

SHORETEL, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Amounts in thousands)  
(Unaudited)

	<u>As of September 30, 2008</u>	<u>As of June 30, 2008</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 79,436	\$ 68,672
Short-term investments	27,671	34,139
Accounts receivable - net	20,116	21,909
Inventories	9,964	12,008
Prepaid expenses and other current assets	<u>5,132</u>	<u>5,063</u>
Total current assets	142,319	141,791
Property and equipment - net	3,762	3,649
Other assets	3,416	2,357
Total assets	<u><u>\$ 149,497</u></u>	<u><u>\$ 147,797</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,403	\$ 5,952
Accrued liabilities and other	4,532	4,420
Accrued employee compensation	5,515	5,547
Deferred revenue	<u>15,462</u>	<u>13,879</u>
Total current liabilities	<u>30,912</u>	<u>29,798</u>
Long-term liabilities:		
Long-term deferred revenue	<u>5,065</u>	<u>4,786</u>
Total liabilities	<u>35,977</u>	<u>34,584</u>
Stockholders' equity:		
Common stock	197,965	195,520
Deferred stock compensation	(120)	(142)
Accumulated deficit	<u>(84,325)</u>	<u>(82,165)</u>
Total stockholders' equity	<u>113,520</u>	<u>113,213</u>
Total liabilities and stockholders' equity	<u><u>\$ 149,497</u></u>	<u><u>\$ 147,797</u></u>

SHORETEL, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Amounts in thousands, except per share amounts)  
(Unaudited)

	Three Months Ended September 30,	
	2008	2007
Revenue:		
Product	\$ 30,014	\$ 28,125
Support and services	5,846	3,850
Total revenues	35,860	31,975
Cost of revenue		
Product (1)	9,986	9,404
Support and services (2)	2,914	2,159
Total cost of revenue	12,900	11,563
Gross profit	22,960	20,412
Gross profit %	64.0%	63.8%
Operating expenses:		
Research and development (3)	7,786	6,207
Sales and marketing (4)	11,148	8,322
General and administrative (5)	6,010	3,723
Total operating expenses	24,944	18,252
Income (loss) from operations	(1,984)	2,160
Other income, net	432	1,203
Income (loss) before provision for income taxes	(1,552)	3,363
Provision for income taxes	(608)	(806)
Net income (loss)	(2,160)	2,557
Net income (loss) per share available to common stockholders:		
Basic	\$ (0.05)	\$ 0.06
Diluted (6)	\$ (0.05)	\$ 0.06
Shares used in computing net income (loss) per share available to common stockholders:		
Basic	43,318	41,881
Diluted (6)	43,318	44,989
Includes stock-based compensation as follows:		
(1) Cost of product revenue	\$ 22	\$ 8
(2) Cost of support and services revenue	194	58
(3) Research and development	722	254
(4) Sales and marketing	973	451
(5) General and administrative	801	294
	\$ 2,712	\$ 1,065

(6) Diluted net income per share and share count reflect the weighted average number of common shares used in the basic net income per share calculation plus the effects of all potentially dilutive securities. Potentially dilutive securities were not included in the compilation of diluted net loss per share for the three months ended September 30, 2008, because to do so would have been anti-dilutive.

SHORETEL, INC.  
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES  
(Amounts in thousands, except per share amounts)  
(Unaudited)

	Three Months Ended September 30,	
	2008	2007
<b>GAAP gross profit</b>	<b>\$ 22,960</b>	<b>\$ 20,412</b>
Stock-based compensation in product cost of revenue (a)	22	8
Stock-based compensation in support and services cost of revenue (a)	194	58
<b>Non-GAAP gross profit</b>	<b>\$ 23,176</b>	<b>\$ 20,478</b>
<b>GAAP gross profit %</b>	<b>64.0%</b>	<b>63.8%</b>
Stock-based compensation (a)	0.6%	0.2%
<b>Non-GAAP gross profit %</b>	<b>64.6%</b>	<b>64.0%</b>
<b>Total GAAP operating expenses</b>	<b>\$ 24,944</b>	<b>\$ 18,252</b>
Stock-based compensation included in research and development (a)	(722)	(254)
Stock-based compensation included in sales and marketing (a)	(973)	(451)
Stock-based compensation included in general and administrative (a)	(801)	(294)
<b>Total non-GAAP operating expenses</b>	<b>\$ 22,448</b>	<b>\$ 17,253</b>
<b>GAAP net income (loss) available to stockholders:</b>	<b>\$ (2,160)</b>	<b>\$ 2,557</b>
Adjustments for stock-based compensation (a)	2,712	1,065
Tax effect of non-GAAP adjustments	(25)	(167)
<b>Non-GAAP net income available to stockholders</b>	<b>\$ 527</b>	<b>\$ 3,455</b>
<b>GAAP diluted net income (loss) per share (b):</b>	<b>\$ (0.05)</b>	<b>\$ 0.06</b>
Adjustments for stock-based compensation (a)	0.06	0.02
Tax effect of non-GAAP adjustments	0.00	0.00
<b>Non-GAAP diluted net income per share (b):</b>	<b>\$ 0.01</b>	<b>\$ 0.08</b>

(a) Due to the nature of the variables that impact the Company's valuation of stock-based compensation, some of which are outside the control of management, and the non-cash nature of stock-based compensation charges, these expenses are excluded by management when evaluating the Company's core operating results.

(b) Diluted net income per share and share count reflect the weighted average number of common shares used in the basic net income per share calculation plus the effects of all potentially dilutive securities. Potentially dilutive securities were not included in the compilation of diluted net loss per share for the three months ended September 30, 2008, because to do so would have been anti-dilutive.

SHORETEL, INC.  
RECONCILIATION OF GAAP TO NON-GAAP PROJECTIONS  
(Amounts in thousands)  
(Unaudited)

	Three Months Ended December 31, 2008	
	High	Low
<b>GAAP gross profit %</b>	<b>63.0%</b>	<b>62.0%</b>
Adjustments for stock-based compensation	1.0%	1.0%
<b>Non-GAAP gross profit %</b>	<b>64.0%</b>	<b>63.0%</b>
<b>Total GAAP operating expenses</b>	<b>\$ 24,500</b>	<b>\$ 23,500</b>
Adjustments for stock-based compensation	\$ (2,000)	\$ (2,000)
<b>Total non-GAAP operating expenses</b>	<b>\$ 22,500</b>	<b>\$ 21,500</b>