MITEL NETWORKS CORP
Form 10-Q
October 24, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission File Number: 001-34699

MITEL NETWORKS CORPORATION

(Exact name of Registrant as specified in its charter)

Canada	**98-0621254**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
350 Legget Drive, Ottawa, Ontario Canada	**K2K 2W7**
(Address of principal executive offices)	**(Zip Code)**

(613) 592-2122

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer	Accelerated Filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the last practicable date:

As of October 19, 2018, there were 123,064,712 common shares outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

MITEL NETWORKS CORPORATION

(incorporated under the laws of Canada)

CONSOLIDATED BALANCE SHEETS

(in U.S. dollars, millions)

(Unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45.0	$ 40.9
Accounts receivable (net of allowance for doubtful accounts of $13.9 and $15.8, respectively)	180.2	219.2
Sales-type lease receivables (net) (note 5)		3.4
Inventories (net) (note 6)	66.1	79.6
Other current assets (note 7)	80.3	74.8
Assets of component held for sale, current (note 4)		33.3
	371.6	451.2
Non-current portion of sales-type lease receivables (net) (note 5)		4.0
Deferred tax asset	113.4	124.4
Property and equipment (net)	46.7	52.7
Identifiable intangible assets (net) (note 8)	341.7	420.8
Goodwill	528.7	528.9
Other non-current assets	52.6	35.8
Assets of component held for sale, non-current (note 4)		12.7
	$ 1,454.7	$ 1,630.5
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	$ 251.9	$ 245.8
Current portion of deferred revenue	134.3	160.6
Current portion of long-term debt (note 11)	9.9	17.1
Liabilities of component held for sale, current (note 4)		15.2
	396.1	438.7
Long-term debt (note 11)	476.6	612.0
Long-term portion of deferred revenue	57.2	64.1
Deferred tax liability	9.0	13.9
Pension liability (note 12)	83.6	111.1
Other non-current liabilities	30.6	36.0
Liabilities of component held for sale, non-current (note 4)		9.0

		1,053.1		1,284.8
Commitments, guarantees and contingencies (note 13)				
Shareholders equity:				
Common shares, without par value and additional paid-in capital unlimited shares authorized; issued and outstanding: 123.1 and 120.1, respectively (note 14)		1,502.7		1,466.0
Warrants (note 15)		20.5		39.1
Accumulated deficit		(972.8)		(990.6)
Accumulated other comprehensive loss		(148.8)		(168.8)
		401.6		345.7
	$	1,454.7	$	1,630.5

(The accompanying notes are an integral part of these unaudited interim consolidated financial statements)

MITEL NETWORKS CORPORATION

(incorporated under the laws of Canada)

CONSOLIDATED STATEMENTS OF OPERATIONS

(in U.S. dollars, millions, except per share amounts)

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
Revenues	$ 309.6	$ 241.5	$ 948.1	$ 703.2
Cost of revenues	128.5	110.4	393.4	327.8
Gross margin	181.1	131.1	554.7	375.4
Expenses:				
Selling, general and administrative	103.0	81.5	330.1	246.8
Research and development	36.1	22.5	110.8	67.8
Restructuring, integration and acquisition-related costs (note 17)	12.5	35.7	34.5	56.4
Amortization of acquisition-related intangible assets	25.2	8.5	79.6	25.7
	176.8	148.2	555.0	396.7
Operating income (loss)	4.3	(17.1)	(0.3)	(21.3)
Interest expense	(8.8)	(3.3)	(27.5)	(9.0)
Debt retirement and other debt costs (note 11)			(0.9)	(18.0)
Gains on divestitures (note 4)			19.1	
Other income (expense)		(1.7)	3.8	(3.0)
Loss from continuing operations, before income taxes	(4.5)	(22.1)	(5.8)	(51.3)
Current income tax recovery (expense)	2.4	1.9	(7.0)	(1.5)
Deferred income tax recovery (expense)	(4.6)	(6.6)	0.5	6.2
Net loss from continuing operations	(6.7)	(26.8)	(12.3)	(46.6)
Net loss from discontinued operations, net of tax (note 4)				(1.4)
Net loss	$ (6.7)	$ (26.8)	$ (12.3)	$ (48.0)
Net loss per common share Basic and Diluted				
Net loss from continuing operations	$ (0.05)	$ (0.23)	$ (0.10)	$ (0.39)
Net loss from discontinued operations	$	$	$	$ (0.01)
Net loss per share	$ (0.05)	$ (0.23)	$ (0.10)	$ (0.40)
Weighted-average number of common shares outstanding (note 16)				
Basic and Diluted	122.9	118.9	121.8	120.9

(The accompanying notes are an integral part of these unaudited interim consolidated financial statements)

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MITEL NETWORKS CORPORATION

(incorporated under the laws of Canada)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in U.S. dollars, millions)

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
Net loss	$ (6.7)	$ (26.8)	$ (12.3)	$ (48.0)
Other comprehensive income (loss):				
Foreign currency translation adjustments	1.3	1.9	(3.1)	3.3
Pension liability adjustments		(2.6)	23.1	(5.4)
	1.3	(0.7)	20.0	(2.1)
Comprehensive income (loss)	$ (5.4)	$ (27.5)	$ 7.7	$ (50.1)

(The accompanying notes are an integral part of these unaudited interim consolidated financial statements)

MITEL NETWORKS CORPORATION

(incorporated under the laws of Canada)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in U.S. dollars, millions)

(Unaudited)

	Number of Common Shares	Common Shares and Additional Paid-in Capital	Warrants	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at December 31, 2016	122.0	$ 1,476.4	$ 39.1	$ (940.9)	$ (191.7)	$ 382.9
Comprehensive income (loss)				(21.1)	(3.3)	(24.4)
Repurchase of shares (note 14)	(0.1)	(0.8)				(0.8)
Exercise of stock options and vesting of restricted stock units	0.8	1.0				1.0
Stock-based compensation		3.3				3.3
Balance at March 31, 2017	122.7	$ 1,479.9	$ 39.1	$ (962.0)	$ (195.0)	$ 362.0
Comprehensive income (loss)				(0.1)	1.9	1.8
Repurchase of shares (note 14)	(4.8)	(34.9)				(34.9)
Exercise of stock options and vesting of restricted stock units	0.3	1.1				1.1
Stock-based compensation		4.4				4.4
Balance at June 30, 2017	118.2	$ 1,450.5	$ 39.1	$ (962.1)	$ (193.1)	$ 334.4
Comprehensive income (loss)				(26.8)	(0.7)	(27.5)
Exercise of stock options and vesting of restricted stock units	1.7	8.1				8.1
Stock-based compensation		3.1				3.1
Balance at September 30, 2017	119.9	$ 1,461.7	$ 39.1	$ (988.9)	$ (193.8)	$ 318.1
Comprehensive income (loss)				(1.7)	25.0	23.3
Exercise of stock options and vesting of restricted stock units	0.2	0.7				0.7
Stock-based compensation		3.6				3.6
Balance at December 31, 2017	120.1	$ 1,466.0	$ 39.1	$ (990.6)	$ (168.8)	$ 345.7
				28.1		28.1

Adoption of new revenue accounting standard (note 2)						
Adoption of new income taxes standard (note 2)				2.0		2.0
Comprehensive income (loss)				(21.0)	(1.5)	(22.5)
Exercise of stock options and vesting of restricted stock units	1.1	1.0				1.0
Stock-based compensation		4.2				4.2
Balance at March 31, 2018	121.2	$ 1,471.2	$ 39.1	$ (981.5)	$ (170.3)	$ 358.5
Exercise of warrants (note 15)	1.2	18.6	(18.6)			
Comprehensive income (loss)				15.4	20.2	35.6
Exercise of stock options and vesting of restricted stock units	0.3	1.5				1.5
Stock-based compensation		6.1				6.1
Balance at June 30, 2018	122.7	$ 1,497.4	$ 20.5	$ (966.1)	$ (150.1)	$ 401.7
Comprehensive income (loss)				(6.7)	1.3	(5.4)
Exercise of stock options and vesting of restricted stock units	0.4	0.6				0.6
Stock-based compensation		4.7				4.7
Balance at September 30, 2018	123.1	$ 1,502.7	$ 20.5	$ (972.8)	$ (148.8)	$ 401.6

(The accompanying notes are an integral part of these unaudited interim consolidated financial statements)

MITEL NETWORKS CORPORATION

(incorporated under the laws of Canada)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in U.S. dollars, millions)

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
CASH PROVIDED BY (USED IN)				
Operating activities:				
Net loss	$ (6.7)	$ (26.8)	$ (12.3)	$ (48.0)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Amortization and depreciation	32.5	13.2	101.1	39.1
Stock-based compensation	4.7	3.1	15.0	10.8
Deferred income tax expense (recovery)	4.6	6.6	(0.5)	(12.7)
Non-cash portion of debt retirement and other debt costs (note 11)			0.9	18.0
Gain on divestitures (note 4)			(19.1)	(7.9)
Accretion of interest		(0.3)	(0.5)	(0.7)
Non-cash movements in provisions	3.7	3.5	10.0	6.4
Change in non-cash operating assets and liabilities (note 19)	15.6	29.3	20.4	25.3
Net cash provided by (used in) operating activities	54.4	28.6	115.0	30.3
Investing activities:				
Additions to property, equipment and identifiable intangible assets	(2.3)	(4.9)	(10.8)	(13.4)
Acquisitions, net of cash acquired (note 3)		(400.6)		(400.6)
Proceeds from divestitures of business units, net of cash divested (note 4)			41.5	336.9
Net cash provided by (used in) investing activities	(2.3)	(405.5)	30.7	(77.1)
Financing activities:				
Proceeds from issuance of long-term debt (note 11)		298.5		448.5
Repayment of long-term debt (note 11)		(1.9)	(48.0)	(595.4)
Borrowings under revolving credit facilities (note 11)	26.0	200.0	162.0	403.0
Repayments of revolving credit facilities (note 11)	(72.0)	(113.0)	(256.0)	(213.0)
Payment of debt issue costs and other debt costs (note 11)		(9.5)		(16.1)
Repayment of capital lease liabilities and other long-term debt	(0.9)	(1.3)	(2.9)	(5.0)
Proceeds from issuance of common shares from option exercises	0.6	8.1	3.1	10.2
Repurchase of common shares				(35.7)

Net cash provided by (used in) financing activities	(46.3)	380.9	(141.8)	(3.5)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	0.2	1.3	(2.4)	5.6
Net increase (decrease) in cash, cash equivalents and restricted cash	6.0	5.3	1.5	(44.7)
Cash, cash equivalents and restricted cash, beginning of period	40.4	51.7	44.9	101.7
Cash, cash equivalents and restricted cash, end of period	46.4	57.0	46.4	57.0
Less: restricted cash, end of period	(1.4)	(1.6)	(1.4)	(1.6)
Cash and cash equivalents, end of period	$ 45.0	$ 55.4	$ 45.0	$ 55.4

(Note 19 contains supplementary cash flow information)

(The accompanying notes are an integral part of these unaudited interim consolidated financial statements)

MITEL NETWORKS CORPORATION

(incorporated under the laws of Canada)

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2018 and September 30, 2017

(in U.S. dollars, millions, except per share amounts)

1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements (Interim Financial Statements) have been prepared by Mitel Networks Corporation (Mitel or the Company) in United States (U.S.) dollars and, unless otherwise stated, in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial statements. Accordingly, the Interim Financial Statements do not include all information and footnotes normally included in annual financial statements prepared in accordance with GAAP and the rules and regulations of the U.S. Securities and Exchange Commission (SEC) for annual financial statements. In the opinion of management, the Interim Financial Statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods presented.

These Interim Financial Statements and the accompanying notes should be read in conjunction with the annual financial statements and notes thereto for each of the years ended December 31, 2017, 2016 and 2015 (the Annual Financial Statements) contained in the Company s report on Form 10-K filed with the SEC on February 28, 2018. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year or future periods.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company s significant accounting policies at December 31, 2017 are described in note 2 to the Annual Financial Statements. There have been no significant changes to these policies, other than those noted below.

a) Accounting pronouncements adopted in 2018

Statement of cash flows presentation of restricted cash

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18 Restricted Cash to provide guidance on the presentation of restricted cash in the statement of cash flows. Previously, the statement of cash flows explained the change in cash and cash equivalents for the period. The ASU requires that the statement of cash flows explain the change in cash, cash equivalents and restricted cash for the period. The Company adopted this ASU in the first quarter of 2018. As a result of the adoption, the statement of cash flows for the first quarter of 2017 was restated such that the statement of cash flows explains the change in cash, cash equivalents and restricted cash for the period. For the three and nine months ended September 30, 2017, the beginning of period and end of period cash, cash equivalents and restricted cash includes restricted cash of $0.9 and $1.6, respectively.

Income statement classification of net pension benefit costs

In March 2017, the FASB issued ASU 2017-07 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost to provide income statement classification guidance for components of the net benefit cost. The ASU requires that the service cost component be recorded in the same line as the other compensation costs for the relevant employee while the other components are to be recorded in a separate line item outside of income from operations and is to be adopted retrospectively. The Company adopted this ASU in the first quarter of 2018. As a result of the adoption, the consolidated statement of operations for the three and nine months ended September 30, 2017 was restated such that the non-service components of pension and post-retirement costs of $0.6 and $2.0, respectively, were reclassified from selling general and administration expense to other income (expense). The Company s net periodic cost is disclosed in note 12 to these Interim Financial Statements.

Income taxes on intra-entity transfers of assets other than inventory

In October 2016, the FASB issued ASU 2016-16 Income taxes on intra-entity transfers of assets other than inventory to improve the accounting for income taxes on intra-entity transfers. The ASU requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than defer the income tax effect as prescribed by the previous guidance. The Company adopted this ASU in the first quarter of 2018 on a modified retrospective basis. To account for the cumulative effect of the adoption of the new standard, shareholders equity increased by $2.0 due to an adjustment to the accumulated deficit at December 31, 2017.

Revenue recognition

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers to provide a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The ASU superseded most previous revenue recognition guidance, including industry-specific guidance. The FASB subsequently issued ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12 and ASU 2016-20, which clarified the guidance, provided scope improvements and amended the effective date of ASU 2014-09. The Company adopted these ASUs in the first quarter of 2018 using a modified retrospective method of adoption, where the cumulative effect of initially applying the new revenue standard has been recorded as an adjustment to the opening balance of retained earnings on January 1, 2018. The Company has elected to apply the new guidance retrospectively only to contracts that are not completed at January 1, 2018. The effect of the adoption is described below.

Revenues

Previously, for non-essential software, when Vendor Specific Objective Evidence (VSOE) of fair value for post-contract support was not established, the Company deferred the revenue for the non-essential software deliverables and recognized it ratably, over the term of the post-contract support. As a result, the Company had previously deferred revenue for a small portion of its non-essential software. Under the new revenue recognition standard, the Company has established the standalone selling price of non-essential software using other observable inputs reasonably available to the Company.

Previously, for distribution agreements where the return rights were not limited and were outside the Company s control, the Company deferred revenue until the product was sold to an end customer. Under the new revenue recognition standard, the Company recognizes revenue upon delivery to the distributor for products that are not expected to be returned.

Contract costs

Previously, the Company expensed as incurred certain costs incurred to obtain and fulfill a contract with a customer, including commissions paid to the Company s internal salesforce and customer activation costs for customers under multi-year cloud contracts. Under the new revenue recognition standard, incremental costs incurred to obtain a contract, as well as costs to fulfill a contract must be deferred and amortized over the expected period that the related performance obligation is satisfied. The Company has elected to apply a practical expedient under the guidance and expenses costs to obtain a contract as incurred, if the amortization period would have been one year or less.

For the Company s On-Site business, as described in note 18, a typical sale consists of hardware, software and a period of post-contract support for one to three years, paid for by the customer at the time of sale. The Company may also provide installation and training. Contract fulfillment costs for each of these performance obligations are generally discrete and incurred in the same period as the related performance obligation is satisfied. Incremental costs to obtain the contract are also generally incurred in the same period as the performance obligation is satisfied, with the exception of post-contract support. As a result, under the new revenue recognition standard, the Company defers incremental contract costs allocated to post-contract support and amortizes the costs over the period of post-contract support.

For the Company s recurring Cloud segment, a typical solution of hardware, software, and installation, training and support is provided to a customer under a monthly recurring billing model. Contract fulfillment costs such as installation costs and incremental costs to obtain the contract such as commissions paid to the internal salesforce are generally incurred at the outset of the contract. As a result, under the new revenue recognition standard, the Company now defers these costs over the term of the contract, plus any additional expected renewal periods.

Summary of changes

As a result of the above accounting policy changes relating to revenue recognition, at January 1, 2018 the Company recorded a decrease in inventory of $1.2, a decrease in current deferred revenue of $11.9, a decrease in the long-term portion of deferred revenue of $7.6 and an increase in shareholders equity of $18.3 on its consolidated balance sheet. The effect of the adoption on the Company s results of operations for the three and nine months ended September 30, 2018 was not material.

As a result of the above accounting policy changes relating to contract costs, at January 1, 2018 the Company recorded a contract asset of $19.0 and an increase in shareholders equity of $19.0. The effect of the adoption on the Company s results of operations for the three and nine months ended September 30, 2018 was not material.

In addition, there was a decrease to the Company s net deferred tax asset of $9.2 and a corresponding decrease to shareholders equity of $9.2 to account for the tax effect of the above changes.

Disaggregation of revenues

The Company s segmented disclosures included in note 18 disaggregate the Company s revenues by segment, product and services and by geography. For the On-Site segment, product revenues are recognized at the point in time when control has passed to the customer. Service revenues are generally recorded over time as the service is provided. For the Cloud recurring segment, which provides services under a monthly, recurring billing model, revenues are recognized over time.

Contract assets and liabilities

The Company s deferred contract costs at September 30, 2018 of $25.2 are included in other non-current assets in the consolidated balance sheet. Contract liabilities consist primarily of the current and non-current portions of deferred revenue on the consolidated balance sheets.

b) Accounting pronouncements issued but not yet adopted

Leases

In February 2016, the FASB issued ASU 2016-02 Leases to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The FASB subsequently issued ASU 2018-10, which clarified the guidance in ASU 2016-02. For operating leases, the ASUs require a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on its balance sheet. The ASUs retain the current accounting for lessors and do not make significant changes to the recognition, measurement, and presentation of expenses and cash flows by a lessee. The ASUs are effective for the Company for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company continues to evaluate the effect of the adoption of these ASUs but expects the adoption will result in an increase in the assets and liabilities on the consolidated balance sheets for operating leases and will not likely have a significant impact on the consolidated statements of earnings.

Credit losses on financial instruments

In June 2016, the FASB issued ASU 2016-13 Financial Instruments Credit Losses to improve information on credit losses for financial assets and net investment in leases that are not accounted for at fair value through net income. The ASU replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses. The ASU is effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in fiscal years beginning after December 15, 2018. The Company is currently evaluating the effect the adoption of this ASU will have on its consolidated financial statements.

c) Reclassification

Certain prior period amounts on the consolidated statement of operations have been reclassified for consistency with the current period presentation. For the three and nine months ended September 30, 2017, costs of $1.9 and $6.2, respectively, were reclassified from selling, general and administrative costs to costs of revenues.

3. ACQUISITIONS

ShoreTel September 2017

On September 25, 2017, Mitel acquired ShoreTel, Inc. (ShoreTel), a provider of unified video, voice and content communications solutions, primarily in the U.S., with revenues of $357.8 for the twelve months ended June 30, 2017. Mitel acquired all of the outstanding shares of common stock of ShoreTel in exchange for total consideration of $531.4. In conjunction with the acquisition, the Company completed a refinancing of its long-term senior debt. Additional details on the acquisition are included in note 3 to the Annual Financial Statements.

The following unaudited pro-forma financial information presents the Company s consolidated financial results as if the acquisition had occurred at the beginning of the period:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
Revenues	$	321.5	$	965.4
Net loss	$	(64.0)	$	(135.1)
Net loss per share	$	(0.54)	$	(1.12)

These pro-forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations that actually would have resulted had the acquisition been effected at the beginning of the respective periods and are not necessarily representative of future results. The pro-forma results include the following adjustments:

Amortization of intangible assets that arose from the acquisition of $74.2 per year.

Increase to interest expense of approximately $21.0 per year as a result of the additional borrowings incurred to finance the acquisition.

A tax provision based on an estimated effective tax rate of nil as a result of unrecognized tax loss carryforwards.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

a) Divestiture of German systems integration business

On March 22, 2018, Mitel announced a definitive agreement to sell DeTeWe Communications GmbH (DeTeWe), its German systems integration business for proceeds of $17.4. The sale was completed on April 30, 2018 and the Company recorded a gain on divestiture of $4.3 in the second quarter of 2018, representing $17.4 of proceeds, less net assets at April 30, 2018 of $13.0. For the year-ended December 31, 2017, DeTeWe recorded revenues of approximately $70.0, while operating income was not material. The assets and liabilities of DeTeWe are classified as assets and liabilities held for sale on the December 31, 2017 consolidated balance sheet, while the operations were not reclassified as discontinued operations as the divestiture was not considered a strategic shift that would have a major effect on the Company s operations.

Assets and liabilities held for sale for DeTeWe at December 31, 2017 are as follows:

		December 31, 2017
Assets of component held for sale, current:		
Cash and cash equivalents	$	2.4
Accounts receivable		21.8
Sales-type lease receivables		0.6
Inventories		4.6
Other current assets		3.9
	$	33.3
Assets of component held for sale, non-current:		
Non-current portion of sales-type lease receivables		1.7
Deferred tax asset		3.5
Property and equipment (net)		0.5
Goodwill		7.0

	$	12.7
Liabilities of component held for sale, current:		
Accounts payable and accrued liabilities	$	15.0
Current portion of deferred revenue		0.2
	$	15.2
Liabilities of component held for sale, non-current:		
Pension liability		9.0
	$	9.0

b) Divestiture of the Mobile business unit

On February 28, 2017 Mitel completed the sale of its Mobile business unit for $351.1 of cash proceeds, received February 2017, proceeds from net working capital adjustments of $16.6, received in May 2017, a non-interest-bearing note with a face value of $35.0 and a term of up to 10 years, and an equity interest in the entity formed to acquire the Mobile business, as further described in note 4 to the Annual Financial Statements. The disposal of the Mobile business unit was considered a strategic shift away from the sale of software-based network solutions for mobile carriers. As a result, the operations of the Mobile business unit have been classified as discontinued operations on the consolidated statements of operations. Additional details on the divestiture, including summarized results of operations for the Mobile business unit up to the time of sale, are included in note 4 to the Annual Financial Statements.

In May 2018, Mitel agreed to settle the non-interest-bearing note with a face value of $35.0 and a term of up to 10 years for $25.0. At the time of settlement, the note was recorded as a held to maturity investment with a book value of $10.2. As a result, the Company recorded a gain on the disposition of $14.8 in the second quarter of 2018, which was recorded as a gain on divestiture in the consolidated statement of operations.

5. NET INVESTMENT IN SALES-TYPE LEASES

Net investment in sales-type leases represented the value of sales-type leases held, primarily in the U.S. The Company sold the rental payments due to the Company from some of the sales-type leases. The Company maintained reserves against its estimate of potential recourse for the balance of sales-type leases (recorded net, against the receivable) and maintains reserves for the balance of sold rental payments remaining unbilled. In the second quarter of 2018, the Company discontinued selling solutions under a sales-type lease model. The following table provides detail on the sales-type leases:

	September 30, 2018			December 31, 2017		
	Gross	**Allowance**	**Net**	**Gross**	**Allowance**	**Net**
Lease balances included in accounts receivable	$	$	$	$ 4.8	$ (1.1)	$ 3.7
Current portion of investment in sales-type leases				3.5	(0.1)	3.4
Non-current portion of investment in sales-type leases				4.1	(0.1)	4.0
Total unsold sales-type leases (recorded as assets, net, on the consolidated balance sheets)				12.4	(1.3)	11.1
Sold rental payments remaining unbilled	29.4	(0.7)[(1)]	28.7	32.4	(1.0)[(1)]	31.4
Total of sales-type leases unsold and sold	$ 29.4	$ (0.7)	$ 28.7	$ 44.8	$ (2.3)	$ 42.5

(1) Allowance for sold rental payments is recorded as a lease recourse liability and included in other non-current liabilities on the consolidated balance sheets.

A sale of rental payments represents the total present value of the payment stream on the sale of the rental payments to third parties. For the three and nine months ended September 30, 2018, the Company sold nil and $7.2, respectively of rental payments and recorded gains on sale of those rental payments of nil and $0.7, respectively (three and nine months ended September 30, 2017 sold $2.2 and $9.2, respectively and recorded gains of $0.3 and $1.2, respectively). Sold rental payments remaining unbilled at the end of the period represents the total balance of leases that are not included in the Company s consolidated balance sheets. The Company is compensated for administration and servicing of rental payments sold.

Financing receivables

The Company considers lease balances included in accounts receivable and investment in sales-type leases to be financing receivables. Additional disclosures on the credit quality of the Company s sold and unsold sales-type leases and lease balances included in accounts receivable are as follows:

Aging Analysis as of September 30, 2018

	Not past due	1-90 days past due	Greater than 90 days past due	**Total past due**	**Total sales-type leases**
Sold sales-type lease receivables	$ 20.2	$ 7.7	$ 1.5	$ 9.2	$ 29.4
Allowance	(0.4)	(0.1)	(0.2)	(0.3)	(0.7)
Total net sales-type leases	$ 19.8	$ 7.6	$ 1.3	$ 8.9	$ 28.7

Aging Analysis as of December 31, 2017

	Not past due	1-90 days past due	Greater than 90 days past due	**Total past due**	**Total sales-type leases**
Lease balances included in accounts receivable	$ 2.2	$ 1.0	$ 1.6	$ 2.6	$ 4.8
Investment in sold and unsold sales-type lease receivables	33.7	6.1	0.2	6.3	40.0
Total gross sales-type leases	35.9	7.1	1.8	8.9	44.8
Allowance	(0.8)	(0.4)	(1.1)	(1.5)	(2.3)
Total net sales-type leases	$ 35.1	$ 6.7	$ 0.7	$ 7.4	$ 42.5

Allowance for credit losses

The Company s allowance for credit losses is based on management s assessment of the collectability of customer accounts. A considerable amount of judgment is required in order to make this assessment including a detailed analysis of the aging of the lease receivables, the current creditworthiness of our customers and an analysis of historical bad debts and other adjustments. If there is a deterioration of a major customer s creditworthiness or actual defaults are higher than historical experience, the estimate of the recoverability of amounts due could be adversely affected. The Company reviews in detail the allowance for doubtful accounts on a quarterly basis and adjusts the allowance estimate to reflect actual portfolio performance and any changes in future portfolio performance expectations.

The amount of gross sales-type leases individually and collectively evaluated for impairment is as follows:

	September 30, 2018	**December 31, 2017**
Individually evaluated for impairment		
Sales-type leases individually evaluated for impairment, gross	$ 1.5	$ 3.2
Allowance against sales-type leases individually evaluated for impairment	(0.2)	(1.4)
Sales-type leases individually evaluated for impairment, net	$ 1.3	$ 1.8
Collectively evaluated for impairment		
Sales-type leases collectively evaluated for impairment, gross	$ 27.9	$ 41.6
Allowance against sales-type leases collectively evaluated for impairment	(0.5)	(0.9)
Sales-type leases collectively evaluated for impairment, net	$ 27.4	$ 40.7

6. INVENTORIES

	September 30, 2018	December 31, 2017
Raw materials	$ 5.4	$ 7.1
Finished goods[1]	74.0	76.4
Service inventory	5.0	7.2
Less: provision for excess and obsolete inventory[1]	(18.3)	(11.1)
	$ 66.1	$ 79.6

(1) At September 30, 2018, finished goods are recorded net of approximately $3.2 of historical inventory provision of acquisitions (December 31, 2017 $16.8). This amount will decrease as the related inventory acquired is sold or written off.

7. OTHER CURRENT ASSETS

	September 30, 2018	December 31, 2017
Prepaid expenses and deferred charges	$ 31.3	$ 36.4
Unbilled receivables	4.9	6.4
Due from related parties (note 10)	0.1	0.2
Income tax receivable	5.8	9.0
Other receivables	36.8	21.2
Restricted cash	1.4	1.6
	$ 80.3	$ 74.8

8. IDENTIFIABLE INTANGIBLE ASSETS

	September 30, 2018			December 31, 2017		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Developed technology	$ 325.7	$ (166.5)	$ 159.2	$ 325.7	$ (123.6)	$ 202.1
Customer relationships	237.1	(59.1)	178.0	237.1	(22.7)	214.4
Patents, trademarks and other	37.3	(32.8)	4.5	35.7	(31.4)	4.3
	$ 600.1	$ (258.4)	$ 341.7	$ 598.5	$ (177.7)	$ 420.8

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2018	December 31, 2017
Trade payables	$ 43.5	$ 53.9
Employee-related payables	55.6	44.6
Accrued liabilities	102.9	86.1
Restructuring, warranty and other provisions	18.6	30.0
Due to related parties (note 10)	1.2	1.2
Other payables	30.1	30.0
	$ 251.9	$ 245.8

10. RELATED PARTY TRANSACTIONS

The Matthews Group

Dr. Terence Matthews (Dr. Matthews), a director of the Company, and certain entities controlled by Dr. Matthews (collectively, the Matthews Group) are shareholders of the Company. Significant transactions with the Matthews Group include the following:

Leased properties

The Company leases its Ottawa-based headquarter facilities from the Matthews Group. During the three and nine months ended September 30, 2018, Mitel recorded lease expense for base rent and operating costs of $1.3 and $3.8, respectively (three and nine months ended September 30, 2017 $1.1 and $3.5, respectively).

Other

Other sales to and purchases from companies related to the Matthews Group arising in the normal course of the Company s business were $0.4 and $0.9, respectively, for the three months ended September 30, 2018 (three months ended September 30, 2017 $0.1 and $0.8, respectively) and were $0.9 and $2.7, respectively, for the nine months ended September 30, 2018 (nine months ended September 30, 2017 $0.5 and $2.9, respectively).

The amounts receivable and payable as a result of all of the above transactions are included in note 7 and note 9, respectively.

11. LONG-TERM DEBT

	September 30, 2018		December 31, 2017	
Term Loan, five-year term, maturing March 2022	$	115.0	$	144.4
Incremental Term Loan, six-year term, maturing September 2023		280.6		299.2
Revolving credit facility, maturing March 2022		96.0		190.0
Unamortized original issue discount		(1.2)		(1.4)
Unamortized debt issue costs		(8.7)		(10.8)
Capital leases		4.8		7.7
		486.5		629.1
Less: current portion		(9.9)		(17.1)
	$	476.6	$	612.0

At September 30, 2018, the senior credit facilities consist of an initial $150.0 term loan (Term Loan), a $300.0 incremental term loan (Incremental Term Loan) and a $350.0 revolving credit facility (together, the 2017 Credit Facilities). Additional details on the 2017 Credit Facilities are included in note 13 to the Annual Financial Statements.

2018 Debt Prepayments

In May 2018, the Company repaid $45.4 of its term loans, using proceeds from the divestiture of DeTeWe and settlement of the non-interest-bearing note received from the divestiture of the Mobile business unit, both as further described in note 4. As a result, the Company expensed $0.9 of unamortized debt issue costs and unamortized original issue discount relating to the prepayments in the second quarter of 2018.

2017 Credit Facilities

On March 9, 2017, Mitel refinanced its senior secured credit facilities. The credit facilities were initially comprised of a $150.0 Term Loan and a $350.0 revolving credit facility. Proceeds of $150.0 from the Term Loan along with $95.0 initially drawn on the revolving credit facility and cash on hand, were used to repay the remaining principal and accrued interest outstanding under the prior credit facilities, as well as fees and expenses related to the new financing. On September 25, 2017, Mitel amended its senior secured credit facilities to allow for a $300.0 Incremental Term Loan. The Incremental Term Loan, along with amounts drawn on the revolving credit facility and cash on hand from the combined company were used to finance the acquisition of ShoreTel, as described in note 3.

The 2017 Credit Facilities, as amended, contain affirmative and negative covenants, including: (a) periodic financial reporting requirements, (b) a maximum Leverage Ratio and a minimum Interest Coverage Ratio (the ratio of Consolidated EBITDA to Consolidated Interest Expense, both as defined in the credit facility) (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 and repurchases of shares. The Company was in compliance with these covenants at September 30, 2018. The maximum Leverage Ratio is as follows:

Fiscal Quarters Ending	Maximum Consolidated Leverage Ratio
March 31, 2017 through June 30, 2017	3.50
July 1, 2017 through June 30, 2018	4.25
July 1, 2018 through September 30, 2018	3.75
October 1, 2018 through December 31, 2018	3.50
January 1, 2019 and thereafter	3.25

The maximum Leverage Ratio and actual Leverage Ratio are as follows:

Period Ending	Maximum Leverage Ratio	Actual Leverage Ratio
March 31, 2017	3.50	1.17
June 30, 2017	3.50	1.32
September 30, 2017	4.25	3.52
December 31, 2017	4.25	3.53
March 31, 2018	4.25	3.00
June 30, 2018	4.25	2.47
September 30, 2018	3.75	2.09

The minimum Interest Coverage Ratio throughout the term of the credit facility is 3.00. The Interest Coverage Ratio at September 30, 2018 was 5.86.

Other 2017 Debt Prepayments

In March 2017, prior to the refinancing, the Company repaid $338.1 on its prior credit facilities using proceeds from the divestiture of the Mobile business unit, as described in note 4 to the Annual Financial Statements. In addition, in January 2017 the Company made prepayments of $22.6 on its term loan. In the first quarter of 2017, the Company expensed $18.0 of unamortized debt issue costs and unamortized original issue discount relating to the prepayments and the full repayment of the prior credit facilities, as described above.

12. PENSION PLANS

The Company and its subsidiaries maintain defined contribution pension plans that cover a significant number of employees. In addition, the Company maintains defined benefit pension plans primarily in the U.K., France and Germany as well as a multiple-employer defined benefit pension plan in Switzerland. At September 30, 2018, the net pension liability was $83.6 (December 31, 2017 $111.1). The decrease in net pension liability was primarily due to a decrease in the U.K. pension liability due to an updated pension valuation. The U.K. pension valuation was updated for actual investment performance and certain changes in assumptions. The decrease in pension liability was primarily due to a decrease in the accrued benefit obligation resulting from an increase in the discount rate assumption since December 31, 2017. The discount rate was determined on a consistent basis and reflects prevailing rates available on high-quality, fixed income debt instruments.

The Company s net periodic benefit cost was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Defined contribution plans				
Contribution expense	$ 3.0	$ 2.7	$ 9.7	$ 8.5
Defined benefit plans(1)				
Current service cost	0.3	0.6	1.1	1.7
Interest cost	2.0	2.2	6.3	6.4
Expected return on plan assets	(2.4)	(2.4)	(7.6)	(6.9)
Recognized actuarial loss(2)	0.4	0.8	1.3	2.5

Total periodic benefit cost, net	$ 3.3	$ 3.9	$ 10.8	$ 12.2

(1) Current service cost is recorded on the same line item as the relevant employee compensation cost on the consolidated statements of operations. Interest cost, expected return on plan assets and recognized actuarial loss are recorded in other income (expense) on the consolidated statements of operations.

(2) Recognized actuarial loss represents the amortization of unrecognized actuarial loss out of accumulated other comprehensive loss into other income (expense).

13. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Intellectual Property Indemnification Obligations

The Company enters, on a regular basis, into agreements with customers and suppliers that include limited intellectual property indemnification obligations that are customary in the industry. These guarantees generally require the Company 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 the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to its customers and suppliers. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the Interim Financial Statements with respect to these guarantees.

Contingencies

The Company is party to legal proceedings, claims and potential claims arising in the normal course of business. The Company s management and legal counsel estimate that any monetary liability or financial impact of such claims or potential claims to which the Company might be subject after final adjudication would not be material to the Interim Financial Statements. In circumstances where the outcome of the lawsuit is expected to be unfavorable, the Company has recorded a provision for the expected settlement amount. Where the expected settlement amount is a range, the Company has provided for the best estimate within that range. If no amount within the range is more likely, the Company has provided for the minimum amount of the range.

Letters of Credit and Guarantees

Letters of credit, financial guarantees and other similar instruments are reviewed regularly, and the results of these reviews are considered in assessing the adequacy of the Company s reserve for possible credit and guarantee losses. Letters of credit, bank guarantees and other similar instruments amounted to $5.3 as of September 30, 2018 (December 31, 2017 $5.6). The estimated fair value of letters of credit, bank guarantees and similar instruments, which is equal to the fees paid to obtain the obligations, was not significant as of September 30, 2018 and December 31, 2017.

14. SHARE CAPITAL

Share Capital

At September 30, 2018 and December 31, 2017, the Company s authorized capital stock consisted of an unlimited number of common shares and an unlimited number of preferred shares. The holders of common shares are entitled to one vote per share and are entitled to dividends when and if declared by the Board of Directors.

In March 2017, the Toronto Stock Exchange accepted Mitel s Notice of Intention to Make a Normal Course Issuer Bid (the 2017 Notice). Pursuant to the 2017 Notice, Mitel could purchase up to 7.8 million Mitel common shares, representing approximately 10% of its public float at the time of the notice (the 2017 Buyback Program). The 2017 Buyback Program commenced on March 9, 2017 and terminated on March 8, 2018. The Company repurchased and cancelled 4.9 million Mitel Common Shares under the 2017 Buyback Program.

In March 2018, the Toronto Stock Exchange accepted Mitel s Notice of Intention to Make a Normal Course Issuer Bid (the 2018 Notice). Pursuant to the 2018 Notice, Mitel may purchase up to 6.0 million Mitel common shares, representing approximately 5% of its public float at the time of the notice (the 2018 Buyback Program). The 2018 Buyback Program commenced on March 9, 2018 and will terminate on or before March 8, 2019. Mitel may purchase its common shares, from time to time, if it believes that the market price of its common shares is attractive and that the purchase would be an appropriate use of corporate funds and in the best interests of the Company. Common shares purchased pursuant to the 2018 Buyback Program will be cancelled. At September 30, 2018, no common shares had been repurchased under the 2018 Buyback Program.

For the three and nine months ended September 30, 2018, Mitel did not repurchase any of its common shares. For the three and nine months ended September 30, 2017, Mitel repurchased and cancelled nil and 4.9 million common shares, respectively, at a total cost of nil and $35.7, respectively.

Stock Options

Following is a summary of the Company s stock option activity (in millions, except per option amounts):

	2018		2017	
	Number of Options	Weighted Average Exercise Price per Option	Number of Options	Weighted Average Exercise Price per Option
Outstanding options:				
Balance, beginning of first quarter	4.5	$ 7.41	8.3	$ 7.01
Granted		$	(1)	$ 6.59
Exercised	(0.2)	$ 5.44	(0.3)	$ 4.07
Forfeited	(1)	$ 9.56	(0.3)	$ 8.31
Expired	(0.1)	$ 9.43	(1)	$ 8.98

	2018		2017	
Balance, end of first quarter	4.2	$ 7.47	7.7	$ 7.03
Granted		$	0.1	$ 6.47
Exercised	(0.3)	$ 6.77	(0.3)	$ 4.10
Forfeited	(1)	$ 7.07	(1)	$ 8.68
Expired	(1)	$ 9.43	(0.6)	$ 9.01
Balance, end of second quarter	3.9	$ 7.51	6.9	$ 6.96
Granted		$		$
Exercised	(0.2)	$ 4.42	(1.6)	$ 5.08
Forfeited	(1)	$ 8.45	(1)	$ 8.92
Expired	(1)	$ 4.00	(0.6)	$ 8.57
Balance, end of third quarter	3.7	$ 7.65	4.7	$ 7.35
Number of options exercisable, September 30,	3.2	$ 7.65	3.4	$ 7.10

(1) Number of options is less than 0.1 for the period.

Restricted Stock Units

In the three and nine months ended September 30, 2018, 0.1 million and 2.9 million restricted stock units (RSUs) were granted, respectively, 0.3 million and 1.2 million RSUs vested, respectively, and 0.3 million and 0.8 million RSUs were forfeited, respectively (three and nine months ended September 30, 2017 0.4 million and 2.0 million granted, respectively, 0.2 million and 0.9 million vested, respectively, and 0.1 million and 0.5 million forfeited). At September 30, 2018, 5.1 million RSUs were outstanding (December 31, 2017 4.2 million).

Performance Share Units

In the three and nine months ended September 30, 2018, the Company granted nil and 0.6 million performance share units (PSUs), respectively (three and nine months ended September 30, 2017 nil and 0.4 million, respectively). PSUs are convertible into common stock to the extent that the performance target is met. The performance target for PSUs is a cumulative annual growth rate (CAGR) of Mitel stock traded on the NASDAQ stock exchange over the term of the PSU. For the 2017 PSU grants, if the CAGR is less than 10%, then the PSUs do not vest. If the CAGR is greater than 25%, the PSUs vest at a ratio of 2 common stock for each PSU. For CAGRs from 10% to 25%, the PSUs vest at ratio of between 0.5 and 2.0 common stocks for each PSU, depending on the CAGR. For the 2018 PSU grants, if the CAGR is less than 7.5%, then the PSUs do not vest. If the CAGR is greater than 15%, the PSUs vest at a ratio of 2 common stock for each PSU. For CAGRs from 7.5% to 15%, the PSUs vest at ratio of between 0.5 and 2.0 common stocks for each PSU, depending on the CAGR.

PSUs have a term of three years. At September 30, 2018, 1.0 million PSUs were outstanding (December 31, 2017 0.4 million).

The number of stock-based awards available for grant under the Company s 2017 Equity Incentive Plan at September 30, 2018 was 5.0 million (December 31, 2017 7.9 million).

15. WARRANTS

The following table outlines the carrying value of warrants outstanding:

	September 30, 2018	December 31, 2017
Warrants issued in connection with government funding(1)	$ 20.5	$ 39.1

(1) At September 30, 2018, there were 1.3 million warrants outstanding that were issued in connection with government funding (December 31, 2017 2.5 million). The warrants have an exercise price of nil, are exercisable at any time at the option of the holder and have no expiry date. In April 2018, 1.2 million warrants were exercised for proceeds of nil. As a result, in the second quarter of 2018, a pro-rata share of the carrying value of the warrants was reclassified to common share capital.

16. WEIGHTED AVERAGE COMMON SHARES OUTSTANDING

The following table sets forth the basic and diluted weighted average common shares outstanding as required for earnings per share calculations as disclosed on the consolidated statements of operations:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Weighted average common shares outstanding, basic and diluted	122.9	118.9	121.8	120.9

The following securities have been excluded from the diluted weighted average common shares outstanding because they were anti-dilutive based on the terms of the securities:

	Three Months Ended September 30		Nine Months Ended September 30	
(Average number outstanding, in millions)	**2018**	**2017**	**2018**	**2017**
Stock options		3.2	1.0	3.9
RSUs		0.7	0.1	1.0

The following securities have been excluded from the diluted weighted average common shares outstanding because they were anti-dilutive based on having a net loss attributable to common shareholders from continuing operations for the period:

	Three Months Ended September 30		Nine Months Ended September 30	
(Average number outstanding, in millions)	**2018**	**2017**	**2018**	**2017**
Stock options	3.7	1.5	3.0	2.6
RSUs	5.1	3.0	5.4	2.6
Warrants	1.3	2.5	1.8	2.5

Additionally, for the three and nine months ended September 30, 2018, 1.0 million and 1.0 million PSUs, respectively (three and nine months ended September 30, 2017 0.4 million and 0.4 million, respectively), which could potentially dilute earnings per share in the future, were also excluded from the above tables since they were contingently issuable and the conditions for issuance had not been met by the end of the period.

17. RESTRUCTURING, INTEGRATION AND ACQUISITION-RELATED COSTS

Restructuring, integration and acquisition-related costs of $12.5 were recorded in the three months ended September 30, 2018. The costs consisted of $4.9 of employee-related charges, $0.8 of facility-reduction related charges and $6.8 of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 75 people, primarily in Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred for potential acquisitions as well as costs related to the Arrangement Agreement, as described in note 22.

Restructuring, integration and acquisition-related costs of $14.0 were recorded in the three months ended June 30, 2018. The costs consisted of $3.3 of employee-related charges, $1.5 of facility-reduction related charges and $9.2 of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 50 people, primarily in Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred for potential acquisitions as well as costs related to the Arrangement Agreement, as described in note 22.

Restructuring, integration and acquisition-related costs of $8.0 were recorded in the three months ended March 31, 2018. The costs consisted of $4.1 of employee-related charges, $1.4 of facility-reduction related charges and $2.5 of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 100 people, primarily in Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred.

Restructuring, integration and acquisition-related costs of $35.7 were recorded in the three months ended September 30, 2017. The costs consisted of $17.2 of employee-related charges, $0.2 of facility-reduction related charges, $18.3 of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 75 people, primarily in Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred in connection with the acquisition of ShoreTel, as described in note 3.

Restructuring, integration and acquisition-related costs of $9.9 were recorded in the three months ended June 30, 2017. The costs consisted of $7.8 of employee-related charges, $0.2 of facility-reduction related charges, $1.9 of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 125 people, primarily in Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred.

Restructuring, integration and acquisition-related costs of $10.8 were recorded in the three months ended March 31, 2017. The costs consisted of $2.7 of employee-related charges, $0.1 of facility-reduction related charges and $8.0 of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 35 people, primarily in Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred.

At September 30, 2018, the workforce reduction liability of $8.7 and the current portion of the lease termination obligation liability of $2.6 are included in accounts payable and accrued liabilities, with the remaining non-current portion of the lease termination obligation liability of $1.4 included in other non-current liabilities.

The following table summarizes the change in provision:

Description	**Workforce Reduction**	**Facility-Reduction Related, Including Lease Termination Obligations**	**Total**
Balance of provision as of December 31, 2016	$ 8.7	$ 4.5	$ 13.2
Charges	2.7	0.1	2.8
Cash payments	(3.8)	(0.5)	(4.3)
Balance of provision as of March 31, 2017	$ 7.6	$ 4.1	$ 11.7
Charges	7.8	0.2	8.0
Cash payments	(7.6)	(0.3)	(7.9)
Balance of provision as of June 30, 2017	$ 7.8	$ 4.0	$ 11.8
Charges	17.2	0.2	17.4
Cash payments	(10.6)	(0.2)	(10.8)

Balance of provision as of September 30, 2017	$	14.4	$	4.0	$ 18.4
Charges		18.7		0.8	19.5
Cash payments		(13.6)		(0.7)	(14.3)
Balance of provision as of December 31, 2017	$	19.5	$	4.1	$ 23.6
Charges		4.1		1.4	5.5
Cash payments		(6.6)		(1.1)	(7.7)
Balance of provision as of March 31, 2018	$	17.0	$	4.4	$ 21.4
Charges		3.3		1.5	4.8
Cash payments		(10.5)		(1.9)	(12.4)
Balance of provision as of June 30, 2018	$	9.8	$	4.0	$ 13.8
Charges		4.9		0.8	5.7
Cash payments		(6.0)		(0.8)	(6.8)
Balance of provision as of September 30, 2018	$	8.7	$	4.0	$ 12.7

18. SEGMENT INFORMATION

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company s Chief Executive Officer (CEO) has been identified as the chief operating decision maker. During the first quarter of 2018, as the business continued to integrate ShoreTel and update its internal reporting structure, certain revenues and costs relating to pass-through surcharges and network services that were previously managed under the Cloud segment are now being managed under the On-Site (previously named Enterprise) segment. Therefore, beginning in the first quarter of 2018, the Company has reported its financial performance based on the revised segments, On-Site and Cloud, as described below.

Other than the change described above, the operating segments are consistent with the segments described in note 22 to the Annual Financial Statements.

The following table presents product, service and cloud recurring revenues and gross margin for the Company s operating segment:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
Revenues				
On-Site Product	$ 156.3	$ 142.8	$ 481.1	$ 421.7
On-Site Services	83.1	70.8	261.9	208.8
Total On-Site revenues	239.4	213.6	743.0	630.5
Cloud Recurring	71.7	27.9	209.6	72.7
Purchase accounting adjustments(1)	(1.5)		(4.5)	
Total revenues	$ 309.6	$ 241.5	$ 948.1	$ 703.2
Gross margin				
On-Site Product	$ 90.7	$ 81.9	$ 284.5	$ 236.8
On-Site Services	45.0	33.1	136.6	96.7
Total On-Site gross margin	135.7	115.0	421.1	333.5
Cloud Recurring	46.9	16.1	138.1	41.9
Purchase accounting adjustments(1)	(1.5)		(4.5)	
Total gross margin	$ 181.1	$ 131.1	$ 554.7	$ 375.4

(1) In accordance with the fair value provisions applicable to the accounting for business combinations, acquired deferred revenue relating to acquisitions is recorded on the opening balance sheet of the acquired company at an amount that is generally lower than the historical carrying value. Although this purchase accounting requirement has no impact on the Company s business or cash flow, it adversely impacts the Company s revenue in the reporting periods following the acquisition. As a result, the Company s chief operating decision maker reviews

and evaluates this segment measure of revenue separately from the On-Site and Cloud segments.

Geographic information

The Company reports revenues by geographic location as follows:

- Americas, consisting of the continents of North America and South America;
- EMEA, consisting of the continent of Europe, including Russia, as well as the Middle East and Africa; and
- Asia-Pacific, consisting of the continent of Asia and the Pacific region, including Australia and New Zealand.

Revenues from external customers are attributed to the following geographic locations based on location of the customers.

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Canada	$ 7.2	$ 6.5	$ 21.4	$ 21.2
United States	189.0	106.9	552.3	306.5
Rest of Americas	2.3	2.9	7.0	8.3
Americas	198.5	116.3	580.7	336.0
Germany	15.8	22.9	61.8	68.8
U.K.	24.4	24.7	77.2	70.2
Rest of EMEA	59.5	69.3	197.5	204.2
EMEA	99.7	116.9	336.5	343.2
Asia-Pacific	11.4	8.3	30.9	24.0
	$ 309.6	$ 241.5	$ 948.1	$ 703.2

19. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Changes in non-cash operating assets and liabilities:				
Accounts receivable and sales-type lease receivables	$ 25.6	$ 10.0	$ 60.1	$ 60.2
Inventories	(4.0)	(3.9)	(4.3)	(11.0)
Other current assets	(2.8)	(2.2)	(6.7)	(4.9)
Other non-current assets	(12.6)	(0.8)	(9.1)	(1.9)
Accounts payable and accrued liabilities	19.2	28.8	(1.6)	(11.5)
Deferred revenue	(5.7)	(2.9)	(7.9)	(1.8)
Other non-current liabilities	(2.0)	1.1	(4.9)	(0.2)
Change in pension liability	(2.1)	(0.8)	(5.2)	(3.6)
	$ 15.6	$ 29.3	$ 20.4	$ 25.3
Other items:				
Interest payments	$ 7.8	$ 3.4	$ 27.6	$ 16.2
Income tax payments	$ 2.2	$ 1.2	$ 6.2	$ 5.6
Property and equipment additions financed through capital lease	$	$	$	$ 0.8

Cash, cash equivalents and restricted cash at September 30, 2018 consisted of cash of $43.8 (December 31, 2017 $42.3), cash equivalents of $1.2 (December 31, 2017 $1.0) and restricted cash of $1.4 (December 31, 2017 $1.6), which includes cash of nil classified as assets held for sale on the consolidated balance sheet (December 31, 2017 $2.4).

20. HEDGING ACTIVITIES

Foreign currency risk

The Company operates globally, and therefore incurs expenses in currencies other than its various functional currencies and its U.S. dollar reporting currency. The Company has used, and may use in the future, foreign currency forward contracts to hedge the fair value of certain assets and liabilities as well as to hedge likely future cash flows denominated in a currency other than the functional currency of the entity. The Company does not enter into forward contracts for speculative purposes.

Fair value hedging

At September 30, 2018, to hedge the fair value of certain assets and liabilities, the Company held forward contracts to buy Canadian dollars, Danish kroner and U.S. dollars at fixed rates on a notional amount of $7.7, $2.4 and $86.2 U.S. dollars, respectively and to sell Euros, Swiss francs, British pounds, Australian dollars, and New Zealand dollars at fixed rates on a notional amount of $30.5, $22.6, $38.7, $2.4 and $2.1 U.S. dollars, respectively. At September 30, 2018, the Company had a net unrealized gain on fair value adjustments on the outstanding forward contracts used for fair value hedging of $0.1.

At December 31, 2017, to hedge the fair value of certain assets and liabilities, the Company held forward contracts to buy Canadian dollars, Swedish kronor and U.S. dollars at fixed rates on a notional amount of $7.5, $2.2, and $53.6

U.S. dollars, respectively and to sell Australian dollars, Euros, Swiss francs, British pounds and Norwegian kroner at fixed rates on a notional amount of $2.2, $17.2, $34.9, $6.5 and $2.3 U.S. dollars, respectively. At December 31, 2017, the Company had a net unrealized loss on fair value adjustments on the outstanding forward contracts used for fair value hedging of $0.5.

21. INCOME TAX

On December 22, 2017, the U.S. Tax Cuts and Jobs Act of 2017 (the Act) was signed into legislation. Key provisions of the Act are as follows:

U.S. Federal Corporate Income Tax Rate Reduction from 35% to 21% effective January 1, 2018

Interest deductibility is limited to 30% of earnings, before interest, taxes, depreciation and amortization from 2018 to 2021 and 30% of earnings before interest and taxes after 2021

Immediate expensing of 100% of the cost of new investments made in qualified depreciable assets after September 27, 2017

Deemed repatriation of foreign earnings previously deferred for U.S. tax purposes

The Company is still analyzing certain aspects of the Act, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. Further adjustments, if any, will be recorded by the Company during the measurement period in 2018 as permitted by SEC Staff Accounting Bulletin 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act. The Act provides that the measurement period must be completed by December 22, 2018. No measurement period adjustments have been recognized during the first nine months of 2018.

22. ARRANGEMENT AGREEMENT

On April 23, 2018, Mitel entered into a definitive agreement (the Arrangement Agreement) to be acquired by affiliates of Searchlight Capital Partners, L.P. Under the terms of the Arrangement Agreement, to be completed pursuant to a plan of arrangement (the Arrangement) under the Canada Business Corporations Act, upon completion Mitel shareholders will receive $11.15 per common share in cash. On July 10, 2018, Mitel shareholders voted in favor of the arrangement.

The transaction is expected to close during the fourth quarter of 2018, subject to customary closing conditions, including receipt of regulatory approvals.

The foregoing description of the Arrangement Agreement and the transactions contemplated thereby does not purport to be complete and is subject to, and qualified in its entirety by reference to, the full text of the Arrangement Agreement, which has been filed with the SEC as an exhibit to a Report on Form 8-K on April 24, 2018 and Mitel s proxy statement filed with SEC on June 8, 2018.

Item 2. Management s 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 unaudited interim consolidated financial statements (Interim Financial Statements) included elsewhere in this Quarterly Report on Form 10-Q (Report) and our audited annual consolidated financial statements (Annual Financial Statements) included in our report on Form 10-K for the year ended December 31, 2017 (Annual Report). All amounts are expressed in U.S. dollars unless otherwise noted.

Certain information contained in this Report, including information regarding future financial results, performance and plans, expectations, and objectives of management, constitutes 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, predict, potential anticipate and similar statements of a forward-looking nature, or the negatives of those statements, identify forward-looking statements. There is no guarantee that the expected events or expected results will actually occur. In particular, this Report contains forward-looking statements pertaining to, among other matters: the ability to obtain required regulatory approvals for the Arrangement, the timing of obtaining such approvals and the risk that such approvals may not be obtained in a timely manner or at all, and the risk that such approvals may be obtained on conditions that are not anticipated; the risk that the conditions to the Arrangement are not satisfied on a timely basis or at all and the failure of the transaction to close for any other reason; the ability to achieve the expected benefits of the transaction; the inherent uncertainty associated with financial or other projections; the integration of Mitel and ShoreTel and the ability to recognize the anticipated benefits from the acquisition of ShoreTel; the anticipated size of the markets and continued demand for our products and services; the impact of competitive products and pricing and disruption to the combined business that could result from the acquisition of ShoreTel; access to available financing on a timely basis and on reasonable terms; our ability to achieve or sustain profitability in the future; fluctuations in quarterly and annual revenues and operating results; fluctuations in foreign exchange rates; current and ongoing global economic instability, political unrest and related sanctions; intense competition; our reliance on channel partners for a significant component of our sales; our dependence upon a small number of outside contract manufacturers to manufacture our products; and, our ability to successfully implement and achieve our business strategies, including our growth of the company through acquisitions and the integration of recently acquired businesses and realization of synergies, including the acquisition of ShoreTel. 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 factors 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 in the section entitled Risk Factors included in Part II, Item 1A of this Report and the section entitled Risk Factors included in Part I, Item 1A of our Annual Report.

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. Please refer to the section entitled Risk Factors included in Part II, Item 1A of this Report and the section entitled Risk Factors included in Part I, Item 1A of our Annual Report for a further discussion of risk and uncertainties affecting our business and financial results.

Overview

We are a global provider of Cloud and On-Site business communications and collaboration solutions. Through our software product development, we help more than 70 million end users around the world, including more than a million cloud-based Unified Communications as a Service (UCaaS) subscribers, to seamlessly connect, collaborate and provide innovative solutions to their customers.

Our revenues are generated through the sale of unified communications and collaboration (UCC) solutions. Our solutions generally include a communications platform (On-Site, cloud-based or a hybrid), phones, unified communications and collaboration (UCC) applications (including contact center applications) as well as various value-added services. Our On-Site solutions are generally sold for a fixed upfront fee, with recurring revenues being driven by services such as software maintenance. Our cloud-based solutions are sold under a recurring billing model, where the customer pays a fixed monthly fee, generally under an initial three-year contract.

Significant Events and Recent Developments 2018

Mitel Enters into Definitive Arrangement Agreement to be Acquired by Affiliates of Searchlight Capital Partners

On April 23, 2018, Mitel entered into a definitive agreement to be acquired by affiliates of Searchlight Capital Partners, L.P. Under the terms of the Arrangement Agreement, to be completed pursuant to a plan of arrangement under the Canada Business Corporations Act, upon completion Mitel shareholders will receive $11.15 per common share in cash. On July 10, 2018, Mitel shareholders voted in favor of the arrangement.

The transaction is expected to close during the fourth quarter of 2018, subject to customary closing conditions, including receipt of regulatory approvals.

Further details of the Arrangement are included in note 22 to the Interim Financial Statements. The foregoing description of the Arrangement Agreement and the transactions contemplated thereby does not purport to be complete and is subject to, and qualified in its entirety by reference to, the full text of the Arrangement Agreement, which has been filed with the SEC as an exhibit to a Report on Form 8-K on April 24, 2018 and Mitel s proxy statement filed with the SEC on June 8, 2018.

Mitel receives $25.0 million of proceeds from settlement of note

On February 28, 2017 we completed the sale of our Mobile business unit for $351.1 million of cash proceeds, received February 2017, proceeds from net working capital adjustments of $16.6 million, received in May 2017, a non-interest-bearing note with a face value of $35.0 million and a term of up to 10 years, and an equity interest in the entity formed to acquire the Mobile business, as further described in note 4 to the Annual Financial Statements. The disposal of our Mobile business unit was considered a strategic shift away from the sale of software-based network solutions for mobile carriers. As a result, the operations of the Mobile business unit have been classified as discontinued operations on the consolidated statements of operations. Additional details on the divestiture, including summarized results of operations for the Mobile business unit up to the time of sale, are included in note 4 to the Annual Financial Statements.

In May 2018, Mitel agreed to settle the non-interest-bearing note with a face value of $35.0 million and a term of up to 10 years for $25.0 million. At the time of settlement, the note was recorded as a held to maturity investment with a book value of $10.2 million. As a result, we recorded a gain on the disposition of $14.8 million in the second quarter of 2018, which was recorded as a gain on divestiture in the consolidated statement of operations. The transaction is further described in note 4 to the Interim Financial Statements.

Mitel divests its German systems integration business

On March 22, 2018, we announced a definitive agreement to sell DeTeWe Communications GmbH (DeTeWe), our German systems integration business for net proceeds of $17.4 million. The sale was completed on April 30, 2018. We received proceeds of $17.4 million at closing and recorded a gain on sale of $4.3 million in the second quarter of 2018. For the year-ended December 31, 2017, DeTeWe recorded revenues of approximately $70.0 million, while operating income was not material. The assets and liabilities of DeTeWe have been reclassified as assets and liabilities held for sale on the consolidated balance sheets while the operations have not been reclassified as discontinued operations as the divestiture is not considered a strategic shift that will have a major effect on our operations. The divestiture is further described in note 4 to the Interim Financial Statements.

May 2018 debt prepayments

In May 2018, the Company prepaid $45.4 million of its term loans, using proceeds from the divestiture of DeTeWe and settlement of the non-interest-bearing note received from the divestiture of the mobile business unit, as described above. As a result, the Company expensed $0.9 million of unamortized debt issue costs and unamortized original issue discount relating to the prepayments in the second quarter of 2018.

Mitel renews share buyback program

On March 9, 2018, the Company implemented a common share buyback program by filing a Notice of Intention to Make a Normal Course Issuer Bid (the 2018 Notice) with the TSX. Pursuant to the 2018 Notice, Mitel may purchase up to 6.0 million Mitel common shares, representing approximately 5% of its public float, over a one-year period. At September 30, 2018, the Company had not repurchased shares under the 2018 Notice.

Mitel adopts new revenue recognition standard

In the first quarter of 2018, we adopted recent accounting pronouncements relating to revenue recognition. We adopted the pronouncements on a modified retrospective basis. The adoption did not result in a material change to our revenues or net income (loss) and is further described in note 2 to the Interim Financial Statements.

Significant Events and Recent Developments 2017

Mitel acquires ShoreTel

On September 25, 2017, Mitel completed the acquisition of ShoreTel for cash consideration totaling $531.4 million. ShoreTel was a provider of unified video, voice and content communications solutions, primarily in the U.S., with revenues of $357.8 million for the twelve months ended June 30, 2017. Mitel financed the acquisition and associated transaction expenses using a combination of cash on hand from the combined business, drawings on our existing revolving credit facility and proceeds from a $300.0 million Incremental Term Loan, maturing in September 2023. The acquisition is further described in note 3 to the Interim Financial Statements.

Mitel implements a share buyback program

On March 7, 2017, the Company initiated a common share buyback program by filing a Notice of Intention to Make a Normal Course Issuer Bid (the 2017 Notice). Pursuant to the 2017 Notice, Mitel was permitted to purchase up to 7.8 million Mitel common shares, representing approximately 10% of its public float, over a one-year period. Mitel repurchased and cancelled 4.9 million common shares at a total cost of $35.7 million under the 2017 Notice.

Mitel completes the refinancing of its senior credit facilities

On March 9, 2017, Mitel refinanced its senior secured credit facilities. The new credit facilities were comprised of an initial $150.0 million term loan and a $350.0 million revolving credit facility. Proceeds of $150.0 million from the term loan along with initial amounts drawn on the revolving credit facility of $95.0 million and cash on hand, were used to repay the remaining principal and accrued interest outstanding under the prior credit facilities, as well as fees and expenses related to the new financing.

In September 2017, in conjunction with the acquisition of ShoreTel, as described above, the credit facilities were amended primarily to allow for a $300.0 million incremental term loan (together with the term loan and revolving credit facility, the 2017 Credit Facilities). The 2017 Credit Facilities are further described in note 11 to the Interim Financial Statements.

U.S. Tax Reform

On December 22, 2017, the U.S. Tax Cuts and Jobs Act of 2017 (the Act) was signed into legislation. Key provisions of the Act include:

- U.S. Federal Corporate Income Tax Rate Reduction from 35% to 21% effective January 1, 2018
- Interest deductibility is limited to 30% of earnings, before interest, taxes, depreciation and amortization from 2018 to 2021 and 30% of earnings before interest and taxes after 2021

Immediate expensing of 100% of the cost of new investments made in qualified depreciable assets after September 27, 2017

Deemed repatriation of foreign earnings previously deferred for U.S. tax purposes

The Company is still analyzing certain aspects of the Act, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. Further adjustments, if any, will be recorded by the Company during the measurement period in 2018 as permitted by SEC Staff Accounting Bulletin 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act. The Act provides that the measurement period must be completed by December 22, 2018. As a result of the Act, the Company expects to experience a lower effective income tax rate on its U.S. net income (loss) in the future.

Operating Results

Total revenue for the three months ended September 30, 2018 was $309.6 million compared to $241.5 million for the three months ended September 30, 2017. The increase in revenues is due primarily to the acquisition of ShoreTel in September 2017. Including the results of ShoreTel on a proforma basis, revenues decreased by $11.9 million from $321.5 million to $309.6 million. The decrease in revenues is due primarily to lower On-Site product and service revenues due to the divestiture of our German systems integration business on April 30, 2018, as described above, as well as the effect of customers moving to the cloud. This was offset by growth in cloud recurring revenues. Our operating income for the three months ended September 30, 2018 was $4.3 million compared to an operating loss of $17.1 million for the three months ended September 30, 2017. The higher operating income was largely driven by cost reduction programs enacted in the last twelve months, higher operating income from the acquisition of ShoreTel in September 2017 and lower restructuring, integration and acquisition-related costs, which offset higher amortization of acquired intangible assets due to the acquisition of ShoreTel.

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.

The results of operations from acquisitions are included in our results from operations from the date of acquisition. We have also incurred various costs related to acquisitions and the integration of those acquisitions, which have been recorded in restructuring, integration and acquisition-related costs. In addition, the results of our German systems integration business, which was divested on April 30, 2018 as described in note 4 to the Interim Financial Statements, were not reclassified as discontinued operations and are therefore included in our results of operations up to the date of the divestiture.

Selected Consolidated Financial Data

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

	Three Months Ended September 30, 2018		2017		Change	
	Amounts	% of Revenues	Amounts	% of Revenues	Amount	%
	(in millions, except percentages and per share amounts)					
Revenues	$ 309.6	100.0%	$ 241.5	100.0%	$ 68.1	28.2
Cost of revenues	128.5	41.5%	110.4	45.7%	18.1	16.4
Gross margin	181.1	58.5%	131.1	54.3%	50.0	38.1
Selling, general and administrative	103.0	33.3%	81.5	33.7%	21.5	26.4
Research and development	36.1	11.7%	22.5	9.3%	13.6	60.4
Restructuring, integration and acquisition-related costs	12.5	4.0%	35.7	14.8%	(23.2)	*
Amortization of acquisition-related intangible assets	25.2	8.1%	8.5	3.5%	16.7	*
	176.8	57.1%	148.2	61.4%	28.6	19.3
Operating income (loss)	4.3	1.4%	(17.1)	(7.1)%	21.4	*
Interest expense	(8.8)	(2.8)%	(3.3)	(1.4)%	(5.5)	*
Other income (expense), net			(1.7)	(0.7)%	1.7	*
Income tax recovery (expense)	(2.2)	(0.7)%	(4.7)	(1.9)%	2.5	*
Net loss	$ (6.7)	(2.2)%	$ (26.8)	(11.1)%	$ 20.1	*
Adjusted EBITDA (a non-GAAP measure)						
Adjusted EBITDA	$ 55.4	17.9%	$ 34.2	14.2%	$ 21.2	*
Net loss per common share Basic and Diluted						
Net loss per common share	$ (0.05)		$ (0.23)			

* The comparison is not meaningful.

	Nine Months Ended September 30, 2018		2017		Change	
	Amounts	% of Revenues	Amounts	% of Revenues	Amount	%
	(in millions, except percentages and per share amounts)					
Revenues	$ 948.1	100.0%	$ 703.2	100.0%	$ 244.9	34.8
Cost of revenues	393.4	41.5%	327.8	46.6%	65.6	20.0

Gross margin	554.7	58.5%	375.4	53.4%	179.3	47.8
Selling, general and administrative	330.1	34.8%	246.8	35.1%	83.3	33.8
Research and development	110.8	11.7%	67.8	9.6%	43.0	63.4
Restructuring, integration and acquisition-related costs	34.5	3.6%	56.4	8.0%	(21.9)	(38.8)
Amortization of acquisition-related intangible assets	79.6	8.4%	25.7	3.7%	53.9	*
	555.0	58.5%	396.7	56.4%	158.3	39.9
Operating loss	(0.3)	(0.1)%	(21.3)	(3.0)%	21.0	*
Interest expense	(27.5)	(2.9)%	(9.0)	(1.3)%	(18.5)	*
Debt retirement and other debt costs	(0.9)	(0.1)%	(18.0)	(2.6)%	17.1	*
Gains on divestitures	19.1	2.0%			19.1	*
Other income (expense), net	3.8	0.4%	(3.0)	(0.4)%	6.8	*
Income tax recovery (expense)	(6.5)	(0.7)%	4.7	0.7%	(11.2)	*
Net loss from continuing operations	(12.3)	(1.3)%	(46.6)	(6.6)%	34.3	*
Net loss from discontinued operations, net of income tax			(1.4)	(0.2)%	1.4	*
Net loss	$ (12.3)	(1.3)%	$ (48.0)	(6.8)%	$ 35.7	*
Adjusted EBITDA (a non-GAAP measure)						
Adjusted EBITDA from continuing operations	$ 155.3	16.4%	$ 84.2	11.9%	$ 71.1	*
Adjusted EBITDA from discontinued operations			(12.2)	(1.7)%	12.2	*
Adjusted EBITDA	$ 155.3	16.4%	$ 72.0	10.2%	$ 83.3	*
Net loss per common share Basic and Diluted						
Net loss per share from continuing operations	$ (0.10)		$ (0.39)			
Net loss per share from discontinued operations			$ (0.01)			
Net loss per common share	$ (0.10)		$ (0.40)			

* The comparison is not meaningful.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)

The following table presents a reconciliation of Adjusted EBITDA to net income, the most directly comparable U.S. GAAP measure:

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net loss	$ (6.7)	$ (26.8)	$ (12.3)	$ (48.0)
Net loss from discontinued operations				1.4
Net loss from continuing operations	$ (6.7)	(26.8)	(12.3)	(46.6)
Adjustments:				
Interest expense	8.8	3.3	27.5	9.0
Income tax expense (recovery)	2.2	4.7	6.5	(4.7)
Amortization and depreciation	32.5	13.2	101.1	39.1
Foreign exchange loss (gain)	(0.1)	1.3	(2.8)	2.9
Special charges and restructuring costs	12.5	35.7	34.5	56.4
Stock-based compensation	4.7	3.1	15.0	10.8
Debt retirement and other debt costs			0.9	18.0
Gains on divestitures			(19.1)	
Purchase accounting adjustments and other(2)	1.5	(0.3)	4.0	(0.7)
Adjusted EBITDA from continuing operations	55.4	34.2	155.3	84.2
Adjusted EBITDA from discontinued operations (1)				(12.2)
Adjusted EBITDA	$ 55.4	$ 34.2	$ 155.3	$ 72.0

(1) The reconciliation of net loss from discontinued operations to Adjusted EBITDA from discontinued operations for the nine months ended September 30, 2017 consists of interest expense of $3.7 million, income tax recovery of $6.6 million and a gain on disposal of $7.9 million.

(2) In accordance with the fair value provisions applicable to the accounting for business combinations, acquired deferred revenue relating to acquisitions is recorded on the opening balance sheet at an amount that is generally lower than the historical carrying value. Although this purchase accounting requirement has no impact on the Company s business or cash flow, it impacts the Company s reported GAAP revenue in the reporting periods following the acquisition. In order to provide investors with financial information that facilitates comparison of results, the Company provides non-GAAP financial measures which exclude the impact of the purchase accounting adjustments. The Company believes that this non-GAAP financial adjustment is useful to investors because it allows investors to compare reports of financial results of the Company as the revenue reductions related to acquired contracts will not recur when similar software maintenance and service contracts are recorded in future periods.

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 GAAP. Adjusted EBITDA should not be considered as an alternative to net income, income from operations or any other measure of financial performance calculated and presented in accordance with GAAP. We encourage you to evaluate the adjustments and the reasons we consider them appropriate, as well as the material limitations of non-GAAP measures and the manner that we compensate for those limitations, as described in *Item 6. Selected Financial Data* in our Annual Report.

Results of Operations

Revenues

The following table sets forth revenues in dollars and as a percentage of total revenues:

	Three Months Ended September 30, 2018		2017		Change	
	Revenues	% of Revenues	Revenues	% of Revenues	Amount	%
	(in millions, except percentages)					
On-Site Product	$ 156.3	50.5%	$ 142.8	59.1%	$ 13.5	9.5
On-Site Services	83.1	26.8%	70.8	29.3%	12.3	17.4
Total On-Site revenues	239.4	77.3%	213.6	88.4%	25.8	12.1
Cloud Recurring	71.7	23.2%	27.9	11.6%	43.8	157.0
Purchase accounting adjustments	(1.5)	(0.5)%			(1.5)	*
	$ 309.6	100.0%	241.5	100.0%	$ 68.1	28.2

* The comparison is not meaningful.

	Nine Months Ended September 30, 2018		2017		Change	
	Revenues	% of Revenues	Revenues	% of Revenues	Amount	%
	(in millions, except percentages)					
On-Site Product	$ 481.1	50.7%	$ 421.7	60.0%	$ 59.4	14.1
On-Site Services	261.9	27.6%	208.8	29.7%	53.1	25.4
Total On-Site revenues	743.0	78.3%	630.5	89.7%	112.5	17.8
Cloud Recurring	209.6	22.1%	72.7	10.3%	136.9	188.3
Purchase accounting adjustments	(4.5)	(0.5)%			(4.5)	*
	$ 948.1	100.0%	703.2	100.0%	$ 244.9	34.8

* The comparison is not meaningful.

Revenues increased primarily as the result of the acquisition of ShoreTel in September 2017. Including the results of ShoreTel on a proforma basis for the three and nine months ended September 30, 2017, revenues decreased by $11.9 million, or 3.7%, and $17.3 million, or 1.8%, respectively, primarily due to lower product and service revenues due to the divestiture of our German systems integration business on April 30, 2018, as described under *Significant Events and Recent Developments* , above, as well as the effect of customers moving to the cloud. This was partially offset by higher Cloud segment recurring revenues and, for the nine-month period, favorable changes in foreign exchange rates.

In the nine months ended September 30, 2018 when compared to the same period of 2017, there was a general strengthening of foreign currencies, when compared against the U.S. dollar. In particular, the Euro was stronger against the U.S. dollar by an average of 8.0% and the British pound sterling was stronger by an average of 6.5%. We estimate that for the nine months ended September 30, 2018, the change in foreign exchange rates accounted for an absolute 1.9% increase of revenues when compared to the same period of 2017. Excluding the effect of foreign exchange, revenues for the nine months ended September 30, 2018 declined approximately 3.7% compared to the prior year period on a proforma basis. For the three months ended September 30, 2018, when compared to the same period of 2017, foreign exchange rates remained relatively consistent.

On-Site Segment

For the three months ended September 30, 2018, total On-Site revenues increased by $25.8 million, or 12.1%, due to the acquisition of ShoreTel. Including the results of ShoreTel on a proforma basis for the comparative 2017 period, total On-Site revenues decreased by $19.0 million, or 7.4%. On a proforma basis, On-Site segment product revenues decreased by $9.9 million, or 6.0%, due to the divestiture of the German systems integration business in April 2018, as well as customers migrating to a cloud recurring model. On a proforma basis, On-Site segment services revenues decreased by $9.1 million, or 9.9%, due to the divestiture of the German systems integration business in April 2018, which was partially offset by growth in software maintenance and other service revenues.

For the nine months ended September 30, 2018, total On-Site revenues increased by $112.5 million, or 17.8%, due to the acquisition of ShoreTel. Including the results of ShoreTel on a proforma basis for the comparative 2017 period, total On-Site revenues decreased by $43.5 million, or 5.5%. On a proforma basis, On-Site segment product revenues decreased by $31.1 million, or 6.1% and On-Site segment services revenues decreased by $12.4 million, or 4.5% driven by the same factors as for the three-month period. In addition, the decrease was partially offset by favorable movements in foreign exchange rates, as described above.

Cloud segment

For the three and nine months ended September 30, 2018, Cloud segment recurring revenues increased by $43.8 million and $136.9 million, respectively, largely due to the acquisition of ShoreTel. Including the results of ShoreTel on a proforma basis, Cloud segment recurring revenues for the three and nine months ended September 30, 2018 increased by $8.0 million, or 12.6% and $28.9 million, or 16.0%, respectively, due to the acquisition of new customers.

Purchase accounting adjustments

Purchase accounting adjustments result in a reduction in revenue and are presented separately to reflect the nature of the adjustment. In accordance with the fair value provisions applicable to the accounting for business combinations, acquired deferred revenue relating to acquisitions was recorded on the opening balance sheet at an amount that was lower than the historical carrying value. The purchase accounting adjustment reflects the revenue that would have otherwise been recognized had the contract been recorded at the historical carrying value as the revenue reductions related to acquired contracts will not recur when similar software maintenance and service contracts are recorded in future periods. Although the purchase accounting adjustments have no impact on the Company s business or cash flow, they adversely impact the Company s reported GAAP revenue in the reporting periods following the acquisition. Purchase accounting adjustments for the three and nine months ended September 30, 2018 relate to the September 2017 acquisition of ShoreTel.

Gross Margin

The following table sets forth gross margin, both in dollars and as a percentage of revenues:

	Three Months Ended September 30,					
	2018		2017		Change	
	Gross Margin	% of Revenues	Gross Margin	% of Revenues	Amount	Absolute %
	(in millions, except percentages)					
On-Site Product	$ 90.7	58.0%	$ 81.9	57.4%	$ 8.8	0.6
On-Site Services	45.0	54.2%	33.1	46.8%	11.9	7.4
Total On-Site gross margin	135.7	56.7%	115.0	53.8%	20.7	2.9
Cloud Recurring	46.9	65.4%	16.1	57.7%	30.8	7.7
Purchase accounting adjustments	(1.5)	100.0%			(1.5)	*
	$ 181.1	58.5%	$ 131.1	54.3%	$ 50.0	4.2

* The comparison is not meaningful.

	Nine Months Ended September 30,					
	2018		2017		Change	
	Gross Margin	% of Revenues	Gross Margin	% of Revenues	Amount	Absolute %
	(in millions, except percentages)					
On-Site Product	$ 284.5	59.1%	$ 236.8	56.2%	$ 47.7	2.9
On-Site Services	136.6	52.2%	96.7	46.3%	39.9	5.9
Total On-Site gross margin	421.1	56.7%	333.5	52.9%	87.6	3.8
Cloud Recurring	138.1	65.9%	41.9	57.6%	96.2	8.3
Purchase accounting adjustments	(4.5)	100.0%			(4.5)	*
	$ 554.7	58.5%	$ 375.4	53.4%	$ 179.3	5.1

* The comparison is not meaningful.

In the three and nine months ended September 30, 2018, overall gross margin percentage increased by an absolute 4.2% to 58.5% and increased by an absolute 5.1% to 58.5%, respectively, when compared to same periods of 2017, due primarily to the acquisition of ShoreTel and, for the nine-month period, favorable year over year foreign currency movements.

For the third quarter of 2018, On-Site segment gross margin percentage increased by an absolute 2.9% to 56.7% due to the acquisition of ShoreTel. Including the results of ShoreTel on a proforma basis for the third quarter of 2017, On-Site segment product gross margin percentage decreased by an absolute 0.4% to 58.0% due to change in product mix, which was partially offset by the divestiture of the lower margin German systems integration business. On a proforma basis, On-Site segment services gross margin percentage increased by an absolute 2.0% to 54.2% due to the divestiture of the lower margin German systems integration business.

For the first nine months of 2018, On-Site segment gross margin percentage increased by an absolute 3.8% to 56.7% due to the acquisition of ShoreTel. Including the results of ShoreTel on a proforma basis for the first nine months of 2017, On-Site segment product gross margin percentage increased by an absolute 1.2% to 59.1% and On-Site segment service gross margin increased by an absolute 0.4% to 52.2%, both largely driven by the divestiture of the lower margin German systems integration business and favorable year over year foreign currency movements.

For the third quarter of 2018, Cloud segment recurring gross margin percentage increased by an absolute 7.7% to 65.4%, and increased by absolute 1.5% on a proforma basis. For the first nine months of 2018, Cloud segment recurring gross margin percentage increased by an absolute 8.3% to 65.9%, and increased by absolute 1.1% on a proforma basis. On a proforma basis, the gross margin percentage increases were largely due to higher revenues as certain costs of sales are fixed.

Operating Expenses

Selling, General and Administrative (SG&A)

SG&A expenses decreased to 33.3% of revenues in the third quarter of 2018 from 33.7% in the third quarter of 2017, an increase of $21.5 million in absolute dollars, due to the acquisition of ShoreTel. Our SG&A expenses for the third quarter of 2018 included $4.7 million (third quarter of 2017 $3.1 million) of stock-based compensation expense. Including the results of ShoreTel on a proforma basis for the third quarter of 2017, SG&A expenses decreased to 33.3% of revenues from 37.2% in the third quarter of 2017, an absolute decrease of $16.6 million as realized savings from restructuring activities and synergy actions undertaken in the last twelve months were partially offset by additional investments to support cloud growth initiatives.

SG&A expenses decreased to 34.8% of revenues in the first nine months of 2018 from 35.1% in the first nine months of 2017, an increase of $83.3 million in absolute dollars, due to the acquisition of ShoreTel. Our SG&A expenses for the first nine months of 2018 included $15.0 million (first nine months of 2017 $10.8 million) of stock-based compensation expense. Including the results of ShoreTel on a proforma basis for the first nine months of 2017, SG&A expenses decreased to 34.8% of revenues from 38.5% in the first nine months of 2017, an absolute decrease of $41.8 million, driven by the same factors as for the third quarter.

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

Research and Development (R&D)

R&D expenses in the third quarter of 2018 increased to 11.7% of revenues compared to 9.3% of revenues for the third quarter of 2017, an increase of $13.6 million in absolute dollars, due to the acquisition of ShoreTel. Including the results of ShoreTel on a proforma basis for the third quarter of 2017, R&D expenses decreased to 11.7% of revenues from 12.4% in the third quarter of 2017, a decrease of $3.7 million as realized savings from restructuring activities and synergy actions undertaken in the last twelve months were partially offset by additional investments to support cloud growth initiatives.

R&D expenses in the first nine months of 2018 increased to 11.7% of revenues compared to 9.6% of revenues for the first nine months of 2017, an increase of $43.0 million in absolute dollars, due to the acquisition of ShoreTel. Including the results of ShoreTel on a proforma basis for the first nine months of 2017, R&D expenses decreased to 11.7% of revenues from 12.6% in the first nine months of 2017, a decrease of $11.3 million driven by the same factors as for the third quarter.

Our R&D expenses in absolute dollars can fluctuate depending on the timing and number of development initiatives in any given period. R&D expenses as a percentage of revenues is highly dependent on revenue levels and could vary significantly depending on actual revenues achieved.

Restructuring, Integration and Acquisition-related costs

We recorded restructuring, integration and acquisition-related costs of $12.5 million in the third quarter of 2018. The costs consisted of $4.9 million of employee-related charges, $0.8 million of facility-reduction related charges and $6.8 million of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 75 people, primarily in Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred for potential acquisitions as well as costs related to the Arrangement Agreement, as described in note 22 to the Interim Financial Statements.

We recorded restructuring, integration and acquisition-related costs of $14.0 million in the second quarter of 2018. The costs consisted of $3.3 million of employee-related charges, $1.5 million of facility-reduction related charges and $9.2 million of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 50 people, primarily in Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred for potential acquisitions as well as costs related to the Arrangement Agreement, as described in note 22 to the Interim Financial Statements.

We recorded restructuring, integration and acquisition-related costs of $8.0 million in the first quarter of 2018. The costs consisted of $4.1 million of employee-related charges, $1.4 million of facility-reduction related charges and $2.5 million of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 100 people, primarily in Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred.

We recorded restructuring, integration and acquisition-related costs of $35.7 million in the third quarter of 2017. The costs consisted of $17.2 million of employee-related charges, $0.2 million of facility-reduction related charges, $18.3 million of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 75 people, primarily in

Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred in connection with the acquisition of ShoreTel, as described in note 3.

We recorded restructuring, integration and acquisition-related costs of $9.9 million in the second quarter of 2017. The costs consisted of $7.8 million of employee-related charges, $0.2 million of facility-reduction related charges, $1.9 million of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 125 people, primarily in Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred.

We recorded restructuring, integration and acquisition-related costs of $10.8 million in the first quarter of 2017. The costs consisted of $2.7 million of employee-related charges, $0.1 million of facility-reduction related charges and $8.0 million of integration-related charges and acquisition-related charges. The employee-related charges consisted of termination and related costs in connection with headcount reductions of approximately 35 people, primarily in Europe and North America. Integration-related charges include professional fees and incidental costs relating to the integrations of acquisitions. Acquisition-related charges consist primarily of legal and advisory fees incurred.

We expect to incur additional costs in the future to gain operating efficiencies. The timing and potential amount of such costs will depend on several factors, including future revenue levels and opportunities for operating efficiencies identified by management. In addition, we expect to incur additional costs for acquisition-related activities. The timing and potential amount of such costs will depend on several factors, including acquisition opportunities identified by management.

Amortization of acquisition-related intangible assets

In the three and nine months ended September 30, 2018, amortization of acquisition-related intangible assets increased to $25.2 million and $79.6 million, respectively, compared to $8.5 million and $25.7 million for the three and nine months ended September 30, 2017. The increase is due primarily to acquired intangible assets relating to the acquisition of ShoreTel on September 25, 2017.

Operating Income (Loss)

We reported operating income of $4.3 million in the third quarter of 2018 compared to an operating loss of $17.1 million in the third quarter of 2017. The higher operating income was largely driven by higher operating income from the acquisition of ShoreTel in September 2017 as well as lower restructuring, integration and acquisition-related costs, which was partially offset by higher amortization of acquisition-related intangibles.

We reported an operating loss of $0.3 million in the first nine months of 2018 compared to an operating loss of $21.3 million in the first nine months of 2017. The change in operating loss was largely driven by the same factors as for the third quarter.

Non-Operating Expenses

Interest Expense

For the three and nine months ended September 30, 2018, interest expense was $8.8 million and $27.5 million, respectively, compared to $3.3 million and $9.0 million in the three and nine months ended September 30, 2017. The increase in interest expense was due to higher amounts outstanding on our credit agreement due to the September 2017 acquisition of ShoreTel, as described under *Significant Events and Recent Developments*, above.

Debt retirement costs

In the nine months ended September 30, 2018, we recorded debt retirement costs of $0.9 million relating to the pro-rata write-off of unamortized debt issue costs and original issue discount as a result the May 2018 debt prepayments, as described under *Significant Events and Recent Developments*, above.

In the nine months ended September 30, 2017, we recorded debt retirement costs of $18.0 million relating to the first quarter write-off of the unamortized debt issue costs and original issue discount of our prior credit facilities as a result the March 2017 refinancing, as described under *Significant Events and Recent Developments*, above.

Gains on divestitures

In the three and nine months ended September 30, 2018, we recorded gains on divestitures of nil and $19.1 million, respectively, relating to gains recorded in the second quarter of 2018. In April 2018, we received proceeds of $17.4 million upon the sale of DeTeWe and recorded a gain on divestiture of $4.3 million, as described under *Significant Events and Recent Developments*, above. In May 2018, we received $25.0 million of proceeds upon the settlement of a non-interest-bearing note, as described under *Significant Events and Recent Developments*, above. The note was recorded as a held to maturity investment with a book value of $10.2 million. As a result, we recorded a gain on the disposition of $14.8 million in the second quarter of 2018, which was recorded as a gain on divestiture in the consolidated statement of operations.

Income tax expense

For the three and nine months ended September 30, 2018, we recorded a net income tax expense of $2.2 million and $6.5 million, respectively, compared to an expense of $4.7 million and a recovery $4.7 million for the three and nine months ended September 30, 2017. The tax expense for the three and nine months ended September 30, 2018 and the tax provision and recovery for the three and nine months ended September 30, 2017 were driven by the expected effective tax rate for the year, as well as tax recoveries on certain non-recurring items.

Net Loss from Continuing Operations

Our net loss from continuing operations for the three months ended September 30, 2018 was $6.7 million compared to a net loss from continuing operations of $26.8 million for the three months ended September 30, 2017. The lower net loss from continuing operations was primarily due to higher operating income, which offset higher interest expense, as described above.

Our net loss from continuing operations for the nine months ended September 30, 2018 was $12.3 million compared to a net loss from continuing operations of $46.6 million for the nine months ended September 30, 2017. The lower net loss from continuing operations was primarily due to the gains on divestitures, lower debt retirement and other debt costs and a lower operating loss, which offset higher interest expense and a lower tax recovery, as described above.

Net Loss from Discontinued Operations, net of income tax

In December 2016, Mitel entered into a definitive agreement to divest the Mobile business unit and, on February 28, 2017, the sale was completed (as discussed in *Significant Events and Recent Developments* above). As a result, the operations of the Mobile business unit have been reported on the consolidated statements of operations as discontinued operations, up to the time of sale. Further information on the divestiture is included in note 4 to the Interim Financial Statements and note 4 to the Annual Financial Statements.

Net Loss

Our net loss for the third quarter of 2018 was $6.7 million compared to a net loss of $26.8 million for the third quarter of 2017. The lower net loss was due to lower net loss from continuing operations, as described above.

Our net loss for the first nine months of 2018 was $12.3 million compared to a net loss of $48.0 million for the first nine months of 2017. The lower net loss was due to the lower net loss from continuing operations and lower loss from discontinued operations, as described above.

Adjusted EBITDA

Adjusted EBITDA, a non-GAAP measure, was $55.4 million for the three months ended September 30, 2018 compared to $34.2 million for the three months ended September 30, 2017, an increase of $21.2 million. Including the results of ShoreTel on a proforma basis for the third quarter of 2017, Adjusted EBITDA increased by $16.3 million to $55.4 million due primarily to lower operating costs from restructuring and synergy actions, as described above.

Adjusted EBITDA from continuing operations, a non-GAAP measure, was $155.3 million for the nine months ended September 30, 2018 compared to $84.2 million for the nine months ended September 30, 2017, an increase of $71.1 million. Including the results of ShoreTel on a proforma basis for the first nine months of 2017, Adjusted EBITDA from continuing operations increased by $53.3 million to $155.3 million due primarily to lower operating costs from restructuring and synergy actions, and the favorable impact of foreign exchange rates on revenue and gross margin, as described above. Adjusted EBITDA from discontinued operations was ($12.2) million for the nine months ended September 30, 2017 relating to the operations of our Mobile business unit up to the time of sale, as described above. Adjusted EBITDA was $155.3 million for the nine months ended September 30, 2018 compared to $72.0 million for the nine months ended September 30, 2017, an increase of $83.3 million. The increase was driven primarily by the higher Adjusted EBITDA from continuing operations and the negative Adjusted EBITDA from discontinued operations in the nine months ended September 30, 2017.

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 *Selected Consolidated Financial Data Adjusted EBITDA* elsewhere in this Report.

Cash Flows

Below is a summary of comparative results of cash flows and a discussion of the results for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Change	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change
			(in millions)			
Net cash provided by (used in)						
Operating activities	$ 54.4	$ 28.6	$ 25.8	$ 115.0	$ 30.3	$ 84.7
Investing activities	(2.3)	(405.5)	403.2	30.7	(77.1)	107.8
Financing activities	(46.3)	380.9	(427.2)	(141.8)	(3.5)	(138.3)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	0.2	1.3	(1.1)	(2.4)	5.6	(8.0)
Increase (decrease) in cash, cash equivalents and restricted cash	$ 6.0	$ 5.3	$ 0.7	$ 1.5	$ (44.7)	$ 46.2

Cash Provided by Operating Activities

Net cash provided by operating activities in the third quarter of 2018 was $54.4 million compared to $28.6 million in the third quarter of 2017. The increase in cash provided by operating activities was primarily due to higher operating cash flows provided by stronger operating income, as described above, which was partially offset by lower changes in non-cash operating assets and liabilities. Net cash provided by operating activities in the first nine months of 2018 was $115.0 million compared to $30.3 million in the first nine months of 2017. The increase in cash provided by operating activities for the first nine months of 2018 was primarily driven by the same factors as for the three-month period.

Cash Provided by (Used in) Investing Activities

Net cash used in investing activities was $2.3 million in the third quarter of 2018 due to additions to property and equipment. Net cash provided by investing activities for the first nine months of 2018 was $30.7 million due primarily to $16.5 million of net cash received for the divestiture of the DeTeWe business in the second quarter and $25.0 million received upon settlement of the non-interest-bearing note received as part of the divestiture of the Mobile business unit in the second quarter, both as described under *Significant Events and Recent Developments* , above, which was partially offset by additions to property and equipment of $10.8 million.

Net cash used in investing activities was $405.5 million in the third quarter of 2017 due primarily to $400.6 million of net cash used to acquire ShoreTel in September 2017, as described under *Significant Events and Recent Developments* , above.

The cash used in investing activities in the first nine months of 2017 was $77.1 million and consisted primarily of $400.6 million of net cash used to acquire ShoreTel in the third quarter of 2017, partially offset by sale of the Mobile business unit, as described under *Significant Events and Recent Developments* , above. Net cash proceeds of $336.9 million was recorded, consisting of $351.1 million of cash proceeds at the time of sale, received in February 2017 and $16.6 million of additional cash proceeds received in May 2017 from the net working capital adjustment, net of cash included in the divested business unit of $30.8 million.

Cash Used in Financing Activities

Net cash used in financing was $46.3 million in the third quarter of 2018 and was primarily due to net repayments on our revolving credit facility. Net cash provided by financing was $380.9 million in the third quarter of 2017 and was primarily due to additional borrowings under the amended credit facility in connection with the September 2017 acquisition of ShoreTel, as described under *Significant Events and Recent Developments* , above.

Net cash used in financing for the first nine months of 2018 was $141.8 million and was driven by net repayments on our revolving credit facility and repayments on our term loans.

Net cash used in financing activities in the first nine months of 2017 was $3.5 million. The use of cash in the first nine months of 2017 was primarily due to the refinancing of our senior credit facilities, as described under *Significant Events and Recent Developments* , above, as well as share repurchases and net draws against our revolving credit facility in the second quarter, as described above. In March 2017, we repaid the $591.6 million outstanding on our prior credit facilities, using the $245.0 million proceeds from our new credit facility, the $320.3 million proceeds from the sale of the Mobile business unit, as well as cash on hand. These were partially offset by additional borrowings under our amended credit facility in September 2017 in connection with the acquisition of ShoreTel.

Effect of exchange rate changes on cash

Our overall cash position for the three and nine months ended September 30, 2018 was also impacted by exchange rate changes during the periods, which increased cash by $0.2 million and decreased cash by $2.4 million, respectively (three and nine months ended September 30, 2017 $1.3 million and $5.6 million increase, respectively).

Liquidity and Capital Resources

As of September 30, 2018, our liquidity consisted primarily of cash and cash equivalents of $45.0 million and a $350.0 million revolving credit facility, of which $96.0 million was drawn. At September 30, 2018, we had $395.6 million of term loans outstanding under our 2017 Credit Facilities.

Cash and Cash Equivalents

At September 30, 2018, we had cash of $43.8 million and cash equivalents of $1.2 million (December 31, 2017 cash of $42.3 million, which includes $2.4 million classified as assets held for sale on the consolidated balance sheet, and cash equivalents of $1.0 million).

Credit Facilities

Our senior credit facilities consist of a $350.0 million revolving credit facility, maturing March 2022, an initial $150.0 million Term Loan, maturing March 2022 and an initial Incremental Term Loan of $300.0 million, maturing September 2023 (together, the 2017 Credit Facilities). The 2017 Credit Facilities contain certain affirmative and negative covenants, including a maximum Leverage Ratio and a minimum Interest Coverage Ratio. The Term Loan and Incremental Term Loan require quarterly principal repayments, as well as annual repayments of excess cash flow. The 2017 Credit Facilities are described in note 11 to the Interim Financial Statements and further described in note 13 to the Annual Financial Statements.

Liquidity

We believe that with our existing cash balances and undrawn revolving credit facility we will have sufficient liquidity to support our business operations for the next 12 months. However, we may elect to seek additional funding at any time. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and extent of spending on restructuring and integration actions, 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, market acceptance of our products, changes in foreign exchange rates and the cost, timing and success of potential acquisitions. Additional equity or debt financing may not be available on acceptable terms or at all. In addition, any proceeds from the issuance of debt may be required to be used, in whole or in part, to make mandatory payments under the applicable existing credit agreement.

Defined Benefit Plans

We have defined benefit plans, primarily in the U.K., France, Germany and Switzerland. The total liability decreased to $83.6 million at September 30, 2018 from $111.1 million at December 31, 2017. The decrease in net pension liability was primarily due to a decrease in the U.K. pension liability due to an updated pension valuation. The U.K. pension valuation was updated for actual investment performance and certain changes in assumptions. The decrease in pension liability was primarily due to a decrease in the accrued benefit obligation resulting from an increase in the discount rate assumption since December 31, 2017. The discount rate was determined on a consistent basis and reflects prevailing rates available on high-quality, fixed income debt instruments.

Our defined benefit pension plan in the U.K. is in place for a number of our past and present employees in the U.K. The plan has been closed to new members since 2001 and closed to new service since 2012. The plan is partially funded. At September 30, 2018, the plan had an unfunded pension liability of $59.5 million (December 31, 2017 $85.8 million). 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. In September 2016, the Company s annual funding requirement to fund the pension deficit was determined to be $7.2 million (£5.5 million) for 2017, 2018 and 2019.

We have a partially funded multiple-employer pension plan in Switzerland. In Switzerland, retirees generally benefit from the receipt of a perpetual annuity at retirement based on an accrued value at the date of retirement. The accrued value is related to the actual returns on contributions during the working period. At September 30, 2018, a liability of $7.2 million was recorded for Mitel s pro-rata share of the pension liability (December 31, 2017 $8.0 million).

At September 30, 2018, we had unfunded pension liabilities in other jurisdictions, including France and Germany, totaling $16.9 million (December 31, 2017 $17.3 million). In France, retirees generally benefit from a lump sum payment upon retirement or departure. In Germany, retirees generally benefit from the receipt of a perpetual annuity at retirement, based on their years of service and ending salary.

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2018:

	Payments Due by Fiscal Year						
Contractual Obligations	**Last three months of 2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**
				(in millions)			
Long-term debt obligations principal (1)	$	$ 10.7	$ 17.1	$ 18.0	$ 176.5	$ 269.4	$ 491.7
Long-term debt obligations interest and fees (2)	6.8	27.7	27.1	26.4	18.8	12.3	119.1
Capital lease obligations (3)	1.0	2.7	1.3				5.0
Operating lease obligations (4)	6.5	20.0	15.8	10.4	7.6	15.5	75.8
Defined benefit plan contributions (5)	1.8	7.2					9.0
Total	$ 16.1	$ 68.3	$ 61.3	$ 54.8	$ 202.9	$ 297.2	$ 700.6

(1) Represents principal repayments under the 2017 Credit Facilities. Amounts outstanding on the revolving credit facility are assumed to be repaid upon maturity. No amounts have been included for the annual excess cash flow repayment, which begins in 2019, as an estimate is not practicable.

(2) Represents interest and commitment fees on amounts outstanding under the 2017 Credit Facilities. Interest on the outstanding amounts is based on LIBOR plus an applicable margin, as described in note 13 to the Annual Financial Statements. For the purposes of this table, the interest was calculated using the three-month LIBOR at September 30, 2018 and an applicable margin of 2.25% for amounts outstanding on our revolving credit facility and Term Loan, which is based on our Consolidated Total Net Leverage Ratio at September 30, 2018. For amounts outstanding on our Incremental Term Loan, interest is based on an applicable margin of 3.75%. Included in long-term debt obligations interest and fees is a 0.30% commitment fee on the undrawn portion of the revolving credit facility.

(3) Represents the principal and interest payments for capital lease obligations.

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

(5) Represents the expected contribution to our U.K. defined benefit pension plan. The amount of annual employer contributions required to fund the U.K. plan s deficit is determined every three years in accordance with U.K. regulations. Future funding requirements after calendar year 2019 are dependent on the unfunded pension liability and the time period over which the deficit is amortized and have been excluded from the table. Total estimated employer cash contributions under the unfunded defined benefit plans in France and Germany and the multiple-employer plan in Switzerland are dependent on the timing of benefit payments and plan funding levels and have been excluded from the above table. Further information on these plans is included in note 24 to the Annual Financial Statements.

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 $20.8 million of non-current tax liabilities primarily relating to uncertain tax positions due to the uncertainty of the timing of any potential payments.

Purchase orders or contracts for the purchase of 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 $5.3 million in letters of credit, bank guarantees or similar instruments outstanding as of September 30, 2018 (December 31, 2017 $5.6 million).

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 Interim Financial Statements with respect to these obligations.

Off-balance Sheet Lease Obligations

We offer our customers lease financing and other services under our managed services offering. We fund this offering, which we have branded as the *TotalSolution*® program, in part through the sale to financial institutions of rental payment streams under the leases. Such financial institutions have the option to require us to repurchase such income streams, subject to limitations, in the event of defaults by lease customers and, accordingly, we maintain reserves based on loss experience and past due accounts. In addition, such financial institutions have the option to require us to repurchase such income streams upon any uncured breach by us under the terms of the underlying sale agreements. At September 30, 2018, sold payments remaining unbilled net of lease recourse reserves, which represents the total balance of leases that is not included in our balance sheet, were $28.7 million (December 31, 2017 $31.4 million).

Critical Accounting Policies

The preparation of our consolidated financial statements and related disclosures in conformity with GAAP requires us to make estimates and assumptions about future events that can have a material impact on the amounts reported in our consolidated financial statements and accompanying notes. The determination of estimates requires the use of assumptions and the exercise of judgment and, as such, actual results could differ from those estimated. Our significant accounting policies are described in note 2 to our Annual Financial Statements included in our Annual Report, with updates to these policies described in note 2 to our Interim Financial Statements. The following critical accounting policies have been updated to reflect our results up to September 30, 2018:

Allowance for Doubtful Accounts

Our allowance for doubtful accounts is based on our assessment of the collectability of customer accounts. A considerable amount of judgment is required in order to make this assessment, including a detailed analysis of the aging of our accounts receivable and the current credit worthiness of our customers and an analysis of historical bad debts and other adjustments. If there is a deterioration of a major customer s credit worthiness or actual defaults are higher than our historical experience, our estimate of the recoverability of amounts due could be adversely affected. We review in detail our allowance for doubtful accounts on a quarterly basis and adjust the allowance amount estimate to reflect actual portfolio performance and change in future portfolio performance expectations. As of September 30, 2018 and December 31, 2017, the provision represented 7.2% and 6.7% of gross receivables, respectively.

Stock-Based Compensation

The fair value of the stock options granted is estimated on the grant date using the Black-Scholes option-pricing model for each award and is recognized over the employees requisite service period, which is generally the vesting period. We estimate the volatility of our common shares using the historical volatility of our common shares. The fair value of the restricted stock units granted is based on the stock price on the day of grant and is recognized over the employees requisite service period, which is generally the vesting period.

Based on these assumptions, stock-based compensation expense for the three and nine months ended September 30, 2018 reduced our results of operations by $4.7 million and $15.0 million, respectively (three and nine months ended September 30, 2017 $3.1 million and $10.8 million, respectively). As of September 30, 2018, there was $39.8 million of unrecognized stock-based compensation expense (December 31, 2017 $32.0 million). We expect these awards to be recognized over a weighted average period of 2.5 years (December 31, 2017 2.6 years).

Significant accounting pronouncements adopted in 2018

Revenue recognition

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers to provide a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The ASU superseded most previous revenue recognition guidance, including industry-specific guidance. The FASB subsequently issued ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12 and ASU 2016-20, which clarified the guidance, provided scope improvements and amended the effective date of ASU 2014-09. The Company adopted these ASUs in the first quarter of 2018 using a modified retrospective method of adoption, where the cumulative effect of initially applying the new revenue standard has been recorded as an adjustment to the opening balance of retained earnings on January 1, 2018. The Company has elected to apply the new guidance retrospectively only to contracts that are not completed contracts at January 1, 2018. The effect of the adoption is described below.

Revenues

Previously, for non-essential software, when Vendor Specific Objective Evidence (VSOE) of fair value for post-contract support was not established, the Company deferred the revenue for the non-essential software deliverables and recognized them ratably, over the term of the post contract support. As a result, the Company had previously deferred revenue for a small portion of its non-essential software. Under the new revenue recognition standard, the Company has established the standalone selling price of non-essential software using other observable inputs reasonably available to the Company.

Previously, for distribution agreements where the return rights were not limited and were outside the Company s control, the Company deferred revenue until the product was sold to an end customer. Under the new revenue recognition standard, the Company recognizes revenue upon delivery to the distributor for products that are not expected to be returned.

Contract costs

Previously, the Company expensed as incurred certain costs incurred to obtain and fulfill a contract with a customer, including commissions paid to the Company s internal salesforce and customer activation costs for customers under multi-year cloud contracts. Under the new revenue recognition standard, incremental costs incurred to obtain a contract, as well as costs to fulfill a contract must be deferred and amortized over the expected period that the related performance obligation is satisfied. The Company has elected to apply a practical expedient under the guidance and expenses costs to obtain a contract as incurred, if the amortization period would have been one year or less.

For the Company s On-Site business, a typical sale consists of hardware, software and a period of post-contract support for one to three years, paid for by the customer at the time of sale. The Company may also provide installation and training. Contract fulfillment costs for each of these performance obligations are generally discrete and incurred in the same period as the related performance obligation is satisfied. Incremental costs to obtain the contract are also generally incurred in the same period as the performance obligation is satisfied, with the exception of post-contract support. As a result, under the new revenue recognition standard, the Company defers incremental contract costs allocated to post-contract support and amortizes the costs over the period of post-contract support.

For the Company s recurring cloud segment, a typical solution of hardware, software, and installation, training and support is provided to a customer under a monthly recurring billing model. Contract fulfillment costs such as installation costs and incremental costs to obtain the contract such as commissions paid to the internal salesforce are generally incurred at the outset of the contract. As a result, under the new revenue recognition standard, the Company now defers these costs over the term of the contract, plus any additional expected renewal periods.

Summary of changes

As a result of the above accounting policy changes relating to revenue recognition, at January 1, 2018 the Company recorded a decrease in inventory of $1.2 million, a decrease in current deferred revenue of $11.9 million, a decrease in the long-term portion of deferred revenue of $7.6 million and an increase in shareholders equity of $18.3 million on its consolidated balance sheet. The effect of the adoption on the Company s results of operations for the three and nine months ended September 30, 2018 was not material.

As a result of the above accounting policy changes relating to contract costs, at January 1, 2018 the Company recorded a current contract asset of $11.0 million and a non-current contract asset of $8.0 million and an increase in shareholders equity of $19.0 million. The effect of the adoption on the Company s results of operations for the three and nine months ended September 30, 2018 was not material.

In addition, there was a decrease to the Company s net deferred tax asset of $9.2 million and a corresponding decrease to shareholders equity of $9.2 million to account for the tax effect of the above changes.

Significant accounting pronouncements issued but not yet adopted

Leases

In February 2016, the FASB issued ASU 2016-02 Leases to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The FASB subsequently issued ASU 2018-10, which clarified the guidance in ASU 2016-02. For operating leases, the ASUs require a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on its balance sheet. The ASUs retain the current accounting for lessors and do not make significant changes to the recognition, measurement, and presentation of expenses and cash flows by a lessee. The ASUs are effective for the Company for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company continues to evaluate the effect of the adoption of these ASUs but expects the adoption will result in an increase in the assets and liabilities on the consolidated balance sheets for operating leases and will not likely have a significant impact on the consolidated statements of earnings.

Credit losses on financial instruments

In June 2016, the FASB issued ASU 2016-13 Financial Instruments Credit Losses to improve information on credit losses for financial assets and net investment in leases that are not accounted for at fair value through net income. The ASU replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses. The ASU is effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted beginning in fiscal years beginning after December 15, 2018. The Company is currently evaluating the effect the adoption of this ASU will have on its consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.
Management believes there have been no material changes to our quantitative and qualitative disclosures about market risk during the three months ended September 30, 2018, as compared to those discussed in our Annual Report.

Item 4. Controls and Procedures.
a) Evaluation of Disclosure Controls and Procedures

Our management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of September 30, 2018. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time-period specified in the rules and forms of the SEC.

For purposes of this section, the term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

b) Changes in Internal Controls

There were no significant changes in the Company s internal control over financial reporting during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. 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 expects 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 1A. Risk Factors.
In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in our Annual Report for the fiscal period ended December 31, 2017. These risks, which could

materially affect our business, financial condition or future results, are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition and/or operating results.

In addition to the risk factors previously disclosed in our Annual Report for the fiscal period ended December 31, 2017, the following risks are related to the Arrangement:

Failure to consummate the proposed Arrangement within the expected timeframe or at all could have a material adverse impact on our business, results of operations and financial condition.

There can be no assurance that the proposed Arrangement will be consummated. Consummation of the Arrangement is not subject to a financing condition, but is subject to various other conditions, including approval by certain United States governmental telecom authorities and other customary closing conditions. There can be no assurance that these and other conditions to closing will be satisfied in a timely manner or at all.

The Arrangement Agreement also provides that the Arrangement Agreement may be terminated by the Company or the purchaser (the Purchaser) under certain circumstances, and in certain specified circumstances we will be required to pay Purchaser a fee of $49.4 million. If we are required to make such payment, doing so may materially adversely affect our business, results of operations and financial condition.

There can be no assurance that a remedy will be available to us in the event of a breach of the Arrangement Agreement by Purchaser or its affiliates or that we will wholly or partially recover for any damages incurred by us in connection with the proposed Arrangement. In addition, we could be subject to litigation related to any failure to complete the Arrangement or related to any enforcement proceeding commenced against us to perform our obligations under the Arrangement Agreement. A failed transaction may result in negative publicity and a negative impression of us among our customers or in the investment community or business community generally. Further, any disruptions to our business resulting from the announcement and pendency of the proposed Arrangement, including any adverse changes in our relationships with our customers, partners, suppliers and employees, could continue or accelerate in the event of a failed transaction. In addition, if the proposed Arrangement is not completed, and there are no other parties willing and able to acquire the Company at a price of $11.15 per common share or higher, on terms acceptable to us, the price of our common shares will likely decline to the extent that the current market price of our common shares reflects an assumption that the proposed Arrangement will be completed. Also, we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed Arrangement, for which we will have received little or no benefit if the proposed Arrangement is not completed. Many of these fees and costs will be payable by us even if the proposed Arrangement is not completed and may relate to activities that we would not have undertaken other than to complete the proposed Arrangement.

The announcement and pendency of the proposed Arrangement may adversely affect our business, results of operations and financial condition.

Uncertainty about the effect of the proposed Arrangement on our employees, customers, and other parties may have an adverse effect on our business, results of operation and financial condition. These risks to our business include the following, all of which could be exacerbated by a delay in the completion of the proposed Arrangement:

- the impairment of our ability to attract, retain, and motivate our employees, including key personnel;

- the diversion of significant management time and resources towards the completion of the proposed Arrangement that could otherwise have been devoted to pursuing other beneficial opportunities for the Company;

- difficulties maintaining relationships with customers, suppliers, and other business partners;

- delays or deferments of certain business decisions by our customers, suppliers, and other business partners;

- the inability to pursue alternative business opportunities or make appropriate changes to our business because the Arrangement Agreement requires us to conduct our business in the ordinary course of business consistent with past practice and not engage in certain kinds of transactions prior to the completion of the proposed Arrangement;

litigation relating to the proposed Arrangement and the costs related thereto; and

the incurrence of significant costs, expenses, and fees for professional services and other transaction costs in connection with the proposed Arrangement.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act and Rules 13a-14(a)/15d-14(a).
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act and Rules 13a-14(a)/15d-14(a).
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Mitel Network Corporation s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2018 and December 31, 2017; (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and September 30, 2017; (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2018 and September 30, 2017; (iv) Consolidated Statements of Shareholders Equity for the three and nine months ended September 30, 2018 and September 30, 2017; (v) Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2018 and September 30, 2017; and (vi) Notes to the Unaudited Interim Consolidated Financial Statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on October 24, 2018.

MITEL NETWORKS CORPORATION

By: /s/ Steven Spooner

Steven Spooner
Chief Financial Officer