of the purchase price allocation is pending the finalization of the fair value for taxation-related balances and for potential unrecorded liabilities.

Acquisition-related costs for Daegis included in Special charges in the Condensed Consolidated Statements of Income for the three and nine months ended March 31, 2016 were \$0.1 million and \$1.1 million, respectively.

The results of operations of Daegis have been consolidated with those of OpenText beginning November 23, 2015.

The acquisition had no significant impact on revenues and net earnings for the three and nine months ended March 31, 2016. There was also no significant impact on the Company's revenues and net income on a pro forma basis for all periods presented.

## Fiscal 2015 Acquisitions

## Acquisition of Actuate Corporation

On January 16, 2015, we acquired Actuate, based in San Francisco, California, United States. Actuate was a leader in personalized analytics and insights and we believe the acquisition complements our OpenText EIM Suite. In accordance with Topic 805, this acquisition was accounted for as a business combination.

The results of operations of Actuate were consolidated with those of OpenText beginning January 16, 2015.

The following tables summarize the consideration paid for Actuate and the amount of the assets acquired and liabilities assumed, as well as the goodwill recorded as of the acquisition date:

Cash consideration	\$322,417
Fair value, at date of acquisition, on shares of Actuate already owned through open market purchases	9,539
Purchase consideration	\$331,956

## Purchase Price Allocation

The recognized amounts of identifiable assets acquired and liabilities assumed, based upon their fair values as of January 16, 2015, are set forth below:

Current assets (inclusive of cash acquired of \$22,463)	\$78,150
Non-current tangible assets	13,540
Intangible customer assets	62,600
Intangible technology assets	60,000
Liabilities assumed	(79,686 )
Total identifiable net assets	134,604
Goodwill	197,352
Net assets acquired	\$331,956

No portion of the goodwill recorded upon the acquisition of Actuate is expected to be deductible for tax purposes.

The fair value of current assets acquired includes accounts receivable with a fair value of \$23.4 million. The gross amount receivable was \$23.6 million of which \$0.2 million of this receivable was expected to be uncollectible.

We recognized a gain of \$3.1 million as a result of remeasuring to fair value our investment in Actuate held before the date of acquisition. The gain was included in "Other income" in our Consolidated Financial Statements during the year ended June 30, 2015.

## Acquisition of Informative Graphics Corporation

On January 2, 2015, we acquired Informative Graphics Corporation (IGC), based in Scottsdale, Arizona, United States. IGC was a leading developer of viewing, annotation, redaction and publishing commercial software. Total consideration for IGC was \$40.0 million (\$38.7 million - net of cash acquired). In accordance with Topic 805, this acquisition was accounted for as a business combination. We believe this acquisition enables OpenText to engineer solutions that further increase a user's experience within our OpenText EIM Suite.

The results of operations of IGC were consolidated with those of OpenText beginning January 2, 2015.

## NOTE 19—SUPPLEMENTAL CASH FLOW DISCLOSURES

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Cash paid during the period for interest	\$29,176 <sup>(1)</sup>	\$7,291	\$65,412 <sup>(1)</sup>	\$27,897
Cash received during the period for interest	\$2,870 <sup>(2)</sup>	\$740	\$3,412	\$3,365
Cash paid during the period for income taxes	\$5,049	\$7,868	\$21,515	\$20,811

(1) We issued Senior Notes on January 15, 2015. Interest owing on Senior Notes is payable semi-annually, with the first payment of \$22.5 million made on July 15, 2015 (see note 10).

(2) Included in this amount is investment income of approximately \$2.1 million, received as part of income distributions made by companies accounted for as cost basis investments.

## NOTE 20—EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income, attributable to OpenText, by the weighted average number of Common Shares outstanding during the period. Diluted earnings per share are computed by dividing net income, attributable to OpenText, by the shares used in the calculation of basic earnings per share plus the dilutive effect of Common Share equivalents, such as stock options, using the treasury stock method. Common Share equivalents are excluded from the computation of diluted earnings per share if their effect is anti-dilutive.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Basic earnings per share				
Net income attributable to OpenText	\$69,115	\$26,610	\$198,087	\$165,523
Basic earnings per share attributable to OpenText	\$0.57	\$0.22	\$1.63	\$1.36
Diluted earnings per share				
Net income attributable to OpenText	\$69,115	\$26,610	\$198,087	\$165,523
Diluted earnings per share attributable to OpenText	\$0.57	\$0.22	\$1.62	\$1.35
Weighted-average number of shares outstanding				
Basic	121,159	122,158	121,514	122,042
Effect of dilutive securities	547	896	530	938
Diluted	121,706	123,054	122,044	122,980
Excluded as anti-dilutive*	2,707	2,525	2,747	2,430

\* Represents options to purchase Common Shares excluded from the calculation of diluted earnings per share because the exercise price of the stock options was greater than or equal to the average price of the Common Shares during the period.

NOTE 21—RELATED PARTY TRANSACTIONS

Our procedure regarding the approval of any related party transaction requires that the material facts of such transaction be reviewed by the independent members of the Board and the transaction be approved by a majority of the independent members of the Board. The Board reviews all transactions in which we are, or will be, a participant and any related party has or will have a direct or indirect interest. In determining whether to approve a related party transaction, the Board generally takes into account, among other facts it deems appropriate, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances; the extent and nature of the related person's interest in the transaction; the benefits to the Company of the proposed transaction; if applicable, the effects on a director's independence; and if applicable, the availability of other sources of comparable services or products.

During the nine months ended March 31, 2016, Mr. Stephen Sadler, a director, earned \$0.2 million (March 31, 2015—\$0.5 million) in consulting fees from OpenText for assistance with acquisition-related business activities. Mr. Sadler abstained from voting on all transactions from which he would potentially derive consulting fees.

NOTE 22—SUBSEQUENT EVENT

Cash Dividends

As part of our quarterly, non-cumulative cash dividend program, we declared, on April 26, 2016, a dividend of \$0.23 per Common Share. The record date for this dividend is May 27, 2016 and the payment date is June 17, 2016. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination and discretion of our Board of Directors.

Acquisition of Certain Customer Experience Software Assets from HP Inc.

On April 18, 2016, we signed a definitive agreement to acquire certain customer experience software and services assets from HP Inc. for approximately \$170 million. We expect that the acquisition will complement our current software portfolio, particularly our Customer Experience Management and Cloud offerings. The transaction is expected to close in the fourth quarter of Fiscal 2016 and is subject to customary regulatory approvals and closing conditions.

Acquisition of ANXeBusiness Corp.

On April 19, 2016, we signed a definitive agreement to acquire all of the outstanding shares of ANXeBusiness Corp. (ANX), a leading provider of cloud-based information exchange services to the Automotive and Healthcare industries, for approximately \$104 million. We believe this acquisition will strengthen our industry presence and reach in the Automotive and Healthcare industries through strong customer relationships and targeted business partner collaboration solutions. The transaction is expected to close in the fourth quarter of Fiscal 2016 and is subject to customary closing conditions.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), and Section 27A of the U.S. Securities Act of 1933, as amended (the Securities Act), and is subject to the safe harbours created by those sections. All statements other than statements of historical facts are statements that could be deemed forward-looking statements.

When used in this report, the words "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates", "may", "could", "might", "will" and other similar language, as they relate to Open Text Corporation ("OpenText" or the "Company"), are intended to identify forward-looking statements under applicable securities laws. Specific forward-looking statements in this report include, but are not limited to: (i) statements about our focus in the fiscal year beginning July 1, 2015 and ending June 30, 2016 (Fiscal 2016) on growth in earnings and cash flows; (ii) creating value through investments in broader Enterprise Information Management (EIM) capabilities; (iii) our future business plans and business planning process; (iv) statements relating to business trends; (v) statements relating to distribution; (vi) the Company's presence in the cloud and in growth markets; (vii) product and solution developments, enhancements and releases and the timing thereof; (viii) the Company's financial conditions, results of operations and earnings; (ix) the basis for any future growth and for our financial performance; (x) declaration of quarterly dividends; (xi) the changing regulatory environment and its impact on our business; (xii) recurring revenues; (xiii) research and development and related expenditures; (xiv) our building, development and consolidation of our network infrastructure; (xv) competition and changes in the competitive landscape; (xvi) our management and protection of intellectual property and other proprietary rights; (xvii) foreign sales and exchange rate fluctuations; (xviii) cyclical or seasonal aspects of our business; (xix) capital expenditures; (xx) potential legal and/or regulatory proceedings; (xxi) statements about the impact of "Open Text Release 16" and (xxii) other matters.

In addition, any statements or information that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking, and based on our current expectations, forecasts and projections about the operating environment, economies and markets in which we operate. Forward-looking statements reflect our current estimates, beliefs and assumptions, which are based on management's perception of historic trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The forward-looking statements contained in this report are based on certain assumptions including the following: (i) countries continuing to implement and enforce existing and additional customs and security regulations relating to the provision of electronic information for imports and exports; (ii) our continued operation of a secure and reliable business network; (iii) the stability of general economic and market conditions, currency exchange rates, and interest rates; (iv) equity and debt markets continuing to provide us with access to capital; (v) our continued ability to identify and source attractive and executable business combination opportunities; and (vi) our continued compliance with third party intellectual property rights. Management's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and, as such, are subject to change. We can give no assurance that such estimates, beliefs and assumptions will prove to be correct. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed or implied by such forward-looking statements. The risks and uncertainties that may affect forward-looking statements include, but are not limited to: (i) integration of acquisitions and related restructuring efforts, including the quantum of restructuring charges and the timing thereof; (ii) the possibility that the Company may be unable to meet its future reporting requirements under the Exchange Act, and the rules promulgated thereunder; (iii) the risks associated with bringing new products and services to market; (iv) fluctuations in currency exchange rates; (v) delays in the purchasing decisions of the Company's customers; (vi) the competition the Company faces in its industry and/or marketplace; (vii) the final determination of litigation, tax audits (including tax examinations in the United States or elsewhere) and other legal proceedings; (viii) potential exposure to greater than anticipated tax liabilities or expenses, including with respect to changes in Canadian, U.S. or international tax regimes; (ix) the possibility of technical, logistical or planning issues in connection with the deployment of the

Company's products or services; (x) the continuous commitment of the Company's customers; (xi) demand for the Company's products and services; (xii) increase in exposure to international business risks as we continue to increase our international operations; (xiii) inability to raise capital at all or on not unfavorable terms in the future; and (xiv) downward pressure on our share price and dilutive effect of future sales or issuances of equity securities. Other factors that may affect forward-looking statements include, but are not limited to: (i) the future performance, financial and otherwise, of the Company; (ii) the ability of the Company to bring new products and services to market and to increase sales; (iii) the strength of the Company's product development pipeline; (iv) failure to secure and protect patents, trademarks and other proprietary rights; (v) infringement of third-party proprietary rights triggering indemnification obligations and resulting in significant expenses or restrictions on our ability to provide our products or services; (vi) failure to comply with privacy laws and regulations that are extensive, open to various interpretations and complex to implement; (vii) the Company's growth and profitability prospects; (viii) the estimated size and growth prospects of the EIM market; (ix) the Company's competitive position in the EIM market and its ability to take advantage of future opportunities in this market; (x) the benefits of

the Company's products and services to be realized by customers; (xi) the demand for the Company's products and services and the extent of deployment of the Company's products and services in the EIM marketplace; (xii) the Company's financial condition and capital requirements; (xiii) system or network failures or information security breaches in connection with the Company's offerings; and (xiv) failure to attract and retain key personnel to develop and effectively manage the Company's business.

For additional information with respect to risks and other factors which could occur, see the Company's Annual Report on Form 10-K, including Part I, Item 1A "Risk Factors" therein; Quarterly Reports on Form 10-Q and other securities filings with the Securities and Exchange Commission (SEC) and other securities regulators. Readers are cautioned not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following MD&A is intended to help readers understand our results of operations and financial condition, and is provided as a supplement to, and should be read in conjunction with, our Condensed Consolidated Financial Statements and the accompanying Notes to our Condensed Consolidated Financial Statements under Part I, Item 1 of this Quarterly Report on Form 10-Q.

All dollar and percentage comparisons made herein generally refer to the three and nine months ended March 31, 2016 compared with the three and nine months ended March 31, 2015, unless otherwise noted.

Where we say "we", "us", "our", "OpenText" or "the Company", we mean Open Text Corporation or Open Text Corporation and its subsidiaries, as applicable.

#### EXECUTIVE OVERVIEW

We operate in the Enterprise Information Management (EIM) market. We are an independent company providing a comprehensive suite of software products and services that assist organizations in finding, utilizing, and sharing business information from any device in ways which are intuitive, efficient and productive. Our technologies and business solutions address one of the biggest problems encountered by enterprises today: the explosive growth of information volume and formats. Our software and services allow organizations to manage the information that flows into, out of, and throughout the enterprise as part of daily operations. Our solutions help to increase customer satisfaction, improve collaboration with partners, address the legal and business requirements associated with information governance, and aim to ensure that information remains secure and private, as demanded in today's highly regulated climate.

Our products and services provide the benefits of maximizing the value of enterprise information while minimizing its risks. Our solutions incorporate social and mobile technologies and are delivered for on-premises deployment as well as through cloud and managed hosted services models to provide the flexibility and cost efficiencies demanded by the market. In addition, we provide solutions that facilitate the exchange of transactions that occur between supply chain participants, such as manufacturers, retailers, distributors and financial institutions, and are central to a company's ability to effectively collaborate with its partners.

Our initial public offering was on the NASDAQ in 1996 and we were subsequently listed on the Toronto Stock Exchange in 1998. We are a multinational company and as of March 31, 2016, employed approximately 8,300 people worldwide.

#### Quarterly Summary

During the quarter we saw the following activity:

Total revenue was \$440.5 million, down 1.6% over the same period in the prior fiscal year; up 1.7% after factoring the impact of \$14.6 million of foreign exchange.

Total recurring revenue was \$376.1 million, down 2.0% over the same period in the prior fiscal year; up 1.0% after factoring the impact of \$11.6 million of foreign exchange.

Cloud services and subscriptions revenue was \$147.5 million, stable as compared to the same period in the prior fiscal year; up 2.5% after factoring the impact of \$3.7 million of foreign exchange.

License revenue was \$64.4 million, up 1.3% over the same period in the prior fiscal year; up 6.0% after factoring the impact of \$3.0 million of foreign exchange.

GAAP-based EPS, diluted, was \$0.57 compared to \$0.22 in the same period in the prior fiscal year.

Non-GAAP-based EPS, diluted, was \$0.80 compared to \$0.66 in the same period in the prior fiscal year.

Edgar Filing: OPEN TEXT CORP - Form 10-Q

- GAAP-based gross margin was 67.9% compared to 66.0% in the same period in the prior fiscal year.
- GAAP-based operating margin was 20.1% compared to 11.8% in the same period in the prior fiscal year.
- Non-GAAP-based operating margin was 31.4% compared to 25.7% in the same period in the prior fiscal year.
- Operating cash flow was \$189.9 million, up 32.7% from the same period in the prior fiscal year.



Cash and cash equivalents was \$877.4 million as of March 31, 2016, compared to \$700.0 million as of June 30, 2015.

See "Use of Non-GAAP Financial Measures" below for a reconciliation of non-GAAP-based measures to GAAP-based measures.

See "Acquisitions" below for the impact of acquisitions on the period-to-period comparability of results.

#### Acquisitions

Our competitive position in the marketplace requires us to maintain a complex and evolving array of technologies, products, services and capabilities. In light of the continually evolving marketplace in which we operate, we regularly evaluate various acquisition opportunities within the EIM market.

#### Acquisition of Certain Customer Experience Software Assets from HP Inc.

On April 18, 2016, we signed a definitive agreement to acquire certain customer experience software and services assets from HP Inc. for approximately \$170 million. We expect that the acquisition will complement our current software portfolio, particularly our Customer Experience Management and Cloud offerings. The transaction is expected to close in the fourth quarter of Fiscal 2016 and is subject to customary regulatory approvals and closing conditions.

#### Acquisition of ANXeBusiness Corp.

On April 19, 2016, we signed a definitive agreement to acquire all of the outstanding shares of ANXeBusiness Corp. (ANX), a leading provider of cloud-based information exchange services to the Automotive and Healthcare industries, for approximately \$104 million. We believe this acquisition will strengthen our industry presence and reach in the Automotive and Healthcare industries through strong customer relationships and targeted business partner collaboration solutions. The transaction is expected to close in the fourth quarter of Fiscal 2016 and is subject to customary closing conditions.

#### Acquisition of Daegis Inc.

On November 23, 2015, we acquired Daegis Inc. (Daegis), a global information governance, data migration solutions and development company, based in Irvine, Texas, United States. Total consideration for Daegis was \$23.3 million (\$22.1 million - net of cash acquired). We believe this acquisition enables OpenText to strengthen our current information governance capabilities. The results of operations of Daegis have been consolidated with those of OpenText beginning November 23, 2015.

We believe our acquisitions support our long-term strategic direction, strengthen our competitive position, expand our customer base, provide greater scale to accelerate innovation, grow our earnings and increase shareholder value. We expect to continue to strategically acquire companies, products, services and technologies to augment our existing business. Our acquisitions, particularly significant ones, can affect the period-to-period comparability of our results. See note 18 "Acquisitions" and note 22 "Subsequent Events" to our Condensed Consolidated Financial Statements for more details.

#### Outlook for remainder of Fiscal 2016

We believe we have a strong position in the EIM market. We look to grow our Cloud-based EIM strategy through acquisitions, innovation and with new ways to purchase our solutions, such as our subscription pricing and managed service offerings. While we continue to offer on-premises solutions, we realize the EIM market is broad and we are agnostic to whether a customer prefers an on-premises solution, cloud solution, or combination of both (hybrid). We believe giving the customer choice and flexibility with their payment option will help us to strive to obtain long-term customer value. In addition to reviewing our earnings and cash flows, we measure long-term value by looking at our "recurring revenue", which we define as revenue from Cloud services and subscriptions, Customer support and Professional service and other. In the third quarter of Fiscal 2016, recurring revenue was \$376.1 million, down 2.0% compared to the third quarter of Fiscal 2015, but up 1.0% after considering the negative impact of \$11.6 million of foreign exchange. Recurring revenues represented 85.4% of our total revenues.

We believe customers are looking for more choice and flexibility on how they consume technology. We are committed to delivering our products and services to customers via multiple delivery models, including a hybrid delivery model.

Additionally, Customer support revenues, which are a recurring source of income for us, make up a significant portion of our revenue mix. Our management reviews our Customer support renewal rates on a quarterly basis and we use

these rates as a method of monitoring our customer service performance. For the three months ended March 31, 2016, our Customer support

renewal rate was approximately 90%, consistent with the Customer support renewal rate during the three months ended March 31, 2015.

We see an opportunity to help our customers become “digital businesses” and with our acquisition of Actuate Corporation (Actuate) in Fiscal 2015, we believe we have acquired a strong platform to integrate personalized analytics and insights onto our OpenText EIM suites of products, which we believe will further our vision to enable a “digital first world” and strengthen our position among leaders in EIM.

We also believe our diversified geographic profile helps strengthen our position and helps to reduce the impact of a downturn in the economy that may occur in any one specific region.

#### Release 16

In April, 2016 we introduced "OpenText Release 16" (Release 16), which is an integrated digital information platform, used to help organizations take advantage of digital disruption and create a better way to work within their enterprise. We believe Release 16 will drive our go-to-market plan for coming years. This release is the most functionally and integration-complete EIM platform that we have ever released and we believe it will offer customers a coordinated digital transformation, that yields the benefits of scale and single-vendor interaction. We have made significant investments to our cloud infrastructure over the past couple of years, and now with Release 16 virtually all our products are available in the "OpenText Cloud".

#### CRITICAL ACCOUNTING POLICIES AND 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 materially from those estimates. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- (i) Revenue recognition,
- (ii) Capitalized software,
- (iii) Goodwill,
- (iv) Acquired intangibles,
- (v) Restructuring charges,
- (vi) Business combinations,
- (vii) Foreign currency, and
- (viii) Income taxes.

During the first nine months of Fiscal 2016, there were no significant changes to our critical accounting policies and estimates. For a detailed discussion of our critical accounting policies and estimates, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended June 30, 2015.

#### RESULTS OF OPERATIONS

The following tables provide a detailed analysis of our results of operations and financial condition. For each of the periods indicated below, we present our revenues by product, revenues by major geography, cost of revenues by product, total gross margin, total operating margin, gross margin by product, and their corresponding percentage of total revenue. In addition, we provide Non-GAAP measures for the periods discussed in order to provide additional information to investors that we believe will be useful as this presentation is in line with how our management assesses our Company's performance. See "Use of Non-GAAP Financial Measures" below for a reconciliation of Non-GAAP-based measures to GAAP-based measures.

Edgar Filing: OPEN TEXT CORP - Form 10-Q

Summary of Results of Operations

(In thousands)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2016	Change increase (decrease)	2015	2016	Change increase (decrease)	2015
<b>Total Revenues by Product Type:</b>						
License	\$64,397	\$836	\$63,561	\$197,584	\$447	\$197,137
Cloud services and subscriptions	147,505	(8 )	147,513	444,394	(11,948 )	456,342
Customer support	183,636	(568 )	184,204	553,440	5,864	547,576
Professional service and other	45,005	(7,294 )	52,299	145,007	(23,147 )	168,154
<b>Total revenues</b>	<b>440,543</b>	<b>(7,034 )</b>	<b>447,577</b>	<b>1,340,425</b>	<b>(28,784 )</b>	<b>1,369,209</b>
Total Cost of Revenues	141,434	(10,938 )	152,372	421,228	(26,471 )	447,699
Total GAAP-based Gross Profit	299,109	3,904	295,205	919,197	(2,313 )	921,510
Total GAAP-based Gross Margin %	67.9 %		66.0 %	68.6 %		67.3 %
Total GAAP-based Operating Expenses	210,540	(32,061 )	242,601	644,113	(11,196 )	655,309
Total GAAP-based Income from Operations	\$88,569	\$35,965	\$52,604	\$275,084	\$8,883	\$266,201
<b>% Revenues by Product Type:</b>						
License	14.6 %		14.2 %	14.7 %		14.4 %
Cloud services and subscriptions	33.5 %		32.9 %	33.2 %		33.3 %
Customer support	41.7 %		41.2 %	41.3 %		40.0 %
Professional service and other	10.2 %		11.7 %	10.8 %		12.3 %
<b>Total Cost of Revenues by Product Type:</b>						
License	\$2,480	\$(500 )	\$2,980	\$7,190	\$(2,198 )	\$9,388
Cloud services and subscriptions	61,298	522	60,776	179,132	246	178,886
Customer support	22,427	(1,657 )	24,084	64,624	(6,254 )	70,878
Professional service and other	37,599	(4,797 )	42,396	114,038	(15,961 )	129,999
Amortization of acquired technology-based intangible assets	17,630	(4,506 )	22,136	56,244	(2,304 )	58,548
<b>Total cost of revenues</b>	<b>\$141,434</b>	<b>\$(10,938 )</b>	<b>\$152,372</b>	<b>\$421,228</b>	<b>\$(26,471 )</b>	<b>\$447,699</b>
<b>% GAAP-based Gross Margin by Product Type:</b>						
License	96.1 %		95.3 %	96.4 %		95.2 %
Cloud services and subscriptions	58.4 %		58.8 %	59.7 %		60.8 %
Customer support	87.8 %		86.9 %	88.3 %		87.1 %
Professional service and other	16.5 %		18.9 %	21.4 %		22.7 %
<b>Total Revenues by Geography:</b>						
Americas (1)	\$255,969	\$(1,489 )	\$257,458	\$766,337	\$8,295	\$758,042
EMEA (2)	144,560	(3,589 )	148,149	452,917	(24,487 )	477,404
Asia Pacific (3)	40,014	(1,956 )	41,970	121,171	(12,592 )	133,763
<b>Total revenues</b>	<b>\$440,543</b>	<b>\$(7,034 )</b>	<b>\$447,577</b>	<b>\$1,340,425</b>	<b>\$(28,784 )</b>	<b>\$1,369,209</b>
<b>% Revenues by Geography:</b>						
Americas (1)	58.1 %		57.5 %	57.2 %		55.4 %

Edgar Filing: OPEN TEXT CORP - Form 10-Q

EMEA (2)	32.8	%	33.1	%	33.8	%	34.9	%
Asia Pacific (3)	9.1	%	9.4	%	9.0	%	9.7	%

35

---

Edgar Filing: OPEN TEXT CORP - Form 10-Q

(In thousands)	Three Months		Nine Months	
	Ended March 31,		Ended March 31,	
	2016	2015	2016	2015
GAAP-based gross margin	67.9 %	66.0 %	68.6 %	67.3 %
GAAP-based operating margin	20.1 %	11.8 %	20.5 %	19.4 %
GAAP-based EPS, diluted	\$0.57	\$0.22	\$1.62	\$1.35
Non-GAAP-based gross margin (4)	72.0 %	71.1 %	72.9 %	