

OPEN TEXT CORP  
Form 10-Q  
October 28, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 10-Q

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

For the quarterly period ended September 30, 2015.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 0-27544

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OPEN TEXT CORPORATION  
(Exact name of Registrant as specified in its charter)

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CANADA  
(State or other jurisdiction of  
incorporation or organization)

98-0154400  
(IRS Employer  
Identification No.)

275 Frank Tompa Drive, Waterloo, Ontario, Canada N2L 0A1  
(Address of principal executive offices)  
(519) 888-7111  
(Registrant's telephone number, including area code)

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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 October 26, 2015, there were 121,351,776 outstanding Common Shares of the registrant.

OPEN TEXT CORPORATION  
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OPEN TEXT CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2015 (unaudited)	June 30, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 690,785	\$ 699,999
Short-term investments	18,022	11,166
Accounts receivable trade, net of allowance for doubtful accounts of \$5,437 as of September 30, 2015 and \$5,987 as of June 30, 2015 (note 3)	233,947	284,131
Income taxes recoverable (note 14)	20,000	21,151
Prepaid expenses and other current assets	47,099	53,191
Deferred tax assets (note 14)	31,250	30,711
Total current assets	1,041,103	1,100,349
Property and equipment (note 4)	163,179	160,419
Goodwill (note 5)	2,161,592	2,161,592
Acquired intangible assets (note 6)	631,791	679,479
Deferred tax assets (note 14)	150,861	155,411
Other assets (note 7)	74,570	85,576
Deferred charges (note 8)	33,501	37,265
Long-term income taxes recoverable (note 14)	8,393	8,404
Total assets	\$ 4,264,990	\$ 4,388,495
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 189,329	\$ 241,370
Current portion of long-term debt (note 10)	8,000	8,000
Deferred revenues	323,470	358,066
Income taxes payable (note 14)	15,996	17,001
Deferred tax liabilities (note 14)	71	997
Total current liabilities	536,866	625,434
Long-term liabilities:		
Accrued liabilities (note 9)	29,579	34,682
Deferred credits (note 8)	11,796	12,943
Pension liability (note 11)	55,737	56,737
Long-term debt (note 10)	1,578,000	1,580,000
Deferred revenues	27,542	28,223
Long-term income taxes payable (note 14)	151,306	151,484
Deferred tax liabilities (note 14)	64,066	69,185
Total long-term liabilities	1,918,026	1,933,254
Shareholders' equity:		
Share capital (note 12)		
121,351,776 and 122,293,986 Common Shares issued and outstanding at September 30, 2015 and June 30, 2015, respectively; Authorized Common Shares: unlimited	806,424	808,010
Additional paid-in capital	132,733	126,417
Accumulated other comprehensive income	51,884	51,828
Retained earnings	838,494	863,015
Treasury stock, at cost (625,725 shares at September 30, 2015 and 625,725 at June 30, 2015, respectively)	(19,986	) (19,986 )

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Total OpenText shareholders' equity	1,809,549	1,829,284
Non-controlling interests	549	523
Total shareholders' equity	1,810,098	1,829,807
Total liabilities and shareholders' equity	\$4,264,990	\$4,388,495

Guarantees and contingencies (note 13)

Related party transactions (note 21)

Subsequent events (note 22)

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(In thousands of U.S. dollars, except share and per share data)  
(unaudited)

	Three Months Ended September 30,		
	2015	2014	
Revenues:			
License	\$51,331	\$58,195	
Cloud services and subscriptions	147,790	154,053	
Customer support	185,667	183,906	
Professional service and other	49,747	57,633	
Total revenues	434,535	453,787	
Cost of revenues:			
License	2,681	2,997	
Cloud services and subscriptions	58,916	59,577	
Customer support	20,508	22,963	
Professional service and other	38,064	43,197	
Amortization of acquired technology-based intangible assets (note 6)	19,883	18,206	
Total cost of revenues	140,052	146,940	
Gross profit	294,483	306,847	
Operating expenses:			
Research and development	46,440	44,742	
Sales and marketing	77,945	81,041	
General and administrative	35,569	35,743	
Depreciation	12,914	12,242	
Amortization of acquired customer-based intangible assets (note 6)	27,805	25,884	
Special charges (note 17)	17,337	4,169	
Total operating expenses	218,010	203,821	
Income from operations	76,473	103,026	
Other expense, net	(4,913	) (9,873	)
Interest and other related expense, net	(19,046	) (11,099	)
Income before income taxes	52,514	82,054	
Provision for income taxes (note 14)	11,202	17,402	
Net income for the period	\$41,312	\$64,652	
Net income attributable to non-controlling interests	(26	) (26	)
Net income attributable to OpenText	\$41,286	\$64,626	
Earnings per share—basic attributable to OpenText (note 20)	\$0.34	\$0.53	
Earnings per share—diluted attributable to OpenText (note 20)	\$0.34	\$0.53	
Weighted average number of Common Shares outstanding—basic	122,160	121,918	
Weighted average number of Common Shares outstanding—diluted	122,640	122,861	
Dividends declared per Common Share	\$0.2000	\$0.1725	
See accompanying Notes to Condensed Consolidated Financial Statements			

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

	Three Months Ended September 30,	
	2015	2014
Net income for the period	\$41,312	\$64,652
Other comprehensive income—net of tax:		
Net foreign currency translation adjustments	1,723	3,105
Unrealized gain (loss) on cash flow hedges:		
Unrealized loss	(3,390	) (2,900
Loss reclassified into net income	512	53
Actuarial gain (loss) relating to defined benefit pension plans:		
Actuarial gain (loss)	1,113	(3,118
Amortization of actuarial loss into net income	83	121
Unrealized gain on short-term investments	15	—
Unrealized loss on marketable securities (Actuate)	—	(494
Total other comprehensive income (loss), net, for the period	56	(3,233
Total comprehensive income	41,368	61,419
Comprehensive income attributable to non-controlling interests	(26	) (26
Total comprehensive income attributable to OpenText	\$41,342	\$61,393

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income for the period	\$41,312	\$64,652
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	60,602	56,332
Share-based compensation expense	6,533	4,449
Excess tax expense (benefits) on share-based compensation expense	216	(395)
Pension expense	1,167	1,220
Amortization of debt issuance costs	1,156	1,143
Amortization of deferred charges and credits	2,617	2,631
Deferred taxes	(4,184)	(1,545)
Changes in operating assets and liabilities:		
Accounts receivable	52,106	55,543
Prepaid expenses and other current assets	5,834	(149)
Income taxes	3,797	17,806
Accounts payable and accrued liabilities	(48,322)	(34,139)
Deferred revenue	(32,393)	(26,755)
Other assets	2,281	(2,262)
Net cash provided by operating activities	92,722	138,531
Cash flows from investing activities:		
Additions of property and equipment	(17,197)	(30,235)
Proceeds from maturity of short-term investments	2,255	—
Purchase of Actuate Corporation, net of cash acquired	(7,701)	—
Purchase of Informative Graphics Corporation, net of cash acquired	(88)	—
Purchase of ICCM Professional Services Limited, net of cash acquired	(2,027)	—
Purchase consideration for prior period acquisitions	—	(222)
Other investing activities	(926)	(7,374)
Net cash used in investing activities	(25,684)	(37,831)
Cash flows from financing activities:		
Excess tax (expense) benefits on share-based compensation expense	(216)	395
Proceeds from issuance of Common Shares	5,252	7,099
Common Shares repurchased	(50,026)	—
Repayment of long-term debt	(2,000)	(13,417)
Debt issuance costs	—	(183)
Payments of dividends to shareholders	(23,312)	(21,045)
Net cash used in financing activities	(70,302)	(27,151)
Foreign exchange loss on cash held in foreign currencies	(5,950)	(8,953)
Increase (decrease) in cash and cash equivalents during the period	(9,214)	64,596
Cash and cash equivalents at beginning of the period	699,999	427,890
Cash and cash equivalents at end of the period	\$690,785	\$492,486
Supplementary cash flow disclosures (note 19)		
See accompanying Notes to Condensed Consolidated Financial Statements		





## OPEN TEXT CORPORATION

## UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2015

(Tabular amounts in thousands, except share and per share data)

## NOTE 1—BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements include the accounts of Open Text Corporation and our 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 September 30, 2015, 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 ending June 30, 2015; (iii) the term "Fiscal 2014" means our fiscal year beginning on July 1, 2013 and ending June 30, 2014; and (iv) the term "Fiscal 2013" means our fiscal year beginning on July 1, 2012 and ending 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 months ended September 30, 2014 as follows:

	Three Months Ended September 30, 2014	
Reclassifications within cost of revenue		
Decrease to cost of revenue - Cloud services and subscriptions	\$(328)	)
Decrease to cost of revenue - Customer support	(249)	)
Decrease to cost of revenue - Professional services and other	(352)	)
Reclassifications within operating expenses		
Decrease to operating expense - General and administrative	(13)	)
Increase to operating expense - Sales and marketing	942	

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

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“Cloud services and subscriptions”. These revenues and expenses have been reclassified in the Condensed Consolidated Statements of Income for the three months ended September 30, 2014 to conform with the current period presentation as follows:

	Three Months Ended September 30, 2014	
Reclassifications within revenue		
Decrease to License	\$(420	)
Decrease to Professional services and other	(3,627	)
Increase to Cloud services and subscriptions	4,047	
Reclassifications within cost of revenue		
Decrease to cost of revenue - License	\$(91	)
Decrease to cost of revenue - Customer support	(6	)
Decrease to cost of revenue - Professional services and other	(1,812	)
Increase to cost of revenue - Cloud services and subscriptions	1,909	

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 PRONOUNCEMENTS

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

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 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. ASU 2015-16 is effective for our fiscal year ending June 30, 2017. The adoption of ASU 2015-16 is not expected to have a material impact on our Condensed Consolidated Financial Statements.

##### 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 includes (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. We are currently evaluating the impact of the pending adoption of ASU 2014-09 on our Condensed Consolidated Financial Statements.

#### NOTE 3—ALLOWANCE FOR DOUBTFUL ACCOUNTS

Balance as of June 30, 2015	5,987	
Bad debt expense	558	
Write-off /adjustments	(1,108	)
Balance as of September 30, 2015	\$5,437	

Included in accounts receivable are unbilled receivables in the amount of \$23.1 million as of September 30, 2015 (June 30, 2015—\$26.7 million).

#### NOTE 4—PROPERTY AND EQUIPMENT

	As of September 30, 2015		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	\$ 18,634	\$(11,721	) \$ 6,913
Office equipment	1,559	(902	) 657
Computer hardware	114,273	(76,844	) 37,429
Computer software	38,561	(19,348	) 19,213
Capitalized software development costs	42,747	(9,346	) 33,401
Leasehold improvements	56,659	(31,062	) 25,597
Land and buildings	47,510	(7,541	) 39,969
Total	\$ 319,943	\$(156,764	) \$ 163,179

	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
Adjustments relating to prior acquisitions	—
Balance as of September 30, 2015	\$2,161,592

## NOTE 6—ACQUIRED INTANGIBLE ASSETS

	As of September 30, 2015		
	Cost	Accumulated Amortization	Net
Technology Assets	\$ 385,363	\$(187,384)	) \$ 197,979
Customer Assets	699,325	(265,513)	) 433,812
Total	\$ 1,084,688	\$(452,897)	) \$ 631,791

  

	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 September 30, 2015 have been adjusted to reflect the impact of intangible assets relating to acquisitions where the gross cost has become fully amortized during the three months ended September 30, 2015. The impact of this resulted in a reduction of \$43.4 million related to Technology Assets and \$17.2 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
2016 (nine months ended June 30)	June 30, \$ 133,765
2017	164,266
2018	151,573
2019	124,404
2020	57,011
2021 and beyond	772
Total	\$ 631,791

## NOTE 7—OTHER ASSETS

	As of September 30, 2015	As of June 30, 2015
Debt issuance costs	\$29,474	\$30,630
Deposits and restricted cash	11,736	12,137
Deferred implementation costs	13,225	13,736
Cost basis investments	11,964	11,386
Marketable securities	—	9,108
Long-term prepaid expenses and other long-term assets	8,171	8,579
Total	\$74,570	\$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.



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 September 30, 2015, all of our marketable securities are recorded as short-term investments.

Cost basis investments relate to investments for which the Company holds less than a 20% interest, is a limited partner and does not exert significant influence over operational or investment decisions.

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

#### NOTE 8—DEFERRED CHARGES AND CREDITS

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

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

##### Current liabilities

Accounts payable and accrued liabilities are comprised of the following:

	As of September 30, 2015	As of June 30, 2015
Accounts payable—trade	\$11,639	\$15,558
Accrued salaries and commissions	53,991	83,888
Accrued liabilities	93,575	107,870
Accrued interest on Senior Notes	9,375	20,625
Amounts payable in respect of restructuring and other Special charges (note 17)	18,351	12,065
Asset retirement obligations	2,398	1,364
Total	\$189,329	\$241,370

##### Long-term accrued liabilities

	As of September 30, 2015	As of June 30, 2015
Amounts payable in respect of restructuring and other Special charges (note 17)	\$1,769	\$2,034
Other accrued liabilities*	20,881	24,826
Asset retirement obligations	6,929	7,822
Total	\$29,579	\$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” (Topic 410). As of September 30, 2015, the present value of this obligation was \$9.3 million (June 30, 2015—\$9.2 million), with an undiscounted value of \$10.1 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 September 30, 2015	As of June 30, 2015
Total debt		
Senior Notes	\$800,000	\$800,000
Term Loan B	786,000	788,000
	1,586,000	1,588,000
Less:		
Current portion of long-term debt		
Term Loan B	8,000	8,000
Non-current portion of long-term debt	\$1,578,000	\$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 months ended September 30, 2015, we recorded interest expense of \$11.3 million relating to Senior Notes.

## 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 months ended September 30, 2015, we recorded interest expense of \$6.5 million relating to Term Loan B (three months ended September 30, 2014—\$6.6 million).

## 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 September 30, 2015, 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 September 30, 2015 and June 30, 2015:

	As of September 30, 2015		
	Total benefit obligation	Current portion of benefit obligation*	Non-current portion of benefit obligation
CDT defined benefit plan	\$25,916	\$575	\$ 25,341
GXS Germany defined benefit plan	21,732	773	20,959
GXS Philippines defined benefit plan	6,828	28	6,800
Other plans	2,814	177	2,637
Total	\$57,290	\$1,553	\$ 55,737

  

	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 "Accounts payable and accrued liabilities" in the Condensed Consolidated Balance Sheets.

## Defined Benefit Plans

## CDT Plan

CDT sponsors an unfunded defined benefit pension plan covering substantially all CDT employees (CDT pension plan) which provides for old age, disability and survivors' benefits. Benefits under the CDT pension plan are generally based on age at retirement, years of service and the employee's annual earnings. The net periodic cost of this pension plan is determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate and estimated service costs. No contributions have been made since the inception of the plan. Actuarial gains or losses in excess of 10% of the projected benefit obligation are being amortized and recognized as a component of net periodic benefit costs over the average remaining service period of the plan's active employees. As of September 30, 2015, there is approximately \$0.3 million in accumulated other comprehensive income related to the CDT pension plan that is expected to be recognized as a component of net periodic benefit costs over the next fiscal year.

## GXS Germany Plan

As part of our acquisition of GXS, we acquired an unfunded defined benefit pension plan covering certain German employees which provides for old age, disability and survivors' benefits. The GXS GER plan has been closed to new participants since 2006. Benefits under the GXS GER plan are generally based on a participant's remuneration, date of hire, years of eligible service and age at retirement. The net periodic cost of this pension plan is determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate and estimated service costs. No contributions have been made since the inception of the plan. If actuarial gains or losses are in excess of 10% of the projected benefit obligation, such gains or losses will be amortized and recognized as a component of net periodic benefit costs over the average remaining service period of the plan's active employees.

## GXS Philippines Plan

As part of our acquisition of GXS, we acquired a primarily unfunded defined benefit pension plan covering substantially all of the GXS Philippines employees which provides for retirement, disability and survivors' benefits. Benefits under the GXS PHP plan are generally based on a participant's remuneration, years of eligible service and age at retirement. The net periodic cost of this pension plan is determined using the projected unit credit method and several actuarial assumptions, the most



significant of which are the discount rate and estimated service costs. Aside from an initial contribution which had a fair value of approximately \$28.0 thousand as of September 30, 2015, no additional contributions have been made since the inception of the plan. If actuarial gains or losses are in excess of 10% of the projected benefit obligation, such gains or losses will be amortized and recognized as a component of net periodic benefit costs over the average remaining service period of the plan's active employees.

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

	As of September 30, 2015				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	107	103	427	637	452	360	1,518	2,330
Interest cost	154	128	81	363	735	625	289	1,649
Benefits paid	(118 )	(189 )	(46 )	(353 )	(495 )	(793 )	(78 )	(1,366 )
Actuarial (gain) loss	(298 )	(723 )	(394 )	(1,415 )	1,676	2,701	201	4,578
Foreign exchange (gain) loss	(20 )	(7 )	(265 )	(292 )	(5,621 )	(4,655 )	(181 )	(10,457 )
Benefit obligation—end of period	\$25,916	\$21,732	\$6,828	\$54,476	\$26,091	\$22,420	\$7,025	\$55,536
Less: Current portion	(575 )	(773 )	(28 )	(1,376 )	(575 )	(774 )	(26 )	(1,375 )
Non-current portion of benefit obligation	\$25,341	\$20,959	\$6,800	\$53,100	\$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 September 30, 2015				2014			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Pension expense:								
Service cost	\$107	\$103	\$427	\$637	\$122	\$80	\$340	\$542
Interest cost	154	128	81	363	199	190	67	456
Amortization of actuarial gains and losses	107	—	—	107	109	—	—	109
Net pension expense	\$368	\$231	\$508	\$1,107	\$430	\$270	\$407	\$1,107

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

Assumptions:	As of September 30, 2015			As of June 30, 2015		
	CDT	GXS GER	GXS PHP	CDT	GXS GER	GXS PHP
Salary increases	2.00%	2.00%	7.00%	2.00%	2.00%	7.00%
Pension increases	1.75%	2.00%	4.00%	1.75%	2.00%	3.50%
Discount rate	2.42%	2.64%	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 (nine months ended June 30)	\$431	\$518	\$21
2017	615	703	32
2018	661	783	43
2019	733	836	88
2020	803	882	76
2021 to 2025	5,240	4,795	1,182
Total	\$8,483	\$8,517	\$1,442

#### 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 months ended September 30, 2015, pursuant to the Company's dividend policy, we declared total non-cumulative dividends of \$0.2000 per Common Share, in the aggregate amount of \$23.3 million, which we paid during the same period.

For the three months ended September 30, 2014, pursuant to the Company's dividend policy, we paid total non-cumulative dividends of \$0.1725 per Common Share, in the aggregate amount of \$21.0 million.

##### 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 September 30, 2015 and 2014, we did not repurchase any of our Common Shares for potential reissuance under our Long Term Incentive Plans (LTIP) or other plans.

### Reissuance

During the three months ended September 30, 2015 and 2014, we did not reissue any Common Shares from treasury stock.

### Share Repurchase Plan

On July 28, 2015, our Board of Directors 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 September 30, 2015, we repurchased and cancelled approximately 1.1 million OpenText Common Shares for approximately \$50.0 million under our Share Repurchase Plan (three months ended September 30, 2014—nil). Of the \$50.0 million repurchased, \$42.5 million was recorded to retained earnings to reflect the difference between the market price of Common Shares repurchased and its book value.

As of September 30, 2015, approximately \$150.0 million remained available for repurchase 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 September 30,	
	2015	2014
Stock options	\$3,664	\$2,569
Performance Share Units (issued under LTIP)	620	591
Restricted Share Units (issued under LTIP)	1,234	743
Restricted Share Units (other)	381	75
Deferred Share Units (directors)	634	471
Total share-based compensation expense	\$6,533	\$4,449

### Summary of Outstanding Stock Options

As of September 30, 2015, options to purchase an aggregate of 4,437,690 Common Shares were outstanding and 2,812,143 Common Shares were available for issuance under our stock option plans. Our stock options generally vest over four years and expire between seven and ten years from the date of the grant. Currently we also have options outstanding that vest over five years, as well as options outstanding that vest based on meeting certain market conditions. The exercise price of all our options is set at an amount that is not less than the closing price of our Common Shares on the NASDAQ on the trading day immediately preceding the applicable grant date.

A summary of activity under our stock option plans for three months ended September 30, 2015 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	348,460	45.73		
Exercised	(145,700)	29.27		
Forfeited or expired	(140,435)	46.59		
Outstanding at September 30, 2015	4,437,690	\$42.82	4.99	\$ 27,343
Exercisable at September 30, 2015	1,308,414	\$33.81	3.71	\$ 16,793

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 September 30,			
	2015	2014		
Weighted-average fair value of options granted	\$ 11.23	\$ 14.30		
Weighted-average assumptions used:				
Expected volatility	33	% 32		%
Risk-free interest rate	1.48	% 1.51		%
Expected dividend yield	1.63	% 1.15		%
Expected life (in years)	4.33	4.34		
Forfeiture rate (based on historical rates)	5	% 5		%
Average exercise share price	\$45.73	\$56.33		

As of September 30, 2015, the total compensation cost related to the unvested stock option awards not yet recognized was approximately \$33.2 million, which will be recognized over a weighted-average period of approximately 2.5 years.

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

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

For the three months ended September 30, 2015, cash in the amount of \$4.3 million was received as the result of the exercise of options granted under share-based payment arrangements. The tax benefit realized by us during the three months ended September 30, 2015 from the exercise of options eligible for a tax deduction was \$0.2 million.

For the three months ended September 30, 2014, cash in the amount of \$6.3 million was received as the result of the exercise of options granted under share-based payment arrangements. The tax benefit realized by us during the three months ended September 30, 2014 from the exercise of options eligible for a tax deduction was \$0.5 million.

#### 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. Awards under the Fiscal 2015 LTIP will be issued in the second quarter of Fiscal 2016 in accordance with our insider trading policy, which states in part, that stock awards may not be issued while a "trading window" is closed. We expect to settle the Fiscal 2015 LTIP awards in stock.

#### 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

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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 September 30, 2015, the total expected compensation cost related to the unvested LTIP awards not yet recognized was \$20.6 million, which is expected to be recognized over a weighted average period of 2.3 years.

#### Restricted Share Units (RSUs)

During the three months ended September 30, 2015, we did not grant any RSUs to employees in accordance with employment agreements (three months ended September 30, 2014—12,500). The RSUs will vest equally over three years from the respective date of grants. We expect to settle the awards in stock.

#### Deferred Stock Units (DSUs)

During the three months ended September 30, 2015, we granted 556 DSUs to certain non-employee directors (three months ended September 30, 2014—398). The DSUs were issued under our Deferred Share Unit Plan. DSUs granted as compensation for directors fees vest immediately, whereas all other DSUs granted vest at our next annual general meeting following the granting of the DSUs. No DSUs are payable by us until the director ceases to be a member of the Board.

#### Employee Share Purchase Plan (ESPP)

During the three months ended September 30, 2015, cash in the amount of approximately \$1.0 million, was received from employees that will be used to purchase Common Shares in future periods (three months ended September 30, 2014—\$0.8 million).

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 were subsequently approved by shareholders at the annual and special meeting held on October 2, 2015, and will apply to purchase periods commencing on or after January 1, 2016 unless otherwise determined by our Board of Directors or the compensation committee of the Board.

## NOTE 13—GUARANTEES AND CONTINGENCIES

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

	Payments due between				
	Total	October 1, 2015— June 30, 2016	July 1, 2016— June 30, 2018	July 1, 2018— June 30, 2020	July 1, 2020 and beyond
Long-term debt obligations	\$2,057,210	\$47,893	\$156,944	\$155,957	\$1,696,416
Operating lease obligations*	220,777	35,822	75,841	53,108	56,006
Purchase obligations	13,108	6,952	5,834	322	—
	\$2,291,095	\$90,667	\$238,619	\$209,387	\$1,752,422

\*Net of \$3.0 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, such aggregated losses were not material to our consolidated financial position or result of operations and we do not believe as of the date of this filing that it is reasonably possible that a loss exceeding the amounts already recognized will be incurred that would be material to our consolidated financial position or results of operations.

## Contingencies

As we have previously disclosed, the United States Internal Revenue Services (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, 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 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 \$1.9 million as of September 30, 2015. We currently have in place a bank guarantee in the amount of \$2.9 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 \$4.6 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 months ended September 30, 2015, and 2014, we recognized the following amounts as income tax-related interest expense and penalties:

	Three Months Ended September 30,	
	2015	2014
Interest expense	\$ 1,777	\$ 2,004
Penalties expense (recoveries)	(130)	) 48
Total	\$ 1,647	\$ 2,052

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

	As of September 30, 2015	As of June 30, 2015
Interest expense accrued *	\$ 29,959	\$ 28,827
Penalties accrued *	\$ 4,618	\$ 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 September 30, 2015, could decrease tax expense in the next 12 months by \$15.6 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.

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

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

The timing of the resolution of income tax audits is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ from the amounts accrued. It is reasonably possible that within the next 12 months we will receive additional assessments by various tax authorities or possibly reach resolution of income tax audits in one or more jurisdictions. These assessments or settlements may or may not result in changes to our contingencies related to positions on tax filings. The actual amount of any change could vary significantly depending on the ultimate timing and nature of any settlements. We cannot currently provide an estimate of the range of possible outcomes. For more information relating to certain tax audits, please refer to note 13.

As at September 30, 2015, we have provided \$12.6 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 GAAP tax rate (which is the provision for taxes expressed as a percentage of net income before taxes) remained relatively stable at 21.3% for the three months ended September 30, 2015, compared to 21.2% for the three months ended September 30, 2014. Our tax expense however, decreased by \$6.2 million primarily as the result of (i) lower net income, having an impact of \$5.4 million, and (ii) a decrease in the net expense of unrecognized tax benefits with related interest and penalties in the amount of \$2.2 million. These impacts were partially offset by an increase in valuation allowance in the amount of \$1.3 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 September 30, 2015 and June 30, 2015:

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	September 30, 2015				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)	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:								
Corporate bonds*	18,022	n/a	18,022	n/a	20,274	n/a	20,274	n/a
Derivative financial instrument asset (note 16)	n/a	n/a	n/a	n/a	273	n/a	273	n/a
	\$ 18,022	n/a	\$ 18,022	n/a	\$ 20,547	n/a	\$ 20,547	n/a
Financial Liabilities:								
Derivative financial instrument liability (note 16)	\$(3,643 )	n/a	\$(3,643 )	n/a	\$—	n/a	\$—	n/a
	\$(3,643 )	n/a	\$(3,643 )	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 months ended September 30, 2015 and 2014, no indications of impairment were identified and therefore no fair value measurements were required.

If applicable, we will recognize transfers between levels within the fair value hierarchy at the end of the reporting period in which the actual event or change in circumstance occurs. During the three months ended September 30, 2015 and 2014, we did not have any transfers between Level 1, Level 2 or Level 3.

#### Marketable Securities

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





A summary of our marketable securities outstanding as of September 30, 2015 and June 30, 2015 is as follows:

	As of September 30, 2015			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
Corporate bonds	\$ 18,019	\$ 5	\$(2 )	\$ 18,022	\$ 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 September 30, 2015, is recorded within “Accounts payable and accrued liabilities”.

As of September 30, 2015, the notional amount of forward contracts we held to sell U.S. dollars in exchange for Canadian dollars was \$65.0 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).

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

Derivatives	Balance Sheet Location	As of September 30,	As of June 30, 2015
		2015	2015
		Fair Value	Fair Value
		Asset (Liability)	Asset (Liability)
Foreign currency forward contracts designated as cash flow hedges	Prepaid expenses and other current assets (Accounts payable and accrued liabilities)	\$(3,643	) \$ 273

Effects of Derivative Instruments on Income and Other Comprehensive Income (OCI)  
Three Months Ended September 30, 2015

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Derivatives in Cash Flow Hedging Relationship					
Foreign currency forward contracts	\$ (4,612 )	Operating expenses	\$ (696 )	N/A	—

Three Months Ended September 30, 2014

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Derivatives in Cash Flow Hedging Relationship					
Foreign currency forward contracts	\$ (3,946 )	Operating expenses	\$ (72 )	N/A	—

NOTE 17—SPECIAL CHARGES (RECOVERIES)

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

	Three Months Ended September 30,	
	2015	2014
Fiscal 2015 Restructuring Plan	\$ 15,474	\$ —
OpenText/GXS Restructuring Plan	(152 )	2,806 )
Restructuring Plans prior to OpenText/GXS Restructuring Plan	—	87
Acquisition-related costs	177	436
Other charges (recoveries)	1,838	840
Total	\$ 17,337	\$ 4,169

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 September 30, 2015, 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 \$23.7 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 three months ended September 30, 2015 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	15,084	390	15,474
Cash payments	(7,657	) (401	) (8,058
Foreign exchange	(470	) 597	127
Balance as of September 30, 2015	\$10,799	\$2,712	\$13,511

#### 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 \$27.3 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 three months ended September 30, 2015 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	(156	) 1	(155
Cash payments	(328	) (847	) (1,175
Foreign exchange	128	(23	) 105
Balance as of September 30, 2015	\$2,490	\$3,567	\$6,057

#### Acquisition-related costs

Included within "Special charges" for the three months ended September 30, 2015 are costs incurred directly in relation to acquisitions in the amount of \$0.2 million (September 30, 2014—\$0.2 million). We incurred no 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 months ended September 30, 2015 (September 30, 2014—\$0.2 million).

#### Other charges (recoveries)

For the three months ended September 30, 2015, "Other charges (recoveries)" primarily includes (i) a recovery of \$0.2 million relating to certain pre-acquisition tax liabilities becoming statute barred and (ii) a recovery of \$0.2 million relating to interest released on certain pre-acquisition liabilities. These recoveries were offset by charges of \$1.9 million relating to a one-time, ERP implementation project in which the Company is currently involved. The remaining amounts relate to miscellaneous other charges.

Included within "Other charges (recoveries)" for the three months ended September 30, 2014 is a charge of \$0.8 million relating to certain pre-acquisition tax liabilities, the associated interest accrual, and miscellaneous integration costs.

## NOTE 18—ACQUISITIONS

## Fiscal 2015 Acquisitions

## Acquisition of Actuate Corporation

On January 16, 2015, we acquired Actuate Corporation (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 "Business Combinations" (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 preliminary 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
Preliminary purchase consideration	\$331,956

\*Inclusive of \$0.5 million accrued for but unpaid as of September 30, 2015.

## Preliminary 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

The finalization of the purchase price allocation is pending the determination of the finalization of the fair value for taxation-related balances and for potential unrecorded liabilities. We expect to finalize this determination on or before December 31, 2015.

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.

## 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), of which \$36.5 million was paid in cash, and \$3.5 million is currently held back and unpaid in accordance with the purchase agreement. 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 finalization of the purchase price allocation is pending the determination of the finalization of the fair value for taxation-related balances and for potential unrecorded liabilities. We expect to finalize this determination on or before December 31, 2015.

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 September 30,	
	2015	2014
Cash paid during the period for interest	\$29,294	* \$10,512
Cash received during the period for interest	\$283	\$649
Cash paid during the period for income taxes	\$7,405	\$(2,548) **

\*We issued Senior Notes on January 16, 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).

\*\*Income tax installments paid in prior periods were higher than the actual taxes eventually determined as being owed, resulting in a net refund during the period.

## 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 September 30,	
	2015	2014
Basic earnings per share		
Net income attributable to OpenText	\$41,286	\$64,626
Basic earnings per share attributable to OpenText	\$0.34	\$0.53
Diluted earnings per share		
Net income attributable to OpenText	\$41,286	\$64,626
Diluted earnings per share attributable to OpenText	\$0.34	\$0.53
Weighted-average number of shares outstanding		
Basic	122,160	121,918
Effect of dilutive securities	480	943
Diluted	122,640	122,861
Excluded as anti-dilutive*	2,547	1,636

\* 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 our 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 three months ended September 30, 2015, Mr. Stephen Sadler, a director, earned \$6.0 thousand (September 30, 2014—\$4.0 thousand) 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 EVENTS

Cash Dividends

As part of our quarterly, non-cumulative cash dividend program, we declared, on October 28, 2015, a dividend of \$0.20 per Common Share. The record date for this dividend is November 27, 2015 and the payment date is December 18, 2015. 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.

Daegis Inc.

On October 8, 2015, the Company announced a definitive agreement to acquire all outstanding shares of Daegis Inc. (Daegis), a global information governance, data migration solutions and development company, for \$0.82 per share in cash, for a total value of approximately \$13.5 million. The transaction is expected to close in the second quarter of Fiscal 2016.



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; and (xxi) 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 our services and products; and (xiv) failure to attract and retain key personnel to develop and effectively manage our business.

For additional information with respect to risks and other factors which could occur, see the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q including Part I, Item 1A "Risk Factors" therein and in this Quarterly Report 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 months ended September 30, 2015 compared with the three months ended September 30, 2014, 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 September 30, 2015, employed approximately 8,100 people worldwide.

Quarterly Summary:

During the quarter we saw the following activity:

- Total revenue was \$434.5 million, down 4.2% over the same period in the prior fiscal year.
- Total recurring revenue was \$383.2 million, down 3.1% over the same period in the prior fiscal year.
- Cloud services and subscription revenue was \$147.8 million, down 4.1% over the same period in the prior fiscal year.
- License revenue was \$51.3 million, down 11.8% over the same period in the prior fiscal year.
- GAAP-based EPS, diluted, was \$0.34 compared to \$0.53 in the same period in the prior fiscal year.
- Non-GAAP-based EPS, diluted, was \$0.84 compared to 0.97 in the same period in the prior fiscal year.
- GAAP-based gross margin was 67.8% compared to 67.6% in the same period in the prior fiscal year.
- GAAP-based operating margin was 17.6% compared to 22.7% in the same period in the prior fiscal year.
- Non-GAAP-based operating margin was 34.1%, compared to 34.3% in the same period in the prior fiscal year.
- Operating cash flow was \$92.7 million, down 33.1% from the same period in the prior fiscal year.

Cash and cash equivalents was \$690.8 million as of September 30, 2015, 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.

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" to our Condensed Consolidated Financial Statements for more details.

#### Outlook for 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 first quarter of Fiscal 2016, recurring revenue was \$383.2 million, down 3.1% compared to the first quarter of Fiscal 2015, and represented 88.2% 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 September 30, 2015, our Customer support renewal rate was approximately 90%, consistent with the customer support renewal rate during the three months ended September 30, 2014.

We see an opportunity to help our customers become "digital businesses" and with our recent 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.

### 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 quarter 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.

## Summary of Results of Operations

(In thousands)	Three Months Ended September 30,			
	2015	Change increase (decrease)	2014	
<b>Total Revenues by Product Type:</b>				
License	\$51,331	\$(6,864	)	\$58,195
Cloud services	147,790	(6,263	)	154,053
Customer support	185,667	1,761		183,906
Professional service and other	49,747	(7,886	)	57,633
Total revenues	434,535	(19,252	)	453,787
Total Cost of Revenues	140,052	(6,888	)	146,940
Total GAAP-based Gross Profit	294,483	(12,364	)	306,847
Total GAAP-based Gross Margin %	67.8	%		67.6 %
Total GAAP-based Operating Expenses	218,010	14,189		203,821
Total GAAP-based Income from Operations	\$76,473	\$(26,553	)	\$103,026
<b>% Revenues by Product Type:</b>				
License	11.8	%		12.8 %
Cloud services	34.0	%		34.0 %
Customer support	42.7	%		40.5 %
Professional service and other	11.5	%		12.7 %
<b>Total Cost of Revenues by Product Type:</b>				
License	\$2,681	\$(316	)	\$2,997
Cloud services	58,916	(661	)	59,577
Customer support	20,508	(2,455	)	22,963
Professional service and other	38,064	(5,133	)	43,197
Amortization of acquired technology-based intangible assets	19,883	1,677		18,206
Total cost of revenues	\$140,052	\$(6,888	)	\$146,940
<b>% GAAP-based Gross Margin by Product Type:</b>				
License	94.8	%		94.9 %
Cloud services	60.1	%		61.3 %
Customer support	89.0	%		87.5 %
Professional service and other	23.5	%		25.0 %
<b>Total Revenues by Geography:</b>				
Americas (1)	\$251,426	\$5,172		\$246,254
EMEA (2)	145,789	(16,384	)	162,173
Asia Pacific (3)	37,320	(8,040	)	45,360
Total revenues	\$434,535	\$(19,252	)	\$453,787
<b>% Revenues by Geography:</b>				
Americas (1)	57.9	%		54.3 %
EMEA (2)	33.6	%		35.7 %
Asia Pacific (3)	8.5	%		10.0 %

(In thousands)	Three Months Ended September 30,		2014	
	2015			
GAAP-based gross margin	67.8	%	67.6	%
GAAP-based operating margin	17.6	%	22.7	%
GAAP-based EPS, diluted	\$0.34		\$0.53	
Non-GAAP-based gross margin (4)	72.6	%	71.8	%
Non-GAAP-based operating margin (4)	34.1	%	34.3	%
Non-GAAP-based EPS, diluted (4)	\$0.84		\$0.97	

(1) Americas consists of countries in North, Central and South America.

(2) EMEA primarily consists of countries in Europe, the Middle East and Africa.

(3) Asia Pacific primarily consists of the countries Japan, Australia, China, Korea, Philippines, Singapore and New Zealand.

(4) See "Use of Non-GAAP Financial Measures" (discussed later in the MD&A) for a reconciliation of Non-GAAP-based measures to GAAP-based measures.

#### Revenues, Cost of Revenues and Gross Margin by Product Type

##### 1) License Revenues:

License revenues consist of fees earned from the licensing of software products to customers. Our license revenues are impacted by the strength of general economic and industry conditions, the competitive strength of our software products, and our acquisitions. Cost of license revenues consists primarily of royalties payable to third parties.

(In thousands)	Three Months Ended September 30,		2014	
	2015	Change increase (decrease)		
License Revenues:				
Americas	\$25,255	\$2,565	\$22,690	
EMEA	22,678	(5,858)	28,536	)
Asia Pacific	3,398	(3,571)	6,969	)
Total License Revenues	51,331	(6,864)	58,195	)
Cost of License Revenues	2,681	(316)	2,997	)
GAAP-based License Gross Profit	\$48,650	\$(6,548)	\$55,198	)
GAAP-based License Gross Margin %	94.8	%	94.9	%

##### % License Revenues by Geography:

Americas	49.2	%	39.0	%
EMEA	44.2	%	49.0	%
Asia Pacific	6.6	%	12.0	%

License revenues decreased by \$6.9 million during the three months ended September 30, 2015 as compared to the same period in the prior fiscal year, of which approximately \$4.6 million was due to the negative impact of foreign exchange. Geographically, the overall decrease was attributable to a decrease in EMEA of \$5.9 million, and a decrease in Asia Pacific of \$3.6 million, offset by an increase in Americas of \$2.6 million. The number of license deals greater than \$1.0 million that closed during the first quarter of Fiscal 2016 was 5 deals, compared to 3 deals in the same period in Fiscal 2015. However, the overall number of deals that closed during the current quarter was lower, contributing to lower license revenue.

Cost of license revenues were relatively stable during the three months ended September 30, 2015, with gross margin percentage remaining at approximately 95%.

##### 2) Cloud Services:

Cloud services and subscription revenues consist of (i) software as a service offerings (ii) managed service arrangements and (iii) subscription revenues relating to on premise offerings. These offerings allow our customers to make use of OpenText software, services and content over Internet enabled networks supported by OpenText data centers. These web applications





allow customers to transmit a variety of content between various mediums and to securely manage enterprise information without the commitment of investing in related hardware infrastructure. Revenues are generated on several transactional usage-based models, are typically billed monthly in arrears, and can therefore fluctuate from period to period. Certain service fees are occasionally charged to customize hosted software for some customers and are either amortized over the estimated customer life, in the case of setup fees, or recognized in the period they are provided.

In addition, we offer business-to-business (B2B) integration solutions, such as messaging services, and managed services. Messaging services allow for the automated and reliable exchange of electronic transaction information, such as purchase orders, invoices, shipment notices and other business documents, among businesses worldwide. Managed services provide an end-to-end fully outsourced B2B integration solution to our customers, including program implementation, operational management, and customer support. These services enable customers to effectively manage the flow of electronic transaction information with their trading partners and reduce the complexity of disparate standards and communication protocols. Revenues are primarily generated through transaction processing. Transaction processing fees are recurring in nature and are recognized on a per transaction basis in the period in which the related transactions are processed. Revenues from contracts with monthly, quarterly or annual minimum transaction levels are recognized based on the greater of the actual transactions or the specified contract minimum amounts during the relevant period. Customers who are not committed to multi-year contracts generally are under contracts for transaction processing solutions that automatically renew every month or year, depending on the terms of the specific contracts.

Cost of cloud services and subscriptions revenues is comprised primarily of third party network usage fees, maintenance of in-house data hardware centers, technical support personnel-related costs, amortization of customer set up and implementation costs, and some third party royalty costs.

(In thousands)	Three Months Ended September 30,			
	2015	Change increase (decrease)	2014	
Cloud Services:				
Americas	\$97,652	\$(934)	\$98,586	
EMEA	34,459	(2,502)	36,961	
Asia Pacific	15,679	(2,827)	18,506	
Total Cloud Services Revenues	147,790	(6,263)	154,053	
Cost of Cloud Services Revenues	58,916	(661)	59,577	
GAAP-based Cloud Services Gross Profit	\$88,874	\$(5,602)	\$94,476	
GAAP-based Cloud Services Gross Margin %	60.1	%	61.3	%

% Cloud Services Revenues by Geography:

Americas	66.1	%	64.0	%
EMEA	23.3	%	24.0	%
Asia Pacific	10.6	%	12.0	%

Cloud services revenues decreased by \$6.3 million during the three months ended September 30, 2015 as compared to the same period in the prior fiscal year, which is inclusive of approximately \$8.5 million due to the negative impact of foreign exchange. Geographically, the overall decrease was attributable to a decrease in Asia Pacific of \$2.8 million, a decrease in EMEA of \$2.5 million, and a decrease in Americas of \$0.9 million. The number of Cloud services deals greater than \$1.0 million that closed during the first quarter of Fiscal 2016 was 6 deals, compared to 7 deals in the first quarter of Fiscal 2015.

Cost of cloud services revenues decreased by \$0.7 million during the three months ended September 30, 2015 as compared to the same period in the prior fiscal year, due to lower revenue attainment and a reduction in third party network usage fees of approximately \$2.5 million, partially offset by an increase in labour-related costs of approximately \$2.4 million. Overall, the gross margin percentage on cloud services revenue remained relatively stable.

3) Customer Support Revenues:

Customer support revenues consist of revenues from our customer support and maintenance agreements. These agreements allow our customers to receive technical support, enhancements and upgrades to new versions of our software products when and if available. Customer support revenues are generated from support and maintenance relating to current year sales of software products and from the renewal of existing maintenance agreements for software licenses sold in prior periods. Therefore, changes in customer support revenues do not always correlate directly to the changes in license revenues from

period to period. The terms of support and maintenance agreements are typically twelve months, with customer renewal options. Cost of customer support revenues is comprised primarily of technical support personnel and related costs, as well as third party royalty costs.

(In thousands)	Three Months Ended September 30,		2014	
	2015	Change increase (decrease)		
Customer Support Revenues:				
Americas	\$105,594	\$8,238	\$97,356	
EMEA	66,208	(5,309)	) 71,517	
Asia Pacific	13,865	(1,168)	) 15,033	
Total Customer Support Revenues	185,667	1,761	183,906	
Cost of Customer Support Revenues	20,508	(2,455)	) 22,963	
GAAP-based Customer Support Gross Profit	\$165,159	\$4,216	\$160,943	
GAAP-based Customer Support Gross Margin %	89.0	%	87.5	%

% Customer Support Revenues by Geography:

Americas	56.9	%	52.9	%
EMEA	35.7	%	38.9	%
Asia Pacific	7.4	%	8.2	%

Customer support revenues increased by \$1.8 million during the three months ended September 30, 2015, as compared to the same period in the prior fiscal year, which is inclusive of approximately \$15.1 million due to the negative impact of foreign exchange. Geographically, the overall increase was attributable to an increase in Americas of \$8.2 million, offset by a decrease in EMEA of \$5.3 million, and a decrease in Asia Pacific of \$1.2 million.

Cost of customer support revenues decreased by \$2.5 million during the three months ended September 30, 2015, primarily due to lower labour-related costs. As a result, the gross margin percentage on customer support revenues increased to approximately 89% from approximately 88%.

4) Professional Service and Other Revenues:

Professional service and other revenues consist of revenues from consulting contracts and contracts to provide implementation, training and integration services (professional services). "Other" revenues consist of hardware revenues. These revenues are grouped within the "Professional service and other" category because they are relatively immaterial to our service revenues. Professional services are typically performed after the purchase of new software licenses. Cost of professional service and other revenues consists primarily of the costs of providing integration, configuration and training with respect to our various software products. The most significant components of these costs are personnel-related expenses, travel costs and third party subcontracting.

(In thousands)	Three Months Ended September 30,			
	2015	Change increase (decrease)	2014	
Professional Service and Other Revenues:				
Americas	\$22,925	\$(4,697)	) \$27,622	
EMEA	22,444	(2,715)	) 25,159	
Asia Pacific	4,378	(474)	) 4,852	
Total Professional Service and Other Revenues	49,747	(7,886)	) 57,633	
Cost of Professional Service and Other Revenues	38,064	(5,133)	) 43,197	
GAAP-based Professional Service and Other Gross Profit	\$11,683	\$(2,753)	) \$14,436	
GAAP-based Professional Service and Other Gross Margin %	23.5	%	25.0	%

% Professional Service and Other Revenues by Geography:

Americas	46.1	%	47.9	%
EMEA	45.1	%	43.7	%
Asia Pacific	8.8	%	8.4	%

Professional service and other revenues decreased by \$7.9 million during the three months ended September 30, 2015, as compared to the same period in the prior fiscal year, of which approximately \$5.3 million was due to the negative impact of foreign exchange. Geographically, the overall decrease was attributable to a decrease in Americas of \$4.7 million, a decrease in EMEA of \$2.7 million, and a decrease in Asia Pacific of \$0.5 million.

Cost of professional service and other revenues decreased by \$5.1 million during the three months ended September 30, 2015. Additionally, the gross margin percentage on professional service and other revenues decreased to approximately 23% from approximately 25% on account of a higher proportion of labour-related expenses compared to revenue attained.

Amortization of Acquired Technology-based Intangible Assets

(In thousands)	Three Months Ended September 30,		
	2015	Change increase (decrease)	2014
Amortization of acquired technology-based intangible assets	\$19,883	\$1,677	\$18,206

During the three months ended September 30, 2015, amortization of acquired technology-based intangible assets increased by \$1.7 million as compared to the same period in the prior fiscal year. This is due to additions of new acquired technology-based intangible assets from our acquisitions of Actuate and Informative Graphics Corporation (IGC), partially offset by the intangible assets pertaining to our acquisitions of Global 360 Holding Corp. (Global 360), weComm Limited (weComm), Spicer Corporation, and eMotion LLC becoming fully amortized.

## Operating Expenses

(In thousands)	Three Months Ended September 30,		
	2015	Change increase (decrease)	2014
Research and development	\$46,440	\$1,698	\$44,742
Sales and marketing	77,945	(3,096)	) 81,041
General and administrative	35,569	(174)	) 35,743
Depreciation	12,914	672	12,242
Amortization of acquired customer-based intangible assets	27,805	1,921	25,884
Special charges	17,337	13,168	4,169
Total operating expenses	\$218,010	\$14,189	\$203,821

## % of Total Revenues:

Research and development	10.7	%	9.9	%
Sales and marketing	17.9	%	17.9	%
General and administrative	8.2	%	7.9	%
Depreciation	3.0	%	2.7	%
Amortization of acquired customer-based intangible assets	6.4	%	5.7	%
Special charges	4.0	%	0.9	%

Research and development expenses consist primarily of payroll and payroll-related benefits expenses, contracted research and development expenses, and facility costs. Research and development assists with organic growth, improves product stability and functionality, and as such we dedicate extensive efforts to update and upgrade our product offerings. The primary driver is typically budgeted software upgrades and software development.

(In thousands)	Quarter-over-Quarter Change between Fiscal 2015 and 2014
Payroll and payroll-related benefits	\$2,193
Contract labour and consulting	(649)
Share based compensation	188
Travel and communication	(149)
Facilities	194
Other miscellaneous	(79)
Total year-over-year change in research and development expenses	\$1,698

Research and development expenses increased by \$1.7 million during the three months ended September 30, 2015 as compared to the same period in the prior fiscal year. Payroll and payroll-related benefits increased by \$2.2 million and the use of facility and related resources increased by \$0.2 million, primarily attributed to our acquisition of Actuate. These increases were partially offset by a decrease in contract labour and consulting expenses of \$0.6 million, resulting from continued efforts to reduce the usage of external services and replace them with internal resources.

Overall, our research and development expenses, as a percentage of total revenues, have increased to approximately 11% from approximately 10% during the same period in the prior fiscal year.

Our research and development labour resources increased by 77 employees, from 1,907 employees at September 30, 2014 to 1,984 employees at September 30, 2015.

Sales and marketing expenses consist primarily of personnel expenses and costs associated with advertising, marketing and trade shows.

(In thousands)	Quarter-over-Quarter Change between Fiscal 2015 and 2014	
Payroll and payroll-related benefits	\$(2,336	)
Commissions	2,302	
Contract labour and consulting	(265	)
Share based compensation	1,022	
Travel and communication	(1,324	)
Marketing expenses	(720	)
Facilities	(211	)
Other miscellaneous	(1,564	)
Total year-over-year change in sales and marketing expenses	\$(3,096	)

Sales and marketing expenses decreased by \$3.1 million during the three months ended September 30, 2015, as compared to the same period in the prior fiscal year. This was primarily due to a \$2.3 million decrease in payroll and payroll-related benefits, and a \$1.3 million decrease in travel and communication expenses. These decreases were partially offset by a \$2.3 million increase in commission expense and a \$1.0 million increase in share-based compensation expense. Overall, our sales and marketing expenses, as a percentage of total revenues, have remained stable at approximately 18%.

Our sales and marketing labour resources decreased by 90 employees, from 1,386 employees at September 30, 2014 to 1,296 employees at September 30, 2015.

General and administrative expenses consist primarily of payroll and payroll related benefits expenses, related overhead, audit fees, other professional fees, consulting expenses and public company costs.

(In thousands)	Quarter-over-Quarter Change between Fiscal 2015 and 2014	
Payroll and payroll-related benefits	\$929	
Contract labour and consulting	158	
Share based compensation	631	
Travel and communication	1,101	
Facilities	(47	)
Other miscellaneous	(2,946	)
Total year-over-year change in general and administrative expenses	\$(174	)

General and administrative expenses decreased by \$0.2 million during the three months ended September 30, 2015, as compared to the same period in the prior fiscal year. Other miscellaneous expenses, which includes professional fees such as legal, audit and tax related expenses, decreased by \$2.9 million primarily on account of lower litigation expenses. This was partially offset by a \$0.9 million increase in payroll and payroll-related benefits and a \$1.1 million increase in travel and communications. Overall, general and administrative expenses, as a percentage of total revenue remained stable at approximately 8%.

Our general and administrative labour resources increased by 58 employees, from 962 employees at September 30, 2014 to 1,020 employees at September 30, 2015.

## Depreciation expenses:

(In thousands)	Three Months Ended September 30,		
	2015	Change increase (decrease)	2014
Depreciation	\$12,914	\$672	\$12,242

Depreciation expenses remained relatively stable.

## Amortization of acquired customer-based intangible assets:

(In thousands)	Three Months Ended September 30,		
	2015	Change increase (decrease)	2014
Amortization of acquired customer-based intangible assets	\$27,805	\$1,921	\$25,884

Acquired customer-based intangible assets amortization expense increased during the three months ended September 30, 2015 by \$1.9 million. This is primarily due to additions of new acquired customer-based intangible assets from our acquisitions of Actuate and IGC, partially offset by the intangible customer-based assets pertaining to our acquisitions of Global 360, Captaris Inc., and Vignette Corporation becoming fully amortized.

## Special charges (recoveries):

Special charges typically relate to amounts that we expect to pay in connection with restructuring plans relating to employee workforce reduction and abandonment of excess facilities, acquisition-related costs and other similar charges. Generally, we implement such plans in the context of integrating existing OpenText operations with that of acquired entities. Actions related to such restructuring plans are typically completed within a period of one year. In certain limited situations, if the planned activity does not need to be implemented, or an expense lower than anticipated is paid out, we record a recovery of the originally recorded expense to Special charges.

(In thousands)	Three Months Ended September 30,		
	2015	Change increase (decrease)	2014
Special charges (recoveries)	\$17,337	\$13,168	\$4,169

Special charges increased during the three months ended September 30, 2015 by \$13.2 million, as compared to the same period in the prior fiscal year. This was primarily due to a \$12.4 million increase in restructuring activities, and a \$1.0 million increase in other miscellaneous charges, which relates primarily to a one-time ERP implementation project in which the Company is currently involved. These increases were offset by a \$0.2 million decrease in acquisition related costs.

For more details on Special charges (recoveries), see note 17 "Special Charges (Recoveries)" to our Condensed Consolidated Financial Statements.

## Net Other Income (Expense)

Net other income (expense) relates to certain non-operational charges consisting primarily of transactional foreign exchange gains (losses). This income (expense) is dependent upon the change in foreign currency exchange rates vis-à-vis the functional currency of the legal entity.

(In thousands)	Three Months Ended September 30,			
	2015	Change increase (decrease)	2014	
Other income (expense), net	\$(4,913	) \$4,960	\$(9,873	)



### Net Interest and Other Related Expense

Net interest and other related expense is primarily comprised of cash interest paid and accrued on our debt facilities, offset by interest income earned on our cash and cash equivalents.

(In thousands)	Three Months Ended September 30,		
	2015	Change increase (decrease)	2014
Interest and other related expense, net	\$ (19,046	) \$ (7,947	) \$ (11,099

Net interest and other related expense increased during the three months ended September 30, 2015 by \$7.9 million as compared to the same period in the prior fiscal year. This was primarily the result of additional interest expense incurred relating to the Senior Notes, offset by a reduction in interest expense resulting from the repayment of our Term Loan A (each as defined below).

For more details see note 10 "Long-Term Debt" to our Condensed Consolidated Financial Statements.

### Provision for Income Taxes

We initiated an internal reorganization of our international subsidiaries in our fiscal year which began on July 1, 2009 and ended June 30, 2010 and we integrated certain acquisitions into this new organizational structure, for the following reasons: 1) to consolidate our intellectual property within certain jurisdictions, 2) to effect an operational reduction of our global subsidiaries with a view to, eventually, having a single operating legal entity in each jurisdiction, 3) to better safeguard our intellectual property in jurisdictions with well established legal regimes and protections and 4) to simplify the management of our intellectual property ownership.

We operate in several tax jurisdictions and are exposed to various foreign tax rates. We also note that we are subject to tax rate discrepancies between our domestic tax rate and foreign tax rates that are significant and these discrepancies are primarily related to earnings in Luxembourg.

(In thousands)	Three Months Ended September 30,		
	2015	Change increase (decrease)	2014
Provision for income taxes	\$ 11,202	\$ (6,200	) \$ 17,402

The effective GAAP tax rate (which is the provision for taxes expressed as a percentage of net income before taxes) remained relatively stable at 21.3% for the three months ended September 30, 2015, compared to 21.2% for the three months ended September 30, 2014. Our tax expense however, decreased by \$6.2 million primarily as the result of (i) lower net income, having an impact of \$5.4 million, and (ii) a decrease in the net expense of unrecognized tax benefits with related interest and penalties in the amount of \$2.2 million. These impacts were partially offset by an increase in valuation allowance in the amount of \$1.3 million. The remainder of the differences are due to normal course movements and non-material items.

For information with regards to certain potential tax contingencies, see note 13 "Guarantees and Contingencies" to our Condensed Consolidated Financial Statements.

### Use of Non-GAAP Financial Measures

In addition to reporting financial results in accordance with U.S. GAAP, the Company provides certain financial measures that are not in accordance with U.S. GAAP (Non-GAAP). These Non-GAAP financial measures have certain limitations in that they do not have a standardized meaning and thus the Company's definition may be different from similar Non-GAAP financial measures used by other companies and/or analysts and may differ from period to period. Thus it may be more difficult to compare the Company's financial performance to that of other companies. However, the Company's management compensates for these limitations by providing the relevant disclosure of the items excluded in the calculation of these Non-GAAP financial measures both in its reconciliation to the U.S. GAAP financial measures and its Condensed Consolidated Financial Statements, all of which should be considered when evaluating the Company's results.

The Company uses these Non-GAAP financial measures to supplement the information provided in its Condensed Consolidated Financial Statements, which are presented in accordance with U.S. GAAP. The presentation of Non-GAAP financial measures are not meant to be a substitute for financial measures presented in accordance with U.S. GAAP, but rather should be evaluated in conjunction with and as a supplement to such U.S. GAAP measures.

OpenText strongly encourages

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investors to review its financial information in its entirety and not to rely on a single financial measure. The Company therefore believes that despite these limitations, it is appropriate to supplement the disclosure of the U.S. GAAP measures with certain Non-GAAP measures defined below.

Non-GAAP-based net income and Non-GAAP-based EPS are calculated as net income or earnings per share on a diluted basis, excluding the amortization of acquired intangible assets, other income (expense), share-based compensation, and special charges, all net of tax. Non-GAAP-based gross profit is the arithmetical sum of GAAP-based gross profit and the amortization of acquired technology-based intangible assets. Non-GAAP-based gross margin is calculated as Non-GAAP-based gross profit expressed as a percentage of revenue. Non-GAAP-based income from operations is calculated as income from operations, excluding the amortization of acquired intangible assets, special charges (recoveries), and share-based compensation expense. Non-GAAP-based operating margin is calculated as Non-GAAP-based income from operations expressed as a percentage of revenue.

The Company's management believes that the presentation of the above defined Non-GAAP financial measures provides useful information to investors because they portray the financial results of the Company before the impact of certain non-operational charges. The use of the term "non-operational charge" is defined for this purpose as an expense that does not impact the ongoing operating decisions taken by the Company's management and is based upon the way the Company's management evaluates the performance of the Company's business for use in the Company's internal reports. In the course of such evaluation and for the purpose of making operating decisions, the Company's management excludes certain items from its analysis, including amortization of acquired intangible assets, special charges (recoveries), share-based compensation, other income (expense), and the taxation impact of these items. These items are excluded based upon the manner in which management evaluates the business of the Company and are not excluded in the sense that they may be used under U.S. GAAP.

The Company believes the provision of supplemental Non-GAAP measures allow investors to evaluate the operational and financial performance of the Company's core business using the same evaluation measures that management uses, and is therefore a useful indication of OpenText's performance or expected performance of future operations and facilitates period-to-period comparison of operating performance (although prior performance is not necessarily indicative of future performance). As a result, the Company considers it appropriate and reasonable to provide, in addition to U.S. GAAP measures, supplementary Non-GAAP financial measures that exclude certain items from the presentation of its financial results.

The following charts provide unaudited reconciliations of U.S. GAAP-based financial measures to Non-GAAP-based financial measures for the following periods presented:

## Reconciliation of selected GAAP-based measures to Non-GAAP-based measures for the three months ended September 30, 2015

(in thousands except for per share data)

	Three Months Ended September 30, 2015					Non-GAAP-based Measures	Non-GAAP-based Measures % of Revenue
	GAAP-based Measures	GAAP-based Measures % of Revenue	Adjustment	Note	Non-GAAP-based Measures		
Cost of revenues							
Cloud services and subscriptions	\$58,916		\$ (281 )	(1)	\$ 58,635		
Customer support	20,508		(158 )	(1)	20,350		
Professional service and other	38,064		(453 )	(1)	37,611		
Amortization of acquired technology-based intangible assets	19,883		(19,883 )	(2)	—		
GAAP-based gross profit and gross margin (%) /	294,483	67.8%	20,775	(3)	315,258	72.6%	
Non-GAAP-based gross profit and gross margin (%)							
Operating expenses							
Research and development	46,440		(752 )	(1)	45,688		
Sales and marketing	77,945		(3,115 )	(1)	74,830		
General and administrative	35,569		(1,774 )	(1)	33,795		
Amortization of acquired customer-based intangible assets	27,805		(27,805 )	(2)	—		
Special charges (recoveries)	17,337		(17,337 )	(4)	—		
GAAP-based income from operations and operating margin (%) / Non-GAAP-based income from operations and operating margin (%)	76,473	17.6%	71,558	(5)	148,031	34.1%	
Other income (expense), net	(4,913 )		4,913	(6)	—		
Provision for (recovery of) income taxes	11,202		14,569	(7)	25,771		
GAAP-based net income /							
Non-GAAP-based net income, attributable to OpenText	41,286		61,902	(8)	103,188		
GAAP-based earnings per share / Non-GAAP-based earnings per share-diluted, attributable to OpenText	\$0.34		\$0.50	(8)	\$0.84		

- (1) Adjustment relates to the exclusion of share based compensation expense from our Non-GAAP-based operating expenses as this expense is excluded from our internal analysis of operating results.
- (2) Adjustment relates to the exclusion of amortization expense from our Non-GAAP-based operating expenses as the timing and frequency of amortization expense is dependent on our acquisitions and is hence excluded from our internal analysis of operating results.
- (3) GAAP-based and Non-GAAP-based gross profit stated in dollars and gross margin stated as a percentage of revenue.
- (4) Adjustment relates to the exclusion of Special charges (recoveries) from our Non-GAAP-based operating expenses as Special charges are generally incurred in the periods following the relevant acquisitions and are not indicative or related to continuing operations and are therefore excluded from our internal analysis of operating results.
- (5) GAAP-based and Non-GAAP-based income from operations stated in dollars and operating margin stated as a percentage of revenue.

(6) Adjustment relates to the exclusion of Other income (expense) from our Non-GAAP-based operating expenses as Other income (expense) relates primarily to the transactional impact of foreign exchange and is generally not indicative or related to continuing operations and is therefore excluded from our internal analysis of operating results.

(7) Adjustment relates to differences between the GAAP-based tax provision rate of approximately 21% and a non-GAAP-based tax rate of 20%; these rate differences are due to the income tax effects of expenses that are excluded for the purpose of calculating non-GAAP-based adjusted net income. Such excluded expenses include amortization, share-based compensation, special charges and other income (expense), net. Also excluded are tax expense items unrelated to current period income such as changes in reserves for tax uncertainties and valuation allowance reserves, tax arising on internal reorganizations, and “book to return” adjustments for tax return filings and tax assessments (in total “adjusted expenses”). In arriving at our non-GAAP-based tax rate of 20%, we analyzed the individual adjusted expenses and took into consideration the impact of statutory tax rates from local jurisdictions incurring the expense.

## (8) Reconciliation of Non-GAAP-based adjusted net income to GAAP-based net income:

	Three Months Ended September 30, 2015	Per share diluted
Non-GAAP-based net income, attributable to OpenText	\$ 103,188	\$0.84
Less:		
Amortization	47,688	0.39
Share-based compensation	6,533	0.05
Special charges (recoveries)	17,337	0.14
Other (income) expense, net	4,913	0.04
GAAP-based provision for (recovery of) income taxes	11,202	0.09
Non-GAAP based provision for income taxes	(25,771)	)(0.21 )
GAAP-based net income, attributable to OpenText	\$41,286	\$0.34

## Reconciliation of selected GAAP-based measures to Non-GAAP-based measures for the three months ended September 30, 2014

(in thousands except for per share data)

	Three Months Ended September 30, 2014					Non-GAAP-based Measures	Non-GAAP-based Measures % of Revenue
	GAAP-based Measures	GAAP-based Measures % of Revenue	Adjustment	Note	Non-GAAP-based Measures		
Cost of revenues							
Cloud services	\$59,577		\$ (213 )	(1)	\$ 59,364		
Customer support	22,963		(174 )	(1)	22,789		
Professional service and other	43,197		(263 )	(1)	42,934		
Amortization of acquired technology-based intangible assets	18,206		(18,206 )	(2)	—		
GAAP-based gross profit and gross margin (%) /	306,847	67.6%	18,856	(3)	325,703	71.8%	
Non-GAAP-based gross profit and gross margin (%)							
Operating expenses							
Research and development	44,742		(563 )	(1)	44,179		
Sales and marketing	81,041		(2,074 )	(1)	78,967		
General and administrative	35,743		(1,162 )	(1)	34,581		
Amortization of acquired customer-based intangible assets	25,884		(25,884 )	(2)	—		
Special charges (recoveries)	4,169		(4,169 )	(4)	—		
GAAP-based income from operations and operating margin (%) / Non-GAAP-based income from operations and operating margin (%)	103,026	22.7%	52,708	(5)	155,734	34.3%	
Other income (expense), net	(9,873 )		9,873	(6)	—		
Provision for (recovery of) income taxes	17,402		8,606	(7)	26,008		
GAAP-based net income /							
Non-GAAP-based net income, attributable to OpenText	64,626		53,975	(8)	118,601		
GAAP-based earnings per share / Non-GAAP-based earnings per share-diluted, attributable to OpenText	\$0.53		\$0.44	(8)	\$0.97		

(1) Adjustment relates to the exclusion of share based compensation expense from our Non-GAAP-based operating expenses as this expense is excluded from our internal analysis of operating results.

(2) Adjustment relates to the exclusion of amortization expense from our Non-GAAP-based operating expenses as the timing and frequency of amortization expense is dependent on our acquisitions and is hence excluded from our internal analysis of operating results.

(3) GAAP-based and Non-GAAP-based gross profit stated in dollars and gross margin stated as a percentage of revenue.

(4) Adjustment relates to the exclusion of Special charges (recoveries) from our Non-GAAP-based operating expenses as Special charges are generally incurred in the periods following the relevant acquisitions and are not indicative or related to continuing operations and are therefore excluded from our internal analysis of operating results.

(5)

GAAP-based and Non-GAAP-based income from operations stated in dollars and operating margin stated as a percentage of revenue.

- (6) Adjustment relates to the exclusion of Other income (expense) from our Non-GAAP-based operating expenses as Other income (expense) relates primarily to the transactional impact of foreign exchange and is generally not indicative or related to continuing operations and is therefore excluded from our internal analysis of operating results.

- (7) Adjustment relates to differences between the GAAP-based tax provision rate of approximately 21% and a non-GAAP-based tax rate of 18%; these rate differences are due to the income tax effects of expenses that are excluded for the purpose of calculating non-GAAP-based adjusted net income. Such excluded expenses include amortization, share-based compensation, special charges and other income (expense), net. Also excluded are tax expense items unrelated to current period income such as changes in reserves for tax uncertainties and valuation allowance reserves, tax arising on internal reorganizations, and “book to return” adjustments for tax return filings and tax assessments (in total “adjusted expenses”). In arriving at our non-GAAP-based tax rate of 18%, we analyzed the individual adjusted expenses and took into consideration the impact of statutory tax rates from local jurisdictions incurring the expense.



## (8) Reconciliation of Non-GAAP-based adjusted net income to GAAP-based net income:

	Three Months Ended September 30, 2014	Per share diluted
Non-GAAP-based net income, attributable to OpenText	\$ 118,601	\$0.97
Less:		
Amortization	44,090	0.36
Share-based compensation	4,449	0.04
Special charges (recoveries)	4,169	0.03
Other (income) expense, net	9,873	0.08
GAAP-based provision for (recovery of) income taxes	17,402	0.14
Non-GAAP based provision for income taxes	(26,008)	)(0.21)
GAAP-based net income, attributable to OpenText	\$64,626	\$0.53

## LIQUIDITY AND CAPITAL RESOURCES

The following tables set forth changes in cash flows from operating, investing and financing activities for the periods indicated:

(In thousands)	As of September 30, 2015	Change increase (decrease)	As of June 30, 2015
Cash and cash equivalents	\$690,785	\$(9,214	) \$699,999
Marketable Securities	\$18,022	\$(2,252	) \$20,274

(In thousands)	Three Months Ended September 30,		
	2015	Change	2014
Cash provided by operating activities	\$92,722	\$(45,809	) \$138,531
Cash used in investing activities	\$(25,684	) \$12,147	\$(37,831
Cash provided by (used in) financing activities	\$(70,302	) \$(43,151	) \$(27,151
Cash and cash equivalents			

Cash and cash equivalents primarily consist of deposits held at major banks with original maturities of 90 days or less. We anticipate that our cash and cash equivalents, as well as available credit facilities, will be sufficient to fund our anticipated cash requirements for working capital, contractual commitments, capital expenditures, dividends, potential acquisitions under our normal course issuer bid, and operating needs for the next 12 months. However, any further material or acquisition-related activities may require additional sources of financing and would be subject to the financial covenants established under our credit facilities. For more details, see "Long-term Debt and Credit Facilities" below.

As at September 30, 2015, we have provided \$12.6 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.

## Cash flows provided by operating activities

Cash flows from operating activities decreased by \$45.8 million due to a decrease in net income before the impact of non-cash items of \$19.1 million and a decrease in changes from working capital of \$26.7 million. The decrease in operating cash flow from changes in working capital of \$26.7 million is primarily due to the net impact of the following changes: (i) \$14.0 million relating to the net impact of changes in income taxes payable and deferred charges and credits, (ii) \$14.2 million relating to a lower accounts payable and accrued liabilities balance, (iii) \$5.6 million relating to a lower deferred revenue balance and (iv) \$3.4 million relating to a lower accounts receivable balance. These decreases were offset by the net impact of the following changes: (i) \$6.0 million due to a lower prepaid and other current assets balance and (ii) \$4.5 million relating to a lower other assets balance.

During the first quarter of Fiscal 2016 our Days Sales Outstanding (DSO) was 48 days compared to a DSO of 48 days during the first quarter of Fiscal 2015 and the per day impact of our DSO in the first quarters of Fiscal 2016 and Fiscal 2015 on our cash flows was \$2.6 and \$2.7 million, respectively.

## Cash flows used in investing activities

Our cash flows used in investing activities is primarily on account of acquisitions and additions of property and equipment.

Cash flows used in investing activities decreased by \$12.1 million. This was due to a decrease in additions to property and equipment of \$13.0 million, a decrease in other investing activities of \$6.5 million, primarily due the purchase of shares of Actuate in the open market prior to the date of acquisition in the first quarter of Fiscal 2015, and proceeds of \$2.3 million received from the maturity of short-term investments. These decreases were partially offset by a payment of \$7.7 million relating to Actuate equity-based liabilities that were accrued for but unpaid at the time of acquisition, and a payment of \$2.0 million relating to an amount previously held back on a prior period acquisition in accordance with the terms of the agreement.

#### Cash flows from financing activities

Our cash flows from financing activities generally consist of long-term debt financing and amounts received from stock options exercised by our employees. These inflows are typically offset by scheduled and non-scheduled repayments of our long-term debt financing and, when applicable, the payment of dividends and/or the repurchases of our Common Shares.

Cash flows used in financing activities increased by \$43.2 million. This is primarily due to the repurchase of approximately 1.1 million OpenText Common Shares for approximately \$50.0 million under our Share Repurchase Plan, and a \$2.3 million increase in dividend payments made to our shareholders. This was partially offset by a reduction in principal payments on our credit facilities of \$11.4 million.

#### Cash Dividends

During the three months ended September 30, 2015, we declared and paid cash dividends of \$0.2000 per Common Share, that totaled \$23.3 million. 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.

#### Long-term Debt and Credit Facilities

##### Senior Unsecured Fixed Rate Notes

On January 15, 2015, we issued \$800 million in aggregate principal amount of our 5.625% Senior Notes due 2023 (Senior Notes) in an unregistered offering to qualified institutional buyers pursuant to Rule 144A under the 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.

We may redeem all or a portion of Senior Notes at any time prior to January 15, 2018 at a redemption price equal to 100% of the principal amount of Senior Notes plus an applicable premium, plus accrued and unpaid interest, if any, to the redemption date. In addition, we may also redeem up to 40% of the aggregate principal amount of Senior Notes, on one or more occasions, prior to January 15, 2018, using the net proceeds from certain qualified equity offerings at a redemption price of 105.625% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, subject to compliance with certain conditions. We may, on one or more occasion, redeem Senior Notes, in whole or in part, at any time on and after January 15, 2018 at the applicable redemption prices set forth in the indenture, dated as of January 15, 2015, among the Company, the subsidiary guarantors party thereto, Citibank, N.A., as U.S. trustee, and Citi Trust Company Canada, as Canadian Trustee (the Indenture), plus accrued and unpaid interest, if any, to the redemption date.

If we experience one of the kinds of changes of control triggering events specified in the Indenture, we will be required to make an offer to repurchase Senior Notes at a price equal to 101% of the principal amount of Senior Notes, plus accrued and unpaid interest, if any, to the date of purchase.

The Indenture contains covenants that limit our and certain of our subsidiaries' ability to, among other things: (i) create certain liens and enter into sale and lease-back transactions; (ii) create, assume, incur or guarantee additional indebtedness of the Company or the subsidiary guarantors without such subsidiary becoming a subsidiary guarantor of Senior Notes; and (iii) consolidate, amalgamate or merge with, or convey, transfer, lease or otherwise dispose of its property and assets substantially as an entirety to, another person. These covenants are subject to a number of important limitations and exceptions as set forth in the Indenture. The Indenture also provides for events of default, which, if any of them occurs, may permit or, in certain circumstances, require the principal, premium, if any, interest and any other monetary obligations on all the then-outstanding notes to be due and payable immediately.

Senior Notes are initially guaranteed on a senior unsecured basis by our existing and future wholly-owned subsidiaries that borrow or guarantee the obligations under the Revolver and Term Loan B (each defined below). Senior Notes and the guarantees rank equally in right of payment with all of our and our subsidiary guarantors' existing and future senior unsecured debt and will rank senior in right of payment to all of our and our subsidiary guarantors' future subordinated debt. Senior Notes and the guarantees will be effectively subordinated to all of ours and our guarantors' existing and future secured debt, including the obligations under the Revolver and Term Loan B, to the extent of the value of the assets securing such secured debt.

The foregoing description of the Indenture does not purport to be complete and is qualified in its entirety by reference to the full text of the Indenture, which is filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on January 15, 2015.

#### Term Loan B

In connection with the acquisition of GXS, on January 16, 2014, we entered into a second credit facility, which provides for a \$800 million term loan facility with certain lenders named therein, Barclays Bank PLC (Barclays), as sole administrative agent and collateral agent, and with Barclays and RBC Capital Markets as lead arrangers and joint bookrunners (Term Loan B). 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 are secured by a first charge over substantially all of our assets on a pari passu basis with the Revolver. We entered into Term Loan B and borrowed the full amount of \$800 million on January 16, 2014. Term Loan B has a seven year term.

Borrowings under Term Loan B bear interest at a rate per annum equal to an applicable margin plus, at the borrower's option, either (1) the eurodollar rate for the interest period relevant to such borrowing or (2) an ABR rate determined by reference to the greatest of (i) the prime rate of Barclays, (ii) the federal funds rate plus 0.50% per annum and (iii) the one month eurodollar rate plus 1.00% per annum. The applicable margin for borrowings under Term Loan B will be 2.5% with respect to LIBOR borrowings and 1.5% with respect to ABR rate borrowings.

Currently we have chosen for our borrowings under Term Loan B to bear a floating rate of interest at a rate per annum equal to 2.5% plus the higher of LIBOR or 0.75%. As of September 30, 2015, the interest rate was 3.25%.

Term Loan B has incremental facility capacity of (i) \$250 million plus (ii) additional amounts, subject to meeting a "consolidated senior secured net leverage" ratio not exceeding 2.75:1.00, in each case subject to certain conditions. Consolidated senior secured net leverage ratio is defined for this purpose as the proportion of our total debt reduced by unrestricted cash, including guarantees and letters of credit, that is secured by our or any of our subsidiaries' assets, over our trailing twelve months net income before interest, taxes, depreciation, amortization, restructuring, share-based compensation and other miscellaneous charges.

Under Term Loan B, we must maintain a "consolidated net leverage" ratio of no more than 4:1 at the end of each financial quarter. Consolidated net leverage ratio is defined for this purpose as the proportion of our total debt reduced by unrestricted cash, including guarantees and letters of credit, over our trailing twelve months net income before interest, taxes, depreciation, amortization, restructuring, share-based compensation and other miscellaneous charges. As of September 30, 2015, our consolidated net leverage ratio was 1.5:1.

For further details relating to our Term Loan B, please see note 10 "Long-Term Debt" to our Condensed Consolidated Financial Statements.

#### 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 September 30, 2015, we have not drawn any amounts on the Revolver.

#### Employee Share Purchase Plan (ESPP)

In order to encourage further participation by eligible employees in the ESPP, we 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 were subsequently approved by shareholders at the annual and special meeting held on October 2, 2015, and will apply to purchase periods commencing on or after January 1, 2016 unless otherwise determined by our Board of Directors or the compensation committee of the Board.

#### Share Repurchase Plan

On July 28, 2015, our Board of Directors 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 September 30, 2015, we repurchased and cancelled approximately 1.1 million OpenText Common Shares for approximately \$50.0 million under our Share Repurchase Plan (three months ended September 30, 2014—nil). Of the \$50.0 million repurchased, \$42.5 million was recorded to retained earnings to reflect the difference between the market price of Common Shares repurchased and its book value.



As of September 30, 2015, approximately \$150.0 million remained available for repurchase under the Share Repurchase Plan.

#### Shelf Registration Statement

In response to the demand and piggyback registration requests we received pursuant to the registration rights agreement entered into in connection with the acquisition of GXS, we filed a universal shelf registration statement on Form S-3 (the Shelf Registration Statement) with the SEC, which became effective automatically. The Shelf Registration Statement allows for primary and secondary offerings from time to time of equity, debt and other securities, including Common Shares, Preference Shares, debt securities, depositary shares, warrants, purchase contracts, units and subscription receipts. A base shelf prospectus qualifying the distribution of such securities was also filed with certain Canadian securities regulators. The type of securities and the specific terms thereof will be determined at the time of any offering and will be described in the applicable prospectus supplement to be filed separately with the SEC and such Canadian securities regulators.

#### Pensions

As of September 30, 2015, our total unfunded pension plan obligations were \$57.3 million, of which \$1.6 million is payable within the next 12 months. We expect to be able to make the long-term and short-term payments related to these obligations in the normal course of operations.

Our anticipated payments under our most significant plans for the fiscal years indicated below are as follows:

	Fiscal years ending June 30,		
	CDT	GXS GER	GXS PHP
2016 (nine months ended June 30)	\$431	\$518	\$21
2017	615	703	32
2018	661	783	43
2019	733	836	88
2020	803	882	76
2021 to 2025	5,240	4,795	1,182
Total	\$8,483	\$8,517	\$1,442

For a detailed discussion on all pensions, see note 11 "Pension Plans and Other Post Retirement Benefits" to our Condensed Consolidated Financial Statements.

#### Commitments and Contractual Obligations

As of September 30, 2015, we have entered into the following contractual obligations with minimum payments for the indicated fiscal periods as follows:

	Payments due between				
	Total	October 1, 2015— June 30, 2016	July 1, 2016— June 30, 2018	July 1, 2018— June 30, 2020	July 1, 2020 and beyond
Long-term debt obligations	\$2,057,210	\$47,893	\$156,944	\$155,957	\$1,696,416
Operating lease obligations*	220,777	35,822	75,841	53,108	56,006
Purchase obligations	13,108	6,952	5,834	322	—
	\$2,291,095	\$90,667	\$238,619	\$209,387	\$1,752,422

\*Net of \$3.0 million of sublease income to be received from properties which we have subleased to third parties.

The long-term debt obligations are comprised of interest and principal payments on Senior Notes and credit facilities. See note 10 "Long-Term Debt" to our Condensed Consolidated Financial Statements.

#### 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, such aggregated losses were not material to our consolidated financial position or result of operations and we do not believe as of the date of this filing that it is reasonably possible that a loss exceeding the amounts already recognized will be incurred that would be material to our consolidated financial position or results of operations.

## Contingencies

As we have previously disclosed, the United States Internal Revenue Services (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, 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 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 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 \$1.9 million as of September 30, 2015. We currently have in place a bank guarantee in the amount of \$2.9 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 \$4.6 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.

#### Off-Balance Sheet Arrangements

We do not enter into off-balance sheet financing as a matter of practice except for the use of operating leases for office space, computer equipment, and vehicles. None of the operating leases described in the previous sentence has, and we currently do not believe that they potentially may have, a material effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources. In accordance with U.S. GAAP, neither the lease liability nor the underlying asset is carried on the balance sheet, as the terms of the leases do not meet the criteria for capitalization.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are primarily exposed to market risks associated with fluctuations in interest rates on our term loans and foreign currency exchange rates.

#### Interest rate risk

Our exposure to interest rate fluctuations relate primarily to our Term Loan B.

As of September 30, 2015, we had an outstanding balance of \$786.0 million on Term Loan B. Term Loan B bears a floating interest rate of 2.5% plus the higher of LIBOR or 0.75%. As of September 30, 2015, an adverse change of one percent on the interest rate would have the effect of increasing our annual interest payment on Term Loan B by approximately \$7.9 million, assuming that the loan balance as of September 30, 2015 is outstanding for the entire period.

At June 30, 2015, an adverse change of one percent would have had the effect of increasing our annual interest payments on Term Loan B by approximately \$7.9 million, assuming that the loan balance was outstanding for the entire period.

#### Foreign currency risk

##### Foreign currency transaction risk

We transact business in various foreign currencies. Our foreign currency exposures typically arise from intercompany fees, intercompany loans and other intercompany transactions that are expected to be cash settled in the near term. We expect that we will continue to realize gains or losses with respect to our foreign currency exposures. Our ultimate realized gain or loss with respect to foreign currency exposures will generally depend on the size and type of cross-currency transactions that we enter into, the currency exchange rates associated with these exposures and changes in those rates. Additionally, we have hedged certain of our Canadian dollar foreign currency exposures relating to our payroll expenses in Canada.

Based on the foreign exchange forward contracts outstanding as at September 30, 2015, a one cent change in the Canadian dollar to U.S. dollar exchange rate would have caused a change of approximately \$0.7 million in the mark to market on our existing foreign exchange forward contracts.

At June 30, 2015, a one cent change in the Canadian dollar to U.S. dollar exchange rate would have caused a change of approximately \$0.8 million in the mark to market on our existing foreign exchange forward contracts.

##### Foreign currency translation risk

Our reporting currency is the U.S. dollar. Fluctuations in foreign currencies impact the amount of total assets and liabilities that we report for our foreign subsidiaries upon the translation of these amounts into U.S. dollars. In particular, the amount of cash and cash equivalents that we report in U.S. dollars for a significant portion of the cash held by these subsidiaries is subject to translation variance caused by changes in foreign currency exchange rates as of the end of each respective reporting period (the offset to which is recorded to accumulated other comprehensive income on our Condensed Consolidated Balance Sheets).

The following table shows our cash and cash equivalents denominated in certain major foreign currencies as of September 30, 2015 (equivalent in U.S. dollar):

(In thousands)	U.S. Dollar Equivalent at September 30, 2015	U.S. Dollar Equivalent at June 30, 2015
Euro	\$ 147,816	\$ 125,411
British Pound	37,383	28,634
Canadian Dollar	15,390	21,358
Swiss Franc	17,639	12,364
Other foreign currencies	62,828	55,996
Total cash and cash equivalents denominated in foreign currencies	281,056	243,763
U.S. dollar	409,729	456,236
Total cash and cash equivalents	\$ 690,785	\$ 699,999

If overall foreign currency exchange rates in comparison to the U.S. dollar uniformly weakened by 10%, the amount of cash and cash equivalents we would report in equivalent U.S. dollars would decrease by approximately \$28.1









