

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 harbors 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, 2018 and ending June 30, 2019 (Fiscal 2019) 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 including the tax reform legislation enacted through the Tax Cuts and Jobs Act in the United States and its impact on our business; (xiii) annual 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; (xxii) statements about the impact of Magellan and Release 16; (xxiii) statements about acquisitions and their expected impact; and (xxiv) 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, source and finance 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, or applicable Canadian securities regulation; (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 and any policy changes resulting from the new U.S. administration); (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, Canada 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 and any policy changes resulting from the new U.S. administration, including any transition from the North American Free Trade Agreement to the United States-Mexico-Canada Agreement) as we continue to increase our international operations; (xiv) inability to raise capital at all or on not unfavorable terms in the future; (xv) downward pressure on our share price and dilutive effect of future sales or issuances of equity securities (including in connection with 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 including General Data Protection Regulation (GDPR) and Country by Country Reporting; (vii) the Company's growth and other 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 information technology systems generally; 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, including Item 1A herein 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 and nine months ended March 31, 2019 compared with the three and nine months ended March 31, 2018, 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 where we enable the intelligent and connected enterprise. We develop enterprise software to support businesses in becoming digital businesses and governments in becoming digital governments. The OpenText comprehensive EIM platform and suite of software products and services provide secure and scalable solutions for global companies and governments around the world. With our software, organizations manage a valuable asset - information. Information that is made more valuable by connecting it to digital business processes, information that is protected and secure throughout its entire lifecycle, information that captivates customers, and information that connects and fuels some of the world's largest digital supply chains in manufacturing, retail, and financial services. With Artificial Intelligence (AI) from OpenText, our customers leverage their information for automation, insights, predictions, and ultimately better decision making.

We offer software through traditional on-premises solutions, cloud solutions or a combination of both. We believe our customers will operate in hybrid on-premises and cloud environments, and we are ready to support the delivery method the customer prefers. In providing choice and flexibility, we strive to maximize the lifetime value of the relationship with our customers.

Our initial public offering was on the NASDAQ in 1996 and we were subsequently listed on the Toronto Stock Exchange (TSX) in 1998. We are a multinational company and as of March 31, 2019, employed approximately 13,000 people worldwide.

Our ticker symbol on both the NASDAQ and the TSX is "OTEX".

Quarterly Summary:

During the first quarter of Fiscal 2019, we adopted Accounting Standards Codification (ASC) Topic 606 "Revenue from Contracts with Customers" (Topic 606) using the cumulative effect approach and recorded a net increase of approximately \$30 million to retained earnings as of July 1, 2018. Results for reporting periods commencing on July 1, 2018 are presented under the new revenue standard, while prior periods, unless specifically referred to in this MD&A, continue to be reported under the previous standard. Under Topic 606, our total revenues for the three and nine months ended March 31, 2019 were higher by approximately \$21 million and \$42 million, respectively, as compared to proforma revenues if we still reported under ASC

Topic 605 "Revenue Recognition" (proforma Topic 605). Please refer to Note 1 "Basis of Presentation" and Note 3 "Revenues" to our Condensed Consolidated Financial Statements for additional details.

During the third quarter of Fiscal 2019 we saw the following activity:

- Total revenue was \$719.1 million, up 4.9% compared to the same period in the prior fiscal year; up 7.7% after factoring the impact of \$19.3 million of foreign exchange rate changes.
- Total annual recurring revenue, which we define as the sum of cloud services and subscriptions revenue and customer support revenue, was \$549.4 million, up 5.4% compared to the same period in the prior fiscal year; up 7.8% after factoring the impact of \$12.7 million of foreign exchange rate changes.
- Cloud services and subscriptions revenue was \$238.6 million, up 14.1% compared to the same period in the prior fiscal year; up 16.1% after factoring the impact of \$4.1 million of foreign exchange rate changes.
- License revenue was \$98.7 million, up 17.4% compared to the same period in the prior fiscal year; up 22.2% after factoring the impact of \$4.0 million of foreign exchange rate changes.
- GAAP-based EPS, diluted, was \$0.27 compared to \$0.22 in the same period in the prior fiscal year.
- Non-GAAP-based EPS, diluted, was \$0.64 compared to \$0.54 in the same period in the prior fiscal year.
- GAAP-based gross margin was 66.7% compared to 64.6% in the same period in the prior fiscal year.
- Non-GAAP-based gross margin was 73.0% compared to 71.6% in the same period in the prior fiscal year.
- GAAP-based net income attributable to OpenText was \$72.8 million compared to \$58.8 million in the same period in the prior fiscal year.
- Non-GAAP-based net income attributable to OpenText was \$173.0 million compared to \$145.8 million in the same period in the prior fiscal year.
- Adjusted EBITDA was \$261.8 million compared to \$227.6 million in the same period in the prior fiscal year.
- Operating cash flow was \$646.5 million for the nine months ended March 31, 2019, up 28.3% from the same period in the prior fiscal year.
- Cash and cash equivalents was \$765.2 million as of March 31, 2019, compared to \$682.9 million as of June 30, 2018.

See "Use of Non-GAAP Financial Measures" below for definitions and reconciliations 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.

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.

Catalyst Repository Systems Inc. (Catalyst)

On January 31, 2019, we acquired all of the equity interest in Catalyst, a leading provider of eDiscovery that designs, develops and supports market-leading cloud eDiscovery software, for approximately \$70.8 million in an all cash transaction. This acquisition complements and extends our EIM portfolio. The results of operations of this acquisition have been consolidated with those of OpenText beginning January 31, 2019.

Liaison Technologies, Inc. (Liaison)

On December 17, 2018, we acquired all of the equity interest in Liaison, a leading provider of cloud-based business to business integration, for approximately \$310.6 million in an all cash transaction. This acquisition complements and extends our EIM portfolio. The results of operations of this acquisition have been consolidated with those of OpenText beginning December 17, 2018.

Outlook for remainder of Fiscal 2019

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 approximately \$6.9 billion on acquisitions over the last 10 years. 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.

While acquiring companies is one of our leading growth drivers, our growth strategy also includes organic growth through ongoing innovation. We believe we create sustained value through new innovation by expanding distribution and continually adding value to our installed base of customers. This quarter we invested approximately \$85 million in research and development (R&D) or approximately 11.8% of revenue. On a year to date basis, we have invested approximately \$238 million in R&D and are on target to spend 11% to 13% of revenues for R&D this fiscal year. We believe our ability to leverage our global presence is helpful to our organic growth initiatives.

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. Significant Accounting Policies in the Notes to the Annual Consolidated Financial Statements contains a summary of the significant accounting policies that we use. Many of these accounting policies involve complex situations and require a high degree of judgment, either in the application and interpretation of existing accounting literature or in the development of estimates that affect our financial statements. 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) Goodwill,
- (iii) Acquired intangibles, and
- (iv) Income taxes.

During the first quarter of Fiscal 2019, we adopted Topic 606 using the cumulative effect approach and ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" (ASU 2016-16) on a modified retrospective basis through a cumulative-effect adjustment to opening retained earnings. Please refer to Note 1 "Basis of Presentation" and Note 3 "Revenues" to our Condensed Consolidated Financial Statements.

For a detailed discussion of all our accounting policies, 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, 2018.

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 type, revenues by major geography, cost of revenues by product type, total gross margin, total operating margin, gross margin by product type, 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

(In thousands)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
<u>Total Revenues by Product Type:</u>						
License	\$ 98,721	\$ 14,608	\$ 84,113	\$ 308,364	\$ 10,776	\$ 297,588
Cloud services and subscriptions	238,607	29,505	209,102	665,923	54,847	611,076
Customer support	310,762	(1,517)	312,279	932,667	16,914	915,753
Professional service and other	71,056	(9,329)	80,385	214,580	(21,974)	236,554
Total revenues	719,146	33,267	685,879	2,121,534	60,563	2,060,971
Total Cost of Revenues	239,631	(2,914)	242,545	693,966	(12,034)	706,000
Total GAAP-based Gross Profit	479,515	36,181	443,334	1,427,568	72,597	1,354,971
Total GAAP-based Gross Margin %	66.7%		64.6%	67.3%		65.7%
Total GAAP-based Operating Expenses	343,638	3,073	340,565	1,018,532	20,896	997,636
Total GAAP-based Income from Operations	\$ 135,877	\$ 33,108	\$ 102,769	\$ 409,036	\$ 51,701	\$ 357,335
<u>% Revenues by Product Type:</u>						
License	13.7%		12.3%	14.5%		14.5%
Cloud services and subscriptions	33.2%		30.5%	31.4%		29.6%
Customer support	43.2%		45.5%	44.0%		44.4%
Professional service and other	9.9%		11.7%	10.1%		11.5%
<u>Total Cost of Revenues by Product Type:</u>						
License	\$ 2,692	\$ (406)	\$ 3,098	\$ 10,219	\$ (426)	\$ 10,645
Cloud services and subscriptions	103,873	9,678	94,195	280,274	11,460	268,814
Customer support	31,844	(1,926)	33,770	93,582	(6,075)	99,657
Professional service and other	56,626	(7,553)	64,179	169,452	(19,041)	188,493
Amortization of acquired technology-based intangible assets	44,596	(2,707)	47,303	140,439	2,048	138,391
Total cost of revenues	\$ 239,631	\$ (2,914)	\$ 242,545	\$ 693,966	\$ (12,034)	\$ 706,000
<u>% GAAP-based Gross Margin by Product Type:</u>						
License	97.3%		96.3%	96.7%		96.4%
Cloud services and subscriptions	56.5%		55.0%	57.9%		56.0%
Customer support	89.8%		89.2%	90.0%		89.1%
Professional service and other	20.3%		20.2%	21.0%		20.3%
<u>Total Revenues by Geography:</u>⁽¹⁾						
Americas ⁽²⁾	\$ 436,873	\$ 41,420	\$ 395,453	\$ 1,246,909	\$ 55,330	\$ 1,191,579
EMEA ⁽³⁾	216,287	(6,278)	222,565	674,699	12,296	662,403
Asia Pacific ⁽⁴⁾	65,986	(1,875)	67,861	199,926	(7,063)	206,989
Total revenues	\$ 719,146	\$ 33,267	\$ 685,879	\$ 2,121,534	\$ 60,563	\$ 2,060,971
<u>% Revenues by Geography:</u>						
Americas ⁽²⁾	60.7%		57.7%	58.8%		57.8%
EMEA ⁽³⁾	30.1%		32.4%	31.8%		32.1%
Asia Pacific ⁽⁴⁾	9.2%		9.9%	9.4%		10.1%

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
GAAP-based gross margin	66.7%	64.6%	67.3%	65.7%
GAAP-based EPS, diluted	\$ 0.27	\$ 0.22	\$ 0.79	\$ 0.68
Net income, attributable to OpenText	\$ 72,762	\$ 58,794	\$ 213,518	\$ 180,501
Non-GAAP-based gross margin ⁽⁵⁾	73.0%	71.6%	74.1%	72.6%
Non-GAAP-based EPS, diluted ⁽⁵⁾	\$ 0.64	\$ 0.54	\$ 2.04	\$ 1.84
Adjusted EBITDA ⁽⁵⁾	\$ 261,810	\$ 227,645	\$ 816,353	\$ 738,544

- (1) Total revenues by geography are determined based on the location of our end customer.
- (2) Americas consists of countries in North, Central and South America.
- (3) EMEA primarily consists of countries in Europe, the Middle East and Africa.
- (4) Asia Pacific primarily consists of the countries Japan, Australia, China, Korea, Philippines, Singapore and New Zealand.
- (5) See "Use of Non-GAAP Financial Measures" (discussed later in this MD&A) for definitions and reconciliations 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 perpetual licenses, term licenses and subscription licenses, all of which are deployed on the customer's premises. 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 March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
License Revenues:						
Americas	\$ 56,915	\$ 18,931	\$ 37,984	\$ 162,312	\$ 22,773	\$ 139,539
EMEA	30,037	66	29,971	107,246	(2,904)	110,150
Asia Pacific	11,769	(4,389)	16,158	38,806	(9,093)	47,899
Total License Revenues	98,721	14,608	84,113	308,364	10,776	297,588
Cost of License Revenues	2,692	(406)	3,098	10,219	(426)	10,645
GAAP-based License Gross Profit	\$ 96,029	\$ 15,014	\$ 81,015	\$ 298,145	\$ 11,202	\$ 286,943
GAAP-based License Gross Margin %	97.3%		96.3%	96.7%		96.4%

% License Revenues by Geography:

Americas	57.7%	45.2%	52.6%	46.9%
EMEA	30.4%	35.6%	34.8%	37.0%
Asia Pacific	11.9%	19.2%	12.6%	16.1%

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

License revenues increased by \$14.6 million or 17.4% during the three months ended March 31, 2019 as compared to the same period in the prior fiscal year; up 22.2% after factoring the impact of \$4.0 million of foreign exchange rate changes. Geographically, the overall change was attributable to an increase in Americas of \$18.9 million and an increase in EMEA of \$0.1 million, partially offset by a decrease in Asia Pacific of \$4.4 million.

During the third quarter of Fiscal 2019, we closed 29 license deals greater than \$0.5 million, of which 12 deals were greater than \$1.0 million, contributing approximately \$43.3 million of license revenues. This was compared to 25 deals greater than \$0.5 million in the third quarter of Fiscal 2018, of which 12 deals were greater than \$1.0 million, contributing approximately \$25.1 million of license revenues.

Cost of license revenues decreased by \$0.4 million during the three months ended March 31, 2019 as compared to the same period in the prior fiscal year, primarily as a result of lower third party technology costs. Overall, the gross margin percentage on license revenues increased slightly to approximately 97% from approximately 96%.

For illustrative purposes only, had we accounted for revenues under proforma Topic 605, license revenues would have been \$81.4 million for the three months ended March 31, 2019, which would have been lower by approximately \$2.7 million or 3.2%, as compared to the same period in the prior fiscal year; but would have been up 1.0% after factoring the impact of \$3.5 million of foreign exchange rate changes. Geographically, the overall change in proforma Topic 605 license revenue was attributable to a decrease in Asia Pacific of \$6.2 million, and a decrease in EMEA of \$0.5 million, partially offset by an increase in Americas of \$4.1 million.

The \$17.3 million difference between license revenues recognized under Topic 606 and those proforma Topic 605 revenues described above is the result of timing differences, where under Topic 605, revenues would have been deferred and recognized over time, but under Topic 606 these revenues are fully recognized up front. For more details, see note 3 "Revenues" to our Condensed Consolidated Financial Statements.

Nine Months Ended March 31, 2019 Compared to Nine Months Ended March 31, 2018

License revenues increased by \$10.8 million or 3.6% during the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year; up 5.9% after factoring the impact of \$6.8 million of foreign exchange rate changes. Geographically, the overall change was attributable to an increase in Americas of \$22.8 million, partially offset by a decrease in Asia Pacific of \$9.1 million and a decrease in EMEA of \$2.9 million.

During the first nine months of Fiscal 2019, we closed 100 license deals greater than \$0.5 million, of which 36 deals were greater than \$1.0 million, contributing approximately \$115.8 million of license revenues. This was compared to 88 deals greater than \$0.5 million during the same period in Fiscal 2018, of which 35 deals were greater than \$1.0 million, contributing \$102.3 million of license revenues.

Cost of license revenues decreased by \$0.4 million during the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year. The gross margin percentage on license revenues remained at approximately 97%.

For illustrative purposes only, had we accounted for revenues under proforma Topic 605, license revenues would have been \$272.9 million for the nine months ended March 31, 2019, which would have been lower by approximately \$24.7 million or 8.3% as compared to the same period in the prior fiscal year; and would have been lower by 6.2% after factoring the impact of \$6.1 million of foreign exchange rate changes. Geographically, the overall change was attributable to a decrease in Asia Pacific of \$12.5 million, a decrease in EMEA of \$7.8 million and a decrease in Americas of \$4.5 million.

The \$35.5 million difference between license revenues recognized under Topic 606 and those proforma Topic 605 license revenues described above is the result of timing differences, where under Topic 605, revenues would have been deferred and recognized over time, but under Topic 606 these revenues are fully recognized up front. For more details, see note 3 "Revenues" to our Condensed Consolidated Financial Statements.

2) *Cloud Services and Subscriptions:*

Cloud services and subscriptions revenues are from hosting arrangements where in connection with the licensing of software, the end user doesn't take possession of the software, as well as from end-to-end fully outsourced business-to-business (B2B) integration solutions to our customers (collectively referred to as cloud arrangements). The software application resides on our hardware or that of a third party, and the customer accesses and uses the software on an as-needed basis via an identified line. Our cloud arrangements can be broadly categorized as "platform as a service" (PaaS), "software as a service" (SaaS), cloud subscriptions and managed services.

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, and some third party royalty costs.

(In thousands)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
Cloud Services and Subscriptions:						
Americas	\$ 166,532	\$ 24,286	\$ 142,246	\$ 450,365	\$ 39,405	\$ 410,960
EMEA	50,799	3,147	47,652	153,480	13,573	139,907
Asia Pacific	21,276	2,072	19,204	62,078	1,869	60,209
Total Cloud Services and Subscriptions Revenues	238,607	29,505	209,102	665,923	54,847	611,076
Cost of Cloud Services and Subscriptions Revenues	103,873	9,678	94,195	280,274	11,460	268,814
GAAP-based Cloud Services and Subscriptions Gross Profit	\$ 134,734	\$ 19,827	\$ 114,907	\$ 385,649	\$ 43,387	\$ 342,262
GAAP-based Cloud Services and Subscriptions Gross Margin %	56.5%		55.0%	57.9%		56.0%

% Cloud Services and Subscriptions Revenues by Geography:

Americas	69.8%	68.0%	67.6%	67.3%
EMEA	21.3%	22.8%	23.0%	22.9%
Asia Pacific	8.9%	9.2%	9.4%	9.8%

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Cloud services and subscriptions revenues increased by \$29.5 million or 14.1% during the three months ended March 31, 2019 as compared to the same period in the prior fiscal year; up 16.1% after factoring the impact of \$4.1 million of foreign exchange rate changes. Geographically, the overall change was attributable to an increase in Americas of \$24.3 million, an increase in EMEA of \$3.1 million and an increase in Asia Pacific of \$2.1 million.

The number of Cloud services deals greater than \$1.0 million that closed during the third quarter of Fiscal 2019 was 8 deals, compared to 10 deals greater than \$1.0 million in the third quarter of Fiscal 2018.

Cost of Cloud services and subscriptions revenues increased by \$9.7 million during the three months ended March 31, 2019 as compared to the same period in the prior fiscal year, due to an increase in labour-related costs of approximately \$10.3 million, partially offset by a decrease in other miscellaneous costs of \$0.6 million. The increase in labour-related costs was primarily due to increased headcount from recent acquisitions.

Overall, the gross margin percentage on Cloud services and subscriptions revenues increased to approximately 56% from approximately 55%.

For illustrative purposes only, had we accounted for revenues under proforma Topic 605, cloud services and subscriptions revenues would have been \$235.5 million for the three months ended March 31, 2019, which would have been higher by approximately \$26.4 million or 12.6% as compared to the same period in the prior fiscal year; and would have been up 14.6% after factoring the impact of \$4.1 million of foreign exchange rate changes. Geographically, the overall change was attributable to an increase in Americas of \$21.8 million, an increase in EMEA of \$2.4 million and an increase in Asia Pacific of \$2.2 million.

The \$3.1 million difference between cloud service and subscription revenues recognized under Topic 606 and those proforma Topic 605 cloud services and subscriptions revenues described above is primarily the result of timing differences on professional services related to cloud contracts, where under Topic 605, revenues would have been deferred over the estimated life of the contract, but under Topic 606 these revenues are recognized as services are performed. For more details, see note 3 "Revenues" to our Condensed Consolidated Financial Statements.

Nine Months Ended March 31, 2019 Compared to Nine Months Ended March 31, 2018

Cloud services and subscriptions revenues increased by \$54.8 million or 9.0% during the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year; up 10.0% after factoring the impact of \$6.2 million of foreign exchange rate changes. Geographically, the overall change was attributable to an increase in Americas of \$39.4 million, an increase in EMEA of \$13.6 million, and an increase in Asia Pacific of \$1.9 million.

The number of Cloud services deals greater than \$1.0 million that closed during the first nine months of Fiscal 2019 was 33 deals, compared to 31 deals greater than \$1.0 million in the first nine months of Fiscal 2018.

Cost of Cloud services and subscriptions revenues increased by \$11.5 million during the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year, due to an increase in labour-related costs of approximately \$11.3

million and an increase in third party network usage fees of \$0.4 million. These were partially offset by a decrease in other miscellaneous costs of \$0.2 million. The increase in labour-related costs was primarily due to increased headcount from recent acquisitions.

Overall, the gross margin percentage on Cloud services and subscriptions revenues increased to approximately 58% from approximately 56%.

For illustrative purposes only, had we accounted for revenues under proforma Topic 605, cloud services and subscriptions revenues would have been \$660.7 million for the nine months ended March 31, 2019, which would have been higher by approximately \$49.6 million or 8.1% as compared to the same period in the prior fiscal year; and would have been up 9.2% after factoring the impact of \$6.4 million of foreign exchange rate changes. Geographically, the overall change was attributable to an increase in Americas of \$36.6 million, and an increase in EMEA of \$10.4 million and an increase in Asia Pacific of \$2.6 million.

The \$5.2 million difference between cloud service and subscription revenues recognized under Topic 606 and those proforma Topic 605 cloud services and subscriptions revenues described above is primarily the result of timing differences on professional services related to cloud contracts, where under Topic 605, revenues would have been deferred over the estimated life of the contract, but under Topic 606 these revenues are recognized as services are performed. For more details, see note 3 "Revenues" to our Condensed Consolidated Financial Statements.

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. 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 quarter ended March 31, 2019, our Customer support renewal rate was approximately 91%, stable compared with the Customer support renewal rate during the quarter ended March 31, 2018.

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 March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
Customer Support Revenues:						
Americas	\$ 179,659	\$ 1,304	\$ 178,355	\$ 536,050	\$ 8,089	\$ 527,961
EMEA	105,411	(4,173)	109,584	320,272	7,323	312,949
Asia Pacific	25,692	1,352	24,340	76,345	1,502	74,843
Total Customer Support Revenues	310,762	(1,517)	312,279	932,667	16,914	915,753
Cost of Customer Support Revenues	31,844	(1,926)	33,770	93,582	(6,075)	99,657
GAAP-based Customer Support Gross Profit	\$ 278,918	\$ 409	\$ 278,509	\$ 839,085	\$ 22,989	\$ 816,096
GAAP-based Customer Support Gross Margin %	89.8%		89.2%	90.0%		89.1%

% Customer Support Revenues by Geography:

Americas	57.8%	57.1%	57.5%	57.7%
EMEA	33.9%	35.1%	34.3%	34.2%
Asia Pacific	8.3%	7.8%	8.2%	8.1%

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Customer support revenues decreased by \$1.5 million or 0.5% during the three months ended March 31, 2019 as compared to the same period in the prior fiscal year; but up 2.3% after factoring the impact of \$8.6 million of foreign exchange rate changes. Geographically, the overall change was attributable to a decrease in EMEA of \$4.2 million, partially offset by an increase in Asia Pacific of \$1.4 million and an increase in Americas of \$1.3 million.

Cost of Customer support revenues decreased by \$1.9 million during the three months ended March 31, 2019 as compared to the same period in the prior fiscal year, due to a decrease in labour-related costs of approximately \$2.4 million, partially offset by (i) an increase in the installed base of third party products of approximately \$0.4 million and (ii) an increase in other miscellaneous costs of \$0.1 million. Overall, the gross margin percentage on Customer support revenues increased to approximately 90% from approximately 89%.

For illustrative purposes only, had we accounted for revenues under proforma Topic 605, customer support revenues would have been \$310.3 million for the three months ended March 31, 2019, which would have been lower by approximately \$1.9 million or 0.6% as compared to the same period in the prior fiscal year; but would have been up 2.2% after factoring the impact of \$8.9 million of foreign exchange rate changes. Geographically, the overall change was attributable to a decrease in EMEA of \$4.5 million, partially offset by an increase in Americas of \$1.4 million and an increase in Asia Pacific of \$1.2 million.

Nine Months Ended March 31, 2019 Compared to Nine Months Ended March 31, 2018

Customer support revenues increased by \$16.9 million or 1.8% during the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year; up 3.3% after factoring the impact of \$13.0 million of foreign exchange rate changes. Geographically, the overall change was attributable to an increase in Americas of \$8.1 million, an increase in EMEA of \$7.3 million and an increase in Asia Pacific of \$1.5 million.

Cost of Customer support revenues decreased by \$6.1 million during the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year, due to (i) a decrease in labour-related costs of approximately \$6.2 million, and (ii) a decrease in the installed base of third party products of approximately \$0.1 million, partially offset by an increase in other miscellaneous costs of \$0.2 million. Overall, the gross margin percentage on Customer support revenues increased to approximately 90% from approximately 89%.

For illustrative purposes only, had we accounted for revenues under proforma Topic 605, customer support revenues would have been \$931.5 million for the nine months ended March 31, 2019, which would have been higher by approximately \$15.8 million or 1.7% as compared to the same period in the prior fiscal year; and would have been up 3.1% after factoring the impact of \$13.1 million of foreign exchange rate changes. Geographically, the overall change was attributable to an increase in Americas of \$8.1 million, an increase in EMEA of \$6.5 million and an increase in Asia Pacific of \$1.2 million.

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, which 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. Professional service and other revenues can vary from period to period based on the type of engagements as well as those implementations that are assumed by our partner network.

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 March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
Professional Service and Other Revenues:						
Americas	\$ 33,767	\$ (3,101)	\$ 36,868	\$ 98,182	\$ (14,937)	\$ 113,119
EMEA	30,040	(5,318)	35,358	93,701	(5,696)	99,397
Asia Pacific	7,249	(910)	8,159	22,697	(1,341)	24,038
Total Professional Service and Other Revenues	71,056	(9,329)	80,385	214,580	(21,974)	236,554
Cost of Professional Service and Other Revenues	56,626	(7,553)	64,179	169,452	(19,041)	188,493
GAAP-based Professional Service and Other Gross Profit	\$ 14,430	\$ (1,776)	\$ 16,206	\$ 45,128	\$ (2,933)	\$ 48,061
GAAP-based Professional Service and Other Gross Margin %	20.3%		20.2%	21.0%		20.3%

% Professional Service and Other Revenues by Geography:

Americas	47.5%	45.9%	45.8%	47.8%
EMEA	42.3%	44.0%	43.7%	42.0%
Asia Pacific	10.2%	10.1%	10.5%	10.2%

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Professional service and other revenues decreased by \$9.3 million or 11.6% during the three months ended March 31, 2019 as compared to the same period in the prior fiscal year; down 8.4% after factoring the impact of \$2.6 million of foreign exchange rate changes. Geographically, the overall change was attributable to a decrease in EMEA of \$5.3 million, a decrease in Americas of \$3.1 million and a decrease in Asia Pacific of \$0.9 million.

Cost of Professional service and other revenues decreased by \$7.6 million during the three months ended March 31, 2019 as compared to the same period in the prior fiscal year. This was due to a decrease in labour-related costs of approximately \$8.6 million resulting primarily from a reduction in the use of external labour resources, partially offset by an increase in other miscellaneous costs of \$1.0 million. Overall, the gross margin percentage on Professional service and other revenues remained at approximately 20%.

Professional service and other revenues under proforma Topic 605 were not materially different from those under Topic 606 as discussed above.

Nine Months Ended March 31, 2019 Compared to Nine Months Ended March 31, 2018

Professional service and other revenues decreased by \$22.0 million or 9.3% during the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year; down 7.1% after factoring the impact of \$5.2 million of foreign exchange rate changes. Geographically, the overall change was attributable to a decrease in Americas of \$14.9 million, a decrease in EMEA of \$5.7 million and a decrease in Asia Pacific of \$1.3 million.

Cost of Professional service and other revenues decreased by \$19.0 million during the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year as a result of a decrease in labour-related costs of approximately \$19.1 million resulting primarily from a reduction in the use of external labour resources, partially offset by an increase in other miscellaneous costs of \$0.1 million.

Overall, the gross margin percentage on Professional service and other revenues increased to approximately 21% from approximately 20%. This is the result of effectively executing our strategy of optimizing margins by being selective about the professional service engagements we accept.

Professional service and other revenues under proforma Topic 605 were not materially different from those under Topic 606 as discussed above.

Amortization of Acquired Technology-based Intangible Assets

(In thousands)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
Amortization of acquired technology-based intangible assets	\$ 44,596	\$ (2,707)	\$ 47,303	\$ 140,439	\$ 2,048	\$ 138,391

Amortization of acquired technology-based intangible assets decreased during the three months ended March 31, 2019 by \$2.7 million, as compared to the same period in the prior fiscal year. This was due to a reduction of \$9.0 million relating to intangible assets from certain previous acquisitions becoming fully amortized, partially offset by an increase in amortization of \$6.3 million, relating to newly acquired technology-based intangible assets from our recent acquisitions of Catalyst, Liaison and Hightail Inc. (Hightail).

Amortization of acquired technology-based intangible assets increased during the nine months ended March 31, 2019 by \$2.0 million, as compared to the same period in the prior fiscal year. This was due to an increase in amortization of \$11.7 million, relating to newly acquired technology-based intangible assets from our recent acquisitions of Catalyst and Liaison, as well as Hightail, Guidance Software Inc. (Guidance), and Covisint Corporation (Covisint), which were acquired during Fiscal 2018. The increase in amortization was partially offset by a reduction of \$9.6 million, relating to intangible assets from certain previous acquisitions becoming fully amortized.

Operating Expenses

(In thousands)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
Research and development	\$ 84,905	\$ 1,509	\$ 83,396	\$ 238,128	\$ (2,965)	\$ 241,093
Sales and marketing	132,244	2,368	129,876	378,619	(3,023)	381,642
General and administrative	51,833	(2,961)	54,794	154,955	2,305	152,650
Depreciation	25,028	1,935	23,093	72,716	8,674	64,042
Amortization of acquired customer-based intangible assets	48,832	2,070	46,762	140,627	3,808	136,819
Special charges (recoveries)	796	(1,848)	2,644	33,487	12,097	21,390
Total operating expenses	\$ 343,638	\$ 3,073	\$ 340,565	\$ 1,018,532	\$ 20,896	\$ 997,636

% of Total Revenues:

Research and development	11.8%	12.2%	11.2%	11.7%
Sales and marketing	18.4%	18.9%	17.8%	18.5%
General and administrative	7.2%	8.0%	7.3%	7.4%
Depreciation	3.5%	3.4%	3.4%	3.1%
Amortization of acquired customer-based intangible assets	6.8%	6.8%	6.6%	6.6%
Special charges (recoveries)	0.1%	0.4%	1.6%	1.0%

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 2019 and 2018	YTD-over-YTD Change between Fiscal 2019 and 2018
	Increase (decrease)	Increase (decrease)
Payroll and payroll-related benefits	\$ 4,061	\$ 9,433
Contract labour and consulting	(1,010)	(7,100)
Share-based compensation	322	(256)
Travel and communication	7	(499)
Facilities	(1,269)	(3,612)
Other miscellaneous	(602)	(931)
Total change in research and development expenses	\$ 1,509	\$ (2,965)

Research and development expenses increased by \$1.5 million during the three months ended March 31, 2019 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 \$4.1 million, partially offset by a reduction in the use of facility and related resources of \$1.3 million and a reduction in contract labour and consulting of \$1.0 million. The increase in payroll and payroll-related benefits was driven primarily by increased headcount from recent acquisitions. Overall, our research and development expenses, as a percentage of total revenues, remained at approximately 12%.

Research and development expenses decreased by \$3.0 million during the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year. This was primarily due to a reduction in contract labour and consulting of \$7.1 million and a reduction in the use of facility and related resources of \$3.6 million, partially offset by an increase in payroll and payroll-related benefits of \$9.4 million. The increase in payroll and payroll-related benefits was driven primarily by increased headcount from recent acquisitions. Overall, our research and development expenses, as a percentage of total revenues, decreased to approximately 11% from approximately 12%.

Our research and development labour resources increased by 378 employees, from 3,265 employees at March 31, 2018 to 3,643 employees at March 31, 2019.

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		YTD-over-YTD Change between Fiscal	
	2019 and 2018		2019 and 2018	
	Increase (decrease)		Increase (decrease)	
Payroll and payroll-related benefits	\$	(1,464)	\$	(155)
Commissions		4,157		(2,500)
Contract labour and consulting		(346)		(371)
Share-based compensation		962		(206)
Travel and communication		805		(2,161)
Marketing expenses		(220)		(2,240)
Facilities		(116)		1,132
Bad debt expense		90		4,535
Other miscellaneous		(1,500)		(1,057)
Total change in sales and marketing expenses	\$	2,368	\$	(3,023)

Sales and marketing expenses increased by \$2.4 million during the three months ended March 31, 2019 as compared to the same period in the prior fiscal year. This was primarily due to (i) an increase in commissions expense of \$4.2 million, (ii) an increase in share-based compensation expense of \$1.0 million and (iii) an increase in travel and communication expenses of \$0.8 million. These were partially offset by (i) a decrease in payroll and payroll-related benefits of \$1.5 million and (ii) a decrease in other miscellaneous expenses of \$1.5 million. The increase in commissions expense was primarily the result of higher revenue attainment, partially offset by approximately \$2.3 million resulting from the Company capitalizing more commission costs under Topic 606, whereas previously, under Topic 605, such costs would have been expensed as incurred. Overall, our sales and marketing expenses, as a percentage of total revenues, decreased to approximately 18% from approximately 19%.

Sales and marketing expenses decreased by \$3.0 million during the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year. This was primarily due to (i) a decrease in commissions expense of \$2.5 million, of which approximately \$7.0 million is the net result of the Company capitalizing more commission expense under Topic 606, whereas previously, under Topic 605, such costs would have been expensed as incurred, (ii) a decrease in travel and communication expenses of \$2.2 million, (iii) a decrease in marketing expenses of \$2.2 million and (iv) a decrease in other miscellaneous expenses of \$1.1 million. These were partially offset by (i) an increase in bad debt expense of \$4.5 million as certain low dollar receivables were provided for entirely as they became aged greater than one year and (ii) an increase in the use of facility and related resources of \$1.1 million. Overall, our sales and marketing expenses, as a percentage of total revenues, remained at approximately 18%.

Our sales and marketing labour resources increased by 88 employees, from 1,969 employees at March 31, 2018 to 2,057 employees at March 31, 2019.

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

(In thousands)	Quarter-over-Quarter Change between Fiscal		YTD-over-YTD Change between Fiscal	
	2019 and 2018		2019 and 2018	
	Increase (decrease)		Increase (decrease)	
Payroll and payroll-related benefits	\$	(173)	\$	2,490
Contract labour and consulting		5		13
Share-based compensation		(167)		339
Travel and communication		302		742
Facilities		43		19
Other miscellaneous		(2,971)		(1,298)
Total change in general and administrative expenses	\$	(2,961)	\$	2,305

General and administrative expenses decreased by \$3.0 million during the three months ended March 31, 2019 as compared to the same period in the prior fiscal year. This was primarily due to a reduction in other miscellaneous expenses, which includes professional fees such as legal, audit and tax related expenses. Overall, general and administrative expenses, as a percentage of total revenue, decreased to approximately 7% from approximately 8%.

General and administrative expenses increased by \$2.3 million during the nine months ended March 31, 2019 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 \$2.5 million, partially offset by a \$1.3 million reduction in other miscellaneous expenses, which includes professional fees such as legal, audit and tax related expenses. The remainder of the change was attributable to other activities associated with normal growth in our business operations. Overall, general and administrative expenses, as a percentage of total revenue, remained at approximately 7%.

Our general and administrative labour resources increased by 77 employees, from 1,512 employees at March 31, 2018 to 1,589 employees at March 31, 2019.

Depreciation expenses:

(In thousands)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
	Depreciation	\$ 25,028	\$ 1,935	\$ 23,093	\$ 72,716	\$ 8,674

Depreciation expenses increased during the three and nine months ended March 31, 2019 by \$1.9 million and \$8.7 million, respectively, as compared to the same periods in the prior fiscal year. Depreciation expense, as a percentage of total revenue, remained at approximately 3%.

Amortization of acquired customer-based intangible assets:

(In thousands)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
	Amortization of acquired customer-based intangible assets	\$ 48,832	\$ 2,070	\$ 46,762	\$ 140,627	\$ 3,808

Amortization of acquired customer-based intangible assets increased during the three months ended March 31, 2019 by \$2.1 million, as compared to the same period in the prior fiscal year. This was due to an increase in amortization of \$3.8 million, relating to newly acquired customer-based intangible assets from our recent acquisitions of Catalyst, Liaison and Hightail, partially offset by a reduction of \$1.7 million relating to intangible assets from certain previous acquisitions becoming fully amortized.

Amortization of acquired customer-based intangible assets increased during the nine months ended March 31, 2019 by \$3.8 million, as compared to the same period in the prior fiscal year. This was due to an increase in amortization of \$8.8 million, relating to newly acquired customer-based intangible assets from our recent acquisitions of Catalyst and Liaison, as well as of Hightail, Guidance and Covisint, which were acquired during Fiscal 2018. The increase in amortization was partially offset by a reduction of \$5.0 million, relating to intangible assets from certain 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 charges and recoveries. Generally, we implement such plans in the context of integrating acquired entities with existing OpenText operations. 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 March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
Special charges (recoveries)	\$ 796	\$ (1,848)	\$ 2,644	\$ 33,487	\$ 12,097	\$ 21,390

Special charges decreased by \$1.8 million during the three months ended March 31, 2019 as compared to the same period in the prior fiscal year. This was primarily due to (i) a reduction in expense of \$1.7 million relating to one-time system implementation costs, (ii) a decrease in restructuring activities of \$0.5 million and (iii) a decrease of \$0.5 million relating to post-acquisition integration costs necessary to streamline acquired companies into our operations. These recoveries were partially offset by (i) an increase of \$0.6 million relating to a lower net impact of reversals from certain pre-acquisition sales and use tax liabilities and interest being settled, or in certain cases, becoming statute barred and (ii) an increase in acquisition related costs of \$0.3 million.

Special charges increased by \$12.1 million during the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year. This was primarily due to (i) an increase in restructuring activities of \$14.7 million and (ii) an increase of \$2.8 million relating to a lower net impact of reversals from certain pre-acquisition sales and use tax liabilities and interest being settled, or in certain cases, becoming statute barred. These increases were partially offset by a reduction in expense of \$4.2 million relating to one-time system implementation costs. The remainder of the change is due to other 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 primarily consisting of income or losses in our share of marketable equity securities accounted for under the equity method and of transactional foreign exchange gains (losses). The income (expense) from foreign exchange is dependent upon the change in foreign currency exchange rates vis-à-vis the functional currency of the legal entity.

(In thousands)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
Foreign exchange gains (losses)	\$ 2,033	\$ (7,950)	\$ 9,983	\$ (4,124)	\$ (23,215)	\$ 19,091
OpenText share in net income (loss) of equity investees (note 8)	2,789	3,096	(307)	10,652	11,155	(503)
Income from long-term other receivable	—	(1,327)	1,327	—	(1,327)	1,327
Gain on shares held in Guidance ⁽¹⁾	—	—	—	—	(841)	841
Gain from contractual settlement ⁽²⁾	—	—	—	—	(5,000)	5,000
Other miscellaneous income (expense)	243	106	137	437	(718)	1,155
Total other income (expense), net	\$ 5,065	\$ (6,075)	\$ 11,140	\$ 6,965	\$ (19,946)	\$ 26,911

⁽¹⁾ Represents the release to income from other comprehensive income relating to the mark to market on shares we held in Guidance prior to our acquisition in the first quarter of Fiscal 2018.

⁽²⁾ Represents a gain recognized in connection with the settlement of a certain breach of contractual arrangement in the second quarter of Fiscal 2018.

Interest and Other Related Expense, Net

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

(In thousands)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
Interest and other related expense, net	\$ 35,607	\$ 627	\$ 34,980	\$ 103,751	\$ 556	\$ 103,195

Interest and other related expense, net increased by \$0.6 million during the three and nine months ended March 31, 2019, respectively, as compared to the same periods in the prior fiscal year. This was primarily due to additional interest incurred relating to Term Loan B (as defined herein) of \$3.6 million and \$10.9 million, respectively. This was partially offset by a decrease of \$2.7 million and \$7.3 million, respectively, relating to interest on the Revolver (as defined herein). As of March 31, 2019, we have no outstanding balance on the Revolver nor was there activity during the nine months ended March 31, 2019. Additionally, interest income earned increased by \$0.7 million and \$3.5 million, respectively, during the three and nine months ended March 31, 2019, primarily as result of additional cash balances held in anticipation of the acquisition of Catalyst and Liaison.

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

Provision for (Recovery of) 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 Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for Fiscal 2018.

(In thousands)	Three Months Ended March 31,			Nine Months Ended March 31,		
	2019	Change increase (decrease)	2018	2019	Change increase (decrease)	2018
Provision for (recovery of) income taxes	\$ 32,542	\$ 12,413	\$ 20,129	\$ 98,628	\$ (2,016)	\$ 100,644

The effective tax rate increased to a provision of 30.9% for the three months ended March 31, 2019, compared to 25.5% for the three months ended March 31, 2018. The increase in tax expense of \$12.4 million was primarily due to an increase of \$7.6 million arising from increased net income taxed at foreign tax rates, an increase of \$3.1 million arising on the introduction of the United States Base Erosion Avoidance Tax ("BEAT") in Fiscal 2019, and an increase of \$8.0 million relating to the tax impact of internal reorganizations of subsidiaries in Fiscal 2018, partially offset by the Fiscal 2018 impact of United States tax reform of \$5.1 million which did not recur in Fiscal 2019. The remainder of the difference was due to normal course movements and non-material items.

The effective tax rate decreased to a provision of 31.6% for the nine months ended March 31, 2019, compared to 35.8% for the nine months ended March 31, 2018. The decrease in tax expense of \$2.0 million was primarily due to the reversal of accruals for undistributed United States earnings of \$14.8 million, and the Fiscal 2018 impact of United States tax reform of \$15.9 million which did not recur in Fiscal 2019, partially offset by an increase of \$16.1 million arising on the introduction of BEAT in Fiscal 2019, and an increase of \$16.3 million relating to the tax impact of internal reorganizations of subsidiaries. The remainder of the difference was due to normal course movements and non-material items.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act, which significantly changed the existing US tax laws, including a reduction in the federal corporate tax rate from 35% to 21%, and the transition of US international taxation from a worldwide tax system to a partially territorial tax system. As a result of the enactment of the legislation, the Company incurred a one-time tax expense of \$19.0 million in the year ended June 30, 2018, primarily related to the transition tax on accumulated foreign earnings and the re-measurement of certain deferred tax assets and liabilities. During the three and nine months ended March 31, 2019, there was a reduction of nil and \$0.9 million, respectively, to this amount, mainly attributable to evaluating the portion of our existing Alternative Minimum Tax (AMT) credit carryforwards expected to be refundable as a result of the repeal of corporate AMT. The portion of the tax expense attributable to the transition tax is payable over a period of up to eight years.

In accordance with Staff Accounting Bulletin 118 "Income Tax Accounting Implications of the Tax Cuts and Jobs Act" (SAB 118), the Company completed its analysis of the impact of the Tax Cuts and Jobs Act by December 22, 2018. The Company's final determination of the total one-time tax expense as a result of the enactment of the Tax Cuts and Jobs Act is \$18.1 million.

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, attributable to OpenText, are calculated as GAAP-based net income or earnings per share, attributable to OpenText, 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 GAAP-based income from operations, excluding the amortization of acquired intangible assets, Special charges (recoveries), and share-based compensation expense.

Adjusted earnings (loss) before interest, taxes, depreciation and amortization (Adjusted EBITDA) is calculated as GAAP-based net income, attributable to OpenText excluding interest income (expense), provision for income taxes, depreciation and amortization of acquired intangible assets, other income (expense), share-based compensation and Special charges (recoveries).

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. These items are excluded based upon the way the Company's management evaluates the performance of the Company's business for use in the Company's internal reports and are not excluded in the sense that they may be used under U.S. GAAP.

The Company does not acquire businesses on a predictable cycle, and therefore believes that the presentation of non-GAAP measures, which in certain cases adjust for the impact of amortization of intangible assets and the related tax effects that are primarily related to acquisitions, will provide readers of financial statements with a more consistent basis for comparison across accounting periods and be more useful in helping readers understand the Company's operating results and underlying operational trends. Additionally, the Company has engaged in various restructuring activities over the past several years that have resulted in costs associated with reductions in headcount, consolidation of leased facilities and related costs, all which are recorded under the Company's "Special Charges (recoveries)" caption on the Condensed Consolidated Statements of Income. Each restructuring activity is a discrete event based on a unique set of business objectives or circumstances, and each differs in terms of its operational implementation, business impact and scope, and the size of each restructuring plan can vary significantly from period to period. Therefore, the Company believes that the exclusion of these special charges (recoveries) will also better aid readers of financial statements in the understanding and comparability of the Company's operating results and underlying operational trends.

In summary, 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. Results for reporting periods commencing July 1, 2018 are presented under the new Topic 606 revenue standard, while prior period results continue to be reported under the previous standard. For more details relating to our adoption of Topic 606 please see Note 1 "Basis of Presentation" and Note 3 "Revenues" to our Condensed Consolidated Financial Statements.

**Reconciliation of selected GAAP-based measures to Non-GAAP-based measures
for the three months ended March 31, 2019
(in thousands except for per share data)**

	Three Months Ended March 31, 2019					
	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	\$ 103,873		\$ (291)	(1)	\$ 103,582	
Customer support	31,844		(310)	(1)	31,534	
Professional service and other	56,626		(448)	(1)	56,178	
Amortization of acquired technology-based intangible assets	44,596		(44,596)	(2)	—	
GAAP-based gross profit and gross margin (%) / Non-GAAP-based gross profit and gross margin (%)	479,515	66.7%	45,645	(3)	525,160	73.0%
Operating expenses						
Research and development	84,905		(1,315)	(1)	83,590	
Sales and marketing	132,244		(2,458)	(1)	129,786	
General and administrative	51,833		(1,890)	(1)	49,943	
Amortization of acquired customer-based intangible assets	48,832		(48,832)	(2)	—	
Special charges (recoveries)	796		(796)	(4)	—	
GAAP-based income from operations / Non-GAAP-based income from operations	135,877		100,936	(5)	236,813	
Other income (expense), net	5,065		(5,065)	(6)	—	
Provision for (recovery of) income taxes	32,542		(4,373)	(7)	28,169	
GAAP-based net income / Non-GAAP-based net income, attributable to OpenText	72,762		100,244	(8)	173,006	
GAAP-based earnings per share / Non-GAAP-based earnings per share- diluted, attributable to OpenText	\$ 0.27		\$ 0.37	(8)	\$ 0.64	

- (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 relevant to an acquisition and include certain 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 Condensed Consolidated Financial Statements for more details.
- (5) GAAP-based and Non-GAAP-based income from operations stated in dollars.
- (6) Adjustment relates to the exclusion of Other income (expense) from our Non-GAAP-based operating expenses as Other income (expense) generally relates 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 provision rate of approximately 31% and a Non-GAAP-based tax rate of approximately 14%; these rate differences are due to the income tax effects of items that are excluded for the purpose of calculating Non-GAAP-based adjusted net income. Such excluded items 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 that occurred in Fiscal 2017 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 14%, 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 March 31, 2019	
	Per share diluted	
GAAP-based net income, attributable to OpenText	\$ 72,762	\$ 0.27
Add:		
Amortization	93,428	0.35
Share-based compensation	6,712	0.02
Special charges (recoveries)	796	—
Other (income) expense, net	(5,065)	(0.02)
GAAP-based provision for (recovery of) income taxes	32,542	0.12
Non-GAAP-based provision for income taxes	(28,169)	(0.10)
Non-GAAP-based net income, attributable to OpenText	\$ 173,006	\$ 0.64

Reconciliation of Adjusted EBITDA

	Three Months Ended March 31, 2019	
GAAP-based net income, attributable to OpenText	\$ 72,762	
Add:		
Provision for (recovery of) income taxes	32,542	
Interest and other related expense, net	35,607	
Amortization of acquired technology-based intangible assets	44,596	
Amortization of acquired customer-based intangible assets	48,832	
Depreciation	25,028	
Share-based compensation	6,712	
Special charges (recoveries)	796	
Other (income) expense, net	(5,065)	
Adjusted EBITDA	\$ 261,810	

**Reconciliation of selected GAAP-based measures to Non-GAAP-based measures
for the three months ended March 31, 2018
(in thousands except for per share data)**

	Three Months Ended March 31, 2018					
	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	\$ 94,195		\$ (135)	(1)	\$ 94,060	
Customer support	33,770		(277)	(1)	33,493	
Professional service and other	64,179		(122)	(1)	64,057	
Amortization of acquired technology-based intangible assets	47,303		(47,303)	(2)	—	
GAAP-based gross profit and gross margin (%) / Non-GAAP-based gross profit and gross margin (%)	443,334	64.6%	47,837	(3)	491,171	71.6%
Operating expenses						
Research and development	83,396		(993)	(1)	82,403	
Sales and marketing	129,876		(1,496)	(1)	128,380	
General and administrative	54,794		(2,057)	(1)	52,737	
Amortization of acquired customer-based intangible assets	46,762		(46,762)	(2)	—	
Special charges (recoveries)	2,644		(2,644)	(4)	—	
GAAP-based income from operations / Non-GAAP-based income from operations	102,769		101,789	(5)	204,558	
Other income (expense), net	11,140		(11,140)	(6)	—	
Provision for (recovery of) income taxes	20,129		3,612	(7)	23,741	
GAAP-based net income / Non-GAAP-based net income, attributable to OpenText	58,794		87,037	(8)	145,831	
GAAP-based earnings per share / Non-GAAP-based earnings per share- diluted, attributable to OpenText	\$ 0.22		\$ 0.32	(8)	\$ 0.54	

- (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 relevant to an acquisition and include certain 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 Condensed Consolidated Financial Statements for more details.
- (5) GAAP-based and Non-GAAP-based income from operations stated in dollars.
- (6) Adjustment relates to the exclusion of Other income (expense) from our Non-GAAP-based operating expenses as Other income (expense) generally relates 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 provision rate of approximately 26% and a Non-GAAP-based tax rate of approximately 14%; these rate differences are due to the income tax effects of items that are excluded for the purpose of calculating Non-GAAP-based adjusted net income. Such excluded items 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 that occurred in Fiscal 2017 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 14%, we analyzed the individual adjusted expenses and took into consideration the impact of statutory tax rates from local jurisdictions incurring the expense. We also took into consideration changes in U.S. tax reform legislation that was enacted on December 22, 2017 through the Tax Cuts and Jobs Act.

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

	Three Months Ended March 31, 2018	
	Per share diluted	
GAAP-based net income, attributable to OpenText	\$ 58,794	\$ 0.22
Add:		
Amortization	94,065	0.35
Share-based compensation	5,080	0.02
Special charges (recoveries)	2,644	0.01
Other (income) expense, net	(11,140)	(0.04)
GAAP-based provision for (recovery of) income taxes	20,129	0.07
Non-GAAP-based provision for income taxes	(23,741)	(0.09)
Non-GAAP-based net income, attributable to OpenText	<u>\$ 145,831</u>	<u>\$ 0.54</u>

Reconciliation of Adjusted EBITDA

	Three Months Ended March 31, 2018	
GAAP-based net income, attributable to OpenText	\$ 58,794	
Add:		
Provision for (recovery of) income taxes	20,129	
Interest and other related expense, net	34,980	
Amortization of acquired technology-based intangible assets	47,303	
Amortization of acquired customer-based intangible assets	46,762	
Depreciation	23,093	
Share-based compensation	5,080	
Special charges (recoveries)	2,644	
Other (income) expense, net	(11,140)	
Adjusted EBITDA	<u>\$ 227,645</u>	

**Reconciliation of selected GAAP-based measures to Non-GAAP-based measures
for the nine months ended March 31, 2019
(in thousands except for per share data)**

	Nine Months Ended March 31, 2019					
	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	\$ 280,274		\$ (873)	(1)	\$ 279,401	
Customer support	93,582		(881)	(1)	92,701	
Professional service and other	169,452		(1,330)	(1)	168,122	
Amortization of acquired technology-based intangible assets	140,439		(140,439)	(2)	—	
GAAP-based gross profit and gross margin (%) / Non-GAAP-based gross profit and gross margin (%)	1,427,568	67.3%	143,523	(3)	1,571,091	74.1%
Operating expenses						
Research and development	238,128		(3,668)	(1)	234,460	
Sales and marketing	378,619		(5,874)	(1)	372,745	
General and administrative	154,955		(7,526)	(1)	147,429	
Amortization of acquired customer-based intangible assets	140,627		(140,627)	(2)	—	
Special charges (recoveries)	33,487		(33,487)	(4)	—	
GAAP-based income from operations / Non-GAAP-based income from operations	409,036		334,705	(5)	743,741	
Other income (expense), net	6,965		(6,965)	(6)	—	
Provision for (recovery of) income taxes	98,628		(9,029)	(7)	89,599	
GAAP-based net income / Non-GAAP-based net income, attributable to OpenText	213,518		336,769	(8)	550,287	
GAAP-based earnings per share / Non-GAAP-based earnings per share- diluted, attributable to OpenText	\$ 0.79		\$ 1.25	(8)	\$ 2.04	

- (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 relevant to an acquisition and include certain 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 Condensed Consolidated Financial Statements for more details.
- (5) GAAP-based and Non-GAAP-based income from operations stated in dollars.
- (6) Adjustment relates to the exclusion of Other income (expense) from our Non-GAAP-based operating expenses as Other income (expense) generally relates 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 provision rate of approximately 32% and a Non-GAAP-based tax rate of approximately 14%; these rate differences are due to the income tax effects of items that are excluded for the purpose of calculating Non-GAAP-based adjusted net income. Such excluded items 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 that occurred in Fiscal 2017 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 14%, 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:

	Nine Months Ended March 31, 2019	
	Per share diluted	
GAAP-based net income, attributable to OpenText	\$ 213,518	\$ 0.79
Add:		
Amortization	281,066	1.04
Share-based compensation	20,152	0.07
Special charges (recoveries)	33,487	0.12
Other (income) expense, net	(6,965)	(0.03)
GAAP-based provision for (recovery of) income taxes	98,628	0.37
Non-GAAP-based provision for income taxes	(89,599)	(0.32)
Non-GAAP-based net income, attributable to OpenText	<u>\$ 550,287</u>	<u>\$ 2.04</u>

Reconciliation of Adjusted EBITDA

	Nine Months Ended March 31, 2019	
GAAP-based net income, attributable to OpenText	\$ 213,518	
Add:		
Provision for (recovery of) income taxes	98,628	
Interest and other related expense, net	103,751	
Amortization of acquired technology-based intangible assets	140,439	
Amortization of acquired customer-based intangible assets	140,627	
Depreciation	72,716	
Share-based compensation	20,152	
Special charges (recoveries)	33,487	
Other (income) expense, net	(6,965)	
Adjusted EBITDA	<u>\$ 816,353</u>	

**Reconciliation of selected GAAP-based measures to Non-GAAP-based measures
for the nine months ended March 31, 2018
(in thousands except for per share data)**

	Nine Months Ended March 31, 2018					
	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	\$ 268,814		\$ (1,119)	(1)	\$ 267,695	
Customer support	99,657		(933)	(1)	98,724	
Professional service and other	188,493		(1,322)	(1)	187,171	
Amortization of acquired technology-based intangible assets	138,391		(138,391)	(2)	—	
GAAP-based gross profit and gross margin (%) / Non-GAAP-based gross profit and gross margin (%)	1,354,971	65.7%	141,765	(3)	1,496,736	72.6%
Operating expenses						
Research and development	241,093		(4,206)	(1)	236,887	
Sales and marketing	381,642		(6,679)	(1)	374,963	
General and administrative	152,650		(6,214)	(1)	146,436	
Amortization of acquired customer-based intangible assets	136,819		(136,819)	(2)	—	
Special charges (recoveries)	21,390		(21,390)	(4)	—	
GAAP-based income from operations / Non-GAAP-based income from operations	357,335		317,073	(5)	674,408	
Other income (expense), net	26,911		(26,911)	(6)	—	
Provision for (recovery of) income taxes	100,644		(20,674)	(7)	79,970	
GAAP-based net income / Non-GAAP-based net income, attributable to OpenText	180,501		310,836	(8)	491,337	
GAAP-based earnings per share / Non-GAAP-based earnings per share- diluted, attributable to OpenText	\$ 0.68		\$ 1.16	(8)	\$ 1.84	

- (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 relevant to an acquisition and include certain 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 Condensed Consolidated Financial Statements for more details.
- (5) GAAP-based and Non-GAAP-based income from operations stated in dollars.
- (6) Adjustment relates to the exclusion of Other income (expense) from our Non-GAAP-based operating expenses as Other income (expense) generally relates 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 provision rate of approximately 36% and a Non-GAAP-based tax rate of approximately 14%; these rate differences are due to the income tax effects of items that are excluded for the purpose of calculating Non-GAAP-based adjusted net income. Such excluded items 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 that occurred in Fiscal 2017 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 14%, we analyzed the individual adjusted expenses and took into consideration the impact of statutory tax rates from local jurisdictions incurring the expense. We also took into consideration changes in US tax reform legislation that was enacted on December 22, 2017 through the Tax Cuts and Jobs Act.

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

	Nine Months Ended March 31, 2018	
	Per share diluted	
GAAP-based net income, attributable to OpenText	\$ 180,501	\$ 0.68
Add:		
Amortization	275,210	1.03
Share-based compensation	20,473	0.08
Special charges (recoveries)	21,390	0.08
Other (income) expense, net	(26,911)	(0.10)
GAAP-based provision for (recovery of) income taxes	100,644	0.37
Non-GAAP-based provision for income taxes	(79,970)	(0.30)
Non-GAAP-based net income, attributable to OpenText	\$ 491,337	\$ 1.84

Reconciliation of Adjusted EBITDA

	Nine Months Ended March 31, 2018
GAAP-based net income, attributable to OpenText	\$ 180,501
Add:	
Provision for (recovery of) income taxes	100,644
Interest and other related expense, net	103,195
Amortization of acquired technology-based intangible assets	138,391
Amortization of acquired customer-based intangible assets	136,819
Depreciation	64,042
Share-based compensation	20,473
Special charges (recoveries)	21,390
Other (income) expense, net	(26,911)
Adjusted EBITDA	\$ 738,544

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 March 31, 2019	Change increase (decrease)	As of June 30, 2018
Cash and cash equivalents	\$ 765,224	\$ 82,282	\$ 682,942

(In thousands)	Nine Months Ended March 31,		
	2019	Change	2018
Cash provided by operating activities	\$ 646,501	\$ 142,480	\$ 504,021
Cash used in investing activities	\$ (442,359)	\$ (27,122)	\$ (415,237)
Cash provided by (used in) financing activities	\$ (114,708)	\$ (169,956)	\$ 55,248

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 continue to 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 and operating needs for the next twelve months. Any further material or acquisition-related activities may require additional sources of financing and would be subject to the financial covenants established under our credit facilities. For more details, see "Long-term Debt and Credit Facilities" below.

As of March 31, 2019, we have provided \$15.1 million (June 30, 2018—\$28.5 million) in respect of both additional foreign taxes or deferred income tax liabilities for temporary differences related to the undistributed earnings of certain non-United States subsidiaries, and planned periodic repatriations from certain United States and German subsidiaries, that will be subject to withholding taxes upon distribution.

Cash flows provided by operating activities

Cash flows from operating activities increased by \$142.5 million due to an increase in changes from working capital of \$151.0 million, partially offset by a decrease in net income before the impact of non-cash items of \$8.5 million. The increase in operating cash flow from changes in working capital was primarily due to the net impact of the following increases: (i) \$108.5 million relating to a decrease in accounts receivable, (ii) \$61.6 million relating to an increase in accounts payable and accrued liabilities, (iii) \$43.1 million relating to an increase in income taxes payable, (iv) \$10.1 million relating to a decrease in prepaid and other current assets, and (v) \$7.2 million relating to lower balances of other assets. These increases in operating cash flows were partially offset by decreases of (i) \$50.6 million relating to lower deferred revenues and (ii) \$28.9 million relating to higher contract assets.

During the third quarter of Fiscal 2019 our days sales outstanding (DSO) was 60 days, compared to a DSO of 67 days during the third quarter of Fiscal 2018. The per day impact of our DSO in the third quarters of Fiscal 2019 and Fiscal 2018 on our cash flows was \$8.0 million and \$7.6 million, respectively. In arriving at DSO, we exclude contract assets as these are assets that we do not have an unconditional right to the related consideration from the customer.

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 \$27.1 million, primarily due to an increase of \$62.7 million in consideration paid for acquisitions during the first nine months of Fiscal 2019, as compared to the same period in Fiscal 2018. This was partially offset by a decrease of \$32.6 million in purchases of property and equipment. The remainder of the change was due to miscellaneous items.

Cash flows provided by (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 from financing activities went from an inflow of \$55.2 million during the first nine months of Fiscal 2018 to an outflow of \$114.7 million during the first nine months of Fiscal 2019. During the first nine months of Fiscal 2018, we received net cash proceeds of \$94.2 million, after drawings on the Revolver of \$200.0 million and repayments of our long-term loan of \$105.8 million. During Fiscal 2019 to date, we have not drawn on the Revolver and have only repaid \$7.5 million of our outstanding long-term debt, in accordance with our long-term debt schedules. Other significant changes include less cash used in investing activities of \$26.5 million relating to funds we provide to an independent agent to facilitate the repurchase of Common Shares on the open market, for potential reissuance under our long-term incentive and other plans. Additionally, we experienced a reduction of \$24.0 million relating to less cash collected from the issuance of Common Shares for the exercise of options and the OpenText Employee Share Purchase Plan (ESPP), as well as an increase in dividend payments to our shareholders of \$16.9 million.

Cash Dividends

During the three and nine months ended March 31, 2019, we declared and paid cash dividends of \$0.1518 and \$0.4554 per Common Share, respectively, that totaled \$40.7 million and \$121.9 million, respectively. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination and discretion of the Board. See Item 5 "Dividend Policy" in our Annual Report on Form 10-K for Fiscal 2018 for more information.

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.

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

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 2026 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 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, on one or more occasion, redeem Senior Notes 2023, in whole or in part, at any time 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 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 (as defined herein), 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

On May 30, 2018, we entered into a credit facility, which provides for a \$1 billion term loan facility with certain lenders named therein, Barclays Bank PLC (Barclays), as sole administrative agent and collateral agent, and as lead arranger and joint bookrunner (Term Loan B) and borrowed the full amount on May 30, 2018 to, among other things, repay in full the loans under our prior \$800 million term loan credit facility originally entered into on January 16, 2014. Repayments made under Term Loan B are equal to 0.25% of the principal amount in equal quarterly installments for the life of Term Loan B, with the remainder due at maturity.

Borrowings under Term Loan B are secured by a first charge over substantially all of our assets on a pari passu basis with the Revolver. Term Loan B has a seven year term, maturing in May 2025.

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. The applicable margin for borrowings under Term Loan B is 1.75%, with respect to LIBOR advances and 0.75%, with respect to ABR advances. The interest on the current outstanding balance for Term Loan B is equal to 1.75% plus LIBOR (subject to a 0.00% floor). As of March 31, 2019, the outstanding balance on the Term Loan B bears an interest rate of approximately 4.24%.

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 March 31, 2019, our consolidated net leverage ratio was 1.7:1.

Revolver

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

As of March 31, 2019, we have no outstanding balance on the Revolver. There was no activity during the three and nine months ended March 31, 2019 and we recorded no interest expense.

During the three and nine months ended March 31, 2018, we drew down nil and \$200 million, respectively, from the Revolver, partially to finance acquisitions. During the three and nine months ended March 31, 2018, we also repaid \$100 million, respectively, and recorded interest expense of \$2.7 million and \$7.3 million, respectively, relating to amounts drawn on the Revolver.

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

Shelf Registration Statement

On August 30, 2017, we filed a universal shelf registration statement on Form S-3 with the SEC, which became effective automatically (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, depository shares, warrants, purchase contracts, units and subscription receipts. A base shelf short-form prospectus qualifying the distribution of such securities was concurrently filed with Canadian securities regulators on August 30, 2017. 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 Canadian securities regulators.

Pensions

As of March 31, 2019, our total unfunded pension plan obligations were \$73.8 million, of which \$2.3 million is payable within the next twelve 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
2019 (three months ended June 30)	\$ 159	\$ 250	\$ 39
2020	680	1,003	153
2021	778	1,031	194
2022	866	1,039	301
2023	971	1,041	209
2024 to 2028	5,840	5,352	747
Total	\$ 9,294	\$ 9,716	\$ 1,643

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

Commitments and Contractual Obligations

As of March 31, 2019, we have entered into the following contractual obligations with minimum payments for the indicated fiscal periods as follows:

	Payments due between				
	Total	April 1, 2019— June 30, 2019	July 1, 2019— June 30, 2021	July 1, 2021— June 30, 2023	July 1, 2023 and beyond
Long-term debt obligations ⁽¹⁾	\$ 3,449,794	\$ 38,320	\$ 294,203	\$ 1,092,366	\$ 2,024,905
Operating lease obligations ⁽²⁾	331,964	18,387	128,807	79,623	105,147
Purchase obligations	14,405	3,486	10,278	641	—
	\$ 3,796,163	\$ 60,193	\$ 433,288	\$ 1,172,630	\$ 2,130,052

⁽¹⁾ Includes interest up to maturity and principal payments. Please see note 10 "Long-Term Debt" for more details.

⁽²⁾ Net of \$34.8 million of sublease income to be received from properties which we have subleased to third parties.

Guarantees and Indemnifications

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

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

Litigation

We are currently involved in various claims and legal proceedings.

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

If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss in accordance with Topic 450-20. As of the date of this Quarterly Report on Form 10-Q, the aggregate of such estimated losses was not material to our consolidated financial position or 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

IRS Matter

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

We previously disclosed that, as part of these examinations, on July 17, 2015 we received from the IRS an initial Notice of Proposed Adjustment (NOPA) in draft form, that, as revised by the IRS on July 11, 2018 proposes a one-time approximately \$335 million increase to our U.S. federal taxes arising from the reorganization in Fiscal 2010 (the 2010 NOPA), plus penalties equal to 20% of the additional proposed taxes for Fiscal 2010, and interest at the applicable statutory rate published by the IRS.

On July 11, 2018, we also received, consistent with previously disclosed expectations, a draft NOPA proposing a one time approximately \$80 million increase to our U.S. federal taxes for Fiscal 2012 (the 2012 NOPA) arising from the integration of Global 360 Holding Corp. into the structure that resulted from the internal reorganization in Fiscal 2010, plus penalties equal to 40% of the additional proposed taxes for Fiscal 2012, and interest.

On January 7, 2019, we received from the IRS official notification of proposed adjustments to our taxable income for Fiscal 2010 and Fiscal 2012, together with the 2010 NOPA and 2012 NOPA in final form. In each case, such documentation was as expected and on substantially the same terms as provided for in the previously disclosed respective draft NOPAs, with the exception of an additional proposed penalty as part of the 2012 NOPA.

A NOPA is an IRS position and does not impose an obligation to pay tax. We continue to strongly disagree with the IRS' positions within the NOPAs and we are vigorously contesting the proposed adjustments to our taxable income, along with any proposed penalties and interest.

As of our receipt of the final 2010 NOPA and 2012 NOPA, our estimated potential aggregate liability, as proposed by the IRS, including additional state income taxes plus penalties and interest that may be due, was approximately \$770 million, comprised of approximately \$455 million in U.S. federal and state taxes, approximately \$130 million of penalties, and approximately \$185 million of interest. Interest will continue to accrue at the applicable statutory rates until the matter is resolved and may be substantial.

As previously disclosed and noted above, we strongly disagree with the IRS' positions and we are vigorously contesting the proposed adjustments to our taxable income, along with the proposed penalties and interest. We are examining various alternatives available to taxpayers to contest the proposed adjustments, including through IRS Appeals and U.S. Federal court. 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.

For additional information regarding the history of this IRS matter, please see Note 13 "Guarantees and Contingencies" in our Annual Report on Form 10-K for Fiscal 2018.

CRA Matter

As part of its ongoing audit of our Canadian tax returns, the Canada Revenue Agency (CRA) has disputed our transfer pricing methodology used for certain intercompany transactions with our international subsidiaries and has issued notices of reassessment for Fiscal 2012 and Fiscal 2013. Assuming the utilization of available tax attributes (further described below), we estimate our potential aggregate liability, as of March 31, 2019, in connection with the CRA's reassessments for Fiscal 2012 and Fiscal 2013 to be limited to penalties and interest that may be due of approximately \$23 million.

The notices of reassessment for Fiscal 2012 and Fiscal 2013 would, as drafted, increase our taxable income by approximately \$90 million for each of those years, as well as impose a 10% penalty on the proposed adjustment to income.

We strongly disagree with the CRA's positions and believe the reassessments of Fiscal 2012 and Fiscal 2013 (including any penalties) are without merit. We have filed notices of objection for Fiscal 2012 and Fiscal 2013, and we are currently seeking competent authority consideration under applicable international treaties in respect of these reassessments.

Even if we are unsuccessful in challenging the CRA's reassessments to increase our taxable income for Fiscal 2012 and Fiscal 2013, or potential reassessments that may be proposed for subsequent years currently under audit, we have elective

deductions available for those years (including carry-backs from later years) that would offset such increased amounts so that no additional cash tax would be payable, exclusive of any assessed penalties and interest, as described above.

We will continue to vigorously contest the proposed adjustments to our taxable income and any penalty and interest assessments. As of the date of this Quarterly Report on Form 10-Q, we have not recorded any accruals in respect of these reassessments in our Condensed Consolidated Financial Statements. Audits by the CRA of our tax returns for fiscal years prior to Fiscal 2012 have been completed with no reassessment of our income tax liability in respect of our international transactions, including the transfer pricing methodology applied to them. The CRA is currently auditing Fiscal 2014 and Fiscal 2015 and have proposed to reassess such years in a manner consistent with Fiscal 2012 and Fiscal 2013. We are engaged in ongoing discussions with the CRA and continue to vigorously contest the CRA's audit positions.

GXS Brazil Matter

As previously disclosed and in connection with the intercompany charges between GXS Group, Inc. and its subsidiary, GXS Tecnologia da Informação (Brasil) Ltda., based on the historical transfer pricing studies, approximately \$1.5 million accrued in relation to this matter became statute barred during the three months ended March 31, 2019 and accordingly was released as a recovery under "Special charges".

GXS India Matter

Our Indian subsidiary, GXS India Technology Centre Private Limited (GXS India), is subject to potential assessments by Indian tax authorities in the city of Bangalore. GXS India has received assessment orders from the Indian tax authorities alleging that the transfer price applied to intercompany transactions was not appropriate. Based on advice from our tax advisors, we believe that the facts that the Indian tax authorities are using to support their assessment are incorrect. We have filed appeals and anticipate an eventual settlement with the Indian tax authorities. We have accrued \$1.3 million to cover our anticipated financial exposure in this matter.

Please also see Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for Fiscal 2018.

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, revolving loans and foreign currency exchange rates.

Interest rate risk

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

As of March 31, 2019, we had an outstanding balance of \$990.0 million on Term Loan B. Term Loan B bears a floating interest rate of 1.75% plus LIBOR. As of March 31, 2019, 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 \$9.9 million, assuming that the loan balance as of March 31, 2019 is outstanding for the entire period (June 30, 2018—\$10.0 million).

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 of March 31, 2019, a one cent change in the Canadian dollar to U.S. dollar exchange rate would have caused a change of approximately \$0.6 million in the mark to market on our existing foreign exchange forward contracts (June 30, 2018—\$0.5 million).

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 March 31, 2019 (equivalent in U.S. dollar):

(In thousands)	U.S. Dollar Equivalent at March 31, 2019	U.S. Dollar Equivalent at June 30, 2018
Euro	\$ 103,954	\$ 120,346
British Pound	28,810	31,211
Canadian Dollar	18,393	24,590
Swiss Franc	78,027	52,652
Other foreign currencies	108,895	117,459
Total cash and cash equivalents denominated in foreign currencies	<u>338,079</u>	<u>346,258</u>
U.S. dollar	<u>427,145</u>	<u>336,684</u>
Total cash and cash equivalents	<u>\$ 765,224</u>	<u>\$ 682,942</u>

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 \$33.8 million (June 30, 2018—\$34.6 million), assuming we have not entered into any derivatives discussed above under "Foreign Currency Transaction Risk".

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 March 31, 2019, 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 March 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.