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Form 10-Q

January 31, 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. P3Y06903368167040 0001002638 2018-07-01 2018-12-31 0001002638 2019-01-29 0001002638 2018-12-31 0001002638 2018-06-30 0001002638 2017-07-01 2017-12-31 0001002638 otex:CustomerSupportMember 2017-07-01 2017-12-31 0001002638 2017-10-01 2017-12-31 0001002638 2018-10-01 2018-12-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2018-07-01 2018-12-31 0001002638 us-gaap:LicenseMember 2017-10-01 2017-12-31 0001002638 otex:ProfessionalServiceAndOtherMember 2018-07-01 2018-12-31 0001002638 otex:CustomerSupportMember 2018-07-01 2018-12-31 0001002638 us-gaap:LicenseMember 2018-10-01 2018-12-31 0001002638 otex:ProfessionalServiceAndOtherMember 2017-07-01 2017-12-31 0001002638 us-gaap:LicenseMember 2017-07-01 2017-12-31 0001002638 otex:CustomerSupportMember 2018-10-01 2018-12-31 0001002638 otex:CustomerSupportMember 2017-10-01 2017-12-31 0001002638 us-gaap:LicenseMember 2018-07-01 2018-12-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2018-10-01 2018-12-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2017-10-01 2017-12-31 0001002638 otex:ProfessionalServiceAndOtherMember 2018-10-01 2018-12-31 0001002638 otex:ProfessionalServiceAndOtherMember 2017-10-01 2017-12-31 0001002638 otex:CloudServicesAndSubscriptionsMember 2017-07-01 2017-12-31 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2017-06-30 0001002638 us-gaap:RetainedEarningsMember 2017-09-30 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2017-07-01 2017-09-30 0001002638 us-gaap:RetainedEarningsMember 2017-07-01 2017-09-30 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2017-12-31 0001002638 us-gaap:NoncontrollingInterestMember 2017-06-30 0001002638 us-gaap:TreasuryStockMember 2017-12-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-06-30 0001002638 2017-07-01 2017-09-30 0001002638 us-gaap:TreasuryStockMember 2017-10-01 2017-12-31 0001002638 us-gaap:NoncontrollingInterestMember 2017-12-31 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2017-09-30 0001002638 us-gaap:TreasuryStockMember 2017-07-01 2017-09-30 0001002638 us-gaap:TreasuryStockMember 2017-09-30 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2017-10-01 2017-12-31 0001002638 us-gaap:RetainedEarningsMember 2017-12-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-10-01 2017-12-31 0001002638 us-gaap:TreasuryStockMember 2017-06-30 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0001002638 us-gaap:NoncontrollingInterestMember 2017-10-01 2017-12-31 0001002638 us-gaap:RetainedEarningsMember 2017-06-30 0001002638 2017-06-30 0001002638 2017-12-31 0001002638 us-gaap:RetainedEarningsMember 2017-10-01 2017-12-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-07-01 2017-09-30 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-09-30 0001002638 2017-09-30 0001002638 us-gaap:NoncontrollingInterestMember 2017-07-01 2017-09-30 0001002638 us-gaap:NoncontrollingInterestMember 2017-09-30 0001002638 us-gaap:TreasuryStockMember 2018-10-01 2018-12-31 0001002638 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2018-12-31 0001002638 us-gaap:TreasuryStockMember 2018-12-31 0001002638 us-gaap:RetainedEarningsMember 2018-12-31 0001002638 us-gaap:RetainedEarningsMember 2018-10-01 2018-12-31 0001002638 2018-07-01 2018-09-30 0001002638 us-gaap:NoncontrollingInterestMember 2018-07-01 2018-09-30 0001002638 us-gaap:CommonStockIncludingAdditionalPaidInCapitalMember 2018-07-01 2018-09-30 0001002638

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2018.

OR

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

For the transition period from _____ to _____

Commission file number: 0-27544

OPEN TEXT CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 No

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

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

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

At January 29, 2019, there were 268,768,010 outstanding Common Shares of the registrant.

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

	December 31, 2018	June 30, 2018
ASSETS	(unaudited)	
Cash and cash equivalents	\$ 595,069	\$ 682,942
Accounts receivable trade, net of allowance for doubtful accounts of \$16,256 as of December 31, 2018 and \$9,741 as of June 30, 2018 (note 4)	482,289	487,956
Contract assets (note 3)	13,607	—
Income taxes recoverable (note 14)	39,388	55,623
Prepaid expenses and other current assets	82,188	101,059
Total current assets	1,212,541	1,327,580
Property and equipment (note 5)	246,726	264,205
Long-term contract assets (note 3)	11,804	—
Goodwill (note 6)	3,732,669	3,580,129
Acquired intangible assets (note 7)	1,284,299	1,296,637
Deferred tax assets (note 14)	1,085,272	1,122,729
Other assets (note 8)	124,414	111,267
Deferred charges	—	38,000
Long-term income taxes recoverable (note 14)	31,678	24,482
Total assets	\$ 7,729,403	\$ 7,765,029
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 282,870	\$ 302,154
Current portion of long-term debt (note 10)	10,000	10,000
Deferred revenues	572,915	644,211
Income taxes payable (note 14)	45,680	38,234
Total current liabilities	911,465	994,599
Long-term liabilities:		
Accrued liabilities (note 9)	53,023	52,827
Deferred credits	—	2,727
Pension liability (note 11)	65,265	65,719
Long-term debt (note 10)	2,607,706	2,610,523
Deferred revenues	45,538	69,197
Long-term income taxes payable (note 14)	172,641	172,241
Deferred tax liabilities (note 14)	87,753	79,938
Total long-term liabilities	3,031,926	3,053,172
Shareholders' equity:		
Share capital and additional paid-in capital (note 12) 268,569,471 and 267,651,084 Common Shares issued and outstanding at December 31, 2018 and June 30, 2018, respectively; authorized Common Shares: unlimited	1,731,299	1,707,073
Accumulated other comprehensive income	25,971	33,645
Retained earnings	2,056,831	1,994,235
Treasury stock, at cost (816,704 shares at December 31, 2018 and 690,336 shares at June 30, 2018, respectively)	(29,241)	(18,732)
Total OpenText shareholders' equity	3,784,860	3,716,221
Non-controlling interests	1,152	1,037
Total shareholders' equity	3,786,012	3,717,258
Total liabilities and shareholders' equity	\$ 7,729,403	\$ 7,765,029
Guarantees and contingencies (note 13)		

Related party transactions (note 21)

Subsequent events (note 22)

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Revenues:				
License	\$132,756	\$135,244	\$209,643	\$213,475
Cloud services and subscriptions	219,233	208,121	427,316	401,974
Customer support	310,354	308,070	621,905	603,474
Professional service and other	72,888	82,970	143,524	156,169
Total revenues	735,231	734,405	1,402,388	1,375,092
Cost of revenues:				
License	3,655	4,587	7,527	7,547
Cloud services and subscriptions	88,698	90,485	176,401	174,619
Customer support	31,273	33,117	61,738	65,887
Professional service and other	56,030	64,886	112,826	124,314
Amortization of acquired technology-based intangible assets (note 7)	48,366	47,128	95,843	91,088
Total cost of revenues	228,022	240,203	454,335	463,455
Gross profit	507,209	494,202	948,053	911,637
Operating expenses:				
Research and development	75,753	80,123	153,223	157,697
Sales and marketing	126,193	129,151	246,375	251,766
General and administrative	52,198	48,954	103,122	97,856
Depreciation	23,834	22,071	47,688	40,949
Amortization of acquired customer-based intangible assets (note 7)	45,919	46,268	91,795	90,057
Special charges (recoveries) (note 17)	9,380	715	32,691	18,746
Total operating expenses	333,277	327,282	674,894	657,071
Income from operations	173,932	166,920	273,159	254,566
Other income (expense), net	378	5,547	1,900	15,771
Interest and other related expense, net	(33,613)	(34,404)	(68,144)	(68,215)
Income before income taxes	140,697	138,063	206,915	202,122
Provision for (recovery of) income taxes (note 14)	36,236	53,146	66,086	80,515
Net income for the period	\$104,461	\$84,917	\$140,829	\$121,607
Net (income) loss attributable to non-controlling interests	(29)	194	(73)	100
Net income attributable to OpenText	\$104,432	\$85,111	\$140,756	\$121,707
Earnings per share—basic attributable to OpenText (note 20)	\$0.39	\$0.32	\$0.52	\$0.46
Earnings per share—diluted attributable to OpenText (note 20)	\$0.39	\$0.32	\$0.52	\$0.46
Weighted average number of Common Shares outstanding—basic (in '000's)	268,524	265,504	268,276	265,153
Weighted average number of Common Shares outstanding—diluted (in '000's)	269,400	266,857	269,396	266,549

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net income for the period	\$104,461	\$84,917	\$140,829	\$121,607
Other comprehensive income (loss)—net of tax:				
Net foreign currency translation adjustments	(3,418)	(1,446)	(6,938)	(540)
Unrealized gain (loss) on cash flow hedges:				
Unrealized gain (loss) - net of tax expense (recovery) effect of (\$677) and (\$60) for the three months ended December 31, 2018 and 2017, respectively; (\$496) and \$403 for the six months ended December 31, 2018 and 2017, respectively	(1,877)	(168)	(1,375)	1,117
(Gain) loss reclassified into net income - net of tax (expense) recovery effect of \$169 and (\$141) for the three months ended December 31, 2018 and 2017, respectively; \$301 and (\$428) for the six months ended December 31, 2018 and 2017, respectively	467	(391)	833	(1,188)
Actuarial gain (loss) relating to defined benefit pension plans:				
Actuarial gain (loss) - net of tax expense (recovery) effect of (\$519) and (\$153) for the three months ended December 31, 2018 and 2017, respectively; (\$213) and (\$236) for the six months ended December 31, 2018 and 2017, respectively	(1,521)	(48)	(324)	(163)
Amortization of actuarial (gain) loss into net income - net of tax (expense) recovery effect of \$72 and \$43 for the three months ended December 31, 2018 and 2017, respectively; \$145 and \$85 for the six months ended December 31, 2018 and 2017, respectively	64	56	130	112
Release of unrealized gain on marketable securities - net of tax effect of nil	—	—	—	(617)
Total other comprehensive income (loss) net, for the period	(6,285)	(1,997)	(7,674)	(1,279)
Total comprehensive income	98,176	82,920	133,155	120,328
Comprehensive (income) loss attributable to non-controlling interests	(29)	194	(73)	100
Total comprehensive income attributable to OpenText	\$98,147	\$83,114	\$133,082	\$120,428
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)

	Six Months Ended December 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, 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
	Six Months Ended December 31, 2017							
	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

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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 year	—	—	—	—	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

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended	
	December 31,	
	2018	2017
Cash flows from operating activities:		
Net income for the period	\$ 140,829	\$ 121,607
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	235,326	222,094
Share-based compensation expense	13,440	15,393
Pension expense	2,254	1,869
Amortization of debt issuance costs	2,157	2,532
Amortization of deferred charges and credits	—	2,234
Loss on sale and write down of property and equipment	9,428	163
Release of unrealized gain on marketable securities to income	—	(841)
Deferred taxes	8,909	44,374
Share in net (income) loss of equity investees	(7,863)	196
Changes in operating assets and liabilities:		
Accounts receivable	33,548	(49,458)
Contract assets	(13,400)	—
Prepaid expenses and other current assets	12,532	(5,383)
Income taxes and deferred charges and credits	17,324	1,583
Accounts payable and accrued liabilities	(29,748)	(72,499)
Deferred revenue	(69,151)	(48,846)
Other assets	4,919	(1,586)
Net cash provided by operating activities	360,504	233,432
Cash flows from investing activities:		
Additions of property and equipment	(33,464)	(55,937)
Purchase of Liaison Technologies, Inc.	(311,285)	—
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	(6,373)	(8,061)
Net cash used in investing activities	(353,401)	(364,552)
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	24,286	29,622
Repayment of long-term debt and Revolver	(5,000)	(3,880)
Debt issuance costs	(322)	—
Purchase of Treasury Stock	(24,534)	—
Repurchase of non-controlling interests	(583)	—
Payments of dividends to shareholders	(81,166)	(69,828)
Net cash provided by (used in) financing activities	(87,319)	155,914
Foreign exchange gain (loss) on cash held in foreign currencies	(5,901)	7,546
Increase (decrease) in cash, cash equivalents and restricted cash during the period	(86,117)	32,340
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	\$ 597,874	\$ 478,550

Reconciliation of cash, cash equivalents and restricted cash: **December 31, 2018** **December 31, 2017**

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Cash and cash equivalents	\$ 595,069	\$ 476,014
Restricted cash included in Other assets	2,805	2,536
Total Cash, cash equivalents and restricted cash	\$ 597,874	\$ 478,550

Supplemental cash flow disclosures (note 19)

See accompanying Notes to Condensed Consolidated Financial Statements

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OPEN TEXT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended December 31, 2018

(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 December 31, 2018, 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 (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 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, Condensed Consolidated Statements of Shareholders' Equity 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:

	Six Months Ended December 31, 2017		
	As		
	Previously	Adjustments	As Adjusted
	Reported		Reported
Net cash provided by operating activities	\$233,749	\$(317)	\$233,432
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	32,657	(317)	32,340
Cash, cash equivalents and restricted cash at end of period	\$476,014	\$ 2,536	\$478,550

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 six months ended December 31, 2017 have been adjusted to conform to current period presentation as follows:

Three Months Ended December 31, 2017		Six Months Ended December 31, 2017
As Reported	As Adjusted	As Reported
Adjustments		Adjustments