

OPEN TEXT CORP
Form 10-Q
January 31, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2017.

OR

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

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

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

CANADA 98-0154400
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At January 29, 2018, there were 265,809,263 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)

	December 31, 2017	June 30, 2017
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 476,014	\$ 443,357
Accounts receivable trade, net of allowance for doubtful accounts of \$8,503 as of December 31, 2017 and \$6,319 as of June 30, 2017 (note 3)	511,969	445,812
Income taxes recoverable (note 14)	23,861	32,683
Prepaid expenses and other current assets	101,063	81,625
Total current assets	1,112,907	1,003,477
Property and equipment (note 4)	260,896	227,418
Goodwill (note 5)	3,578,976	3,416,749
Acquired intangible assets (note 6)	1,468,378	1,472,542
Deferred tax assets (note 14)	1,158,836	1,215,712
Other assets (note 7)	96,612	93,763
Deferred charges (note 8)	39,204	42,344
Long-term income taxes recoverable (note 14)	23,412	8,557
Total assets	\$ 7,739,221	\$ 7,480,562
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 318,008	\$ 342,120
Current portion of long-term debt (note 10)	382,760	182,760
Deferred revenues	557,873	570,328
Income taxes payable (note 14)	30,084	31,835
Total current liabilities	1,288,725	1,127,043
Long-term liabilities:		
Accrued liabilities (note 9)	47,379	50,338
Deferred credits (note 8)	4,005	5,283
Pension liability (note 11)	62,213	58,627
Long-term debt (note 10)	2,385,709	2,387,057
Deferred revenues	68,934	61,678
Long-term income taxes payable (note 14)	176,222	162,493
Deferred tax liabilities (note 14)	77,182	94,724
Total long-term liabilities	2,821,644	2,820,200
Shareholders' equity:		
Share capital and additional paid-in capital (note 12)		
265,625,515 and 264,059,567 Common Shares issued and outstanding at December 31, 2017 and June 30, 2017, respectively; authorized Common Shares: unlimited	1,650,217	1,613,454
Accumulated other comprehensive income	47,521	48,800
Retained earnings	1,949,503	1,897,624
Treasury stock, at cost (714,169 shares at December 31, 2017 and 1,101,612 at June 30, 2017, respectively)	(19,250)	(27,520)
Total OpenText shareholders' equity	3,627,991	3,532,358
Non-controlling interests	861	961
Total shareholders' equity	3,628,852	3,533,319
Total liabilities and shareholders' equity	\$ 7,739,221	\$ 7,480,562
Guarantees and contingencies (note 13)		

Related party transactions (note 21)

Subsequent event (note 22)

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Revenues:				
License	\$ 135,244	\$ 97,764	\$ 213,475	\$ 158,420
Cloud services and subscriptions	208,121	175,061	401,974	344,748
Customer support	308,070	219,656	603,474	429,862
Professional service and other	82,970	50,228	156,169	101,343
Total revenues	734,405	542,709	1,375,092	1,034,373
Cost of revenues:				
License	4,587	2,391	7,547	6,236
Cloud services and subscriptions	90,418	73,150	174,748	143,442
Customer support	33,194	27,349	65,985	53,087
Professional service and other	64,985	40,295	124,444	81,638
Amortization of acquired technology-based intangible assets (note 6)	47,128	24,848	91,088	47,983
Total cost of revenues	240,312	168,033	463,812	332,386
Gross profit	494,093	374,676	911,280	701,987
Operating expenses:				
Research and development	80,304	64,721	157,933	123,293
Sales and marketing	129,142	102,651	251,964	197,799
General and administrative	48,985	39,914	97,900	78,111
Depreciation	22,071	15,301	40,949	30,571
Amortization of acquired customer-based intangible assets (note 6)	46,268	33,815	90,057	67,423
Special charges (recoveries) (note 17)	715	11,117	18,746	23,571
Total operating expenses	327,485	267,519	657,549	520,768
Income from operations	166,608	107,157	253,731	181,219
Other income (expense), net	5,547	(3,558)	15,771	3,141
Interest and other related expense, net	(34,092)	(27,743)	(67,380)	(55,018)
Income before income taxes	138,063	75,856	202,122	129,342
Provision for (recovery of) income taxes (note 14)	53,146	30,822	80,515	(828,603)
Net income for the period	\$ 84,917	\$ 45,034	\$ 121,607	\$ 957,945
Net (income) loss attributable to non-controlling interests	194	(12)	100	(39)
Net income attributable to OpenText	\$ 85,111	\$ 45,022	\$ 121,707	\$ 957,906
Earnings per share—basic attributable to OpenText (note 20)	\$ 0.32	\$ 0.18	\$ 0.46	\$ 3.92
Earnings per share—diluted attributable to OpenText (note 20)	\$ 0.32	\$ 0.18	\$ 0.46	\$ 3.89
Weighted average number of Common Shares outstanding—basic (in '000's)	265,504	245,653	265,153	244,282
Weighted average number of Common Shares outstanding—diluted (in '000's)	266,857	247,501	266,549	246,123
Dividends declared per Common Share	\$ 0.1320	\$ 0.1150	\$ 0.2640	\$ 0.2300
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 December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net income for the period	\$84,917	\$45,034	\$121,607	\$957,945
Other comprehensive income (loss)—net of tax:				
Net foreign currency translation adjustments	(1,446)	(11,526)	(540)	(10,307)
Unrealized gain (loss) on cash flow hedges:				
Unrealized gain (loss) - net of tax expense (recovery) effect of (\$60) and (\$252) for the three months ended December 31, 2017 and 2016, respectively; \$403 and (\$380) for the six months ended December 31, 2017 and 2016, respectively	(168)	(698)	1,117	(1,053)
(Gain) loss reclassified into net income - net of tax (expense) recovery effect of (\$141) and (\$33) for the three months ended December 31, 2017 and 2016, respectively; (\$428) and (\$38) for the six months ended December 31, 2017 and 2016, respectively	(391)	(91)	(1,188)	(108)
Actuarial gain (loss) relating to defined benefit pension plans:				
Actuarial gain (loss) - net of tax expense (recovery) effect of (\$153) and \$1,077 for the three months ended December 31, 2017 and 2016, respectively; (\$236) and \$484 for the six months ended December 31, 2017 and 2016, respectively	(48)	2,823	(163)	4,361
Amortization of actuarial (gain) loss into net income - net of tax (expense) recovery effect of \$43 and \$57 for the three months ended December 31, 2017 and 2016, respectively; \$85 and \$119 for the six months ended December 31, 2017 and 2016, respectively	56	134	112	281
Unrealized net gain (loss) on marketable securities - net of tax effect of nil for the three and six months ended December 31, 2017 and 2016, respectively	—	512	—	400
Release of unrealized gain on marketable securities - net of tax effect of nil for the three and six months ended December 31, 2017 and 2016, respectively	—	—	(617)	—
Total other comprehensive income (loss) net, for the period	(1,997)	(8,846)	(1,279)	(6,426)
Total comprehensive income	82,920	36,188	120,328	951,519
Comprehensive (income) loss attributable to non-controlling interests	194	(12)	100	(39)
Total comprehensive income attributable to OpenText	\$83,114	\$36,176	\$120,428	\$951,480
See accompanying Notes to Condensed Consolidated Financial Statements				

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

	Six Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net income for the period	\$ 121,607	\$ 957,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	222,094	145,977
Share-based compensation expense	15,393	15,712
Excess tax (benefits) expense on share-based compensation expense	—	(542)
Pension expense	1,869	2,061
Amortization of debt issuance costs	2,532	2,654
Amortization of deferred charges and credits	2,234	4,292
Loss on sale and write down of property and equipment	163	—
Release of unrealized gain on marketable securities to income	(841)	—
Deferred taxes	44,374	(868,233)
Share in net (income) loss of equity investees	196	(5,993)
Other non-cash charges	—	1,033
Changes in operating assets and liabilities:		
Accounts receivable	(49,458)	456
Prepaid expenses and other current assets	(5,383)	11,885
Income taxes and deferred charges and credits	1,583	(9,620)
Accounts payable and accrued liabilities	(72,499)	(23,995)
Deferred revenue	(48,846)	(47,742)
Other assets	(1,269)	(5,420)
Net cash provided by operating activities	233,749	180,470
Cash flows from investing activities:		
Additions of property and equipment	(55,937)	(32,274)
Proceeds from maturity of short-term investments	—	9,212
Purchase of Guidance Software, Inc., net of cash acquired	(229,275)	—
Purchase of Covisint Corporation, net of cash acquired	(71,279)	—
Purchase of HP Inc. CCM Business	—	(315,000)
Purchase of Recommind, Inc.	—	(170,107)
Purchase consideration for acquisitions completed prior to Fiscal 2017	—	(7,146)
Other investing activities	(8,061)	(563)
Net cash used in investing activities	(364,552)	(515,878)
Cash flows from financing activities:		
Excess tax benefits (expense) on share-based compensation expense	—	542
Proceeds from long-term debt and Revolver	200,000	256,875
Proceeds from issuance of Common Shares from exercise of stock options and ESPP	29,622	10,701
Proceeds from issuance of Common Shares under the public Equity Offering	—	604,223
Repayment of long-term debt and Revolver	(3,880)	(4,000)
Debt issuance costs	—	(4,155)
Equity issuance costs	—	(18,127)
Payments of dividends to shareholders	(69,828)	(55,650)
Net cash provided by (used in) financing activities	155,914	790,409
Foreign exchange gain (loss) on cash held in foreign currencies	7,546	(16,267)

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Increase (decrease) in cash and cash equivalents during the period	32,657	438,734
Cash and cash equivalents at beginning of the period	443,357	1,283,757
Cash and cash equivalents at end of the period	\$476,014	\$1,722,491
Supplemental cash flow disclosures (note 19)		
See accompanying Notes to Condensed Consolidated Financial Statements		

OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended December 31, 2017

(Tabular amounts in thousands of U.S. dollars, except share and per share data)
(unaudited)

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 December 31, 2017, were 70%, 85% and 81% owned, respectively, by OpenText. All inter-company balances and transactions have been eliminated.

Throughout this Quarterly Report on Form 10-Q: (i) the term "Fiscal 2018" means our fiscal year beginning on July 1, 2017 and ending June 30, 2018; (ii) the term "Fiscal 2017" means our fiscal year beginning on July 1, 2016 and ended June 30, 2017; (iii) the term "Fiscal 2016" means our fiscal year beginning on July 1, 2015 and ended June 30, 2016; (iv) the term "Fiscal 2015" means our fiscal year beginning on July 1, 2014 and ended June 30, 2015; and (v) the term "Fiscal 2014" means our fiscal year beginning on July 1, 2013 and ended June 30, 2014.

These Condensed Consolidated Financial Statements are expressed in U.S. dollars and are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). The information furnished reflects all adjustments necessary for a fair presentation of the results for the periods presented and includes the financial results of Covisint Corporation (Covisint), with effect from July 26, 2017 and Guidance Software, Inc. (Guidance), with effect from September 14, 2017 (see note 18 "Acquisitions").

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) testing of goodwill for impairment, (iii) the valuation of acquired intangible assets, (iv) the valuation of long-lived assets, (v) the recognition of contingencies, (vi) restructuring accruals, (vii) acquisition accruals and pre-acquisition contingencies, (viii) the realization of investment tax credits, (ix) the valuation of stock options granted and obligations related to share-based payments, including the valuation of our long-term incentive plans, (x) the valuation of pension assets and obligations, and (xi) accounting for income taxes. During the second quarter of Fiscal 2018, our income tax estimates were impacted by an Act to provide for the reconciliation pursuant to titles II and IV of the concurrent resolution on the budget for fiscal year 2018, informally titled the Tax Cuts and Jobs Act, which was enacted in the United States on December 22, 2017. The Company recorded a provisional charge in the second quarter of Fiscal 2018 and continues to assess the effect of the new law on its consolidated financial statements in accordance with Staff Accounting Bulletin 118 "Income Tax Accounting Implications of the Tax Cuts and Jobs Act" (SAB 118). For more details related to this matter, please refer to note 14 "Income Taxes".

NOTE 2— RECENT ACCOUNTING PRONOUNCEMENTS

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02 "Leases (Topic 842)" (ASU 2016-02), which supersedes the guidance in former Accounting Standards Codification (ASC) Topic 840 "Leases". The most significant change will result in the recognition of lease assets for the right to use the underlying asset and lease liabilities for the obligation to make lease payments by lessees, for those leases classified as operating leases under current guidance. The new guidance will also require significant additional disclosures about the amount, timing and uncertainty of cash flows related to leases. This standard is effective for us for our fiscal year ending June 30, 2020, with early adoption permitted. Upon adoption of ASU 2016-02, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified

retrospective approach. We have formed a sub-committee consisting of internal members from various departments to assess the effect that the pending adoption of ASU 2016-02 will have on our Condensed Consolidated Balance Sheets. Although the sub-committee has not completed their assessment, we expect the

majority of the impact to come from our facility leases, and that most of our operating lease commitments will be recognized as right of use assets and operating lease liabilities, which will increase our total assets and total liabilities, as reported on our Condensed Consolidated Balance Sheets, relative to such amounts prior to adoption. The sub-committee continues to evaluate the impact of the new standard on our Condensed Consolidated Financial Statements.

Revenue Recognition

In May 2014, the FASB issued ASC 606 "Revenue from Contracts with Customers" (Topic 606). Topic 606 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 Topic 606 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 and permits the use of the retrospective or cumulative effect transition method. Topic 606 identifies five steps to be followed to achieve its core principal, which include (i) identifying contract(s) with customers, (ii) identifying performance obligations in the contract(s), (iii) determining the transaction price, (iv) allocating the transaction price to the performance obligations in the contract(s) and (v) recognizing revenue when (or as) the entity satisfies a performance obligation.

We anticipate that we will adopt Topic 606 using the cumulative effect approach when this guidance becomes effective for us, starting in the first quarter of our fiscal year ending June 30, 2019.

We have established a project team with the primary objective of evaluating the effect that Topic 606 will have on our business processes, systems and controls in order to support the requirements of the new standard. We have utilized a bottoms-up approach to determine the impact of the new standard on our contracts and have completed our review of current accounting policies and practices as compared to the new standard. This has resulted in the identification of differences that will result from applying the requirements of Topic 606 to our revenue contracts that will be open at the time of the transition. While we are continuing to assess all potential impacts of Topic 606, we currently believe the key differences relate to our accounting for implementation services on cloud arrangements and accounting for on premise subscription offerings.

Under current U.S. GAAP, fees charged for professional services to implement hosted software within a cloud arrangement are deferred and amortized over the longer of the non-cancellable contract term or the estimated customer life because the activities are not deemed to be a separate element for which stand-alone value exists. The requirements for the identification of distinct performance obligations within a contract have changed under the new revenue recognition standard. Under this new standard we will be required to recognize certain implementation services that meet the criteria of being distinct as a separate performance obligation from the on-going cloud arrangement with corresponding revenues recognized as the services are provided to the customer. Costs relating to these implementation services will be expensed as they are incurred.

Under current U.S. GAAP, revenue attributable to subscription services related to on premise offerings is recognized ratably over the term of the arrangement because Vendor Specific Objective Evidence (VSOE) does not exist for the undelivered maintenance and support element as it is not sold separately. The requirement to have VSOE for undelivered elements to enable the separation of the delivered software licenses is eliminated under the new revenue recognition standard. Accordingly, under this new standard we will be required to recognize as revenue a portion of the arrangement fee upon delivery of the initial software at the outset of the arrangement. This difference will result in allocating a transaction price to the delivered software component of a subscription offering and thus an earlier recognition of revenue related to that transaction price.

The accounting for the recognition of costs related to obtaining customer contracts under Topic 606 is not significantly different from our current policy to defer commissions, although there will be certain modifications to reflect the changes in the pattern and timing of recognition of certain arrangements as discussed above. In addition, as a result of adopting the new revenue standard certain additional disclosure requirements will exist.

We are still in the process of quantifying the impacts of Topic 606 and the methodology of estimating Standalone Selling Price for certain of the separately identified performance obligations under the new revenue recognition standard. It is important to note, however, that certain contracts are complex, and actual determination of revenue recognition under both existing and new guidance is dependent on contract-specific terms, which may cause

variability in the timing and quantum of revenue recognized. We will continue to assess all of the impacts that the application of Topic 606 will have on our Condensed Consolidated Financial Statements, including on our disclosure requirements, and, if material, will provide updated disclosures with regard to the expected impact.

ASUs adopted in Fiscal 2018

During Fiscal 2018 we adopted the following ASU, which did not have a material impact to our reported financial position, results of operations or cash flows:

ASU 2016-09 "Compensation-Stock Compensation (Topic 718)"

NOTE 3—ALLOWANCE FOR DOUBTFUL ACCOUNTS

Balance as of June 30, 2017 \$6,319

Bad debt expense 3,591

Write-off /adjustments (1,407)

Balance as of December 31, 2017 \$8,503

Included in accounts receivable are unbilled receivables in the amount of \$73.2 million as of December 31, 2017 (June 30, 2017—\$46.2 million).

NOTE 4—PROPERTY AND EQUIPMENT

As of December 31, 2017

	Cost	Accumulated Depreciation	Net
Furniture and fixtures	\$30,734	\$ (16,494)	\$ 14,240
Office equipment	1,412	(685)	727
Computer hardware	189,567	(119,097)	70,470
Computer software	77,223	(41,024)	36,199
Capitalized software development costs	73,903	(34,906)	38,997
Leasehold improvements	107,024	(44,502)	62,522
Land and buildings	48,506	(10,765)	37,741
Total	\$528,369	\$ (267,473)	\$ 260,896

As of June 30, 2017

	Cost	Accumulated Depreciation	Net
Furniture and fixtures	\$23,026	\$ (14,879)	\$ 8,147
Office equipment	1,245	(597)	648
Computer hardware	164,268	(104,572)	59,696
Computer software	72,835	(33,862)	38,973
Capitalized software development costs	67,092	(28,430)	38,662
Leasehold improvements	81,564	(38,642)	42,922
Land and buildings	48,431	(10,061)	38,370
Total	\$458,461	\$ (231,043)	\$ 227,418

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, 2017:

Balance as of June 30, 2017	\$3,416,749
Acquisition of Guidance (note 18)	130,939
Acquisition of Covisint (note 18)	26,905
Adjustments relating to acquisitions prior to Fiscal 2018 with open measurement periods (note 18)	(1,458)
Adjustments on account of foreign exchange	5,841
Balance as of December 31, 2017	\$3,578,976

NOTE 6—ACQUIRED INTANGIBLE ASSETS

As of December 31, 2017

	Cost	Accumulated Amortization	Net
Technology assets	\$981,026	\$ (344,994)	\$636,032
Customer assets	1,335,610	(503,264)	832,346
Total	\$2,316,636	\$ (848,258)	\$1,468,378

As of June 30, 2017

	Cost	Accumulated Amortization	Net
Technology assets	\$930,841	\$ (272,872)	\$657,969
Customer assets	1,230,806	(416,233)	814,573
Total	\$2,161,647	\$ (689,105)	\$1,472,542

The above balances as of December 31, 2017 have been reduced to reflect the impact of intangible assets relating to acquisitions where the gross cost has become fully amortized during the six months ended December 31, 2017. The impact of this resulted in a reduction of \$19.0 million related to Technology assets and \$3.0 million related to Customer assets.

The weighted average amortization periods for acquired technology and customer intangible assets are approximately six years and eight years, respectively.

The following table shows the estimated future amortization expense for the fiscal years indicated. This calculation assumes no future adjustments to acquired intangible assets:

	Fiscal years ending June 30,
2018 (six months ended June 30)	\$ 186,702
2019	346,701
2020	275,188
2021	187,202
2022	177,208
2023 and beyond	295,377
Total	\$ 1,468,378

NOTE 7—OTHER ASSETS

	As of December 31, 2017	As of June 30, 2017
Deposits and restricted cash	\$ 11,962	\$15,821
Deferred implementation costs	29,233	28,833
Investments	34,630	27,886
Marketable securities	—	3,023
Long-term prepaid expenses and other long-term assets	20,787	18,200
Total	\$ 96,612	\$93,763

Deposits and restricted cash primarily relate to security deposits provided to landlords in accordance with facility lease agreements and cash restricted per the terms of certain 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.

Investments relate to certain non-marketable equity securities in which we are a limited partner. Our interest, individually, in each of these investees range from 4% to below 20%. These investments are accounted for using the equity method. Our share of net income or losses based on our interest in these investments is recorded as a component of other income (expense), net in our Condensed Consolidated Statements of Income. During the three and

six months ended December 31, 2017, our share of income (loss) from these investments was \$0.3 million and \$(0.2) million, respectively (three and six months ended December 31, 2016—\$0.5 million and \$6.0 million, respectively).

Marketable securities are classified as available for sale securities and are recorded on our Condensed Consolidated Balance Sheets at fair value with unrealized gains and losses reported as a separate component of Accumulated other comprehensive income. We did not hold any marketable securities as of December 31, 2017.

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 periods 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 December 31, 2017	As of June 30, 2017
Accounts payable—trade	\$ 48,857	\$43,699
Accrued salaries and commissions	94,880	121,958
Accrued liabilities	138,496	135,512
Accrued interest on Senior Notes	24,786	24,787
Amounts payable in respect of restructuring and other Special charges	7,114	13,728
Asset retirement obligations	3,875	2,436
Total	\$ 318,008	\$342,120
Long-term accrued liabilities		

	As of December 31, 2017	As of June 30, 2017
Amounts payable in respect of restructuring and other Special charges	\$ 2,425	\$2,686
Other accrued liabilities*	33,804	36,702
Asset retirement obligations	11,150	10,950
Total	\$ 47,379	\$50,338

* 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. As of December 31, 2017, the present value of this obligation was \$15.0 million (June 30, 2017—\$13.4 million), with an undiscounted value of \$16.8 million (June 30, 2017—\$15.0 million).

NOTE 10—LONG-TERM DEBT

Long-term debt

Long-term debt is comprised of the following:

	As of December 31, 2017	As of June 30, 2017
Total debt		
Senior Notes 2026	\$850,000	\$850,000
Senior Notes 2023	800,000	800,000
Term Loan B	768,240	772,120
Revolver	375,000	175,000
Total principal payments due	2,793,240	2,597,120
Premium on Senior Notes 2026	6,311	6,597
Debt issuance costs	(31,082)	(33,900)
Total amount outstanding	2,768,469	2,569,817

Less:

Current portion of long-term debt

Term Loan B	7,760	7,760
Revolver	375,000	175,000
Total current portion of long-term debt	382,760	182,760

Non-current portion of long-term debt \$2,385,709 \$2,387,057

Senior Unsecured Fixed Rate Notes

Senior Notes 2026

On May 31, 2016, we issued \$600 million in aggregate principal amount of 5.875% Senior Notes due 2026 (Senior Notes 2026) 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 2026 bear interest at a rate of 5.875% per annum, payable semi-annually in arrears on June 1 and December 1, commencing on December 1, 2016. Senior Notes 2026 will mature on June 1, 2026, unless earlier redeemed, in accordance with their terms, or repurchased.

On December 20, 2016, we issued an additional \$250 million in aggregate principal amount by reopening our Senior Notes 2026 at an issue price of 102.75%. The additional notes have identical terms, are fungible with and are a part of a single series with the previously issued \$600 million aggregate principal amount of Senior Notes 2026. The outstanding aggregate principal amount of Senior Notes 2026, after taking into consideration the additional issuance, is \$850 million.

For the three and six months ended December 31, 2017, we recorded interest expense of \$12.5 million and \$25.0 million, respectively, relating to Senior Notes 2026 (three and six months ended December 31, 2016—\$9.4 million and \$18.2 million, respectively).

Senior Notes 2023

On January 15, 2015, we issued \$800 million in aggregate principal amount of 5.625% Senior Notes due 2023 (Senior Notes 2023 and together with Senior Notes 2026, 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 2023 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 2023 will mature on January 15, 2023, unless earlier redeemed, in accordance with their terms, or repurchased.

For the three and six months ended December 31, 2017, we recorded interest expense of \$11.2 million and \$22.5 million, respectively, relating to Senior Notes 2023 (three and six months ended December 31, 2016—\$11.2 million and \$22.5 million, respectively).

Term Loan B

We entered into a \$800 million term loan facility (Term Loan B) and borrowed the full amount on January 16, 2014. 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).

Term Loan B has a seven year term and repayments made under Term Loan B are equal to 0.25% of the 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 equal to 2.0% plus LIBOR. As of December 31, 2017, the outstanding balance on the Term Loan B bears an interest rate of approximately 3.35%.

For the three and six months ended December 31, 2017, we recorded interest expense of \$6.4 million and \$12.8 million, respectively, relating to Term Loan B (three and six months ended December 31, 2016—\$6.5 million and \$13.0 million, respectively).

Revolver

We currently have a \$450 million committed revolving credit facility (the Revolver) which matures on May 5, 2022. Borrowings under the Revolver are secured by a first charge over substantially all of our assets, on a pari passu basis with Term Loan B. The Revolver has no fixed repayment date prior to the end of the term. Borrowings under the Revolver bear interest per annum at a floating rate of LIBOR plus a fixed margin dependent on our consolidated net leverage ratio ranging from 1.25% to 1.75%. As of December 31, 2017, the outstanding balance on the Revolver bears a weighted average interest rate of approximately 3.20%.

During the three and six months ended December 31, 2017, we drew down nil and \$200 million, respectively, from the Revolver to finance the acquisition of Guidance (three and six months ended December 31, 2016—nil, respectively). For the three and six months ended December 31, 2017, we recorded interest expense of \$2.8 million and \$4.6 million, respectively, relating to amounts drawn on the Revolver (three and six months ended December 31, 2016—nil, respectively).

Debt Issuance Costs and Premium on Senior Notes

Debt issuance costs relate primarily to costs incurred for the purpose of obtaining our credit facilities and issuing our Senior Notes and are being amortized over the respective terms of the Senior Notes, Term Loan B and the Revolver using the effective interest method.

The premium on Senior Notes 2026 represents the excess of the proceeds received over the face value of Senior Notes 2026. This premium is amortized as a credit to interest expense over the term of Senior Notes 2026 using the effective interest method.

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 December 31, 2017 and June 30, 2017:

	As of December 31, 2017		
	Total benefit obligation	Current portion of benefit obligation*	Non-current portion of benefit obligation
CDT defined benefit plan	\$30,825	\$ 642	\$ 30,183
GXS Germany defined benefit plan	25,304	983	24,321
GXS Philippines defined benefit plan	4,566	102	4,464
Other plans	3,404	159	3,245
Total	\$64,099	\$ 1,886	\$ 62,213

	As of June 30, 2017		
	Total benefit obligation	Current portion of benefit obligation*	Non-current portion of benefit obligation
CDT defined benefit plan	\$28,881	\$ 583	\$ 28,298
GXS Germany defined benefit plan	23,730	926	22,804
GXS Philippines defined benefit plan	4,495	81	4,414
Other plans	3,256	145	3,111
Total	\$60,362	\$ 1,735	\$ 58,627

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

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 December 31, 2017, 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 remainder of Fiscal 2018.

GXS Germany Plan

As part of our acquisition of GXS Group, Inc. (GXS) in Fiscal 2014, we assumed an unfunded defined benefit pension plan covering certain German employees which provides for old age, disability and survivors' benefits. The GXS GER plan has been closed to new participants since 2006. Benefits under the GXS GER plan are generally based on a participant's remuneration, date of hire, years of eligible service and age at retirement. The net periodic cost of this pension plan is determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate and estimated service costs. No contributions have been made since the inception of the plan. Actuarial gains or losses in excess of 10% of the projected benefit obligation are being amortized and recognized as a component of net periodic benefit costs over the average remaining service period of the plan's active employees. As of December 31, 2017, there is approximately \$36.1 thousand in accumulated other comprehensive income related to the GXS GER plan that is expected to be recognized as a component of net periodic benefit costs over the remainder of Fiscal 2018.

GXS Philippines Plan

As part of our acquisition of GXS in Fiscal 2014, we assumed a primarily unfunded defined benefit pension plan covering substantially all of the GXS Philippines employees which provides for retirement, disability and survivors' benefits. Benefits under the GXS PHP plan are generally based on a participant's remuneration, years of eligible service and age at retirement. The net periodic cost of this pension plan is determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate and estimated service costs. Aside from an initial contribution which has a fair value of approximately \$33.3 thousand as of December 31, 2017, no additional 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 December 31, 2017, there is approximately \$0.1 million in accumulated other comprehensive income related to the GXS PHP plan that is expected to be recognized as a component of net periodic benefit costs over the remainder of Fiscal 2018.

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 December 31, 2017				As of June 30, 2017			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Benefit obligation—beginning of period	\$28,881	\$23,730	\$4,495	\$57,106	\$29,450	\$24,729	\$7,341	\$61,520
Service cost	249	234	447	930	467	395	1,051	1,913
Interest cost	301	243	114	658	456	377	226	1,059
Benefits paid	(280)	(482)	(60)	(822)	(469)	(807)	(53)	(1,329)
Actuarial (gain) loss	352	492	(444)	400	(1,708)	(1,548)	(3,728)	(6,984)
Foreign exchange (gain) loss	1,322	1,087	14	2,423	685	584	(342)	927
Benefit obligation—end of period	30,825	25,304	4,566	60,695	28,881	23,730	4,495	57,106
Less: Current portion	(642)	(983)	(102)	(1,727)	(583)	(926)	(81)	(1,590)
Non-current portion of benefit obligation	\$30,183	\$24,321	\$4,464	\$58,968	\$28,298	\$22,804	\$4,414	\$55,516

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

	Three Months Ended December 31,				2016			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Pension expense:								
Service cost	\$125	\$117	\$228	\$470	\$112	\$94	\$203	\$409
Interest cost	151	122	59	332	109	90	45	244
Amortization of actuarial (gains) and losses	134	18	(62)	90	150	40	(12)	178
Net pension expense	\$410	\$257	\$225	\$892	\$371	\$224	\$236	\$831
	Six Months Ended December 31,				2016			
	CDT	GXS GER	GXS PHP	Total	CDT	GXS GER	GXS PHP	Total
Pension expense:								
Service cost	\$249	\$234	\$447	\$930	\$232	\$195	\$642	\$1,069
Interest cost	301	243	114	658	226	186	121	533
Amortization of actuarial (gains) and losses	268	36	(123)	181	310	83	(24)	369
Net pension expense	\$818	\$513	\$438	\$1,769	\$768	\$464	\$739	\$1,971

In determining the fair value of the pension plan benefit obligations as of December 31, 2017 and June 30, 2017, respectively, we used the following weighted-average key assumptions:

	As of December 31, 2017			As of June 30, 2017		
	CDT	GXS GER	GXS PHP	CDT	GXS GER	GXS PHP
Assumptions:						
Salary increases	2.00%	2.00%	6.20%	2.00%	2.00%	6.20%
Pension increases	1.75%	2.00%	N/A	1.75%	2.00%	N/A
Discount rate	1.93%	1.93%	5.75%	2.00%	2.00%	5.00%
Normal retirement age	65	65-67	60	65	65-67	60
Employee fluctuation rate:						
to age 20	—%	—%	12.19%	—%	—%	12.19%
to age 25	—%	—%	16.58%	—%	—%	16.58%
to age 30	1.00%	—%	13.97%	1.00%	—%	13.97%
to age 35	0.50%	—%	10.77%	0.50%	—%	10.77%
to age 40	—%	—%	7.39%	—%	—%	7.39%
to age 45	0.50%	—%	3.28%	0.50%	—%	3.28%
to age 50	0.50%	—%	—%	0.50%	—%	—%
from age 51	1.00%	—%	—%	1.00%	—%	—%

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
2018 (six months ended June 30)	\$304	\$484	\$51
2019	674	997	131
2020	727	1,004	149
2021	821	1,047	240
2022	904	1,057	270
2023 to 2027	5,652	5,637	1,990
Total	\$9,082	\$10,226	\$2,831

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 costs of these plans are determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate and estimated service costs.

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

Cash Dividends

For the three and six months ended December 31, 2017, pursuant to the Company's dividend policy, we declared total non-cumulative dividends of \$0.1320 and \$0.2640, respectively, per Common Share in the aggregate amount of \$34.8 million and \$69.8 million, respectively, which we paid during the same period.

For the three and six months ended December 31, 2016, pursuant to the Company's dividend policy, we paid total non-cumulative dividends of \$0.1150 and \$0.2300, respectively, per Common Share in the aggregate amount of \$27.9 million and \$55.7 million, respectively.

Share Capital

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

Treasury Stock

Repurchase

During the three and six months ended December 31, 2017, we did not repurchase any of our Common Shares for potential reissuance under our Long-Term Incentive Plans (LTIP) or other plans (three and six months ended December 31, 2016—nil, respectively). See below for more details on our various plans.

Reissuance

During the three and six months ended December 31, 2017, we reissued 379,111 and 387,443 Common Shares, respectively, from treasury stock (three and six months ended December 31, 2016—341,588 and 349,922 Common Shares, respectively), in connection with the settlement of awards.

Share-Based Payments

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

	Three Months Ended December 31, 2017		Six Months Ended December 31, 2016	
Stock options	\$2,729	\$2,787	\$6,031	\$6,675
Performance Share Units (issued under LTIP)	937	947	1,972	1,828
Restricted Share Units (issued under LTIP)	1,513	1,765	3,399	3,367
Restricted Share Units (other)	198	743	677	1,495
Deferred Share Units (directors)	945	830	1,492	1,341
Employee Share Purchase Plan	836	500	1,822	1,006
Total share-based compensation expense	\$7,158	\$7,572	\$15,393	\$15,712

Summary of Outstanding Stock Options

As of December 31, 2017, an aggregate of 8,452,430 options to purchase Common Shares were outstanding and an additional 11,196,176 options to purchase Common Shares were available for issuance under our stock option plans. Our stock options generally vest over four years and expire between seven and ten years from the date of the grant. Currently we also have options outstanding that vest over five years, as well as options outstanding that vest based on meeting certain market conditions. The exercise price of all our options is set at an amount that is not less than the closing price of our Common Shares on the NASDAQ on the trading day immediately preceding the applicable grant date.

A summary of activity under our stock option plans for the six months ended December 31, 2017 is as follows:

	Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$'000s)
Outstanding at June 30, 2017	8,977,830	\$ 24.57		
Granted	823,830	34.49		
Exercised	(1,193,226)	16.37		
Forfeited or expired	(156,004)	31.23		
Outstanding at December 31, 2017	8,452,430	\$ 26.57	4.34	\$ 76,949
Exercisable at December 31, 2017	3,224,756	\$ 21.74	2.96	\$ 44,909

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 December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Weighted-average fair value of options granted	\$7.49	\$6.58	\$7.46	\$6.54
Weighted-average assumptions used:				
Expected volatility	26.64 %	28.53 %	27.11 %	29.29 %
Risk-free interest rate	1.95 %	1.22 %	1.81 %	1.06 %
Expected dividend yield	1.48 %	1.43 %	1.45 %	1.45 %
Expected life (in years)	4.58	4.34	4.42	4.33
Forfeiture rate (based on historical rates)	6 %	5 %	6 %	5 %
Average exercise share price	\$34.48	\$30.37	\$34.49	\$29.83

As of December 31, 2017, the total compensation cost related to the unvested stock option awards not yet recognized was approximately \$21.2 million, which will be recognized over a weighted-average period of approximately 2.4 years.

No cash was used by us to settle equity instruments granted under share-based compensation arrangements in any of the periods presented.

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

For the three and six months ended December 31, 2017, cash in the amount of \$3.4 million and \$19.6 million, respectively, was received as the result of the exercise of options granted under share-based payment arrangements.

The tax benefit realized by us during the three and six months ended December 31, 2017 from the exercise of options eligible for a tax deduction was \$0.2 million and \$0.3 million, respectively.

For the three and six months ended December 31, 2016, cash in the amount of \$2.1 million and \$4.5 million, respectively, was received as the result of the exercise of options granted under share-based payment arrangements.

The tax benefit realized by us during the three and six months ended December 31, 2016 from the exercise of options eligible for a tax deduction was \$0.3 million and \$0.4 million, respectively.

Long-Term Incentive Plans

We incentivize our executive officers, in part, with long-term compensation pursuant to our LTIP. The LTIP is a rolling three year program that grants eligible employees a certain number of target Performance Share Units (PSUs) and/or Restricted Share Units (RSUs). Target PSUs become vested upon the achievement 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 are referred to in this Quarterly Report on Form 10-Q based upon the year in which the grants are expected to vest.

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. We settled the Fiscal 2017 LTIP by issuing 312,651 Common Shares from treasury stock during the three months ended December 31, 2017, with a cost of \$6.7 million.

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.

Fiscal 2019 LTIP

Grants made in Fiscal 2017 under the LTIP (collectively referred to as Fiscal 2019 LTIP), consisting of PSUs and RSUs, took effect in Fiscal 2017 starting on August 14, 2016. 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 2019 LTIP. We expect to settle the Fiscal 2019 LTIP awards in stock.

Fiscal 2020 LTIP

Grants made in Fiscal 2018 under the LTIP (collectively referred to as Fiscal 2020 LTIP), consisting of PSUs and RSUs, took effect in Fiscal 2018 starting on August 7, 2017. 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 2020 LTIP. We expect to settle the Fiscal 2020 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 December 31, 2017, the total expected compensation cost related to the unvested LTIP awards not yet recognized was \$19.0 million, which is expected to be recognized over a weighted average period of 2.1 years.

Restricted Share Units (RSUs)

During the three and six months ended December 31, 2017, we granted 1,496 and 4,464 RSUs, respectively, to employees in accordance with employment and other agreements (three and six months ended December 31, 2016—nil and 7,800, respectively). The RSUs vest over a specified contract date, typically three years from the respective date of grants. We expect to settle the awards in stock.

During the three and six months ended December 31, 2017, we issued 66,460 and 74,792 Common Shares, respectively, from treasury stock, with a cost of \$1.4 million and \$1.6 million, respectively, in connection with the settlement of these vested RSUs (three and six months ended December 31, 2016—1,666 and 10,000, respectively, with a cost of \$20.5 thousand and \$0.1 million, respectively).

Deferred Stock Units (DSUs)

During the three and six months ended December 31, 2017, we granted 77,606 and 80,809 DSUs, respectively, to certain non-employee directors (three and six months ended December 31, 2016—73,254 and 75,696, respectively). The DSUs were issued under our Deferred Share Unit Plan. DSUs granted as compensation for director 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)

Our ESPP offers employees a purchase price discount of 15%.

During the three and six months ended December 31, 2017, 146,248 and 338,617 Common Shares, respectively, were eligible for issuance to employees enrolled in the ESPP (three and six months ended December 31, 2016—116,224 and 219,856, respectively).

During the three and six months ended December 31, 2017, cash in the amount of approximately \$4.4 million and \$10.1 million, respectively, was received from employees relating to the ESPP (three and six months ended December 31, 2016—\$3.3 million and \$6.2 million, respectively).

NOTE 13—GUARANTEES AND CONTINGENCIES

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

	Payments due between				
	Total	January 1, 2018—June 30, 2018	July 1, 2018—June 30, 2020	July 1, 2020—June 30, 2022	July 1, 2022 and beyond
Long-term debt obligations ⁽¹⁾	\$3,548,840	\$ 444,606	\$ 256,925	\$ 952,559	\$ 1,894,750
Operating lease obligations ⁽²⁾	376,430	38,543	128,976	96,213	112,698
Purchase obligations	20,515	5,158	14,776	581	—
	\$3,945,785	\$ 488,307	\$ 400,677	\$ 1,049,353	\$ 2,007,448

⁽¹⁾ Includes interest up to maturity and principal payments. We currently have borrowings outstanding under the Revolver (\$375 million as of December 31, 2017), which we expect to repay within the next 12 months. Please see note 10 "Long-Term Debt" for more details.

⁽²⁾ Net of \$7.2 million of sublease income to be received from properties which we have subleased to third parties.

Guarantees and Indemnifications

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

Occasionally, we enter into financial guarantees with third parties in the ordinary course of our business, including, among others, guarantees relating to taxes and letters of credit on behalf of parties with whom we conduct business. Such agreements have not had a material effect on our results of operations, financial position or cash flows.

Litigation

We are currently involved in various claims and legal proceedings.

Quarterly, we review the status of each significant legal matter and evaluate such matters to determine how they should be treated for accounting and disclosure purposes in accordance with the requirements of ASC Topic 450-20 "Loss Contingencies" (Topic 450-20). Specifically, this evaluation process includes the centralized tracking and itemization of the status of all our disputes and litigation items, discussing the nature of any litigation and claim, including any dispute or claim that is reasonably likely to result in litigation, with relevant internal and external counsel, and assessing the progress of each matter in light of its merits and our experience with similar proceedings under similar circumstances.

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

Contingencies

IRS Matter

As we have previously disclosed, the United States Internal Revenue Service (IRS) is examining certain of our tax returns for our fiscal year ended June 30, 2010 (Fiscal 2010) through our fiscal year ended June 30, 2012 (Fiscal 2012), and in connection with those examinations is reviewing our internal reorganization in Fiscal 2010 to consolidate certain intellectual property ownership in Luxembourg and Canada and our integration of certain acquisitions into the resulting structure. We also previously disclosed that the examinations may lead to proposed adjustments to our taxes that may be material, individually or in the aggregate, and that we have not recorded any material accruals for any such potential adjustments in our Condensed Consolidated Financial Statements.

As part of these examinations, which remain ongoing, on July 17, 2015 we received from the IRS an initial 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 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, including because the IRS may assign a higher value to our intellectual property). Depending upon the outcome of these matters, additional state income taxes plus penalties and interest may be due. We currently estimate that, as of December 31, 2017, adjustments under the draft NOPA in its present form and the anticipated additional NOPA could result in an aggregate liability of approximately \$600 million, inclusive of U.S. federal and state taxes, penalties and interest. The increase from the initially disclosed estimated aggregate liability is solely due to an estimate of interest that has accrued.

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.

CRA Matter

As part of its ongoing audit of our Canadian tax returns, the Canada Revenue Agency (CRA) has disputed our transfer pricing methodology used for certain intercompany transactions with our international subsidiaries. The CRA has issued a notice of reassessment for Fiscal 2012 that would, as drafted, increase our taxable income for that year by approximately \$90 million (offset by the tax attributes referred to below) and is expected to propose related penalties of approximately 10%. We strongly disagree with the CRA position and believe the reassessment of Fiscal 2012 and any related proposed penalties are without merit. We will continue to vigorously contest both the proposed adjustments to our taxable income and the penalty assessment. We have filed a notice of objection and will also seek competent authority consideration under applicable international treaties in respect of this reassessment. As of the date of this Quarterly Report on Form 10-Q, we have not recorded any accruals in respect of this reassessment in our Condensed Consolidated Financial Statements.

Even if we are unsuccessful in challenging the CRA's reassessment to increase our taxable income for Fiscal 2012, we have elective deductions available in Fiscal 2012 that would offset such increased amount so that no additional cash tax would be payable for Fiscal 2012, exclusive of any proposed penalties. Audits by the CRA of our tax returns for fiscal years prior to Fiscal 2012 have been completed with no reassessment of our income tax liability in respect of our international transactions, including the transfer pricing methodology applied to them. The CRA is currently auditing Fiscal 2013, 2014 and 2015, and has proposed to reassess Fiscal 2013 in a manner consistent with the reassessment of Fiscal 2012. We are in ongoing discussions with the CRA and continue to vigorously contest the CRA's audit position.

GXS Brazil Matter

As part of our acquisition of GXS, we 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. During the first quarter of Fiscal 2018 the courts ruled in favour of the municipality of São Paulo. The Company has decided not to pursue further appeal. On October 1, 2017, the Company reached a settlement with the municipality and paid \$1.4 million.

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 \$3.9 million accrued for the probable amount of a settlement related to the indirect taxes, interest and penalties.

GXS India Matter

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 \$1.3 million to cover our anticipated financial exposure in this matter.

Please also see Part II, Item 1A "Risk Factors" elsewhere in this Quarterly Report on Form 10-Q.

NOTE 14—INCOME TAXES

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

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

For the three and six months ended December 31, 2017 and 2016, we recognized the following amounts as income tax-related interest expense and penalties:

	Three Months		Six Months	
	Ended December		Ended December	
	31,		31,	
	2017	2016	2017	2016
Interest expense	\$1,811	\$1,501	\$3,897	\$2,783
Penalties expense (recoveries)	(624)	(218)	(543)	(324)
Total	\$1,187	\$1,283	\$3,354	\$2,459

As of December 31, 2017 and June 30, 2017, the following amounts have been accrued on account of income tax-related interest expense and penalties:

	As of	As of
	December	June 30,
	31, 2017	2017
Interest expense accrued *	\$ 52,105	\$47,402
Penalties accrued *	\$ 2,230	\$2,160

* 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 December 31, 2017, could decrease tax expense in the next 12 months by \$2.0 million, relating primarily to the expiration of competent authority relief and tax years becoming statute barred for purposes of future tax examinations by local taxing jurisdictions.

Our four most significant tax jurisdictions are Canada, the United States, Luxembourg and Germany. Our tax filings remain subject to audits by applicable tax authorities for a certain length of time following the tax year to which those filings relate. The earliest fiscal years open for examination are 2009 for Germany, 2010 for the United States, 2011 for Luxembourg, and 2012 for Canada.

We are subject to tax audits in all major taxing jurisdictions in which we operate and currently have tax audits open in Canada, the United States, France, Germany, India, Italy, Malaysia, and the United Kingdom. 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 and Canada audits are included in note 13 "Guarantees and Contingencies".

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 "Guarantees and Contingencies".

As at December 31, 2017, we have provided \$28.0 million (June 30, 2017—\$22.1 million) in respect of both additional foreign 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 German subsidiaries, that will be subject to withholding taxes upon distribution. We have not provided for additional foreign withholding taxes or deferred income tax liabilities related to undistributed earnings of all other non-Canadian

subsidiaries, since such earnings are considered permanently invested in those subsidiaries, or are not subject to withholding taxes. It is not practicable to reasonably estimate the amount of additional deferred income tax liabilities or foreign withholding taxes that may be payable should these earnings be distributed in the future.

The effective tax rate decreased to a provision of 38.5% for the three months ended December 31, 2017, compared to a provision of 40.6% for the three months ended December 31, 2016. The increase in tax expense of \$22.3 million was primarily due to (i) the impact of changes in US tax legislation in Fiscal 2018 resulting in a provisional charge of \$15.3 million (see below), (ii) an increase of \$13.3 million on account of the Company having higher income before taxes, including the impact of foreign tax rates, and (iii) an increase of \$1.6 million resulting from the reversals of reserves in Fiscal 2017 that did not reoccur in Fiscal 2018, offset by (i) a decrease of \$4.8 million relating to differences in tax filings from provisions, and (ii) a decrease of \$1.1 million relating to a decrease in amortization of deferred charges. The remainder of the difference was due to normal course movements and non-material items. The effective tax rate increased to a provision of 39.8% for the six months ended December 31, 2017, compared to a recovery of 640.6% for the six months ended December 31, 2016. The increase in tax expense of \$909.1 million was primarily due to (i) a significant tax benefit of \$876.1 million resulting from the Fiscal 2017 internal reorganization as described below which did not reoccur in Fiscal 2018, (ii) the impact of changes in US tax legislation in Fiscal 2018 resulting in a provisional charge of \$15.3 million (see below), (iii) an increase of \$17.1 million on account of the Company having higher income before taxes, including the impact of foreign tax rates, and (iv) an increase of \$5.2 million resulting from the reversals of reserves in Fiscal 2017 that did not reoccur in Fiscal 2018, offset by (i) a decrease of \$2.6 million relating to differences in tax filings from provisions, and (ii) a decrease of \$2.1 million relating to a decrease in amortization of deferred charges. The remainder of the difference was due to normal course movements and non-material items.

In July 2016, we implemented a reorganization of our subsidiaries worldwide with the view to continuing to enhance operational and administrative efficiencies through further consolidated ownership, management, and development of our intellectual property (IP) in Canada, continuing to reduce the number of entities in our group and working towards our objective of having a single operating legal entity in each jurisdiction. A significant tax benefit of \$876.1 million, associated primarily with the recognition of a net deferred tax asset arising from the entry of the IP into Canada, was recognized in the first quarter of Fiscal 2017. For more information relating to this, please refer to our Annual Report on Form 10-K for the year ended June 30, 2017.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act, which significantly changes the existing US tax laws, including a reduction in the federal corporate tax rate from 35% to 21%, and the transition of US international taxation from a worldwide tax system to a territorial tax system. As a result of the enactment of the legislation, the Company incurred a provisional one-time tax expense of \$15.3 million in the second quarter of Fiscal 2018, primarily related to the transition tax on accumulated foreign earnings and the re-measurement of certain deferred tax assets and liabilities. The portion of this anticipated increase to tax expense attributable to the transition tax is payable over a period of up to eight years. The impact of the \$15.3 million adjustment resulting from the US legislation on the effective tax rate is an increase of 11.1% for the three months ended December 31, 2017 and 7.6% for the six months ended December 31, 2017.

The \$15.3 million is a provisional amount in respect of rate change, Alternative Minimum Tax (AMT), and foreign earnings in accordance with Staff Accounting Bulletin 118 “Income Tax Accounting Implications of the Tax Cuts and Jobs Act” (SAB 118). The finalization of the provisional one-time amount is pending finalization of the re-assessment of the timing of reversals of certain deferred tax assets and liabilities and additional considerations related to undistributed foreign earnings and evaluating whether any portion of our existing AMT credit carryforwards are not expected to be refundable as a result of the repeal of corporate AMT. Additional information such as final Fiscal 2018 income and detailed earnings and profits calculations for foreign subsidiaries may result in changes to the provisional amount during the SAB 118 measurement period.

The Company continues to assess the impact of the new law on its consolidated financial statements and anticipates finalizing the determination on or before December 22, 2018 in accordance with SAB 118.

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 December 31, 2017 and June 30, 2017:

December 31, 2017			June 30, 2017		
Fair Market Measurements using:			Fair Market Measurements using:		
Quoted prices in active markets for December 31, 2017 identical assets/ (liabilities) (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Quoted prices in active markets for June 30, 2017 identical assets/ (liabilities) (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Ass					