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Form 10-Q
May 01, 2019

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As a practical expedient, we do not account for significant financing components if the period between when we transfer the promised good or service to the customer and when the customer pays for the product or service will be one year or less.We apply the practical expedient and do not disclose performance obligations that have original expected durations of one year or less.P3Y000051794002000000690336806704000 0001002638 2018-07-01 2019-03-31 0001002638 2019-04-29 0001002638 2018-06-30 0001002638 2019-03-31 0001002638 2019-01-01 2019-03-31 0001002638 us-gaap:LicenseMember 2018-01-01 2018-03-31 0001002638 2018-01-01 2018-03-31 0001002638 otex:CustomerSupportMember 2017-07-01 2018-03-31 0001002638 otex:ProfessionalServiceAndOtherMember 2017-07-01 2018-03-31 0001002638 2017-07-01 2018-03-31 0001002638 otex:ProfessionalServiceAndOtherMember 2018-01-01 2018-03-31 0001002638 us-gaap:LicenseMember 2018-07-01 2019-03-31 0001002638 otex:ProfessionalServiceAndOtherMember 2019-01-01 2019-03-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2018-01-01 2018-03-31 0001002638 otex:CustomerSupportMember 2018-01-01 2018-03-31 0001002638 otex:ProfessionalServiceAndOtherMember 2018-07-01 2019-03-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2019-01-01 2019-03-31 0001002638 otex:CustomerSupportMember 2018-07-01 2019-03-31 0001002638 otex:CustomerSupportMember 2019-01-01 2019-03-31 0001002638 us-gaap:LicenseMember 2019-01-01 2019-03-31 0001002638 us-gaap:LicenseMember 2017-07-01 2018-03-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2017-07-01 2018-03-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2018-07-01 2019-03-31 0001002638 2018-10-01 2018-12-31 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2018-09-30 0001002638 us-gaap:TreasuryStockMember 2018-12-31 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2018-07-01 2018-09-30 0001002638 us-gaap:NoncontrollingInterestMember 2018-07-01 2018-09-30 0001002638 2018-07-01 2018-09-30 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-10-01 2018-12-31 0001002638 us-gaap:RetainedEarningsMember 2018-06-30 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2019-01-01 2019-03-31 0001002638 us-gaap:NoncontrollingInterestMember 2018-06-30 0001002638 us-gaap:NoncontrollingInterestMember 2019-03-31 0001002638 us-gaap:TreasuryStockMember 2019-01-01 2019-03-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-06-30 0001002638 us-gaap:RetainedEarningsMember 2018-07-01 2018-09-30 0001002638 us-gaap:NoncontrollingInterestMember 2019-01-01 2019-03-31 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2018-12-31 0001002638 us-gaap:TreasuryStockMember 2018-07-01 2018-09-30 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2019-03-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0001002638 us-gaap:RetainedEarningsMember 2019-01-01 2019-03-31 0001002638 us-gaap:RetainedEarningsMember 2018-09-30 0001002638 2018-12-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-09-30 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2018-10-01 2018-12-31 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2018-06-30 0001002638 us-gaap:AccountingStandardsUpdate201409Member us-gaap:RetainedEarningsMember 2018-06-30 0001002638 us-gaap:TreasuryStockMember 2018-10-01 2018-12-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-01-01 2019-03-31 0001002638 us-gaap:AccountingStandardsUpdate201616Member us-gaap:RetainedEarningsMember 2018-06-30 0001002638 us-gaap:RetainedEarningsMember 2018-12-31 0001002638 us-gaap:AccountingStandardsUpdate201409Member 2018-06-30 0001002638 us-gaap:TreasuryStockMember 2018-06-30 0001002638 us-gaap:NoncontrollingInterestMember 2018-09-30 0001002638 us-gaap:RetainedEarningsMember 2018-10-01 2018-12-31 0001002638 us-gaap:TreasuryStockMember 2018-09-30 0001002638 2018-09-30 0001002638 us-gaap:NoncontrollingInterestMember 2018-10-01 2018-12-31 0001002638 us-gaap:TreasuryStockMember 2019-03-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-07-01 2018-09-30

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019.

OR

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

For the transition period from to

Commission file number: 0-27544

OPEN TEXT CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨
Smaller reporting company ¨ Emerging growth company ¨

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

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

At April 29, 2019, there were 269,485,670 outstanding Common Shares of the registrant.

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OPEN TEXT CORPORATION
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OPEN TEXT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars, except share data)

	March 31, 2019	June 30, 2018
ASSETS	(unaudited)	
Cash and cash equivalents	$765,224	$682,942
Accounts receivable trade, net of allowance for doubtful accounts of $16,946 as of March 31, 2019 and $9,741 as of June 30, 2018 (note 4)	478,264	487,956
Contract assets (note 3)	19,737	—
Income taxes recoverable (note 14)	39,041	55,623
Prepaid expenses and other current assets	96,048	101,059
Total current assets	1,398,314	1,327,580
Property and equipment (note 5)	241,974	264,205
Long-term contract assets (note 3)	15,794	—
Goodwill (note 6)	3,772,112	3,580,129
Acquired intangible assets (note 7)	1,233,136	1,296,637
Deferred tax assets (note 14)	1,035,481	1,122,729
Other assets (note 8)	135,159	111,267
Deferred charges	—	38,000
Long-term income taxes recoverable (note 14)	32,667	24,482
Total assets	$7,864,637	$7,765,029
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	$295,749	$302,154
Current portion of long-term debt (note 10)	10,000	10,000
Deferred revenues	664,208	644,211
Income taxes payable (note 14)	45,124	38,234
Total current liabilities	1,015,081	994,599
Long-term liabilities:		
Accrued liabilities (note 9)	50,714	52,827
Deferred credits	—	2,727
Pension liability (note 11)	71,563	65,719
Long-term debt (note 10)	2,606,283	2,610,523
Deferred revenues	50,905	69,197
Long-term income taxes payable (note 14)	178,775	172,241
Deferred tax liabilities (note 14)	52,944	79,938
Total long-term liabilities	3,011,184	3,053,172
Shareholders' equity:		
Share capital and additional paid-in capital (note 12)		
269,274,185 and 267,651,084 Common Shares issued and outstanding at March 31, 2019 and June 30, 2018, respectively; authorized Common Shares: unlimited	1,751,811	1,707,073
Accumulated other comprehensive income	25,418	33,645
Retained earnings	2,088,858	1,994,235
Treasury stock, at cost (806,704 shares at March 31, 2019 and 690,336 shares at June 30, 2018, respectively)	(28,898)	(18,732)
Total OpenText shareholders' equity	3,837,189	3,716,221
Non-controlling interests	1,183	1,037
Total shareholders' equity	3,838,372	3,717,258
Total liabilities and shareholders' equity	$7,864,637	$7,765,029

Guarantees and contingencies (note 13)

Related party transactions (note 21)
Subsequent event (note 22)
See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	**2018**	**2019**	**2018**
Revenues:				
License	$98,721	$84,113	$308,364	$297,588
Cloud services and subscriptions	238,607	209,102	665,923	611,076
Customer support	310,762	312,279	932,667	915,753
Professional service and other	71,056	80,385	214,580	236,554
Total revenues	719,146	685,879	2,121,534	2,060,971
Cost of revenues:				
License	2,692	3,098	10,219	10,645
Cloud services and subscriptions	103,873	94,195	280,274	268,814
Customer support	31,844	33,770	93,582	99,657
Professional service and other	56,626	64,179	169,452	188,493
Amortization of acquired technology-based intangible assets (note 7)	44,596	47,303	140,439	138,391
Total cost of revenues	239,631	242,545	693,966	706,000
Gross profit	479,515	443,334	1,427,568	1,354,971
Operating expenses:				
Research and development	84,905	83,396	238,128	241,093
Sales and marketing	132,244	129,876	378,619	381,642
General and administrative	51,833	54,794	154,955	152,650
Depreciation	25,028	23,093	72,716	64,042
Amortization of acquired customer-based intangible assets (note 7)	48,832	46,762	140,627	136,819
Special charges (recoveries) (note 17)	796	2,644	33,487	21,390
Total operating expenses	343,638	340,565	1,018,532	997,636
Income from operations	135,877	102,769	409,036	357,335
Other income (expense), net	5,065	11,140	6,965	26,911
Interest and other related expense, net	(35,607)	(34,980)	(103,751)	(103,195)
Income before income taxes	105,335	78,929	312,250	281,051
Provision for (recovery of) income taxes (note 14)	32,542	20,129	98,628	100,644
Net income for the period	$72,793	$58,800	$213,622	$180,407
Net (income) loss attributable to non-controlling interests	(31)	(6)	(104)	94
Net income attributable to OpenText	$72,762	$58,794	$213,518	$180,501
Earnings per share—basic attributable to OpenText (note 20)	$0.27	$0.22	$0.80	$0.68
Earnings per share—diluted attributable to OpenText (note 20)	$0.27	$0.22	$0.79	$0.68
Weighted average number of Common Shares outstanding—basic (in '000's)	268,991	266,572	268,511	265,619
Weighted average number of Common Shares outstanding—diluted (in '000's)	270,030	267,764	269,606	266,954

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net income for the period	$72,793	$58,800	$213,622	$180,407
Other comprehensive income (loss)—net of tax:				
Net foreign currency translation adjustments	3,189	3,823	(3,749)	3,283
Unrealized gain (loss) on cash flow hedges:				
Unrealized gain (loss) - net of tax expense (recovery) effect of $222 and ($338) for the three months ended March 31, 2019 and 2018, respectively; ($274) and $65 for the nine months ended March 31, 2019 and 2018, respectively	615	(935)	(760)	182
(Gain) loss reclassified into net income - net of tax (expense) recovery effect of $124 and ($112) for the three months ended March 31, 2019 and 2018, respectively; $425 and ($540) for the nine months ended March 31, 2019 and 2018, respectively	346	(311)	1,179	(1,499)
Actuarial gain (loss) relating to defined benefit pension plans:				
Actuarial gain (loss) - net of tax expense (recovery) effect of ($1,177) and $413 for the three months ended March 31, 2019 and 2018, respectively; ($1,390) and $177 for the nine months ended March 31, 2019 and 2018, respectively	(4,785)	1,648	(5,109)	1,485
Amortization of actuarial (gain) loss into net income - net of tax (expense) recovery effect of $78 and $45 for the three months ended March 31, 2019 and 2018, respectively; $223 and $130 for the nine months ended March 31, 2019 and 2018, respectively	82	64	212	176
Release of unrealized gain on marketable securities - net of tax effect of nil	—	—	—	(617)
Total other comprehensive income (loss) net, for the period	(553)	4,289	(8,227)	3,010
Total comprehensive income	72,240	63,089	205,395	183,417
Comprehensive (income) loss attributable to non-controlling interests	(31)	(6)	(104)	94
Total comprehensive income attributable to OpenText	$72,209	$63,083	$205,291	$183,511

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands of U.S. dollars and shares)
(unaudited)

	Nine Months Ended March 31, 2019							
	Common Shares and Additional Paid in Capital		Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total
	Shares	Amount	Shares	Amount				
Balance as of June 30, 2018	267,651	$1,707,073	(691)	$(18,732)	$1,994,235	$ 33,645	$ 1,037	$3,717,258
Adoption of ASU 2016-16 - cumulative effect	—	—	—	—	(26,780)	—	—	(26,780)
Adoption of Topic 606 - cumulative effect	—	—	—	—	29,786	—	—	29,786
Issuance of Common Shares								
Under employee stock option plans	494	12,431	—	—	—	—	—	12,431
Under employee stock purchase plans	187	5,569	—	—	—	—	—	5,569
Share-based compensation	—	6,555	—	—	—	—	—	6,555
Purchase of treasury stock	—	—	(304)	(11,719)	—	—	—	(11,719)
Issuance of treasury stock	—	(70)	3	70	—	—	—	—
Dividends declared ($0.1518 per Common Share)	—	—	—	—	(40,466)	—	—	(40,466)
Other comprehensive income - net	—	—	—	—	—	(1,389)	—	(1,389)
Non-controlling interest	—	(625)	—	—	—	—	42	(583)
Net income for the quarter	—	—	—	—	36,324	—	44	36,368
Balance as of September 30, 2018	**268,332**	**$1,730,933**	**(992)**	**$(30,381)**	**$1,993,099**	**$ 32,256**	**$ 1,123**	**$3,727,030**
Issuance of Common Shares								
Under employee stock option plans	62	1,740	—	—	—	—	—	1,740
Under employee stock purchase plans	175	5,696	—	—	—	—	—	5,696
Share-based compensation	—	6,885	—	—	—	—	—	6,885
Purchase of treasury stock	—	—	(370)	(12,815)	—	—	—	(12,815)
Issuance of treasury stock	—	(13,955)	545	13,955	—	—	—	—
Dividends declared ($0.1518 per Common Share)	—	—	—	—	(40,700)	—	—	(40,700)
Other comprehensive income - net	—	—	—	—	—	(6,285)	—	(6,285)
Net income for the quarter	—	—	—	—	104,432	—	29	104,461
Balance as of December 31, 2018	**268,569**	**$1,731,299**	**(817)**	**$(29,241)**	**$2,056,831**	**$ 25,971**	**$ 1,152**	**$3,786,012**
Issuance of Common Shares								
Under employee stock option plans	544	11,661	—	—	—	—	—	11,661
Under employee stock purchase plans	161	4,447	—	—	—	—	—	4,447
Share-based compensation	—	6,712	—	—	—	—	—	6,712
Purchase of treasury stock	—	—	(52)	(1,965)	—	—	—	(1,965)
Issuance of treasury stock	—	(2,308)	62	2,308	—	—	—	—
Dividends declared ($0.1518 per Common Share)	—	—	—	—	(40,735)	—	—	(40,735)
Other comprehensive income - net	—	—	—	—	—	(553)	—	(553)
Net income for the quarter	—	—	—	—	72,762	—	31	72,793
Balance as of March 31, 2019	**269,274**	**$1,751,811**	**(807)**	**$(28,898)**	**$2,088,858**	**$ 25,418**	**$ 1,183**	**$3,838,372**

	Nine Months Ended March 31, 2018							
	Common Shares and Additional Paid in Capital		Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total
	Shares	Amount	Shares	Amount				
Balance as of June 30, 2017	264,060	$1,613,454	(1,102)	$(27,520)	$1,897,624	$ 48,800	$ 961	$3,533,319
Issuance of Common Shares								
Under employee stock option plans	1,048	16,154	—	—	—	—	—	16,154
Under employee stock purchase plans	180	4,837	—	—	—	—	—	4,837
Share-based compensation	—	8,235	—	—	—	—	—	8,235
Issuance of treasury stock	—	(178)	9	178	—	—	—	—
Dividends declared ($0.1320 per Common Share)	—	—	—	—	(35,017)	—	—	(35,017)
Other comprehensive income - net	—	—	—	—	—	718	—	718
Net income for the quarter	—	—	—	—	36,596	—	94	36,690
Balance as of September 30, 2017	**265,288**	**$1,642,502**	**(1,093)**	**$(27,342)**	**$1,899,203**	**$ 49,518**	**$ 1,055**	**$3,564,936**
Issuance of Common Shares								
Under employee stock option plans	145	$3,374	—	$—	$—	$ —	$ —	$3,374
Under employee stock purchase plans	193	5,275	—	—	—	—	—	5,275
Share-based compensation	—	7,158	—	—	—	—	—	7,158
Issuance of treasury stock	—	(8,092)	379	8,092	—	—	—	—
Dividends declared ($0.1320 per Common Share)	—	—	—	—	(34,811)	—	—	(34,811)
Other comprehensive income - net	—	—	—	—	—	(1,997)	—	(1,997)
Net income for the quarter	—	—	—	—	85,111	—	(194)	84,917
Balance as of December 31, 2017	**265,626**	**$1,650,217**	**(714)**	**$(19,250)**	**$1,949,503**	**$ 47,521**	**$ 861**	**$3,628,852**
Issuance of Common Shares								
Under employee stock option plans	1,490	30,595	—	—	—	—	—	30,595
Under employee stock purchase plans	150	4,532	—	—	—	—	—	4,532
Share-based compensation	—	5,080	—	—	—	—	—	5,080
Issuance of treasury stock	—	(427)	20	427	—	—	—	—
Dividends declared ($0.1320 per Common Share)	—	—	—	—	(35,168)	—	—	(35,168)
Other comprehensive income - net	—	—	—	—	—	4,289	—	4,289
Net income for the quarter	—	—	—	—	58,794	—	6	58,800
Balance as of March 31, 2018	**267,266**	**$1,689,997**	**(694)**	**$(18,823)**	**$1,973,129**	**$ 51,810**	**$ 867**	**$3,696,980**

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended March 31,	
	2019	**2018**
Cash flows from operating activities:		
Net income for the period	$213,622	$180,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	353,782	339,252
Share-based compensation expense	20,152	20,473
Pension expense	3,412	2,834
Amortization of debt issuance costs	3,234	3,835
Amortization of deferred charges and credits	—	3,175
Loss on sale and write down of property and equipment	9,438	489
Release of unrealized gain on marketable securities to income	—	(841)
Deferred taxes	11,307	62,640
Share in net (income) loss of equity investees	(10,652)	503
Changes in operating assets and liabilities:		
Accounts receivable	52,777	(55,698)
Contract assets	(28,872)	—
Prepaid expenses and other current assets	(495)	(10,535)
Income taxes and deferred charges and credits	21,006	(22,068)
Accounts payable and accrued liabilities	(30,644)	(92,278)
Deferred revenue	24,134	74,704
Other assets	4,300	(2,871)
Net cash provided by operating activities	646,501	504,021
Cash flows from investing activities:		
Additions of property and equipment	(50,432)	(83,038)
Purchase of Catalyst Repository Systems Inc.	(70,800)	—
Purchase of Liaison Technologies, Inc.	(310,644)	—
Purchase of Hightail, Inc., net of cash acquired	—	(20,466)
Purchase of Guidance Software, Inc., net of cash acquired	(2,279)	(229,275)
Purchase of Covisint Corporation, net of cash acquired	—	(71,279)
Other investing activities	(8,204)	(11,179)
Net cash used in investing activities	(442,359)	(415,237)
Cash flows from financing activities:		
Proceeds from long-term debt and Revolver	—	200,000
Proceeds from issuance of Common Shares from exercise of stock options and ESPP	42,097	66,064
Repayment of long-term debt and Revolver	(7,500)	(105,820)
Debt issuance costs	(322)	—
Purchase of Treasury Stock	(26,499)	—
Purchase of non-controlling interests	(583)	—
Payments of dividends to shareholders	(121,901)	(104,996)
Net cash provided by (used in) financing activities	(114,708)	55,248
Foreign exchange gain (loss) on cash held in foreign currencies	(3,909)	17,703
Increase (decrease) in cash, cash equivalents and restricted cash during the period	85,525	161,735
Cash, cash equivalents and restricted cash at beginning of the period	683,991	446,210
Cash, cash equivalents and restricted cash at end of the period	$769,516	$607,945

Reconciliation of cash, cash equivalents and restricted cash:	**March 31, 2019**	**March 31, 2018**
Cash and cash equivalents	$765,224	$605,497
Restricted cash included in Other assets	4,292	2,448
Total Cash, cash equivalents and restricted cash	$769,516	$607,945

Supplemental cash flow disclosures (note 19)

See accompanying Notes to Condensed Consolidated Financial Statements

OPEN TEXT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended March 31, 2019
(Tabular amounts in thousands of U.S. dollars, except share and per share data)
(unaudited)

NOTE 1—BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements include the accounts of Open Text Corporation and our subsidiaries, collectively referred to as "OpenText" or the "Company". We wholly own all of our subsidiaries with the exception of Open Text South Africa Proprietary Ltd. (OT South Africa) and EC1 Pte. Ltd. (GXS Singapore), which as of March 31, 2019, were 70% and 81% owned, respectively, by OpenText. All inter-company balances and transactions have been eliminated.

Previously, our ownership in GXS Inc. (GXS Korea) was 85%. During the first quarter of Fiscal 2019, we acquired all of the outstanding non-controlling interests in GXS Korea for $0.6 million in cash.

Throughout this Quarterly Report on Form 10-Q: (i) the term “Fiscal 2019” means our fiscal year beginning on July 1, 2018 and ending June 30, 2019; (ii) the term “Fiscal 2018” means our fiscal year beginning on July 1, 2017 and ended June 30, 2018; (iii) the term “Fiscal 2017” means our fiscal year beginning on July 1, 2016 and ended June 30, 2017; (iv) the term “Fiscal 2016” means our fiscal year beginning on July 1, 2015 and ended June 30, 2016; and (v) the term “Fiscal 2015” means our fiscal year beginning on July 1, 2014 and ended June 30, 2015.

These Condensed Consolidated Financial Statements are expressed in U.S. dollars and are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). The information furnished reflects all adjustments necessary for a fair presentation of the results for the periods presented and includes the financial results of Liaison Technologies, Inc. (Liaison), with effect from December 17, 2018, and Catalyst Repository Systems Inc. (Catalyst), with effect from January 31, 2019 (see note 18 "Acquisitions").

Use of estimates

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

Impact of Recently Adopted Accounting Pronouncements

Revenue Recognition

Effective July 1, 2018, we adopted Accounting Standards Codification (ASC) Topic 606 "Revenue from Contracts with Customers" (Topic 606) using the cumulative effect approach. We applied the standard to contracts that were not completed as of the date of the initial adoption. Results for reporting periods commencing on July 1, 2018 are presented under the new revenue standard, while prior period results continue to be reported under the previous standard. As a result of this adoption, we recorded a net increase of approximately $30 million to retained earnings as of July 1, 2018 on the Condensed Consolidated Balance Sheets, with the following corresponding impacts:

- A decrease to deferred revenues of approximately $31 million;
- A decrease to other assets of approximately $22 million in connection with lower deferred implementation costs;
- An increase to other assets of approximately $14 million in connection with higher capitalized sales commission costs;

- An increase in contract assets of approximately $18 million representing future billings in excess of revenues; and
- An increase in net deferred tax liabilities of approximately $11 million.

Please refer to Note 3 "Revenues" for additional information relating to Topic 606, including our updated revenue recognition policies.
Additionally, certain prior period balances have been reclassified within other assets on the Condensed Consolidated Balance Sheets, to conform to the current period presentation as a result of this adoption. Please refer to Note 8 "Other Assets" for details.

Income Taxes

Effective July 1, 2018, we adopted Accounting Standards Update (ASU) No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" (ASU 2016-16) which requires entities to recognize the income tax consequence of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. We adopted ASU 2016-16 on a modified retrospective basis through a cumulative-effect adjustment to opening retained earnings. Results for reporting periods effective as of July 1, 2018 are presented under the new standard, while prior period results continue to be reported under the previous standard. As a result of this adoption, we recorded a net decrease of approximately $27 million to retained earnings as of July 1, 2018 on the Condensed Consolidated Balance Sheets, with the following corresponding impacts:

- A decrease to deferred charges of approximately $38 million;
- An increase to deferred tax assets of approximately $8 million; and
- A decrease to deferred credits of approximately $3 million.

There was no impact to the Condensed Consolidated Statements of Income, Condensed Consolidated Statements of Comprehensive Income or Condensed Consolidated Statements of Cash Flows as a result of this adoption.

Restricted Cash

Effective July 1, 2018, we adopted ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (ASU 2016-18), which requires amounts described as restricted cash and cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts in the statement of cash flows. We adopted ASU 2016-18 using the retrospective method. As a result, certain prior period comparative figures in the Condensed Consolidated Statements of Cash Flows have been adjusted to conform to current period presentation as follows:

	Nine Months Ended March 31, 2018		
	As Previously Reported	Adjustments	As Adjusted
Net cash provided by operating activities	$504,426	$(405)	$504,021
Cash, cash equivalents and restricted cash at beginning of period	443,357	2,853	446,210
Increase (decrease) in cash, cash equivalents and restricted cash during the period	162,140	(405)	161,735
Cash, cash equivalents and restricted cash at end of period	$605,497	$2,448	$607,945

There was no impact to the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Income, Condensed Consolidated Statements of Shareholders' Equity or Condensed Consolidated Statements of Comprehensive Income as a result of this adoption.

Pension Expense

Effective July 1, 2018, we adopted ASU No. 2017-07, “Retirement Benefits - Presentation of Net Period Pension Costs (Topic 715)” (ASU 2017-07), which provides guidance on the capitalization, presentation and disclosure of net benefit costs related to postretirement benefit plans. Upon adoption, only service-related net periodic pension costs will be recorded within operating expense. All other non-service related net periodic pension costs will be classified under "Interest and other related expense" on our Condensed Consolidated Statements of Income. We adopted ASU 2017-07 on a retrospective basis. As a

result, certain prior period comparative figures in the Condensed Consolidated Statements of Income for the three and nine months ended March 31, 2018 have been adjusted to conform to current period presentation as follows:

	Three Months Ended March 31, 2018			Nine Months Ended March 31, 2018		
	As Previously Reported	Adjustments	As Adjusted	As Previously Reported	Adjustments	As Adjusted
Cost of revenues - Cloud services	$94,264	$ (69)	$94,195	$269,012	$(198)	$268,814
Cost of revenues - Customer Support	$33,820	$ (50)	$33,770	$99,805	$(148)	$99,657
Cost of revenues - Professional service and other	$64,246	$ (67)	$64,179	$188,690	$(197)	$188,493
Total cost of revenues	$242,731	$ (186)	$242,545	$706,543	$(543)	$706,000
Gross profit	$443,148	$ 186	$443,334	$1,354,428	$543	$1,354,971
Research and Development	$83,522	$ (126)	$83,396	$241,455	$(362)	$241,093
Sales and Marketing	$129,987	$ (111)	$129,876	$381,951	$(309)	$381,642
General and administrative	$54,817	$ (23)	$54,794	$152,717	$(67)	$152,650
Total operating expense	$340,825	$ (260)	$340,565	$998,374	$(738)	$997,636
Income from operations	$102,323	$ 446	$102,769	$356,054	$1,281	$357,335
Interest and other related expense, net	$(34,534)	$ (446)	$(34,980)	$(101,914)	$(1,281)	$(103,195)

There was no change to net income or net earnings per share in any of the periods presented as a result of this adoption. Additionally, there was no impact to the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Comprehensive Income, Condensed Consolidated Statements of Shareholders' Equity or Condensed Consolidated Statements of Cash Flows as a result of this adoption.

NOTE 2—RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Not Yet Adopted

Retirement Benefits

In August 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-14 “Compensation-Retirement Benefits-Defined Benefit Plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans” (ASU 2018-14), which modifies the disclosure requirements for defined benefit pension plans and other post retirement plans. ASU 2018-14 is effective for us in the first quarter of our fiscal year ending June 30, 2022. We are currently evaluating the impact of our pending adoption of ASU 2018-14 on our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02 “Leases (Topic 842)” and issued subsequent amendments to the initial guidance under ASU 2017-13, ASU 2018-10, ASU 2018-11 and ASU 2018-20 (collectively, Topic 842). Topic 842 supersedes the guidance in former ASC Topic 840 “Leases”. Topic 842 requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. For OpenText, the most significant change will result in the recognition of lease assets for the right to use the underlying asset and lease liabilities for the obligation to make lease payments by lessees, for those leases classified as operating leases under current guidance. The new guidance will also require significant additional disclosures about the amount, timing and uncertainty of cash flows related to leases. Topic 842 is effective for us in the first quarter of our fiscal year ending June 30, 2020, with early adoption permitted. Topic 842 is required to be adopted using a modified retrospective method with an option to adopt using a transition method that allows entities to initially apply the new lease standard at the adoption date and if there is a need, recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We expect to adopt Topic 842 using this optional transition method. Upon adoption, we also expect to elect the transition package of permitted practical expedients, which among other things, allows the carryforward of the historical lease classification. Furthermore, upon adoption, we expect to make an accounting policy election that will keep leases with an initial term of 12 months or less off our Consolidated Balance Sheets and we will recognize these short-term lease payments in the Consolidated Statements of Operations on a straight-line basis over the lease term.

While we are still currently evaluating the impact of our pending adoption of Topic 842 on our consolidated financial statements, we expect the majority of the impact of adopting Topic 842 to come from our facility leases, and that most of our

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operating lease commitments will be recognized as right-of-use assets and operating lease liabilities, which will increase our total assets and total liabilities, as reported on our Condensed Consolidated Balance Sheets, relative to such amounts prior to adoption.

NOTE 3—REVENUES

In accordance with Topic 606, we account for a customer contract when we obtain written approval, the contract is committed, the rights of the parties, including the payment terms, are identified, the contract has commercial substance and consideration is probable of collection. Revenue is recognized when, or as, control of a promised product or service is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for our products and services (at its transaction price). Estimates of variable consideration and the determination of whether to include estimated amounts in the transaction price are based on readily available information, which may include historical, current and forecasted information, taking into consideration the type of customer, the type of transaction and specific facts and circumstances of each arrangement. We report revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue producing transactions.

We have four revenue streams: license, cloud services and subscriptions, customer support, and professional service and other.

License revenue

Our license revenue can be broadly categorized as perpetual licenses, term licenses and subscription licenses, all of which are deployed on the customer’s premises (on-premise).

Perpetual licenses: We sell perpetual licenses which provide customers the right to use software for an indefinite period of time in exchange for a one-time license fee, which is generally paid at contract inception. Our perpetual licenses provide a right to use intellectual property (IP) that is functional in nature and have significant stand-alone functionality. Accordingly, for perpetual licenses of functional IP, revenue is recognized at the point-in-time when control has been transferred to the customer, which normally occurs once software activation keys have been made available for download.

Term licenses and Subscription licenses: We sell both term and subscription licenses which provide customers the right to use software for a specified period in exchange for a fee, which may be paid at contract inception or paid in installments over the period of the contract. Like perpetual licenses, both our term licenses and subscription licenses are functional IP that have significant stand-alone functionality. Accordingly, for both term and subscription licenses, revenue is recognized at the point-in-time when the customer is able to use and benefit from the software, which is normally once software activation keys have been made available for download at the commencement of the term.

Cloud services and subscriptions revenue

Cloud services and subscriptions revenue 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.

PaaS/ SaaS/ Cloud Subscriptions (collectively referred to here as cloud-based solutions): We offer cloud-based solutions that provide customers the right to access our software through the internet. Our cloud-based solutions represent a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. These services are made available to the customer continuously throughout the contractual period, however, the extent to which the customer uses the services may vary at the customer’s discretion. The payment for cloud-based solutions may be received either at inception of the arrangement, or over the term of the arrangement.

These cloud-based solutions are considered to have a single performance obligation where the customer simultaneously receives and consumes the benefit, and as such we recognize revenue for these cloud-based solutions ratably over the term of the contractual agreement. For example, revenue related to cloud-based solutions that are provided on a usage basis, such as the number of users, is recognized based on a customer’s utilization of the services in a given period.

Additionally, a software license is present in a cloud-based solutions arrangement if all of the following criteria are met:

(i) The customer has the contractual right to take possession of the software at any time without significant penalty; and
(ii) It is feasible for the customer to host the software independent of us.
In these cases where a software license is present in a cloud-based solutions arrangement it is assessed to determine if it is distinct from the cloud-based solutions arrangement. The revenue allocated to the distinct software license would be recognized at the point in time the software license is transferred to the customer, whereas the revenue allocated to the hosting performance obligation would be recognized ratably on a monthly basis over the contractual term unless evidence suggests that revenue is earned, or obligations are fulfilled in a different pattern over the contractual term of the arrangement.

Managed services: We provide comprehensive B2B process outsourcing services for all day-to-day operations of a customers' B2B integration program. Customers using these managed services are not permitted to take possession of our software and the contract is for a defined period, where customers pay a monthly or quarterly fee. Our performance obligation is satisfied as we provide services of operating and managing a customer's electronic data interchange (EDI) environment. Revenue relating to these services is recognized using an output method based on the expected level of service we will provide over the term of the contract.

In connection with cloud subscription and managed service contracts, we often agree to perform a variety of services before the customer goes live, such as for example, converting and migrating customer data, building interfaces and providing training. These services are considered an outsourced suite of professional services which can involve certain project-based activities. These services can be provided at the initiation of a contract, during the implementation or on an ongoing basis as part of the customer life cycle. These services can be charged separately on a fixed fee or time and materials basis, or the costs associated may be recovered as part of the ongoing cloud subscription or managed services fee. These outsourced professional services are considered to be distinct from the ongoing hosting services and represent a separate performance obligation within our cloud subscription or managed services arrangements. The obligation to provide outsourced professional services is satisfied over time, with the customer simultaneously receiving and consuming the benefits as we satisfy our performance obligations. For outsourced professional services, we recognize revenue by measuring progress toward the satisfaction of our performance obligation. Progress for services that are contracted for a fixed price is generally measured based on hours incurred as a portion of total estimated hours. As a practical expedient, when we invoice a customer at an amount that corresponds directly with the value to the customer of our performance to date, we recognize revenue at that amount.

Customer support revenue

Customer support revenue is associated with perpetual, term license and on-premise subscription arrangements. As customer support is not critical to the customer's ability to derive benefit from its right to use our software, customer support is considered as a distinct performance obligation when sold together in a bundled arrangement along with the software.

Customer support consists primarily of technical support and the provision of unspecified updates and upgrades on a when-and-if-available basis. Customer support for perpetual licenses is renewable, generally on an annual basis, at the option of the customer. Customer support for term and subscription licenses is renewable concurrently with such licenses for the same duration of time. Payments for customer support are generally made at the inception of the contract term or in installments over the term of the maintenance period. Our customer support team is ready to provide these maintenance services, as needed, to the customer during the contract term. As the elements of customer support are delivered concurrently and have the same pattern of transfer, customer support is accounted for as a single performance obligation. The customer benefits evenly throughout the contract period from the guarantee that the customer support resources and personnel will be available to them, and that any unspecified upgrades or unspecified future products developed by us will be made available. Revenue for customer support is recognized ratably over the contract period based on the start and end dates of the maintenance term, in line with how we believe services are provided.

Professional service and other revenue

Our professional services, when offered along with software licenses, consists primarily of technical services and training services. Technical services may include installation, customization, implementation or consulting services.

Training services may include access to online modules or delivering a training package customized to the customer's needs. At the customer's discretion, we may offer one, all, or a mix of these services. Payment for professional services is generally a fixed fee or is a fee based on time and materials.

Professional services can be arranged in the same contract as the software license or in a separate contract.

As our professional services do not significantly change the functionality of the license and our customers can benefit from our professional services on their own or together with other readily available resources, we consider professional services as distinct within the context of the contract.

Professional service revenue is recognized over time so long as: (i) the customer simultaneously receives and consumes the benefits as we perform them, (ii) our performance creates or enhances an asset the customer controls as we perform, and (iii) our performance does not create an asset with alternative use and we have enforceable right to payment.

If all of the above criteria are met, we use an input-based measure of progress for recognizing professional service revenue. For example we may consider total labor hours incurred compared to total expected labor hours. As a practical expedient, when we invoice a customer at an amount that corresponds directly with the value to the customer of our performance to date, we will recognize revenue at that amount.

Material rights

To the extent that we grant our customer an option to acquire additional products or services in one of our arrangements, we will account for the option as a distinct performance obligation in the contract only if the option provides a material right to the customer that the customer would not receive without entering into the contract. For example if we give the customer an option to acquire additional goods or services in the future at a price that is significantly lower than the current price, this would be a material right as it allows the customer to, in effect, pay in advance for the option to purchase future products or services. If a material right exists in one of our contracts then revenue allocated to the option is deferred and we would recognize revenue only when those future products or services are transferred or when the option expires.

Based on history, our contracts do not typically contain material rights and when they do, the material right is not significant to our consolidated financial statements.

Arrangements with multiple performance obligations

Our contracts generally contain more than one of the products and services listed above. Determining whether goods and services are considered distinct performance obligations that should be accounted for separately or as a single performance obligation may require significant judgment, specifically when assessing whether both of the following two criteria are met:

- the customer can benefit from the product or service either on its own or together with other resources that are readily available to the customer; and
- our promise to transfer the product or service to the customer is separately identifiable from other promises in the contract.

If these criteria are not met, we determine an appropriate measure of progress based on the nature of our overall promise for the single performance obligation.

If these criteria are met, each product or service is separately accounted for as a distinct performance obligation and the total transaction price is allocated to each performance obligation on a relative standalone selling price (SSP) basis.

Standalone selling price

The SSP reflects the price we would charge for a specific product or service if it was sold separately in similar circumstances and to similar customers. In most cases we are able to establish the SSP based on observable data. We typically establish a narrow SSP range for our products and services and assess this range on a periodic basis or when material changes in facts and circumstances warrant a review.

If the SSP is not directly observable, then we estimate the amount using either the expected cost plus a margin or residual approach. Estimating SSP is a formal process whereby management considers multiple factors including, but not limited to, geographic or regional specific factors, competitive positioning, internal costs, profit objectives, and pricing practices.

Transaction Price Allocation

In bundled arrangements, where we have more than one distinct performance obligation, we must allocate the transaction price to each performance obligation based on its relative SSP. However, in certain bundled arrangements, the SSP may not always be directly observable. For instance, in bundled arrangements with license and customer support, we allocate the transaction price between the license and customer support performance obligations using the residual approach because we have determined that the SSP for certain goods and services in these arrangements are highly variable. We use the residual approach only for our license arrangements. When the SSP is observable but contractual pricing does not fall within our established SSP range, then an adjustment is required and we will allocate the transaction price between license and customer support at a constant ratio reflecting the mid-point of the established SSP range.

When two or more contracts are entered into at or near the same time with the same customer, we evaluate the facts and circumstances associated with the negotiation of those contracts. Where the contracts are negotiated as a package, we will account for them as a single arrangement and allocate the consideration for the combined contracts among the performance obligations accordingly.

Sales to resellers
We execute certain sales contracts through resellers, distributors and channel partners (collectively referred to as resellers). For these type of agreements, we assess whether we are considered the principal or the agent in the arrangement. We consider factors such as, but not limited to, whether or not the reseller has the ability to set the price for which they sell our software products to end users and whether or not resellers distribution rights are limited such that any potential sales are subject to OpenText's review and approval before delivery of the software product can be made. If we determine that we are the principal in the arrangement, then revenue is recognized based on the transaction price for the sale of the software product to the end user at the gross amount. If that is not known, then the net amount received from the reseller is the transaction price. If we determine that we are the agent in the agreement, then revenue is recognized based on the transaction price for the sale of the software product to the reseller, less any applicable commissions paid or discounts or rebates, if offered. Costs or commissions paid to the reseller would be recognized as a reduction of revenue unless we received a distinct good or service in return. Similarly, any discounts or rebates offered by the reseller would be recognized as a reduction of revenue.
Typically, we conclude that we are the principal in our reseller agreements, as we have control over the service and products prior to being transferred to the end customer.
We also assess the creditworthiness of each reseller and if they are newly formed, undercapitalized or in financial difficulty, we defer any revenues expected to emanate from such reseller and recognize revenue only when cash is received, and all other revenue recognition criteria under Topic 606 are met.
Rights of return and other incentives
We do not generally offer rights of return or any other incentives such as concessions, product rotation, or price protection and, therefore, do not provide for or make estimates of rights of return and similar incentives. In some contracts, however, discounts may be offered to the customer for future software purchases and other additional products or services. Such arrangements grant the customer an option to acquire additional goods or services in the future at a discount and therefore are evaluated under guidance related to "material rights" as discussed above.
Other policies
Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days of the invoice date. In certain arrangements, we will receive payment from a customer either before or after the performance obligation to which the invoice relates has been satisfied. As a practical expedient, we do not account for significant financing components if the period between when we transfer the promised good or service to the customer and when the customer pays for the product or service will be one year or less. On that basis, our contracts for license and maintenance typically do not contain a significant financing component, however in determining the transaction price we consider whether we need to adjust the promised consideration for the effects of the time value of money if the timing of payments provides either the customer or OpenText with a significant benefit of financing. Our managed services contracts may not include an upfront charge for outsourced professional services performed as part of an implementation and are recovered through an ongoing fee. Therefore, these contracts may be expected to have a financing component associated with revenue being recognized in advance of billings.
We may modify contracts to offer customers additional products or services. The additional products and services will be considered distinct from those products or services transferred to the customer before the modification and will be accounted for as a separate contract. We evaluate whether the price for the additional products and services reflects the SSP adjusted as appropriate for facts and circumstances applicable to that contract. In determining whether an adjustment is appropriate, we evaluate whether the incremental consideration is consistent with the prices previously paid by the customer or similar customers.

Performance Obligations

A summary of our typical performance obligations and when the obligations are satisfied are as follows:

Performance Obligation	**When Performance Obligation is Typically Satisfied**
License revenue:	
Software licenses (Perpetual,Term, Subscription)	When software activation keys have been made available for download (point in time)
Cloud services and subscriptions revenue:	
Outsourced Professional Services	As the services are provided (over time)
Managed Services / Ongoing Hosting	Over the contract term, beginning on the date that service is made available (i.e. "Go live") to the customer (over time)
Customer support revenue:	
When and if available updates and upgrades and technical support	Ratable over the course of the service term (over time)
Professional service and other revenue:	
Professional services	As the services are provided (over time)

Disaggregation of Revenue

The following table disaggregates our revenue by significant geographic area, based on the location of our end customer, and by type of performance obligation and timing of revenue recognition for the periods indicated:

	Three Months Ended March 31, 2019	**Nine Months Ended March 31, 2019**
Total Revenues by Geography:		
Americas [1]	$436,873	$1,246,909
EMEA [2]	216,287	674,699
Asia Pacific [3]	65,986	199,926
Total Revenues	$719,146	$2,121,534
Total Revenues by Type of Performance Obligation:		
Recurring revenue [4]		
Cloud services and subscriptions revenue	$238,607	$665,923
Customer support revenue	310,762	932,667
Total recurring revenues	$549,369	$1,598,590
License revenue (perpetual, term and subscriptions)	98,721	308,364
Professional service and other revenue	71,056	214,580
Total revenues	$719,146	$2,121,534
Total Revenues by Timing of Revenue Recognition		
Point in time	98,721	308,364
Over time (including professional service and other revenue)	620,425	1,813,170
Total revenues	$719,146	$2,121,534

(1) Americas consists of countries in North, Central and South America.
(2) EMEA primarily consists of countries in Europe, the Middle East and Africa.
(3) Asia Pacific primarily consists of the countries Japan, Australia, China, Korea, Philippines, Singapore and New Zealand.
(4) Recurring revenue is defined as the sum of cloud services and subscriptions revenue and customer support revenue.

Contract Balances

A contract asset will be recorded if we have recognized revenue but do not have an unconditional right to the related consideration from the customer. For example, this will be the case if implementation services offered in a cloud arrangement are identified as a separate performance obligation and are provided to a customer prior to us being able to bill the customer. In addition, a contract asset may arise in relation to subscription licenses if the license revenue that is recognized upfront exceeds the amount that we are able to invoice the customer at that time. When we perform services, such as during the design and build phase of a service contract, the right to consideration is typically subject to milestone completion or customer acceptance and the unbilled accounts receivable are classified as a contract asset. Contract assets are reclassified to accounts receivable when the rights become unconditional.

The balance for our contract assets and contract liabilities (i.e. deferred revenues) for the periods indicated below were as follows:

	As of March 31, 2019	As of July 1, 2018
Short-term contract assets	$19,737	$5,474
Long-term contract assets	$15,794	$12,382
Short-term deferred revenue	$664,208	$618,197
Long-term deferred revenue	$50,905	$64,743

The difference in the opening and closing balances of our contract assets and deferred revenues primarily results from the timing difference between our performance and the customer’s payments. We fulfill our obligations under a contract with a customer by transferring products and services in exchange for consideration from the customer. During the nine months ended March 31, 2019, we reclassified $11.2 million of contract assets to receivables as a result of the right to the transaction consideration becoming unconditional. During the three and nine months ended March 31, 2019, there was no material impairment loss recognized related to contract assets.

We recognize deferred revenue when we have received consideration or an amount of consideration is due from the customer for future obligations to transfer products or services. Our deferred revenues primarily relate to customer support agreements which have been paid for by customers prior to the performance of those services. The amount of revenue that was recognized during the nine months ended March 31, 2019 that was included in the deferred revenue balances at July 1, 2018 was approximately $576 million.

Incremental Costs of Obtaining a Contract with a Customer

Incremental costs of obtaining a contract include only those costs that we incur to obtain a contract that we would not have incurred if the contract had not been obtained, such as sales commissions. We have determined that certain of our commission programs meet the requirements to be capitalized. Some commission programs are not subject to capitalization as the commission expense is paid and recognized as the related revenue is recognized. In assessing costs to obtain a contract, we apply a practical expedient that allows us to assess our incremental costs on a portfolio of contracts with similar characteristics instead of assessing the incremental costs on each individual contract. We do not expect the financial statement effects of applying this practical expedient to the portfolio of contracts to be materially different than if we were to apply the new standard to each individual contract.

We pay commissions on the sale of new customer contracts as well as for renewals of existing contracts to the extent the renewals generate incremental revenue. Commissions paid on renewal contracts are limited to the incremental new revenue and therefore these payments are not commensurate with the commission paid on the original sale. We allocate commission costs to the performance obligations in an arrangement consistent with the allocation of the transaction price. Commissions allocated to the license performance obligation are expensed at the time the license revenue is recognized. Commissions allocated to professional service performance obligations are expensed as incurred, as these contracts are generally for one year or less and we apply a practical expedient to expense costs as incurred if the amortization period would have been one year or less. Commission allocated to maintenance, managed services, on-going hosting arrangements or other recurring services, are capitalized and amortized consistent with the pattern of transfer to the customer of the services over the period expected to benefit from the commission payment. As commissions paid on renewals are not commensurate with the original sale, the period of benefit considers anticipated renewals. The benefit period is estimated to be approximately six years which is based on our customer contracts and the estimated life of our technology.

Expenses for incremental costs associated with obtaining a contract are recorded within sales and marketing expense in the Condensed Consolidated Statements of Income.

Our short term capitalized costs to obtain a contract are included in "Prepaid expenses and other assets", while our long-term capitalized costs to obtain a contract are included in "Other assets" on our Condensed Consolidated Balance Sheets.
The following table summarizes the changes since July 1, 2018:

Capitalized costs to obtain a contract as of July 1, 2018	$35,151
New capitalized costs incurred	16,157
Amortization of capitalized costs	(6,843)
Adjustments on account of foreign exchange	(169)
Capitalized costs to obtain a contract as of March 31, 2019	$44,296

During the three and nine months ended March 31, 2019, respectively, there was no material impairment loss recognized in relation to costs capitalized.

Transaction Price Allocated to the Remaining Performance Obligations

As of March 31, 2019, approximately $1.1 billion of revenue is expected to be recognized from remaining performance obligations on existing contracts. We expect to recognize approximately 40% over the next 12 months and the remaining balance thereafter. We apply the practical expedient and do not disclose performance obligations that have original expected durations of one year or less.

Impact on financial statements

The following tables summarize the impacts of adopting Topic 606 on our condensed consolidated balance sheets, statements of income and cash flows, all as compared to proforma balances illustrating if ASC Topic 605 "Revenue Recognition" (Topic 605) had still been in effect. Financial statement line items that were not impacted by the adoption of Topic 606 have been excluded from the tables below.

Condensed Consolidated Balance Sheet

	As of March 31, 2019		
	As reported under Topic 606	**Adjustments**	**Proforma as if Topic 605 was in effect**
ASSETS			
Contract assets	$19,737	$(19,737)	$—
Prepaid expenses and other current assets	96,048	6,350	102,398
Total current assets	1,398,314	(13,387)	1,384,927
Long-term contract assets	15,794	(15,794)	—
Deferred tax assets	1,035,481	15,663	1,051,144
Other assets	135,159	(5,665)	129,494
Total assets	$7,864,637	$(19,183)	$7,845,454
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	$295,749	$(34)	$295,715
Deferred revenues	664,208	26,355	690,563
Total current liabilities	1,015,081	26,321	1,041,402
Long-term liabilities:			
Deferred revenues	50,905	28,624	79,529
Deferred tax liabilities	52,944	(7,702)	45,242
Total long-term liabilities	3,011,184	20,922	3,032,106
Shareholders' equity:			
Accumulated other comprehensive income	25,418	186	25,604
Retained earnings	2,088,858	(66,612)	2,022,246
Total OpenText shareholders' equity	3,837,189	(66,426)	3,770,763
Non-controlling interests	1,183	—	1,183
Total shareholders' equity	3,838,372	(66,426)	3,771,946
Total liabilities and shareholders' equity	$7,864,637	$(19,183)	$7,845,454

Condensed Consolidated Statements of Income

	Three Months Ended March 31, 2019			Nine Months Ended March 31, 2019		
	As reported under Topic 606	Adjustments	Proforma as if Topic 605 was in effect	As reported under Topic 606	Adjustments	Proforma as if Topic 605 was in effect
Revenues:						
License	$98,721	$(17,285)	$81,436	$308,364	$(35,496)	$272,868
Cloud services and subscriptions	238,607	(3,087)	235,520	665,923	(5,225)	660,698
Customer support	310,762	(415)	310,347	932,667	(1,155)	931,512
Professional service and other	71,056	16	71,072	214,580	(29)	214,551
Total revenues	719,146	(20,771)	698,375	2,121,534	(41,905)	2,079,629
Cost of revenues:						
Cloud services and subscriptions	103,873	(381)	103,492	280,274	29	280,303
Professional service and other	56,626	4	56,630	169,452	4	169,456
Total cost of revenues	239,631	(377)	239,254	693,966	33	693,999
Gross profit	479,515	(20,394)	459,121	1,427,568	(41,938)	1,385,630
Operating expenses:						
Sales and marketing	132,244	2,256	134,500	378,619	6,981	385,600
Total operating expenses	343,638	2,256	345,894	1,018,532	6,981	1,025,513
Income from operations	135,877	(22,650)	113,227	409,036	(48,919)	360,117
Interest and other related expense, net	(35,607)	(214)	(35,821)	(103,751)	(584)	(104,335)
Income before income taxes	105,335	(22,864)	82,471	312,250	(49,503)	262,747
Provision for (recovery of) income taxes	32,542	(5,937)	26,605	98,628	(12,677)	85,951
Net income for the period	$72,793	$(16,927)	$55,866	$213,622	$(36,826)	$176,796

The adjustment on license revenue for the three and nine months ended March 31, 2019 of $17.3 million and $35.5 million, respectively, is primarily due to new contracts entered into during Fiscal 2019 for which a timing difference of revenue recognition exists between Topic 606 and Topic 605. See above for an explanation of how license revenues are recognized under Topic 606. The Fiscal 2019 contracts pertaining to the respective adjustments are recognized up front under Topic 606, whereas such revenues would have been recognized over time under Topic 605.

Condensed Consolidated Statement of Cash Flows

	Nine Months Ended March 31, 2019		
	As reported under Topic 606	Adjustments	Proforma as if Topic 605 was in effect
Cash flows from operating activities:			
Net income for the period	$213,622	$(36,826)	$176,796
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred taxes	11,307	(12,720)	(1,413)
Changes in operating assets and liabilities:			
Accounts receivable	52,777	(11,171)	41,606
Contract assets	(28,872)	28,872	—
Prepaid expenses and other current assets	(495)	1,340	845
Income taxes and deferred charges and credits	21,006	16	21,022
Accounts payable and accrued liabilities	(30,644)	(8)	(30,652)
Deferred revenue	24,134	24,583	48,717
Other assets	4,300	5,914	10,214
Net cash provided by operating activities	$646,501	$—	$646,501

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NOTE 4—ALLOWANCE FOR DOUBTFUL ACCOUNTS

Balance as of June 30, 2018	$9,741
Bad debt expense	11,096
Write-off /adjustments	(3,891)
Balance as of March 31, 2019	$16,946

Included in accounts receivable are unbilled receivables in the amount of $59.7 million as of March 31, 2019 (June 30, 2018—$55.5 million).

NOTE 5—PROPERTY AND EQUIPMENT

	As of March 31, 2019		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$40,208	$(25,162)	$15,046
Office equipment	2,543	(1,660)	883
Computer hardware	238,238	(168,272)	69,966
Computer software	115,847	(83,145)	32,702
Capitalized software development costs	90,628	(52,305)	38,323
Leasehold improvements	111,636	(62,875)	48,761
Land and buildings	49,926	(13,633)	36,293
Total	$649,026	$(407,052)	$241,974

	As of June 30, 2018		
	Cost	Accumulated Depreciation	Net
Furniture and fixtures	$34,647	$(21,488)	$13,159
Office equipment	1,467	(687)	780
Computer hardware	207,381	(134,906)	72,475
Computer software	97,653	(59,485)	38,168
Capitalized software development costs	81,073	(41,556)	39,517
Leasehold improvements	118,200	(55,172)	63,028
Land and buildings	47,880	(10,802)	37,078
Total	$588,301	$(324,096)	$264,205

NOTE 6—GOODWILL

Goodwill is recorded when the consideration paid for an acquisition of a business exceeds the fair value of identifiable net tangible and intangible assets. The following table summarizes the changes in goodwill since June 30, 2018:

Balance as of June 30, 2018	$3,580,129
Acquisition of Catalyst Repository Systems Inc. (note 18)	30,973
Acquisition of Liaison Technologies, Inc. (note 18)	164,724
Adjustments on account of foreign exchange	(3,714)
Balance as of March 31, 2019	$3,772,112

NOTE 7—ACQUIRED INTANGIBLE ASSETS

	As of March 31, 2019		
	Cost	Accumulated Amortization	Net
Technology assets	$907,984	$(384,313)	$523,671
Customer assets	1,400,641	(691,176)	709,465
Total	$2,308,625	$(1,075,489)	$1,233,136

	As of June 30, 2018		
	Cost	Accumulated Amortization	Net
Technology assets	$985,226	$(439,774)	$545,452
Customer assets	1,348,510	(597,325)	751,185
Total	$2,333,736	$(1,037,099)	$1,296,637

Where applicable, the above balances as of March 31, 2019 have been reduced to reflect the impact of intangible assets where the gross cost has become fully amortized during the nine months ended March 31, 2019. The impact of this resulted in a reduction of $46.8 million related to Customer assets and $195.9 million related to Technology assets.

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

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

Fiscal years ending June 30,	
2019 (three months ended June 30)	$92,081
2020	321,079
2021	229,729
2022	210,174
2023	143,209
2024 and beyond	236,864
Total	$1,233,136

NOTE 8—OTHER ASSETS

	As of March 31, 2019	As of June 30, 2018
Deposits and restricted cash	$15,690	$9,479
Deferred implementation costs	—	13,740
Capitalized costs to obtain a contract	34,449	13,027
Investments	56,109	49,635
Long-term prepaid expenses and other long-term assets	28,911	25,386
Total	$135,159	$111,267

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

Deferred implementation costs relate to direct and relevant costs on implementation of long-term contracts, to the extent such costs can be recovered through guaranteed contract revenues. As a result of the adoption of Topic 606, deferred implementation costs are no longer capitalized, but rather expensed as incurred as these costs do not relate to future performance obligations. Accordingly, these costs were adjusted through opening retained earnings as of July 1, 2018.

Capitalized costs to obtain a contract relate to incremental costs of obtaining a contract, such as sales commissions, which are eligible for capitalization on contracts to the extent that such costs are expected to be recovered.

Investments relate to certain non-marketable equity securities in which we are a limited partner. Our interests in each of these investees range from 4% to below 20%. These investments are accounted for using the equity method. Our share of net income or losses based on our interest in these investments is recorded as a component of other income (expense), net in our Condensed Consolidated Statements of Income. During the three and nine months ended March 31, 2019, our share of income (loss) from these investments was $2.8 million and $10.7 million, respectively (three and nine months ended March 31, 2018 —$(0.3) million and $(0.5) million, respectively).

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

NOTE 9—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Current liabilities

Accounts payable and accrued liabilities are comprised of the following:

	As of March 31, 2019	As of June 30, 2018
Accounts payable—trade	$34,080	$41,722
Accrued salaries and commissions	112,593	118,024
Accrued liabilities	111,473	108,903
Accrued interest on Senior Notes	26,021	24,786
Amounts payable in respect of restructuring and other Special charges	9,810	5,622
Asset retirement obligations	1,772	3,097
Total	$295,749	$302,154

Long-term accrued liabilities

	As of March 31, 2019	As of June 30, 2018
Amounts payable in respect of restructuring and other Special charges	$5,435	$4,362
Other accrued liabilities*	31,346	35,874
Asset retirement obligations	13,933	12,591
Total	$50,714	$52,827

* Other accrued liabilities consist primarily of tenant allowances, deferred rent and lease fair value adjustments relating to certain facilities acquired through business acquisitions.

Asset retirement obligations

We are required to return certain of our leased facilities to their original state at the conclusion of our lease. As of March 31, 2019, the present value of this obligation was $15.7 million (June 30, 2018—$15.7 million), with an undiscounted value of $17.3 million (June 30, 2018—$17.7 million).

NOTE 10—LONG-TERM DEBT

Long-term debt

Long-term debt is comprised of the following:

	As of March 31, 2019	As of June 30, 2018
Total debt		
Senior Notes 2026	$850,000	$850,000
Senior Notes 2023	800,000	800,000
Term Loan B	990,000	997,500
Total principal payments due	2,640,000	2,647,500
Premium on Senior Notes 2026	5,560	6,018
Debt issuance costs	(29,277)	(32,995)
Total amount outstanding	2,616,283	2,620,523
Less:		
Current portion of long-term debt		
Term Loan B	10,000	10,000
Total current portion of long-term debt	10,000	10,000
Non-current portion of long-term debt	$2,606,283	$2,610,523

Senior Unsecured Fixed Rate Notes

Senior Notes 2026

On May 31, 2016, we issued $600 million in aggregate principal amount of 5.875% Senior Notes due 2026 (Senior Notes 2026) in an unregistered offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (Securities Act), and to certain persons in offshore transactions pursuant to Regulation S under the Securities Act. Senior Notes 2026 bear interest at a rate of 5.875% per annum, payable semi-annually in arrears on June 1 and December 1, commencing on December 1, 2016. Senior Notes 2026 will mature on June 1, 2026, unless earlier redeemed, in accordance with their terms, or repurchased.

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

For the three and nine months ended March 31, 2019, we recorded interest expense of $12.5 million and $