MITEL NETWORKS CORP
Form 10-K
June 24, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended April 30, 2013

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: 001-34699

MITEL NETWORKS CORPORATION

(Exact name of Registrant as specified in its charter)

Canada	**3661**	**98-0621254**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

350 Legget Drive

Ottawa, Ontario

Canada K2K 2W7

(613) 592-2122

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, no par value	NASDAQ Global Market Toronto Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	¨	Accelerated Filer	x
Non-accelerated filer	¨ (do not check if a smaller reporting company)	Smaller reporting company	¨

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

The aggregate market value of the registrant s common stock held by non-affiliates was $54,003,196 as of October 31, 2012, which was the last business day of the registrant s most recently completed second fiscal quarter.

As of June 21, 2013, there were 53,703,016 common shares outstanding.

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EXPLANATORY NOTE

Mitel Networks Corporation (the Company or Mitel) qualifies as a foreign private issuer for purposes of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act). Instead of filing annual and periodic reports on forms available for foreign private issuers, the Company is filing this annual report on Form 10-K (this Report or Annual Report) and has been filing and expects to continue to file quarterly reports on Form 10-Q and current reports on Form 8-K. However, as a Canadian foreign private issuer, the Company prepares and files its management information circulars and related materials in accordance with Canadian corporate and securities law requirements. As the Company s management information circular is not prepared and filed pursuant to Regulation 14A, the Company may not incorporate by reference information required by Part III of this Report from its management information circular, and accordingly has included that information in this Report on Form 10-K.

All dollar amounts quoted in this Report are provided in currency of the United States unless otherwise stated.

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MITEL NETWORKS CORPORATION

2013 FORM 10 K ANNUAL REPORT

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PART I

Item 1. Business

The Company

Mitel is a global provider of business communications and collaboration software and services. We focus on the small-to-medium sized enterprise, or SME, market. Our Internet Protocol, or IP, based communications solutions consist of a combination of cloud and premises-based IP telephony platforms, which we deliver as software, appliances, and desktop devices, and a suite of unified communications and collaboration, or UCC, applications that integrate voice, video and data communications with business applications. We also offer cloud-based telephony services and a wide range of network services in the U.S. market.

Our solutions are scalable, flexible, and easy to deploy, manage and use. Our solutions interoperate with various systems supplied by other vendors, which allows our customers to utilize their existing communications infrastructure and gives them the flexibility to choose the solutions that best address their individual business needs. We have also designed our software and appliances to allow access to our solutions from mobile devices, including Apple, Android and Research in Motion (doing business as BlackBerry), or RIM. We complement our core IP communications solutions with support, professional, and managed services for our customers, including channels that range from planning and design through to implementation and support.

We have invested heavily in the research and development, or R&D, of our IP-based communications solutions to take advantage of the telecommunications industry shift from traditional communications systems to IP-based cloud and premises-based communications solutions. We believe our early and sustained R&D investments have positioned us well to capitalize on the industry shift from legacy systems to IP-based communications solutions, including UCC. Our consistent investment in innovation has also enabled us to develop and bring to market virtualized solutions and technology that enables the delivery of cloud services which are increasingly shaping the business communications landscape.

Since the introduction of our IP-based systems in 1999, our IP-based appliances have supported the communications needs of over 9.3 million users in more than 100 countries. With increased adoption of cloud computing, we have continued to build our market position with our cloud solutions which have an installed base of more than 262,000 users.

Today, we have a primarily indirect distribution channel, which addresses the needs of customers through channel partners worldwide. Our R&D has enabled us to produce a global portfolio of over 1,700 patents and pending applications, and provides us with the enhanced knowledge to anticipate market trends and meet the current and future needs of our customers.

We are structured around two primary geographic markets defined as the Americas, which includes the United States, Canada, the Caribbean and Latin America, and International, which includes Europe, the Middle East, Africa and Asia Pacific. Mitel also operates as two primary business units; Mitel Communications Solutions, or MCS, and Mitel NetSolutions, or NetSolutions.

We had a total of 1,652 employees worldwide at the end of fiscal 2013. Many of our employees are also common shareholders and over 46% of our employees hold options to acquire our common shares, which we believe aligns the interests of our employees and our Company. Our common shares are listed on The Nasdaq Global Market under the symbol MITL and on the Toronto Stock Exchange (TSX) under the symbol MNW .

MCS Business Unit

MCS provides a wide range of IP telephony platforms and UCC solutions to organizations of all types and sizes worldwide. We seek to ensure that our products address a broad range of customer and geographic markets. Our solutions are scalable, flexible and easy to deploy, manage and use. We believe that our solutions enable our

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customers to realize significant cost benefits and operate more effectively. Our IP-based communications solutions include a combination of IP telephony platforms, which we deliver as software, appliances and desktop devices, and UCC applications that integrate voice, video and data communications with business applications. These solutions can be complemented with our comprehensive portfolio of support, professional, and managed services.

IP Telephony Platforms

Software

Our IP telephony software, which provides the foundation for our integrated communications solutions, can be deployed on a customer s premise, hosted by us, or in private or public cloud environments. To efficiently address specific markets, taking into account business size, operations, infrastructure, deployment and price, our IP telephony software can be deployed on virtualized data center infrastructure, industry standard servers or on functionally optimized appliances.

Our Mitel Communications Director, or MCD, is a software product suitable for small to large enterprises addressing both pure-IP telephony and hybrid-IP telephony markets worldwide. This software performs a variety of functions, including multi-media call control and communications, which allow business users to reach each other, share information and collaborate. MCD can be deployed in virtualized data center environments, on industry standard servers or on the Mitel 3300 IP Communications Platform (ICP) appliance. Our Multi-Instance Communications Director, or MICD, uses virtualization techniques to run multiple MCDs on a single server. To support businesses that have multiple locations and geographically dispersed data centers, the MCD, and its MICD and 3300 ICP variants, can be deployed across multiple locations yet integrated to create a seamless system. This platform forms the basis of our network services offering within a hosted environment.

Appliances

Our appliances are optimized yet expandable packages combining the more popular software and hardware capabilities of their intended market. These appliances include:

- Mitel 3300 ICP, which bundles MCD, certain mobility and UCC applications as well as legacy connectivity, can be deployed, if required, as a simple IP-to-legacy gateway and upgraded to a fully integrated communications appliance;

- Mitel 5000 Communications Platform (CP) is an integrated communications appliance addressing unique feature requirements in North America, the United Kingdom and select other markets for small businesses with 20 to 250 users. The Mitel 5000 CP addresses both IP and traditional communications needs through an IP-centric hybrid architecture, which allows us to leverage existing customer infrastructure; and

- Mitel 3000 Communication System (CS) serves the two to 30 user segment of the small business market. This appliance provides complete communications capability and broadband connectivity in a single unit, utilizing a common hardware and software architecture.

Desktop Devices

Our desktop devices include a broad range of IP and digital phones, specialty desktop devices, and peripherals, which are recognized in the industry for ease of use, feature set, and style. Our IP phones are designed to work across our IP telephony software and appliances. Our mid-market and premium IP phones have large, high-quality graphical displays which enable easy access to a variety of business applications and web content.

We also offer a variety of specialty desktop devices, including IP operator consoles and video and audio conference units, and peripherals that augment our desktop devices. These peripherals include cordless handsets

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and headsets, receptionist key modules and other modules such as Bluetooth and local phone line integration that enable local enhanced 9-1-1 calling for remote workers. In addition, we partner with industry-leading vendors to provide other specialized devices, such as Wi-Fi and DECT wireless phones.

UCC Applications

Mitel is at the forefront of the UCC evolution in the business communications market. UCC combines multiple Information Technology, or IT, capabilities, enabling an efficient approach to communicating and improving how individuals, groups and organizations conduct business. We offer a broad range of UCC applications that can be deployed in a variety of ways. Our UCC suite of applications work across our MCD and Mitel 5000 platforms, and can be deployed on industry standard servers in data centers or on our own appliances such as the 3300 ICP. Our UCC applications include:

- *Unified Communications Client* a single-user interface to access all unified communications capabilities, including desktop, web and mobile phone, with features that include soft phone capabilities, instant messaging and presence;
- *Mobility* extends business communications capabilities to mobile devices, improving the ability of employees to connect with the office and be productive;
- *Customer Interaction Solutions* a multi-media capable application for the operation and management of contact centers;
- *Unified Messaging* unified multi-media messaging, including email, voicemail and fax, with integration into messaging products such as Microsoft Exchange and IBM Lotus Notes;
- *Audio, Video & Web Conferencing* collaboration and conferencing tools for users including audio and video conferencing, webcasting and document sharing;
- *Speech Auto Attendant* automated attendant allowing incoming callers to select departments and reach employees by speaking their names;
- *Teleworker Solution* simple and secure telephone operation and communications for remote and home based users over the public Internet; and
- *Business Dashboard* easy to use business analytics of communications system usage.

MCS Service Offerings

We offer a comprehensive portfolio of support, professional and managed services to our customers and channels. These services provide life cycle management for our solutions from planning and implementation to ongoing support. We help maximize the value of our solutions for our customers based on their particular financial and operational needs. Our services include:

- lifecycle management, such as project management, installation, training, maintenance, remote monitoring, professional services, consulting and integration services;

support services, including hardware repair and Mitel Software Assurance for technical support and core software upgrades;

managed service solutions in specific countries, with benefits such as a guaranteed renewal option, risk of loss coverage, fixed migration pricing, and upgrade and expansion flexibility. This includes our comprehensive package of managed services in the United States branded as the TotalSolution® program; and

financing of our managed service solutions.

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Partnerships

One important result of the evolution of integrated communications solutions is the simplicity with which products and services, from a variety of sources, can be easily integrated to provide a better solution for customers. By partnering with others, we can concentrate on our core areas of expertise while leveraging the capabilities of our partners for the benefit of our customers. We have four key types of technology partnerships: strategic alliances, operational partners, affiliates and solution alliances.

- Our strategic alliances are generally with leaders in adjacent markets or complementary technologies which, when combined with our products and services, create beneficial solutions for our customers. Our strategic partners include VMware, Inc. and RIM;

- Our operational partners allow us to leverage their capabilities to optimize our operational expenses. These include external developers, contract manufacturers, integrators, consultants and professional services;

- Our affiliate program with Wesley Clover International Corporation, or Wesley Clover, a company controlled by Dr. Terence H. Matthews, the chairman of our Board of Directors, allows us to benefit from early investment in complementary emerging technologies by Wesley Clover and its subsidiaries; and

- We have a large number of Mitel Solutions Alliance partners who offer complementary solutions and expertise in areas that are not core to our business, many of which are integrated into our applications.

Customers

Since the introduction of our IP-based systems in 1999, our IP-based appliances have supported the communications needs of over 9.3 million users in more than 100 countries. With increased adoption of cloud computing, we have continued to build our market position with our cloud solutions which have an installed base of more than 262,000 cloud users, from both MCS and NetSolutions combined. Our largest customer represented only 2.8% of our revenues in fiscal 2013. Our broad customer base reflects our historical strength in the SME market as well as continued penetration among enterprises.

We have also developed a comprehensive understanding of certain vertical markets such as hospitality, education, government, healthcare, and retail. Our solutions can be tailored to meet the business communications needs of these and other vertical markets.

Sales and Marketing

We have a primarily indirect distribution channel, which addresses the needs of customers in more than 100 countries through our channel partners worldwide.

We believe our extensive channel partner network combined with our corporate and regional support allows us to scale our business for volume and sell our solutions globally, resulting in an efficient cost of sale model. We recruit our channel partners with a focus on expanding our market coverage and securing the skills needed to successfully sell, implement and support IP-based communications solutions.

We differentiate our solutions and enhance our channels to market through strategic relationships with innovative strategic partners. Our channel partners are supported by teams of Mitel sales executives, systems engineers, technical account managers and support staff. To complement our channel partner network, we also provide support to independent consultants who assist companies with network design, implementation and vendor selection.

Our channel strategy in North America includes a direct touch sales organization to identify new business opportunities for our channel partners. Under this model, direct touch representatives work with end customers to

develop a solution and deliver this opportunity to the channel partner for fulfillment. In addition there are opportunities for our North American channel partners to augment their service revenues by joining the Mitel Authorized Partner Services Program, or APSP, which allows Mitel service requests to be contracted directly through our authorized partners. Finally, in order to support channel partners in introducing new technology or solution opportunities (such as data center virtualization skills), we make our suite of professional services offerings available so that we may provide skilled resources to support our partners in new focus areas.

Mitel s market strategy in the international market is exclusively focused on an indirect channel model. In these markets, we are a channel-centric vendor with sales, engineering, training and marketing resources aligned to support channel partners. In specific countries, namely the UK, Netherlands and France, the channel structure is complemented by Mitel high-touch sales teams who provide vertical market sales and business development expertise to support those channels in selling into larger enterprise organizations. We work with a variety of channel categories based on specific country market requirements, market coverage and in-country resources.

Our marketing organization and strategy delivers marketing programs to enhance our brand and drive demand. Primary emphasis is on positioning Mitel as a cloud supplier with increased marketing focus and investments in digital media designed to increase Mitel s brand relevance and visibility to customers. Global channel marketing programs enable and drive demand for more than 1,400 channel partners.

Manufacturing and Supply Chain Management

A significant amount of our portfolio consists of appliances and desktop devices. Our objective is to deliver high-quality and unique products to our channel partners and customers while optimizing our operational cost structure and ensuring continuity of supply. To meet this objective, we leverage our contract manufacturers and component suppliers, protect supply continuity and facilitate manufacturing portability across manufacturers.

We use high-volume contract manufacturers and component suppliers. We require our component suppliers to make information visible so that we can assess their performance for technical innovation, financial strength, quality, support and operational effectiveness. Our primary contract manufacturers are Flextronics International Ltd., or Flextronics, Sanmina-SCI Corporation, or Sanmina and Pegatron Corporation, or Pegatron. Our manufacturing relationships with Flextronics and Sanmina (or its predecessors) date back to 2006 and 2001, respectively, while our relationship with Pegatron began in July 2012. We do not have any long-term purchase commitments with our contract manufacturers.

In order to maintain our continuity of supply and reduce supply chain barriers, our products are designed for manufacturing portability. Approximately 95% of our hardware revenue is portable between contract manufacturers, with a lead time of typically not more than 14 weeks. We also implement portable designs by limiting the use of custom and sole source components and adhering to industry standard Design For Manufacture and Design For Test guidelines. We dual source the majority of our high-volume products, including our core IP telephony platforms. Approximately 47% of our hardware is currently dual sourced, primarily between Flextronics and Sanmina. Approximately 5% of hardware, primarily legacy systems and devices, are sole sourced.

We manage our own product distribution facilities either directly or through the use of third-party logistics management specialists, and, in some regions, wholesale distributors, all of which are managed by our logistics team. This is implemented with geographically diverse points of distribution, with our principal facilities being in the United States, Canada and the United Kingdom.

Research and Development

Our history of success as an early adopter in software-based communications solutions has provided us with the foundation for continued innovation in IP-based communications solutions and UCC applications. We have

invested in our R&D practices to take advantage of new methodologies, in part enabled by the technology shift itself. Our R&D efforts are focused on initiatives which we believe are highly likely to provide compelling returns. We achieve this goal through effective partnerships, lead customer engagement, operational measurement and organizational best practices.

At April 30, 2013, we had 279 employees working in our R&D department. Our R&D personnel are primarily located in two locations: Ottawa, Canada; and Mesa, Arizona. Please see Item 6, Selected Financial Data , of Part II in this Report for the amount spent during each of the last three fiscal years on R&D activities determined in accordance with U.S. generally accepted accounting principles, or GAAP.

Intellectual Property

Our intellectual property assets include patents, industrial designs, trademarks, proprietary software, copyrights, domain names, operating and instruction manuals, trade secrets and confidential business information. These assets are important to our competitiveness and we continue to expand our intellectual property portfolio in order to protect our rights in new technologies and markets. We have a broad portfolio of over 1,700 patents and pending applications, covering over 500 inventions, in areas such as Voice-over IP, or VoIP, collaboration and presence.

We leverage our intellectual property by asserting our rights in certain patented technologies. Certain companies have licensed or offered to purchase patents within our portfolio.

Our solutions contain software applications and hardware components that are either developed and owned by us or licensed to us by third parties. The majority of the software code embodied in each of our core call-processing software, IP-based teleworker software, wireless telephony software applications, integrated messaging and voicemail software, and collaboration interfaces has been developed internally and is owned by us.

In some cases, we have obtained non-exclusive licenses from third parties to use, integrate and distribute with our products certain packaged software, as well as customized software. This third-party software is either integrated into our own software applications or sold as separate self-contained applications, such as voicemail or unified messaging. The majority of the software that we license is packaged software that is made generally available and has not been customized for our specific purpose. If any of our third-party licenses were to terminate, our options would be to either license a functionally equivalent software application or develop the functionally equivalent software application ourselves.

We have also entered into a number of non-exclusive license agreements with third parties to use, integrate and distribute certain operating systems, digital signal processors and semiconductor components as part of our communications platforms. If any of these third-party licenses were to terminate, we would need to license functionally equivalent technology from another supplier.

It is our general practice to include confidentiality and non-disclosure provisions in the agreements entered into with our employees, consultants, manufacturers, end-users, channel partners and others to attempt to limit access to and distribution of our proprietary information. In addition, it is our practice to enter into agreements with employees that include an assignment to us of all intellectual property developed in the course of their employment.

Employees

At April 30, 2013, we had 1,539 employees in the MCS business unit, including sales staff and general and administrative corporate staff. We believe that our future success depends, in large part, on our ability to attract, retain and motivate highly skilled managerial, professional and technical employees. Our compensation programs include opportunities for regular annual salary reviews, profit sharing, bonuses and stock options. We continue to actively recruit skilled employees and we believe that relations with our employees are generally positive.

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Competition

Competition for our MCS business is primarily from two groups of vendors: traditional IP communications vendors, and software vendors who are adding communications and collaboration solutions to their offerings.

We compete against many traditional IP communications vendors in our MCS business unit, including in particular Avaya Inc. and Cisco Systems, Inc., as well as Aastra Technologies Limited, Alcatel-Lucent S.A., NEC Corporation, Panasonic Corporation, ShoreTel, Inc., Siemens Enterprise Networks and Toshiba Corporation.

The second group of competitors consists of software vendors who, in recent years, have expanded their offerings to address the UCC market. This group of competitors includes Microsoft Corporation and Google Inc.

Mitel NetSolutions Business Unit

NetSolutions is a communications service provider focused on delivering a suite of subscription-based telecommunications solutions and services to business customers including cloud-based/hosted applications, network services and connectivity. These services can be delivered independently or integrated with our MCS solutions and delivered as part of our managed service offerings. We do not operate our own network. We purchase network capacity wholesale from carriers, which we resell to our customers in various retail offerings.

We address market demand for telecommunications services through three distinct service offerings, enabling us to provide product solutions over the public network or in combination with our MCS solutions. Our network services are offered in the United States only. Branded as *NetSolutions®* our services are primarily designed to:

- Leverage and deploy communications services to meet the performance and value metrics of each individual business or organization;
- Deliver solutions optimized for our UCC solutions; and
- Unify traditional wireline and wireless communications services along with newer and growing cloud-based offerings to provide 360 degrees of convergence from a single-source provider.

NetSolutions Service Offerings

NetSolutions services include:

- Mitel AnyWare, a turnkey cloud-based service that enables business customers to fulfill their communications requirements without the need to own and maintain a traditional phone system;
- Mitel Mobile Solutions, providing business-class 3G and 4G wireless voice, text and Internet services on a nationwide network; and
- Mitel NetSolutions Voice and Data, Mitel s Competitive Local Exchange Carrier, or CLEC, which provides businesses with voice and data communication services in all 50 U.S. states.

Cloud Communications Offering (Mitel AnyWare)

Mitel AnyWare is a comprehensive cloud communications service that delivers complete communications requirements for a monthly subscription fee, eliminating the need for businesses to buy and maintain a phone system on their premises. Mitel AnyWare is designed for organizations with five to 500 employees, and delivers cloud-based UCC solutions using the single Mitel UCC software stream. As a result, this

service delivers the same look, feel and user experience to Mitel AnyWare customers as those purchasing our MICD premises-based solutions. Mitel AnyWare provides rich enterprise-class features and reliability required by business customers with the flexibility to add and change users as changing business requirements dictate. The features are easy to use and enable users to take advantage of a range of productivity enhancing features.

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Mobile Communications Offering (Mitel Mobile Solutions)

Mitel Mobile Solutions offers an integrated mobile communication service that provides wireless voice, text and data access to business customers. Benefits include nationwide 3G/4G wireless network coverage, the latest device options, and enterprise-wide bundling with wireline SIP Trunk access. In addition, this service offers UCC features that can include integration with employees desktop phones or local voice services, and the ability for employees across an organization to share wireless minutes. Mitel Mobile can integrate the Mitel Communications Director, or MCD, and MICD communications platforms with wireless devices to enable voice and UCC features to be merged and managed like data applications on a corporate server. Mitel Mobile also enables customers to pair their Mitel NetSolutions local SIP-based DID number with their Mitel Mobile device in order to provide wireline-to-wireless business continuity. In addition, Mitel Mobile devices can be integrated into the Mitel AnyWare communications solution enabling the mobile device to be used as the customer s primary or secondary device. It also offers unified voice mail, extension to extension intercompany dialing, unified outbound calling line identification and other features which integrate with the Mitel AnyWare cloud communications solution.

Communications Service Provider Offering

Mitel NetSolutions is a registered CLEC offering complete local, long distance, Internet access and complex data network services in all 50 states in the U.S. Local services include PSTN and SIP services across the U.S., WAN and Broadband IP technologies including MPLS, VPLS, Optical and Metro-Ethernet. Additional cloud solutions include Infrastructure as a Service, cloudNOC Network Management and Audio and Web collaboration. NetSolutions telecommunications services can be bundled with Mitel AnyWare, Mitel Mobile and Mitel premises-based UCC solutions, providing business customers the benefit of a seamless, integrated communications offering from a single supplier. NetSolutions offerings are also delivered and optimized to complement and enhance our core technology platforms, providing a beneficial customer friendly service delivery and support model enabling our customers to outsource their entire communications infrastructure and services environment to Mitel and our channel partners. In addition, our offerings allow geographically dispersed organizations to consolidate their network services with a single provider nationally, easing the IT burden associated with coordinating multiple vendors across a broad service delivery footprint. We also have expertise in delivering advanced SIP Trunking services to businesses enabling them to maximize the benefits of centralization and virtualization for multi-location organizations. These deployments can result in significant IT and economic benefits for our customers as they upgrade their technology infrastructure with simplified management and reduced operating costs.

Partnerships

One important result of the evolution of the communications service provider marketplace is the simplicity with which products and services, from a variety of sources, can be easily integrated to provide a better solution for customers. By partnering with others, we can concentrate on our core areas of expertise while leveraging the capabilities of our partners for the benefit of our customers. We have four key types of technology partnerships: strategic alliances, affiliates, operational partners and other partners.

- Our strategic alliances are generally with leaders in adjacent markets or complementary technologies which, when combined with our products and services, create beneficial solutions for our customers. Our strategic partners include AT&T, Level 3 Communications, Sprint and Verizon.

- NetSolutions is affiliated with MCS. We deploy MCS technology in a cloud-based delivery model in order to provide a cloud-based or hosted solution for our customers. Examples of MCS technology deployed in this fashion are our Mitel AnyWare Cloud Communications solution and Mitel AnyWare Infrastructure as a Service.

- Our operational partners allow us to leverage their capabilities to optimize our service delivery and support. These include vendors such as IDI Billing Solutions and OSG Billing Services.

We have a large number of other partners who offer complementary solutions and expertise in areas that are not core to our business, many of which are integrated into our solutions.

Sales and Marketing

NetSolutions has a two-tiered distribution model, utilizing direct and indirect channels to address the needs of customers in the United States. NetSolutions utilizes Mitel s broad-based and established U.S.-based channel partner sales force, direct NetSolutions sales representatives, and other agents to sell solutions and services to business customers in the United States. We also sell wholesale cloud services to other service providers, such as Sprint, who then resell the service to their end-users.

We believe our extensive channel partner network combined with our corporate, regional support and direct sales presence allows us to scale our business for volume and sell our solutions throughout the United States, resulting in an efficient cost of sale model. We recruit our channel partners with a focus on expanding our market coverage and supporting the skills needed to successfully sell, implement and support our solutions.

We differentiate our solutions and enhance our channels to market through strategic relationships with innovative strategic partners. Our channel partners are supported by teams of Mitel sales representatives, network architects, regional sales managers and support staff. To complement our channel partner network, we also provide support to independent consultants and agents who assist customers with network design, implementation and vendor selection.

Demand generation and brand development is conducted through investment in digital marketing, social media, advertising, media outreach, trade conferences, product and solution launch campaigns, and analyst and public relations.

Customers

NetSolutions currently serves approximately 9,000 small and medium sized business customers across the U.S., delivering a predictable revenue stream driven by recurring revenue streams derived from our retail cloud solutions, mobility offering and related services. NetSolutions customers enjoy a broad portfolio of cloud delivered offerings, mobility services and traditional network services optimized for the Mitel product portfolio.

Employees

At April 30, 2013, we had 113 employees in the NetSolutions business unit. Our future success depends in large part on our ability to attract, retain and motivate our highly skilled managerial, professional and technical resources. Our compensation programs include opportunities for regular annual salary reviews, profit sharing, bonuses and stock options. We continue to actively recruit skilled employees and we believe that relations with our employees are generally positive.

Competition

Competitors for our NetSolutions Mitel AnyWare cloud communications solution include U.S.-based hosted and cloud services providers such as Broadvox LLC, 8X8, Inc., Fonality, Inc., J2 Global, Inc., PanTerra Networks, Inc., ShoreTel, Inc., Telesphere Networks, Ltd., West IP Communications, Inc. and other hosted PBX providers. Competitors for our Mitel Mobile offerings include AT&T Inc., Verizon Communications Inc., Sprint Nextel Corporation, T-Mobile USA, Inc. and other mobile service providers. Competitors for our Mitel NetSolutions Communications Service Provider offerings include AT&T, Inc., Verizon Communications Inc., CBeyond Inc., U.S. Telepacific Corp., XO Holdings, Inc. and other communications service providers.

Availability of Information

We are a foreign private issuer within the meaning of Rule 3(b)-4 of the Exchange Act. We have filed and expect to continue to file our annual reports on Form 10-K, our quarterly reports on Form 10-Q and current

reports on Form 8-K instead of filing annual and current reports on forms available for foreign private issuers. We prepare and file our management information circulars and related materials under Canadian corporate and securities law requirements, and as a foreign private issuer we are exempt from the requirements of Regulation 14A under the Exchange Act.

We make available, through our Internet website for investors (http://investor.mitel.com), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practical after electronically filing such material with the SEC and with Canadian securities regulators. The reference to our website address does not constitute incorporation by reference of the information contained on the website and should not be considered part of this document.

Item 1A. Risk Factors

Certain information contained in this Report, including information regarding future financial results, performance and plans, expectations, and objectives of management, constitute forward-looking information within the meaning of Canadian securities laws and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We refer to all of these as forward-looking statements. Statements that include the words may, will, should, could, target, outlook, estimate , continue, expect, intend, plan, predi project, anticipate and similar statements of a forward-looking nature, or the negatives of those statements, identify forward-looking statements. In particular, this Report contains forward-looking statements pertaining to, among other matters: general global economic conditions; our business strategy; our plans and objectives for future operations; our industry; our future economic performance, profitability and financial condition; the costs of operating as a public company; our R&D expenditures; our ability to successfully implement our restructuring plans; our ability to successfully integrate acquisitions; our ability to successfully implement and achieve our business strategies; intense competition; our reliance on channel partners for a significant component of our sales; and our dependence upon a small number of outside contract manufacturers to manufacture our products. Forward-looking statements are subject to a variety of known and unknown risks, uncertainties, assumptions and other factors that could cause actual events or results to differ from those expressed or implied by the forward-looking statements.

These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. We operate in a very competitive and rapidly changing environment. New risks emerge from time to time. In making these statements we have made certain assumptions. While we believe our plans, intentions, expectations, assumptions and strategies reflected in these forward-looking statements are reasonable, we cannot assure you that these plans, intentions, expectations assumptions and strategies will be achieved. Our actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this Report as a result of various factors, including the risks and uncertainties discussed below.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in this Report. Except as required by law, we are under no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

Risks Relating to our Business

Our quarterly and annual revenues and operating results have historically fluctuated, and the results of one period may not provide a reliable indicator of our future performance.

Our quarterly and annual revenues and operating results have historically fluctuated and are not necessarily indicative of results to be expected in future periods. A number of factors may cause our financial results to fluctuate significantly from period to period, including:

- general economic conditions;
- the fact that an individual order or contract can represent a substantial amount of revenues for that period;
- the size, timing and shipment of individual orders;
- changes in pricing or discount levels by us or our competitors;
- changes in foreign currency exchange rates;
- the mix of products sold by us;
- the timing of the announcement, introduction and delivery of new products or product enhancements by us or our competitors;
- the ability to execute on our strategy and operating plans;
- the effect of acquisitions;
- the ability to realize our deferred tax assets; and
- changes in tax laws, regulations or accounting rules.

As a result of the above factors, a quarterly or yearly comparison of our results of operations is not necessarily meaningful. Prior results are not necessarily indicative of results to be expected in future periods.

If we do not successfully execute our strategic operating plan, or if our strategic operating plan is flawed, our business could be negatively affected.

Each year we review and update our strategic operating plan, which provides a road map for implementing our business strategy for the next three years. Allocation of resources, investment decisions, product life cycles, process improvements, strategic alliances and acquisitions are based on this plan. In developing the strategic plan we make certain assumptions including, but not limited to, those related to the market environment, customer demand, evolving technologies, competition, market consolidation and the global economy. If we do not successfully execute on our strategic operating plan, or if actual results vary significantly from our assumptions, our business could be adversely impacted.

Potential adverse impacts include, but are not limited to, investments made in research and development that do not develop into commercially successful products, lower revenues due to our sales focus not being aligned with customer demand or an inability to compete effectively against competitors, operating inefficiencies, or unsuccessful strategic alliances or acquisitions.

Our operating results may be adversely affected by unfavorable economic and market conditions in key markets, particularly the United States, the United Kingdom and elsewhere in Europe.

Challenging economic conditions worldwide, particularly in the United States, the United Kingdom and elsewhere in Europe, have from time to time contributed, and may continue to contribute, to slowdowns in the communications industry at large, as well as in specific segments and markets in which we operate, resulting in, but not limited to:

- reduced demand for our products as a result of continued constraints on IT-related capital spending by our customers;

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- increased price competition for our products;
- risk of excess and obsolete inventories;
- risk of supply constraints;
- risk of manufacturing capacity;
- higher overhead costs as a percentage of revenue; and
- higher interest expense.

Instability in the European economic zone and financial turmoil related to sovereign debt issues in certain countries, the instability in the geopolitical environment in many parts of the world and other disruptions, such as changes in energy costs, may continue to put pressure on global economic conditions. If global economic and market conditions or economic conditions in key markets remain uncertain, or if they deteriorate further, then we may experience material negative impacts on our business, operating results and financial condition.

We expect gross margin percentage to vary over time, and our level of product gross margin may not be sustainable.

While our level of gross margin percentage increased during fiscal 2013, increases in gross margin percentage may not be sustainable in the future and our gross margin percentage may decrease. A decrease in gross margin percentage, should it occur, can be the result of numerous factors, including:

- changes in customer, geographic, or product mix, including mix of configurations within each product group;
- introduction of new products, including products with price-performance advantages;
- our ability to reduce production costs;
- entry into new markets or growth in lower margin markets, including markets with different pricing and cost structures, through acquisitions or internal development;
- additional sales discounts;
- increases in material, labor or other manufacturing-related costs, which could be significant particularly during periods of supply constraints;
- excess inventory and inventory holding charges;

obsolescence charges;

changes in shipment volume;

the timing of revenue recognition and revenue deferrals;

increased cost, loss of cost savings or dilution of savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand or if the financial health of contract manufacturers or suppliers deteriorates;

lower than expected benefits from value engineering;

increased price competition;

changes in distribution channels;

increased warranty costs; and

successful execution of our strategy and operating plans.

We rely on our channel partners (which includes our wholesale distribution channel) for a significant component of our sales and so disruptions to, or our failure to effectively develop and manage our distribution channel and the processes and procedures that support it, could have a material adverse affect on our ability to generate revenues.

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of channel partners. A substantial portion of our revenues is derived through and dependent upon our channel partners, most of which also sell our competitors products. In addition, many potential channel partners have established relationships with our competitors and may not be willing to invest the time and resources required to train their staff to effectively market our solutions and services. The loss of or reduction in sales to these channel partners could materially reduce our revenues. Our competitors may in some cases be effective in causing our channel partners or potential channel partners to favor their products or prevent or reduce sales of our solutions. If we fail to maintain relationships with these channel partners, fail to develop new relationships with channel partners in new markets or expand the number of channel partners in existing markets, fail to manage, train or provide appropriate incentives to existing channel partners or if these channel partners are not successful in their sales efforts, sales of our solutions may decrease and our operating results would suffer.

We face intense competition from many competitors and we may not be able to compete effectively against these competitors.

The market for our solutions is highly competitive. We compete against many companies, including and in particular, in the case of MCS, Avaya Inc. and Cisco Systems, Inc., as well as Aastra Technologies Limited, Alcatel-Lucent S.A., Microsoft Corporation, NEC Corporation, Panasonic Corporation, ShoreTel, Inc., Siemens Enterprise Networks and Toshiba Corporation, and, in the case of NetSolutions, AT&T Inc., CBeyond Inc., Cypress Communications, Inc., 8X8, Inc., Fonality, Inc., J2 Global, Inc., PanTerra Networks, Inc., Sprint Nextel Corporation, Telesphere Networks, Ltd., T-Mobile USA, Inc., U.S. Telepacific Corp., Verizon Communications Inc., West IP Communications, Inc. and XO Holdings, Inc. In addition, because the market for our solutions is subject to rapidly changing technologies, we may face competition in the future from companies that do not currently compete in our business communications market, including companies that currently compete in other sectors of the information technology, communications or software industries, such as Google Inc., mobile communications companies or communications companies that serve residential, rather than business, customers.

Several of our existing competitors have, and many of our future potential competitors may have, greater financial, personnel, research, project management and other resources, more well-established brands or reputations and broader customer bases than we have. As a result, these competitors may be in a stronger position to respond more quickly to potential acquisitions and other market opportunities, new or emerging technologies and changes in customer requirements. Some of these competitors may also have customer bases that are more diversified than ours and therefore may be less affected by an economic downturn in a particular region. Competitors with greater resources may also be able to offer lower prices, additional products or services or other incentives that we do not offer or cannot match. In addition, existing customers of data communications companies that compete against us may be more inclined to purchase business communications solutions from their current data communications vendor than from us. We cannot predict which competitors may enter our markets in the future, what form the competition may take or whether we will be able to respond effectively to the entry of new competitors or the rapid evolution in technology and product development that has characterized our markets.

Competition from existing and potential market entrants may take many forms. Our products must interface with customer software, equipment and systems in their networks, each of which may have different specifications. To the extent our competitors supply network software, equipment or systems to our customers, it is possible these competitors could design their technologies to be closed or proprietary systems that are incompatible with our products or work less effectively with our products than their own. As a result, customers

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would have an incentive to purchase products that are compatible with the products and technologies of our competitors over our products. A lack of interoperability may result in significant redesign costs, and harm relations with our customers. If our products do not interoperate with our customers networks, installations could be delayed or orders for our products could be cancelled, which would result in losses of revenues and customers that could significantly harm our business. In addition, our competitors may provide large bundled offerings that incorporate applications and products similar to those that we offer. If our competitors offer deep discounts on certain products or services in an effort to recapture or gain market share, we may be required to lower our prices or offer other favorable terms to compete effectively, which would reduce our margins and could adversely affect our operating results and financial condition.

Industry consolidation may lead to increased competition and may harm our operating results.

There has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. Companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. This could lead to more variability in our operating results and could have a material adverse effect on our business, operating results, and financial condition.

Our solutions may fail to keep pace with rapidly changing technology and evolving industry standards.

The markets for our solutions are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions, short product life cycles and changing business models. Therefore, our operating results depend on, among other things, existing and new markets, our ability to develop and introduce new solutions and our ability to reduce the production costs of existing solutions. The process of anticipating trends and evolving industry standards and developing new solutions is complex and uncertain, and if we fail to accurately predict and respond to our customers changing needs, and emerging technological trends, our business could be harmed. We commit significant resources to developing new solutions before knowing whether our investments will result in solutions that the market will accept. The success of new solutions depends on several factors, including new application and product definition, component costs, timely completion and introduction of these solutions, differentiation of new solutions from those of our competitors and market acceptance of these solutions. We may not be able to successfully identify new market opportunities for our solutions, develop and bring new solutions to market in a timely manner, or achieve market acceptance of our solutions.

The evolving markets for virtualized, cloud-based and hosted UCC solutions are subject to market risks and uncertainties that could cause significant delays and expenses.

We have made a significant investment in developing our IP-based communications solutions and transitioning our distribution channels to take advantage of the industry s shift from legacy systems to IP-based communications solutions. The market is evolving rapidly and is characterized by an increasing number of market entrants. As is typical of a rapidly evolving industry, the demand for and market acceptance of products and services is uncertain. If the market fails to develop, develops more slowly than we anticipate or develops in a manner different than we expect, our solutions could fail to achieve market acceptance, which in turn could significantly harm our business.

Moreover, as the market usage grows, the infrastructure used to support these services, whether public or private, may not be able to support the demands placed on them and their performance or reliability may decline. Even if the market becomes more widespread in the future, our solutions may not attain broad market acceptance. The adoption of solutions in this market on both desktop computers and mobile devices at a rate faster than we currently anticipate may lead to a decline in the utilization of distinct IP and digital devices and a reduction in our desktop device revenues. In addition, the evolution towards virtualized, cloud-based and hosted UCC and IP telephony applications delivered as a service may occur faster and more extensively than currently anticipated, which may adversely impact the sale of our non-hosted communications solutions.

We are dependent on our customers decisions to deploy IP telephony solutions.

Our business remains dependant on customer decisions to migrate their legacy telephony infrastructure to IP telephony and other advanced service delivery methods, including cloud computing. While these investment decisions are often driven by macroeconomic factors, customers may also delay adoption of IP telephony due to a range of other factors, including prioritization of other IT projects, and weighing the costs and benefits of deploying new infrastructures and devices. IP telephony adoption among new and additional IP telephony customers may not grow at the rates we currently anticipate.

Our business may be harmed if we infringe intellectual property rights of third parties.

There is considerable patent and other intellectual property development activity in our industry. Our success depends, in part, upon our not infringing intellectual property rights owned by others. Our competitors, as well as a number of individuals, patent holding companies and consortiums, own, or claim to own, intellectual property relating to our industry. Our solutions may infringe the patents or other intellectual property rights of third parties. We cannot determine with certainty whether any existing third-party patent, or the issuance of new third-party patents, would require us to alter our solutions, obtain licenses, pay royalties or discontinue the sale of the affected applications and products. Our competitors may use their patent portfolios in an increasingly offensive manner in the future. We are currently and periodically involved in patent infringement disputes with third parties, including claims that have been made against us for the payment of licensing fees. We have received notices in the past, and we may receive additional notices in the future, containing allegations that our solutions are subject to patents or other proprietary rights of third parties, including competitors, patent holding companies and consortiums. Current or future negotiations with third parties to establish license or cross-license arrangements, or to renew existing licenses, may not be successful and we may not be able to obtain or renew a license on satisfactory terms, or at all. If required licenses cannot be obtained, or if existing licenses are not renewed, litigation could have a material adverse effect on our business.

Our success also depends upon our customers ability to use our products. Claims of patent infringement have been asserted against some of our channel partners based on their use of our solutions. We generally agree to indemnify and defend our channel partners and direct customers to the extent a claim for infringement is brought against our customers with respect to our solutions.

Aggressive patent litigation is common in our industry and can be disruptive. Infringement claims (or claims for indemnification resulting from infringement claims) have been, are currently and may in the future be asserted or prosecuted against us, our channel partners or our customers by third parties. Some of these third parties, including our competitors, patent holding companies and consortiums, have, or have access to, substantially greater resources than we do and may be better able to sustain the costs of complex patent litigation. Whether or not the claims currently pending against us, our channel partners or our customers, or those that may be brought in the future, have merit, we may be subject to costly and time-consuming legal proceedings. Such claims could also harm our reputation and divert our management s attention from operating our business. If these claims are successfully asserted against us, we could be required to pay substantial damages (including enhanced damages and attorneys fees if infringement is found to be willful). We could also be forced to obtain a license, which may not be available on acceptable terms, if at all, forced to redesign our solutions to make them non-infringing, which redesign may not be possible or, if possible, costly and time-consuming, or prevented from selling some or all of our solutions.

Our success is dependent on our intellectual property. Our inability or failure to secure, protect and maintain our intellectual property could seriously harm our ability to compete and our financial success.

Our success depends on the intellectual property in the solutions that we develop and sell. We rely upon a combination of copyright, patent, trade secrets, trademarks, confidentiality procedures and contractual provisions to protect our proprietary technology. Our present protective measures may not be enforceable or adequate to

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prevent misappropriation of our technology or independent third-party development of the same or similar technology. Even if our patents are held valid and enforceable, others may be able to design around these patents or develop products competitive to our products but that are outside the scope of our patents.

Any of our patents may be challenged, invalidated, circumvented or rendered unenforceable. We may not be successful should one or more of our patents be challenged for any reason. If our patent claims are rendered invalid or unenforceable, or narrowed in scope, the patent coverage afforded to our solutions could be impaired, which could significantly impede our ability to market our products, negatively affect our competitive position and materially harm our business and operating results.

Pending or future patent applications held by us may not result in an issued patent, or if patents are issued to us, such patents may not provide meaningful protection against competitors or against competitive technologies. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or trade secrets by consultants, vendors, former employees and current employees, despite the existence of nondisclosure and confidentiality agreements and other contractual restrictions. Furthermore, many foreign jurisdictions offer less protection of intellectual property rights than the United States and Canada, and the protection provided to our proprietary technology by the laws of these and other foreign jurisdictions may not be sufficient to protect our technology. Preventing the unauthorized use of our proprietary technology may be difficult, time consuming and costly, in part because it may be difficult to discover unauthorized use by third parties. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of our proprietary rights, or to defend against claims of unenforceability or invalidity. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversion of management resources and could have a material adverse effect on our business, results of operations and financial condition regardless of its outcome.

Some of the software used with our products, as well as that of some of our customers, may be derived from so-called open source software that is made generally available to the public by its authors and/or other third parties. Such open source software is often made available to us under licenses, such as the GNU General Public License, that impose certain obligations on us in the event we were to make derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public, or license such derivative works under an open source license or another particular type of license, potentially granting third parties certain rights to the software, rather than the forms of license customarily used to protect our intellectual property. Failure to comply with such obligations can result in the termination of our distribution of products that contain the open source code or the public dissemination of any enhancements that we made to the open source code. We may also incur legal expenses in defending against claims that we did not abide by such open source licenses. In the event the copyright holder of any open source software or another party in interest were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be subject to potential damages and could be required to release the source code of that work to the public, grant third parties certain rights to the source code or stop distribution of that work. Any of these outcomes could disrupt our distribution and sale of related products and materially adversely affect our business.

We rely on trade secrets and other forms of non-patent intellectual property protection. If we are unable to protect our trade secrets, other companies may be able to compete more effectively against us.

We rely on trade secrets, know-how and technology that are not protected by patents to maintain our competitive position. We try to protect this information by entering into confidentiality agreements with parties that have access to it, such as our partners, collaborators, employees and consultants. Any of these parties may breach these agreements and we may not have adequate remedies for any specific breach. In addition, our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that our partners, collaborators, employees and consultants use intellectual property owned by others in their work for us, disputes may arise as to the rights to the related or resulting know-how and inventions. If any of our trade secrets,

know-how or other technologies not protected by a patent were to be disclosed to, or independently developed by, a competitor, our business, financial condition and results of operations could be materially adversely affected.

We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees may have been previously employed at other companies which provide integrated communications solutions, including our competitors or potential competitors. We may be subject to claims that these employees, or we, have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying monetary claims, we may lose valuable intellectual property rights or personnel. A loss of key personnel or their work product could hamper or prevent our ability to commercialize certain product candidates, which would adversely affect our commercial development efforts, business, financial condition and results of operations.

Our business requires a significant amount of cash and we may require additional sources of funds if our sources of liquidity are unavailable or insufficient to fund our operations.

We may not generate sufficient cash from operations to meet anticipated working capital requirements, execute our strategic operating plans, support additional capital expenditures or take advantage of acquisition opportunities. In order to finance our business, we may need to utilize available borrowings under our revolving credit facility, which is scheduled to mature in February 2018. Our ability to continually access this facility is conditioned upon our compliance with current and potential future covenants contained in the credit agreements governing our revolving credit facility and term loan facility. We may not be in compliance with such covenants in the future. We may need to secure additional sources of funding if our cash and borrowings under our revolving credit facility are unavailable or insufficient to finance our operations. Such funding may not be available on terms satisfactory to us, or at all. In addition, any proceeds from the issuance of equity or debt may be required to be used, in whole or in part, to make mandatory payments under our credit agreements. If we were to incur higher levels of debt, we would require a larger portion of our operating cash flow to be used to pay principal and interest on our indebtedness. The increased use of cash to pay indebtedness could leave us with insufficient funds to finance our operating activities, such as R&D expenses and capital expenditures. In addition, any new debt instruments may contain covenants or other restrictions that affect our business operations. If we were to raise additional funds by selling equity securities, the relative ownership of our existing investors could be diluted or the new investors could obtain terms more favorable than previous investors.

We have a significant amount of debt. This debt contains customary default clauses, a breach of which may result in acceleration of the repayment of some or all of this debt.

In February 2013, we entered into a new senior secured credit facility to refinance our then existing indebtedness. As of April 30, 2013, we had $200.0 million outstanding under our first lien term loan, which is scheduled to mature in February 2019 and $80.0 million outstanding under our second lien term loan, which is scheduled to mature in February 2020. As set out above, we also have a revolving component to the senior secured facility, which is scheduled to mature in February 2018. The credit agreements relating to these loans and the revolving credit facility have customary default clauses. In the event we were to default on these credit agreements, and were unable to cure or obtain a waiver of default, the repayment of our debt owing under these credit agreements may be accelerated. If acceleration were to occur, we would be required to secure alternative sources of equity or debt financing to be able to repay the debt. Alternative financing may not be available on terms satisfactory to us, or at all. Any new debt financing would require the cooperation and agreement of our existing lenders. If acceptable alternative financing were unavailable, we would have to consider alternatives to fund the repayment of the debt, including the sale of part or all of the business, which sale may occur at a distressed price.

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Our working capital requirements and cash flows are subject to fluctuation which could have an adverse affect on us.

Our working capital requirements and cash flows have historically been, and are expected to continue to be, subject to quarterly and yearly fluctuations, depending on a number of factors. If we are unable to manage fluctuations in cash flow, our business, operating results and financial condition may be materially adversely affected. For example, if we are unable to effectively manage fluctuations in our cash flows, we may be unable to make required interest payments on our indebtedness. Factors which could result in cash flow fluctuations include:

- the level of sales and the related margins on those sales;
- the timing of and amount paid for acquisitions;
- the collection of receivables;
- the timing and volume of sales of leases to third-party funding sources and the timing and volume of any repurchase obligations in respect of such sales;
- the timing and size of capital expenditures;
- the timing and size of purchase of inventory and related components;
- the timing of payment on payables and accrued liabilities;
- costs associated with potential restructuring actions; and
- customer financing obligations.

Because we depend upon a small number of outside contract manufacturers, our operations could be delayed or interrupted if we encounter problems with these contractors.

We do not have any internal manufacturing capabilities, and we rely primarily upon a limited number of contract manufacturers, specifically: Flextronics, Pegatron and Sanmina. Our ability to ship products to our customers could be delayed or interrupted as a result of a variety of factors relating to our contract manufacturers, including:

- failure to effectively manage our contract manufacturer relationships;
- our contract manufacturers experiencing delays, disruptions or quality control problems in their manufacturing operations;
- lead-times for required materials and components varying significantly and being dependent on factors such as the specific supplier, contract terms and the demand for each component at a given time;

- under-estimating our requirements, resulting in our contract manufacturers having inadequate materials and components required to produce our products, or overestimating our requirements, resulting in charges assessed by the contract manufacturers or liabilities for excess inventory, each of which could negatively affect our gross margins; and

- the possible absence of adequate capacity and reduced control over component availability, quality assurances, delivery schedules, manufacturing yields and costs.

We are also exposed to risks relating to the financial viability of our contract manufacturers as a result of business and industry risks that affect those manufacturers. In order to finance their businesses during economic downturns or otherwise, Flextronics, Pegatron and Sanmina may need to secure additional sources of equity or debt financing. Such funding may not be available on terms satisfactory to them, or at all, which could result in a material disruption to our production requirements.

If any of our contract manufacturers are unable or unwilling to continue manufacturing our products in required volumes and quality levels, we will have to identify, qualify, select and implement acceptable alternative manufacturers, which would likely be time consuming and costly. In particular, each of Flextronics, Pegatron and Sanmina are sole manufacturing sources for certain of our products. A failure of either of these

parties to satisfy our manufacturing needs on a timely basis, as a result of the factors described above or otherwise, could result in a material disruption to our business until another manufacturer is identified and able to produce the same products, which could take a substantial amount of time, during which our results of operations, financial condition and reputation among our customers and within our industry could be materially and adversely affected. In addition, alternate sources may not be available to us or may not be in a position to satisfy our production requirements on a timely basis or at commercially reasonable prices and quality. Therefore, any significant interruption in manufacturing could result in us being unable to deliver the affected products to meet our customer orders.

We depend on sole source and limited source suppliers for key components. If these components are not available on a timely basis, or at all, we may not be able to meet scheduled product deliveries to our customers.

We depend on sole source and limited source suppliers for key components of our products. In addition, our contract manufacturers often acquire these components through purchase orders and may have no long-term commitments regarding supply or pricing from their suppliers. Lead times for various components may lengthen, which may make certain components scarce. As component demand increases and lead-times become longer, our suppliers may increase component costs. We also depend on anticipated product orders to determine our materials requirements. Lead times for limited source materials and components can be as long as six months, vary significantly and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. From time to time, shortages in allocations of components have resulted in delays in filling orders. Shortages and delays in obtaining components in the future could impede our ability to meet customer orders. Any of these sole source or limited source suppliers could stop producing the components, cease operations entirely, or be acquired by, or enter into exclusive arrangements with, our competitors. As a result, these sole source and limited source suppliers may stop selling their components to our contract manufacturers at commercially reasonable prices, or at all. Any such interruption, delay or inability to obtain these components from alternate sources at acceptable prices and within a reasonable amount of time would adversely affect our ability to meet scheduled product deliveries to our customers and reduce margins realized by us.

Delay in the delivery of, or lack of access to, software or other intellectual property licensed from our suppliers could adversely affect our ability to develop and deliver our solutions on a timely and reliable basis.

Our business may be harmed by a delay in delivery of software applications from one or more of our suppliers. Many of our solutions are designed to include software or other intellectual property licensed from third parties. It may be necessary in the future to seek or renew licenses relating to various components in our solutions. These licenses may not be available on acceptable terms, or at all. Moreover, the inclusion in our solutions of software or other intellectual property licensed from third parties on a non-exclusive basis could limit our ability to protect our proprietary rights to our solutions. Non-exclusive licenses also allow our suppliers to develop relationships with, and supply similar or the same software applications to, our competitors. Our software licenses could terminate in the event of a bankruptcy or insolvency of a software supplier or other third-party licensor. Our software licenses could also terminate in the event such software infringes third-party intellectual property rights. We have not entered into source code escrow agreements with every software supplier or third-party licensor, and we could lose the ability to use such licensed software or implement it in our solutions in the event the licensor breaches its obligations to us. In the event that software suppliers or other third-party licensors terminate their relationships with us, are unable to fill our orders on a timely basis or their licenses are otherwise terminated, we may be unable to deliver the affected products to meet our customer orders.

Our operations in international markets involve inherent risks that we may not be able to control.

We do business in over 100 countries. Accordingly, our results could be materially and adversely affected by a variety of uncontrollable and changing factors relating to international business operations, including:

- macroeconomic conditions adversely affecting geographies where we do business;

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- foreign currency exchange rates;
- political or social unrest or economic instability in a specific country or region;
- higher costs of doing business in foreign countries;
- infringement claims on foreign patents, copyrights or trademark rights;
- difficulties in staffing and managing operations across disparate geographic areas;
- difficulties associated with enforcing agreements and intellectual property rights through foreign legal systems;
- trade protection measures and other regulatory requirements, which affect our ability to import or export our products from or to various countries;
- adverse tax consequences;
- unexpected changes in legal and regulatory requirements;
- military conflict, terrorist activities, natural disasters and medical epidemics; and
- our ability to recruit and retain channel partners in foreign jurisdictions.

Our financial results may be affected by fluctuations in exchange rates and our current currency hedging strategy may not be sufficient to counter such fluctuations.

Our financial statements are presented in U.S. dollars, while a significant portion of our business is conducted, and a substantial portion of our operating expenses are payable, in currencies other than the U.S. dollar. Due to the substantial volatility of currency exchange rates, exchange rate fluctuations may have an adverse impact on our future revenues or expenses presented in our financial statements. We use financial instruments, principally forward foreign currency contracts, in our management of foreign currency exposure. These contracts primarily require us to purchase and sell certain foreign currencies with or for U.S. dollars at contracted rates. We may be exposed to a credit loss in the event of non-performance by the counterparties of these contracts. In addition, these financial instruments may not adequately manage our foreign currency exposure. Our results of operations could be adversely affected if we are unable to successfully manage currency fluctuations in the future.

Our financial results will be negatively impacted if we are unable to realize our deferred tax assets.

As at our fiscal year end, April 30, 2013, our balance sheet contained a $35.3 million valuation allowance against deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Future losses or reduced estimates of future income may result in an increase to the partial valuation allowance or even a full valuation allowance on our deferred tax assets in future periods, which will negatively impact our results. See *Management s Discussion & Analysis Critical Accounting Policies Income Taxes* .

Transfer pricing rules may adversely affect our income tax expense.

We conduct business operations in various jurisdictions and through legal entities in Canada, the United States, the United Kingdom and elsewhere. We and certain of our subsidiaries provide solutions and services to, and may from time to time undertake certain significant transactions with, other subsidiaries in different jurisdictions. The tax laws of many of these jurisdictions have detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm s length pricing principles. Contemporaneous documentation must exist to support this pricing. The taxation authorities in the jurisdictions where we carry on business could challenge our transfer pricing policies. International transfer pricing is an area of taxation that depends heavily on the underlying facts and circumstances and generally involves a significant degree of judgment. If any of these taxation authorities are successful in challenging our transfer pricing policies,

our income tax expense may be adversely affected and we could also be subjected to interest and penalty charges. Any increase in our income tax expense and related interest and penalties could have a significant impact on our future earnings and future cash flows.

Our operating results may be impacted by our ability to sell leases derived from our managed services offering, or a breach of our obligations in respect of such sales.

We offer customers the ability to bundle all their managed service communication expense into a single monthly payment lease, which we then generally pool and sell to third-party financial institutions. We derive revenues from the direct sale of pools of leases to third-party financial institutions. These leases are recurring revenue streams for us and typically produce attractive gross margins. If we are unable to secure attractive funding rates or sell these leases, our operating results would suffer. The challenging macroeconomic conditions, coupled with our level of indebtedness, have adversely impacted our ability to sell these leases in the past and may do so again in the future. The timing, volume and profitability of lease sales from quarter to quarter could impact our operating results. We have historically sold these pools of leases at least once per quarter. Furthermore, when the initial term of the lease is concluded, our customers have the option to renew the lease at a payment and term less than the original lease. We have typically held these customer lease renewals on our balance sheet, although we could also elect to sell these renewals to a third-party financial institution.

In the event of defaults by lease customers under leases that have been sold, financial institutions that purchased the pool of such leases may require us to repurchase the remaining unpaid portion of such sold leases, subject to certain annual limitations on recourse for credit losses. The size of credit losses may impact our ability to sell future pools of leases.

Under the terms of the program agreements governing the sale of these pools of leases, we are subject to ongoing obligations in connection with the servicing of the underlying leases. If we are unable to perform these obligations or are otherwise in default under a program agreement, and are unable to cure or obtain a waiver of such default, we could be required by the purchaser to repurchase the entire unpaid portion of the leases sold to such purchaser, which could have an adverse effect on our cash flows and financial condition.

Credit and commercial risks and exposures could increase if the financial condition of our customers declines.

We provide or commit to financing, where appropriate, for our customers. Our ability to arrange or provide financing for our customers depends on a number of factors, including our credit rating, our level of available credit and our ability to sell off commitments on acceptable terms. Pursuant to certain of our customer contracts, we deliver solutions representing an important portion of the contract price before receiving any significant payment from the customer. As a result of the financing that may be provided to customers and our commercial risk exposure under long-term contracts, our business could be adversely affected if the financial condition of our customers erodes. Upon the financial failure of a customer, we may experience losses on credit extended and loans made to such customer, losses relating to our commercial risk exposure, and the loss of the customer s ongoing business. If customers fail to meet their obligations to us or the recurring revenue stream from customer financings is lost, we may experience reduced cash flows and losses in excess of reserves, which could materially adversely impact our results of operations and financial position.

Design defects, errors, failures or bugs, which may be difficult to detect, may occur in our solutions.

We sell highly complex solutions that incorporate both hardware and software. Our software may contain bugs that can interfere with expected operations. Our pre-shipment testing and field trial programs may not be adequate to detect all defects in individual applications and products or systematic defects that could affect numerous shipments, which might interfere with customer satisfaction, reduce sales opportunities or affect gross

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margins. In the past, we have had to replace certain components and provide remediation in response to the discovery of defects or bugs in solutions that we had shipped. Any future remediation may have a material impact on our business. Our inability to cure an application or product defect could result in the failure of an application or product line, the temporary or permanent withdrawal from an application, product or market, damage to our reputation, inventory costs, lawsuits by customers or customers or channel partners end users, or application or product reengineering expenses. The sale and support of solutions containing defects and errors may result in product liability claims and warranty claims. Our insurance may not cover or may be insufficient to cover claims that are successfully asserted against us or our contract suppliers and manufacturers.

Our business may suffer if our strategic alliances are not successful.

We have a number of strategic alliances, including VMware, Inc. and RIM and continue to pursue strategic alliances with other companies. The objectives and goals for a strategic alliance can include one or more of the following: technology exchange, product development, joint sales and marketing, or new-market creation. If a strategic alliance fails to perform as expected or if the relationship is terminated, we could experience delays in product availability or impairment of our relationships with customers, and our ability to develop new solutions in response to industry trends or changing technology may be impaired. In addition, we may face increased competition if a third party acquires one or more of our strategic alliances or if our competitors enter into additional successful strategic relationships.

We have made strategic acquisitions and may make strategic acquisitions in the future. We may not be successful in operating or integrating these acquisitions.

As part of our business strategy, we may consider acquisitions of, or significant investments in, other businesses that offer products, services and technologies complementary to ours. Such acquisitions or investments could materially adversely affect our operating results and the price of our common shares. Acquisitions and other strategic investments involve significant risks and uncertainties, including:

- unanticipated costs and liabilities;
- difficulties in integrating new products, software, businesses, operations and technology infrastructure in an efficient and effective manner;
- difficulties in maintaining customer relations;
- the potential loss of key employees of the acquired businesses;
- the diversion of the attention of our senior management from the operation of our daily business;
- the potential adverse effect on our cash position as a result of all or a portion of an acquisition purchase price being paid in cash;
- the potential significant increase of our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition;
- the potential issuance of securities that would dilute our shareholders percentage ownership;

- the potential to incur restructuring and other related expenses, including significant transaction costs that may be incurred regardless of whether a potential acquisition, merger or strategic investment is completed; and

- the inability to maintain uniform standards, controls, policies and procedures.

Our inability to successfully operate and integrate newly acquired businesses appropriately, effectively and in a timely manner could have a material adverse effect on our ability to take advantage of future growth opportunities and other advances in technology, as well as on our revenues, gross margins and expenses.

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Business interruptions could adversely affect our operations.

Our operations and those of our contract manufacturers and outsourced service providers are vulnerable to interruption by fire, earthquake, hurricane, flood or other natural disaster, power loss, computer viruses, computer systems failure, telecommunications failure, quarantines, national catastrophe, terrorist activities, war and other events beyond our control. Our disaster recovery plans may not be sufficient to address these interruptions. The coverage or limits of our business interruption insurance may not be sufficient to compensate for any losses or damages that may occur.

A breach of the security of our information systems or those of our third-party providers could adversely affect our operating results.

We rely on the security of our information systems and, in certain circumstances, those of our third-party providers, such as vendors, consultants and contract manufacturers, to protect our proprietary information and information of our customers. Information technology system failures, including a breach of our, or our third-party providers , data security, could disrupt our ability to function in the normal course of business by potentially causing, among other things, delays in the fulfillment or cancellation of customer orders, disruptions in the manufacture or shipment of products or delivery of services or an unintentional disclosure of customer, employee or our information. Additionally, despite our security procedures or those of our third-party providers, information systems may be vulnerable to threats such as computer hacking, cyber-terrorism or other unauthorized attempts by third parties to access, modify or delete our or our customers proprietary information. Any such breach could have a material adverse effect on our operating results and our reputation as a provider of mission critical business collaboration and communications solutions. Such consequences could be exacerbated if we or our third-party providers are unable to adequately recover critical systems following a systems failure.

Problems with the infrastructure of carriers may impair the performance of our NetSolutions business unit solutions and cause problems with the network services we provide to our customers.

We purchase network capacity wholesale from carriers, which we resell to our customers in various retail offerings. The infrastructures of these telecom carriers are vulnerable to interruption by fires, earthquakes, hurricanes and other similar natural disasters, as well as power loss, computer viruses, security breaches, acts of terrorism, sabotage, intentional acts of vandalism and similar misconduct. The occurrence of such a natural disaster or misconduct, or outages affecting these carrier networks, could impair the performance of our solutions and lead to interruptions, delays or cessation of network services to our customers. Any impairment of the performance of our solutions or problems in providing our network services to our customers, even if for a limited time, could have an adverse effect on our business, financial condition and operating results.

Governmental regulation could harm our operating results and future prospects.

Governments in a number of jurisdictions in which we conduct business have imposed export license requirements and restrictions on the import or export of some technologies, including some of the technologies used in our solutions. Changes in these or other laws or regulations could adversely affect our revenues. A number of governments also have laws and regulations that govern technical specifications for the provision of our solutions. Changes in these laws or regulations could adversely affect the sales of, decrease the demand for and increase the cost of, our solutions. For example, the Federal Communications Commission may issue regulatory pronouncements from time to time that may mandate new standards for our equipment in the United States. These pronouncements could require costly changes to our hardware and software. Additionally, certain government agencies currently require VoIP products to be certified through a lengthy testing process. Other government agencies may adopt similar lengthy certification procedures, which could delay the delivery of our products and adversely affect our revenues.

Our NetSolutions business unit relies on carriers to provide local and long distance services, including voice and data circuits, and mobile voice and data services to our customers and to provide us with billing information.

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These services are subject to extensive and uncertain governmental regulation on both the federal and local level. An increase or change in government regulation could restrict our ability to provide these services to our customers, which may have a material adverse affect on our business.

Changes in regulatory compliance obligations of critical suppliers may adversely impact our operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, (Dodd-Frank Act), signed into law on July 21, 2010, includes Section 1502, which requires the SEC to adopt additional disclosure requirements related to certain minerals sourced from the Democratic Republic of Congo and surrounding countries, known as conflict minerals, for which such conflict minerals are necessary to the functionality of a product manufactured, or contracted to be manufactured, by an SEC reporting company. The metals covered by the proposed rules, promulgated on December 15, 2010, are commonly referred to as 3TG and include tin, tantalum, tungsten and gold. Our suppliers may use these materials in the production processes. In order to be able to accurately report our compliance with Section 1502, we will have to perform supply chain due diligence, third-party verification and possibly private sector audits on the sources of these metals. Global supply chains are complicated, with multiple layers and suppliers. Accordingly, we could incur significant costs related to the compliance process. While the impact of Section 1502 on our business is uncertain at this time, we could potentially have difficulty in procuring needed materials from conflict-free sources and in satisfying the associated disclosure requirements.

Adverse resolution of litigation or governmental investigations may harm our operating results or financial condition.

We are a party to lawsuits in the normal course of our business. We may also be the subject of governmental investigations from time to time. Litigation and governmental investigations can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings or governmental investigations are difficult to predict. An unfavorable resolution of lawsuits or governmental investigations could have a material adverse effect on our business, operating results or financial condition.

We are exposed to risks inherent in our defined benefit pension plan.

We maintain a defined benefit pension plan for a number of our past and present employees in the United Kingdom, or Defined Benefit Plan. The Defined Benefit Plan was closed to new employees in June 2001. In November 2012, the Defined Benefit Plan was changed prospectively into a defined contribution plan. The benefits earned by members covered under the Defined Benefit Plan up to the time of change were not impacted. As of April 30, 2013, the projected benefit obligation of $242.9 million exceeded the fair value of the plan assets of $152.4 million, resulting in a pension liability of $90.5 million.

In June 2013, the funding requirements toward the reduction of the accumulated deficit for fiscal 2014 were set at 3.2 million British pounds sterling, increasing by 3% per annum for fiscal 2015 and 2016. The contributions required to fund benefit obligations are based on actuarial valuations, which themselves are based on assumptions and estimates about the long-term operation of the plan, including mortality rates of members, the performance of financial markets and interest rates. Our funding requirements for future years may increase from the current levels. Changes to pension legislation in the United Kingdom may adversely affect our funding requirements. In addition, if the actual operation of the plan differs from our assumptions, additional contributions by us may be required.

Our future success depends on our existing key personnel.

Our success is dependent upon the services of key personnel throughout our organization, including the members of our senior management and software and engineering staff, as well as the expertise of our directors. Competition for highly skilled directors, management, R&D and other employees is intense in our industry and we may not be able to attract and retain highly qualified directors, management, and R&D personnel and other

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employees in the future. In order to improve productivity, a portion of our compensation to employees and directors is in the form of stock option grants, and as a consequence, a depression in the value of our common shares could make it difficult for us to motivate and retain employees and recruit additional qualified directors and personnel. All of the foregoing may negatively impact our ability to retain or attract employees, which may adversely impact our ability to implement a management succession plan as and if required and on a timely basis. We currently do not maintain corporate life insurance policies on the lives of our directors or any of our key employees.

The risks associated with Sarbanes-Oxley regulatory compliance may have a material adverse effect on us.

We are required to document and test our internal control over financial reporting pursuant to Section 404 of the United States Sarbanes-Oxley Act of 2002, so that our management can certify as to the effectiveness of our internal controls and our independent registered chartered accountants can render an opinion on the effectiveness of our internal controls over financial reporting. If our independent registered chartered accountants cannot render an opinion or if material weaknesses in our internal control are identified, we could be subject to regulatory scrutiny and a loss of public confidence.

Risks Related to our Common Shares

Our stock price in the past has been volatile, and may continue to be volatile or may decline regardless of our operating performance, and investors may not be able to resell shares at or above the price at which they purchased the shares.

Our stock is publicly traded on The Nasdaq Global Market, or NASDAQ, and the Toronto Stock Exchange, or TSX. At times, the stock price has been volatile. The market price of our common shares may fluctuate significantly in response to numerous factors, many of which are beyond our control and which may be accentuated due to the relatively low average daily trading volume in our common shares. The factors include:

- fluctuations in the overall stock market;
- our quarterly operating results;
- sales of our common shares by principal security holders;
- the exercise of options and subsequent sales of shares by option holders, including those held by our senior management and other employees;
- departures of key personnel;
- future announcements concerning our or our competitors businesses;
- the failure of securities analysts to cover our company and/or changes in financial forecasts and recommendations by securities analysts;
- a rating downgrade or other negative action by a ratings organization;
- actual or anticipated developments in our competitors businesses or the competitive landscape generally;

- litigation involving us, our industry, or both;
- general market, economic and political conditions;
- regulatory developments; and
- natural disasters, terrorist attacks and acts of war.

In addition, the stock markets, and in particular NASDAQ and TSX, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or

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disproportionate to the operating performance of those companies. In the past, stockholders have initiated securities class action litigation following declines in stock prices of technology companies. Any future litigation may subject us to substantial costs, divert resources and the attention of management from our business, which could harm our business and operating results.

Each of the Francisco Partners Group and the Matthews Group is a significant security-holder and each has the potential to exercise significant influence over matters requiring approval by our shareholders and, in the case of the Francisco Partners Group, over matters requiring approval by our board.

As of June 7, 2013, Francisco Partners Management, LLC and certain of its affiliates, or the Francisco Partners Group, and Dr. Matthews and certain entities controlled by Dr. Matthews, or the Matthews Group, beneficially controlled approximately 38.0% and 23.0%, respectively, of the voting power of our share capital. Pursuant to a shareholders agreement, or the Shareholders Agreement, between the Company, the Francisco Partners Group and the Matthews Group dated as of April 27, 2010, the Francisco Partners Group and the Matthews Group collectively have the right to nominate 50% of our directors, provided certain criteria are met. The Shareholders Agreement also provides that we may not take certain significant actions without the approval of the Francisco Partners Group, so long as they own at least 15% of our outstanding common shares. These actions include:

- amendments to our articles or by-laws;
- issuance of any securities that are senior to our common shares in respect of dividend, liquidation preference or other rights and privileges;
- issuance of equity securities or rights, options or warrants to purchase equity securities, with certain exceptions where we issue securities pursuant to our 2006 Equity Incentive Plan, in connection with acquisitions that involve the issuance of less than $25 million of our securities, upon the conversion of our currently outstanding warrants, as consideration paid to consultants for services provided to us, or in connection with technology licensing or other non-equity interim financing transactions;
- declaring or paying any dividends or making any distribution or return of capital, whether in cash, in stock or in specie, on any equity securities;
- incurring, assuming or otherwise becoming liable for debt obligations, incurring additional indebtedness in connection with our leasing program, or incurring up to $50 million in new indebtedness;
- mergers, acquisitions, sales of assets or material subsidiaries, or the entering into any joint venture, partnership or similar arrangement that have a value of more than $25 million per such transaction;
- any change in the number of directors that comprise our board of directors;
- an amalgamation, merger or other corporate reorganization by the Company with or into any other corporation (other than a short-form amalgamation with a wholly-owned subsidiary), an agreement to sell or sale of all or substantially all of the assets of the Company or other transaction that has the effect of a change of control of the Company; and
- any liquidation, winding up, dissolution or bankruptcy or other distribution of the assets of the Company to its shareholders.

Such powers held by the Francisco Partners Group could have the effect of delaying, deterring or preventing a change of control, business combination or other transaction that might otherwise be beneficial to our shareholders. Also, each of the Francisco Partners Group and the

Matthews Group may have interests that differ from the interests of our other shareholders.

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The Francisco Partners Group and the Matthews Group and the persons whom they nominate to our board of directors may have interests that conflict with our interests and the interests of our other shareholders.

The Francisco Partners Group and the Matthews Group and the persons whom they nominate to our board of directors may have interests that conflict with, or are divergent from, our own interests and those of our other shareholders. Conflicts of interest between our principal investors and us or our other shareholders may arise. Our articles of incorporation do not contain any provisions designed to facilitate resolution of actual or potential conflicts of interest, or to ensure that potential business opportunities that may become available to our principal investors and us will be reserved for or made available to us. In addition, our significant concentration of share ownership may adversely affect the trading price of our common shares because investors may perceive disadvantages in owning shares in companies with controlling shareholders.

Some of our directors have interests that may be different than our interests.

We do business with certain companies that are related parties, such as Wesley Clover and its subsidiaries. Wesley Clover is controlled by Dr. Matthews. Our directors owe fiduciary duties, including the duties of loyalty and confidentiality, to us. Our directors that serve on the boards of companies that we do business with also owe similar fiduciary duties to such other companies. The duties owed to us could conflict with the duties such directors owe to these other companies.

Ownership of our common shares by the Francisco Partners Group and the Matthews Group as well as provisions contained in our articles of incorporation and in certain anti-trust and foreign investment legislation, may reduce the likelihood of a change of control occurring and, as a consequence, may deprive shareholders of the opportunity to sell their common shares at a control premium.

The voting power of the Francisco Partners Group and the Matthews Group, respectively, under certain circumstances could have the effect of delaying or preventing a change of control and may deprive our shareholders of the opportunity to sell their common shares at a control premium. In addition, provisions of our articles of incorporation and Canadian and U.S. law may delay or impede a change of control transaction. Our articles of incorporation permit us to issue an unlimited number of common and preferred shares. Limitations on the ability to acquire and hold our common shares may be imposed under the *Hart-Scott-Rodino Act*, the *Competition Act* (Canada) and other applicable antitrust legislation. Such legislation generally permits the relevant governmental authorities to review any acquisition of control over or of significant interest in us, and grants the authority to challenge or prevent an acquisition on the basis that it would, or would be likely to, result in a substantial prevention or lessening of competition.

In addition, the *Investment Canada Act* subjects an acquisition of control of a Canadian business (as those terms are defined therein) by a non-Canadian to government review if the book value of the Canadian business assets as calculated pursuant to the legislation exceeds a threshold amount. A reviewable acquisition may not proceed unless the relevant minister is satisfied that the investment is likely to be of net benefit to Canada. Any of the foregoing could prevent or delay a change of control and may deprive our shareholders of the opportunity to sell their common shares at a control premium.

You may be unable to bring actions or enforce judgments against us or certain of our directors and officers under U.S. federal securities laws.

We are incorporated under the laws of Canada, and our principal executive offices are located in Canada. A majority of our officers and certain of our directors named in this Report reside principally in Canada and a substantial portion of our assets and all or a substantial portion of the assets of these persons are located outside the United States. Consequently, it may not be possible for you to effect service of process within the United States upon us or those persons. Furthermore, it may not be possible for you to enforce judgments obtained in U.S. courts based upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States against us or those persons. There is doubt as to the enforceability in original actions in Canadian courts of

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liabilities based upon the U.S. federal securities laws, and as to the enforceability in Canadian courts of judgments of U.S. courts obtained in actions based upon the civil liability provisions of the U.S. federal securities laws.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We do not own any real property. The following table outlines significant properties that we currently lease:

Location	Purpose	Area(In Square Feet)	Expiration Date of Lease
Ottawa, Canada	Corporate Head Office/Sales/R&D	226,000	February 15, 2016
Ottawa, Canada	Warehouse	9,000	February 15, 2016
Caldicot, United Kingdom	U.K. and EMEA Regional Headquarters	45,200	March 9, 2021
Reno, NV	Office/Sales	77,000	November 14, 2018
Mesa, AZ	Office/Sales/R&D	83,000	April 30, 2023
Mesa, AZ	Warehouse	38,000	March 31, 2018

The Ottawa facilities are leased from Kanata Research Park Corporation, or KRPC, a company controlled by Dr. Matthews, under terms and conditions reflecting what management believed were prevailing market conditions at the time the lease was entered into.

In addition to these significant properties, we also lease a number of regional sales offices throughout the world, including offices:

- throughout the U.S. and Canada, including sales-service offices and distribution, demonstration and training centers across both countries;
- throughout Europe, the Middle East and Africa, or EMEA, including the United Kingdom, France and the Netherlands;
- in Asia-Pacific, including Hong Kong (China), Singapore and Sydney (Australia); and
- in the Caribbean and Latin America, including in Mexico City (Mexico).

Item 3. Legal Proceedings

We are a party to a number of legal proceedings, claims or potential claims arising in the normal course of and incidental to our business. Management has determined that any monetary liability or financial impact of such claims or potential claims to which we might be subject after settlement agreement or final adjudication would not be material to our consolidated financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosure

Not Applicable.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common shares are traded on The Nasdaq Global Market (trading symbol: MITL) and the Toronto Stock Exchange (TSX) (trading symbol: MNW). The following table presents the high and low sale prices on The Nasdaq Global Market for our common stock for the periods indicated:

	High	Low
Year ended April 30, 2011		
First Quarter	$ 12.13	$ 7.58
Second Quarter	$ 9.43	$ 5.11
Third Quarter	$ 7.77	$ 4.98
Fourth Quarter	$ 5.94	$ 4.01
Year ended April 30, 2012		
First Quarter	$ 5.74	$ 3.73
Second Quarter	$ 4.90	$ 1.92
Third Quarter	$ 3.88	$ 2.26
Fourth Quarter	$ 5.08	$ 2.71
Year ended April 30, 2013		
First Quarter	$ 5.01	$ 3.75
Second Quarter	$ 4.46	$ 2.44
Third Quarter	$ 3.98	$ 2.41
Fourth Quarter	$ 4.09	$ 3.27
Year ended April 30, 2014		
First Quarter (to June 7, 2013)	$ 3.75	$ 3.25

On June 7, 2013, the last reported sales price of our common shares on The Nasdaq Global Market was $3.67 per share.

The following table presents the high and low sale prices on the TSX for our common stock for the periods indicated (in Canadian dollars):

	High	Low
Year ended April 30, 2013		
First Quarter	$ 4.73	$ 4.11
Second Quarter	$ 4.44	$ 4.25
Third Quarter	$ 3.89	$ 2.47
Fourth Quarter	$ 4.19	$ 3.37

Year ended April 30, 2014		
First Quarter (to June 7, 2013)	$ 4.14	$ 3.30

On June 7, 2013, the last reported sales price of our common shares on the TSX was $3.75 Canadian dollars per share.

Shareholders

As of June 7, 2013, we had 1,468 shareholders of record (as registered shareholders), as determined by the Company based on information supplied by Computershare Investor Services, Inc.

Because many of our common shares are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of beneficial shareholders represented by these record holders.

Dividend Policy

We have never declared or paid cash dividends on our common shares. We intend to retain any future earnings to fund the development and growth of our business and we do not currently anticipate paying dividends on our common shares for the foreseeable future. Any determination to pay dividends to holders of our common shares in the future will be at the discretion of our board of directors and will depend on many factors, including our financial condition, earnings, legal requirements and other factors as our board of directors deems relevant. In addition, our outstanding credit agreements limit our ability to pay dividends and we may in the future become subject to debt instruments or other agreements that further limit our ability to pay dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth, as of the end of our last fiscal year, (a) the number of securities that could be issued upon exercise of outstanding options and vesting of outstanding restricted stock units and restricted stock awards under our equity compensation plans, (b) the weighted average exercise price of outstanding options under such plans, and (c) the number of securities remaining available for future issuance under such plans, excluding securities that could be issued upon exercise of outstanding options.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security-holders (1)	5,927,051	$ 5.15	3,574,064
Equity compensation plans not approved by security-holders (2)	515,175	5.16	
Total	6,442,226	$ 5.15	3,574,064

(1) As of April 30, 2013, 6,442,226 common shares were issuable upon exercise of stock options, granted under our employee stock option plan adopted September 7, 2006, or 2006 Equity Incentive Plan, or under inducement stock options not approved by security-holders. An additional 3,574,064 common shares were reserved for issuance under the 2006 Equity Incentive Plan. The aggregate number of common shares that may be issued under the 2006 Equity Incentive Plan and all other security-based compensation arrangements (including those already issued under the 2006 Equity Incentive Plan) is 10,406,469 common shares, of which 5,927,051 are outstanding and 905,354 have been exercised. Common shares subject to outstanding awards under our 2006 Equity Incentive Plan which lapse, expire or are forfeited or terminated will, subject to plan limitations, again become available for grants under this plan.

(2) Options to acquire 515,175 common shares were granted as inducement options to our CEO, Richard McBee, as a component of his employment compensation. These options are outside of the pool of stock options available for grant under the 2006 Equity Incentive Plan, and were approved by our Board of Directors on January 19, 2011.

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Item 6. Selected Financial Data

The following tables present our selected historical consolidated financial and other data and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical Consolidated Financial Statements and notes thereto included elsewhere in this Report. Our historical consolidated financial information may not be indicative of our future performance. Our Consolidated Financial Statements are reported in U.S. dollars and have been prepared in accordance with U.S. GAAP.

	Fiscal Year Ended April 30,				
	2013	2012	2011	2010	2009
	(in millions, except per share data)				
Consolidated Statement of Operations Data					
Revenues	$ 576.9	$ 611.8	$ 589.3	$ 599.1	$ 684.1
Cost of revenues	256.3	282.4	281.9	288.6	343.1
Gross margin	320.6	329.4	307.4	310.5	341.0
Expenses:					
Selling, general and administrative	221.0	222.9	212.8	203.6	239.2
Research and development	55.7	58.6	61.3	57.6	66.2
Special charges and restructuring costs	20.3	17.1	15.5	5.2	23.3
Loss (gain) on litigation settlement	1.5	1.5	1.0	(5.5)	
Impairment of goodwill					284.5
	298.5	300.1	290.6	260.9	613.2
Operating income (loss) from continuing operations	22.1	29.3	16.8	49.6	(272.2)
Interest expense	(19.7)	(18.8)	(20.0)	(29.8)	(40.1)
Debt and warrant retirement costs	(2.6)		(0.6)	(1.0)	
Fair value adjustment on derivative instruments			1.0	7.4	100.2
Other income (expense), net	1.3	(0.7)	0.8	0.9	(0.8)
Income tax recovery	8.8	39.4	88.4	9.0	19.2
Net income (loss) from continuing operations	9.9	49.2	86.4	36.1	(193.7)
Net income (loss) from discontinued operations	(3.7)	0.6	1.7	1.1	0.2
Net income (loss)	$ 6.2	$ 49.8	$ 88.1	$ 37.2	$ (193.5)
Net income (loss) attributable to common shareholders (1)	$ 6.2	$ 49.8	$ 88.1	$ (107.3)	$ (234.5)
Net income (loss) per common share Basic:					
Net income (loss) per share from continuing operations	$ 0.19	$ 0.92	$ 1.63	$ (7.37)	$ (16.39)
Net income (loss) per share from discontinued operations	$ (0.07)	$ 0.01	$ 0.03	$ 0.07	$ 0.01
Net income (loss) per common share	$ 0.12	$ 0.93	$ 1.66	$ (7.30)	$ (16.38)
Net income (loss) per common share Diluted:					
Net income (loss) per share from continuing operations	$ 0.18	$ 0.88	$ 1.54	$ (7.37)	$ (16.39)
Net income (loss) per share from discontinued operations	$ (0.07)	$ 0.01	$ 0.03	$ 0.07	$ 0.01
Net income (loss) per common share	$ 0.11	$ 0.89	$ 1.57	$ (7.30)	$ (16.38)
Other Financial Data					
Adjusted EBITDA (3):					
Adjusted EBITDA from continuing operations	$ 85.0	$ 86.9	$ 73.5	$ 88.2	$ 78.4
Adjusted EBITDA from discontinued operations	(1.3)	1.1	2.6	1.6	0.3
Adjusted EBITDA	$ 83.7	$ 88.0	$ 76.1	$ 89.8	$ 78.7

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	2013	2012	2011	2010	2009
			Fiscal Year Ended April 30, (in millions, except per share data)		
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 69.0	$ 78.7	$ 73.9	$ 76.6	$ 28.4
Total assets	$ 656.4	$ 687.2	$ 672.2	$ 641.0	$ 623.1
Total debt, including capital leases	$ 288.1	$ 311.8	$ 323.3	$ 349.8	$ 454.8
Redeemable shares (2)	$	$	$	$	$ 249.5
Common shares	$ 810.4	$ 809.4	$ 805.5	$ 802.8	$ 277.8
Warrants	$ 39.1	$ 55.6	$ 55.6	$ 55.6	$ 56.6
Total shareholders equity (deficiency)	$ 84.0	$ 89.8	$ 49.5	$ (54.9)	$ (430.1)

(1) Net loss attributable to common shareholders for fiscal 2009 and fiscal 2010 includes the effect of then-outstanding preferred shares.

(2) The redeemable shares consisted of 0.3 million Class 1 Preferred Shares. The Class 1 Preferred Shares were converted into common shares in conjunction with the April 2010 Initial Public Offering (IPO).

(3) Adjusted EBITDA:

The following table presents a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable U.S. GAAP measure, for each of the periods indicated:

	2013	2012	2011	2010	2009
			Fiscal Year Ended April 30, (in millions)		
Net income (loss)	$ 6.2	$ 49.8	$ 88.1	$ 37.2	$ (193.5)
Net loss (income) from discontinued operations	3.7	(0.6)	(1.7)	(1.1)	(0.2)
Net income (loss) from continuing operations	9.9	49.2	86.4	36.1	(193.7)
Adjustments:					
Amortization and depreciation	35.8	33.4	34.0	34.4	38.0
Stock-based compensation	4.2	4.8	4.7	3.3	2.4
Special charges and restructuring costs	20.3	17.1	15.5	5.2	23.3
Loss (gain) on litigation settlement	1.5	1.5	1.0	(5.5)	
Interest expense	19.7	18.8	20.0	29.8	40.1
Debt and warrant retirement costs	2.6		0.6	1.0	
Fair value adjustment on derivative instruments			(1.0)	(7.4)	(100.2)
Foreign exchange loss (gain)	(0.2)	1.5	0.7	0.3	3.2
Income tax recovery	(8.8)	(39.4)	(88.4)	(9.0)	(19.2)
Impairment of goodwill					284.5
Adjusted EBITDA from continuing operations	85.0	86.9	73.5	88.2	78.4
Adjusted EBITDA from discontinued operations (1)	(1.3)	1.1	2.6	1.6	0.3
Adjusted EBITDA	$ 83.7	$ 88.0	$ 76.1	$ 89.8	$ 78.7

(1) The reconciliation of net income from discontinued operations to Adjusted EBITDA from discontinued operations for fiscal 2012 through fiscal 2009 consists of an adjustment for income tax expense $0.5 million, $0.9 million, $0.5 million and $0.1 million, respectively. The reconciliation of net loss from discontinued operations to Adjusted EBITDA from discontinued operations for fiscal 2013 consists of special charges and restructuring costs of $1.6 million, non-cash impairment of goodwill of $1.9 million and income tax recovery of $1.1 million.

We define Adjusted EBITDA as net income (loss), adjusted for the items as noted in the above tables. Adjusted EBITDA is not a measure calculated in accordance with U.S. GAAP. Adjusted EBITDA should not be considered as an alternative to net income, income from operations or any other measure of financial

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performance calculated and presented in accordance with U.S. GAAP. We prepare Adjusted EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. We encourage you to evaluate these adjustments and the reasons we consider them appropriate, as well as the material limitations of non-GAAP measures and the manner in which we compensate for those limitations.

We use Adjusted EBITDA:

- as a measure of operating performance;
- for planning purposes, including the preparation of our annual operating budget;
- to allocate resources to enhance the financial performance of our business; and
- in communications with our board of directors concerning our financial performance.

We believe that the use of Adjusted EBITDA provides consistency and comparability of, and facilitates, period to period comparisons, and also facilitates comparisons with other companies in our industry, many of which use similar non-GAAP financial measures to supplement their U.S. GAAP results.

We believe Adjusted EBITDA may also be useful to investors in evaluating our operating performance because securities analysts use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of companies. Our investor and analyst presentations also include Adjusted EBITDA. However, we also caution you that other companies in our industry may calculate Adjusted EBITDA or similarly titled measures differently than we do, which limits the usefulness of Adjusted EBITDA as a comparative measure.

Moreover, although Adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, Adjusted EBITDA and similar non-GAAP measures have limitations as analytical tools, and you should not consider them in isolation or as a substitute for an analysis of our results of operations as reported under U.S. GAAP.

Some of the limitations of Adjusted EBITDA are that it does not reflect:

- interest income or interest expense;
- cash requirements for income taxes;
- foreign exchange gains or losses;
- cash payments made in connection with litigation settlements;
- significant cash payments made in connection with special charges and restructuring costs;
- employee stock-based compensation; and

cash requirements for the replacement of assets that have been depreciated or amortized.

We compensate for the inherent limitations associated with using Adjusted EBITDA through disclosure of such limitations, presentation of our financial statements in accordance with U.S. GAAP and reconciliation of Adjusted EBITDA to the most directly comparable U.S. GAAP measure, net income (loss).

Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the April 30, 2013 Consolidated Financial Statements and accompanying Notes included elsewhere in this Report. All amounts are expressed in U.S. dollars unless otherwise noted. The following discussion includes forward-looking statements that are not historical facts but reflect our current expectation regarding future results. Actual results may differ materially from the results discussed in the forward-looking statements because of a number of risks and uncertainties, including the matters discussed below. Please refer to Risk Factors included elsewhere in this Report for a further description of risks and uncertainties affecting our business and financial results. Historical trends should not be taken as indicative of future operations and financial results.

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Overview

Mitel is a global provider of business communications and collaboration software and services. Our communications solutions meet the needs of customers in over 100 countries. Mitel operates as three business units; Mitel Communications Solutions (MCS), Mitel NetSolutions (NetSolutions) and Other.

MCS

MCS provides a wide range of unified communication and collaboration (UCC) solutions to organizations of all types and sizes worldwide. While generally focused on the small-to-medium sized enterprise (SME) market, we also have a strong and growing presence in the large enterprise market with a portfolio of products which supports up to 65,000 users. Our IP-based communications solutions consist of a combination of cloud- and premises-based IP telephony platforms, which we deliver as software, appliances and desktop devices, and a suite of UCC applications that integrate voice, video and data communications with business applications. We refer to these IP telephony platforms and UCC applications as integrated communications solutions. We believe that our solutions, which may include associated managed and network services, enable our customers to realize significant cost benefits and to conduct their business more effectively.

We have invested heavily in the research and development (R&D) of our IP-based communications solutions to take advantage of the telecommunications industry shift from traditional PBX systems to IP-based cloud and premises-based communications solutions. Our R&D has produced a global portfolio of over 1,700 patents and pending applications, and provides us with the expertise to anticipate market trends and meet the current and future needs of our customers. We believe our early and sustained R&D investment in IP-based communications solutions has positioned us well to capitalize on the industry shift to IP-based communications solutions.

NetSolutions

NetSolutions is a U.S.-based communications service provider. We focus on delivering leading telecommunications solutions to businesses with the following services:

- Mitel AnyWare, a turnkey cloud-based service that enables business customers to fulfill their communications requirements without the need to own and maintain a traditional phone system;
- Mitel Mobile Solutions, providing business-class 3G and 4G wireless voice, text and Internet services on a nationwide network; and
- Mitel NetSolutions Voice and Data, Mitel s Competitive Local Exchange Carrier (CLEC), which provides businesses with voice and data communication services in all 50 U.S. states.

Other

Our Other division sells products and related services that complement the Company s core unified communications offering.

Significant Events and Recent Developments

On June 17, 2013, we completed the acquisition of prairieFyre Software Inc. (prairieFyre), a global provider of contact center, business analytics, and workforce optimization software and services. As a highly integrated original equipment manufacturer (OEM), substantially all of prairieFyre s revenue was derived from Mitel and our channel partners. The acquisition provides us with a cornerstone development platform to address increasing demand for cloud-based contact center solutions. Our net cash cost for the acquisition was approximately $20.0 million for a 100% equity ownership interest in prairieFyre.

In March 2013, we completed the sale of our DataNet business, which distributed a wide variety of third-party telephony and data products and related services. As a result, the operating results of DataNet have been

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reported as discontinued operations on the consolidated statements of operations up to the time of sale and the assets of DataNet have been classified as held for sale at April 30, 2012.

In February 2013, we completed a refinancing of our senior long-term debt by entering into new credit agreements, consisting of an undrawn $40.0 million first lien revolving credit facility, a $200.0 million first lien term loan and an $80.0 million second lien term loan (the new credit facilities). Proceeds of $276.4 million from the new credit facilities (net of original issue discount of $3.6 million), along with $36.4 million of cash on hand, were used to repay the remaining $174.0 million outstanding first lien term loan and $130.0 million outstanding second lien term loan (the prior credit facilities), as well as fees and expenses related to the transaction.

During fiscal 2013, we announced changes to our senior management team. In March 2013, Joseph Vitalone joined Mitel as Executive Vice-President, Sales for the Americas region. Mr. Vitalone replaced Philip Keenan, who departed Mitel in February 2013.

In the third quarter of fiscal 2013, we recorded special charges and restructuring costs of $5.7 million for diligence costs incurred during exclusive negotiations with a third party relating to a potential acquisition. We have concluded that we will not proceed with the transaction, but we continue to be subject to a non-disclosure agreement.

In the second quarter of fiscal 2013, in response to macro-economic concerns, we implemented a restructuring plan that included the termination of approximately 200 employees as well as the closure of excess facilities.

In the first quarter of fiscal 2012, we reorganized our business into three business units: MCS, NetSolutions and Other. We believe this new organizational structure has simplified our business and allows us to better serve our customers and to better focus our research and development expenses. In conjunction with reorganizing our business, our MCS business unit focused on a channel-partner go-to-market business model beginning in May 2011. As a result our MCS channel partner revenue increased in fiscal 2012, when compared to fiscal 2011, which more than offset an expected decline in our direct business.

Operating Results

Our revenues for the year ended April 30, 2013 were $576.9 million, as compared to $611.8 million for the year ended April 30, 2012. The decrease in revenues is due primarily to lower sales from our MCS segment as a result of a challenging macro-economic environment in most regions. Our operating income decreased to $22.1 million in fiscal 2013 from $29.3 million in fiscal 2012 as lower revenues were partially offset by an increased gross margin percentage and lower operating expenses, as described below.

Trends

IP-based communications

Businesses continue to migrate from legacy telephony networks to IP-based environments, which can address their voice, data, video and business applications requirements within a single converged network. The transition to IP-based communications solutions provides significant benefits to businesses, including enhanced workforce productivity, reduced infrastructure costs and the creation of highly functional applications that can be distributed easily. We have invested heavily and continue to innovate in IP-based solutions and therefore believe we are well positioned to benefit from this transition.

The evolution to converged IP-based networks has given rise to two important trends: the transition from hardware-based to software-based communications solutions and the ability to deliver integrated UCC applications. The transition to software-based communications solutions provides operational cost benefits and the ability to integrate communications with other business processes and applications. UCC allows business customers to move beyond basic fixed telephony and disparate communications tools toward integrated multi-media communications and collaboration between users, wherever they may be located. UCC includes the integrated use of various media and messaging, such as voice, video and data. Our leadership in software-based

communications solutions has provided us with the foundation for continued innovation in IP-based communications and UCC. We believe our comprehensive, integrated IP-based communications offering provides our customers with significant flexibility, cost efficiency and enhanced employee productivity as they transition to converged IP-based environments and UCC.

Virtualization

Corporate data centers have experienced a significant increase in the use of virtualization technology as a strategy to reduce capital and operating expenses as well as providing improved business continuity solutions through new high availability architectures. We believe that businesses can significantly benefit from the virtualization of UCC and IP-based communications solutions by allowing these products to integrate fully with the data center infrastructure and related management processes and eliminating telecommunication specific infrastructure and processes. Our early investment in this technology across our product portfolio allows our customers to benefit using either our products on VMware or with our Multi-Instance Communications Director (MICD) product.

Hosted, cloud-based solutions

SMEs are increasingly interested in outsourcing management of their communications requirements through managed service offerings. Managed services may include equipment, installation, ongoing support, network services, or various professional services. Managed service offerings allow businesses to focus on their core expertise and, in some cases, substitute what would otherwise be a large capital expenditure for a predictable operating expense. We believe that we are well positioned to benefit from this trend through our hosted cloud-based UCC offerings from NetSolutions, which are delivered as retail, wholesale and Infrastructure as a Service (IaaS) offers. Virtualization technology is also serving as the base for cloud computing solutions enabling businesses to benefit from data center outsourcing and data center elasticity where data center resources and associated services may be acquired and dispensed with, depending on a business s needs.

Mobility

As employees increasingly work from outside the office, they require technology tools that enable them to work efficiently, regardless of their location. As a result, IT environments are being challenged to be mobile device agnostic while continuing to provide a secure, yet seamless experience for employees and administrators. Our investments in various fixed-mobile convergence solutions as well as virtualization and hosted, cloud-based solutions allow us to provide solutions in an increasingly mobile environment.

Key Performance Indicators

Key performance indicators that we use to manage our business and evaluate our financial results and operating performance include: revenues, gross margins, operating costs, operating income, net income, cash flows from operations, and Adjusted EBITDA.

Revenue and gross margin performance is evaluated from both a reportable segment and geographical perspective. Revenue and gross margin performance are evaluated by comparing our actual results against both management forecasts and prior period results.

Operating expenses, operating income and net income are each evaluated by comparing our actual results against both management forecasts and prior period results.

Cash flow from operations is the key performance indicator with respect to cash flows. As part of monitoring cash flow from operations, we also monitor our days sales outstanding, our inventory turns and our days expenses in payables outstanding.

Adjusted EBITDA, a non-GAAP measure, is evaluated by comparing actual results to management forecasts and prior period results. For a definition and explanation of Adjusted EBITDA, as well as a reconciliation of Adjusted EBITDA to net income (loss), see Item 6*, Selected Financial Data* .

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In addition to the above indicators, from time to time, we also monitor performance in the following areas:

- status of key customer contracts;
- the achievement of expected milestones of our key R&D projects; and
- the achievement of our key strategic initiatives.

In an effort to ensure we are creating value for and maintaining strong relationships with our customers, we monitor the status of key customer contracts to monitor customer service levels. With respect to our R&D projects, we measure content, quality and timeliness against project plans.

Sources of Revenues and Expenses

The following describes our sources of revenues and expenses.

Revenues and Cost of Revenues MCS

Our MCS segment generates revenues principally from the sale of integrated communications solutions to business customers. Our distribution network includes value-added resellers, or channel partners, and a direct sales staff, or direct channel.

The typical system includes a combination of IP phones, switches and software applications. Our core software (essential software) is integrated with hardware and function together to deliver the essential functionality of the integrated system product. We also sell additional software (non-essential software) which provides increased features and functions, but is not essential to the overall functionality of the integrated system products. The initial purchase is generally a multiple-element arrangement, where the customer bundles together the hardware, essential software, non-essential software and an initial period of post-contract support. In addition, the initial purchase may include installation, training and up to five years of post-contractual support. After the initial purchase, if the enterprise customer increases end users and/or functionality, it may add more hardware, software, and related post-contractual support by purchasing them separately.

We generally recognize hardware and software revenue when delivery has occurred, in accordance with the contract terms. Revenue related to post-contract support, including technical support and unspecified when-and-if available software upgrades, is recognized ratably over the contract term.

In a transaction containing a sales-type lease, hardware and software revenues are recognized at the present value of the payments allocated to the hardware and software lease elements. We regularly sell the rental payments from sales-type leases to financial institutions with the cash flow streams discounted at prevailing rates at the time of sale. Gains or losses resulting from the sale of net rental payments from leases are recorded as net sales within MCS revenues.

Our standard hardware warranty period extends up to 15 months from the date of sale. At the time product revenues are recognized, an accrual for estimated warranty costs is recorded as a component of cost of revenues based on prior claims experience. We offer various cooperative marketing programs to assist our channel partners in marketing our products. Allowances for these programs are recorded as marketing expenses at the time of shipment based on contract terms and prior experience.

MCS cost of revenues is comprised of product and service costs. Product cost of revenues is primarily comprised of cost of goods purchased from third-party electronics manufacturing services and inventory provisions, engineering costs, warranty costs and other supply chain management costs. Depreciation of property and equipment relating to cost of revenues is also included in cost of revenues. Service cost of revenues is primarily comprised of labor costs.

Revenues and Cost of Revenues NetSolutions

NetSolutions primarily provides voice and data network services and wireless services to business customers on our partners nationwide networks, which we bill on a monthly basis. Revenues from network services are recognized as the services are provided. Cost of revenues from network services are recognized as the costs are incurred.

Revenues and Cost of Revenues Other

Other revenues include product revenues and cost of revenues, recognized when the risk and rewards have transferred to the customer, and service revenues and cost of revenues, recognized as the services are provided and costs are incurred.

Sales, General and Administrative Expenses (SG&A)

SG&A expenses consist primarily of costs relating to our sales and marketing activities, including salaries and related expenses, advertising, trade shows and other promotional activities and materials, administrative and finance functions, legal and professional fees, insurance and other corporate and overhead expenses. Depreciation of property and equipment relating to SG&A activities is also included. SG&A also includes significant amounts recorded for the amortization of purchased intangible assets from the acquisition of Inter-Tel in fiscal 2008.

Research and Development Expenses

R&D expenses consist primarily of salaries and related expenses for engineering personnel, materials and consumables and subcontract service costs. Depreciation and amortization of R&D assets are included in R&D expenses.

Special Charges and Restructuring Costs

Special charges and restructuring costs are primarily driven by restructuring activities, product line exits and other charges undertaken to improve our operational efficiency as well as acquisition-related costs. Restructuring costs consist primarily of workforce reduction costs, lease termination obligations and asset write-offs. We reassess the accruals at each reporting period to reflect changes in the timing or amount of estimated restructuring and termination costs on which the original estimates were based. New restructuring accruals or reversals of previous accruals are recorded in the period of change. Acquisition-related costs consist primarily of diligence costs undertaken for potential acquisitions. Acquisition-related costs are expensed in the period incurred.

Comparability of Periods

Our functional currency is the U.S. dollar and our consolidated financial statements are prepared with U.S. dollar reporting currency using the current rate method. Assets and liabilities of subsidiaries with a functional currency other than the U.S. dollar are translated into U.S. dollars at the exchange rates in effect at the balance sheet date while revenue and expense items are translated at the monthly average exchange rates for the relevant period. The resulting unrealized gains and losses have been included as part of the cumulative foreign currency translation adjustment which is reported as other comprehensive income. Changes in foreign-exchange rates from period to period can have a significant impact on our results of operations and financial position, which may also make the comparability of periods complex.

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Results of Operations Fiscal 2013 Compared to Fiscal 2012

The following table sets forth our comparative results of operations, both in dollars and as a percentage of total revenues:

	Fiscal Year Ended April 30, 2013		2012		Change	
	Amounts	% of Revenue	Amounts	% of Revenue	Amount	%
	(in millions, except percentages and per share amounts)					
Revenues	$ 576.9	100.0%	$ 611.8	100.0%	$ (34.9)	(5.7)
Cost of revenues	256.3	44.4%	282.4	46.2%	(26.1)	(9.2)
Gross margin	320.6	55.6%	329.4	53.8%	(8.8)	(2.7)
Selling, general and administrative	221.0	38.3%	222.9	36.4%	(1.9)	(0.9)
Research and development	55.7	9.7%	58.6	9.6%	(2.9)	(4.9)
Special charges and restructuring costs	20.3	3.5%	17.1	2.8%	3.2	18.7
Loss on litigation settlement	1.5	0.3%	1.5	0.2%		
	298.5	51.7%	300.1	49.1%	(1.6)	(0.5)
Operating income	22.1	3.8%	29.3	4.8%	(7.2)	(24.6)
Interest expense	(19.7)	(3.4)%	(18.8)	(3.1)%	(0.9)	(4.8)
Debt retirement costs	(2.6)	(0.5)%			(2.6)	+
Other income (expense)	1.3	0.2%	(0.7)	(0.1)%	2.0	+
Income tax recovery	8.8	1.5%	39.4	6.4%	(30.6)	+
Net income from continuing operations	9.9	1.7%	49.2	8.0%	(39.3)	+
Net income (loss) from discontinued operations	(3.7)	(0.6)%	0.6	0.1%	(4.3)	+
Net income	$ 6.2	1.1%	$ 49.8	8.1%	$ (43.6)	+
Adjusted EBITDA (a non-GAAP measure)						
Adjusted EBITDA from continuing operations	$ 85.0	14.7%	$ 86.9	14.2%	$ (1.9)	(2.2)
Adjusted EBITDA from discontinued operations	(1.3)	(0.2)%	1.1	0.2%	(2.4)	+
Adjusted EBITDA	$ 83.7	14.5%	$ 88.0	14.4%	$ (4.3)	(4.9)
Net income (loss) per common share Basic						
Net income per share from continuing operations	$ 0.19		$ 0.92			
Net income (loss) per share from discontinued operations	$ (0.07)		$ 0.01			
Net income per common share	$ 0.12		$ 0.93			
Net income (loss) per common share Diluted						
Net income per share from continuing operations	$ 0.18		$ 0.88			
Net income (loss) per share from discontinued operations	$ (0.07)		$ 0.01			
Net income per common share	$ 0.11		$ 0.89			

\+ The comparison is not meaningful.

Revenues

Our reportable segments are determined in accordance with how our management views and evaluates our business. The following table sets forth revenues both in dollars and as a percentage of total revenues:

	Fiscal year ended April 30,					
	2013		2012		Change	
	Revenues	% of Revenues	Revenues	% of Revenues	Amount	%
	(in millions, except percentages)					
Mitel Communications Solutions (MCS)	$ 480.3	83.3%	$ 514.7	84.1%	$ (34.4)	(6.7)
NetSolutions	84.2	14.6%	81.0	13.3%	3.2	4.0
Other	12.4	2.1%	16.1	2.6%	(3.7)	(23.0)
	$ 576.9	100.0%	$ 611.8	100.0%	$ (34.9)	(5.7)

MCS revenues decreased by $34.4 million, or 6.7%, in fiscal 2013 compared to fiscal 2012 due primarily to lower volumes across most geographies as a result of a challenging macro-economic environment. In addition, approximately $4.6 million, or an absolute 0.8% of the decrease in revenues was due to unfavorable movements in foreign exchange rates primarily as a result of a 6.7% lower Euro-to-U.S. dollar average exchange rate in fiscal 2013 compared to fiscal 2012.

NetSolutions revenues increased by $3.2 million, or 4.0%, in fiscal 2013 compared to fiscal 2012 due to increased sales of our Mitel AnyWare cloud-based solution.

Other revenues decreased by $3.7 million, or 23.0%, in fiscal 2013 compared to fiscal 2012. The decrease in revenues was due primarily to the completion of a non-core managed service contract at the end of the second quarter of fiscal 2012.

Gross Margin

The following table sets forth gross margin, both in dollars and as a percentage of revenues, for the fiscal years indicated:

	Fiscal year ended April 30,			
	2013		2012	
	Gross Margin	Gross Margin %	Gross Margin	Gross Margin %
	(in millions, except percentages)			
Gross Margin	$ 320.6	55.6%	$ 329.4	53.8%

Gross margin percentage in fiscal 2013 increased by an absolute 1.8% to 55.6% compared to 53.8% for fiscal 2012 primarily from stronger gross margins in the MCS segment due to lower product costs as well as improved product mix as our sales mix continues to trend towards higher margin software products. Gross margin percentages in the NetSolutions segment and Other segment were relatively unchanged in fiscal 2013 compared to fiscal 2012.

We expect gross margins to remain consistent in the near term; however, margins could be higher or lower as a result of a number of factors including variations in revenue mix, competitive pricing pressures, foreign currency movements in regions where revenues are denominated in currencies other than the U.S. dollar, utilization of our professional services personnel and efficiencies in installing our products, and global economic conditions, among other factors.

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Operating Expenses

Selling, General and Administrative (SG&A)

SG&A expenses increased to 38.3% of revenues in fiscal 2013 compared to 36.4% of revenues for fiscal 2012, a decrease of $1.9 million in absolute dollars. Our SG&A expenditures for fiscal 2013 included certain non-cash charges, most significantly $22.3 million (fiscal 2012 $22.3 million) for the amortization of intangible assets related to the fiscal 2008 acquisition of Inter-Tel. In addition, our fiscal 2013 SG&A included $4.2 million (fiscal 2012 $4.8 million) of non-cash compensation expenses associated with employee stock options.

The decrease in SG&A in absolute dollars was largely driven by lower headcount as a result of the restructuring activities during the year. SG&A expenses as a percentage of revenues increased in fiscal 2013 compared to fiscal 2012 due to lower revenues.

We will continue to monitor our cost base closely in an effort to keep our operating expenditures in line with revenue levels achieved in future years. SG&A expenses as a percentage of revenues is highly dependent on revenue levels and could vary significantly depending on actual revenues achieved.

Research and Development

R&D expenses increased to 9.7% of revenues in fiscal 2013 compared to 9.6% of revenues for fiscal 2012, a decrease of $2.9 million in absolute dollars. The decrease in absolute dollars was driven primarily by a reduction in costs from the closure of a research and development facility in Ireland during the second quarter of fiscal 2012.

We have historically invested heavily in R&D, consistent with an aggressive R&D investment strategy which we believe has positioned us well with a broad range of feature-rich, scalable, standards-based and interoperable IP-based communications solutions. Our R&D expenses in absolute dollars can fluctuate depending on the timing and number of development initiatives in any given quarter. R&D expenses as a percentage of revenues is highly dependent on revenue levels and could vary significantly depending on actual revenues achieved.

Special Charges and Restructuring Costs

We recorded special charges and restructuring costs of $20.3 million in fiscal 2013 consisting of $14.6 million relating to restructuring actions taken to lower our operating cost structure and $5.7 million for acquisition-related costs.

During the third quarter of fiscal 2013, we incurred $5.7 million of diligence costs during exclusive negotiations with a third party relating to a potential acquisition that was not consummated.

The special charges and restructuring costs for fiscal 2013 primarily related to restructuring actions taken in the second quarter of fiscal 2013. In response to macro-economic concerns, in August 2012, we implemented a restructuring plan that included the termination of approximately 200 employees, primarily in the U.S., as well as the closure of excess facilities.

At April 30, 2013, our remaining workforce reduction liability consists primarily of salary and related benefits expected to be paid within one year. Our remaining lease termination obligations liability will be reduced over the remaining term of the leases, with $4.4 million of the outstanding $6.2 million balance expected to be paid in fiscal 2014.

We recorded special charges and restructuring costs of $17.1 million in fiscal 2012 as a result of actions taken to lower our operating cost structure. We incurred a net charge of $3.4 million related to the closure of a research and development facility in Ireland. The closure resulted in lease termination obligations and other

charges of $2.2 million and workforce reduction related charges of $3.2 million primarily for the termination of approximately 50 people. In addition, as a result of the closure of this facility, $2.0 million of income was recorded, net against special charges and restructuring costs, related to currency translation adjustments that had previously been deferred through other comprehensive income. The remaining special charges and restructuring costs for fiscal 2012 consist of lease termination obligations and other charges of $7.6 million and workforce reduction related charges of $6.1 million for approximately 200 people. These costs were incurred primarily in the U.S., the U.K. and Canada largely as a result of the May 2011 reorganization of the business as described in *Significant Events and Recent Developments* under the *Overview* section above.

We may take additional restructuring actions in the future to reduce our operating expenses and gain operating efficiencies. The timing and potential amount of such actions will depend on several factors, including future revenue levels and opportunities for operating efficiencies identified by management.

Loss on Litigation Settlement

In fiscal 2013, we recorded a charge of $1.5 million compared to a $1.5 million charge in fiscal 2012 primarily as a result of charges under a fiscal 2007 litigation settlement.

Operating Income

We reported operating income from continuing operations of $22.1 million for fiscal 2013 compared to operating income from continuing operations of $29.3 million for fiscal 2012. The decrease was primarily due to lower revenues, which were partially offset by a higher gross margin percentage in our MCS segment, and lower operating expenses.

Non-Operating Expenses

Interest Expense

Interest expense was $19.7 million in fiscal 2013 compared to $18.8 million in fiscal 2012. Our interest expense in fiscal 2012 and the first 10 months of fiscal 2013 relates predominantly to our prior credit facilities that bore interest based on the LIBOR, plus an applicable margin. Our interest expense for the last two months of fiscal 2013 relates to our new credit facilities (as discussed in *Significant Events and Recent Developments* under the *Overview* section above) that bear interest based on the LIBOR (subject to a 1.25% floor), plus an applicable margin. The increase in interest expense is primarily due to a LIBOR floor and a higher applicable margin in the new credit facilities as compared to the prior credit facilities, which more than offset the effect of lower debt levels due to debt repayments made in fiscal 2012 and fiscal 2013.

For fiscal 2013, the average LIBOR applicable to our credit agreements remained unchanged at 0.4% (fiscal 2012 0.4%).

Our interest expense may fluctuate from period to period depending on the movement in the LIBOR, when the LIBOR is above the 1.25% floor in our new credit facilities.

Debt Retirement Costs

In the fourth quarter of fiscal 2013, we repaid all amounts outstanding under our prior credit facilities (as discussed in *Significant Events and Recent Developments* under the *Overview* section above). As a result, we recorded an expense of $2.6 million primarily for unamortized debt issue costs relating to our prior credit facilities.

In the first quarter of fiscal 2012, we repaid $12.3 million under our prior credit facilities repayment. This repayment did not result in any significant write-off of unamortized financing charges.

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Other Income (Expense)

In fiscal 2013, we recorded other income of $1.3 million compared to other expenses of $0.7 million during fiscal 2012. The other income in fiscal 2013 was due to interest income, amortization of a deferred gain on the sale of land and building in the U.K., and a gain on foreign exchange. Other expense in fiscal 2012 was due to a loss on foreign exchange, partially offset by interest income and amortization of a deferred gain on the sale of land and building in the U.K.

Income Tax Recovery

In fiscal 2013, we assessed the likelihood of the Company s future taxable income and determined there was no significant change from April 30, 2012. In fiscal 2012, we assessed the likelihood of the Company s future taxable income and, largely as a result of increased taxable income during fiscal 2012, we relieved a valuation allowance relating to deferred tax assets primarily in Canada of $35.4 million. At April 30, 2013, there continues to be a valuation allowance of $35.3 million (fiscal 2012 $35.8 million) against deferred tax assets, primarily in the U.K. Future changes in estimates of taxable income could result in a significant change to the valuation allowance.

Excluding the effect of changes in valuation allowance, we recorded a net tax benefit of $8.3 for fiscal 2013 and a net tax benefit of $4.0 million for fiscal 2012. The 2013 and 2012 tax recoveries were due primarily to research and development tax credits.

Net Income from Continuing Operations

Our net income from continuing operations for fiscal 2013 was $9.9 million compared to $49.2 million for fiscal 2012. The decrease in net income from continuing operations was due to a lower tax recovery and lower revenues, which was partially offset by a higher gross margin percentage and lower operating expenses.

Net Income from Discontinued Operations

The DataNet business unit was sold in the fourth quarter of fiscal 2013 (as discussed in *Significant Events and Recent Developments* under the *Overview* section above). As a result, the operations of DataNet have been reported on the consolidated statements of operations as discontinued operations. The following table provides information on the operations of DataNet for the periods presented, in millions:

	Fiscal year ended April 30,	
	2013[(1)]	2012
Revenues	$ 40.7	$ 57.9
Income (loss) from discontinued operations, before taxes	$ (4.8)	$ 1.1
Income tax recovery (expense)	1.1	(0.5)
Net income (loss) from discontinued operations, net of tax	$ (3.7)	$ 0.6

(1) Operating results for the year-ended April 30, 2013 consist of operations up to the date of sale on March 1, 2013.
For the year ended April 30, 2013, the loss from discontinued operations, before taxes consists of a loss from operations up to the time of sale of $1.3 million, a non-cash impairment of goodwill of $1.9 million, a non-cash impairment of inventory of $0.7 million and a net loss on the sale of $0.9 million (consisting of proceeds from disposition of $2.1 million, less the net book value of accounts receivable and inventory sold of $1.6 million and costs and expenses related to the sale of $1.4 million). For the year ended April 30, 2012, the income from discontinued operations, before taxes consisted of income from operations.

Net Income

Our net income for fiscal 2013 was $6.2 million compared to net income of $49.8 million in fiscal 2012. The decrease in net income was due to a lower tax recovery and lower revenues, which was partially offset by a higher gross margin percentage and lower operating expenses.

Adjusted EBITDA

Adjusted EBITDA, a non-GAAP measure, was $83.7 million in fiscal 2013 compared to $88.0 million in fiscal 2012, a decrease of $4.3 million. This decrease was driven by lower gross margin from lower revenues, partially offset by a higher gross margin percentage and lower operating expenses.

For a definition and explanation of Adjusted EBITDA and why we believe it is useful in evaluating our financial condition, as well as a reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, net income, see Item 6, *Selected Financial Data* .

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Results of Operations Fiscal 2012 Compared to Fiscal 2011

The following table sets forth our comparative results of operations, both in dollars and as a percentage of total revenues:

	Fiscal Year Ended April 30,					
	2012		2011		Change	
	Amounts	% of Revenue	Amounts	% of Revenue	Amount	%
	(in millions, except percentages and per share amounts)					
Revenues	$ 611.8	100.0%	$ 589.3	100.0%	$ 22.5	3.8
Cost of revenues	282.4	46.2%	281.9	47.8%	0.5	0.2
Gross margin	329.4	53.8%	307.4	52.2%	22.0	7.2
Selling, general and administrative	222.9	36.4%	212.8	36.1%	10.1	4.7
Research and development	58.6	9.6%	61.3	10.4%	(2.7)	4.4
Special charges and restructuring costs	17.1	2.8%	15.5	2.6%	1.6	10.3
Loss on litigation settlement	1.5	0.2%	1.0	0.2%	0.5	+
	300.1	49.1%	290.6	49.3%	9.5	3.3
Operating income	29.3	4.8%	16.8	2.9%	12.5	74.4
Interest expense	(18.8)	(3.1)%	(20.0)	(3.4)%	1.2	(6.0)
Debt retirement costs			(0.6)	(0.1)%	0.6	+
Fair value adjustment on derivative instruments			1.0	0.2%	(1.0)	+
Other income (expense)	(0.7)	(0.1)%	0.8	0.1%	(1.5)	+
Income tax recovery	39.4	6.4%	88.4	15.0%	(49.0)	+
Net income from continuing operations	49.2	8.0%	86.4	14.7%	(37.2)	+
Net income from discontinued operations	0.6	0.1%	1.7	0.3%	(1.1)	+
Net income	$ 49.8	8.1%	$ 88.1	14.9%	$ 38.3	+
Adjusted EBITDA (a non-GAAP measure)						
Adjusted EBITDA from continuing operations	$ 86.9	14.2%	$ 73.5	12.5%	$ 13.4	18.2
Adjusted EBITDA from discontinued operations	1.1	0.2%	2.6	0.4%	(1.5)	(57.7)
Adjusted EBITDA	$ 88.0	14.4%	$ 76.1	12.9%	$ 11.9	15.6
Net income per common share Basic						
Net income per share from continuing operations	$ 0.92		$ 1.63			
Net income per share from discontinued operations	$ 0.01		$ 0.03			
Net income per common share	$ 0.93		$ 1.66			
Net income per common share Diluted						
Net income per share from continuing operations	$ 0.88		$ 1.54			
Net income per share from discontinued operations	$ 0.01		$ 0.03			
Net income per common share	$ 0.89		$ 1.57			

\+ The comparison is not meaningful.

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Revenues

Our reportable segments are determined in accordance with how our management views and evaluates our business. The following table sets forth revenues both in dollars and as a percentage of total revenues:

	Fiscal year ended April 30,					
	2012		2011		Change	
	Revenues	% of Revenues	Revenues	% of Revenues	Amount	%
	(in millions, except percentages)					
Mitel Communications Solutions (MCS)	$ 514.7	84.1%	$ 491.0	83.3%	$ 23.7	4.8
NetSolutions	81.0	13.3%	78.8	13.4%	2.2	2.8
Other	16.1	2.6%	19.5	3.3%	(3.4)	(17.4)
	$ 611.8	100.0%	$ 589.3	100.0%	$ 22.5	3.8

MCS revenues increased by $23.7 million, or 4.8%, in fiscal 2012 compared to fiscal 2011 due primarily to stronger volumes in the U.S., Canada and the U.K. In addition, a portion of the increase in revenues in the U.K. was due to favorable movements in foreign exchange rates. In the U.S., as a result of our business reorganization, we saw increased revenues through our channel partners. This growth was partially offset by an expected decrease in revenues from our direct business.

NetSolutions revenues increased by $2.2 million, or 2.8%, in fiscal 2012 compared to fiscal 2011 due to an increase in spending per customer.

Other revenues decreased by $3.4 million, or 17.4%, in fiscal 2012 compared to fiscal 2011. The decrease in revenues was due primarily to the completion of a non-core managed service contract at the end of the second quarter of fiscal 2012.

Gross Margin

The following table sets forth gross margin, both in dollars and as a percentage of revenues, for the fiscal years indicated:

	Fiscal year ended April 30,			
	2012		2011	
	Gross Margin	Gross Margin %	Gross Margin	Gross Margin %
	(in millions, except percentages)			
Gross Margin	$ 329.4	53.8%	$ 307.4	52.2%

Gross margin percentage in fiscal 2012 increased by an absolute 1.6% to 53.8% compared to 52.2% for fiscal 2011 primarily from stronger gross margins in the MCS segment due to product mix as our sales mix continues to trend towards higher margin software products. Gross margin percentages in the NetSolutions segment and Other segment were relatively unchanged in fiscal 2012 compared to fiscal 2011.

Operating Expenses

Selling, General and Administrative (SG&A)

SG&A expenses increased to 36.4% of revenues in fiscal 2012 compared to 36.1% of revenues for fiscal 2011, a change of $10.1 million in absolute dollars. Our SG&A expenditures for fiscal 2012 included certain non-cash charges, most significantly $22.3 million (fiscal 2011 $22.3 million) for the amortization of intangible assets related to the fiscal 2008 acquisition of Inter-Tel. In addition, SG&A included $4.8 million (fiscal 2011 $4.7 million) of non-cash compensation expenses associated with employee stock options.

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SG&A expenses as a percentage of revenues increased in fiscal 2012 compared to fiscal 2011 primarily due to higher selling and marketing expenses and higher compensation costs. The higher compensation costs were driven by higher variable compensation resulting from the increase in revenue and gross margin coupled with the elimination of the reduced work-week program during fiscal 2011.

Research and Development

R&D expenses in fiscal 2012 decreased to 9.6% of revenues compared to 10.4% of revenues for fiscal 2011, a decrease of $2.7 million in absolute dollars. The decrease was driven by a reduction in costs from the closure of a research and development facility in Ireland during the second quarter of fiscal 2012. Our remaining investment level in R&D remained relatively consistent.

Special Charges and Restructuring Costs

We recorded special charges and restructuring costs of $17.1 million in fiscal 2012 as a result of actions taken to lower our operating cost structure. We incurred a net charge of $3.4 million related to the closure of a research and development facility in Ireland. The closure resulted in lease termination obligations and other charges of $2.2 million and workforce reduction related charges of $3.2 million primarily for the termination of approximately 50 people. In addition, as a result of the closure of this facility, $2.0 million of income was recorded, net against special charges and restructuring costs, related to currency translation adjustments that had previously been deferred through other comprehensive income. The remaining special charges and restructuring costs for fiscal 2012 consist of lease termination obligations and other charges of $7.6 million and workforce reduction related charges of $6.1 million for approximately 200 people. These costs were incurred primarily in the U.S., the U.K. and Canada largely as a result of the reorganization of the business as described in *Significant Events and Recent Developments* under the *Overview* section above. We expect all of the workforce reduction liability to be settled within the next year. The lease termination obligations incurred in the current and prior fiscal years will be reduced over the remaining term of the leases, with $5.0 million of the outstanding $9.2 million balance expected to be paid in fiscal 2013.

We recorded special charges and restructuring costs of $15.5 million in fiscal 2011 as a result of actions taken to lower our operating cost structure. The components of the special charges consisted of $10.2 million of employee severance and benefits incurred in the termination of approximately 100 employees around the world and $5.3 million related to additional lease terminations and accreted interest on lease terminations.

Loss on Litigation Settlement

In fiscal 2012, we recorded a charge of $1.5 million compared to a $1.0 million charge in fiscal 2011 primarily as a result of payments under a fiscal 2007 litigation settlement.

Operating Income

We reported operating income from continuing operations of $29.3 million for fiscal 2012 compared to operating income from continuing operations of $16.8 million for fiscal 2011. The increase was primarily due to higher revenues and gross margin percentage in our MCS segment, partially offset by higher SG&A expenses, as described above.

Non-Operating Expenses

Interest Expense

Interest expense was $18.8 million in fiscal 2012 compared to $20.0 million in fiscal 2011. Our interest expense relates predominantly to two credit agreements bearing interest based on LIBOR that were entered into to finance a portion of the Inter-Tel acquisition in fiscal 2008. The decrease in interest expense was primarily due

to lower debt balances during the period as a result of the $25.0 million prepayment of our first lien term loan made in the fourth quarter of fiscal 2011 and a $12.3 million repayment made in the first quarter of fiscal 2012 (as discussed in *Significant Events and Recent Developments* under the *Overview* section above).

For fiscal 2012, the average LIBOR applicable to our credit agreements remained unchanged at 0.4% (fiscal 2011 0.4%).

Debt Retirement Costs

In the fourth quarter of fiscal 2011, we prepaid an additional $25.0 million of our outstanding first lien term loan, at par. As a result, we expensed $0.2 million of unamortized deferred financing charges and $0.4 million of related expenses. The $12.3 million repayment made in the first quarter of fiscal 2012 did not result in any significant write-off of unamortized financing charges.

Fair Value Adjustment on Derivative Instruments

In fiscal 2011, the fair value adjustment on derivative instruments consists of the mark-to-mark adjustment on warrants that have an exercise price in Canadian dollars. As a result of the Derivatives and Hedging Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), we are required to record an adjustment for the change in fair value of our warrants that are denominated in a currency (Canadian dollars) other than our functional currency. At April 30, 2010, these warrants had a fair value of $1.0 million. In fiscal 2011, these warrants expired out-of-the-money. As a result, we recorded the $1.0 million change in fair value as income during fiscal 2011.

Other Income (Expense)

In fiscal 2012, we recorded expenses of $0.7 million from other items compared to other income of $0.8 million during fiscal 2011. The loss in fiscal 2012 was due to a loss on foreign exchange, partially offset by interest income and amortization of a deferred gain on the sale of land and building in the U.K. while the other income in fiscal 2011 consisted of interest income and amortization of the deferred gain, partially offset by a foreign exchange loss.

Income Tax Recovery

For the fiscal year ended April 30, 2012, we recorded a net tax benefit of $4.0 million on continuing operations excluding changes in the valuation allowance compared with $1.2 million for fiscal 2011. The 2012 and 2011 tax recoveries were due primarily to the utilization of tax credits not previously recognized partially offset by income taxes on current year earnings.

In fiscal 2011, based on a number of factors, including completion of a reorganization of certain subsidiaries, cumulative income for the previous 36 months and forecasted income (excluding non-recurring items), we determined that it was more-likely-than-not that the Company would realize a benefit from a significant portion of its deferred tax assets in Canada. As a result, we relieved a valuation allowance of $87.2 million primarily relating to the deferred tax assets in Canada.

In fiscal 2012, we reassessed the likelihood of the Company s future taxable income and, largely as a result of increased taxable income during fiscal 2012, we relieved an additional valuation allowance relating to deferred tax assets primarily in Canada of $35.4 million.

Net Income from Continuing Operations

Our net income from continuing operations for fiscal 2012 was $49.2 million compared to $86.4 million for fiscal 2011. The net income from continuing operations in fiscal 2012 was driven by an increase in revenues and gross margin as well as the tax recovery, as described above. The net income from continuing operations for fiscal 2011 was driven primarily by the tax recovery, as described above.

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Net Income from Discontinued Operations

The DataNet business unit was sold in the fourth quarter of fiscal 2013 (as discussed in *Significant Events and Recent Developments* under the *Overview* section above). As a result, the operations of DataNet have been reported on the consolidated statements of operations as discontinued operations. The following table provides information on the operations of DataNet for the periods presented:

	Fiscal year ended April 30,	
	2012	**2011**
Revenues	$ 57.9	$ 60.4
Income from discontinued operations, before taxes	$ 1.1	$ 2.6
Income tax expense	(0.5)	(0.9)
Net income from discontinued operations, net of tax	$ 0.6	$ 1.7

Our net income from discontinued operations for fiscal 2012 was $0.6 million compared to net income from discontinued operations of $1.7 million in fiscal 2011. The decrease in net income from discontinued operations was driven by lower revenues, including through our direct business as a result of our new go-to-market model.

Net Income

Our net income for fiscal 2012 was $49.8 million compared to net income of $88.1 million in fiscal 2011. The decrease in net income was due to a lower tax recovery in fiscal 2012, which was partially offset by stronger sales and gross margin percentage in fiscal 2012 when compared to fiscal 2011.

Adjusted EBITDA

Adjusted EBITDA, a non-GAAP measure, was $88.0 million in fiscal 2012 compared to $76.1 million in fiscal 2011, an increase of $11.9 million. This increase was driven by higher gross margin from higher revenues and a higher gross margin percentage in our MCS segment, partially offset by higher SG&A expenses.

For a definition and explanation of Adjusted EBITDA and why we believe it is useful in evaluating our financial condition, as well as a reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, net income, see Item 6, *Selected Financial Data* .

Cash Flows Comparison of Fiscal 2013 to Fiscal 2012

Below is a summary of comparative results of cash flows and a more detailed discussion of results for fiscal 2013 and fiscal 2012.

	Fiscal Year Ended April 30,		
	2013	**2012**	**Change**
		(in millions)	
Net cash provided by (used in)			
Operating activities	$ 44.0	$ 35.0	$ 9.0
Investing activities	(11.6)	(12.8)	1.2
Financing activities	(41.1)	(16.6)	(24.5)
Effect of exchange rate changes on cash and cash equivalents	(1.0)	(0.8)	(0.2)

Increase (decrease) in cash and cash equivalents	$ (9.7)	$ 4.8	$ (14.5)
Cash and cash equivalents, end of year	$ 69.0	$ 78.7	$ (9.7)

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Cash Provided by Operating Activities

Cash generated from operating activities in fiscal 2013 was $44.0 million compared with $35.0 million in fiscal 2012. The increased cash flows from operations was largely the result of favorable changes in non-cash operating assets and liabilities, in particular the collection of accounts receivable and lease-type receivables.

Cash Used in Investing Activities

Net cash used for investing activities was $11.6 million in fiscal 2013 compared to net cash used of $12.8 million in fiscal 2012. The primary use of cash in fiscal 2013 and fiscal 2012 was additions to capital assets of $11.8 million and $13.6 million, respectively. Fiscal 2013 and fiscal 2012 additions include significant information technology and facility expenditures that were incurred to drive operational efficiencies.

Cash Used in Financing Activities

In fiscal 2013 net cash used in financing activities was $41.1 million, compared to cash used in financing activities of $16.6 million during fiscal 2012. Fiscal 2013 cash used in financing activities was driven primarily by long-term debt repayments related to the refinancing of our credit facilities in the fourth quarter of fiscal 2013. The refinancing resulted in a net repayment of long-term debt of $29.8 million. In addition we paid $8.5 million of debt issue costs in connection with the refinancing. Fiscal 2012 cash used in financing activities was driven primarily by a $12.3 million repayment related to the annual repayment of excess cash flows under the prior credit facilities.

Effect of Exchange Rate Changes on Cash

Our overall cash position was also impacted by exchange rate changes during the period, which decreased cash by $1.0 million during fiscal 2013 (2012 $0.8 million).

Cash Flows Comparison of Fiscal 2012 to Fiscal 2011

Below is a summary of comparative results of cash flows and a more detailed discussion of results for fiscal 2012 and fiscal 2011.

	Fiscal Year Ended April 30,		
	2012	2011	Change
		(in millions)	
Net cash provided by (used in)			
Operating activities	$ 35.0	$ 32.5	$ 2.5
Investing activities	(12.8)	(5.3)	(7.5)
Financing activities	(16.6)	(31.4)	14.8
Effect of exchange rate changes on cash and cash equivalents	(0.8)	1.5	(2.3)
Increase (decrease) in cash and cash equivalents	$ 4.8	$ (2.7)	$ 7.5
Cash and cash equivalents, end of year	$ 78.7	$ 73.9	$ 4.8

Cash Provided by Operating Activities

Cash generated from operating activities in fiscal 2012 was $35.0 million compared with $32.5 million in fiscal 2011. The increased cash flows from operations was the result of stronger operating performance as discussed above under *Results of Operations Fiscal 2012 compared to Fiscal 2011 Operating Income*, partially offset by lower cash flows generated from changes in non-cash operating assets and liabilities due to strong collections from accounts receivable and sales-type leases in fiscal 2011.

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Cash Used in Investing Activities

Net cash used for investing activities was $12.8 million in fiscal 2012 compared to net cash used of $5.3 million in fiscal 2011. The primary use of cash in fiscal 2012 and fiscal 2011 was additions to capital assets of $13.6 million and $6.2 million, respectively. Fiscal 2012 additions include significant information technology and facility expenditures that have resulted in operational efficiencies.

Cash Used in Financing Activities

In fiscal 2012 net cash used by financing activities was $16.6 million, compared to cash used by financing activities of $31.4 million during fiscal 2011. Fiscal 2012 and fiscal 2011 cash used by financing activities were both driven primarily by repayments of long-term debt. Fiscal 2012 includes a $12.3 million repayment related primarily to the annual repayment of excess cash flows, while fiscal 2011 includes a $25.0 million first lien prepayment made in March 2011.

Effect of Exchange Rate Changes on Cash

Our overall cash position was also impacted by exchange rate changes during the period, which decreased cash by $0.8 million during fiscal 2012 (2011 $1.5 million increase).

Liquidity and Capital Resources

In February 2013 we completed a refinancing of our long-term senior debt by entering into new credit agreements, consisting of an undrawn $40.0 million first lien revolving credit facility, a $200.0 million first lien term loan and an $80.0 million second lien term loan (the new credit facilities). Proceeds of $276.4 million from the new credit facilities (net of original issue discount of $3.6 million), along with $36.4 million of cash on hand, were used to repay the remaining $174.0 million outstanding first lien term loan and $130.0 million outstanding second lien term loan (the prior credit facilities), as well as $8.5 million of fees and expenses related to the transaction. In addition, prior to the refinancing, we repaid $2.2 million, primarily related to excess cash flow repayments under the prior credit facilities.

As of April 30, 2013, our liquidity consisted primarily of cash and cash equivalents of $69.0 million and an undrawn $40.0 million revolving credit facility that matures in February 2018. At April 30, 2013, we had $280.0 million outstanding under our credit facilities, consisting of a first lien term loan and second lien term loan, and had stated common share capital of $810.4 million. Subsequent to year-end, in June 2013, we acquired prairieFyre for a net cash cost of approximately $20.0 million, as described in *Significant Events and Recent Developments* under the *Overview* section above.

We have a defined benefit pension plan in place for a number of our past and present employees in the United Kingdom. The plan has been closed to new members since 2001. In November 2012, the remaining members ceased earning credit for new service. At April 30, 2013, the plan had an unfunded pension liability of $90.5 million. The contributions to fund the benefit obligations under this plan are based on actuarial valuations, which themselves are based on certain assumptions about the long-term operations of the plan, including the life expectancy of members, the performance of the financial markets and interest rates. The amount of annual employer contributions required to fund the pension deficit annually is determined every three years, in accordance with U.K. regulations and is based on a calendar year. In June 2013, the Company s annual funding requirement to fund the pension deficit for fiscal year 2014 was determined to be $4.9 million (£3.2 million) and increases at an annual rate of 3% for the fiscal years 2015 and 2016. In fiscal year 2013, we contributed $4.6 million to the U.K. pension plan for current service and deficit funding. We expect to contribute $4.9 million (£3.2 million) in fiscal 2014 for deficit funding as members no longer earn current service.

Our first lien term loan requires quarterly principal repayments of $0.5 million, with the remaining amount repayable at maturity. Our second lien term loan is repayable in full at maturity. We are also required to make annual principal repayments on the first lien term loan (and, once the first lien term loan has been fully repaid, on

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the second lien term loan) based on a percentage of excess cash flow (as defined in the new credit facilities). The annual excess cash flow repayments are required to be paid within 100 days of the end of the fiscal year. The first annual excess cash flow payment is required be paid within 100 days of the end of fiscal 2014. The proceeds from the issuance of equity or debt, and proceeds from the sale of Company assets, may also be required to be used, in whole or in part, to make mandatory prepayments under the first lien credit facilities and, once the first lien credit facilities are repaid, under the second lien credit facility.

The new credit facilities contain affirmative and negative covenants, including: (a) periodic financial reporting requirements, (b) a maximum ratio of Consolidated Total Debt (net of up to $40.0 million of unrestricted cash) to the trailing twelve months Earnings before Interest, Taxes, Depreciation and Amortization (Leverage Ratio), as specified in the new credit agreements, (c) limitations on the incurrence of subsidiary indebtedness and also the borrowers themselves, (d) limitations on liens, (e) limitations on investments, and (f) limitations on the payment of dividends. The maximum Leverage Ratio under the first lien credit agreement applies for the period ending April 30, 2013 and for all fiscal quarters thereafter and is as follows:

Fiscal Quarters Ending	Maximum Consolidated Leverage Ratio
April 30, 2013 through January 31, 2014	4.00:1.00
April 30, 2014 through January 31, 2015	3.50:1.00
April 30, 2015 through January 31, 2016	3.00:1.00
April 30, 2016 and thereafter	2.75:1.00

The following table presents our maximum Leverage Ratio and our actual Leverage Ratio under the new credit agreements.

Period Ending	Maximum Leverage Ratio	Actual Leverage Ratio
April 30, 2013	4.0	3.0

Our source for cash in the future is expected to come from existing operations and our undrawn revolving credit facility. Our most significant source of cash from operations is expected to be the collection of accounts receivable from our customers and the sale of future rental payments associated with sales leases which we provide to our customers to finance their purchases as part of our managed services offering program. The primary use of cash is expected to include funding operating expenses, working capital, capital expenditures, debt service, income taxes and other contractual obligations.

We believe that we will have sufficient liquidity to support our business operations for the next 12 months. However, we may elect to seek additional funding prior to that time. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support product development efforts and expansion of sales and marketing, the timing of introductions of new products and enhancements to existing products, and market acceptance of our products. Additional equity or debt financing may not be available on acceptable terms or at all. In addition, any proceeds from the issuance of equity or debt may be required to be used, in whole or in part, to make mandatory payments under our credit agreements.

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Contractual Obligations

The following table sets forth our contractual obligations as of April 30, 2013:

Contractual Obligations	Payments Due by Fiscal Year (in millions)						
	2014	2015	2016	2017	2018	Thereafter	Total
Long-term debt obligations (1)	$ 24.8	$ 24.7	$ 24.6	$ 24.4	$ 24.2	$ 300.5	$ 423.2
Capital lease obligations (2)	4.3	3.5	2.7	1.1			11.6
Operating lease obligations (3)	18.4	15.1	13.8	8.8	8.0	20.1	84.2
Defined benefit pension plan contributions (4)	4.9	5.0	5.2				15.1
Other (5)	4.3	4.1	2.0				10.4
Total	$ 56.7	$ 52.4	$ 48.3	$ 34.3	$ 32.2	$ 320.6	$ 544.5

(1) Represents the principal balance and interest payments for the first and second lien term loans. Interest on the first and second lien term loans is based on LIBOR plus 5.75%, and LIBOR plus 9.75%, with LIBOR subject to a 1.25% floor. For the purposes of estimating LIBOR, the greater of the average 3-month LIBOR from the last three years (0.4%) and the LIBOR floor (1.25%) has been used. No amounts are included in fiscal 2014 and thereafter for potential repayments relating to excess cash flows as an estimate is not practical.

(2) Represents the principal and interest payments for capital lease obligations. Interest rates on these loans range from 5.5% to 11.0%, as described in our consolidated financial statements.

(3) Operating lease obligations exclude payments to be received by us under sublease arrangements.

(4) Represents the estimated contribution to our defined benefit pension plan in the United Kingdom over the next 12 months. The amount of annual employer contributions required to fund the deficit is determined every three years in accordance with U.K. regulations, and is based on a calendar year. In June 2013, our annual funding requirement to fund the pension deficit for the fiscal year 2014 was determined to be $4.9 million (£3.2 million), with increases at an annual rate of 3% for fiscal years 2015 and 2016. Future funding requirements after fiscal year 2016 are highly dependent on the unfunded pension liability and the time period in which the deficit is amortized. As a result, liabilities arising from the remaining unfunded deficit in our defined benefit pension plan are not included in the above table. As of April 30, 2013, the unfunded liability was $90.5 million.

(5) Represents payments under an information technology outsourcing agreement.

Total contractual obligations listed do not include contractual obligations recorded on the balance sheet as current liabilities, except for those associated with a long-term liability. Contractual obligations also exclude $9.6 million of liabilities relating to uncertain tax positions due to the uncertainty of the timing of any potential settlement.

Obligations arising from R&D spending commitments under an agreement, dated October 10, 2002, among us, March Networks Corporation and the Government of Canada are not included in the above table. The agreement, as last amended on March 10, 2010, requires us to spend at least 3.5% of our annual revenues in R&D in Canada each year, and to make at least 50% of our total R&D expenditures in Canada each year, until an aggregate of C$366.5 million worth of R&D has been spent in Canada since April 1, 2006. At April 30, 2013, we have spent approximately $290.0 million on R&D activities in Canada since April 1, 2006.

Purchase orders or contracts for the purchase of raw materials and other goods and services are not included in the table above. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations as, in many instances, purchase orders may represent authorizations to purchase rather than binding agreements.

Off-Balance Sheet Arrangements

We have the following significant off-balance sheet arrangements:

Letters of Credit

We had $1.1 million in letters of credit outstanding as of April 30, 2013 (April 30, 2012 $1.1 million).

Bid and Performance Related Bonds

We enter into bid and performance related bonds related to various customer contracts. Potential payments due under these may be related to our performance and/or our channel partners performance under the applicable contract. The total maximum potential amount of future payments we could be required to make under bid and performance related bonds, excluding letters of credit, was $0.4 million as of April 30, 2013 (April 30, 2012 $1.0 million). Historically, we have not made any payments and we do not anticipate that we will be required to make any material payments under these types of bonds.

Intellectual Property Indemnification Obligations

We enter into agreements on a regular basis with customers and suppliers that include limited intellectual property indemnification obligations that are customary in the industry. These obligations generally require us to compensate the other party for certain damages and costs incurred as a result of third-party intellectual property claims arising from these transactions. The nature of these intellectual property indemnification obligations prevents us from making a reasonable estimate of the maximum potential amount we could be required to pay to our customers and suppliers. Historically, we have not made any significant indemnification payments under such agreements and no amount has been accrued in the consolidated financial statements with respect to these obligations.

Off-balance Sheet Lease Obligations