



## ShoreTel Reports Financial Results for Second Quarter Fiscal Year 2012

Company Generates Record Revenues of \$58.0 Million; Delivers 22% Year over Year Revenue Growth; Signs Definitive Agreement to Acquire M5 Networks

### ShoreTel

(NASDAQ: SHOR), the leading provider of brilliantly simple IP phone systems with fully integrated unified communications (UC), today announced financial results for the second quarter of fiscal year 2012, which ended Dec. 31, 2011.

In a separate release, the Company announced the signing of a definitive agreement to acquire M5 Networks (M5), a recognized leader in hosted Unified Communications.

### For

the second quarter of fiscal year 2012, revenue was \$58.0 million, up 8 percent sequentially from the first quarter of fiscal 2012 and up 22 percent from the second quarter of fiscal year 2011. The GAAP net loss for the quarter was \$(2.5) million, or \$(0.05) per share, compared with a GAAP net loss of \$(3.7) million, or \$(0.08) per share, for the second quarter of fiscal year 2011.

Excluding stock-based compensation expenses of \$3.3 million, amortization of intangible assets of \$0.2 million, and a litigation settlement of \$0.5 million and related tax adjustments, non-GAAP net income for the second quarter of fiscal year 2012 was \$1.4 million or \$0.03 per diluted share, compared with a non-GAAP net loss of \$(1.0) million, or \$(0.02) per share, for the second quarter of fiscal year 2011.

### GAAP

gross margin for the second quarter of fiscal year 2012 was 65.4 percent, compared with 66.5 percent during the same quarter last year. Non-GAAP gross margin, which excludes stock-based compensation expenses and amortization of intangible assets, was 66.1 percent in the second quarter of fiscal year 2012, compared with 67.2 percent in the second quarter of last year.

### As

of Dec. 31, 2011, the company had \$115.9 million in cash, cash equivalents and short-term investments. The company generated over \$6.1 million in cash from operations during the quarter.

### ShoreTels record second quarter

revenues reflect the positive momentum in our business and success in pursuing market share growth both domestically and internationally, said Peter Blackmore, President and CEO of ShoreTel. We added several new important partnerships and customers during the quarter and the investments we have made in our sales force, lead generation and marketing to expand our distribution are paying dividends. We are committed to upholding our focus on brilliant simplicity and providing the industrys lowest total cost of ownership. We remain dedicated to ensuring that ShoreTel is solidly positioned for

sustainable profitable revenue growth.

Blackmore added, We are also pleased to announce today that ShoreTel has entered into a definitive agreement to acquire M5 Networks, a private company that is a leader in enterprise cloud UC. The addition of M5 is an excellent opportunity for ShoreTel to rapidly enter the high-growth hosted UC market. M5s premier technology platform, focus on customer satisfaction and simplicity make it an excellent fit both strategically and culturally. This not only provides a strong cloud-based service offering for ShoreTels customers but also benefits us with a recurring revenue stream that will give us greater predictability in our future revenues.

#### Operational Highlights for the Second Quarter of Fiscal Year 2012

##### Further Expansion of Channel

The company announced a new U.S. distribution relationship with Ingram Micro in October that includes the full portfolio of ShoreTel UC products and tools, including the latest version of ShoreTel Mobility. ShoreTels offering will be sold by Ingrams Advanced Technology Division.

In November, ShoreTel announced an expanded distribution agreement with Windstream, a North American communications service provider, which included ShoreTels Unified Communications Solution, Contact Center and Mobility offerings. After a six month trial in several of its locations, Windstream expanded its relationship with ShoreTel to business customers across Windstreams 29-state footprint.

During the quarter the company also expanded on its relationship with Hewlett Packard (HP). With its most recent agreement, HP will be a reseller of the ShoreTel Mobility solution with ShoreTel Mobility becoming a part of HPs fixed mobile convergence solution portfolio.

##### Extending Technological Capabilities

ShoreTel recently announced that its Enterprise Contact Center achieved VMware Ready status, indicating that ShoreTels Enterprise Contact Center passed a detailed evaluation and testing process managed by VMware. The VMware Ready program is a VMware co-branding program for qualified partner products and is a benefit of the VMware Technology Alliance Partner (TAP) program.

##### Business Outlook

The

company is providing the following outlook for the quarter ending March 31, 2012, excluding any impact from the pending acquisition of M5 Networks and related transaction costs:- Revenue is expected to be in the range of \$53 million to \$57 million.- GAAP gross margin is expected to be in the range of 64.5 to 65.5 percent, including approximately \$0.4 million in stock-based compensation expenses and amortization of intangibles. Non-GAAP gross margin is expected to be in the range of 65.5 to 66.5 percent. - GAAP operating expenses are expected to be in the range of \$41 million to \$42 million, which includes approximately \$3.0 million in stock-based compensation expenses and amortization of intangibles. Non-GAAP operating expenses are expected to be in the range of \$38 million to \$39 million.

A full version of the financial results press release, including financial tables, can be viewed at [http://www.shoretel.com/about/newsroom/press\\_releases/ShoreTel\\_Reports\\_Financial\\_Results\\_For\\_Second\\_Quarter\\_Fiscal\\_Year\\_2012.html](http://www.shoretel.com/about/newsroom/press_releases/ShoreTel_Reports_Financial_Results_For_Second_Quarter_Fiscal_Year_2012.html).

#### Use of Non-GAAP Financial Measures

##### ShoreTel

reports all financial information required in accordance with generally accepted accounting principles (GAAP), but it believes that evaluating its ongoing operating results may be difficult to understand if limited to reviewing only GAAP financial measures. Many investors have requested that ShoreTel disclose this non-GAAP information because it is useful in understanding the companys performance as it excludes non-cash and other special charges that many investors feel may obscure the companys true operating performance. Likewise, management uses these non-GAAP financial measures to manage and assess the profitability of its business and does not consider stock-based compensation expenses, amortization of acquisition-related intangibles and other special charges and related tax adjustments in managing its core operations. ShoreTel has provided a reconciliation of non-GAAP financial measures in the tables of this press release. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures with their most directly comparable GAAP financial measure.

#### Conference Call Details for Feb. 1, 2012

##### ShoreTel will

host a corresponding conference call and live webcast at 1:30 p.m. Pacific Standard Time on Feb. 1, 2012. To access the conference call, dial +1-877-874-1565 for the U.S. and Canada or +1-719-325-4776 for international callers, and provide the operator with the conference identification number 9984280. The webcast will be available live in the Investor Relations section of the companys corporate Web site at [www.shoretel.com](http://www.shoretel.com), and via replay beginning approximately two hours after the completion of the call and available until the companys announcement of its financial results for the next quarter.

##### An audio

replay of the call will also be available to investors beginning at approximately 4:30 p.m. Pacific Standard Time on Feb. 1, 2012, until 4:30 p.m. Pacific Standard Time on Feb. 9, 2012, by dialing +1-888-203-1112, or +1-719-457-0820 for callers outside the U.S. and Canada, and entering the

conference identification number 9984280.

#### Legal Notice Regarding Forward-Looking Statements

ShoreTel assumes no obligation to update the forward-looking statements included in this release. This release contains forward-looking statements within the meaning of the safe harbor provisions of the federal securities laws, including, without limitation, statements by Peter Blackmore relating to ShoreTels revenue growth, profitability, expected benefits of the proposed acquisition, recurring revenue resulting from the M5 transaction, integration of M5 Networks, integration , and statements in the Business Outlook section regarding ShoreTels anticipated future revenues, gross margins, operating expenses and other financial information. The forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. The risks and uncertainties include the pace of economic recovery, particularly in the United States, and the impact thereof on information technology spending, our ability to integrate M5 Networks, our ability to retain M5 Networks customer base, potential unknown liabilities, increased risk of intellectual property litigation by entering into new markets, uncertainty as to ShoreTels ability to retain and motivate key personnel from the acquired company, increased competition by entering into new markets, the success of our new channel strategy, the intense competition in our industry, our reliance on third parties to sell and support our products, our dependence on key suppliers and other supply and manufacturing risks, our ability to control costs, our ability to attract, retain and ramp new sales personnel, uncertainties inherent in the product development cycle, including unforeseen delays and unknown defects, uncertainty as to market acceptance of new products and services, the potential for litigation in our industry, risks related to our recently-completed acquisition, including technology and product integration risks, ability to retain key personnel and customers and the risk of assuming unknown liabilities, and other risk factors set forth in ShoreTels Form 10-K for the year ended June 30, 2011, as updated by in Quarterly Reports on Form 10-Q on a quarterly basis.

#### About ShoreTel, Inc.

ShoreTel, Inc., (NASDAQ: SHOR) is the provider of brilliantly simple Unified Communication (UC) solutions based on its award-winning IP business phone system. We offer organizations of all sizes integrated, voice, video, data and mobile communications on an open, distributed IP architecture that helps significantly reduce the complexity and costs typically associated with other solutions. The feature-rich ShoreTel UC system offers the lowest total cost of ownership (TCO) and the highest customer satisfaction in the industry, in part because it is easy to deploy, manage, scale and use. Increasingly, companies around the world are finding a competitive edge by replacing business-as-usual with new thinking, and choosing ShoreTel to handle their integrated business communication. ShoreTel is based in Sunnyvale, Calif., and has regional offices in Austin, Texas, United Kingdom, Sydney, Australia and Munich, Germany. For more information, visit [www.shoretel.com](http://www.shoretel.com).