

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", "would", "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, 2016 and ending June 30, 2017 (Fiscal 2017) 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) future tax rates; (xii) the changing regulatory environment and its impact on our business; (xiii) recurring revenues; (xiv) research and development and related expenditures; (xv) our building, development and consolidation of our network infrastructure; (xvi) competition and changes in the competitive landscape; (xvii) our management and protection of intellectual property and other proprietary rights; (xviii) foreign sales and exchange rate fluctuations; (xix) cyclical or seasonal aspects of our business; (xx) capital expenditures; (xxi) potential legal and/or regulatory proceedings; and (xxii) other matters.

In addition, any statements or information that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking, and based on our current expectations, forecasts and projections about the operating environment, economies and markets in which we operate. Forward-looking statements reflect our current estimates, beliefs and assumptions, which are based on management's perception of historic trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The forward-looking statements contained in this report are based on certain assumptions including the following: (i) countries continuing to implement and enforce existing and additional customs and security regulations relating to the provision of electronic information for imports and exports; (ii) our continued operation of a secure and reliable business network; (iii) the stability of general economic and market conditions, currency exchange rates, and interest rates; (iv) equity and debt markets continuing to provide us with access to capital; (v) our continued ability to identify and source attractive and executable business combination opportunities; and (vi) our continued compliance with third party intellectual property rights. Management's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and, as such, are subject to change. We can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed or implied by such forward-looking statements. The risks and uncertainties that may affect forward-looking statements include, but are not limited to: (i) integration of acquisitions and related restructuring efforts, including the quantum of restructuring charges and the timing thereof; (ii) the potential for the incurrence of or assumption of debt in connection with acquisitions and the impact on the ratings or outlooks of rating agencies on our outstanding debt securities; (iii) the possibility that the Company may be unable to meet its future reporting requirements under the Exchange Act, and the rules promulgated thereunder; (iv) the risks associated with bringing new products and services to market; (v) fluctuations in currency exchange rates (including as a result of the impact of Brexit); (vi) delays in the purchasing decisions of the Company's customers; (vii) the competition the Company faces in its industry and/or marketplace; (viii) the final determination of litigation, tax audits (including tax examinations in the United States or elsewhere) and other legal proceedings; (ix) potential exposure to greater than anticipated tax liabilities or expenses, including with respect to changes in Canadian, U.S. or international tax regimes; (x) the possibility of technical, logistical or planning issues in connection with the deployment of the Company's products or services; (xi) the continuous commitment of the Company's customers; (xii) demand for the Company's products and services; (xiii) increase in exposure to international business risks (including as a result of the impact of Brexit) as we continue to increase our international operations; (xiv) inability to raise capital at all or on not unfavorable terms in the future; and (xv) downward pressure on our share price and dilutive effect of future sales or issuances of equity securities (including in connection with the Dell-EMC Acquisition and other future acquisitions); and (xvi) potential changes in ratings or outlooks of rating agencies on our outstanding debt securities. Other factors that may affect forward-looking statements include, but are not limited to: (i) the future performance, financial and otherwise, of the Company; (ii) the ability of the Company to bring new products and services to market and to increase sales; (iii) the strength of the Company's product development pipeline; (iv) failure to secure and protect patents, trademarks and other proprietary rights; (v) infringement of third-party proprietary rights triggering indemnification obligations and resulting in

significant expenses or restrictions on our ability to provide our products or services; (vi) failure to comply with privacy laws and regulations that are extensive, open to various interpretations and complex to implement; (vii) the Company's growth and profitability prospects; (viii) the estimated size and growth prospects of the EIM market; (ix) the Company's competitive position in the EIM market and its ability to take advantage of future opportunities in this market; (x) the benefits of the Company's products and services to be realized by customers; (xi) the demand for the Company's products and services and the extent of deployment of the Company's products and services in the EIM marketplace; (xii) the Company's financial condition and capital requirements; (xiii) system or network failures or information security breaches in connection with the Company's offerings; and (xiv) failure to attract and retain key personnel to develop and effectively manage the Company's business.

For additional information with respect to risks and other factors which could occur, see Part II, Item 1A "Risk Factors" herein and the Company's Annual Report on Form 10-K, including Part I, Item 1A "Risk Factors" therein; Quarterly Reports on Form 10-Q and other documents we file from time to time 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, 2016 compared with the three months ended September 30, 2015, unless otherwise noted.

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

EXECUTIVE OVERVIEW

We operate in the Enterprise Information Management (EIM) market. We are an independent company providing a comprehensive platform and 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 improve customer satisfaction and digital experience, gain analytical insight, improve collaboration with business partners, address the legal and business requirements associated with information governance, and help to ensure that information remains secure and private, as demanded in today's highly regulated climate.

Our products and services are designed to provide the benefits of maximizing the value of enterprise information while largely minimizing its risks. Our solutions incorporate collaborative and mobile technologies and are delivered for on-premises deployment as well as through cloud, hybrid 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 information and 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, 2016, employed approximately 9,700 people worldwide.

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. We believe our reorganization also reduces our exposure to global political and tax uncertainties, particularly in Europe. We believe that further consolidating our IP in Canada will continue to ensure appropriate legal protections for our consolidated IP, simplify legal, accounting and tax compliance, and improve our global cash management. A significant tax benefit of \$876.1 million associated with the recognition of a net deferred tax asset ensuing from the reorganization was realized in the first quarter of Fiscal 2017. This had a significant impact on our GAAP-based net income and earnings per share, as illustrated in our results presented below.

Quarterly Summary:

During the quarter we saw the following activity:

- Total revenue was \$491.7 million, up 13.1% compared to the same period in the prior fiscal year; up 14.3% after factoring the impact of \$4.9 million of foreign exchange rate changes.
- Total recurring revenue was \$431.0 million, up 12.5% compared to the same period in the prior fiscal year; up 13.6% after factoring the impact of \$4.4 million of foreign exchange rate changes.
- Cloud services and subscriptions revenue was \$169.7 million, up 14.8% compared to the same period in the prior fiscal year; up 15.5% after factoring the impact of \$1.0 million of foreign exchange rate changes.
- License revenue was \$60.7 million, up 18.2% compared to the same period in the prior fiscal year; up 19.2% after factoring the impact of \$0.5 million of foreign exchange rate changes.
- GAAP-based EPS, diluted, was \$7.46 compared to \$0.34 in the same period in the prior fiscal year, affected in part by a significant tax benefit of \$876.1 million.
- Non-GAAP-based EPS, diluted, was \$0.86 compared to \$0.84 in the same period in the prior fiscal year.
- GAAP-based gross margin was 66.6% compared to 67.8% in the same period in the prior fiscal year.
- GAAP-based operating margin was 15.1% compared to 17.6% in the same period in the prior fiscal year.
- Non-GAAP-based operating margin was 30.8% compared to 34.1% in the same period in the prior fiscal year.
- Operating cash flow was \$73.5 million, down 20.8% from the same period in the prior fiscal year.
- Cash and cash equivalents was \$834.9 million as of September 30, 2016, compared to \$1,283.8 million as of June 30, 2016.

See "Use of Non-GAAP Financial Measures" below for a reconciliation of GAAP-based measures to Non-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, on an ongoing basis we regularly evaluate acquisition opportunities within the EIM market and at any time may be in various stages of discussions with respect to such opportunities.

Acquisition of Recommind, Inc.

On July 20, 2016, we acquired Recommind, Inc. (Recommind), a leading provider of eDiscovery and information analytics, for approximately \$170.1 million. We believe this acquisition will complement our EIM solutions, and through eDiscovery and analytics, will provide increased visibility into structured and unstructured data. The results of operations of Recommind have been consolidated with those of OpenText beginning July 20, 2016.

Acquisition of Certain Customer Communication Management Software Assets from HP Inc.

On July 31, 2016, we acquired certain customer communication management software and services assets and liabilities from HP Inc. (CCM Business) for approximately \$315.0 million, of which \$2.8 million is currently held back and unpaid in accordance with the terms of the purchase agreement. We believe this acquisition will complement our current software portfolio, and allow us to better serve our customers by offering a wider set of CCM capabilities. The results of operations of this acquisition have been consolidated with those of OpenText beginning July 31, 2016.

Material Definitive Agreement

On September 12, 2016, we entered into a material definitive agreement (the Master Acquisition Agreement) with EMC Corporation, a Massachusetts corporation, and certain of its subsidiaries (collectively referred to as Dell-EMC), pursuant to which we have agreed to acquire certain assets and assume certain liabilities of the enterprise content division of Dell-EMC (the Dell-EMC Acquisition). The purchase price for the Dell-EMC Acquisition is expected to be approximately \$1.62 billion and is subject to certain customary closing and regulatory conditions, including the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act).

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 provide superior 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 remainder of Fiscal 2017

While we continue to offer on-premises solutions, we realize that 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 customer choice and flexibility will help us to strive to obtain long-term customer value. We measure long-term value by looking at our recurring revenue, earnings and operating cash flow. We define recurring revenue as the sum of our "Cloud services and subscriptions revenue", "Customer support revenue" and "Professional services revenue". In the first quarter of Fiscal 2017 recurring revenue was \$431.0 million, which represented 87.7% of our total revenues and increased 12.5% compared to the same period in Fiscal 2016. Our Cloud services and subscriptions revenues was also up 14.8% in the first quarter of Fiscal 2017 compared to the same period in Fiscal 2016. Our net income for the first quarter of Fiscal 2017 was up significantly compared to the same period in Fiscal 2016 as a result of a one-time tax benefit that was recognized. Our operating cash flow was down 20.8% over the same period in the last fiscal year, primarily as a result of the onboarding of receivables from recent acquisitions. In certain cases such receivables, and Recomind is an example, have a long collection cycle, and we believe there is an opportunity to improve the historical days sales outstanding (DSO) of these acquired companies as we onboard them to our operating 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, 2016, our Customer support renewal rate was approximately 90%, consistent with the Customer support renewal rate during the three months ended September 30, 2015.

We expect to continue to pursue strategic acquisitions in the future to strengthen our service offerings in the EIM market, and at any time may be in various stages of discussions with respect to such opportunities. We believe we are a value oriented and disciplined acquirer, having efficiently deployed \$4.2 billion on acquisitions over the last 10 years, not including the potential acquisition of the enterprise content division of Dell-EMC. We see our ability to successfully integrate acquired companies and assets into our business as a strength and pursuing strategic acquisitions is an important aspect to our growth strategy. As discussed above, we have entered into a material definitive agreement with Dell-EMC which, if completed, is expected to broaden our EIM offerings. Additionally, in the first quarter of Fiscal 2017, we further demonstrated the implementation of this strategy by acquiring Recomind and CCM Business. For additional details, please refer to note 18 "Acquisitions" to our Condensed Consolidated Financial Statements.

While continuing to acquire companies is our leading growth driver, our growth strategy also includes organic growth through internal innovation. This quarter we invested approximately \$59 million in research and development (R&D) and we typically target to spend approximately 10% to 12% of revenues for R&D each fiscal year. We believe our ability to leverage our global presence is helpful to our organic growth initiatives.

We see an opportunity to help our customers become "digital businesses" and we believe we have a strong platform to integrate personalized analytics and insights onto our OpenText EIM suites of products, which will further our vision to enable "the digital 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) Business combinations,
- (iv) Goodwill,
- (v) Acquired intangibles,

- (vi) Restructuring charges,
- (vii) Foreign currency, and
- (viii) Income taxes.

During the first quarter of Fiscal 2017, there were no significant changes to our critical accounting policies and estimates. For a detailed discussion of our critical accounting 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, 2016.

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 GAAP-based measures to Non-GAAP-based measures.

Summary of Results of Operations

Three Months Ended September 30,

(In thousands)	2016	Change increase (decrease)	2015
<u>Total Revenues by Product Type:</u>			
License	\$ 60,656	\$ 9,325	\$ 51,331
Cloud services and subscriptions	169,687	21,897	147,790
Customer support	210,206	24,539	185,667
Professional service and other	51,115	1,368	49,747
Total revenues	491,664	57,129	434,535
Total Cost of Revenues	164,353	24,301	140,052
Total GAAP-based Gross Profit	327,311	32,828	294,483
Total GAAP-based Gross Margin %	66.6%		67.8%
Total GAAP-based Operating Expenses	253,249	35,239	218,010
Total GAAP-based Income from Operations	\$ 74,062	\$ (2,411)	\$ 76,473
<u>% Revenues by Product Type:</u>			
License	12.3%		11.8%
Cloud services and subscriptions	34.5%		34.0%
Customer support	42.8%		42.7%
Professional service and other	10.4%		11.5%
<u>Total Cost of Revenues by Product Type:</u>			
License	\$ 3,845	\$ 1,164	\$ 2,681
Cloud services and subscriptions	70,292	11,376	58,916
Customer support	25,738	5,230	20,508
Professional service and other	41,343	3,279	38,064
Amortization of acquired technology-based intangible assets	23,135	3,252	19,883
Total cost of revenues	\$ 164,353	\$ 24,301	\$ 140,052
<u>% GAAP-based Gross Margin by Product Type:</u>			
License	93.7%		94.8%
Cloud services and subscriptions	58.6%		60.1%
Customer support	87.8%		89.0%
Professional service and other	19.1%		23.5%
<u>Total Revenues by Geography:</u>			
Americas (1)	\$ 296,136	\$ 44,710	\$ 251,426
EMEA (2)	147,631	1,842	145,789
Asia Pacific (3)	47,897	10,577	37,320
Total revenues	\$ 491,664	\$ 57,129	\$ 434,535
<u>% Revenues by Geography:</u>			
Americas (1)	60.2%		57.9%
EMEA (2)	30.0%		33.6%
Asia Pacific (3)	9.8%		8.5%

(In thousands)	Three Months Ended September 30,	
	2016	2015
GAAP-based gross margin	66.6%	67.8%
GAAP-based operating margin	15.1%	17.6%
GAAP-based EPS, diluted	\$ 7.46	\$ 0.34
Non-GAAP-based gross margin (4)	71.5%	72.6%
Non-GAAP-based operating margin (4)	30.8%	34.1%
Non-GAAP-based EPS, diluted (4)	\$ 0.86	\$ 0.84

- (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 GAAP-based measures to Non-GAAP-based measures.

Revenues, Cost of Revenues and Gross Margin by Product Type

1) License:

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,		
	2016	Change increase (decrease)	2015
License Revenues:			
Americas	\$ 30,989	\$ 5,734	\$ 25,255
EMEA	21,202	(1,476)	22,678
Asia Pacific	8,465	5,067	3,398
Total License Revenues	60,656	9,325	51,331
Cost of License Revenues	3,845	1,164	2,681
GAAP-based License Gross Profit	\$ 56,811	\$ 8,161	\$ 48,650
GAAP-based License Gross Margin %	93.7%		94.8%

% License Revenues by Geography:

Americas	51.1%	49.2%
EMEA	35.0%	44.2%
Asia Pacific	13.9%	6.6%

License revenues increased by \$9.3 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year, inclusive of the negative impact of foreign exchange of approximately \$0.5 million. Geographically, the overall increase was attributable to an increase in Americas of \$5.7 million and an increase in Asia Pacific of \$5.1 million, partially offset by a decrease in EMEA of \$1.5 million. The number of license deals greater than \$0.5 million that closed during the first quarter of Fiscal 2017 was 23 deals, of which 7 deals were greater than \$1.0 million, compared to 14 deals in the first quarter of Fiscal 2016, of which 5 deals were greater than \$1.0 million. License revenue, as a proportion of our total revenues, remained stable at approximately 12%.

Cost of license revenues increased by \$1.2 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year, primarily as a result of an increase in third party technology costs of \$1.2 million. Approximately \$0.6 million of this increase is a result of a broad range of products that we have inherited from our recent acquisitions. Overall, the gross margin percentage on license revenues decreased slightly to approximately 94% from approximately 95%.

2) *Cloud Services and Subscriptions:*

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,		
	2016	Change increase (decrease)	2015
<i>Cloud Services and Subscriptions:</i>			
Americas	\$ 116,114	\$ 18,462	\$ 97,652
EMEA	36,836	2,377	34,459
Asia Pacific	16,737	1,058	15,679
<i>Total Cloud Services and Subscriptions Revenues</i>	169,687	21,897	147,790
<i>Cost of Cloud Services and Subscriptions Revenues</i>	70,292	11,376	58,916
<i>GAAP-based Cloud Services and Subscriptions Gross Profit</i>	\$ 99,395	\$ 10,521	\$ 88,874
<i>GAAP-based Cloud Services and Subscriptions Gross Margin %</i>	58.6%		60.1%
<i>% Cloud Services and Subscriptions Revenues by Geography:</i>			
Americas	68.4%		66.1%
EMEA	21.7%		23.3%
Asia Pacific	9.9%		10.6%

Cloud services and subscriptions revenues increased by \$21.9 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year, inclusive of the negative impact of foreign exchange of approximately \$1.0 million. Geographically, the overall change was attributable to an increase in Americas of \$18.5 million, an increase in EMEA of \$2.4 million, and an increase in Asia Pacific of \$1.1 million. The number of Cloud services deals greater than \$1.0 million that closed during the first quarter of Fiscal 2017 was 13 deals, compared to 6 deals in the first quarter of Fiscal 2016.

Cost of Cloud services and subscriptions revenues increased by \$11.4 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year, primarily due to an increase in labour-related costs of approximately \$6.9 million resulting from increased headcount and an increase in third party network usage fees of approximately \$3.9 million related to an expanded portfolio of cloud-based offerings. Overall, the gross margin percentage on Cloud services and subscriptions revenues decreased slightly to approximately 59% from approximately 60%.

3) *Customer Support:*

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,		
	2016	Change increase (decrease)	2015
<i>Customer Support Revenues:</i>			
Americas	\$ 124,191	\$ 18,597	\$ 105,594
EMEA	68,902	2,694	66,208
Asia Pacific	17,113	3,248	13,865
<i>Total Customer Support Revenues</i>	210,206	24,539	185,667
<i>Cost of Customer Support Revenues</i>	25,738	5,230	20,508
<i>GAAP-based Customer Support Gross Profit</i>	\$ 184,468	\$ 19,309	\$ 165,159
<i>GAAP-based Customer Support Gross Margin %</i>	87.8%		89.0%

% Customer Support Revenues by Geography:

Americas	59.1%	56.9%
EMEA	32.8%	35.7%
Asia Pacific	8.1%	7.4%

Customer support revenues increased by \$24.5 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year, inclusive of the negative impact of foreign exchange of approximately \$2.6 million. Geographically, the overall increase was attributable to an increase in Americas of \$18.6 million, an increase in Asia Pacific of \$3.2 million, and an increase in EMEA of \$2.7 million.

Cost of Customer support revenues increased by \$5.2 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year, primarily due to an increase in labour-related costs of approximately \$4.0 million and an increase in the installed base of third party products of approximately \$1.2 million. The increase in the installed base of third party products was primarily the result of products we have inherited from our recent acquisitions. Overall, the gross margin percentage on Customer support revenues decreased slightly to approximately 88% from approximately 89%.

4) *Professional Service and Other:*

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,		
	2016	Change increase (decrease)	2015
Professional Service and Other Revenues:			
Americas	\$ 24,842	\$ 1,917	\$ 22,925
EMEA	20,691	(1,753)	22,444
Asia Pacific	5,582	1,204	4,378
Total Professional Service and Other Revenues	51,115	1,368	49,747
Cost of Professional Service and Other Revenues	41,343	3,279	38,064
GAAP-based Professional Service and Other Gross Profit	\$ 9,772	\$ (1,911)	\$ 11,683
GAAP-based Professional Service and Other Gross Margin %	19.1%		23.5%

% Professional Service and Other Revenues by Geography:

Americas	48.6%	46.1%
EMEA	40.5%	45.1%
Asia Pacific	10.9%	8.8%

Professional service and other revenues increased by \$1.4 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year, of which approximately \$0.9 million was due to the negative impact of foreign exchange. Geographically, the overall increase was attributable to an increase in Americas of \$1.9 million and an increase in Asia Pacific of \$1.2 million, partially offset by a decrease in EMEA of \$1.8 million.

Cost of Professional service and other revenues increased by \$3.3 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year, primarily as a result of an increase in labour-related costs of approximately \$2.6 million of which approximately \$0.4 million is the result of increased headcount and approximately \$1.1 million is associated with one-time charges incurred as we continue to reorganize and improve efficiencies in our professional services organization. Overall, the gross margin percentage on Professional service and other revenues decreased to approximately 19% from approximately 23%.

Amortization of Acquired Technology-based Intangible Assets

(In thousands)	Three Months Ended September 30,		
	2016	Change increase (decrease)	2015
Amortization of acquired technology-based intangible assets	\$ 23,135	\$ 3,252	\$ 19,883

Amortization of acquired technology-based intangible assets increased by \$3.3 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year. This was due to additions of acquired technology-based intangible assets from our acquisitions of CCM Business, Recommend, CEM Business, ANX, and Daegis. This was partially offset by the intangible assets pertaining to our previous acquisitions becoming fully amortized.

Operating Expenses

Three Months Ended September 30,

(In thousands)	2016	Change increase (decrease)	2015
Research and development	\$ 58,572	\$ 12,132	\$ 46,440
Sales and marketing	95,148	17,203	77,945
General and administrative	38,197	2,628	35,569
Depreciation	15,270	2,356	12,914
Amortization of acquired customer-based intangible assets	33,608	5,803	27,805
Special charges	12,454	(4,883)	17,337
Total operating expenses	\$ 253,249	\$ 35,239	\$ 218,010

% of Total Revenues:

Research and development	11.9%	10.7%
Sales and marketing	19.4%	17.9%
General and administrative	7.8%	8.2%
Depreciation	3.1%	3.0%
Amortization of acquired customer-based intangible assets	6.8%	6.4%
Special charges	2.5%	4.0%

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 and improves product stability and functionality, and accordingly, 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 2017 and 2016
Payroll and payroll-related benefits	\$ 8,599
Contract labour and consulting	1,302
Share-based compensation	992
Travel and communication	87
Facilities	629
Other miscellaneous	523
Total year-over-year change in research and development expenses	\$ 12,132

Research and development expenses increased by \$12.1 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year, primarily due to an increase in payroll and payroll-related benefits of \$8.6 million, an increase in contract labour and consulting of \$1.3 million, an increase in share-based compensation of \$1.0 million, and an increase in the use of facility and related resources of \$0.6 million. Overall, our research and development expenses, as a percentage of total revenues, increased slightly from approximately 11% to approximately 12%.

Our research and development labour resources increased by 400 employees, from 1,984 employees at September 30, 2015 to 2,384 employees at September 30, 2016. Our recent acquisitions added 224 employees to our research and development labour resources.

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	
	2017 and 2016	
Payroll and payroll-related benefits	\$	8,875
Commissions		424
Contract labour and consulting		482
Share-based compensation		(272)
Travel and communication		203
Marketing expenses		6,035
Facilities		492
Other miscellaneous		964
Total year-over-year change in sales and marketing expenses	\$	17,203

Sales and marketing expenses increased by \$17.2 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year. This was primarily due to an increase in payroll and payroll-related benefits of \$8.9 million and an increase in marketing expenses of \$6.0 million, which is primarily a result of our annual user conference taking place in July 2016 as compared to November 2015. Overall, our sales and marketing expenses, as a percentage of total revenues, increased slightly to approximately 19% from approximately 18%.

Our sales and marketing labour resources increased by 306 employees, from 1,296 employees at September 30, 2015 to 1,602 employees at September 30, 2016. Our recent acquisitions added 138 employees to our sales and marketing labour resources.

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	
	2017 and 2016	
Payroll and payroll-related benefits	\$	850
Contract labour and consulting		1,060
Share-based compensation		739
Travel and communication		(443)
Facilities		602
Other miscellaneous		(180)
Total year-over-year change in general and administrative expenses	\$	2,628

General and administrative expenses increased by \$2.6 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year. Contract labour and consulting increased by \$1.1 million, which was primarily required on account of consulting fees related to our recent acquisitions. Similarly, payroll and payroll-related benefits increased by \$0.9 million, and facility and related resources increased by \$0.6 million. These increases were partially offset by a reduction in travel and communication expenses of \$0.4 million and a reduction in other miscellaneous expenses of \$0.2 million, which include professional fees such as legal, audit and tax related expenses. Overall, general and administrative expenses, as a percentage of total revenue remained stable at approximately 8%.

Our general and administrative labour resources increased by 186 employees, from 1,020 employees at September 30, 2015 to 1,206 employees at September 30, 2016. Our recent acquisitions added 48 employees to our general and administrative labour resources.

Depreciation expenses:

(In thousands)	Three Months Ended September 30,		
	2016	Change increase (decrease)	2015
Depreciation	\$ 15,270	\$ 2,356	\$ 12,914

Depreciation expenses increased by \$2.4 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year, but remained relatively stable as a percentage of total revenue, at approximately 3%.

Amortization of acquired customer-based intangible assets:

(In thousands)	Three Months Ended September 30,		
	2016	Change increase (decrease)	2015
Amortization of acquired customer-based intangible assets	\$ 33,608	\$ 5,803	\$ 27,805

Acquired customer-based intangible assets amortization expense increased by \$5.8 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year. This was primarily due to the impact of new acquired customer-based intangible assets from our acquisitions of CCM Business, Recommind, CEM Business, ANX, and Daegis. This was partially offset by the customer-based intangible assets pertaining to previous acquisitions 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 one-time 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,		
	2016	Change increase (decrease)	2015
Special charges (recoveries)	\$ 12,454	\$ (4,883)	\$ 17,337

Special charges decreased by \$4.9 million during the three months ended September 30, 2016 as compared to the same period in the prior fiscal year. This was primarily due to (i) a net decrease in restructuring charges of \$13.4 million and (ii) a decrease of \$0.5 million relating to a higher net impact of reversals from certain pre-acquisition sales and use tax liabilities and interest being settled, or in certain instances, becoming statute barred in the current period compared to the same period in the prior fiscal year. These decreases were partially offset by (i) an increase in acquisition related costs of \$6.6 million, and (ii) an increase of \$1.2 million relating to post-acquisition integration costs necessary to streamline an acquired company into our operations and costs incurred to reorganize certain legal entities including consolidation of intellectual property. The remainder of the change is due to miscellaneous items.

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

Other Income (Expense), Net

Other income (expense), net 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. Other income (expense) also includes our share of income or losses in non-marketable equity securities accounted for under the equity method.

(In thousands)	Three Months Ended September 30,		
	2016	Change increase (decrease)	2015
Other income (expense), net	\$ 6,699	\$ 11,612	\$ (4,913)

Other income included foreign exchange gains of \$1.2 million on our inter-company transactions during the first quarter of Fiscal 2017 compared to \$5.4 million in foreign exchange losses during the same period last year. Also during the current quarter we recognized income of approximately \$5.5 million relating to our share of income in non-marketable equity investments.

Interest and Other Related Expense, Net

Interest and other related expense, net 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,		
	2016	Change (increase) decrease	2015
Interest and other related expense, net	\$ 27,275	\$ 8,229	\$ 19,046

Interest and other related expense, net increased by \$8.2 million as compared to the same period in the prior fiscal year. This was primarily due to additional interest expense incurred relating to Senior Notes 2026 (defined below), which were issued on May 31, 2016.

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

Provision for Income Taxes

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 the United States.

Please also see "Risk Factors" included in our Annual Report on Form 10-K for Fiscal 2016.

(In thousands)	Three Months Ended September 30,		
	2016	Change increase (decrease)	2015
Provision for (Recovery of) income taxes	\$ (859,425)	\$ (870,627)	\$ 11,202

The effective tax rate (which is the provision for taxes expressed as a percentage of income before taxes) decreased to a recovery of 1,606.8% for the three months ended September 30, 2016, compared to a provision of 21.3% for the three months ended September 30, 2015. The decrease to tax expense of \$870.6 million was primarily due to a significant tax benefit of \$876.1 million resulting from an internal reorganization that is further described below. Additionally, we saw an increase of \$10.9 million resulting from the impact of foreign rates, and a decrease in changes in unrecognized tax benefits in the amount of \$2.2 million. The remainder of the differences were 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 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. We believe our reorganization also reduces our exposure to global political and tax uncertainties, particularly in Europe. We believe that further consolidating our IP in Canada will continue to ensure appropriate legal protections for our consolidated IP, simplify legal, accounting and tax compliance, and improve our global cash management. 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 realized in the first quarter of Fiscal 2017. We believe it is more likely than not that the deferred tax asset will be realized and therefore no valuation allowance is required. We continue to evaluate our taxable position quarterly and consider factors by taxing jurisdiction, including but not limited to factors such as estimated taxable income, any historical experience of losses for tax purposes and the future growth of OpenText. This significant tax

benefit is specifically tied to the reorganization and applied to this quarter only and as a result, will not continue in future periods.

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 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, after giving effect to the amortization of acquired intangible assets, other income (expense), share-based compensation, and Special charges (recoveries), all net of tax and any tax benefits/expense items unrelated to current period income, as further described in the tables below. Non-GAAP-based gross profit is the arithmetical sum of GAAP-based gross profit and the amortization of acquired technology-based intangible assets and share-based compensation within cost of sales. Non-GAAP-based gross margin is calculated as Non-GAAP-based gross profit expressed as a percentage of total 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 total 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, 2016
(in thousands except for per share data)

	Three Months Ended September 30, 2016					
	GAAP-based Measures	GAAP-based Measures % of Total Revenue	Adjustments	Note	Non-GAAP-based Measures	Non-GAAP-based Measures % of Total Revenue
Cost of revenues						
Cloud services and subscriptions	\$ 70,292		\$ (360)	(1)	\$ 69,932	
Customer support	25,738		(235)	(1)	25,503	
Professional service and other	41,343		(445)	(1)	40,898	
Amortization of acquired technology-based intangible assets	23,135		(23,135)	(2)	—	
GAAP-based gross profit and gross margin (%) / Non-GAAP-based gross profit and gross margin (%)	327,311	66.6%	24,175	(3)	351,486	71.5%
Operating expenses						
Research and development	58,572		(1,743)	(1)	56,829	
Sales and marketing	95,148		(2,820)	(1)	92,328	
General and administrative	38,197		(2,537)	(1)	35,660	
Amortization of acquired customer-based intangible assets	33,608		(33,608)	(2)	—	
Special charges (recoveries)	12,454		(12,454)	(4)	—	
GAAP-based income from operations and operating margin (%) / Non-GAAP-based income from operations and operating margin (%)	74,062	15.1%	77,337	(5)	151,399	30.8%
Other income (expense), net	6,699		(6,699)	(6)	—	
Provision for (recovery of) income taxes	(859,425)		878,017	(7)	18,592	
GAAP-based net income / Non-GAAP-based net income, attributable to OpenText	912,884		(807,379)	(8)	105,505	
GAAP-based earnings per share / Non-GAAP-based earnings per share-diluted, attributable to OpenText	\$ 7.46		\$ (6.60)	(8)	\$ 0.86	

- (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 total revenue.
- (4) Adjustment relates to the exclusion of Special charges (recoveries) from our Non-GAAP-based operating expenses as Special charges (recoveries) are generally incurred in the periods following the relevant acquisitions and include one-time, non-recurring charges or recoveries that are not indicative or related to continuing operations, and are therefore excluded from our internal analysis of operating results. See note 17 "Special Charges (Recoveries)" to our Consolidated Financial Statements for more details.
- (5) GAAP-based and Non-GAAP-based income from operations stated in dollars and operating margin stated as a percentage of total 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. Other income (expense) also includes our share of income (losses) from our holdings in non-marketable securities investments as a limited partner. We do not actively trade equity securities in these privately held companies nor do we plan our ongoing operations based around any anticipated fundings or distributions from these investments. We exclude gains and losses on these investments as we do not believe they are reflective of our ongoing business and operating results.
- (7) Adjustment relates to differences between the GAAP-based tax recovery rate of approximately 1,607% and a Non-GAAP-based tax rate of approximately 15%; 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 (recoveries) and other income (expense), net. Also excluded are tax benefits/expense items unrelated to current period income such as changes in reserves for tax uncertainties and valuation allowance reserves, and "book to return" adjustments for tax return filings and tax assessments. Included is the amount of net tax benefits arising from the internal reorganization (see note 14) assumed to be allocable to the current period based on the forecasted utilization period. In arriving at our Non-GAAP-based tax rate of approximately 15%, 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 GAAP-based net income to Non-GAAP-based net income:

	Three Months Ended September 30, 2016	
	Per share diluted	
GAAP-based net income, attributable to OpenText	\$ 912,884	\$ 7.46
Add:		
Amortization	56,743	0.46
Share-based compensation	8,140	0.07
Special charges (recoveries)	12,454	0.10
Other (income) expense, net	(6,699)	(0.05)
GAAP-based provision for (recovery of) income taxes	(859,425)	(7.02)
Non-GAAP-based provision for income taxes	(18,592)	(0.16)
Non-GAAP-based net income, attributable to OpenText	\$ 105,505	\$ 0.86

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					
	GAAP-based Measures	GAAP-based Measures % of Total Revenue	Adjustments	Note	Non-GAAP-based Measures	Non-GAAP-based Measures % of Total Revenue
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 (%) / Non-GAAP-based gross profit and gross margin (%)	294,483	67.8%	20,775	(3)	315,258	72.6%
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 total revenue.
- (4) Adjustment relates to the exclusion of Special charges (recoveries) from our Non-GAAP-based operating expenses as Special charges (recoveries) are generally incurred in the periods following the relevant acquisitions and include one-time, non-recurring charges or recoveries that are not indicative or related to continuing operations, and are therefore excluded from our internal analysis of operating results. See note 17 "Special Charges (Recoveries)" to our Consolidated Financial Statements for more details.
- (5) GAAP-based and Non-GAAP-based income from operations stated in dollars and operating margin stated as a percentage of total 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 rate of approximately 21% and a Non-GAAP-based tax rate of approximately 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 (recoveries) 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, and "book to return" adjustments for tax return filings and tax assessments. In arriving at our Non-GAAP-based tax rate of approximately 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 GAAP-based net income to Non-GAAP-based net income:

	Three Months Ended September 30, 2015	
	Per share diluted	
GAAP-based net income, attributable to OpenText	\$ 41,286	\$ 0.34
Add:		
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)
Non-GAAP-based net income, attributable to OpenText	\$ 103,188	\$ 0.84

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, 2016	Change increase (decrease)	As of June 30, 2016
Cash and cash equivalents	\$ 834,944	\$ (448,813)	\$ 1,283,757
Short-term investments	\$ 2,726	\$ (9,113)	\$ 11,839

(In thousands)	Three Months Ended September 30,		
	2016	Change	2015
Cash provided by operating activities	\$ 73,451	\$ (19,271)	\$ 92,722
Cash used in investing activities	\$ (501,170)	\$ (475,486)	\$ (25,684)
Cash used in financing activities	\$ (25,806)	\$ 44,496	\$ (70,302)

Cash and cash equivalents

Cash and cash equivalents primarily consist of balances with banks as well as deposits 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, except as noted below with respect to the Dell-EMC Acquisition. On September 12, 2016, we entered into a material definitive agreement, pursuant to which we have agreed to acquire certain assets and assume certain liabilities of the enterprise content division of Dell-EMC for approximately \$1.62 billion. The closing of this acquisition is subject to certain customary closing conditions, including the expiration or termination of applicable waiting periods under the HSR Act. The Dell-EMC Acquisition is expected to close within 90 to 120 days from when we entered into the agreement. In connection with the Dell-EMC Acquisition, we have obtained a financing commitment from Barclays Bank PLC, Citigroup Global Markets Inc. and Royal Bank of Canada. Please see below for more details related to the Commitment Letter. Although the exact components of the permanent financing for the Dell-EMC Acquisition are yet to be determined, our objective is to maintain a conservative capital structure, including preserving our current credit ratings. As such, the permanent financing may include elements of cash on hand, borrowings under existing or new credit facilities, and a new equity offering. Any further material or acquisition-related activities may require additional sources of financing (beyond that contemplated for the Dell-EMC Acquisition) 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, 2016, we have provided \$16.7 million (June 30, 2016—\$15.9 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 German subsidiaries, that will be subject to withholding taxes upon distribution.

Cash flows provided by operating activities

Cash flows from operating activities decreased by \$19.3 million due to a decrease in changes from working capital of \$27.3 million, partially offset by an increase in net income before the impact of non-cash items of \$8.0 million. The decrease in operating cash flow from changes in working capital of \$27.3 million was primarily due to the net impact of the following decreases: (i) \$35.9 million relating to accounts receivable, (ii) \$7.7 million relating to other assets, (iii) \$7.1 million relating to prepaid and other current assets, and (iv) \$0.6 million relating to income taxes payable and deferred charges and credits. These decreases were partially offset by increases of: (i) \$17.7 million relating to accounts payable and accrued liabilities, as a result of an active working capital management program, and (ii) \$6.3 million relating to deferred revenues.

During the first quarter of Fiscal 2017 our DSO was 52 days compared to a DSO of 48 days during the first quarter of Fiscal 2016. The per day impact of our DSO in the first quarters of Fiscal 2017 and Fiscal 2016 on our cash flows was \$5.7 million and \$4.9 million, respectively. The increase in DSO this quarter, as compared to the same period last fiscal year, was partially the result of the impact of our recent acquisition of Recomind, which negatively impacted our DSO as Recomind historically offered longer payment terms than Open Text. We expect to see improvements to our overall global DSO, as we continue to onboard and bring their payment terms in line with OpenText policies and procedures.

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 increased by \$475.5 million. This was primarily due to a \$479.8 million increase in consideration paid for acquisitions in the first quarter of Fiscal 2017 as compared to the same period in Fiscal 2016, and an increase in additions of property and equipment of \$3.5 million. These increases were offset by a decrease in other investing activity of \$0.8 million and in an inflow of investing cash from the maturity of certain short term investments of \$7.0 million.

Cash flows used in 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 decreased by \$44.5 million. This was primarily due to our repurchase approximately 1.1 million Common Shares in the first quarter of Fiscal 2016 for approximately \$50.0 million under our previous share repurchase plan. We have not yet repurchased any Common Shares under our Share Repurchase Plan (as defined below) this fiscal year. This decrease in cash flows used in financing activities was partially offset by a \$1.3 million increase in debt issuance costs relating to our Senior Notes 2026 and a \$4.5 million increase in dividend payments made to our shareholders. The remainder of the change was due to miscellaneous items.

Cash Dividends

During the three months ended September 30, 2016, we declared and paid cash dividends of \$0.23 per Common Share that totaled \$27.8 million. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination and discretion of the Board.

Commitment Letter

On September 12, 2016, we entered into the commitment letter with Barclays Bank PLC in connection with the Dell-EMC Acquisition. On September 26, 2016, we amended and restated the commitment letter (as amended and restated, the Commitment Letter) to add Citigroup Global Markets Inc. and Royal Bank of Canada as lenders (together with Barclays Bank PLC, the Lenders). Under the Commitment Letter, we obtained a financing commitment from the Lenders, severally and not jointly, to provide a first lien term loan facility in an aggregate principal amount of up to \$1.0 billion (the Facility) to finance a portion of the purchase price for the Dell-EMC Acquisition. The obligations of the Lenders to provide the Facility under the Commitment Letter are subject to a number of customary conditions, including, without limitation, execution and delivery of definitive documentation consistent with the Commitment Letter and the documentation standard specified therein. The Commitment Letter terminates on March 14, 2017 (which termination date may be extended under the terms of the Commitment Letter in a manner consistent with extensions under the Master Acquisition Agreement, in each case to a date that is two business days after the relevant termination date under the Master Acquisition Agreement). For further details, please refer to the Master Acquisition Agreement and the Commitment Letter which were filed as exhibit 2.1 in our Current Report on Form 8-K, filed with the SEC on September 13, 2016, and as exhibit 10.2 hereto, respectively. Although the exact components of the permanent financing for the Dell-EMC Acquisition are yet to be determined, our objective is to maintain a conservative capital structure, including preserving our current credit ratings. As such, the permanent financing may include elements of cash on hand, borrowings under existing or new credit facilities, and newly issued equity.

Long-term Debt and Credit Facilities

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, 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.

We may redeem all or a portion of the Senior Notes 2026 at any time prior to June 1, 2021 at a redemption price equal to 100% of the principal amount of Senior Notes 2026 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 2026, on one or

more occasions, prior to June 1, 2019, using the net proceeds from certain qualified equity offerings at a redemption price of 105.875% 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 occasions, redeem Senior Notes 2026, in whole or in part, at any time on and after June 1, 2021 at the applicable redemption prices set forth in the indenture governing the Senior Notes 2026, dated as of May 31, 2016 among the Company, the subsidiary guarantors party thereto, The Bank of New York Mellon, as U.S. trustee, and BNY Trust Company of Canada, as Canadian trustee (the 2026 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 2026 at a price equal to 101% of the principal amount of Senior Notes 2026, plus accrued and unpaid interest, if any, to the date of purchase.

The 2026 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 guarantors without such subsidiary becoming a subsidiary guarantor of the 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 2026 Indenture. The 2026 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 2026 are initially guaranteed on a senior unsecured basis by our existing and future wholly-owned subsidiaries that borrow or guarantee the obligations under our existing senior credit facilities. Senior Notes 2026 and the guarantees rank equally in right of payment with all of our and our guarantors' existing and future senior unsubordinated debt and will rank senior in right of payment to all of our and our guarantors' future subordinated debt. Senior Notes 2026 and the guarantees will be effectively subordinated to all of our and our guarantors' existing and future secured debt, including the obligations under the senior credit facilities, to the extent of the value of the assets securing such secured debt.

The foregoing description of the 2026 Indenture does not purport to be complete and is qualified in its entirety by reference to the full text of the 2026 Indenture, which is filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on May 31, 2016.

Senior Notes 2023

On January 15, 2015, we issued \$800 million in aggregate principal amount of our 5.625% Senior Notes due 2023 (Senior Notes 2023) 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.

We may redeem all or a portion of the Senior Notes 2023 at any time prior to January 15, 2018 at a redemption price equal to 100% of the principal amount of Senior Notes 2023 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 2023, 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 2023, in whole or in part, at any time on and after January 15, 2018 at the applicable redemption prices set forth in the indenture governing the Senior Notes 2023, dated as of January 15, 2015, among the Company, the subsidiary guarantors party thereto, The Bank of New York Mellon (as successor to Citibank N.A.), as U.S. trustee, and BNY Trust Company of Canada (as successor to Citi Trust Company Canada), as Canadian trustee (the 2023 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 2023 Indenture, we will be required to make an offer to repurchase Senior Notes 2023 at a price equal to 101% of the principal amount of Senior Notes 2023, plus accrued and unpaid interest, if any, to the date of purchase.

The 2023 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 2023; 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 2023 Indenture. The 2023 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 2023 are initially guaranteed on a senior unsecured basis by our existing and future wholly-owned subsidiaries that borrow or guarantee the obligations under our existing senior credit facilities. Senior Notes 2023 and the guarantees rank equally in right of payment with all of our and our subsidiary guarantors' existing and future senior unsubordinated debt and will rank senior in right of payment to all of our and our subsidiary guarantors' future subordinated debt. Senior Notes 2023 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 2023 Indenture does not purport to be complete and is qualified in its entirety by reference to the full text of the 2023 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, 2016, 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, 2016, our consolidated net leverage ratio was 1.8:1.

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 and has financial covenants consistent with Term Loan B. As of September 30, 2016, we have not drawn any amounts on the Revolver.

Share Repurchase Plan

On July 26, 2016, our board of directors (the Board) authorized the repurchase of up to \$200 million of Common Shares (Share Repurchase Plan), pursuant to a normal course issuer bid. 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. The timing of any repurchase will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

During the three months ended September 30, 2016, we did not repurchase any of our Common Shares under the Share Repurchase Plan.

During the three months ended September 30, 2015, we repurchased and cancelled 1,131,812 Common Shares for approximately \$50.0 million under our previous 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 with the SEC, which became effective automatically. On May 10, 2016, we filed a post-effective Amendment No. 1 to the shelf registration statement to make the base prospectus included therein consistent with the updated Canadian base shelf short-form prospectus (as amended, the Shelf Registration Statement). 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 short-form prospectus qualifying the distribution of such securities has also been 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, 2016, our total unfunded pension plan obligations were \$65.3 million, of which \$1.7 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
2017 (nine months ended June 30)	\$ 450	\$ 592	\$ 54
2018	641	878	88
2019	717	937	138
2020	784	989	128
2021	868	1,004	159
2022 to 2026	5,127	5,550	1,701
Total	\$ 8,587	\$ 9,950	\$ 2,268

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, 2016, we have entered into the following contractual obligations with minimum payments for the indicated fiscal periods as follows:

	Payments due between				
	Total	October 1, 2016— June 30, 2017	July 1, 2017— June 30, 2019	July 1, 2019— June 30, 2021	July 1, 2021 and beyond
Long-term debt obligations	\$ 2,930,839	\$ 82,876	\$ 226,916	\$ 954,797	\$ 1,666,250
Operating lease obligations ⁽¹⁾	204,087	37,963	79,231	48,066	38,827
Purchase obligations ⁽²⁾	15,784	13,360	2,170	254	—
	\$ 3,150,710	\$ 134,199	\$ 308,317	\$ 1,003,117	\$ 1,705,077

⁽¹⁾ Net of \$6.2 million of sublease income to be received from properties which we have subleased to third parties.

⁽²⁾ On September 12, 2016, we entered into a commitment letter with Barclays Bank PLC in connection with the Dell-EMC Acquisition (as defined in note 18). On September 26, 2016, we amended and restated the commitment letter (as amended and restated, the Commitment Letter) to add Citigroup Global Markets Inc. and Royal Bank of Canada as lenders (together with Barclays Bank PLC, the Lenders). Under the Commitment Letter, we obtained a financing commitment from the Lenders, severally and not jointly, to provide a first lien term loan facility in an aggregate principal

amount of up to \$1.0 billion to finance a portion of the purchase price for the Dell-EMC acquisition. Under the terms of the Commitment Letter, we are subject to fees of \$5.0 million with a maximum fee payable up to \$10.0 million. We have included our maximum fee exposure under "Purchase Obligations" in the table above, although the final fees that we pay could ultimately be less. The Commitment Letter terminates on March 14, 2017, subject to extension.

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.

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

Contingencies

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

As part of these examinations, (which are ongoing), on July 17, 2015 we received from the IRS a Notice of Proposed Adjustment ("NOPA") in draft form proposing a one-time approximately \$280 million increase to our U.S. federal taxes arising from the reorganization in Fiscal 2010 and proposing penalties equal to 20% of the additional taxes, plus interest at the applicable statutory rate (which will continue to accrue until the matter is resolved and may be substantial). A NOPA is an IRS position and does not impose an obligation to pay tax. The draft NOPA may be changed before the final NOPA is issued, including because the IRS reserved the right in the draft NOPA to increase the adjustment. Based on 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 September 30, 2016, adjustments under the draft NOPA in its present form and the anticipated additional NOPA could result in an aggregate liability of approximately \$550 million, inclusive of U.S. federal and state taxes, penalties and interest.

We strongly disagree with the IRS' position and intend to vigorously contest the proposed adjustments to our taxable

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

As part of our acquisition of GXS, we have inherited a tax dispute in Brazil between the Company's subsidiary, GXS Tecnologia da Informação (Brasil) Ltda. (GXS Brazil), and the municipality of São Paulo, in connection with GXS Brazil's judicial appeal of a tax claim in the amount of \$2.7 million as of September 30, 2016. We currently have in place a bank guarantee in the amount of \$4.0 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 \$5.3 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 2016.

Off-Balance Sheet Arrangements

We do not enter into off-balance sheet financing as a matter of practice, except for guarantees relating to taxes and letters of credit on behalf of parties with whom we conduct business, and 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, 2016, we had an outstanding balance of \$778.0 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, 2016, 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 \$7.8 million, assuming that the loan balance as of September 30, 2016 is outstanding for the entire period.

At June 30, 2016, an adverse change of one percent would have had the effect of increasing our annual interest payments on Term Loan B by approximately \$7.8 million, assuming that the loan balance was outstanding for the entire period.

Depending on the permanent financing for the Dell-EMC Acquisition, we may be subject to additional interest rate risk.

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, 2016, a one cent change in the Canadian dollar to U.S. dollar exchange rate would have caused a change of approximately \$0.3 million in the mark to market on our existing foreign exchange forward contracts.

At June 30, 2016, a one cent change in the Canadian dollar to U.S. dollar exchange rate would have caused a change of approximately \$0.3 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, 2016 (equivalent in U.S. dollar):

(In thousands)	U.S. Dollar Equivalent at September 30, 2016	U.S. Dollar Equivalent at June 30, 2016
Euro	\$ 174,199	\$ 182,524
British Pound	35,719	29,572
Canadian Dollar	27,651	22,103
Swiss Franc	24,901	30,298
Other foreign currencies	80,738	72,107
Total cash and cash equivalents denominated in foreign currencies	343,208	336,604
U.S. dollar	491,736	947,153
Total cash and cash equivalents	\$ 834,944	\$ 1,283,757

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 \$34.3 million (June 30, 2016—\$33.7 million).

Item 4. Controls and Procedures

(A) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, our management, with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2016, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act were recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that information required to be disclosed by us in the reports we file under the Exchange Act (according to Rule 13(a)-15(e)) is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(B) Changes in Internal Control over Financial Reporting (ICFR)

Based on the evaluation completed by our management, in which our Chief Executive Officer and Chief Financial Officer participated, our management has concluded that there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.