

ShoreTel Inc.

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Item #	Line Item	Notes	Unit Price	Qty/Unit	Total Price	Attch.	Docs
JP14001--01-01	JP14001 - Data Communications Products & Services	Supplier Product Code:	First Offer -	1 / contract		Y	Y
Supplier Total						\$0.00	

ShoreTel Inc.Item: **JP14001 - Data Communications Products & Services****Attachments**

Solicitation JP14001 WSCA_NASPO _ShoreTel Response_8_22_13.docx

JP14001 Cost Schedule_Attachment C.xlsx

JP14001 Shoretel DB_Attachment G.pdf

JP14001 ShoreTel 2012 10K Filing_Attachment E.pdf

JP14001 ShoreTel 2013 8K Filing_Attachment F.pdf

Response Form

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STATE OF UTAH

**SOLICITATION NO. JP14001**

WSCA-NASPO Data Communications Products & Services

RESPONSES DUE NO LATER THAN:

Aug 30, 2013 10:00:00 AM PDTRESPONSES MAY BE SUBMITTED ELECTRONICALLY TO:www.bidsync.comRESPONSES MAY BE MAILED OR DELIVERED TO:

State of Utah

Division of Purchasing

3150 State Office Building, Capitol Hill

Salt Lake City, Utah 84114-1061



Response to WSCA-NASPO Data Communications Products & Services Solicitation JP14001

WSCA-NASPO

August 22, 2013

Holly Davis
Vertical Programs - SLED
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Sunnyvale, CA 94085
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The following are the registered trademarks in the USA (®)

1. The ShoreTel logo
 2. ShoreTel
 3. ShoreCare
 4. ShoreGear
 5. ShoreWare
 6. ControlPoint
-

The following is a trademark in the USA (™)

7. ShorePhone
-



August 22, 2013

Jennifer Porter
State of Utah
Division of Purchasing and General Services
State Office Building, Capitol Hill Room 3150
Salt Lake City, UT 84114-1061
Email: jenniferporter@utah.gov
Phone: 801-538-3064
Fax: 801-538-3882

Re: ShoreTel Inc.'s Response Submittal

This Proposal Response outlines ShoreTel's Cost recommendations for a unified communications system as outlined in WSCA-NASPO Request for Proposal for Data Communications Products and Services issued on 07/01/2013.

As requested, the proposed unified communications system recommended by ShoreTel supports the following sections of the Response: Unified Communications and Services.

In addition, the proposed unified communications system is capable of meeting the anticipated growth of WSCA-NASPO and the participating States, without the need for major system cost (i.e. forklift upgrade). ShoreTel has proposed multiple solutions and offerings in each of the above listed categories to best support customers purchasing off the WSCA-NASPO Master Agreement.

ShoreTel understands that the WSCA-NASPO Request for Proposal is intended to provide a standard base from which to evaluate alternatives for communications systems and allows for flexibility in proposing the most appropriate and cost-effective system. ShoreTel also understands that the acceptance of a proposal does not obligate WSCA-NASPO to purchase a system from any vendor. ShoreTel understands that WSCA-NASPO reserves the right to reject all proposals and not make a decision. ShoreTel understands that all costs for proposal preparation are the responsibility of ShoreTel and that after receipt of the proposal and prior to signing the contract, WSCA-NASPO reserves the right to modify the system requirements by adding or deleting specific equipment or optional features.

ShoreTel understands that WSCA-NASPO and the State of Utah proposal is to establish master agreements with qualified manufacturers to provide Data Communications Products and Services outlined in the specifications for all participating States.

ShoreTel understands that WSCA-NASPO intends to award a contract to multiple vendors who submit the best overall Proposal, price and other factors considered.

We feel strongly that ShoreTel will be a great partnership for WSA-NASPO and we look forward to the opportunity to work with all participating WSCA-NASPO members.

Sincerely,

Shane Harper
Director, Verticals Program - SLED

**REQUEST FOR PROPOSAL
DATA COMMUNICATIONS PRODUCTS AND SERVICES CONTRACT
Solicitation # JP14001 Revised 5/30/2013**

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Section 1: WSCA-NASPO Solicitation General Information

1.1 Purpose of Request for Proposal (RFP)

The State of Utah, Division of Purchasing is requesting proposals in conjunction with WSCA-NASPO Cooperative Purchasing Organization, LLC (WSCA-NASPO). The purpose of this request for proposal is to establish master agreements with qualified manufacturers to provide Data Communications products and services outlined in the specifications for all participating States. The services resulting from the award of this solicitation are to be available to all state entities, cities, counties, higher education, school districts and other political subdivisions on an as needed basis under the same pricing and terms and conditions agreed to in the Master Agreement.

It is anticipated that this RFP may result in Master Agreement awards to multiple contractors.

While the primary purpose of this solicitation is to select a proposer(s) who can offer the Products or Services for all Participating States, proposers are permitted to submit a proposal on more limited geographical areas, but not less than one entire Participating State. Proposers must clearly describe the geographical limits (e.g. by State name) if proposing a geographical area less than that of all Participating States. However, if a proposer elects to submit a Proposal for a single State then the proposer must be willing to supply the entire State and will not be allowed to add additional States following award or at any time during the term of the contract or any renewals.

A Participating State may evaluate and select a proposer for award in more limited geographical areas (e.g. A single state) where judged to be in the best interests of the State or States involved.

Each participating entity shall select the authorized contractor(s) they choose to do business with during the participating addendum process. A participating entity may require the authorized contractor(s) to submit additional information regarding their firm as part of the selection process during the execution of a participating addendum. This information could include, but is not limited to; partners or resellers approved under their PA, business references, number of years in business, technical capabilities, and the experience of both their sales and installation personnel.

Each participating entity has the option to select one or more product categories or services from the resulting Master Agreement(s) during the execution of the participating addendum process.

Each participating entity has the option to negotiate an expanded product line within the product category offering and within the scope of this RFP during the Participating Addendum process. Any additional incremental discounts available to a Participating Entity, if offered, may be provided at the discretion and as the sole legal obligation of the Contract provider or their Authorized Sub-Contractor to the Participating Entity and negotiated during the Participating Addendum process. All Participating entities have the right to put dollar limits and certain line item, parts or on the total amount purchased per occasion on their individual PA's as they deem appropriate.

The resulting Master Agreement will be awarded with the understanding and agreement that it is for the sole convenience of the participating entities. The participating entities reserve the right to obtain like goods or services from other sources when necessary.

This RFP is designed to provide interested proposers with sufficient basic information to submit proposals meeting minimum requirements, but is not intended to limit a proposal's content or exclude any relevant or essential data. Suppliers are encouraged to expand upon the specifications to evidence service and capability.

1.2 WSCA-NASPO Background Information

WSCA-NASPO is a cooperative purchasing organization of all 50 states, the District of Columbia and the organized US territories. WSCA-NASPO is a subsidiary of the National Association of State Procurement Officials (NASPO). NASPO is a non-profit association dedicated to strengthening the procurement community through education, research, and communication. It is made up of the directors of the central purchasing offices in each of the 50 states, the District of Columbia and the territories of the United States. For more information consult the following websites www.wsca-naspo.org and www.naspo.org

Obligations under master agreements that result from this cooperative procurement are limited to those states and other eligible entities that execute a Participating Addendum:

63G-6a-2105. Participation of a public entity or a procurement unit in agreements or contracts of procurement units -- Cooperative purchasing -- State cooperative contracts.

(2) A public entity may obtain a procurement item from a state cooperative contract or a contract awarded by the chief procurement officer under Subsection (1), without signing a participating addendum if the quote, invitation for bids, or request for proposals used to obtain the contract includes a statement indicating that the resulting contract will be issued on behalf of a public entity in Utah.

Financial obligations of Participating States (Entities) are limited to the orders placed by the departments, agencies and institutions of that Participating State (Entity) having legally available funds. Participating States incur no financial obligations on behalf of its political subdivisions, other governmental entities or other eligible entities.

Unless otherwise specified in the solicitation or a Participating Addendum, the resulting master price agreement(s) will be permissive.

This RFP is designed to provide interested Offerors with sufficient basic information to submit proposals meeting minimum requirements, but is not intended to limit a proposal's content or exclude any relevant or essential data. Proposals must be succinct, concise, and as short as possible to allow for efficient evaluation. Blanket marketing material and unnecessary elaborate brochures or representations beyond what is sufficient to present a complete and effective proposal are not acceptable.

Offerors must respond to any or all of the 12 categories that follow. The following product and service categories are included in this RFP:

1. Data Center Application Services
2. Networking Software
3. Network Management and Automation
4. Network Optimization and Acceleration
5. Optical Networking
6. Routers
7. Security
8. Storage Networking
9. Switches
10. Wireless
11. Unified Communications
12. Services

1.3 Objective

The objective of this RFP is to obtain deeper volume price discounts than are obtainable by an individual state or local government entity. This discount is based on the collective volume of potential purchases by the numerous state and local government entities. The savings realized by the contractor in managing one comprehensive WSCA-NASPO Master Agreement rather than numerous state and local contracts should result in the most attractive service level and discounts available in the marketplace.

The Master Agreement(s) resulting from this procurement may be used by state governments (including

Departments, agencies, institutions), institutions of higher education, political subdivisions (i.e., colleges, school districts, counties, cities, etc.), and other eligible entities subject to approval of the individual state procurement director and local statutory provisions.

Participation by political subdivisions, other government entities and other eligible participants is with the authorization or acknowledgement of the specific state chief procurement official, and the execution of a Participating Addendum.

1.4 Solicitation Background

This is a rebid for the current for the WSCA-NASPO Data Communications Equipment, Supplies and Services contracts. Eight (8) Manufacturers currently have Master Contracts to provide Data Communications Equipments, Supplies and Services. They are as follows:

Alcatel-Lucent – AR1466
 Brocade Communications – AR214
 Cisco Systems – AR233
 Enterasys Networks, Inc. – AR1471
 Extreme Networks – AR1471
 Hewlett-Packard - AR1464
 Juniper Networks – AR229
 Meru Networks – AR218

Although the State of Utah and WSCA-NASPO does not guarantee any usage or spend under these contracts, for bid purposes only, the total combined spend on these contracts for 2012 was \$204 million dollars.

1.5 Issuing Office and Solicitation Number

The State of Utah, Division of Purchasing is the issuing office for this document and all subsequent addenda relating to it. The reference number for the transaction is Solicitation # JP14001. This number must be referred to on all proposals, correspondence, and documentation relating to the RFP.

1.6 WSCA-NASPO Contract Administrator

The WSCA-NASPO Contract Administrator designated by WSCA-NASPO and the State of Utah, Division of Purchasing and General Services is:

Name: Jennifer Porter
 State of Utah Division of Purchasing and General Services
 State Office Building, Capitol Hill
 Room 3150
 Salt Lake City, UT 84114-1061
 Email: jenniferporter@utah.gov
 Phone: 801-538-3064
 Fax: 801-538-3882

1.7 Proposal Submittal

Offers must be received, according to instructions, by the posted due date and time. Offers received after the deadline will be non-responsive.

Proposals are due August 30, 2013 at 11:00 am MST

Questions will be accepted until July 26, 2013 at

11:00 am MST

Data Communication RFP Release Webinar is scheduled for July 11, 2013. Webinar details will be

posted on the WSCA-NASPO website (www.wsca-naspo.org).

The preferred method of submitting your original 'master' proposal packet is electronically in Microsoft Word and Excel through BidSync, (www.bidsync.com), or you may mail or drop off your hard copies to the address noted in Section 1.6 of this RFP on or before the due date and time. The original 'master' proposal packet shall include a separate document or sealed envelope labeled "SOLICITATION # JP14001 Cost Schedule" that contains the pricing document. Please note that the State of Utah Division of Purchasing office is closed on Saturday and Sunday and therefore does not accept deliveries on those days.

When submitting an offer electronically through BidSync, please allow sufficient time to complete the online forms and upload documents. The solicitation will end at the closing time listed in the offer. If you are in the middle of uploading your documents at the closing time, the system will stop the process and your offer will not be received by the system. It is recommended that the submission process be completed the day prior to the due date, with the knowledge that any changes/updates will be accepted through the due date and time.

Electronic offers may require the uploading of electronic attachments. BidSync's site will accept a wide variety of document types as attachments. However, the submission of documents containing embedded documents (zip files), mov, wmp, and mp3 files are prohibited. All documents should be attached as separate files.

BidSync customer support may be contacted at (800) 990-9339 for guidance on the BidSync site.

Respondents are responsible for ensuring that their BidSync registration information is current and correct. The State of Utah accepts no responsibility for missing or incorrect information contained in the vendor registration in BidSync. Incorrect or missing vendor registration information may result in failure to receive notification from BidSync regarding this procurement.

In addition to the original 'master' proposal packet submission, Respondents are required to send one (1) hard copy and one (1) electronic version (Microsoft Word and Excel) of the complete proposal, **excluding pricing information**, to each of the evaluation team members listed below. Each proposal packet shall be marked with the solicitation number and be in accordance with the submittal requirements. The original 'master' sent to the WSCA-NASPO Master Agreement Administrator identified in Section 1.6 of this RFP will prevail in resolving any discrepancies.

Alaska – Ted Fawcett
Contracting Officer
ted.fosket@alaska.gov

California - Bonnie Bahnsen
bonnie.bahnsen@dgs.ca.gov

Nevada – Marti Marsh
Purchasing Officer
mmarsh@admin.nv.gov

New Jersey – Vicente Azarcon
Procurement Specialist
vicente.azarcon@treas.state.nj.us

Utah – Jennifer Porter
Purchasing Agent
State of Utah
jenniferporter@utah.gov

1.8 Current State Participants

The States currently participating in the existing contracts are: Alaska, Arkansas, California, Colorado, Delaware, District of Columbia, Hawaii, Idaho, Iowa, Kentucky, Louisiana, Minnesota, Missouri, Montana, Nevada, New Jersey, Oklahoma (Grand River Dam Authority), Oregon, South Dakota, Utah, Washington, Wisconsin and Wyoming.

States with "Intent to Participate" – The following states have executed an Intent to Participate thru WSCA-NASPO, which simply indicates that they want to be formally listed in the published Request for Proposal as participating in the solicitation process: California, Hawaii, Minnesota, Missouri, Montana, Nevada, New Jersey, South Carolina, South Dakota, Utah, Vermont and Washington. All 56 NASPO members are eligible to participate in all WSCA-NASPO contracts when and if they decide they want to, in accordance with their individual statutory requirements.

1.9 Governing Laws and Regulations

This procurement is conducted by the State of Utah, Division of Purchasing & General Services, in accordance with the Utah Procurement Code. These are available at the Internet website www.purchasing.utah.gov for the State of Utah's Division of Purchasing & General Services.

The laws of the State of Utah will govern all Master Agreements that result from this procurement unless the Data Communications Products and Services Provider and participating entity agree in a Participating Addendum that the laws of another jurisdiction will govern purchases made by purchasing entities within the jurisdiction of the participating entity.

1.10 Length of Contract

The Master Agreement(s) resulting from this RFP will be for a period of five years (initial term). The Master Agreement(s) may be extended beyond the original Master Agreement period for a two (2) year period, by mutual agreement.

1.11 Pricing Structure

Pricing Structure: Pricing for the WSCA-NASPO Master Agreements shall be based on the Percent Discount off the current global MSRP Schedule applicable to United States customers.

1.12 Price Guarantee Period

Price Guarantee Period: The Data Communication Provider's Discount rate shall remain in effect for the term of the WSCA-NASPO Master Price Agreement.

ShoreTel agrees to comply with this requirement.

1.13 Price Escalation

Equipment, Supplies and Services: Data Communications provider may update the pricing on their MSRP price list one time every year after the first year of the original contract term. The WSCA-NASPO Contract Administrator will review a documented request for a Price Schedule price list adjustment only after the Price Guarantee Period.

ShoreTel agrees to comply with this requirement.

1.14 Price Reductions

In the event of a price decrease in any category of product at any time during the contract in a Provider's Price Schedule, including renewal options, the WSCA-NASPO Contract Administrator shall be notified immediately. All Price Schedule price reductions shall be effective upon the notification provided to the WSCA-NASPO Master Agreement Administrator.

ShoreTel agrees to comply with this requirement.

1.15 Usage Reporting Requirement

All Data Communication Provider's will be required to provide quarterly usage reports to the WSCA-NASPO Contract Administrator or designee. The initiation and submission of the quarterly reports are the responsibility of the Data Communication Contract Provider. You are responsible to collect and report all sales data including your resellers and partners sales associated with your Master Agreement. There will be no prompting or notification provided by the WSCA-NASPO Contract Administrator.

Quarterly reports must coincide with the quarters in the fiscal year as outlined below:

- Quarter #1: July 1 through September 30, due annually by October 30.
- Quarter #2: October 1 through December 31, due annually by January 30.
- Quarter #3: January 1 through March 31, due annually by April 30.
- Quarter #4: April 1 through June 30, due annually by July 30.

Respondents must identify the person responsible for providing the mandatory usage reports. This contact information must be kept current during the Master Agreement period. The WSCA-NASPO Contract Administrator must be notified if the contact information changes. The contact information for the person responsible for the mandatory quarterly usage reporting must be specified per Section 3.1.5.

The purpose of the Master Agreement usage-reporting requirement is to aid in Master Agreement management. The specific report content, scope, and format requirements will be provided to the awarded Data Communications Products and Services Provider's during Master Agreement execution. Some WSCA-NASPO States may require additional reporting requirements. Those requirements will be addressed through the individual participating entity's Participating Addendum process. Failure to comply with this requirement may result in Master Agreement cancellation.

ShoreTel agrees to comply with this requirement.

1.16 Standard Contract Terms and Conditions

Any Master Agreement resulting from this RFP will include, but will not be limited to, the WSCA-NASPO Standard Master Agreement Terms and Conditions, the State of Utah Additional Terms and Conditions (Appendix A) and any additional terms and conditions specific to WSCA-NASPO participating addendums for participating entities. The WSCA-NASPO Master Agreement Terms and Conditions and State of Utah Additional Terms and Conditions will take highest precedence in any contract resulting from this solicitation. Vendors must clearly identify exceptions to the WSCA-NASPO Standard Master Agreement Terms and Conditions and the State of Utah Additional Terms and Conditions in the bid submission. Vendor exceptions must include proposed solution language. Failure to submit exceptions and/or solution language will constitute vendor acceptance of WSCA-NASPO and State of Utah Additional Terms and Conditions. No third party terms and conditions will be allowed in resulting contracts awarded under this solicitation. Additional vendor terms and conditions must be submitted with the solicitation bid response for legal review and contract applicability. Submission of vendor terms and conditions with a bid response does not guarantee acceptance. Vendor terms and condition will not include any reference to website URLs that house additional terms and conditions. All terms and conditions associated with resulting contracts will be identified and attached to the WSCA-NASPO Master Agreement. The State of Utah reserves the right to accept, reject, and/or negotiate vendor terms and conditions after the award(s) have been made if it is in the best interest of the State of Utah. Participating States reserve the right to negotiate vendor terms and conditions during the Participating Addendum process. Vendor terms and conditions included with a bid response are limited to a maximum of 10 pages (8^{1/2} x 11 inch paper, 10 pt Arial font, and single sided). Failure to adhere to these terms and conditions requirements may result in vendor disqualification.

ShoreTel agrees to comply with this requirement.

1.17 Questions

All questions must be submitted through BidSync. Answers will be given via the BidSync website. Questions received after the Question/Answer period will not be answered. No agency employee, board member, or evaluation committee member should be contacted concerning this solicitation during the solicitation posting and selection process. Failure to comply with this requirement may result in vendor disqualification.

1.18 Discussions with Respondents (Oral Presentation)

An oral presentation by a Respondent to clarify a proposal may be required at the sole discretion of the WSCA-NASPO Master Agreement Administrator. However, the WSCA-NASPO Contract Administrator may award a Master Agreement based on the initial proposals received without discussion with the Respondent. If oral presentations are required, they will be scheduled after the submission of proposals. Oral presentations will be made at the Respondents expense.

ShoreTel agrees to comply with this requirement.

1.19 Protected Information

The Government Records Access and Management Act (GRAMA), Utah Code Ann., Subsection 63-2-304, Provides in part that:

the following records are protected if properly classified by a government entity:

(1) trade secrets as defined in Section 13-24-2 if the person submitting the trade secret has provided the governmental entity with the information specified in Section 63-2-308 (Business Confidentiality Claims);

(2) commercial information or non-individual financial information obtained from a person if:

(a) disclosure of the information could reasonably be expected to result in unfair

competitive injury to the person submitting the information or would impair the ability of the governmental entity to obtain necessary information in the future;

(b) the person submitting the information has a greater interest in prohibiting access than the public in obtaining access; and

(c) the person submitting the information has provided the governmental entity with the information specified in Section 63-2-308;

* * * * *

(6) records the disclosure of which would impair governmental procurement proceedings or give an unfair advantage to any person proposing to enter into a contract or agreement with a governmental entity, except that this Subsection (6) does not restrict the right of a person to see bids submitted to or by a governmental entity after bidding has closed;

GRAMA provides that trade secrets, commercial information or non-individual financial information may be protected by submitting a Claim of Business Confidentiality.

To protect information under a Claim of Business Confidentiality, the Respondent must:

1. provide a written Claim of Business Confidentiality at the time the information (proposal) is provided to the State, and
2. include a concise statement of reasons supporting the claim of business confidentiality (Subsection 63-2-308(1)).
3. submit an electronic "redacted" (excluding protected information) copy of your proposal response. Copy must clearly be marked "Redacted Version." Failure to submit a redacted version may result in release of your entire proposal.

A Claim of Business Confidentiality may be appropriate for information such as client lists and non-public financial statements. **Pricing and service elements cannot be protected. An entire proposal cannot be protected under a Claim of Business Confidentiality or Proprietary. Failure to comply with this requirement may result in your proposal being ruled Non-Responsive and no longer considered.**

The claim of business confidentiality must be submitted with your proposal on the form which may be accessed at:

www.purchasing.utah.gov/contract/documents/confidentialityclaimform.doc

To ensure the information is protected, the Division of Purchasing asks the Respondent to clearly identify in the Executive Summary and in the body of the proposal any specific information for which a Respondent claims business confidentiality protection as "PROTECTED".

All materials submitted become the property of the State of Utah. Materials may be evaluated by anyone designated by the State as part of the sourcing team. Materials submitted may be returned only at the State's option.

ShoreTel agrees to comply with this requirement.

1.20 WSCA Administrative Fee

The Contracted Supplier must pay a WSCA-NASPO administrative fee of one quarter of one percent (.025%) in accordance with the terms and conditions of the contract. The WSCA-NASPO administrative fee shall be submitted quarterly and is based on the actual sales of all products and services in conjunction with your quarterly reports. The WSCA-NASPO administrative fee must be included when determining the pricing offered. The WSCA-NASPO administrative fee is not negotiable and shall not be added as a separate line item on an invoice.

Additionally, some WSCA-NASPO participating entities may require that an administrative fee be paid directly to the WSCA-NASPO participating entity on purchases made by purchasing entities within that State. For all such requests, the fee percentage, payment method and payment schedule for the participating entity's administrative fee will be incorporated in the Participating Addendum. Data Communications Provider will be held harmless, and may adjust (increase) the WSCA-NASPO Master Agreement pricing by the fee percentage for that participating entity accordingly for purchases made by purchasing entities within the jurisdiction of the State. All such agreements may not affect the WSCA-NASPO fee or the prices paid by the purchasing entities outside the jurisdiction of the participating entities requesting the additional fee.

ShoreTel agrees to comply with this requirement.

1.21 Interest

Any payments that a Contracted Supplier makes or causes to be made to WSCA-NASPO after the due date as

indicated on the Quarterly Report schedule shall accrue interest at a rate of 18% per annum or the maximum rate permitted by law, whichever is less, until such overdue amount shall have been paid in full. The right to interest on late payments shall not preclude WSCA-NASPO from exercising any of its other rights or remedies pursuant to this agreement or otherwise with regards to Data Communication Provider's failure to make timely remittances.

ShoreTel agrees to comply with this requirement.

1.22 Proposal Offer Firm

Responses to this RFP, including proposed discounts offered will be considered firm for one hundred and sixty (160) days after the proposal due date. By signature (electronic or otherwise) and submission of a proposal, the person signing verifies that they are authorized to submit the proposal and bind the firm to provide the products/services in the proposal and potential Master Agreement.

ShoreTel agrees to comply with this requirement.

1.23 Cancellation of Procurement

This RFP may be canceled at any time and any and all proposals may be rejected in whole or in part when the State of Utah, Division of Purchasing and General Services determines such action to be in the best interest of the State of Utah.

1.24 Right to Waive

The sourcing team reserves the right to waive minor irregularities at its sole discretion.

1.25 Right to Accept All or Portion

It is our intent to accept the entire line of Data Communications Equipment and Services (included in the scope) from the awarded Data Communications Providers, however we reserve the right to accept all or a portion of a Respondents proposal.

1.26 Service Line Additions and Updates

During the term of the contract, Data Communications Providers may submit a request to update the awarded items (within the scope listed in IDENTIFY SECTION) as new technology is introduced, updated or removed from the market. The Master Agreement Administrator will evaluate requests and update the contract offering via written amendment as appropriate. The Data Communications Service Provider shall update the dedicated website, price lists, and catalogs to reflect approved changes. Pricing must utilize the same pricing structure as was used for services falling into the same service category.

ShoreTel agrees to comply with this requirement.

1.27 Right to Publish

Throughout the duration of this procurement process and Master Agreement term, Respondents, Data Communications Providers and their authorized contractors must secure from the WSCA-NASPO Contract Administrator prior approval for the release of any information that pertains to the potential work or activities covered by this procurement or the Master Agreement. The Data Communications Provider shall not make any representations of WSCA-NASPO's opinion or position as to the quality or effectiveness of the services that are the subject of this Master Agreement without prior written consent of the WSCA-NASPO Contract

Administrator. Failure to adhere to this requirement may result in disqualification of the Respondents proposal or termination of the Master Agreement for cause

ShoreTel agrees to comply with this requirement.

1.28 Changes in Representation

The Contracted Supplier must notify the WSCA-NASPO Contract Administrator of changes in the Contracted Supplier's key administrative personnel, to the extent that there may be adverse impacts to the contract. The WSCA-NASPO Contract Administrator reserves the right to require a change in Contracted Supplier(s) representatives if the assigned representative(s) is not, in the opinion of the WSCA-NASPO Contract Administrator, meeting the terms and conditions of the contract.

ShoreTel agrees to comply with this requirement.

1.29 E-Rate Requirement

All award contractors must commit to participation in the Federal Communication Commission's E-rate discount program established under authority of the Federal Telecommunications Commission Act of 1996. Participation in, and implementation of, this program must be provided without the addition of any service or administration fee by the contractor.

ShoreTel complies with this requirement.

1.30 Section 508 Compliant

Respondents must meet all Federal and State regulations required to these type of products including but limited to accessible products by describing their support of the applicable provisions of the Workforce Investment Act of 1998, Section 508.

ShoreTel agrees to comply with this requirement.

1.31 Glossary

Authorized Contractor: The Prime Contractor as listed as Contractor under the resulting Master Agreement(s) as a result of this RFP.

Authorized Sub Contractor: sub Contractor, Reseller, Partner, etc. Authorized by the Contractor (Prime) to sell only the products and services listed under the Master Agreement (s) established as a result of this RFP. This authorized sub contractor must have the authority and ability to accurately reflect the ability of the Respondent to meet the requirements detailed in this RFP.

WSCA-NASPO Contract Administrator: A dedicated person with the authority and ability to manage compliance with the scope and terms and conditions for this contract.

Mandatory Minimum Requirements: Requirements that must be met in order to be considered for further evaluation. Mandatory minimum requirements are non-negotiable. An offer that does not meet the mandatory minimum requirements will be disqualified from further consideration.

Participating Addendum: A Participating Addendum must be executed by any State that decides to adopt a WSCA-NASPO Master Agreement.

A Participating Addendum shall be executed for each contractor by the individual State desiring to use their contract.

Additional States may be added with the consent of the contractor and the Lead State (on behalf of WSCA-NASPO) through execution of Participating Addendums.

A Participating Addendum allows for each Participating State to add terms and conditions that may be unique to their State.

The Participating State and the Contractor shall negotiate and agree upon any additional terms and conditions prior to the signing and execution of the Participating Addendum.

States are not mandated to sign a Participating Addendum with all awarded vendors.

Participating Entity: A State that has indicated intent to participate in the solicitation process, or after award, a State that has executed a participating addendum.

Purchasing Entity: Any end-user in a participating State that is eligible to use the Master Agreement(s) through the participating addendum, including but not limited to State Agencies, Counties, Cities, Education, and other entities.

Qualified Entity: An entity that is eligible to use the Master Agreement(s).

Usage Report Administrator: A contractors person responsible for the quarterly sales reporting and payments described in Section 1.15 Usage Reporting Requirement.

Volume Discount: A percentage discount offered by the seller to the buyer for purchasing a stated dollar amount of Data Communications services and products to be delivered at one time or for a specified period.

Sourcing Team: The technical and business team charged with setting requirements for the Data Communications procurement, and its subsequent evaluation.

Section 2: General Proposal Requirements and Information

2.1 Proposal Content and Format Requirements

Proposals must be detailed and concise. Unless otherwise stated in your proposal as an “exception”, Respondents agree to comply with every section, subsection, attachment and addendum of this RFP. Each proposal must be submitted in Microsoft Word or Excel, labeled and organized in a manner that is congruent with the section number, headings, requirements, and terminology used in this RFP. Proposal documents must be Arial font size 10. Respondent responses that are limited to a specified number of pages are referring to single sided pages. As an example, a response that is limited to a document that is no more than two pages long may be submitted on one double sided page, but not two double sided pages.

ShoreTel agrees to comply with all of the requirements and agrees to comply with all sections of Section 2 of the RFP.

2.2 RFP Revisions

Revisions, if any, and all written questions and the State's answers, will be posted on the BidSync website. Solicitation documents will not be mailed to prospective Proposers. Respondents must register (free of charge) as a vendor with BidSync in order to have access to the RFP and related documents. Respondents are responsible for ensuring that their registration information is current and correct. The State of Utah accepts no responsibility for missing or incorrect information contained in the supplier's registration information on BidSync. The State of Utah accepts no responsibility for a prospective Respondent not receiving solicitation documents and/or revisions to the solicitation. It is the responsibility of the prospective Respondent to obtain the information provided through BidSync.

2.3 Right to Waive

The State of Utah reserves the right to waive any informality or technicality in any proposal.

2.4 Proposals Become Property of the State of Utah

All proposal contents become the property of the State of Utah. All proposal content is proprietary during the proposal evaluation process. Upon Master Agreement award, the successful Respondents' proposals will be open to public inspection, by request, with the exception of any proposal content that is marked as “proprietary or confidential” by the Respondent. All content designated as “proprietary or confidential” must be supported by documentation as to the rationale for the proprietary nature of the information.

2.5 News Releases

News releases or other public disclosure of information pertaining to this RFP or the statewide contracts may not be published without the prior written permission of the State of Utah.

ShoreTel agrees to comply with this requirement.

2.6 State Seal Use

The Utah [Great Seal Rule](#) states, in section R622-2-3.Custody and Use, that “no facsimile or reproduction of the Great Seal may be manufactured, used, displayed, or otherwise employed by anyone without the written approval of the Lieutenant Governor.”

Other participating States have similar rules that must be adhered to by Respondents or interested parties.

ShoreTel agrees to comply with this requirement.

Section 3: Data Communications Provider Mandatory Minimum Requirements

3.1 General Information

This section contains requirements that must be addressed in order for your proposal to be considered for the evaluation phase of this RFP. All of the items described in this section are non-negotiable. Respondents are required to complete:

Mandatory Requirements (M)

All Respondents must meet the **(M)** requirements listed in this section, and explain how the requirement is met. A 'no' response on the acceptance document or omission of the required explanation will disqualify the service from further evaluation.

3.1.1 Equipment Offering

(M) Identify Equipment Offering in sections 5.2.1-5.3.0.

Please see sections 5.2.1-5.3.0 for ShoreTel's response.

3.1.2 Service Offering

(M) Identify Service Offerings for all products offered in Sections 5.2.1-5.3.0.

Please see sections 5.2.1-5.3.0 for ShoreTel's response.

3.1.3 Insurance Requirement

(M) This pertains to the State of Utah insurance requirements. Other Participating States may identify different insurance requirements during the participating addendum process.

Data Communications Provider's and their authorized contractors shall procure and maintain insurance which shall protect the authorized contractor and The State and/or purchasing entity (as an additional insured) from any claims from bodily injury, property damage, or personal injury covered by the indemnification obligations set forth herein. The Data Communications Provider's authorized contractor shall procure and maintain the insurance policies described below at their own expense and shall furnish to the procurement manager, upon award, an insurance certificate listing the participating State(s) as certificate holder and as an additional insured. The insurance certificate must document that the Commercial General Liability insurance coverage purchased by the authorized contractor to include contractual liability coverage applicable to this Master Agreement. In addition, the insurance certificate must provide the following information: the name and address of the insured; name, address, telephone number and signature of the authorized agent; name of the insurance company (authorized to operate in all States); a description of coverage in detailed standard terminology (including policy period, policy number, limits of liability, exclusions and endorsements) and an acknowledgment of notice of cancellation to the participating States.

Authorized contractor is required to maintain the following insurance coverage's during the term of the WSCA-NASPO Master Agreement:

- 1) Workers' Compensation Insurance – The Data Communications Provider's authorized contractor must comply with Participating State's requirements and provide a certificate of insurance.
- 2) Commercial General Liability Policy per occurrence - \$1,000,000. Coverage to include bodily injury and property damage combined single limit.
- 3) Business Automobile Policy to include but not limited to liability coverage on any owned, non-

owned, or hired vehicle used by Data Communications Provider's authorized contractor personnel in the performance of this Master Agreement. The business automobile policy shall have the following limits of liability: Per Occurrence - \$1,000,000, Annual Aggregate - \$3,000,000, Annual Aggregate applying to products and services - \$3,000,000. Coverage must include premises and operations, bodily injury and property damage, personal and advertising injury; blanket contractual, products and services, owner named as an additional insured. The State of Utah must be listed as an additional insured.

Within 10 days of contract award, the Contracted Supplier and/or Authorized Contractor must submit proof of certificate of insurance that meets the above requirements or the Participating States requirements.

ShoreTel agrees to comply with this requirement.

3.1.4 Delivery

(M) The prices offered shall be the delivered price to any WSCA-NASPO purchasing entity. All deliveries shall be F.O.B. destination with all transportation and handling charges paid by the contractor. Responsibility and liability for loss or damage shall remain the Contractor until final inspection and acceptance (*within 30 days after delivery for external damage and 30 days for any concealed damage*) when responsibility shall pass to the Buyer except as to latent defects, fraud and Contractor's warranty obligations. The minimum shipment amount will be found in the special terms and conditions. Any order for less than the specified amount is to be shipped with the freight prepaid and added as a separate item on the invoice. Any portion of an order to be shipped without transportation charges that is back ordered shall be shipped without charge.

ShoreTel agrees to comply with this requirement.

3.1.5 Service Offering Documentation

(M) Upon request, user and/or technical documentation should be supplied for all procured products and services. Manuals may be available via the Contracted Supplier's website. The manual shall contain user and technical instructions appropriate to the service.

ShoreTel agrees to comply with this requirement.

3.1.6 Data Communications Provider Contract Administrator and Usage Report Administrator

(M) The Contracted Supplier shall provide a Contract Administrator to manage compliance with the scope and terms and conditions for this contract. The following information, at a minimum, regarding the Contract Administrator shall be provided:

- a. Administrator's number of years experience in the Data Communications Services business.
- b. Confirmation that the Data Communications Provider Contract Administrator has authority to enforce the scope of work and terms and conditions of the resulting contract.

The Contracted Supplier shall also provide a Usage Report Administrator responsible for the quarterly sales reporting described in Section 1.15 Usage Reporting Requirement.

Shoretel is naming the following individual as Contract Administrator and Usage Report Administrator:

Holly Davis
960 Stewart Drive
Sunnyvale, CA 94085
hdavis@shoretel.com
408-900-1195

Holly Davis has been with ShoreTel for two years. She has seventeen years of Data Communications Services experience, working with various government agencies and contract management. She has full authority from ShoreTel as Contract Administrator to enforce the scope of work, terms and conditions of the resulting contract.

3.1.7 eMarket Center Cooperation

(M) To be eligible for contract award, the Contractor must agree to cooperate with WSCA-NASPO and SciQuest (and any authorized agent or successor entity to SciQuest) with uploading a hosted catalog or integrating a punchout site. The contract requirements are in section 7.

ShoreTel agrees to comply with this requirement.

Section 4: Data Communications Provider Qualifications

4.1 General Information:

Provide any pertinent general information about the depth and breadth of the Offeror's product and service offerings and their overall use and acceptance in the Data Communications marketplace.

ShoreTel® was founded in 1996 with the idea of developing a voice communications platform that was easy to deploy, easy to manage and easy to use. It is ShoreTel's mission to position global enterprises to leverage voice as a strategic asset, achieving new levels of internal efficiencies which translate to a competitive market advantage. The three areas of focus for ShoreTel: Reliability, Flexibility, and Ease of Use.

Headquartered in Sunnyvale, California, ShoreTel has been making IP Voice Communications a reality in the enterprise since 1996. Now shipping the 14th release of its software, the company has delivered its award-winning ShoreTel IP Voice Communications System to over twenty five thousand plus customers – represented by multi-national deployments as well as single sites.

ShoreTel is a publicly traded (SHOR) company, financially solid with a strong balance sheet. The executive team at ShoreTel brings extensive professional skill and experience gained in leadership positions with companies such as Lucent, IBM, Octel Communications, Mitel, 3Com, Webex, Bay Networks and Network Computing Devices. ShoreTel is focused solely on IP-based telephony solutions for the enterprise. The Company was in development stage for about 1 1/2 years building the architecture that is widely accepted as the most reliable and elegant Voice over IP (VoIP) solution on the market.

ShoreTel has over 25,000+ existing installations, including the United States Navy, United States Army Corps of Engineers and Utah State University. Fortune 1000 clients include such companies as, Robert Half Intl, Viacom, and Paramount Parks. In addition to these customers ShoreTel is contract holder to 10 of state contracts and 5 regional/national contracts with multiple local, education and state government agencies with ShoreTel Solution Installations.

ShoreTel's on-premise business phone system with built-in unified communications (UC) lets both on-site and remote users see who is available at any given moment, and decide how best to reach them. With less time spent playing phone-tag, everyone has more time for the real business at hand.

As a contact center provider, the ShoreTel virtual contact center offers both agents and supervisors, regardless of location, powerful and consolidated capabilities through ShoreTel Communicator, the unified, intuitive desktop interface used company-wide: IVR, intelligent routing, outbound, and media handling. And because it integrates seamlessly with existing CRM applications such as Salesforce and Microsoft Dynamics CRM, you get more out of your two most important assets: people and information. Through complete unified communications integration, call centers can now achieve single call resolution with functionality that lets agents communicate both externally and internally effectively using voice, Web chat, email, instant messaging and video. Agents and supervisors can also take advantage of the latest telecommuting features while still leveraging powerful dashboard, reporting and unified management capability

ShoreTel Mobility Solution enables businesses of all sizes to integrate leading – and loved – smartphones and tablets securely, simply and cost-effectively, with existing enterprise communication applications and infrastructure. Our enterprise mobility solution makes it easy for your workforce to embrace BYOD (bring your own device), communicating on the devices of their choice. From any location (office, home, hotspots), and on any network (voice over Wi-Fi, voice over 3G/4G, or cellular), they can access a full suite of mobile unified communications tools. Combined with ShoreTel Dock, your workforce can go mobile but still have a home base. The ShoreTel Dock merges the benefits of a desk phone (audio quality, always-on power and ergonomic comfort) with the power of the ShoreTel Mobility app. Workers just click in their iOS device (iPad or iPhone) into ShoreTel Dock and they are off and running.

ShoreTel Sky hosted VoIP and cloud unified communications services are ideal for organizations seeking a secure, managed business communications solution that requires no capital investment. Our hosted cloud based telephone systems, hosted VoIP PBX, hosted UC, and hosted contact centers services give customers the flexibility to deploy the communications solution that meets their needs today, knowing that as those needs change, it can scale and grow – with little-to-no capital investment and no drain on IT resources. Customers also enjoy the peace of mind that accompanies going with a proven, reliable, and trusted industry leader.

ShoreTel has made significant investments in its government business and has a dedicated government team driving a best in class government program. Government entities are a natural fit for ShoreTel's products since the need for highly reliable, secure, safe, impactful and geographically dispersed communications is requirement for all. A major focus for the ShoreTel GOV team is acquiring, managing and driving state, regional and national purchase vehicles and growing the government business as a whole. The government vertical is responsible for over 20% of ShoreTel's overall business and has enjoyed 25% growth year over year the last four fiscal years. This laser focus on our government business has allowed cities, counties, municipalities, school districts and agencies of all sizes across America to harness the power and elegance of ShoreTel's solutions. 57 other California cities currently have deployed ShoreTel as their unified communications platform. All our references are able and eager to share their experiences with WSCA-NASPO.

1.2 Warranty

Specify the Offeror's standard warranty offerings for the products and services proposed in the response to this RFP.

ShoreTel's Warranty:

LIMITED WARRANTY. ShoreTel warrants to the end user ("Customer") that this product will be free from defects in workmanship and materials, under normal use and service, for one year from the date of purchase from ShoreTel or its authorized reseller. ShoreTel's sole obligation under this express warranty shall be, at ShoreTel's option and expense, to repair the defective product or part, deliver to Customer an equivalent product or part to replace the defective item, or if neither of the two foregoing options is reasonably available, ShoreTel may, in its sole discretion, refund to Customer the purchase price paid for the defective product. All products that are replaced will become the property of ShoreTel. Replacement products or parts may be new or reconditioned. ShoreTel warrants any replaced or repaired product or part for ninety (90) days from shipment, or the remainder of the initial warranty period, whichever is longer.

Products returned to ShoreTel must be sent prepaid and packaged appropriately for safe shipment, and it is recommended that they be insured or sent by a method that provides for tracking of the package. Responsibility for loss or damage does not transfer to ShoreTel until the returned item is received by ShoreTel. The repaired or replaced item will be shipped to Customer, at ShoreTel's expense, not later than thirty (30) days after ShoreTel receives the defective product, and ShoreTel will retain risk of loss or damage until the item is delivered to Customer.

EXCLUSIONS. ShoreTel will not be liable under this limited warranty if its testing and examination disclose that the alleged defect or malfunction in the product does not exist or results from:

- Failure to follow ShoreTel's installation, operation, or maintenance instructions.
- Unauthorized product modification or alteration.
- Unauthorized use of common carrier communication services accessed through the product.
- Abuse, misuse, negligent acts, or omissions of Customer and persons under Customer's control or
- Acts of third parties, acts of God, accident, fire, lightning, power surges or outages, or other hazards.

WARRANTY EXCLUSIVE. IF A SHORETEL PRODUCT DOES NOT OPERATE AS WARRANTED ABOVE, CUSTOMER'S SOLE REMEDY FOR BREACH OF THAT WARRANTY SHALL BE REPAIR, REPLACEMENT, OR REFUND OF THE PURCHASE PRICE PAID, AT SHORETEL'S OPTION. TO THE FULL EXTENT ALLOWED BY LAW, THE FOREGOING WARRANTIES AND REMEDIES ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER WARRANTIES, TERMS, OR CONDITIONS, EXPRESS OR IMPLIED, EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES, TERMS, OR CONDITIONS OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, SATISFACTORY QUALITY, CORRESPONDENCE WITH DESCRIPTION, AND NON-INFRINGEMENT, ALL OF WHICH ARE EXPRESSLY DISCLAIMED. SHORETEL NEITHER ASSUMES NOR AUTHORIZES ANY OTHER PERSON TO ASSUME FOR IT ANY OTHER LIABILITY IN CONNECTION WITH THE SALE, INSTALLATION, MAINTENANCE, OR USE OF ITS PRODUCTS.

SERVICE AGREEMENTS. Please contact your ShoreTel Authorized Reseller for information about service agreements applicable to your product.

LIMITATION OF LIABILITY. TO THE FULL EXTENT ALLOWED BY LAW, SHORETEL EXCLUDES FOR ITSELF AND ITS SUPPLIERS ANY LIABILITY, WHETHER BASED IN CONTRACT OR TORT (INCLUDING NEGLIGENCE), FOR INCIDENTAL, CONSEQUENTIAL, INDIRECT, SPECIAL, OR PUNITIVE DAMAGES OF ANY KIND, OR FOR LOSS OF REVENUE OR PROFITS, LOSS OF BUSINESS, LOSS OF INFORMATION OR DATA, OR OTHER FINANCIAL LOSS ARISING OUT OF OR IN CONNECTION WITH THE SALE, INSTALLATION, MAINTENANCE, USE, PERFORMANCE, FAILURE, OR INTERRUPTION OF ITS PRODUCTS, EVEN IF SHORETEL OR ITS AUTHORIZED RESELLER HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH

DAMAGES, AND LIMITS ITS LIABILITY TO REPAIR, REPLACEMENT, OR REFUND OF THE PURCHASE PRICE PAID, AT SHORETEL'S OPTION. THIS DISCLAIMER OF LIABILITY FOR DAMAGES WILL NOT BE AFFECTED IF ANY REMEDY PROVIDED HEREIN SHALL FAIL OF ITS ESSENTIAL PURPOSE.

DISCLAIMER. Some countries, states, or provinces do not allow the exclusion or limitation of implied warranties or the limitation of incidental or consequential damages for certain products supplied to consumers, or the limitation of liability for personal injury, so the above limitations and exclusions may be limited in their application to you. When the implied warranties are not allowed to be excluded in their entirety, they will be limited to the duration of the applicable written warranty. This warranty gives you specific legal rights, which may vary depending on local law.

GOVERNING LAW. This Limited Warranty and Limitation of Liability shall be governed by the laws of the State of California, U.S.A., and by the laws of the United States, excluding their conflicts of laws principles. The United Nations Convention on Contracts for the International Sale of Goods is hereby excluded in its entirety from application to this Limited Warranty and Limitation of Liability.

4.3 Website

Award contractors are required to establish and maintain a website applicable to the WSCA/NASPO contract which will allow Participating States to see applicable contract price list, discounts on said price list, approved resellers or partners for their state and any additional information that may be required to assist the participating states in obtaining information concerning the contract award. The State of Utah representing WSCA/NASPO reserves the right to require the award contractor to add additional items to assist in this process. Specify Websites used by the Offeror to facilitate customer ordering under awarded contracts. This is a mandatory requirement.

ShoreTel agrees to comply with this requirement.

4.4 Customer Service

Specify the Offeror's standard customer service policies and detail the escalation process used to handle customer-generated issues.

Whether the customer needs on-going support or more advanced services, ShoreTel and our Resellers have you covered simply and easily. Our support programs are designed to meet the needs of both our customers and our Resellers. Our Support programs go beyond standard warranty and are available in single or multiyear agreements. They are backed by our Technical Assistance Center and feature expedited equipment replacement and complete access to all software upgrades.

Escalation Process:

When a customer is in need of support they will engage with ShoreTel's Technical Assistance Center or TAC or directly with their ShoreTel Partner of their choosing.

Contact Information:

Create new Service Request: <http://support.shoretel.com>

Skype: shoreteltac1

Call (For new or existing SRs) in North America: +1 800 742 2348

Or Contact your ShoreTel Partner at number designated by the partner for Partner Support.

ShoreTel Escalation TAC Response Table:

Severity	Definition	Comm Mode	SR Update Frequency
Low	- Low-impact with undesirable/unexpected behaviors - Questions about low-impact issues	Email	Weekly
Medium	- Medium-impact with undesirable/unexpected behaviors - Questions about medium-impact issues	Email	3 business days
High	- Undesirable/unexpected behaviors affecting a significant portion of the system users - The SR has not been dealt with within the standards for medium priority cases	Phone or Email	2 business days
Critical	- Essential applications or functionality not available - The SR has not been dealt with	Phone	1 business days

State of Utah			
	within the standards for high priority cases		
System Down	• Essential applications or functionality not available • The SR has not been dealt with within the standards for high priority cases	Phone	Real-time

4.5 Firm

a. Provide a brief history of your firm including the following:

- Number of years providing Data Communications Services being offered in response to this RFP.

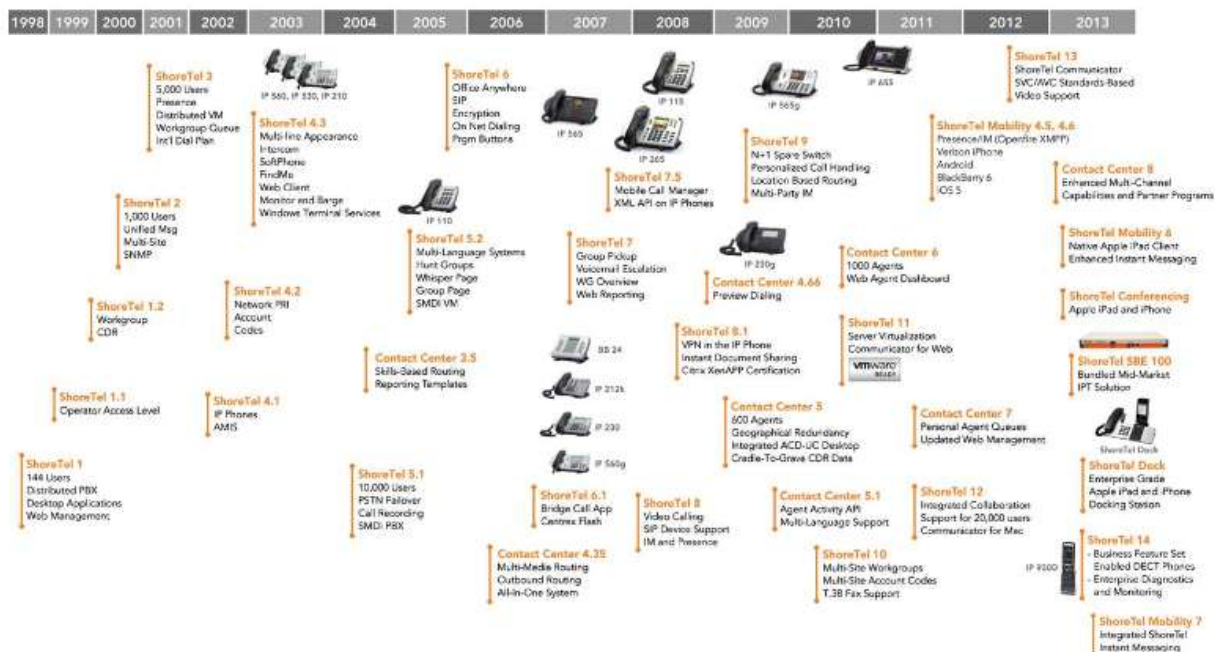
ShoreTel has been providing Unified communications and Services for seventeen years.

2. Number of separate services provided in each of the area categories described in this RFP.

ShoreTel entered the IP telephony market in 1996 and since its first installation in 1998, the company has grown to become a worldwide leader in the IP-based business communication solutions field. With a carefully constructed roadmap designed to meet the evolving needs of modern enterprises, ShoreTel technology delivers a thoroughly proven communication solution to a rapidly growing base of enthusiastic users. ShoreTel is a publicly traded company on NASDAQ under the symbol; SHOR.

ShoreTel's is responding to all the separate services under each category within United Communications and Services sections of the response. In these sections there are nine service offerings in which we responded to the WSCA-NASPO RFP Response.

ShoreTel History and Evolution of Products



- b. Describe specifically what makes your firm a stable long term partner for WSCA-NASPO.

It is with ShoreTel's ability adapt to the evolving technologies and meet the changing demands of the customer which will make ShoreTel a strong partner for WSCA-NASPO. Our outstanding NPR (Net Promoter Score) and Gartner Ratings prove customers likability of our products and solutions but ShoreTel also provides reliable award winning customer service. WSCA-NASPO will be assured ShoreTel will go above and beyond to ensure customer service and meet the customers' needs. Supporting WSCA-NASPO and the customer in choosing the right solutions will add value to the WSCA-NASPO quality and reliability in the contract for excellent products/solutions and customer satisfaction. The ShoreTel government team would be managing the contract with WSCA-NASPO this team has over 125+ years of combined experience in working with WSCA-NASPO, government sales and support. This experience will ensure exemplary service and partnership with WSCA-NASPO.

- c. Describe specifically what information the Data Communications Provider contract administrator would provide at annual meetings with an entity that has executed a participating addendum.

ShoreTel's named Data Communications Provider contract administrator, Holly Davis, would provide a report or "newsletter" outlining the wins and success YOY for WSCA-NASPO as a whole and individual breakout with the participating addenda. In the first year ShoreTel would provide first year successes and how to improve moving into year two of the contract. Included in the report would be marketing success, highlight teaming with ShoreTel's Partners what events/conferences attended, and total wins sold through the WSCA-NASPO Contract.

- d. Describe how you plan to implement the contract including having a single point of contact to perform and manage all aspects of this contract.

ShoreTel's named Data Communications Provider contract administrator would have the support of the ShoreTel Vertical SLED (State, Local and Education) Team; currently this team is based regionally to support specific areas of the country. This ShoreTel Team would work with the contract administrator to ensure all WSCA-NASPO communications are distributed properly throughout the participating states, participating ShoreTel Partners and authorized purchasers on the WSCA-NASPO. The Data Communications Provider contract administrator is also supported by a National Director and Vice President for the Verticals Program within ShoreTel, See section 4.5 e. of this response. The government program within ShoreTel supports all of the United States and would support the needs of the WSCA-NASPO contract.

Ensuring the success of the WSCA- NASPO contract and ShoreTel would be through multiple

channels of distribution, marketing programs within the ShoreTel organization or in alignment with the ShoreTel Partners. Co-marketing and advertising at attended government events with ShoreTel's participation on the contract and a press release will be done within the first year to ensure strength and success in the first year of implementation.

- e. Describe in detail your firm's escalation management plan including contact information.

ShoreTel executive leadership understands the importance of excellent customer service and it is imperative to our organization to ensure we are always available to meet the customers needs. ShoreTel has an superlative Executive Leadership Team who is fully aware of the importance of the success with the WSCA-NASPO contract. Our hope is that our first level of management will always be able to resolve any issues or concerns, however other level of management as listed below will be available for escalations.

ShoreTel's managment for escalation for WSCA-NASP Contract and Customers:

Holly Davis
WSCA-NASPO Contract Administrator
Vertical Program Manager – SLED
(408) 203-9136
hdavis@shoretel.com

Shane Harper
Director, Vertical Programs
United States and Canada
(408) 331-3588
sharper@shoretel.com

Charles Krogman
Vice President, Vertical Programs
Worldwide
(408) 331-3382
ckrogman@shoretel.com

David Petts
Vice President, Sales
Worldwide
(408) 331-3315
dpetts@shoretel.com

4.6 Authorized Sub Contractor Relationships

Respondents may propose the use of Servicing Subcontractors or partners however, the Contractor shall remain solely responsible for the performance under the terms and conditions of the Contract if Servicing Subcontractors are utilized. This includes sales report information. The Contractor will be responsible to collect, and report this information from all partners or resellers representing your contract.

- a. Briefly describe what your firm requires from potential contractors to become an "Authorized Data Communications Reseller". Provide an Authorized Contractor List.

ShoreTel partners are held to specific certification and demo equipment requirements and must have these requirements completed within 90-days of signing a reseller agreement with ShoreTel. Certifications are geared toward specific partner personnel (Sales, Technical, Support) and are earned through the completion of training classes and passing of certification exams. In addition, partners have specific revenue requirements that must be met on an annual basis. Finally, partners are incented to meet customer satisfaction targets and are reviewed annually to ensure all requirements have been attained

- b. Describe in detail how your firm currently measures an authorized contractors' performance.

ShoreTel conducts annual reviews to ensure partners remain compliant with the minimum net billing, certification and demo equipment requirements. In addition, along with customer satisfaction targets, we make all of this information available to partners via a dashboard so they can measure and modify their own performance.

- c. Describe in detail the process for revoking a designation as a sub contractor from an authorized contractor for issues related to customer service, or other authorized contractor performance related issues.

All ShoreTel partners are required to maintain compliance with minimum program requirements. Contractually, ShoreTel may terminate a partner as outlined in paragraph 9.2 of the North America Direct/Indirect Reseller Agreement.

Excerpt from partner agreement:

9.2 Termination This Agreement may be terminated:

- (a) By ShoreTel, for Reseller's successive failure to achieve forecast purchase requirements (as set forth in Exhibit A); or
- (b) By either party, for material breach of any provision of this Agreement, provided that written notice has been given to the breaching party of the breach and the breaching party has not cured the breach within thirty (30) days after delivery of such notice. Material breach shall include but not be limited to the following events: Reseller's sale to End Customer of a greater number of software license seats than are actually purchased from ShoreTel, and/or Reseller's sale to End Customer a support agreement with a longer term than actually purchased from ShoreTel;
- (c) By ShoreTel, without prior notice, if the Reseller ceases to function as a going concern, becomes insolvent, makes an assignment for the benefit of creditors, files a petition in bankruptcy, permits a petition in bankruptcy to be filed against it, or admits in writing its inability to pay its debts as they mature, or if a receiver is appointed for a substantial part of its assets; or
- (d) By ShoreTel, if for twelve (12) consecutive months Reseller fails to meet the minimum customer satisfaction score and/or number of surveys required by the then-current customer satisfaction program published on the Partner Site. Before ShoreTel can terminate this Agreement pursuant to this section, Reseller shall be given prior written notice of its poor customer satisfaction score and a "cure" period as determined by ShoreTel in its reasonable discretion; or
- (e) By either party for convenience, but only so long as the party desiring to terminate gives at least thirty (30) days prior written notice to the other party.

- d. Describe in detail how your firm will support and assist an authorized contractor in improving their performance and the corrective action process.

ShoreTel assigns Account Owners, who are members of our Partner Business Manager (PBM) and Remote Partner Business Manager (RPBM) organization.

These PBMs/RPBMs are responsible for managing their assigned accounts to ensure all requirements of the Champion Partner Program are met as well as working with partners to ensure a successful relationship. This includes regularly scheduled business planning sessions and account reviews designed to build corrective action plans and monitor the status of those plans, as necessary.

- e. Describe in detail the process that your firm uses to track and respond to issues and concerns from both your authorized contractors and from participating entities.

Please refer to section 5.3.1.1, the ShoreTel escalation response table.

- f. Describe in detail how your firm will track, report and verify sales from your designated Data Communication partners and authorized contractors.

The WSCA contractor administrator will run a quarterly report based upon the WSCA-NASPO agreed schedule as indicated in section 1.15 of this RFP response. This report will be run off of ShoreTel's database in which all tagged WSCA sales are recorded. This report will then be sent to accounting for verification

Section 5: Service Offering Qualifications

5.1 General Information

This section contains mandatory minimum requirements that must be met in order for your proposal to be considered for the evaluation phase of this RFP. All of the items described in this section are non-negotiable. Respondents are required to complete:

Mandatory Requirements (M)

All Respondents must meet the **(M)** requirements listed in this section, and explain how the requirement is met. A 'no' response on the acceptance document or omission of the required explanation will disqualify the service from further evaluation.

5.1.1 General Business Requirements

Each provider must meet the following mandatory general business requirements:

5.1.2 Terms and Conditions

(M) Respondents *must* indicate their acceptance of the State of Utah Standard Terms and Conditions in addition to the WSCA-NASPO Terms and Conditions attached to this RFP as Attachment A and Attachment B. Any exceptions to these terms and conditions must be clearly identified in bid response and during the question and answer period on BidSync. Significant exceptions may constitute grounds for rejecting Respondent proposals.

ShoreTel accepts the State of Utah Standard Terms and Conditions in addition to the WSCA-NASPO Terms and Conditions. ShoreTel accepts all of the Terms and Conditions of both the State of Utah and the WSCA-NASPO. ShoreTel's acceptance is also notes in Section 7 and on the WSCA-NASPO Master Agreement in the attachment section of the RFP.

5.1.3 Experience

(M) Respondents *must* be able to provide reference service contracts from a minimum of five government or commercial customers for their Data Communications Product and Services offerings. Government references are preferred. References must include environments and complexity that is similar in scope to those described within this RFP. Any proposals from Respondents that cannot meet these requirements will not be considered. The Respondent must provide specific contact information describing their reference service contracts, which may be verified.

Please refer to the five references ShoreTel provided through the Attachment B Reference Form of this RFP response. Upon demand ShoreTel will provide additional references if necessary. All contact information for the references are indicated in the submittal of the Attachment B.

5.1.4 Financial Stability

(M) The Data Communications Product and Services vendor *must* provide audited financial statements to the State and should meet a minimum Dun and Bradstreet (D&B) credit rating of 4A2 or better, or a recognized equivalent rating. Please provide the Respondent's D&B Number and the composite credit rating. The State reserves the right to verify this information. If a branch or wholly owned subsidiary is bidding on this RFP, please provide the D&B Number and score for the parent company that will be financially responsible for performance of the agreement. Prime contractors working on behalf of Respondents must submit financial statements that demonstrate financial stability, and adequate working capital, but do not need to meet 4A2 credit rating requirements.

ShoreTel's Dun and Bradstreet (D&B) number: 96-838-7175

ShoreTel's D&B Credit Rating as of 5A3.

Please see attachment G for the ShoreTel D&B document.

Please see Attachment E and F for financial statements for 2012 and 2013.

5.1.5 Other General Responsibilities

(M) The Respondent *must* provide the personnel, equipment, tools, and expertise to meet the requirements in this RFP.

(M) Computer applications and Web sites *must* be accessible to people with disabilities, and *must* comply with Participating entity accessibility policies and the Americans with Disability Act.

(M) Applications and content delivered through Web browsers must be accessible using current released versions of multiple browser platforms (such as Internet Explorer, Firefox, Chrome, and Safari) at minimum.

ShoreTel agrees to comply with this requirement.

5.2 Data Communications Services – Requirements

Offerors may respond to any of the sections where they have substantive product offerings that address the scope detailed in each Section from 5.2.1-5.3.0. All Offerors must include a response to section 5.31 services, that addresses products proposed in 5.2.1-5.3.0.

Products may be used by the states in branch offices, main government offices and data centers, and by overall government data communications providers offering carrier class services. Responses should consider this breadth of use and users.

The scope and context of this solicitation **does not include endpoints such as cell/smart phones, other mobile devices or devices designed exclusively for use by individual users**. It is focused on the equipment and software infrastructure required to support provisioning of a variety of network services within a modern digital network. The user context will vary from branch offices through enterprise and statewide data communication network installations. Respondents should offer a range of solutions that are appropriate for installations of varying size and complexity.

5.2.1 DATA CENTER APPLICATION SERVICES • Application networking solutions and technologies that enable the successful and secure delivery of applications within data centers to local, remote, and branch-office users using technology to accelerate, secure, and increase availability of both application traffic and computing resources.

5.2.1.1 Virtualized Load Balancers • Virtual devices that act like a reverse proxy to distribute network and/or application traffic across multiple servers to improve the concurrent user capacity and overall reliability of applications. Capabilities should include:

- SSL (Secure Sockets Layer) Off-loading
- Caching capabilities
- Layer 4 Load Balancing
- Layer 7 Load Balancing
- Detailed Reporting
- Supports multiple load balancers in the same system for multiple groups
- Supports TLS1.2

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.1.2 WAN Optimization • An appliance utilizing a collection of techniques for increasing data-transfer efficiencies across wide-area networks (WAN). Capabilities should include:

- CIFS (Common Internet File System) acceleration
- Data Compression
- SSL encryption/decryption for acceleration (Optional)
- Layer 4-7 visibility

- Application Specific optimization

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.2 NETWORKING SOFTWARE • Software that runs on a server and enables the server to manage data, users, groups, security, applications, and other networking functions. The network operating system is designed to allow shared file and printer access among multiple computers in a network, typically a local area network (LAN), a private network or to other networks. Networking software capabilities should include:

- Restartable Process
- High availability options
- Targeted operating systems, i.e. DC, campus, core, wan, etc.
- Operating System Efficiencies

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.2.1 Network Management and Automation • Software products and solutions for data center automation, cloud computing, and IT systems management.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.2.2 Data Center Management and Automation • Software products and solutions that capture and automate manual tasks across servers, network, applications, and virtualized infrastructure.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

Cloud Portal and Automation • Software products and solutions for cloud management with policy-based controls for provisioning virtual and physical resources.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.2.3 Branch Office Management and Automation • Software products and solutions for management of branch offices. Capabilities include remote troubleshooting, device management, WAN performance monitoring.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

• **NETWORK OPTIMIZATION AND ACCELERATION** • Devices and tools for increasing data-transfer efficiencies across wide-area networks.

5.2.3.1 Dynamic Load Balancing • An appliance that performs a series of checks and calculations to determine which server can best service each client request in order to select the server that can successfully fulfill the client request and do so in the shortest amount of time without overloading either the server or the server farm as a whole.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.3.2 WAN Acceleration • Appliance that optimizes bandwidth to improve the end user's experience on a wide area network (WAN). Capabilities should include:

- CIFS acceleration
- Data Compression
- SSL encryption/decryption for acceleration (Optional)
- Layer 4-7 visibility
- Application Specific optimization

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.3.3 High Availability and Redundancy • Limits any disruption to network uptime should an appliance face unforeseen performance issues. Transparently redistributes workloads to surviving cluster appliances without impacting communication throughout the cluster.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.4 OPTICAL NETWORKING • High capacity networks based on optical technology and components that provide routing, grooming, and restoration at the wavelength level as well as wavelength based services.

5.2.4.1 Core DWDM (Dense Wavelength Division Multiplexing) Switches •

Switches used in systems designed for long haul and ultra long-haul optical networking applications.

5.2.4.2 Edge Optical Switches • Provide entry points into the enterprise or service provider core networks.

5.2.4.3 Optical Network Management • Provides capabilities to manage the optical network and allows operators to execute end-to-end circuit creation.

5.2.4.4 IP over DWDM (IPoDWDM) • A device utilized to integrate IP Routers and Switches in the OTN (Optical Transport Network).

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.5 ROUTERS • A device that forwards data packets along networks. A router is connected to at least two networks, commonly two LANs or WANs or a LAN and its ISP's network. Routers are located at gateways, the places where two or more networks connect, and are the critical device that keeps data flowing between networks and keep the networks connected to the Internet.

5.2.5.1 Branch Routers • A multiservice router typically used in branch offices or locations with limited numbers of users and supports flexible configurations/feature. For example: security, VoIP, wan acceleration, etc.

5.2.5.2 Network Edge Routers • A specialized router residing at the edge or boundary of a network. This router ensures the connectivity of its network with external networks, a wide area network or the Internet. An edge router uses an External Border Gateway Protocol, which is used extensively over the Internet to provide connectivity with remote networks.

5.2.5.3 Core Routers - High performance, high speed, low latency routers that enable Enterprises to deliver a suite of data, voice, and video services to enable next-generation applications such as IPTV and Video on Demand (VoD), and Software as a Service (SaaS).

5.2.5.4 Service Aggregation Routers • Provides multiservice adaptation, aggregation and routing for Ethernet and IP/MPLS networks to enable service providers and

- 5.2.5.5** enterprise edge networks simultaneously host resource-intensive integrated data, voice and video business and consumer services.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.5.6 Carrier Ethernet Routers •** High performance routers that enable service providers to deliver a suite of data, voice, and video services to enable next-generation applications such as IPTV, Video on Demand (VoD), and Software as a Service (SaaS).

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.6 SECURITY

- 5.2.6.1 Data Center and Virtualization Security Products and Appliances •** Products designed to protect high-value data and data center resources with threat defense and policy control.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.6.2 Intrusion Detection/Protection and Firewall Appliances •** Provide comprehensive inline network firewall security from worms, Trojans, spyware, key loggers, and other malware. This includes Next-Generation Firewalls (NGFW), which offer a wire-speed integrated network platform that performs deep inspection of traffic and blocking of attacks. Intrusion Detection/Protection and Firewall Appliances should provide:

- Non-disruptive in-line bump-in-the-wire configuration
- Standard first-generation firewall capabilities, e.g., network-address translation (NAT), stateful protocol inspection (SPI) and virtual private networking (VPN), etc.
- Application awareness, full stack visibility and granular control
- Capability to incorporate information from outside the firewall, e.g., directory-based policy, blacklists, white lists, etc.
- Upgrade path to include future information feeds and security threats
- SSL decryption to enable identifying undesirable encrypted applications (Optional)

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.6.3 Logging Appliances and Analysis Tools •** Solutions utilized to collect, classify, analyze, and securely store log messages.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.6.4 Secure Edge and Branch Integrated Security Products •** Network security, VPN, and intrusion prevention for branches and the network edge. Products typically consist of appliances or routers.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.6.5 Secure Mobility Products •** Delivers secure, scalable access to corporate applications across multiple mobile devices.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.6.6 Encryption Appliances •** A network security device that applies crypto services at the network transfer layer - above the data link level, but below the application level.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.6.7 On-premise and Cloud-based services for Web and/or Email Security •** Solutions that provide threat protection, data loss prevention, message level encryption, acceptable use and application control capabilities to secure web and email communications.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.6.8 Secure Access •** Products that provide secure access to the network for any device, including personally owned mobile devices (laptops, tablets, and smart phones). Capabilities should include:

- Management visibility for device access
- Self-service on-boarding
- Centralized policy enforcement
- Differentiated access and services
- Device Management

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.7 STORAGE NETWORKING •** High-speed network of shared storage devices connecting different types of storage devices with data servers.

- 5.2.7.1 Director Class SAN (Storage Area Network) Switches and Modules •** A scalable, high-performance, and protocol-independent designed primarily to fulfill the role of core switch in a core-edge Fibre Channel (FC), FCOE or similar SAN topology. A Fibre Channel director is, by current convention, a switch with at least 128 ports. It does not differ from a switch in core FC protocol functionality. Fibre Channel directors provide the most reliable, scalable, high-performance foundation for private cloud storage and highly virtualized environments.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.7.2 Fabric and Blade Server Switches •** A Fibre Channel switch is a network switch compatible with the Fibre Channel (FC) protocol. It allows the creation of a Fibre Channel fabric, which is currently the core component of most SANs. The fabric is a network of Fibre Channel devices, which allows many-to-many communication, device name lookup, security, and redundancy. FC switches implement zoning; a mechanism that disables unwanted traffic between certain fabric nodes.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.7.3 Enterprise and Data Center SAN and VSAN (Virtual Storage Area Network) Management •** Management tools to provisions, monitors, troubleshoot, and administers SANs and VSANs.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.7.4 SAN Optimization •** Tools to help optimize and secure SAN performance (ie. Encryption of data-at-rest, data migration, capacity optimization, data reduction, etc.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.8 SWITCHES •** Layer 2/3 devices that are used to connect segments of a LAN (local area network) or multiple LANs and to filter and forward packets among them.

- 5.2.8.1 Campus LAN – Access Switches •** Provides initial connectivity for devices to the network and controls user and workgroup access to internetwork resources. The following are some of the features a campus LAN access switch should support:

- Security
 - i. SSHv2 (Secure Shell Version 2)
 - ii. 802.1X (Port Based Network Access Control)
 - iii. Port Security
 - iv. DHCP (Dynamic Host Configuration Protocol) Snooping
- VLANs
- Fast Ethernet/Gigabit Ethernet
- PoE (Power over Ethernet)
- link aggregation
- 10 Gb support
- Port mirroring
- Span Taps
- Support of IPv6 and IPv4
- Standards-based rapid spanning tree
- Netflow Support (Optional).

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.8.2 Campus LAN – Core Switches •** Campus core switches are generally used for the campus backbone and are responsible for transporting large amounts of traffic both reliably and quickly. Core switches should provide:

- High bandwidth
- Low latency
- Hot swappable power supplies and fans
- Security
 - SSHv2
 - MacSec encryption
 - Role-Based Access Control Lists (ACL)
- Support of IPv6 and IPv4
- 1/10/40/100 Gbps support
- IGP (Interior Gateway Protocol) routing
- EGP (Exterior Gateway Protocol) routing
- VPLS (Virtual Private LAN Service) Support
- VRRP (Virtual Router Redundancy Protocol) Support

- Netflow Support.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.8.3 Campus Distribution Switches • Collect the data from all the access layer switches and forward it to the core layer switches. Traffic that is generated at Layer 2 on a switched network needs to be managed, or segmented into Virtual Local Area Networks (VLANs), Distribution layer switches provides the inter-VLAN routing functions so that one VLAN can communicate with another on the network. Distribution layer switches provides advanced security policies that can be applied to network traffic using Access Control Lists (ACLs).

- High bandwidth
- Low latency
- Hot swappable power supplies and fans
- Security (SSHv2 and/or 802.1X)
- Support of IPv6 and IPv4
- Jumbo Frames Support
- Dynamic Trunking Protocol (DTP)
- Per-VLAN Rapid Spanning Tree (PVRST+)
- Switch-port auto recovery
- NetFlow Support or equivalent

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.8.4 Data Center Switches • Data center switches, or Layer 2/3 switches, switch all packets in the data center by switching or routing good ones to their final destinations, and discard unwanted traffic using Access Control Lists (ACLs), all at Gigabit and 10 Gigabit speeds. High availability and modularity differentiates a typical Layer 2/3 switch from a data center switch. Capabilities should include:

- High bandwidth
- Low latency
- Hot swappable power supplies and fans
- Ultra-low latency through wire-speed ports with nanosecond port-to-port latency and hardware-based Inter-Switch Link (ISL) trunking
- Load Balancing across Trunk group able to use packet based load balancing scheme
- Bridging of Fibre Channel SANs and Ethernet fabrics
- Jumbo Frame Support
- Plug and Play Fabric formation that allows a new switch that joins the fabric to automatically become a member
- Ability to remotely disable and enable individual ports
- Support NetFlow or equivalent

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.8.5 Software Defined Networks (SDN) - Virtualized Switches and Routers • Technology utilized to support software manipulation of hardware for specific use cases.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.8.6 Software Defined Networks (SDN) •** Controllers - is an application in software-defined networking (SDN) that manages flow control to enable intelligent networking. SDN controllers are based on protocols, such as OpenFlow, that allow servers to tell switches where to send packets. The SDN controller lies between network devices at one end and applications at the other end. Any communications between applications and devices have to go through the controller. The controller uses multiple routing protocols including OpenFlow to configure network devices and choose the optimal network path for application traffic.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.8.7 Carrier Aggregation Switches •** Carrier aggregation switches route traffic in addition to bridging (transmitted) Layer 2/Ethernet traffic. Carrier aggregation switches' major characteristics are:

Designed for Metro Ethernet networks

Designed for video and other high bandwidth applications

Supports a variety of interface types, especially those commonly used by Service Providers

Capabilities should include:

Redundant Processors

Redundant Power

IPv4 and IPv6 unicast and multicast

High bandwidth

Low latency

Hot swappable power supplies and fans

MPLS (Multiprotocol Label Switching)

BGP (Border Gateway Protocol)

Software router virtualization and/or multiple routing tables

Policy based routing

Layer 2 functionality

Per VLAN Spanning Tree

Rapid Spanning Tree

VLAN IDs up to 4096

Layer 2 Class of Service (IEEE 802.1p)

Link Aggregation Control Protocol (LACP)

QinQ (IEEE 802.1ad)

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.2.8.8 Carrier Ethernet Access Switches •** A carrier Ethernet access switch can connect directly to the customer or be utilized as a network interface on the service side to provide layer 2 services.

- Hot-swappable and field-replaceable integrated power supply and fan tray
- AC or DC power supply with DC input ranging from 18V to 32 VDC and 36V to 72 VDC
- Ethernet and console port for manageability
- SD flash card slot for additional external storage
- Stratum 3 network clock
- Line-rate performance with a minimum of 62-million packets per second

(MPPS) forwarding rate

- Support for dying gasp on loss of power
- Support for a variety of small form factor pluggable transceiver (SFP and SFP+) with support for Device Object Model (DOM)
- Timing services for a converged access network to support mobile solutions, including Radio Access Network (RAN) applications
- Support for Synchronous Ethernet (SyncE) services
- Supports Hierarchical Quality of Service (H-QoS) to provide granular traffic-shaping policies
- Supports Resilient Ethernet Protocol REP/G.8032 for rapid layer-two convergence

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.9 WIRELESS • Provides connectivity to wireless devices within a limited geographic area. System capabilities should include:

i. Redundancy and automatic failover

ii. IPv6 compatibility

iii. NTP Support

5.2.9.1 Access Points • A wireless Access Point (AP) is a device that allows wireless devices to connect to a wired network using Wi-Fi, or related standards. Capabilities should include:

- 802.11a/b/g/n
- 802.11n
- 802.11ac
- Capable of controller discovery method via DHCP (onsite controller or offsite through Cloud Architecture)
- UL2043 plenum rated for safe mounting in a variety of indoor environments
- Support AES-CCMP (128-bit)
- Provides real-time wireless intrusion monitoring and detection

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.9.2 Outdoor Wireless Access Points • Outdoor APs are rugged, with a metal cover and a DIN rail or other type of mount. During operations they can tolerate a wide temperature range, high humidity and exposure to water, dust, and oil. Capabilities should include:

- Flexible Deployment Options
- Provides real-time wireless intrusion monitoring and detection
- Capable of controller discovery method via DHCP (onsite controller or offsite through Cloud Architecture)

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.9.3 Wireless LAN Controllers • An onsite or offsite solution utilized to manage light-weight access points in large quantities by the network administrator or network operations center. The WLAN controller automatically handles the configuration of wireless access-points. Capabilities should include:

- Ability to monitor and mitigate RF interference/self-heal
- Support seamless roaming from AP to AP without requiring re-authentication
- Support configurable access control lists to filter traffic and denying wireless peer to peer traffic

- System encrypts all management layer traffic and passes it through a secure tunnel
- Policy management of users and devices provides ability to de-authorize or deny devices without denying the credentials of the user, nor disrupting other AP traffic
- Support configurable access control lists to filter traffic and denying wireless peer to peer traffic

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.9.4 Wireless LAN Network Services and Management • Enables network administrators to quickly plan, configure and deploy a wireless network, as well as provide additional WLAN services. Some examples include wireless security, asset tracking, and location services. Capabilities should include:

- Provide for redundancy and automatic failover
- Historical trend and real time performance reporting is supported
- Management access to wireless network components is secured
- SNMPv3 enabled
- RFC 1213 compliant
- Automatically discover wireless network components
- Capability to alert for outages and utilization threshold exceptions
- Capability to support Apple's Bonjour Protocol / mDNS
- QoS / Application identification capability

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.9.5 Cloud-based services for Access Points • Cloud-based management of campus-wide WiFi deployments and distributed multi-site networks. Capabilities include:

- Zero-touch access point provisioning
- Network-wide visibility and control
- RF optimization,
- Firmware updates

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.2.9.6 Bring Your Own Device (BYOD) • Mobile Data Management (MDM) technology utilized to allow employees to bring personally owned mobile devices (laptops, tablets, and smart phones) to their workplace, and use those devices to access privileged government information and applications in a secure manner. Capabilities should include:

- Ability to apply corporate policy to new devices accessing the network resources, whether wired or wireless
- Provide user and devices authentication to the network
- Provide secure remote access capability
- Support 802.1x
- Network optimization for performance, scalability, and user experience

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section

5.3.0 UNIFIED COMMUNICATIONS (UC) • A set of products that provides a consistent unified user interface and user experience across multiple devices and

media types. Unified Communications that is able to provide services such as session management, voice, video, messaging, mobility, and web conferencing. It can provide the foundation for advanced unified communications capabilities of IM and presence-based services and extends telephony features and capabilities to packet telephony network devices such as IP phones, media processing devices, Voice over IP (VoIP) gateways, and multimedia applications. Additional services, such as unified messaging, multimedia conferencing, collaborative contact centers, and interactive multimedia response systems, are made possible through open telephony APIs. General UC solution capabilities should include:

- **High Availability for Call Processing**
 Call processing is handled by the ShoreGear Voice Appliance. Each ShoreGear voice appliance, or voice switch, is a solid state hardware device used to manage and control the PBX functionality of the ShoreTel system.
 Each ShoreGear voice appliance receives, from its managing ShoreTel server, a subset of the entire enterprise-wide configuration database. This database includes information on all trunk groups, other ShoreTel devices, sites, dial plans, user permissions, call control parameters and call routing options.
 Instead of adding an extra ShoreGear voice appliance as an active ShoreGear appliance to a single site, you can add an extra ShoreGear appliance designated as an inactive "Spare" switch. When a ShoreGear voice appliance fails, the ShoreTel system will automatically assign the "Spare" switch to the site that needs the IP Phone resources.
 The business VoIP phone system's distributed architecture and applications, and its N+1 redundancy help provide five-nines availability for mission-critical business continuity. The switch-based hardware platform helps ensure that in the event of a WAN failure, the phone system continues to place and receive calls on the Public Switched Telephone Network (PSTN).
- **Hardware Platform High Availability**
 ShoreTel's hardware platform is an appliance called the ShoreGear voice Appliance. Hardware platform High Availability can be accomplished in two different methods based on customer requirements and single vs. multi-site deployments.
 In a single site deployment, if a ShoreGear voice appliance goes out of service, only the users on that individual switch are impacted. IP phones associated with that ShoreGear voice appliance have the ability to failover to another ShoreGear voice appliance if spare IP Phone ports are available.
 In a multi-site deployment, instead of adding an extra ShoreGear voice appliance as an active ShoreGear appliance to a single site, you can add an extra ShoreGear voice appliance designated as an inactive "Spare" switch. When a ShoreGear voice appliance fails, the ShoreTel system will automatically assign the "Spare" switch to the site that needs the IP Phone resources.
 The business VoIP phone system's distributed architecture and applications, and its N+1 redundancy help provide five-nines availability for mission-critical business continuity.
- **Network Connectivity High Availability**
 ShoreTel Response: Each ShoreGear voice appliance, or voice switch includes two LAN interfaces for network connectivity high availability. This allows for connection into separate LAN switch devices in the event of LAN switch or connectivity failure. No user interaction is needed in the event of LAN switch or connectivity failure, the ShoreGear voice appliances will automatically failover to the secondary LAN port.
 The ShoreTel distributed architecture allows call control to be distributed and localized across a Wide Area Network. This unique architecture allows a single ShoreGear voice appliance to provide both local call control and dial tone. This design provides complete WAN independence for local call processing.
- **Call Processing Redundancy**
 It should be noted that the ShoreTel system architecture has no single point of failure. The unique distributed model has multiple built-in redundancies at all levels to safeguard voice

communications, thereby delivering 99.999% availability.

A key component of the ShoreTel architecture is the ShoreGear voice appliance. Dial tone and call routing runs from the ShoreGear voice appliance. The ShoreGear voice appliances are 100% distributed and have no dependence on the other voice switches to continue providing

voice services. If a ShoreGear voice appliance goes out of service, only the users on that individual switch are impacted. IP phones associated with that ShoreGear voice appliance have the ability to failover to another ShoreGear voice appliance if spare IP Phone ports are available. Mean Time Between Failure on ShoreGear Appliance is projected at 12+ years based on units shipped. All hardware devices are self-contained, solid state devices with no moving parts (other than a fan). The embedded operating systems used are either Linux or VxWorks, making this a high availability system.

In the event of a server failure, ShoreTel accepts calls without disruption or loss of dial tone – switching and routing is managed by the distributed ShoreGear voice appliances. The server supports voice mail, auto attendant and administration applications. Core telephony continues regardless of server status. Temporary loss of voice applications (voice mail, automated attendant, etc.) can be avoided by implementing a server clustering strategy for automatic fail over to a redundant back-up server.

The ShoreTel system distributes the voice intelligence throughout the network. All ShoreGear voice switches are capable of supporting their local users regardless of availability of the WAN. Should there be a WAN disruption, all sites will run independently. The ShoreTel system is designed to leverage the WAN when it is available without a specific dependency on the WAN for individual site operations.

5.3.0.1 IP Telephony • Solutions utilized to provide the delivery of the telephony application (for example, call setup and teardown, and telephony features) over IP, instead of using circuit-switched or other modalities. Capabilities should include:

- Support for analog, digital, and IP endpoints

ShoreTel supports analog and IP endpoints. Endpoints connect to the ShoreGear voice appliance through IP or analog interfaces.

- Centralized Management

The proposed ShoreTel solution provides a single, unified point of management from any point on the network for all components including the PBX, voicemail, auto attendant, ACD and unified messaging. The proposed solution provides maximum flexibility for rapid, efficient, and cost-effective configuration changes to user profiles and IP telephone equipment through a standard browser-based interface to minimize administrator level of effort and travel

- Provide basic hunt group and call queuing capabilities

ShoreTel supports both basic hunt group and call queuing ACD capabilities.

Hunt groups capabilities are as follows:

Simultaneous hunt

Top down hunt

Single or multiple calls per extension

Busy out group

Busy out extension

Call forward busy

Call forward no answer

Scheduled modes

Work groups (call queuing) capabilities include:

The ShoreTel system supports up to 256 workgroups, with up to 300 members per workgroup, with a maximum of 300 agents total in the ShoreTel system. A workgroup enables a group of users to appear as a single unit to calling parties. Calls can be routed in top-down, longest-idle, round-robin, and simultaneous-ring fashion (the Simultaneous Ring feature is limited to workgroups of a maximum of 16 members.)

The ShoreTel system provides a ShoreTel Communicator - Workgroup Agent Access

and ShoreTel Communicator - Workgroup Supervisor Access with the proper software licenses. In addition, you can run workgroup reports on the server to help you understand and assess workgroup activity and performance.

- Flexibility to configure queue depth and hold time, play unique announcements and Music on Hold (MoH), log in and log out users from a queue and basic queue statistics (from the phone)

The ability to configure queue depth, hold time, play unique announcements and Music on Hold (MoH), log in and log out users from a queue and basic queue statistics are all supported in the ShoreTel solution and are configured using ShoreTel Director which provides a single management interface as described in the Centralized Management section above.

Administrators can easily configure announcements by recording directly from their assigned phone or by importing a pre-recorded .wav file. Music on Hold can be file based and unique for each queue or centralized for the entire system. Users can be automatically logged in based on a schedule or using the Communicator Agent interface, agents can log in and out at will using this tool as well as see calls holding in queue.

- E911 Support

ShoreTel includes E911 services as part of the base system and provide an intuitive administration interface, utilizing ShoreWare Director, the web-based administration interface for the entire phone system.

In addition ShoreTel E911 information is stored on each ShoreGear voice appliance. This unique feature allows ShoreTel to offer a completely distributed E911 solution that is independent of any network connectivity between locations.

5.3.0.2 Instant messaging/ Presence • Solutions that allow communication over the Internet that offers quick transmission of text-based messages from sender to receiver. In push mode between two or more people using personal computers or other devices, along with shared clients, instant messaging basically offers real- time direct written language-based online chat. Instant messaging may also provide video calling, file sharing, PC-to-PC voice calling and PC-to-regular- phone calling.

ShoreTel UC enables the integration of IP telephony solutions with instant messaging, desktop collaboration, and video.

PC Clients: The ShoreTel Communicator is designed for users across an organization, whether that user is an operator, a contact center agent, a knowledge worker, or a mobile worker. Available on multiple operating systems, ShoreTel Communicator makes it easy for people to communicate any way they choose: by video, voice (wired or wireless), instant messaging (IM), and more. One single interface makes training simple and reduces the IT workload because with single application to support and no additional servers to deploy and maintain. Personal Communicator is provided for every user at no additional charge as part of the standard system to offer a rich and wide feature set for every user on the system.

5.3.0.3 Unified messaging • Integration of different electronic messaging and communications media (e-mail, SMS, Fax, voicemail, video messaging, etc.) technologies into a single interface, accessible from a variety of different devices.

- **Ability to access and manage voice messages in a variety of ways, using Email inbox, Web browser, desktop client, VoIP phone, or mobile phone**

ShoreTel's Unified Communications solutions enable users to obtain voice mail messages from a variety of devices, including VOIP phones, web client, desktop client, and various third party tablets and smart phones. In addition, our technology is integrated with Microsoft Outlook, enabling end users to receive, send, be notified of, and play voice mail messages through their

laptops or phone from their Microsoft Outlook client or ShoreTel Communicator client. Messages can be deleted, subject edited, forwarded, replied to from the Microsoft Outlook client and synchronized with the ShoreTel Voicemail system with the applicable change.

▪ **Visual Voicemail Support (Optional)**

Visual Voicemail is supported using the ShoreTel communicator client (desktop and Web) as well as a number of the ShoreTel IP Handsets and Mobile devices using the ShoreTel Mobility Client.

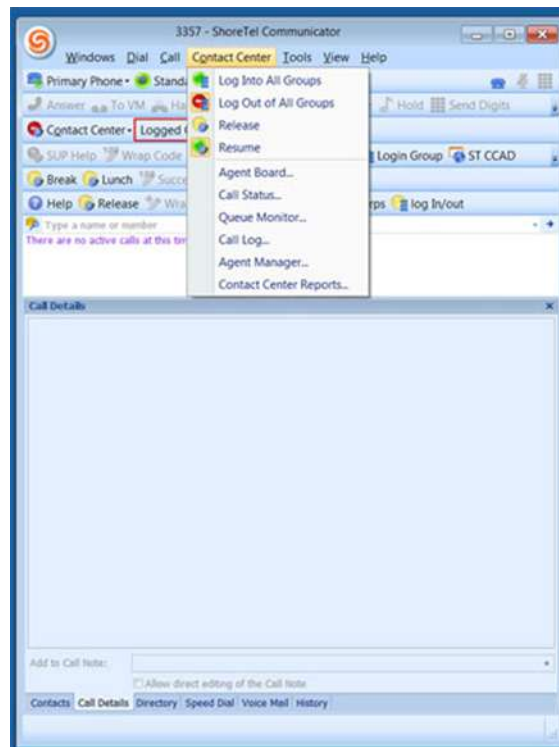
5.3.0.4 Contact Center • A computer-based system that provides call and contact routing for high-volume telephony transactions, with specialist answering “agent” stations and a sophisticated real-time contact management system. The definition includes all contact center systems that provide inbound contact handling capabilities and automatic contact distribution, combined with a high degree of sophistication in terms of dynamic contact traffic management.

Contact Center
ACD Call Center

• **User Friendly Interface**

The ShoreTel philosophy is Brilliantly Simple. ShoreTel developers take a consistent approach to ensuring ease of integration and ease-of-use for the end user. Contact Center Agent tools can be stand alone or integrated into the ShoreTel desktop Communicator. Most clients utilize the integrated Contact Center options with integrated Agent Tool bars.

The Contact Center menu option appears in Communicator for those users that belong to the Contact Center operations.



• **Sophisticated Call Routing Options**

ShoreTel Contact Center offers sophisticated options for routing calls to agents in the contact center, including:

▪ **Queue routing**

- Skills Based Routing
- Priority Routing
- Dynamic Routing by TSF
- Dynamic Routing driven by DB lookup
- Overflow Routing & Prioritization
- Interflow Routing & Prioritization
- Scheduled Routing
- Longest Idle, Top Down, Circular, Best Skill Fit & TSF Routing
- IVR Selection Routing
- Callback Prioritization Routing
- No Agent Available Routing
- DNIS Prioritization Routing

The screenshot displays the ShoreTel Contact Center Director web interface. The left sidebar shows a navigation menu with options like Favorites, Agents, Groups, IRN, Services, and Dial Lists. The main content area is titled 'Routing : Services' and shows a list of services. The 'Alpha Hotline' service is selected, and its configuration details are shown in the 'Service: Alpha Hotline' section. The configuration includes tabs for General, Announcements, Destination, Overflow, Interflow, No Agent Destination, Scheduled Callbacks, and Abandoned Callbacks. The 'General' tab is active, showing selection criteria (Longest Idle, Terminal, Circular, Best Skill Fit), capabilities (Chat Enabled), timers (Wrap-Up Time: 60 seconds, Forced Release Timeout: 45 seconds), and music source (Script: NAS_MOH, Music Stream: NAS Default Greeting).

Name	Music Source	Chat Enabled	Abandoned Callbacks Enabled	Wrap-Up Time
Alpha Hotline	Script - NAS_MOH	☐	☐	60
Andrez	(System Default)	☐	☐	60
CDW	(System Default)	☐	☐	60
chaldemo	(System Default)	☒	☐	20
INPM-C	(System Default)	☐	☐	60
INPM-NC	(System Default)	☐	☐	20
INPM-SE	(System Default)	☐	☐	60
INPM-W	(System Default)	☐	☐	60
ISM-CA	(System Default)	☐	☐	60
ISM-NC	(System Default)	☐	☐	60
ISM-NE	(System Default)	☐	☐	60

- Flexible voice processing

ShoreTel's Contact Center provides flexing voice processing options, with tight integration to the ShoreTel IP Communications Platform. IVR Announcements, Queue Announcements, Prompts and ongoing messaging can be directly recorded on the ShoreTel IP Communications Platform for use within the contact center queues, IVR, scripting and callback processing. ShoreTel's Innovation Network offers additional voice processing options, such as Advanced Speech Recognition and Text-to-Speech with direct integration to the ShoreTel Contact Center when required by clients. Additional PS Services may apply.

- Call time is allocated to the specific group

ShoreTel's Contact Center Reports provide the most comprehensive and flexible reporting in the industry. Reports are highly customizable and Call Time is allocated by Agent, by Group, by DNIS and/or by SuperGroup or by all. Additionally, clients are free to customize known formulas within the Contact Center Reports to create custom calculations to fit the specific business requirement and objective for historical reporting.

- Real-time and historical reporting

ShoreTel's Contact Center Reports provide the most comprehensive and flexible reporting in the industry. Reports are highly customizable and include a wide array of Ready-Made Templates for use.

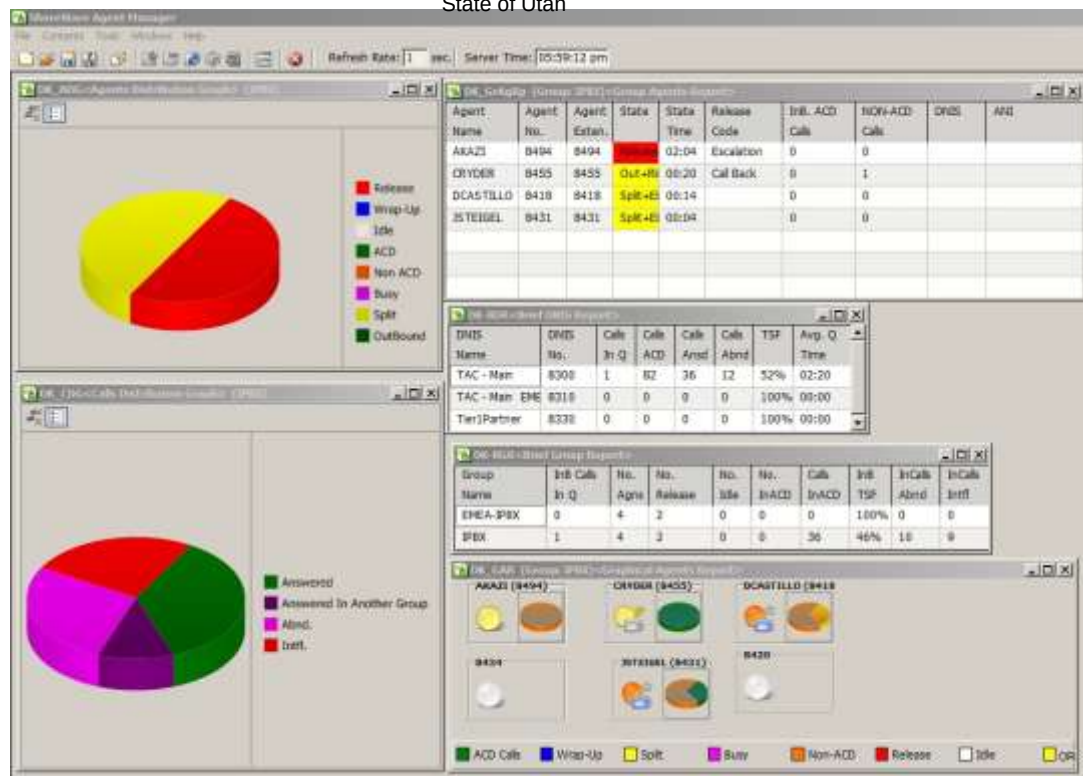
Templates can be altered in any manner as necessary. Each template draws upon a list of common reporting fields, and also includes a substantial list of data points for customizing the depth of reporting. Some template have 100+ additional fields of data, while other templates have up to 586 fields of data from which to create a customized report view by each individual user, if required. Other vendors in the industry provide this level of customization and flexibility.

Real-Time Reports (real-time supervisor\manager\team lead dashboard) provide an individualized experience for the user as the WORKSPACE can be customized by individual Supervisor\Manager\Team Lead, for personalized viewing.

Real-Time Reports (real-time supervisor\manager\team lead dashboard) is configurable by user, and includes:

- Data Grids
- Pie Charts
- Flow Graph
- Real-Time Stats for Agents, Groups, DNIS and more
- Hourly Real-Time Summary
- Daily Real-Time Summary





Group Agents Report

Agent	ID	State	Code	DNIS	ANI	Time
BBODUREAU	8433	Ris	Lunch			00:21:59
BHARRIS	8457	Ris	Bio			00:07:17
CBURNETT	8413	Ris	Escalation			00:32:16
CCONGOS	8434	ACD		TAC - Main	+12145727136	00:12:54
CNEWELL	8447	Wrap		COE-Server	+18063222404	00:02:58
CNISKERN	8439	Ris	Lunch			00:55:02
CRYDER	8455	Idle				01:05:12
DCASITILLO	8418	Ris	Lunch			00:26:45
ELOPEZ	8464	Ris	Lunch			00:00:55
FSCHMIDT	8432	Ris	Forced Rel			00:04:59
FSCHMIDT2	8532	ACD			10.251.0.10	00:52:22
GDURLING	8411	Wrap		TAC - Main	+17013565142	00:00:52
GGRIEM	8448	Ris	Lunch			00:04:53
GNEEDHAM	8421	Idle				00:12:14
JDALESKE	8473	Idle				00:34:02
JFOUGERE	8417	O-ACD			+15059984133	01:11:52
JMITCHELL	8425	Ris	Bio			00:01:52
JWATKINS	8458	Ris	Lunch			00:05:07
KKELSEY	8438	Ris	Consult			00:08:10
MFLEETWOOD	8449	Idle				02:08:36
MGLASSMAN	8427	Idle				00:19:40
MMALLEY	8580	Out-Ris	Consult			00:39:57
PMCGUIRE	8429	Ris	Break			00:08:02
PTHIELE	8442	Idle				01:04:51
RGUERRA	8493	Idle				00:45:01
RMOLDER	8452	Ris	Consult			00:29:32
SGANONG	8466	Ris	Break			00:18:11
TSAUNDERS	8415	Ris	Call Back			00:00:04
VBHAT	8469	Out				00:07:59

Group Report [3] - Advanced Support

Queued	Max Wait	Int Max Wait	Aband
0	00:00:00	00:00:00	0
Login	ACD	Release	Idle
2	0	1	1

Group Report [11] - IPBX

Group Report [10] - Aux

Queued	Max Wait	Int Max Wait	Aband
1	01:19:5900:00:00	0	0
Login	ACD	Release	Idle
14	0	6	0

Group Report [9] - CM_MCM

Queued	Max Wait	Int Max Wait	Aband
0	00:00:0000:16:49	1	1
Login	ACD	Release	Idle
13	0	6	0

Group Report [8] - Server

Queued	Max Wait	Int Max Wait	Aband
2	00:31:1100:00:00	0	0
Login	ACD	Release	Idle
13	0	6	0

Group Report [7] - Switch

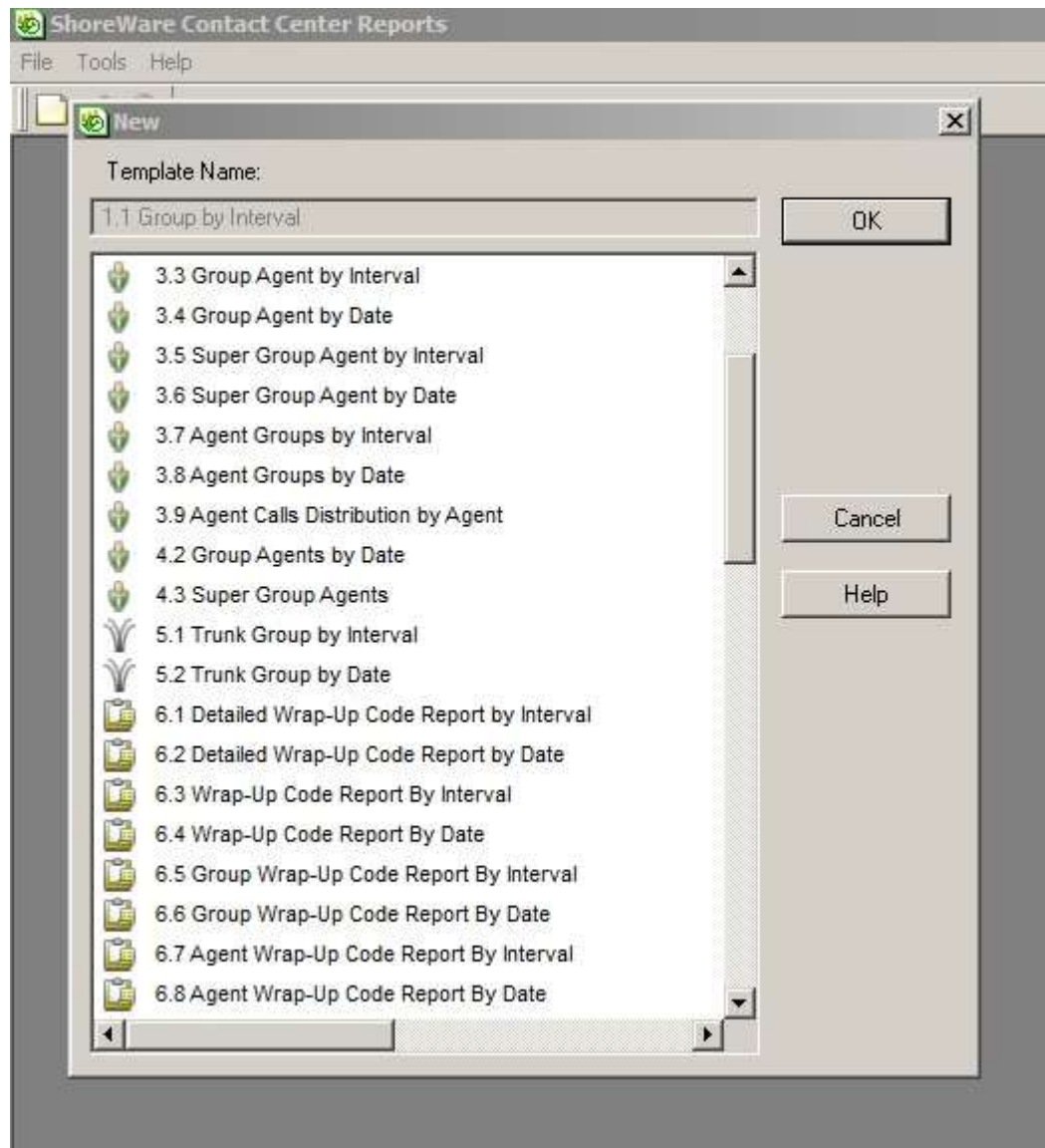
Queued	Max Wait	Int Max Wait	Aband
0	00:00:0000:35:22	1	1
Login	ACD	Release	Idle
12	1	5	0

Group Report [6] - Mobility

Queued	Max Wait	Int Max Wait	Aband
0	00:00:0000:00:00	0	0

Historical Report output can be scheduled by need and by user. Options for output of report data include:

- Print directly to a file
- Deliver report to an email
- Output formats include: CSV, EMF, XLS, PDF, SQL (including data), HTML
- Reports can be scheduled
- Reports can be PRIVATE or PUBLIC



3.4 Group Agent By Date

Date From :	05/20/2011	Date To :	05/24/2011
Time From :	6:00am	Time To :	10:00am
Group Name :	IPBX		
Agent Name :	AKAZI [8494] , CCONGOS [8434] , SYOUNG [8481]		
Requested By :	contact		

Date	% ACD presented calls of total calls	% Cmtlv idle time	ACD presented calls	Avg ACD treatment time	Avg ACD ring time	Chat contacts answered	Global aggregate Cmtlv idle time	Total calls
<u>Agent Name</u> SYOUNG		<u>Agent Number</u> 8481						
05/24/2011	0.00	0.00	0	0:00:00	0:00:00	0	0:00:00	292
Agent Total	0.00	0.00	0	0:00:00	0:00:00	0	0:00:00	292
<u>Agent Name</u> CCONGOS		<u>Agent Number</u> 8434						
05/24/2011	100.00	0.02	80	0:01:20	0:00:00	0	0:00:01	80
Agent Total	100.00	0.02	80	0:01:20	0:00:00	0	0:00:01	80
<u>Agent Name</u> AKAZI		<u>Agent Number</u> 8494						
05/24/2011	0.00	0.00	0	0:00:00	0:00:00	0	0:00:00	112
Agent Total	0.00	0.00	0	0:00:00	0:00:00	0	0:00:00	112
Total:	16.53	0.01	80	0:01:20	0:00:00	0	0:00:01	484

This is only 1 sample report.

- Network agnostic

ShoreTel Contact Center is network agnostic, not reliant upon any specific brand of switches, routers or other network hardware.

- Flexible scheduling with queues

ShoreTel Contact Center provides configurable options for schedule contact flow by schedule, by queue, by callback and by dial list. The Admin\Supervisor\Manager with the appropriate permissions has control over the configuration of scheduling to meet the needs of each individual contact center, queues, IVR scripts and general contact center activities.

ShoreTel Contact Center Director

Search Director

Routing : Services

Search Records 1 Alpha Hotline - ISM-NE 25 Records

Name	Music Source	Chat Enabled	Abandoned Callbacks Enabled	Wrap-Up Time
Alpha Hotline	Script - NAS_MOH	☐	☐	60
Andrez	(System Default)	☐	☐	60
CDIW	(System Default)	☐	☐	60
chaldemo	(System Default)	☒	☐	20
INPM-C	(System Default)	☐	☐	60
INPM-NC	(System Default)	☐	☐	20
INPM-SE	(System Default)	☐	☐	60
INPM-W	(System Default)	☐	☐	60
ISM-CA	(System Default)	☐	☐	60
ISM-NC	(System Default)	☐	☐	60
ISM-NE	(System Default)	☐	☐	60

Service: Alpha Hotline

General Announcements Destination Overflow Interflow No Agent Destination Scheduled Callbacks Abandoned Callbacks

Name Alpha Hotline

Selection Criteria

Agent Selection Criteria

- ☒ Longest Idle
- ☐ Terminal
- ☐ Circular
- ☐ Best Skill Fit
 - ☐ Longest Idle
 - ☐ Terminal
 - ☒ Circular

Capabilities

Chat Enabled ☐

Timers

Wrap-Up Time 60 seconds

Forced Release Timeout 45 seconds

Music Source

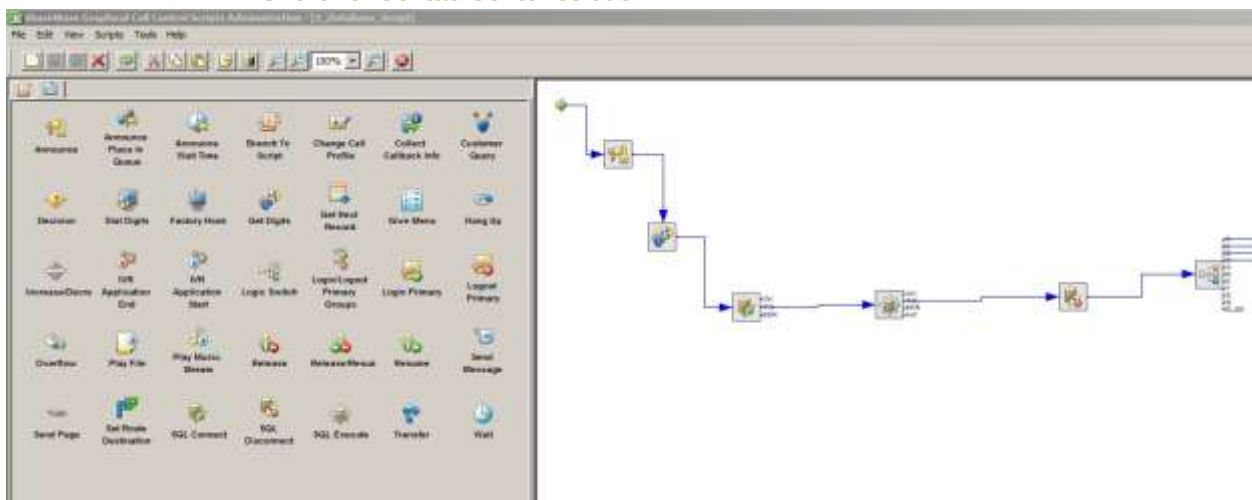
Music Source Script

Script NAS_MOH

Music Stream NAS Default Greeting

- Call Volume and Position in queue notification to caller

Call Volume, Position in queue and average wait time in queue are standard options within the ShoreTel Contac Center solution.



- Call back feature

ShoreTel Contact Center includes callback as a standard offering. Users have the flexibility to offer requested callbacks, scheduled callbacks, and abandoned calls callback functionality.

The callback functionality can be assigned to users, allowing supervisors\managers\team leads to define which agents or groups participate in the callback activities.

- Quality Survey at the end of the call for caller

ShoreTel Contact Center IVR is a comprehensive tool that allows users to create Surveys. The highly configurable tool allows users to define specific surveys to meet the specific business need for customer surveys. ShoreTel IVR can be interconnected to a 3rd party database, such as MS-SQL, MySQL, Oracle, Information, DB2 and more, to allow the read\write to the client database to capture results and produce reports.

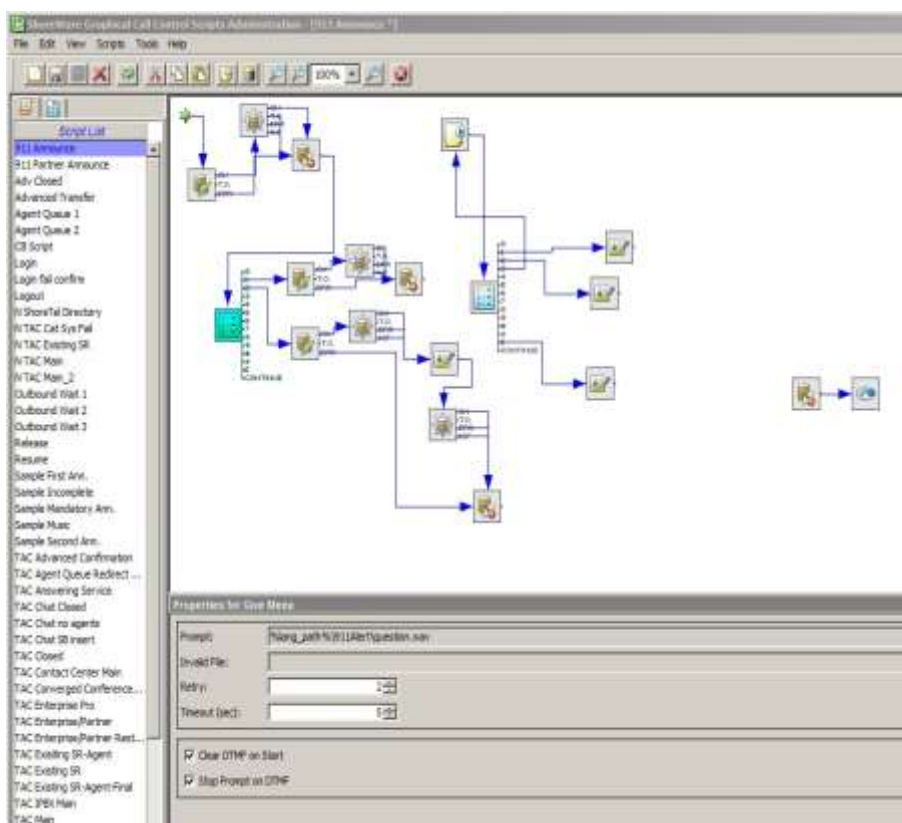
ShoreTel IVR – Embedded and Integrated

- Easy configuration

ShoreTel Contact Center includes an integrated IVR. The interface allows for easy configurations, utilization ICONS that represent the processes to invoke. This allows a non-technical user to define a flow process without the involvement of extensive I.T. experience or support. ICONS allow the user to simply Point-n-Click the desired function\action, and fill in the parameters to complete the function, such as: play a file to be heard by the caller.

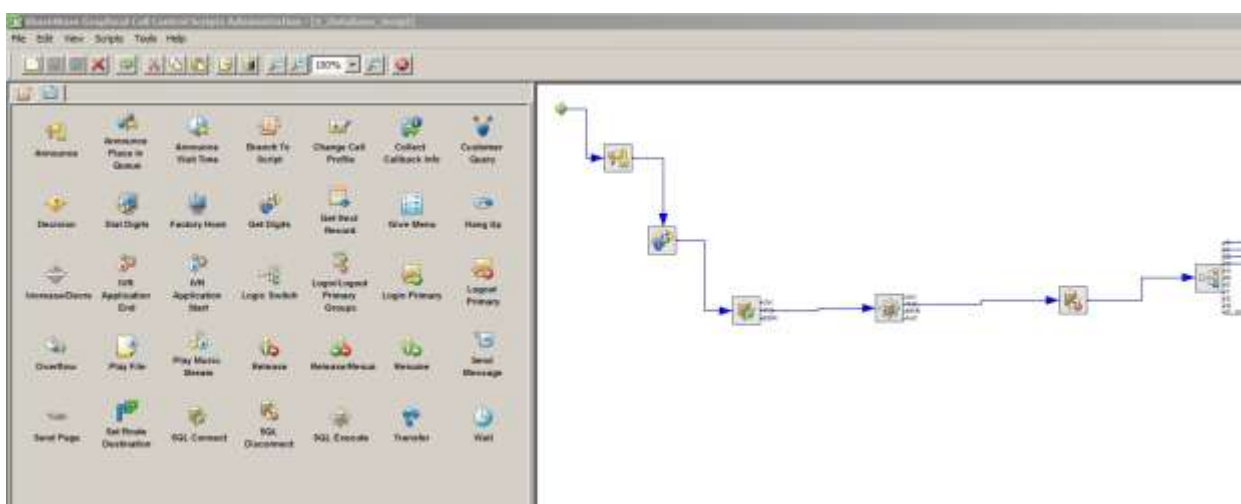
The easy ICON functions\actions include, but are not limited to:

- Play a file
- Present a Menu
- Get Digits (for caller input)
- Look up DB info
- Route Call to Destination
- Increase\Decrease a Priority counter
- Logic Switching (evaluate a condition to determine where to route a caller)
- Connect to a DB
- Connect to a Survey
- And much more.



ShoreTel IVR offers many options for call process handling, including:

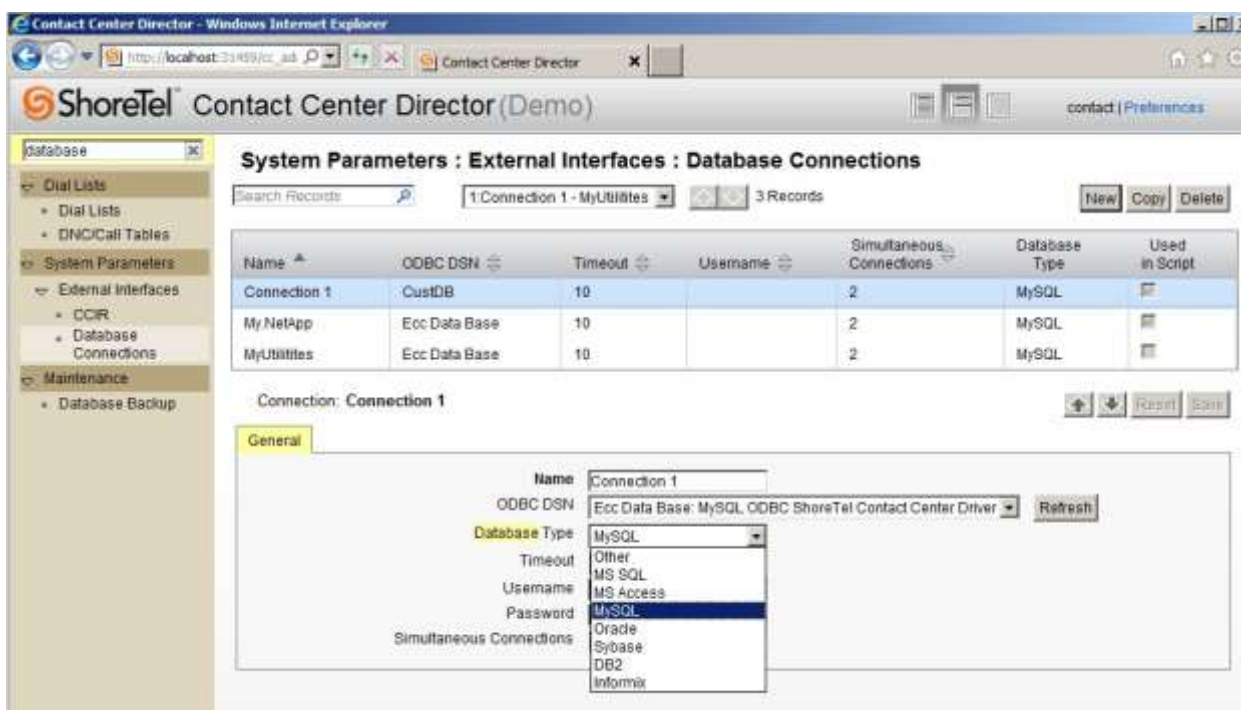
- Auto Attendant capabilities
- Caller lookup via ODBC DB
 - Screen Pop
 - Special Routing Handling or Dynamic Decision Routing
- Self-Service Applications
- Play message to callers
 - Music/message system wide, per DNIS, groups, etc.
- Supports Survey configuration
- Callback in Queue scripting
- IVR Application reports
 - Track time spent in script
 - Track hits to a script



- Connectivity to database

ShoreTel Contact Center is database agnostic and includes the ability to connect to 3rd party databases, such as:

- MS-SQL
- MySQL
- Oracle
- DB2
- Informix, and more.



- Call Direction

ShoreTel Contact Center provides support for both Inbound and Outbound contact center activities, including:

- Callback & Callback Scheduling

- Outbound Calling Lists (Dial Lists)
- Abandon Callback
- Outbound Agentless Calling
- Outbound Call Surveys (configurable by need)
- Determine type of call by Alt-ID Entered

ShoreTel Contact Center IVR includes the ability to utilize any captured digit by the caller to provide database lookups to determine call routing, set call type values, and more.

- Pop up presentation of the caller to the agent

ShoreTel Contact Center provides the ability to “pop up” caller information for presentation to agents allowing agents to quickly “see” who is calling, using contact center tools such as:

- Call Status
- Call Detail Slip
- ACD Queue Monitor

ShoreTel Contact Center also provides Plug-In functionality to CRM platforms such as Salesforce.com, Microsoft Dynamics, and many other platforms.

ShoreTel Contact Center provides the ability to “pop up” client applications through a variety of means, such as:

- Launch Desktop Application
- Send data to a URL to pop up info
- Send data to a web service to pop info

5.3.0.5 Communications End Points and Applications

- Attendant Consoles

, Operators can use ShoreTel Communicator

to answer and transfer calls rapidly without the need to touch the telephone.

If an operator is using one of the ShoreTel IP Phone multiline models, the Automatic Off-Hook Preference feature allows the user to select which audio path (speakerphone or headset) is automatically activated when a call is placed or when an incoming phone call is received. The feature can be configured from Director, ShoreTel Communicator, or from the IP phone.

Operators may also benefit from the programmable buttons feature, which allows users to assign functions to the custom keys on the multiline phones, and on the BB24 device. The programmable buttons feature allows a user to assign frequently used features to custom buttons allowing easier access to these features.

The Programmable Toolbars feature allows a system administrator to program common functions and operations

on buttons in a user's ShoreTel Communicator window so that an operator can perform many common tasks (e.g. answer call, transfer call, invoke URL, etc.) at the click of a mouse button. Some operators will benefit from a cordless telephone or a cordless headset, which gives them greater mobility.

- IP Phones

ShoreTel offers a range of innovative, high performance business phones to meet the needs of the different types of end-users across the enterprise. Our phones are designed to provide superior ergonomics, sound quality, and appearance. We offer a variety of phones that vary by user interface style, size, features, line capacity and Gigabit Ethernet support. Our products use superior microphones and high performance speakers to provide enhanced speakerphone sound quality. ShoreTel IP Phones are designed to function with minimal configuration, simplifying installation. Multiple options for Remote workers include ShoreTel IP Phones using an integrated, built in Virtual Private Network (VPN) feature to allow for “plug and play” installation. All ShoreTel phones include a two port Ethernet switch to allow for single network

drop connections.

ShoreTel's IP 655 provides Gigabit Ethernet connectivity, 12-line appearances, a large backlit touch color display and haptic (vibrational) feedback. Advanced microphone technology delivers superb speakerphone capability for offices and small and midsize conference rooms when used with the optional extension microphone accessories.

ShoreTel's IP 565 provides Gigabit Ethernet connectivity, six line appearances, color-lit line buttons for instant call recognition and identification, a rich backlit color display, and a Bluetooth interface that lets users connect with Bluetooth headset for hands-free calling.

ShoreTel's IP 560g provides Gigabit Ethernet connectivity at the desktop for data-intensive functions, the IP 560g builds on the IP 230g feature set with six line appearances and color-lit line buttons that provide instant call recognition and identification.

ShoreTel's IP 420 is a cost-effective telephone ideal for open areas, including lobbies, classrooms and dorm rooms. The IP 420 has 2 lines, full duplex speakerphone and an integrated Ethernet switch, allowing a network drop to be shared with a desktop PC.

ShoreTel's IP 480 provides 8 line appearances, expanded call history, visual voice mail and an integrated 10/100 Ethernet switch, allowing a network drop to be shared with a desktop PC.

ShoreTel's IP 480g provides 8 line appearances, expanded call history, visual voice mail and an integrated 10/100/1000 Ethernet switch, allowing a network drop to be shared with a desktop PC.

ShoreTel's IP 485g provide a full color display, 8 line appearances, expanded call history, visual voice mail and an integrated 10/100/1000 Ethernet switch, allowing a network drop to be shared with a desktop PC.

ShoreTel's IP Phone 265 is a six-line phone in a compact form factor with a crisp back-lit color display for knowledge workers with advanced requirements. It has eight feature keys and four soft keys for easy access to the rich ShoreTel feature set. A full duplex speakerphone and integrated headset jack are also standard.

ShoreTel's IP Phone 230 is ideal for the knowledge worker who relies on telephone communications, the IP 230 delivers a wealth of features including three line appearances, eight function keys, four soft keys, and a headset jack.

ShoreTel's IP Phone 230g is ideal for the knowledge worker who relies on telephone communications and requires Gigabit Ethernet connectivity at the desktop for data-intensive functions. The IP 230g delivers a wealth of features including three line appearances, eight function keys, four soft keys, and a headset jack.

ShoreTel's IP 212k is ideal for branch offices and small businesses that require "key system" behavior from their phone system. The phone has two soft keys and twelve self-labeling programmable buttons that can be configured to meet the needs of the organization and its users. The phone has eight hard keys (transfer, conference, intercom, hold, voicemail options, directory and redial) and complete audio controls for the handset, speakerphone and headset. The IP 212k features a high-contrast display, oriented vertically to look and feel like a key system telephone.

ShoreTel's IP 115 is a cost-effective telephone ideal for open areas, including lobbies, classrooms and dorm rooms. The IP 115 has six feature keys for common operations, a one-line display for caller ID, date and time, and a speakerphone for two-way hands-free communication. Like all ShoreTel IP phones, the IP 115 features an integrated Ethernet switch, allowing a network drop to be shared with a desktop PC.

ShoreTel's IP Phone BB24 programmable button box provides operators and assistants with at-a-glance presence information and fast, one-button feature access. The 24 buttons can be customized to suit the needs of different users. Self-labeling keys eliminate paper labels, saving time while ensuring the accuracy of configuration. The only IP-based device on the market, the BB24 includes an Ethernet switch and provides PoE power forwarding for one downstream device. Up to four devices can be associated with an IP Phone.

ShoreTel's IP 930D is ideal for the receptionists, retail store staff, facilities and warehouse managers needing in-building mobility, the IP 930D delivers a comparable feature set to the IP230 in a cordless phone, including three line appearances, four function keys, three soft keys, and a 2.5 mm headset jack.

One Base supports up to four handsets, and a single site or location can support up to a maximum of 40 handsets in the USA

The ShoreTel Dock is the first and only business-grade device that transforms the Apple® iPad® and iPhone® into desk phones for the mobile generation. It fuses together what users like about their desk phones with the convenience of their mobile devices. It is designed from the ground up to support both the iPhone and iPad and includes an articulating arm that allows users to rotate their iPad into landscape orientation if desired. It is designed to support both Bluetooth connectivity and direct connectivity through the Apple 30-pin connector to deliver the best audio quality possible while charging the mobile device.

The ShoreTel Dock, when combined with the ShoreTel Mobility Client, extends Unified Communications applications including voice, location-aware presence and instant messaging to mobile devices securely and enabled users to utilize their smartphone or tablet as the primary communications device.

- 5.3.0.6 UC Network Management •** Provides end-to-end service management for Unified Communications. Capabilities include testing, performance monitoring, configuration management, and business intelligence reporting.

ShoreWare Administrative Management – Director Software

ShoreWare Director Software is a powerful web-based tool that enables IT organizations to manage all sites, users, and applications as a single image voice communications network. There are no command-line scripts to learn, no ponderous reference guides to study. The simple, browser-based, point-and-click interface makes it easy to add or delete trunks, switches, and users in seconds, eliminating the need for expensive training or outside consultants. On-line Help quickly guides the administrator through system installation and configurations using an easy point-and-click interface. ShoreWare Director Software offers a new paradigm in voice system administration, eliminating the need for multiple management consoles and enabling a single IT administrator to easily manage voice communications for the entire network from a single location anywhere in the enterprise.

Automated Software Update Distribution

ShoreWare Director Software automates software updates to the ShoreGear voice switches and ShoreWare Communicator applications. Using an integrated software distribution mechanism, ShoreWare Director Software maintains an inventory of the firmware running on the ShoreGear voice switches, as well as the version of the ShoreWare Communicator software, and automatically performs updates to keep the system running optimally.

Anytime, Anywhere Monitoring

ShoreWare Director Software is a browser-based management interface. System administrators use this graphical management tool to configure and monitor all the functions of the system. The ShoreWare Director software's point-and-click interface provides quick access to useful information anywhere, anytime. The ShoreWare Director Web interface lets any PC on the network be used as the management station, eliminating the requirement for a dedicated management console.

Diagnostics and Monitoring (D&M) is a web-based application that provides detailed information and tools for managing your ShoreTel system. The focus of the application is on the following key management tasks:

- Status, fault and performance monitoring
- System capacity planning
- Voice quality monitoring
- Troubleshooting and root cause analysis

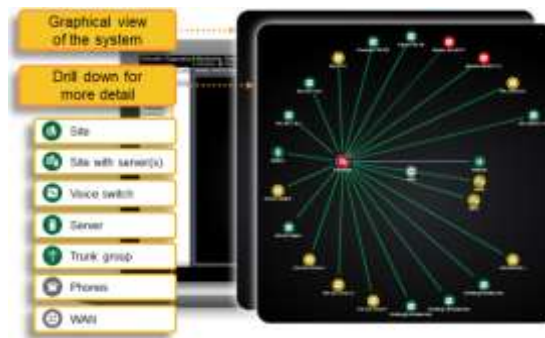
The clean interface of the D&M application within ShoreTel 14 provides clear

visibility across the system with relevant information consolidated and collected in an easy-to-use format.

- D&M allows quicker action, which further lowers TCO because the system is now even easier to monitor and diagnose
- With no waiting on end users to report problems, problems are resolved faster due to speed of access to important system information.
- Improved upgrade experience: faster upgrade of phones, scheduled backup and restore capability, persistent logging through upgrades

D&M is launched from the ShoreTel Director main page. A quick view Status Bar gives an immediate visual indication of the health of various key elements in the system, including connections, trunk groups, bandwidth, voice quality, switches and servers.

The D&M Dashboard gives a graphical representation of Call Volume, Call Quality, Bandwidth Utilization, Trunk Group Usage, Feature Usage and CPU usage so you can easily and quickly have an overview of the overall health and performance of the system. A visual map of the system topology is presented with color coding to indicate quickly if there are any issues.



The call quality section provides detailed information regarding calls that occurred including loss, jitter, delay and MOS information for each call along with IP path trace information to help zero in on the specific portion of the network or device that may be causing problems.

Diagnostics and Monitoring is available in ST 14 at no additional charge

5.3.0.7 Collaboration • Voice, video, and web conferencing; messaging; mobile applications; and enterprise social software.

PC Clients: The ShoreTel Communicator is designed for users across an organization, whether that user is an operator, a contact center agent, a knowledge worker, or a mobile worker. Available on multiple operating systems, ShoreTel Communicator makes it easy for people to communicate any way they choose: by video, voice (wired or wireless), instant messaging (IM), and more. One single interface makes training simple and reduces the IT workload because there is just a single application to support and no additional servers to deploy and maintain. Personal Communicator is provided for every user as part of the standard system to offer a rich and wide feature set for every user on the system.

Conferencing and Collaboration: ShoreTel enables enterprises to

conduct large audio conferences and provides collaboration tools for application sharing, desktop sharing, and instant messaging and end-user presence information, managed from the same easy to use, web based management interface as the PBX system.

ShoreTel Mobility Router: The ShoreTel Mobility Router is a scalable network appliance that integrates enterprise wireless LANs, carrier cellular networks, IP telephony and location technology to extend voice and UC to popular mobile devices and tablets. The solution allows users to make and receive calls from both the enterprise and personal mobile phone numbers and automatically selects the best network (Wi-Fi or cellular) with fast and automatic network handover, to optimize cost, call quality and battery life of the mobile phone.

ShoreTel Mobility Client: ShoreTel's Mobility Client for mobile devices is designed to extend UC applications with location technology information to single-and dual-mode (Wi-Fi and cellular) mobile handsets and tablets. End user can use their enterprise desk phone features such as extension dialing, call transfer and directory query on their smartphones, they can make and receive calls from both enterprise and personal cellular numbers with intelligent, automatic network selection (Wi-Fi or cellular). Seamless and automatic network handover helps call continuity across networks, and moves calls to/from Wi-Fi or 3G/4G when available and as appropriate, thereby reducing usage costs and leveraging investment in Wi-Fi infrastructure. Integrated with ShoreTel's collaboration appliance, mobile users can simply click on a "Join" button to easily access audio or desktop sharing conferences. Mobile users can also see presence and use instant messaging on their mobile device with this same integration to ShoreTel's collaboration appliance.

The ShoreTel Enterprise mobility solution addresses 3 major challenges of mobile devices in the modern enterprise.

- High roaming cost, especially for international users
- Poor in building cellular coverage
- Bring your own device support

Enterprises desiring to save on handset costs by leveraging "BYOD" (Bring your own device) to allow for enterprise telephony support over end user smart phones and tablets.

ShoreTel Mobility is a scalable solution that integrates enterprise wireless LANs, carrier cellular networks, IP telephony and location technology to extend voice and UC to popular mobile devices and tablets. The solution allows users to make and receive calls from both the enterprise and personal mobile phone numbers and automatically selects the best network (Wi-Fi or cellular) with fast and automatic network handover, to optimize cost, call quality and battery life of the mobile phone.

Integrated with ShoreTel's collaboration appliance, mobile users can simply click on a "Join" button to easily access audio or desktop sharing conferences. Mobile users can also see presence and use instant messaging on their mobile device with this same integration to ShoreTel's collaboration appliance.

The ShoreTel Dock is the first and only business-grade device that transforms the Apple® iPad® and iPhone® into desk phones for the mobile generation. It fuses together what users like about their desk phones with the convenience of their mobile devices. It is designed from the ground up to support both the iPhone and iPad and includes an articulating arm that allows users to rotate

their iPad into landscape orientation if desired. It is designed to support both Bluetooth connectivity and direct connectivity through the Apple 30-pin connector to deliver the best audio quality possible while charging the mobile device.

The ShoreTel Dock, when combined with the ShoreTel Mobility Client, extends Unified Communications applications including voice, location-aware presence and instant messaging to mobile devices securely and enabled users to utilize their smartphone or tablet as the primary communications device.

5.3.0.8 Collaborative Video • A set of immersive video technologies that enable people to feel or appear as if they were present in a location that they are not physically in. Immersive video consists of a multiple codec video system, where each meeting attendee uses an immersive video room to “dial in” and can see/talk to every other member on a screen (or screens) as if they were in the same room and provides call control that enables intelligent video bandwidth management.

5.3.1.8.1 Content Delivery Systems (CDS) • A large distributed system of servers deployed in multiple data centers connected by the Internet. The purpose of the content delivery system is to serve content to end-users with high availability and high performance. CDSs serve content over the Internet, including web objects (text, graphics, URLs, and scripts), downloadable objects (media files, software, documents), applications (e-commerce, portals), live streaming media, on-demand streaming media, and social networks.

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

5.3.1.8.2 Physical Security • Technology utilized to restricting physical access by unauthorized people to controlled facilities. Technologies include:

- a. Access control systems
- b. Detection/Identification systems, such as surveillance systems, closed circuit television cameras, or IP camera networks and the associated monitoring systems.
- c. Response systems such as alert systems, desktop monitoring systems, radios, mobile phones, IP phones, and digital signage
- d. Building and energy controls

ShoreTel does not have substantive product offerings that address the scope detailed in the above Section.

- 5.3.1 SERVICES** • For each Category above (5.21-5.30), the following services should be available for procurement as well at the time of product purchase or anytime afterwards.
- 5.3.1.1 Maintenance Services** • Capability to provide technical support, flexible hardware coverage, and smart, proactive device diagnostics for hardware.

ShoreTel offers both direct (Enterprise) and indirect (Partner) support options allowing our customers to receive the highest level of service to meet their needs. ShoreTel also offers additional services; Managed, Monitored and Healthchecks.

Enterprise Support

Our Enterprise Support Program is designed for customers who wish to have a direct service relationship with ShoreTel. The base service includes support directly from ShoreTel, unlimited calls or chat for remote technical support, software updates, hardware replacement options, Web based administrator training and Web based end-user training, as well as access to online support resources and tools. Options are also available for hardware replacement, ranging from next day service to 4-hour replacement in some regions.

Partner Support

Our Partner Support Program is designed for customers who need a service program that covers all systems and infrastructure, and is well suited to those with minimal IT resources. Available exclusively from your ShoreTel reseller, the program ensures a consistently high level of customer satisfaction by combining local hands-on support from your reseller with backup and escalation resources directly from ShoreTel.

Manage

Sometimes your business demands more than just maintenance and support. ShoreTel Advanced Services are designed to ensure you get the most from your Brilliantly Simple solution, even when your environment is complex, competitive and changing.

ShoreTel offers a variety of different services designed to provide additional value and assistance when and where you need it.

Enterprise Support Advantage

IT organizations are under intense pressure to operate their communication solution at peak efficiency and minimize downtime, while being challenged to keep up with dramatic technological innovations and meeting the ever-changing communication needs of their global organizations.

When a customer is in need of support they will engage with ShoreTel's Technical Assistance Center or TAC or directly with their ShoreTel Partner of their choosing.

Contact Information:

Create new Service Request: <http://support.shoretel.com>

Skype: shoreteltac1

Call (For new or existing SRs) in North America: +1 800 742 2348

Or Contact your ShoreTel Partner at number designated by the partner for Partner Support.

ShoreTel Escalation TAC Response Table:

Severity	Definition	Comm Mode	SR Update Frequency
Low	• Low-impact with undesirable/unexpected behaviors • Questions about low-impact issues	Email	Weekly
Medium	• Medium-impact with undesirable/unexpected behaviors • Questions about medium-impact issues	Email	3 business days
High	• Undesirable/unexpected behaviors affecting a significant portion of the system users • The SR has not been dealt with within the standards for medium priority cases	Phone or Email	2 business days
Critical	• Essential applications or functionality not available • The SR has not been dealt with within the standards for high priority cases	Phone	1 business days
System Down	• Essential applications or functionality not available • The SR has not been dealt with within the standards for high priority cases	Phone	Real-time

5.3.1.2 Professional Services

- Deployment Services Survey/ Design Services • Includes, but not limited to, discovery, design, architecture review/validation, and readiness assessment.

ShoreTel's IP Telephony Network Assessment is a complete service to help you plan, design and implement an IP telephony solution that meets your organization's specific needs and helps ensure that IP telephony will run smoothly. The assessment is provided through ShoreTel partners and is required prior to deployment. ShoreTel's IP Telephony Network Assessment combines real-time and simulated testing which results in the pre-emptive discovery of network faults and potential performance problems.

Implementation Services • Includes, but not limited to, installation and configuration or end-to-end integration and deployment.

Experienced ShoreTel experts assist Partners and Customers by delivering services throughout their use of a ShoreTel system. These services range from initial system deployment projects through periodic Health checks and other key services.

Optimization • Includes, but not limited to, assessing operational environment readiness, identify ways to increase efficiencies throughout the network, and optimize Customer's infrastructure, applications and service management.

With years of experience deploying ShoreTel systems in a multitude of environments, ShoreTel engineers can help design a system that incorporates least-cost routing, long-term capacity planning, and disaster recovery.

- **Remote Management Services •** Includes, but not limited to, continuous monitoring, incident management, problem management, change management, and utilization and performance reporting that may be on a subscription basis.

ShoreTel Remote Monitoring, a 365-day around-the-clock service, proactively monitors ShoreTel products deployed on the customer premise. Available to both new and existing customers, ShoreTel Remote Monitoring expedites the response process – ultimately improving mean time to repair for events associated with ShoreTel systems. ShoreTel Network Operations Center (NOC) personnel are alerted immediately if a system event occurs and take steps to remotely resolve issues whenever possible. In all cases, the customer's support team is notified immediately with details regarding the event. This provides operational efficiencies, as resolution activities can start without waiting for an end user to report a problem.

- **Consulting/Advisory Services •** Includes, but not limited to, assessing the availability, reliability, security and performance of Customer's existing solutions. Healthchecks for your Unified Communication system and Contact Center system deliver detailed and actionable reports on your use of ShoreTel Systems. These are one-time services, designed to periodically step back from the ad hoc, everyday adjustments and take a look at your overall use of your ShoreTel system. You get an evaluation by an expert with a comparison to industry norms and best practices, coupled with recommendations.

- **Data Communications Architectural Design Services •** Developing architectural strategies and roadmaps for transforming Customer's existing network architecture and operations management.

ShoreTel's Enterprise Support Advantage program delivers proactive, high-touch and personalized technical, operational and maintenance support services that help our customers maximize their investment in the ShoreTel solution, enhance their operational efficiency and resolve system issues quickly.

- **Statement of Work (SOW) Services •** Customer-specific tasks to be accomplished and/or services to be delivered based on Customer's business and technical requirements.

ShoreTel offers a suite of implementation services to insure the ShoreTel system is deployed for optimum performance and customer satisfaction.

5.3.1.3 Partner Services • Provided by Contractor's Authorized Partners/Resellers.

- Subject to Contractor's approval and the certifications held by its Partners/Resellers, many Partners/Resellers can also offer and provide

- some or all of the Services as listed above at competitive pricing, along with local presence and support. As the prime, Contractor is still ultimately responsible for the performance of its Partners/ Resellers. Customers can have the option to purchase the Services to be directly delivered by Contractor (OEM) or its certified Partners/Resellers.

Shoretel agrees to comply with this requirement.

- 5.3.1.4 Training** • Learning offerings for IT professionals on networking technologies, including but not limited to designing, implementing, operating, configuring, and troubleshooting network systems pertaining to items provided under the master agreement.

ShoreTel University offers a variety of courses for users and administrators of all ShoreTel solutions. You'll find training options that are brilliantly simple and available in a number of flexible formats. All end-user self-paced training is offered at no charge and is available via the [End User Training](#) page. Instructor-Led end-user training is also offered for a nominal fee via ShoreTel University [Certification Central](#).

ShoreTel University is pleased to provide end-user self-paced training at no cost to you.

Communicator and IP Phones - Self-Paced Training

This informative 1 hour self-paced training course provides a detailed walk-thru of the ShoreTel Communicator Application as well as many of the ShoreTel phone models. Learn to leverage the full power of the ShoreTel Unified Communications solution that brings together VoIP telephony, instant messaging, video conferencing, mobility, presence, and collaboration capabilities into a seamless business environment.

Using ShoreTel Conferencing

In just 30 minutes, learn all the capabilities of ShoreTel Conferencing Services. You will experience how to join conferences, configure and manage both audio only or web conferences via Microsoft Outlook and ShoreTel Communicator.

Using Mobility - Self-Paced Training

This self-paced training will show you how to leverage ShoreTel Enterprise Mobility from your Android Smartphone, Blackberry, or iPhone

Fee-based Administrator and ShoreTel installation certification training is also offered by ShoreTel University [Certification Central](#) and is delivered as traditional instructor-led classroom or instructor-led online (ILO) courses. ILO courses include the same training materials and interactive hands-on labs as with any traditional instructor-led course. If you prefer to learn in a traditional classroom setting; ShoreTel University offers training in major cities worldwide.

5.3.2 ADDING PRODUCTS

The ability to add new equipment and services is for the convenience and benefit of WSCA-NASPO, the Participating States, and all the Authorized Purchasers. The intent of this process is to promote “one-stop shopping” and convenience for the customers and equally important, to make the contract flexible in keeping up with rapid technological advances. The option to add new product or service categories and/items will expedite the delivery and implementation of new technology solutions for the benefit of the Authorized Purchasers.

After the contracts are awarded, additional IT product categories and/or items may be added per the request of the Contractor, a Participating State, an Authorized Purchaser or WSCA-NASPO. Additions may be ad hoc and temporary in nature or permanent. All additions to an awarded Contractor or Manufacturer’s offerings must be products, services, software, or solutions that are commercially available at the time they are added to the contract award and fall within the original scope and intent of the RFP (i.e., converged technologies, value adds to manufacturer’s solution offerings, etc.).

ShoreTel agrees to comply with this requirement.

5.3.2.1 New Product from Contractors • If Contractor, a Participating State, an Authorized Purchaser or WSCA-NASPO itself requests to add new product categories permanently, then all awarded Contractors (Manufacturers) will be notified of the proposed change and will have the opportunity to work with WSCA to determine applicability, introduction, etc. Any new products or services must be reviewed and approved by the WSCA-NASPO Contract Administrator.

ShoreTel agrees to comply with this requirement.

5.3.2.2 Ad Hoc Product Additions • A request for an ad hoc, temporary addition of a product category/item must be submitted to WSCA-NASPO via the governmental entity’s contracting/purchasing officer. Ad hoc, temporary requests will be handled on a case-by-case basis.

ShoreTel agrees to comply with this requirement.

5.3.2.3 Pricelist Updates • As part of each Contractor’s ongoing updates to its pricelists throughout the contract term, Contractor can add new SKUs to its awarded product categories that may have been developed in-house or obtained through mergers, acquisitions or joint ventures; provided, however, that such new SKUs fall within the Contractor’s awarded product categories.

ShoreTel agrees to comply with this requirement.

Section 6: Evaluation

6.1 General Information

Proposals will be evaluated for completeness and compliance with the requirements of this RFP by a sourcing team. The sourcing team may engage additional qualified individuals during the process to assist with technical, financial, legal, or other matters.

Except at the invitation of the sourcing team, no activity or comments from Offerors regarding this RFP shall be discussed with any member of the sourcing team during the evaluation process. An Offeror who contacts a member of the sourcing team in reference to this RFP may have its proposal rejected.

Each proposal must be submitted in Microsoft Word or Excel, or PDF labeled and organized in a manner that is congruent with the section number, headings, requirements, and terminology used in this RFP. Proposal documents must be use Arial font size 10. All proposals must be submitted in electronic form.

6.2 Administrative Requirements Compliance

The sourcing team will evaluate each proposal for compliance with administrative requirements. Non compliance with any of these requirements will render a proposal non-responsive. Only those proposals that pass the administrative requirements will be evaluated further.

In order to pass the Administrative Requirements, the following must be received by due date and time associated with this RFP as listed in Bid Sync.

6.2.1 References

Vendor must provide a least three current account references for which your company provides similar Data Communications services for private, state and/or large local government clients (preferably government/public entities). **Offerors are required to submit Attachment B - Reference Form, for business references. The business providing the reference must submit the Reference Form directly to the State of Utah, Division of Purchasing.** It is the offeror's responsibility to ensure that completed forms are received by the State of Utah Division of Purchasing on or before the proposal submission deadline for inclusion in the evaluation process. Business references not received, or not complete, may adversely affect the offeror's score in the evaluation process. The Purchasing Division reserves the right to contact any or all business references for validation of information submitted.

Please refer to the five references ShoreTel provided through the Attachment B Reference Form of this RFP response. Upon demand ShoreTel will provide additional references if necessary. All contact information for the references are indicated in the submittal of the Attachment B.

6.3 Minimum Scope Requirements Compliance

The sourcing team will evaluate each proposal that passed the administrative requirements for compliance with Section 5.2 Data Communications Services – Requirements. Scope requirements are evaluated in terms of the breadth and depth of the offeror proposal for each of the section 5.2.1-5.3.0 Scope categories. Only those proposals in each section that score 70% or better will move on to cost evaluation.

6.4 Evaluation Criteria

The following table details how each proposal shall be evaluated on a basis of 100 points.

An evaluation committee comprised of representatives from some WSCA-NASPO member States will be appointed by the WSCA-NASPO Contract Administrator to perform the proposal evaluation.

All Offeror's proposals will be initially reviewed for compliance with the mandatory general requirements in Section 3 and Sections 5.1.1-5.1.5 stated within the RFP. Any proposal failing to meet one or more mandatory requirement(s) will be considered non-responsive and deemed

“unacceptable”, and will be eliminated from further consideration.

Those proposals deemed “acceptable” or “potentially acceptable” will be evaluated against the following proposal evaluation criteria using a point-based scoring methodology. Proposal evaluation criteria are listed in relative order of importance:

6.4.1 Cost – (bid sheets including discounts off list price attached) – 30%

Given that technology products generally depreciate over time and go through typical product lifecycles, it is more favorable for customers to have prime contracts be based on minimum discounts off the Offeror's commercially published pricelists versus fixed pricing. In addition, Offerors must have the ability to update and refresh their respective price books, as long as the agreed-upon discounts are fixed. Minimum guaranteed contract discounts do not preclude an Offeror and/or its authorized resellers from providing deeper or additional, incremental discounts at their sole discretion.

6.4.1.1 Refurbished Equipment – Many IT manufacturers offer refurbished equipment at a substantially lower cost with attractive warranties that also address risk concerns some customers may have with refurbished gear. Offerors may add an optional provision for manufacturer-certified refurbished equipment to be available for procurement under this contract. This offering will not be evaluated as part of the cost scoring process.

6.4.2 Demonstrate ability to provide products and services within scope of the RFP (Section 5.2-5.31) – 25%

6.4.3 Qualifications, technical ability, maintenance, training and value added services – 10%

6.4.4 Ability to supply to WSCA / NASPO member states/geographical coverage -10%

6.4.5 Offer profile and references (i.e., financial stability, presence in marketplace, adequate staff, marketing efforts etc.) – 20%

6.4.6 Administrative (i.e., report generating ability, e-commerce, account reps, problem resolution, customer satisfaction, website hosting and other administrative related issues) – 5%

At the option of the evaluation committee the WSCA-NASPO Contract Administrator may initiate discussion(s) with Offerors who submit responsive or potentially responsive proposals for the purpose of clarifying aspects of the proposal(s), however, proposals may be evaluated without such discussion(s). Such discussion(s) is not to be initiated by Offerors.

Based on the competitive range of the evaluation scores, the evaluation committee may choose to make a “finalist list” of offeror's; if opted for, all offeror's will be notified of their status at this juncture by the Procurement Manager.

Finalist Offeror's may be required, at the option of the evaluation committee, to present their proposals and possibly demonstrate their Internet website to the evaluation committee. The Procurement Manager will schedule the time and location for each Offeror presentation. Each Offeror presentation will be of equal duration for all offeror's and may also include an additional amount of time reserved for questions/answers.

The sourcing team will evaluate each proposal that has passed the administrative requirements and met or exceeded the Section 3 and Section 5.1.1-5.1.5 Mandatory Requirements.

WCSA-NASPO Data Communications Equipment and Associated Products #JP14001**Firm Name:** _____**Section Number:** _____**Evaluator:** _____**Date:** _____**Score will be assigned as follows:**

0 = Failure, no response

1 = Poor, inadequate, fails to meet requirement

2 = Fair, only partially responsive

3 = Average, meets minimum requirement

4 = Above average, exceeds minimum requirement

5 = Superior

		Score (0-5)	Weight	Points
1. Demonstrated Ability to meet scope of requirements (25 points possible)		-----	-----	
Scope and Variety of products provided	8 points possible		X 1.6	
Experience and technical ability of manufacturer	7 points possible		X 1.4	
Maintenance Program	2 points possible		X .40	
Training Program	2 points possible		X .40	
Service Program	2 points possible		X .40	
Demonstrate Effective Reseller Program managed by the manufacturer in WCSA / NASPO States	4 points possible		X .80	
2. Demonstrate Qualifications and Technical Ability (10 points possible)		-----	-----	
Technical Staff Qualifications	2 points possible		X .40	
Maintenance Staff Qualifications	2 points possible		X .40	
Training Staff Qualifications	2 points possible		X .40	
Technical Suitability of Products	4 points possible		X .80	
3. Demonstrate ability to supply WCSA / NASPO member States (10 points possible)	10 points possible		X 2	
4. Company profile and references (20 points)		-----	-----	
Financial Statements and Records	10 points possible		X 2	
References, Reputation, Breadth and Depth of Offering	10 points possible		X 2	
5. Demonstrate ability to provide administrative support (5 points possible)	5 points possible		X 1	
6. Cost (30 points possible)*	30 points possible	-----	-----	* Inserted by Purchasing
Services (10 Points)				
Product Offering Discount Percentage (20 points)				
TOTAL EVALUATION POINTS	(100 points possible)		Total	

* Purchasing will use the following cost formula for the "Services": The points assigned to each Offeror's cost proposal will be based on the lowest proposal price. The offeror with the lowest Proposed Price will receive 100% of the price points. All other Offerors will receive a portion of the total cost points based on what percentage higher their Proposed Price is than the Lowest Proposed Price. An Offeror who's Proposed Price is more than double (200%) the Lowest Proposed Price will receive no points. The formula to compute the points is: Cost Points x (2- Proposed Price/Lowest Proposed Price).

Purchasing will use the following cost formula for the "Product Offering Discount Percentage": The points assigned to each Offeror's cost proposal will be based on the highest discount percentage. The Offeror with the highest discount percentage will receive 100% of the price points. All other Offerors will receive a portion of the total cost points based on what percentage lower their discount percentage is than the highest discount percentage. An Offeror who's Proposed percentage discount is less than double (200%) the highest discount percentage will receive no points. The formula to compute the points is: Cost Points x (2- Highest Proposed Discount/Proposed Discount).

Section 7: Master Agreement Terms and Conditions/Exceptions

7.1 WCSA-NASPO Master Agreement Terms and Conditions

7.1.1 The WCSA-NASPO Contract Administrator referred to in section 2 of the WCSA-NASPO Master Agreement Terms and Conditions is Debra Gunderson, State of Utah Division of Purchasing and General Services. This RFP represents the WCSA-NASPO Contract Administrator's written approval of the modifications, waivers, alterations, amendments, and supplements to the Master Agreement Terms and Conditions made in this RFP and this Section 7.

7.1.2 Except as limited in this section or elsewhere in this RFP, Participating Entities who execute a Participating Addendum may alter, modify, supplement, or amend the WCSA-NASPO Master Agreement Terms and Conditions as necessary to comply with Participating Entity law or policy with respect to their orders under the Master Agreement. A Contractor may not deliver Products or perform services under this Master Agreement until a Participating Addendum acceptable to the Participating Entity and Contractor is executed. The WCSA-NASPO Terms and Conditions are applicable to any order by a Participating Entity, except to the extent altered, modified, supplemented or amended by a Participating Addendum. By way of illustration and not limitation, this authority may apply to unique delivery and invoicing requirements, confidentiality requirements, defaults on orders, governing law and venue relating to orders by a Participating Entity, Indemnification, and insurance requirements. Statutory or constitutional requirements relating to availability of funds may require specific language in some Participating Addenda in order to comply with applicable law. The expectation is that these alterations, modifications, supplements, or amendments will be addressed in the Participating Addendum or, with the consent of the Participating Entity and Contractor, may be included in the commitment voucher (e.g. purchase order or contract) used by the Participating Entity to place the order.

7.1.3 The term Purchasing Entity and Participating Entity shall both mean "Participating Entity" as that term is defined in WCSA-NASPO Master Agreement Terms and Conditions.

7.1.4 With respect to section 11, Indemnification, the terms of any Participating Addendum may alter, modify, supplement, or amend the language in section 11 and may include a limitation of liability mutually agreeable to the Participating Entity and the Contractor.

7.1.5 With regard to section 20, Participants, Participating Entities who are not states may under some circumstances sign their own Participating Addendum, subject to the approval of the Chief Procurement Official of the state where the Participating Entity is located. Contractors may upon request obtain a copy of the written authorization from the WCSA-NASPO Contract Administrator.

7.2 Offeror Exceptions to Terms and Conditions

7.2.1 The Lead State discourages exceptions to contract terms and conditions in the RFP, attached Participating Entity terms and conditions (if any), and the WCSA-NASPO Master Agreement Terms and Conditions. As specified in this RFP, exceptions may cause a proposal to be rejected as nonresponsive when, in the sole judgment of the Lead State (and its evaluation team), the proposal appears to be conditioned on the exception or correction of what is deemed to be a deficiency or unacceptable exception would require a substantial proposal rewrite to correct. Moreover, Offerors are cautioned that award may be made on receipt of initial proposals without clarification or an opportunity for discussion, and the nature of exceptions would be evaluated. Further, the nature of exceptions will be considered in the competitive range determination if one is conducted. Exceptions will be evaluated to determine the extent to which the alternative language or approach poses unreasonable, additional risk to the state, is judged to inhibit achieving the objectives of the RFP, or whose ambiguity makes evaluation difficult and a fair

resolution (available to all vendors) impractical given the timeframe for the RFP.

7.2.2 The Lead State will entertain exceptions to contract terms and conditions in this RFP, including the WSCA-NASPO Master Agreement Terms and Conditions. Offerors are strongly encouraged to be judicious in identifying exceptions.

7.2.3 Based on the market research conducted by the Lead State, the following provisions are intended to frame the contours of exceptions that may be acceptable, additional risk so long as the Offeror's exceptions are specified with sufficient particularity.

7.2.4 The Lead State will consider Offeror standard terms for inspection and acceptance, so long as a reasonable time for acceptance is stated. However, the Participating Entities right to exercise revocation of acceptance under its Uniform Commercial Code must be preserved. Submit the standard terms with the offer and describe generally how commerciality in their use is established, e.g., identify publicly-available catalogs where the warranty terms are used and how long they have been in use.

7.2.5 The Lead State will consider standard warranty and/or maintenance terms, but the alternative warranty and/or maintenance will be evaluated to determine whether they provide comparable protection to the warranty specified in section 30 of the WSCA-NASPO Master Agreement Terms and Conditions. Provide the terms of the warranty and maintenance in the offer. Also describe generally how commerciality is established for those terms, e.g., publicly-available catalogs the warranty terms are used and how long they have been in use. Provide one reference from a customer having comparable sales volume who is using the warranty and maintenance provisions, where the warranty term has expired, and who has exercised rights under the warranty.

7.2.6 Intellectual property. The Lead State will consider license terms and conditions that as a minimum convey to Participating Entities a nonexclusive, irrevocable, perpetual, paid-up, royalty free license to use software or other intellectual property delivered with or inherent in the commodity or service, and to transfer the license rights to third parties for government purposes. Provide the terms of the license, including any terms that cover third party intellectual property used in the Offeror's solution. Offerors should be aware that Participating Entities using federal funds may be required to negotiate additional or different terms to satisfy minimum rights requirements of their federal grants.

7.2.7 Any limitation of liability provision – including any exclusion of damages clause – proposed by an Offeror to be the default limitation of liability provision under the Master Agreement must preserve a reasonable amount of direct damages for breach of contract, additionally permit the Participating Entity to recoup amounts paid for supplies or services not finally accepted (as in the case of advance or progress payments, if used), and preserve the right of the Participating Entity to be held harmless from costs of litigation as well as ultimate liability within limits agreed by the parties.

Moreover, any limitation of liability clause proposed by an Offeror should be reciprocal, cover lost profits, and exclude claims or liability arising out of intellectual property infringement, bodily injury (including death), damage to tangible property, and data breach. Include the text of any such language if proposed. Further, provide contact information for a public entity, or private entity if no public entity exists, where the limitation of liability clause (or another clause substantially similar) operated to limit liability. If no such example exists, provide contact information for a state, or if no state exists, a higher education institution, or if none exists, a city or county represented by counsel in the negotiations who has agreed to the proposed terms and conditions.

7.2.8 The enumerated examples in subsection 7.2 are not intended to limit the ability of Offerors to propose additional, reasonable exceptions. For any other exception, where the exception is based on claims of standard or normal commercial practice, provide contact information for a state, or if no state exists, a higher education institution, or if none exists, a city or county represented by counsel in the negotiations who has agreed to the proposed terms and conditions.

7.3 WSCA-NASPO eMarket Center

7.3.1 In July 2011, WSCA-NASPO entered into a multi-year agreement with SciQuest, Inc. whereby SciQuest will provide certain electronic catalog hosting and management services to enable eligible WSCA-NASPO entity's customers to access a central online website to view and/or shop the goods and services available from existing WSCA-NASPO Cooperative Contracts. The central online website is referred to as the WSCA-NASPO eMarket Center. Contractor shall either upload a hosted catalog into the eMarket Center or integrate a punchout site with the eMarket Center.

Supplier's Interface with the eMarket Center

There is no cost charged by SciQuest to the Contractor for loading a hosted catalog or integrating a punchout site.

At a minimum, the Contractor agrees to the following:

1. **Implementation Timeline:** WSCA-NASPO eMarket Center Site Admin shall provide a written request to the Contractor to begin enablement process. The Contractor shall have fifteen (15) days from receipt of written request to work with WSCA-NASPO and SciQuest to set up an enablement schedule, at which time SciQuest's technical documentation shall be provided to the Contractor. The schedule will include future calls and milestone dates related to test and go live dates. The contractor shall have a total of Ninety (90) days to deliver either a (1) hosted catalog or (2) punch-out catalog, from date of receipt of written request.
2. **Definition of Hosted and Punchout:** WSCA-NASPO and SciQuest will work with the Contractor, to decide which of the catalog structures (either hosted or punch-out as further described below) shall be provided by the Contractor. **Whether hosted or punch-out, the catalog must be strictly limited to the Contractor's awarded contract offering (e.g. products and/or services not authorized through the resulting cooperative contract should not be viewable by WSCA-NASPO Participating Entity users).**
 - a. Hosted Catalog. By providing a hosted catalog, the Contractor is providing a list of its awarded products/services and pricing in an electronic data file in a format acceptable to SciQuest, such as Tab Delimited Text files. In this scenario, the Contractor must submit updated electronic data annually to the the eMarket Center for WSCA-NASPO Contract Administrator's approval to maintain the most up-to-date version of its product/service offering under the cooperative contract in the eMarket Center.
 - b. Punch-Out Catalog. By providing a punch-out catalog, the Contractor is providing its own online catalog, which must be capable of being integrated with the eMarket Center as a. Standard punch-in via Commerce eXtensible Markup Language (cXML). In this scenario, the

Contractor shall validate that its online catalog is up-to-date by providing a written update quarterly to the Contract Administrator stating they have audited the offered products/services and pricing listed on its online catalog. The site must also return detailed UNSPSC codes (as outlined in line 3) for each line item. Contractor also agrees to provide e-Quote functionality to facilitate volume discounts.

3. Revising Pricing and Product Offerings: Any revisions (whether an increase or decrease) to pricing or product/service offerings (new products, altered SKUs, etc.) must be pre-approved by the WSCA-NASPO Contract Administrator and shall be subject to any other applicable restrictions with respect to the frequency or amount of such revisions. However, no cooperative contract enabled in the eMarket Center may include price changes on a more frequent basis than once per quarter. The following conditions apply with respect to hosted catalogs:
 - a. Updated pricing files are required by the 1st of the month and shall go into effect in the eMarket Center on the 1st day of the following month (i.e. file received on 1/01/14 would be effective in the eMarket Center on 2/01/14). Files received after the 1st of the month may be delayed up to a month (i.e. file received on 11/06/14 would be effect in the eMarket Center on 1/01/15).
 - b. Contract Administrator-approved price changes are not effective until implemented within the eMarket Center. Errors in the Contractor's submitted pricing files will delay the implementation of the price changes in eMarket Center.
4. Supplier Network Requirements: Contractor shall join the SciQuest Supplier Network (SQSN) and shall use the SciQuest's Supplier Portal to import the Contractor's catalog and pricing, into the SciQuest system, and view reports on catalog spend and product/pricing freshness. The Contractor can receive orders through electronic delivery (cXML) or through low-tech options such as fax. More information about the SQSN can be found at: www.sciquest.com or call the SciQuest Supplier Network Services team at 800-233-1121.
5. Minimum Requirements: Whether the Contractor is providing a hosted catalog or a punch-out catalog, the Contractor agrees to meet the following requirements:
 - a. Catalog must contain the most current pricing, including all applicable administrative fees and/or discounts, as well as the most up-to-date product/service offering the Contractor is authorized to provide in accordance with the cooperative contract; and
 - b. The accuracy of the catalog must be maintained by Contractor throughout the duration of the cooperative contract between the Contractor and the Contract Administrator; and
 - c. The Catalog must include a Lead State contract identification number; and
 - d. The Catalog must include detailed product line item descriptions; and
 - e. The Catalog must include pictures when possible; and
 - f. The Catalog must include any additional WSCA-NASPO and Participating Addendum requirements.*

6. Order Acceptance Requirements: Contractor must be able to accept Purchase Orders via fax or cXML.
 - a. The Contractor shall provide positive confirmation via phone or email within 24 hours of the Contractor's receipt of the Purchase Order. If the Purchasing Order is received after 3pm EST on the day before a weekend or holiday, the Contractor must provide positive confirmation via phone or email on the next business day.
7. UNSPSC Requirements: Contractor shall support use of the United Nations Standard Product and Services Code (UNSPSC). UNSPSC versions that must be adhered to are driven by SciQuest for the suppliers and are upgraded every year. WSCA-NASPO reserves the right to migrate to future versions of the UNSPSC and the Contractor shall be required to support the migration effort. All line items, goods or services provided under the resulting statewide contract must be associated to a UNSPSC code. All line items must be identified at the most detailed UNSPSC level indicated by segment, family, class and commodity. More information about the UNSPSC is available at: <http://www.unspsc.com> and <http://www.unspsc.com/FAQs.asp#howdoesunspscwork>.
8. Applicability: Contractor agrees that WSCA-NASPO controls which contracts appear in the eMarket Center and that WSCA-NASPO may elect at any time to remove any supplier's offering from the eMarket Center.
9. The WSCA-NASPO Contract Administrator reserves the right to approve the pricing on the eMarket Center. This catalog review right is solely for the benefit of the WSCA-NASPO Contract Administrator and Participating Entities, and the review and approval shall not waive the requirement that products and services be offered at prices (and approved fees) required by the Master Agreement.

* Although suppliers in the SQSN normally submit one (1) catalog, it is possible to have multiple contracts applicable to different WSCA-NASPO Participating Entities. For example, a supplier may have different pricing for state government agencies and Board of Regents institutions. Suppliers have the ability and responsibility to submit separate contract pricing for the same catalog if applicable. The system will deliver the appropriate contract pricing to the user viewing the catalog.

Several WSCA-NASPO Participating Entities currently maintain separate SciQuest eMarketplaces, these Participating Entities do enable certain WSCA-NASPO Cooperative Contracts. In the event one of these entities elects to use this WSCA-NASPO Cooperative Contract (available through the eMarket Center) but publish to their own eMarketplace, the Contractor agrees to work in good faith with the entity and WSCA-NASPO to implement the catalog. WSCA-NASPO does not anticipate that this will require substantial additional efforts by the Contractor; however, the supplier agrees to take commercially reasonable efforts to enable such separate SciQuest catalogs.

Attachment B – Reference Form

Per WSPA – NASPO requirement within this RFP Section; 5.1.3. ShoreTel has contacted references to ensure five confidential references to be received by WSPA-NASPO and the State of Utah. Additional references are available upon request.

Solicitation Number JP14001 WSPA- NASPO Data Communications RFP

Please complete the following:

(Full Name of Company Requesting Reference)

(Your Company Name)

This form is being submitted to your company for completion as a business reference for the company listed above. This form is to be returned to the State of Utah, Division of Purchasing, via email to teutsler@utah.gov or by fax to the attention of Tara Eutsler at 801-538-3882, no later than _____, 2011, and **must not** be returned to the company requesting the reference.

For questions or concerns regarding this form, please contact the State of Utah, Division of Purchasing, at dgundersen@utah.gov. When contacting the State, please be sure to include the solicitation number listed at the top of this page.

CONFIDENTIAL INFORMATION WHEN COMPLETED

Company providing reference:	
Contact Name and Title/Position:	
Contact Telephone Number:	
Contact Email Address:	

QUESTIONS:

1. In what capacity have you worked with this firm in the past?

COMMENTS:

2. How would you rate this firm's knowledge and expertise?

_____ (3=Excellent; 2=Satisfactory; 1=Unsatisfactory; 0=Unacceptable)

COMMENTS:

3. How would you rate this firm's flexibility relative to changes in the project scope and timelines?

_____ (3=Excellent; 2=Satisfactory; 1=Unsatisfactory; 0=Unacceptable)

COMMENTS:

4. What is your level of satisfaction with materials produced by this firm?

_____ (3=Excellent; 2=Satisfactory; 1=Unsatisfactory; 0=Unacceptable)

COMMENTS:

5. How would you rate the dynamics/interaction between firm and your staff?

_____(3=Excellent; 2=Satisfactory; 1=Unsatisfactory; 0=Unacceptable)

COMMENTS:

6. Who were the firm's principal representatives involved in your project and how would you rate them individually? Please comment on the skills, knowledge, behavior or other factors on which you based the rating? (3=Excellent; 2=Satisfactory; 1=Unsatisfactory; 0=Unacceptable)

Principal Representative's Name: _____
Rating: _____

Principal Representative's Name: _____
Rating: _____

Principal Representative's Name: _____
Rating: _____
COMMENTS:

7. How satisfied are you with the manner in which the firm handled confidential, personal, and sensitive information?

_____(3=Excellent; 2=Satisfactory; 1=Unsatisfactory; 0=Unacceptable)

COMMENTS:

8. With what aspect(s) of this firm's services are you most satisfied?

COMMENTS:

9. With which aspect(s) of this firm's services are you least satisfied?

COMMENTS:

10. Would you recommend this firm's services to your organization again?

COMMENTS:

Attachment D – ShoreTel Pricing Catalog

Solicitation Number JP14001 WSCA-NASPO Data Communications RFP

See document to follow for ShoreTel's Catalog of discount pricing in detail for all of ShoreTel's offerings for WSCA-NASPO and State of Utah.

Attachment E – ShoreTel 2012 Financials

Solicitation Number JP14001 WSCA-NASPO Data Communications RFP

See document to follow as Attachment E for ShoreTel's 2012 Financials

Attachment F – ShoreTel 2013 Financials

Solicitation Number JP14001 WSCA-NASPO Data Communications RFP

See document to follow as Attachment F for ShoreTel's 2013 Financials

Attachment G – ShoreTel D&B Report

Solicitation Number JP14001 WSCA-NASPO Data Communications RFP

See document to follow as Attachment G for ShoreTel's D&B Report.

WSCA-NASPO Master Agreement Terms and Conditions

1. AGREEMENT ORDER OF PRECEDENCE:

The Master Agreement shall consist of the following documents:

1. A Participating Entity's Participating Addendum ("PA");
2. WSCA-NASPO Master Agreement Terms and Conditions;
3. The Statement of Work;
4. The Solicitation; and
5. Contractor's response to the Solicitation.

These documents shall be read to be consistent and complementary. Any conflict among these documents shall be resolved by giving priority to these documents in the order listed above. Contractor terms and conditions that apply to this Master Agreement are only those that are expressly accepted by the Lead State and must be in writing and attached to this Master Agreement as an Exhibit or Attachment. No other terms and conditions shall apply, including terms and conditions listed in the Contractor's response to the Solicitation, or terms listed or referenced on the Contractor's website, in the Contractor quotation/sales order or in similar documents subsequently provided by the Contractor.

2. AMENDMENTS The terms of this Master Agreement shall not be waived, altered, modified, supplemented or amended in any manner whatsoever without prior written approval of the WSCA-NASPO Contract Administrator.

3. ASSIGNMENT/SUBCONTRACT Contractor shall not assign, sell, transfer, subcontract or sublet rights, or delegate responsibilities under this contract, in whole or in part, without the prior written approval of the WSCA-NASPO Contract Administrator.

4. CANCELLATION Unless otherwise stated in the special terms and conditions, any Master Agreement may be canceled by either party upon 60 days notice, in writing, prior to the effective date of the cancellation. Further, any Participating State may cancel its participation upon 30 days written notice, unless otherwise limited or stated in the special terms and conditions of this solicitation. Cancellation may be in whole or in part. Any cancellation under this provision shall not effect the rights and obligations attending orders outstanding at the time of cancellation, including any right of and Purchasing Entity to indemnification by the Contractor, rights of payment for goods/services delivered and

accepted, and rights attending any warranty or default in performance in association with any order. Cancellation of the Master Agreement due to Contractor default may be immediate.

5. CONFIDENTIALITY, NON-DISCLOSURE AND INJUNCTIVE RELIEF

5.1 Confidentiality. Contractor acknowledges that it and its employees or agents may, in the course of providing the Product under this Master Agreement, be exposed to or acquire information that is confidential to Participating Entity or Participating Entity's clients. Any and all information of any form that is marked as confidential or would by its nature be deemed confidential obtained by Contractor or its employees or agents in the performance of this Master Agreement, including, but not necessarily limited to (a) any Participating Entity records, (b) personnel records, and (c) information concerning individuals, is confidential information of Participating Entity ("Confidential Information"). Any reports or other documents or items (including software) that result from the use of the Confidential Information by Contractor shall be treated in the same manner as the Confidential Information. Confidential Information does not include information that (a) is or becomes (other than by disclosure by Contractor) publicly known; (b) is furnished by Participating Entity to others without restrictions similar to those imposed by this Master Agreement; (c) is rightfully in Contractor's possession without the obligation of nondisclosure prior to the time of its disclosure under this Master Agreement; (d) is obtained from a source other than Participating Entity without the obligation of confidentiality, (e) is disclosed with the written consent of Participating Entity or; (f) is independently developed by employees, agents or subcontractors of Contractor who can be shown to have had no access to the Confidential Information.

5.2 Non-Disclosure. Contractor shall hold Confidential Information in confidence, using at least the industry standard of confidentiality, and not to copy, reproduce, sell, assign, license, market, transfer or otherwise dispose of, give, or disclose Confidential Information to third parties or use Confidential Information for any purposes whatsoever other than the performance of this Master Agreement to Participating Entity hereunder, and to advise each of its employees and agents of their obligations to keep Confidential Information confidential. Contractor shall use commercially reasonable efforts to assist Participating Entity in identifying and preventing any unauthorized use or disclosure of any Confidential Information. Without limiting the generality of the foregoing, Contractor shall advise Participating Entity immediately if Contractor learns or has reason to believe that any person who has had access to Confidential Information has violated or intends to violate the terms of this Master Agreement and Contractor shall at its expense cooperate with Participating Entity in seeking injunctive or other equitable relief in the name of Participating Entity or Contractor against any such person. Except as directed by Participating Entity, Contractor will not at any time during or after the term of this Master Agreement disclose, directly or indirectly, any Confidential Information to any person, except in accordance with this Master Agreement, and that upon termination of this Master Agreement or at Participating Entity's request, Contractor shall turn over to Participating Entity all documents, papers, and other matter in Contractor's possession that embody Confidential Information. Notwithstanding the

foregoing, Contractor may keep one copy of such Confidential Information necessary for quality assurance, audits and evidence of the performance of this Master Agreement.

5.3 Injunctive Relief. Contractor acknowledges that breach of this Section, including disclosure of any Confidential Information, will cause irreparable injury to Participating Entity that is inadequately compensable in damages. Accordingly, Participating Entity may seek and obtain injunctive relief against the breach or threatened breach of the foregoing undertakings, in addition to any other legal remedies that may be available. Contractor acknowledges and agrees that the covenants contained herein are necessary for the protection of the legitimate business interests of Participating Entity and are reasonable in scope and content.

6. DEBARMENT The contractor certifies that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction (contract) by any governmental department or agency. If the contractor cannot certify this statement, attach a written explanation for review by WSCA-NASPO.

7. DEFAULTS & REMEDIES

a. The occurrence of any of the following events shall be an event of default under this Master Agreement:

- i. Nonperformance of contractual requirements; or
- ii. A material breach of any term or condition of this Master Agreement; or
- iii. Any representation or warranty by Contractor in response to the solicitation or in this Master Agreement proves to be untrue or materially misleading; or
- iv. Institution of proceedings under any bankruptcy, insolvency, reorganization or similar law, by or against Contractor, or the appointment of a receiver or similar officer for Contractor or any of its property, which is not vacated or fully stayed within thirty (30) calendar days after the institution or occurrence thereof; or
- v. Any default specified in another section of this Master Agreement.

b. Upon the occurrence of an event of default, Lead State shall issue a written notice of default, identifying the nature of the default, and providing a period of 15 calendar days in which Contractor shall have an opportunity to cure the default. The Lead State shall not be required to provide advance written notice or a cure period and may immediately terminate this Master Agreement in whole or in part if the Lead State, in its sole discretion, determines that it is reasonably necessary to preserve public safety or prevent immediate public crisis. Time allowed for cure shall not diminish or eliminate Contractor's liability for damages, including liquidated damages to the extent provided for under this Master Agreement.

c. If Contractor is afforded an opportunity to cure and fails to cure the default within the period specified in the written notice of default, Contractor shall be in breach of its obligations under this Master Agreement and Lead State shall have the right to exercise any or all of the following remedies:

- i. Exercise any remedy provided by law; and
- ii. Terminate this Master Agreement and any related Contracts or portions thereof; and
- iii. Impose liquidated damages as provided in this Master Agreement; and
- iv. Suspend Contractor from receiving future bid solicitations; and
- v. Suspend Contractor's performance; and

- vi. Withhold payment until the default is remedied.
- d. In the event of a default under a Participating Addendum, a Participating Entity shall provide a written notice of default as described in this section and have all of the rights and remedies under this paragraph regarding its participation in the Master Agreement, in addition to those set forth in its Participating Addendum.

8. DELIVERY Unless otherwise indicated in the Master Agreement, the prices are the delivered price to any Participating State agency or political subdivision. All deliveries shall be F.O.B. destination with all transportation and handling charges paid by the contractor. Responsibility and liability for loss or damage shall remain the Contractor until final inspection and acceptance when responsibility shall pass to the Buyer except as to latent defects, fraud and Contractor's warranty obligations. The minimum shipment amount will be found in the special terms and conditions. Any order for less than the specified amount is to be shipped with the freight prepaid and added as a separate item on the invoice. Any portion of an order to be shipped without transportation charges that is back ordered shall be shipped without charge.

9. FORCE MAJEURE Neither party to this Master Agreement shall be held responsible for delay or default caused by fire, riot, acts of God and/or war which is beyond that party's reasonable control. WSCA-NASPO may terminate this Master Agreement after determining such delay or default will reasonably prevent successful performance of the Master Agreement.

10. GOVERNING LAW This procurement and the resulting agreement shall be governed by and construed in accordance with the laws of the state sponsoring and administering the procurement. The construction and effect of any Participating Addendum or order against the Master Agreement(s) shall be governed by and construed in accordance with the laws of the Participating Entity's State. Venue for any claim, dispute or action concerning an order placed against the Master Agreement(s) or the effect of an Participating Addendum shall be in the Purchasing Entity's State.

11. INDEMNIFICATION The Contractor shall defend, indemnify and hold harmless WSCA-NASPO, the Lead State and Participating Entities along with their officers, agencies, and employees as well as any person or entity for which they may be liable from and against claims, damages or causes of action including reasonable attorneys' fees and related costs for any death, injury, or damage to property arising from act(s), error(s), or omission(s) of the Contractor, its employees or subcontractors or volunteers, at any tier, relating to the performance under the Master Agreement. This section is not subject to any limitations of liability in this Master Agreement or in any other document executed in conjunction with this Master Agreement

12. INDEMNIFICATION - INTELLECTUAL PROPERTY The Contractor shall defend, indemnify and hold harmless WSCA-NASPO, the Lead State and Participating Entities along with their officers, agencies, and employees as well as any person or entity for which they may be liable

("Indemnified Party") from and against claims, damages or causes of action including reasonable attorneys' fees and related costs arising out of the claim that the Product or its use, infringes Intellectual Property rights ("Intellectual Property Claim"). The Contractor's obligations under this section shall not extend to any combination of the Product with any other product, system or method, unless:

(1) the Product, system or method is:

(a) provided by the Contractor or the Contractor's subsidiaries or affiliates;

(b) specified by the Contractor to work with the Product; or

(c) reasonably required, in order to use the Product in its intended manner, and the infringement could not have been avoided by substituting another reasonably available product, system or method capable of performing the same function; or

(2) it would be reasonably expected to use the Product in combination with such product, system or method.

The Indemnified Party shall notify the Contractor within a reasonable time after receiving notice of an Intellectual Property Claim. Even if the Indemnified Party fails to provide reasonable notice, the Contractor shall not be relieved from its obligations unless the Contractor can demonstrate that it was prejudiced in defending the Intellectual Property Claim resulting in increased expenses or loss to the Contractor. If the Contractor promptly and reasonably investigates and defends any Intellectual Property Claim, it shall have control over the defense and settlement of it. However, the Indemnified Party must consent in writing for any money damages or obligations for which it may be responsible. The Indemnified Party shall furnish, at the Contractor's reasonable request and expense, information and assistance necessary for such defense. If the Contractor fails to vigorously pursue the defense or settlement of the Intellectual Property Claim, the Indemnified Party may assume the defense or settlement of it and the Contractor shall be liable for all costs and expenses, including reasonable attorneys' fees and related costs, incurred by the Indemnified Party in the pursuit of the Intellectual Property Claim. This section is not subject to any limitations of liability in this Master Agreement or in any other document executed in conjunction with this Master Agreement.

13. INDEPENDENT CONTRACTOR The contractor shall be an independent contractor, and as such shall have no authorization, express or implied to bind WSCA-NASPO or the respective states to any agreements, settlements, liability or understanding whatsoever, and agrees not to perform any acts as agent for WSCA-NASPO or the states, except as expressly set forth herein.

14. INDIVIDUAL CUSTOMER Except to the extent modified by a Participating Addendum, each Participating Entity shall follow the terms and conditions of the Master Agreement and applicable Participating Addendum and will have the same rights and responsibilities for their purchases as the Lead State has in the Master Agreement, including but not limited to, any indemnity or to recover any costs allowed in the Master Agreement and applicable Participating Addendum for their purchases. Each Participating Entity will be responsible for

its own charges, fees, and liabilities. The Contractor will apply the charges and invoice each Participating Entity individually.

15. INSURANCE Contractor shall, during the term of this Master Agreement, maintain in full force and effect, the insurance described in this section. Contractor shall acquire such insurance from an insurance carrier or carriers licensed to conduct business in the Participating Entity's state and having a rating of A-, Class VII or better, in the most recently published edition of Best's Reports. Failure to buy and maintain the required insurance may result in this Master Agreement's termination or at a Participating Entity's option, result in termination of its Participating Addendum.

Coverage shall be written on an occurrence basis. The minimum acceptable limits shall be as indicated below, with no deductible for each of the following categories:

- a) Commercial General Liability covering the risks of bodily injury (including death), property damage and personal injury, including coverage for contractual liability, with a limit of not less than \$1 million per occurrence/\$2 million general aggregate;
- b) Contractor must comply with any applicable State Workers Compensation or Employers Liability Insurance requirements.

Contractor shall pay premiums on all insurance policies. Such policies shall also reference this Master Agreement and shall have a condition that they not be revoked by the insurer until thirty (30) calendar days after notice of intended revocation thereof shall have been given to Participating Entity by the Contractor.

Prior to commencement of the work, Contractor shall provide to the Participating Entity a written endorsement to the Contractor's general liability insurance policy that (i) names the Participating Entity as an additional insured, (ii) provides that no material alteration, cancellation, non-renewal, or expiration of the coverage contained in such policy shall have effect unless the named Participating Entity has been given at least thirty (30) days prior written notice, and (iii) provides that the Contractor's liability insurance policy shall be primary, with any liability insurance of the Participating Entity as secondary and noncontributory.

Contractor shall furnish to Participating Entity copies of certificates of all required insurance within thirty (30) calendar days of the Participating Addendum's effective date and prior to performing any work. Copies of renewal certificates of all required insurance shall be furnished within thirty (30) days after renewal date. These certificates of insurance must expressly indicate compliance with each and every insurance requirement specified in this section. Failure to provide evidence of coverage may, at State's sole option, result in this Master Agreement's termination.

Coverage and limits shall not limit Contractor's liability and obligations under this Master Agreement.

16. LAWS AND REGULATIONS Any and all supplies, services and equipment offered and furnished shall comply fully with all applicable Federal and State laws and regulations.

17. LICENSE OF PRE-EXISTING INTELLECTUAL PROPERTY Contractor grants to the Participating Entity a nonexclusive, perpetual, royalty-free, irrevocable, unlimited license to publish, translate, reproduce, modify, deliver, perform, display, and dispose of the Intellectual Property, and its derivatives, used or delivered under this Master Agreement, but not created under it ("Pre-existing Intellectual Property"). The license shall be subject to any third party rights in the Pre-existing Intellectual Property. Contractor shall obtain, at its own expense, on behalf of the Participating Entity, written consent of the owner for the licensed Pre-existing Intellectual Property.

18. NO WAIVER OF SOVEREIGN IMMUNITY In no event shall this Master Agreement, any Participating Addendum or any contract or any purchase order issued thereunder, or any act of a Lead State or a Participating Entity, be a waiver by the Participating Entity of any form of defense or immunity, whether sovereign immunity, governmental immunity, immunity based on the Eleventh Amendment to the Constitution of the United States or otherwise, from any claim or from the jurisdiction of any court.

If a claim must be brought in a federal forum, then it must be brought and adjudicated solely and exclusively within the United States District Court for the Participating State. This section applies to a claim brought against the Participating State only to the extent Congress has appropriately abrogated the Participating State's sovereign immunity and is not consent by the Participating State to be sued in federal court. This section is also not a waiver by the Participating State of any form of immunity, including but not limited to sovereign immunity and immunity based on the Eleventh Amendment to the Constitution of the United States.

19. ORDER NUMBERS Master Agreement order and purchase order numbers shall be clearly shown on all acknowledgments, shipping labels, packing slips, invoices, and on all correspondence.

20. PARTICIPANTS WSCA-NASPO is the cooperative purchasing arm of the National Association of State Procurement Officials. It is a cooperative group contracting consortium for state government departments, institutions, agencies and political subdivisions (e.g., colleges, school districts, counties, cities, etc.,) for all 50 states, the District of Columbia and the organized US territories. Obligations under this Master Agreement are limited to those Participating States who have signed a Participating Addendum where contemplated by the solicitation. Financial obligations of Participating States are limited to the orders placed by the departments or other state agencies and institutions having available funds. Participating States incur no financial obligations on behalf of political subdivisions. Unless otherwise specified in the solicitation, the resulting award(s) will be permissive.

21. ENTITY PARTICIPATION Use of specific WSCA-NASPO cooperative Master Agreements by state agencies, political subdivisions and other entities (including cooperatives) authorized by individual state's statutes to use state contracts are subject to the approval of the respective State Chief Procurement Official. Issues of interpretation and eligibility for participation are solely within the authority of the respective State Chief Procurement Official.

22. PAYMENT Payment for completion of a contract order is normally made within 30 days following the date the entire order is delivered or the date a correct invoice is received, whichever is later. After 45 days the Contractor may assess overdue account charges up to a maximum rate of one percent per month on the outstanding balance. Payments will be remitted by mail. Payments may be made via a State or political subdivision "Purchasing Card" with no additional charge.

23. PUBLIC INFORMATION This Master Agreement and all related documents are subject to disclosure pursuant to the Participating Entity's public information laws.

24. RECORDS ADMINISTRATION AND AUDIT The contractor will maintain, or supervise the maintenance of all records necessary to properly account for the payments made to the contractor for costs authorized by this Master Agreement. These records will be retained by the contractor for at least four years after the Master Agreement terminates, or until all audits initiated within the four years have been completed, whichever is later. The contractor agrees to allow WSCA-NASPO, State and Federal auditors, and state agency staff access to all the records of this Master Agreement and any order placed under this Master Agreement, for audit and inspection, and monitoring of services. Such access will be during normal business hours, or by appointment.

25. REPORTS and ADMINISTRATIVE FEES The contractor shall submit quarterly reports to the WSCA-NASPO Contract Administrator showing the quantities and dollar volume of purchases by each participating entity.

The contractor must pay a WSCA-NASPO administrative fee of one quarter of one percent (.25%) in accordance with the terms and conditions of the Master Agreement. The WSCA-NASPO administrative fee shall be submitted quarterly and is based on sales of products and services. The WSCA-NASPO administration fee is not negotiable. This fee is to be included as part of the pricing submitted with proposal.

Additionally, some States may require that an additional fee be paid directly to the State on purchases made by procuring entities within that State. For all such requests, the fee level, payment method and schedule for such reports and payments will be incorporated in a Participating Addendum that is made a part of the Master Agreement. The contractor may adjust the Master Agreement pricing accordingly for purchases made by procuring agencies within the jurisdiction of the State. All such agreements may not affect the WSCA-NASPO administrative fee or the prices paid by the procuring agencies outside the jurisdiction of the State requesting the additional fee.

26. STANDARD OF PERFORMANCE AND ACCEPTANCE The Standard of Performance applies to all Product(s) purchased under this Master Agreement, including any additional, replacement, or substitute Product(s) and any Product(s) which are modified by or with the written approval of Contractor after Acceptance by the Participating Entity. The Acceptance Testing period shall be thirty (30) calendar days or other time period identified in the solicitation or the Participating Addendum, starting from the day after the Product is installed and Contractor certifies that the Product is ready for Acceptance Testing. If the Product does not meet the Standard of Performance during the initial period of Acceptance Testing, Participating Entity may, at its discretion, continue Acceptance Testing on a day-to-day basis until the Standard of Performance is met. Upon rejection, the Contractor will have fifteen (15) calendar days to cure the Standard of Performance issue(s). If after the cure period, the Product still has not met the Standard of Performance Participating Entity may, at its option: (1) declare Contractor to be in breach and terminate the Order; (2) demand replacement Product from Contractor at no additional cost to Participating Entity; or, (3) continue the cure period for an additional time period agreed upon by the Participating Entity and the Contractor. Contractor shall pay all costs related to the preparation and shipping of Product returned pursuant to the section. No Product shall be accepted and no charges shall be paid until the Standard of Performance is met. The warranty period will begin upon Acceptance.

27. SYSTEM FAILURE OR DAMAGE In the event of system failure or damage caused by the Contractor or its Product, the Contractor agrees to use its best efforts to restore or assist in restoring the system to operational capacity.

28. TITLE OF PRODUCT Upon Acceptance by the Participating Entity, Contractor shall convey to Participating Entity title to the Product free and clear of all liens, encumbrances, or other security interests. Transfer of title to the Product shall include an irrevocable and perpetual license to use the Embedded Software in the Product. If Participating Entity subsequently transfers title of the Product to another entity, Participating Entity shall have the right to transfer the license to use the Embedded Software with the transfer of Product title. A subsequent transfer of this software license shall be at no additional cost or charge to either Participating Entity or Participating Entity's transferee.

29. WAIVER OF BREACH Failure of Lead State or Participating Entity to declare a default or enforce any rights and remedies shall not operate as a waiver under this Master Agreement or Participating Addendum. Any waiver by the Lead State or Participating Entity must be in writing. Waiver by the Lead State or Participating Entity of any default, right or remedy under this Master Agreement or Participating Addendum, or breach of any terms or requirements shall not be construed or operate as a waiver of any subsequent default or breach of such term or requirement, or of any other term or requirement under this Master Agreement or Participating Addendum.

30. WARRANTY The Contractor warrants for a period of one year from the date of Acceptance that: (a) the Product performs according to all specific claims that the Contractor made in its response to the solicitation, (b) the Product is suitable for the ordinary purposes

for which such Product is used, (c) the Product is suitable for any special purposes identified in the solicitation or for which the Participating Entity has relied on the Contractor's skill or judgment, (d) the Product is designed and manufactured in a commercially reasonable manner, and (e) the Product is free of defects. Upon breach of the warranty, the Contractor will repair or replace (at no charge to the Participating Entity) the Product whose nonconformance is discovered and made known to the Contractor. If the repaired and/or replaced Product proves to be inadequate, or fails of its essential purpose, the Contractor will refund the full amount of any payments that have been made. The rights and remedies of the parties under this warranty are in addition to any other rights and remedies of the parties provided by law or equity, including, without limitation, actual damages, and, as applicable and awarded under the law, to a prevailing party, reasonable attorneys' fees and costs.

31. ASSIGNMENT OF ANTITRUST RIGHTS Contractor irrevocably assigns to a Participating Entity any claim for relief or cause of action which the Contractor now has or which may accrue to the Contractor in the future by reason of any violation of state or federal antitrust laws (15 U.S.C. § 1-15 or a Participating Entity's state antitrust provisions), as now in effect and as may be amended from time to time, in connection with any goods or services provided to the Contractor for the purpose of carrying out the Contractor's obligations under this Master Agreement or Participating Addendum, including, at a Participating Entity's option, the right to control any such litigation on such claim for relief or cause of action.

Contractor shall require any subcontractors hired to perform any of Contractor's obligations, under this Master Agreement or Participating Addendum, to irrevocably assign to a Participating Entity, as third party beneficiary, any right, title or interest that has accrued or which may accrue in the future by reason of any violation of state or federal antitrust laws (15 U.S.C. § 1-15 or a Participating Entity's state antitrust provisions), as now in effect and as may be amended from time to time, in connection with any goods or services provided to the subcontractor for the purpose of carrying out the subcontractor's obligations to the Contractor in pursuance of this Master Agreement or Participating Addendum, including, at a Participating Entity's option, the right to control any such litigation on such claim for relief or cause of action.

32. WSCA-NASPO eMARKET CENTER Awarded responders are required to participate in the WSCA-NASPO eMarket Center and, working through WSCA-NASPO's contractor (SciQuest), connect with the eMarket Center. The ideal situation would be to use either a hosted (by SciQuest) or Punchout Level 2 catalog configurations, but actual requirements will be determined by the Lead State Contract Administrator, WSCA-NASPO, WSCA-NASPO's contractor (SciQuest) and the awarded contractor, after award. Participation does not require an awarded responder to have any special level of technology or technological understanding.

Definitions

Acceptance - means a written notice from a purchasing entity to contractor advising Contractor that the Product has passed its Acceptance Testing. Acceptance of a product for which acceptance testing is not required shall occur following the completion of delivery, installation, if required, and a reasonable time for inspection of the product, unless the Purchasing Entity provides a written notice of rejection to contractor.

Acceptance Testing - means the process for ascertaining that the Product meets the standards set forth in the section titled Standard of Performance and Acceptance, prior to Acceptance by the Purchasing Entity.

Contractor - means the person or entity delivering Products or performing services under the terms and conditions set forth in this Master Agreement.

Intellectual Property - means any and all patents, copyrights, service marks, trademarks, trade secrets, trade names, patentable inventions, or other similar proprietary rights, in tangible or intangible form, and all rights, title, and interest therein.

Lead State - means the State conducting this cooperative solicitation and centrally administering any resulting Master Agreement with the permission of the Signatory States.

Master Agreement - means the underlying agreement executed by and between the Lead State, as WSCA-NASPO contract administrator, acting on behalf of WSCA-NASPO, and the Contractor, as now or hereafter amended.

Order - means any purchase order, sales order, or other document used by a Participating Entity to order the Products.

Participating Addendum - means a bilateral agreement executed by a Contractor and a Participating Entity incorporating this Master Agreement and any other additional Participating Entity specific language or other requirements ,e.g. ordering procedures specific to the Participating Entity, other terms and conditions.

Participating Entity - means a state, or other legal entity, properly authorized by a state to enter into the Master Agreement or Participating Addendum or who is authorized to order under the Master Agreement or Participating Addendum.

Product - Any equipment, software (including embedded software), documentation, or deliverable supplied or created by the Contractor pursuant to this Master Agreement.

WSCA-NASPO -is a cooperative group contracting consortium for state procurement officials, representing departments, institutions, agencies, and political subdivisions (i.e., colleges, school districts, counties, cities, etc.) for all states and the District of Columbia. WSCA-NASPO is a cooperative purchasing arm of the National Association of State Procurement Officials (NASPO).

Additional Definitions and Alternative Terms for Consideration

Below are additional definitions and alternative terms for consideration by the sourcing teams depending upon the nature of the solicitation and negotiations between the Contractor and Vendor.

Embedded Software - means one or more software applications which permanently reside on a computing device.

Machine Code - means microcode, basic input/output system code, utility programs, device drivers, diagnostics, and another code delivered with a computing device for the purpose of enabling the function of the computing device, as stated in its published specifications.

(revised March 2013)

ATTACHMENT A
STATE OF UTAH STANDARD INFORMATION TECHNOLOGY TERMS AND CONDITIONS
(FOR WSCA CONTRACTS and DTS RELATED CONTRACTS)

2. **AUTHORITY:** Provisions of this contract are pursuant to the authority set forth in 63G-6, Utah Code Annotated, 1953, as amended, Utah State Procurement Rules (Utah Administrative Code Section R33), and related statutes which permit the State to purchase certain specified services, and other approved purchases for the State.
3. **CONTRACT JURISDICTION, CHOICE OF LAW, AND VENUE:** The provisions of this contract shall be governed by the laws of the State of Utah. The parties will submit to the jurisdiction of the courts of the State of Utah for any dispute arising out of this Contract or the breach thereof. Venue shall be in Salt Lake City, in the Third Judicial District Court for Salt Lake County.
4. **LAWS AND REGULATIONS:** The Contractor and any and all supplies, services, equipment, and construction furnished under this contract will comply fully with all applicable Federal and State laws and regulations, including applicable licensure and certification requirements.
5. **RECORDS ADMINISTRATION:** The Contractor shall maintain, or supervise the maintenance of all records necessary to properly account for the payments made to the Contractor for costs authorized by this contract. These records shall be retained by the Contractor for at least four years after the contract terminates, or until all audits initiated within the four years, have been completed, whichever is later. The Contractor agrees to allow State and Federal auditors, and State Agency Staff, access to all the records to this contract, for audit and inspection, and monitoring of services. Such access will be during normal business hours, or by appointment.
6. **CERTIFY REGISTRATION AND USE OF EMPLOYMENT "STATUS VERIFICATION SYSTEM":** The Status Verification System, also referred to as "E-verify", only applies to contracts issued through a Request for Proposal process, and to sole sources that are included within a Request for Proposal. It does not apply to Invitation for Bids or to the Multi-Step Process.

1. Status Verification System

- (1) Each offeror and each person signing on behalf of any offeror certifies as to its own entity, under penalty of perjury, that the named Contractor has registered and is participating in the Status Verification System to verify the work eligibility status of the contractor's new employees that are employed in the State of Utah in accordance with applicable immigration laws including UCA Section 63G-12-302.
- (2) The Contractor shall require that the following provision be placed in each subcontract at every tier: "The subcontractor shall certify to the main (prime or general) contractor by affidavit that the subcontractor has verified through the Status Verification System the employment status of each new employee of the respective subcontractor, all in accordance with applicable immigration laws including UCA Section 63G-12-302 and to comply with all applicable employee status verification laws. Such affidavit must be provided prior to the notice to proceed for the subcontractor to perform the work."
- (3) The State will not consider a proposal for award, nor will it make any award where there has not been compliance with this Section.
- (4) Manually or electronically signing the Proposal is deemed the Contractor's certification of compliance with all provisions of this employment status verification certification required by all applicable status verification laws including UCA Section 63G-12-302.

2. Indemnity Clause for Status Verification System

- (1) Contractor (includes, but is not limited to any Contractor, Design Professional, Designer or Consultant) shall protect, indemnify and hold harmless, the State and its officers, employees, agents, representatives and anyone that the State may be liable for, against any claim, damages or liability arising out of or resulting from violations of the above Status Verification System Section whether violated by employees, agents, or contractors of the following: (a) Contractor; (b) Subcontractor at any tier; and/or (c) any entity or person for whom the Contractor or Subcontractor may be liable.
- (2) Notwithstanding Section 1. above, Design Professionals or Designers under direct contract with the State shall only be required to indemnify the State for a liability claim that arises out of the design professional's services, unless the liability claim arises from the Design Professional's negligent act, wrongful act, error or omission, or other liability imposed by law except that the design professional shall be required to indemnify the State in regard to subcontractors or subconsultants at any tier that are under the direct or indirect control or responsibility of the Design Professional, and includes all independent contractors, agents, employees or anyone else for whom the Design Professional may be liable at any tier.

8. **CONFLICT OF INTEREST WITH STATE EMPLOYEES:** In addition to the provisions of State of Utah Terms and Conditions # 6, Conflict of Interest, the Contractor certifies that no person in the State's employment, directly or through subcontract, will receive any private financial interest, direct or indirect, in the contract. The Contractor will not hire or subcontract with any person having such conflicting interest.

9. **CONTRACTOR ACCESS TO SECURE STATE FACILITIES / CRIMINAL CONVICTION INFORMATION / FORMER FELONS:**

The Contractor shall provide (at its own expense) the State with sufficient personal information about its agents or employees, and the agents and employees of its subcontractors (if any) who will enter upon secure premises controlled, held, leased, or occupied by the State during the course of performing this contract so as to facilitate a criminal record check, at State expense. "Sufficient personal information" about its agents or employees, and the agents and employees of its subcontractors (if any) means for the Contractor to provide to the State Project Manager, in advance of any on-site work, a list of the full names of the designated employees, including their social security number, driver license number and the state of issuance, and their birth date. Thereafter, on their first site visit, each contractor employee expected to work on-site shall be fingerprinted by the State, and the State is authorized to conduct a federal criminal background check based upon those fingerprints and personal information provided. Contractor, in executing any duty or exercising any right under this contract, shall not cause or permit any of its agents or employees, and the agents and employees of its subcontractors (if any) who have been convicted of a felony and misdemeanors other than minor misdemeanors to enter upon any premises controlled, held, leased, or occupied by the State. A felony and misdemeanor are defined by the jurisdiction of the State of Utah, regardless of where the conviction occurred.

10. **DRUG-FREE WORKPLACE:** The Contractor agrees to abide by the Department of Technology Services (DTS) drug-free workplace policies while on State of Utah premises. DTS will provide the Contractor with a copy of these written "drug-free workplace policies" upon request.

11. **CODE OF CONDUCT:** When Contractor employees are working on-site, the Contractor agrees to follow and enforce DTS Policy 2000-001 Code of Conduct. If Contractor is working at facilities controlled by other State agencies, Contractor agrees to follow and enforce the Code of Conduct Policy of these other State agencies when Contractor is providing services at these facilities under provisions of this contract. The Contractor will assure that each employee or volunteer under Contractor's supervision receives a copy of such Code of Conduct, and a signed statement to this effect must be in each Contractor or Subcontractor employee's/volunteer's file and is subject to inspection and review by the State's monitors. Upon request, DTS agrees to provide Contractor with a copy of any applicable codes of conduct. If a Contractor or Subcontractor is working at any State agency which has a Code of Conduct applicable to this Contract, the DTS Project Manager will provide the Contractor with a copy in advance of the Contractor's on-site contract services performance.

12. **INDEMNITY CLAUSE:** The Contractor agrees to indemnify, save harmless, and release the State of Utah, and all its officers, agents, volunteers, and employees from and against any and all loss, damages, injury, liability, suits, and proceedings arising out of the performance of this contract which are caused in whole or in part by the acts or negligence of the Contractor's officers, agents, volunteers, or employees, but not for claims arising from the State's sole negligence. The parties agree that if there are any Limitations of the Contractor's Liability, including a limitation of liability for anyone for whom the Contractor is responsible, such Limitations of Liability will not apply to injuries to persons, including death, or to damages to property.

13. **EMPLOYMENT PRACTICES CLAUSE:** The Contractor agrees to abide by the provisions of Title VI and VII of the Civil Rights Act of 1964 (42USC 2000e) which prohibits discrimination against any employee or applicant for employment or any applicant or recipient of services, on the basis of race, religion, color, or national origin; and further agrees to abide by Executive Order No. 11246, as amended, which prohibits discrimination on the basis of sex; 45 CFR 90 which prohibits discrimination on the basis of age; and Section 504 of the Rehabilitation Act of 1973, or the Americans with Disabilities Act of 1990 which prohibits discrimination on the basis of disabilities. Also, the Contractor agrees to abide by Utah's Executive Order, dated March 17, 1993, which prohibits sexual harassment in the work place.

14. **TERMINATION:** Unless otherwise stated in the Special Terms and Conditions, this contract may be terminated, with cause by either party, in advance of the specified termination date, upon written notice being given by the other party. The party in violation will be given ten (10) working days after notification to correct and cease the violations, after which the contract may be terminated for cause. This contract may be terminated without cause, in advance of the specified expiration date, by either party, upon sixty (60) days prior written notice being given the other party. On

In the event of such termination, and professional services apply to the contract; the Contractor shall be compensated for services properly performed under this Contract up to the effective date of the notice of termination. The Contractor agrees that in the event of such termination for cause or without cause, Contractor's sole remedy and monetary recovery from the State is limited to full payment for all work properly performed as authorized under this Contract up to the date of termination as well as any reasonable monies owed as a result of the Contractor having to terminate contracts necessarily and appropriately entered into by the Contractor pursuant to this Contract. Contractor further acknowledges that in the event of such termination, all work product, which includes but is not limited to all manuals, forms, contracts, schedules, reports, and any and all documents produced by Contractor under this Contract up to the date of termination are the property of the State and shall be promptly delivered to the State.

15. **SUSPENSION OF WORK:** Should circumstances arise which would cause the State to suspend the work, but not terminate the contract, this will be done by formal notice. The work may be reinstated upon advance formal notice from the State.

16. **NONAPPROPRIATION OF FUNDS:** The Contractor acknowledges that the State cannot contract for the payment of funds not yet appropriated by the Utah State Legislature. If funding to the State is reduced due to an order by the Legislature or the Governor, or is required by State law, or if federal funding (when applicable) is not provided, the State may terminate this contract or proportionately reduce the services and purchase obligations and the amount due from the State upon 30 days written notice. In the case that funds are not appropriated or are reduced, the State will reimburse Contractor for products delivered or services performed through the date of cancellation or reduction, and the State will not be liable for any future commitments, penalties, or liquidated damages.

17. **SALES TAX EXEMPTION:** The State of Utah's sales and use tax exemption number is 11736850-010-STC, located at <http://purchasing.utah.gov/contract/documents/salestaxexemptionformsigned.pdf>. The tangible personal property or services being purchased are being paid from State funds and used in the exercise of that entity's essential functions. If the items being purchased are construction materials, they will be converted into real property by employees of this government entity, unless otherwise stated in the contract.

18. *SECURE PROTECTION AND HANDLING OF DATA:*

1. **Network Security:** Contractor agrees at all times to maintain network security that - at a minimum - includes: network firewall provisioning, intrusion detection, and regular third party penetration testing. Likewise Contractor agrees to maintain network security that conforms to one of the following:
 - a. Those standards the State of Utah applies to its own network, found at <http://www.dts.utah.gov>;
 - b. Current standards set forth and maintained by the National Institute of Standards and Technology, includes those at: <http://web.nvd.nist.gov/view/ncp/repository/>; or
 - c. Any generally recognized comparable standard that Contractor then applies to its own network and approved by DTS in writing.
2. **Data security:** Contractor agrees to protect and maintain the security of the State of Utah data with protection that is at least as good as or better than that maintained by the State of Utah. These security measures included but are not limited to maintaining secure environments that are patched and up to date with all appropriate security updates as designated, (ex. Microsoft Notification).
3. **Data Transmission:** Contractor agrees that any and all transmission or exchange of system application data with the State of Utah and/or any other parties expressly designated by the State of Utah, shall take place via secure means, (ex. HTTPS or FTPS).
4. **Data Storage:** Contractor agrees that any and all State of Utah data will be stored, processed, and maintained solely on designated target servers approved of by DTS and that no State of Utah data at any time will be processed on or transferred to any portable or laptop computing device or any portable storage medium, unless such medium is part of the Contractor's designated backup and recovery process.
5. **Data Encryption:** Contractor agrees to store all State of Utah backup data as part of its designated backup and recovery process in encrypted form, using no less than 128 bit key.
6. **Password Protection.** Contractor agrees that any portable or laptop computer that has access to a State of Utah network, or stores any non-public State of Utah data is equipped with strong and secure password protection.

7. **Data Re-Use:** Contractor agrees that any and all data exchanged shall be used expressly and solely for the purpose enumerated in this Contract. Contractor further agrees that no State of Utah data of any kind shall be transmitted, exchanged or otherwise passed to other Contractors or interested parties except on a case-by-case basis as specifically agreed to in writing by DTS.
8. **Data Destruction:** The Contractor agrees that upon termination of this Agreement it shall erase, destroy, and render unreadable all State of Utah data from all non-state computer systems and backups, and certify in writing that these actions have been completed within 30 days of the termination of this Agreement or within 7 days of the request of DTS, whichever shall come first.
19. **NOTIFICATION AND DATA BREACHES:** Contractor agrees to comply with all applicable laws that require the notification of individuals in the event of unauthorized release of personally-identifiable information or other events requiring notification in accordance with *DTS Policy 5000-1250-PR1 Computer Incident Reporting Procedure* (copy available upon request). In the event of a data breach of any Contractor's security obligations or other event requiring notification under applicable law (Utah Code Annotated § 13-44-101 thru 301 et al), Contractor agrees at its own expense to assume responsibility for informing all such individuals in accordance with applicable laws and to indemnify, hold harmless and defend the State of Utah against any claims, damages, or other harm related to such Notification Event.
20. **CHANGE MANAGEMENT:** Contractor agrees to comply with DTS Change Management Policy 4000-0004. This DTS policy requires that any work performed by the Contractor that has the potential to cause any form of outage, or modify the State's infrastructure architecture must first be reviewed by the DTS Change Management Committee, and coordinated accordingly. The DTS Project Manager will inform the Contractor if this change control requirement is applicable. Following this notification, any failure by the Contractor that causes outages or data security breaches caused by the Contractor as a direct result of failure to comply, will result in the Contractor's liability for the damages.

For reference purposes, the latest version of DTS Change Management Policy 4000-0004 is detailed at <http://dts.utah.gov/policies/documents/4000-0004changemanagementpolicy.pdf>.

21. **PUBLIC INFORMATION:** Contractor agrees that the contract, related Sales Orders, and Invoices will be public documents, and may be available for distribution. Contractor gives the State express permission to make copies of the contract, related Sales Orders, and Invoices in accordance with the State of Utah Government Records Access and Management Act (GRAMA). Except for sections identified in writing and expressly approved by the State Division of Purchasing, Contractor also agrees that the Contractor's response to the solicitation will be a public document, and copies may be given to the public under GRAMA laws. The permission to make copies as noted will take precedence over any statements of confidentiality, proprietary information, copyright information, or similar notation.
22. **CREDITING STATE IN ADVERTISING / PUBLICITY:** Any publicity given to the project or services provided herein shall identify the State of Utah's managing agency as the sponsoring agency and shall not be released without prior written approval by that State agency's Project Manager.
23. **STATE AGENCY WEB SITE BRANDING:** The Contractor agrees to use the DTS logo, or a newer version if replaced in the future, on websites produced under terms of this contract. Contractor further agrees to allow a State agency to also utilize their own web site branding and logo, if requested by that State agency.
24. **ORDERING AND INVOICING:** All orders will be shipped promptly in accordance with the delivery schedule. The Contractor will promptly submit invoices (within 30 days of shipment or delivery of services) to the State. The State contract number and/or the agency purchase order number shall be listed on all invoices, freight tickets, and correspondence relating to the contract order. The prices paid by the State will be those prices listed in the contract. The State has the right to adjust or return any invoice reflecting incorrect pricing.
25. **PROMPT PAYMENT DISCOUNT:** Offeror may quote a prompt payment discount based upon early payment; however, discounts offered for less than 30 days will not be considered in making the award. Contractor shall list Payment Discount Terms on invoices. The prompt payment discount will apply to payments made with purchasing cards and checks. The date from which discount time is calculated will be the date a correct invoice is received or receipt of shipment, whichever is later; except that if testing is performed, the date will be the date of acceptance of the merchandise.
26. **PAYMENT:**
1. Payments are normally made within 30 days following the date the order is delivered or the date a correct invoice is received, whichever is later. After 60 days from the date a correct invoice is received by the appropriate State official, the Contractor may assess interest on overdue, undisputed account charges up to a maximum of the interest rate paid by the IRS on taxpayer refund claims, plus two percent, computed similarly as the requirements of Utah Code Annotated Section 15-6-3. The IRS interest rate is adjusted quarterly, and is applied on a per annum basis, on the invoice amount that is overdue.

2. The contract total may be changed only by written amendment executed by authorized personnel of the parties. Unless otherwise stated in the Contract, all payments to the Contractor will be remitted by mail, electronic funds transfer, or the State of Utah's purchasing card (major credit card). The State of Utah will not allow the Contractor to charge end users electronic payment fees of any kind.
3. The acceptance by the Contractor of final payment without a written protest filed with the State within ten (10) working days of receipt of final payment shall release the State from all claims and all liability to the Contractor for fees and costs of the performance of the services pursuant to this Contract.
4. Overpayment: The Contractor agrees that if during or subsequent to the contract performance, a CPA audit, or a State agency audit determines that payments were incorrectly reported or paid the State may adjust the payments. The Contractor shall, upon written request, immediately refund to DTS any such overpayments. The Contractor further agrees that the State shall have the right to withhold any or all- subsequent payments under this or other contracts that the Contractor may have with the State until recoupment of overpayment is made.
5. Payment withholding: the Contractor agrees that the adequate reporting, record keeping, and compliance requirements specified in this contract are a material element of performance and that if the Contractor's record keeping practices, compliance, and/or reporting to DTS are not conducted in a timely and satisfactory manner, DTS may withhold part or all payments under this or any other contract until such deficiencies have been remedied. This includes, but is not limited to, Contractors failure to provide timely invoicing, and/or other requirements described elsewhere within this contract. In the event of the payment(s) being withheld, DTS agrees to provide ten (10) day advance Notice to the Contractor of the deficiencies that must be corrected in order to bring about the release of withheld payment. Contractor shall have ten (10) days thereafter to correct the cited reporting or record keeping practice deficiencies or the contract may be terminated.
27. **COPYRIGHT:** The contractor agrees that any and all Deliverables prepared for the State of Utah as required by this contract, to the extent to which it is eligible under copyright law in any country, shall be deemed a work made for hire, such that all rights, title and interest in the work and Deliverables shall be exclusively owned by the State of Utah. State of Utah reserves a royalty-free, nonexclusive, and irrevocable license to reproduce, publish, or otherwise use and to authorize others to use for Federal or State Government purposes, such software, modifications and documentation. To the extent any Deliverable is deemed not to be, for any reason whatsoever, work made for hire, Contractor agrees to assign and hereby assigns all right title and interest, including but not limited to copyright patent, trademark and trade secret, to such Deliverables, and all extensions and renewals thereof, to the State of Utah. Contractor further agrees to provide all assistance reasonably requested by the State of Utah in the establishment, preservation, and enforcement of its rights in such Deliverables, without any additional compensation to Contractor. Contractor agrees to and hereby, to the extent permissible, waives all legal and equitable rights relating to the Deliverables, including without limitation any and all rights of identification of authorship and any and all rights of approval, restriction or limitation on use or subsequent modifications.
28. **OWNERSHIP, PROTECTION AND USE OF RECORDS:** Except for confidential medical records held by direct care providers, the State shall own exclusive title to all information gathered, reports developed, and conclusions reached in performance of this Contract. The Contractor may not use, except in meeting its obligations under this contract, information gathered, reports developed, or conclusions reached in performance of this Contract without the express written consent of the State. The improper use or disclosure of any information concerning a State of Utah client, or a State of Utah employee for any purpose not directly connected with the administration of the State, or the Contractor's responsibilities with respect to services purchased under this agreement, is prohibited except on written consent of the state agency employee, state agency client, their attorney, or their responsible parent or guardian. The Contractor will be required to sign a Confidential Information Certification form in situations where they will be given access to confidential computerized records. The Contractor agrees to maintain the confidentiality of records it holds as agent for the State as required by Government Records Access and Management Act ("GRAMA"), or other applicable federal or state law. The State of Utah shall own and retain unlimited rights to use, disclose, or duplicate all information and data (copyrighted or otherwise) developed, derived, documented, stored, or furnished by the Contractor under the Contract. The Contractor, and any subcontractors under its control, expressly agrees not to use confidential client, or confidential federal, state, or local government data, without prior written permission from the State of Utah Project Manager and appropriate officials of the State Agency.
29. *OWNERSHIP, PROTECTION, AND USE OF CONFIDENTIAL FEDERAL, STATE, OR LOCAL GOVERNMENT INTERNAL BUSINESS PROCESSES AND PROCEDURES:* The improper use or disclosure by any party of protected internal Federal or State business processes, policies, procedures, or practices is prohibited. Confidential federal or state business processes, policies, procedures, or practices shall not be divulged by the Contractor, Contractor's employees, or their Subcontractors, unless prior written consent has been obtained in advance

30. *OWNERSHIP, PROTECTION, AND RETURN OF DOCUMENTS AND DATA UPON CONTRACT TERMINATION OR*

COMPLETION: All documents and data pertaining to work required by this contract will be the property of the State and must be delivered to

the State within 30 working days after termination or completion of the contract, regardless of the reason for contract termination, and without restriction or limitation to their future use. Any State data that may be returned under provisions of this clause must either be in the format as originally provided, or in a format that is readily usable by the State or that can be formatted in a way that it can be used. Costs for all of these described items will be considered as included in the basic contract compensation of the work described used by the State.

31. **CONFIDENTIALITY:** Contractor, and anyone for whom the Contractor may be liable, must maintain the confidentiality of any non-public personal information. Personal information includes, but is not limited to, names, social security numbers, birth dates, address, credit card numbers and financial account numbers. The State reserves the right to identify additional reasonable types or categories of information that must be kept confidential by the Contractor and anyone for whom the Contractor may be liable. This duty of confidentiality shall be ongoing and survive the term of this contract.

32. **TERMINATION UPON DEFAULT:** In the event this contract is terminated as a result of a default by the Contractor, the State may procure or otherwise obtain, upon such terms and conditions as the State deems appropriate, services similar to those terminated, and Contractor shall be liable to the State for any and all damages arising there from, including, but not limited to, attorneys' fees and excess costs incurred by the State in obtaining similar services.

33. **PROCUREMENT ETHICS:** The Contractor understands that a person who is interested in any way in the sale of any supplies, services, construction, or insurance to the State of Utah is violating the law if the person gives or offers to give any compensation, gratuity, contribution, loan or reward, or any promise thereof to any person acting as a procurement officer on behalf of the State, or who in any official capacity participates in the procurement of such supplies, services, construction, or insurance, whether it is given for their own use or for the use or benefit of any other person or organization (63G-6-1002, Utah Code Annotated, 1953, as amended).

34. **WORKERS' COMPENSATION:** The Contractor shall furnish proof to the State, upon request and maintain during the life of this contract, workers' compensation insurance for all its employees as well as any subcontractor employees related to this contract.

35. **LIABILITY INSURANCE:** The Contractor agrees to provide and to maintain during the performance of the contract, at its sole expense, a policy of liability insurance. The limits of the policy shall be no less than \$1,000,000.00 for each occurrence and \$3,000,000.00 aggregate.

It shall be the responsibility of the Contractor to require any of their Subcontractor(s) to secure the same insurance coverage as prescribed herein for the Contractor.

36. **ENTIRE AGREEMENT:** This Agreement, including all Attachments, and documents incorporated hereunder, and the related State Solicitation constitutes the entire agreement between the parties with respect to the subject matter, and supersedes any and all other prior and contemporaneous agreements and understandings between the parties, whether oral or written. The terms of this Agreement shall supersede any additional or conflicting terms or provisions that may be set forth or printed on the Contractor's work plans, cost estimate forms, receiving tickets, invoices, or any other related standard forms or documents of the Contractor that may subsequently be used to implement, record, or invoice services hereunder from time to time, even if such standard forms or documents have been signed or initialed by a representative of the State. The parties agree that the terms of this Agreement shall prevail in any dispute between the terms of this Agreement and the terms printed on any such standard forms or documents, and such standard forms or documents shall not be considered written amendments of this Agreement.

37. **SURVIVORSHIP:** This paragraph defines the specific contractual provisions that will remain in effect after the completion of or termination of this contract, for whatever reason: (a) State of Utah Standard IT Terms and Conditions # 2, Contract Jurisdiction, Choice of Law, and Venue; (b) State of Utah Standard IT Terms and Conditions # 17, Secure Protection and Handling of Data; (c) State of Utah Standard IT Terms and Conditions # 18, Notification and Data Breaches; (d) State of Utah Standard IT Terms and Conditions # 26, Copyright; (e) State of Utah Standard IT Terms and Conditions #27, Ownership, Protection, and Use of Records, including Residuals of such records; and (f) State of Utah Standard IT Terms and Conditions # 28, Ownership, Protection, and Use of Confidential Federal, State, or Local Government Internal Business Processes, including Residuals of such confidential business processes; (g) State of Utah Standard IT Terms and Conditions # 29, Ownership, Protection, and Return of Documents and Data Upon Contract Termination or Completion; and (h) State of Utah Standard IT Terms and Conditions # 30, Confidentiality.

38. **WAIVER:** The waiver by either party of any provision, term, covenant or condition of this Contract shall not be

State of Utah
State of Utah
State of Utah
review by the State or any entity/user, approval or acceptance, or payment for any of the services required under this Contract shall be construed to operate as a waiver by the State of any right under this Contract or of any cause of action arising out of the performance or nonperformance of this Contract, and the Contractor shall be and remain liable to the State in accordance with applicable law for all damages to the State caused by the wrongful acts, errors and/or omissions of the Contractor or its subcontractors or subconsultants at any tier, if any.

(Revised July 1, 2013)

Question and Answers for Bid #JP14001 - WSCA-NASPO Data Communications Products & Services

OVERALL BID QUESTIONS

Question 1

Will WSCA/the State of Utah entertain responses and potentially enter into contracts with entities that are not manufacturers? **(Submitted: Jul 3, 2013 3:49:24 PM MDT)**

Question 2

What other states are participating? **(Submitted: Jul 8, 2013 10:41:13 AM MDT)**

Question 3

Can a vendor submit responses in certain categories and not bid other categories? Thank you **(Submitted: Jul 9, 2013 4:12:32 PM MDT)**

Question 4

Can a vendor submit responses in certain categories and not bid other categories? Thank you **(Submitted: Jul 9, 2013 4:12:35 PM MDT)**

Question Deadline: Jul 26, 2013 11:00:00 AM MDT



Printed By:Jeff Ploshay
Date Printed:August 20, 2013

Live Report : SHORETEL, INC.

D-U-N-S® Number: 96-838-7175
Endorsement/Billing Reference: pazevedo@shoretel.com

D&B Address			
Address		960 Stewart Dr Sunnyvale,CA - 94085	Location Type Headquarters
Phone		408 331-3300	Web www.shoretel.com
Fax			

Added to Portfolio:01/05/2010	
Last View Date:01/10/2013	
Endorsement :	pazevedo@shoretel.com

Company Summary

Currency: Shown in USD unless otherwise indicated

Score Bar

D&B Rating	5A3
PAYDEX®	69
Credit Limit - D&B Conservative	1,000,000.00
Credit Limit - D&B Aggressive	1,000,000.00
Financial Stress Score Class	3
Commercial Credit Score Class	3

Detailed Trade Risk Insight™

Days Beyond Terms Past 3 Months

2
Days

Dollar-weighted average of **18** payment experiences reported from **11** Companies

Recent Derogatory Events			
	May-13	Jun-13	Jul-13
Placed for Collection	-	-	-
Bad Debt Written Off	-	-	-

D&B Viability Rating

Viability Score: 1	
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D&B Company Overview

This is a headquarters location	
Branch(es) or Division(s) exist	Y
Chief Executive	DON JOOS, PRES-CEO
Stock Symbol	SHOR
Year Started	1996
Employees	634 (250 Here)
SIC	3661 , 3663
Line of business	Mfg internet protocol telecommunications systems and software
NAICS	334210
History Status	CLEAR

Stock Performance

SHOR : 4.41 -0.01 (-0.23%)	
Previous Close:	4.43
Volume:	280656.00
Daily High:	4.50
Daily Low:	4.39
52-Week High:	5.18
52-Week Low:	3.25
P/E:	N/A
Market Cap:	259,568,190
EPS:	-0.03

1	Lowest Risk:1Highest Risk:9			
3	Portfolio Comparison: 3 Lowest Risk:1Highest Risk:9			
A	Data Depth Indicator: A Predictive Data:ADescriptive Data:G			
A	Company Profile: A			
	Financial Data	Trade Payments	Company Size	Years in Business
	Available	Available (3+Trade)	Large	Established

Div/Yield:

0.00

Company News

Today: Tuesday, August 20, 2013

- Vocalocity and ShoreTel Lead UCaaS Growth

2013-08-20T05:16:07 AKDT 5:16 AM-PR inside
- ShoreTel UC Solutions and Applications Provide

2013-08-19T05:04:27 AKDT 5:04 AM-StreetInsider.com
- Making a Clear Case for Attending the ILTA Legal

2013-08-16T14:12:07 AKDT 2:12 PM-ShoreTel, Inc. Blog
- Antelope Valley College Gives ShoreTel an A+ in

2013-08-14T12:29:42 AKDT 12:29 PM-ShoreTel, Inc. Blog
- ShoreTel launches 400 series IP phones

2013-08-14T05:04:33 AKDT 5:04 AM-InfoTech Spotlight
- ShoreTel Solutions Provide Strong

2013-08-13T05:10:57 AKDT 5:10 AM-PR Newswire
- ShoreTel Extends Partnership with Express Data

2013-08-12T10:11:55 AKDT 10:11 AM-ShoreTel, Inc.
- Exclusive: ShoreTel extends Express Data NZ

2013-08-11T15:23:04 AKDT 3:23 PM-TechDay
- ShoreTel promotes Joos into hot seat

2013-08-09T16:06:38 AKDT 4:06 PM-MicroScope
- ShoreTel Names Don Joos New CEO

2013-08-09T08:25:55 AKDT 8:25 AM-No Jitter
- ShoreTel's CEO Discusses F4Q13 Results -

2013-08-08T19:51:23 AKDT 7:51 PM-Seeking Alpha
- ShoreTel Earnings: Everything You Must Know

2013-08-08T14:38:10 AKDT 2:38 PM-Wall St. Cheat Sheet
- ShoreTel Names Don Joos as President & CEO

2013-08-08T13:18:22 AKDT 1:18 PM-ShoreTel, Inc.
- Shoretel, Inc. (SHOR) Tops Q4 EPS by 4c

2013-08-08T12:14:06 AKDT 12:14 PM-StreetInsider.com
- Maximize Value of Your Contact Center? Check

2013-08-07T12:35:42 AKDT 12:35 PM-ShoreTel, Inc. Blog
- Utah State University Selects ShoreTel for

2013-08-05T10:12:15 AKDT 10:12 AM-ShoreTel, Inc.

- [DART Transit Driving UC to a New Level](#)
2013-08-02T12:18:31 AKDT 12:18 PM-ShoreTel, Inc. Blog
- [400 Series IP phones added to ShoreTel Line-Up](#)
2013-08-01T13:04:17 AKDT 1:04 PM-InfoTech Spotlight
- [ShoreTel Adds 400 Series IP Phones to Line-Up,](#)
2013-07-31T10:14:32 AKDT 10:14 AM-ShoreTel, Inc.
- [South West Comms named fastest growing new](#)
2013-07-31T06:24:51 AKDT 6:24 AM-Comms Dealer
- [What you gain by kicking the email habit](#)
2013-07-30T13:31:08 AKDT 1:31 PM-WhaTech
- [ShoreTel's Webinar Aims to Help Turn Your](#)
2013-07-30T12:25:46 AKDT 12:25 PM-ShoreTel, Inc. Blog
- [Maidenhead: Comms company teams up with](#)
2013-07-30T00:01:50 AKDT 12:01 AM-The Business Magazine
- [Sterling Communications Inc., Rated “World](#)
2013-07-29T23:09:01 AKDT 11:09 PM-PRWeb
- [Getting Through the Easy Way with ShoreTel](#)
2013-07-29T12:18:52 AKDT 12:18 PM-ShoreTel, Inc. Blog
- [Large Bank Lowers TCO with ShoreTel Unified](#)
2013-07-26T12:40:30 AKDT 12:40 PM-ShoreTel, Inc. Blog
- [ShoreTel unveils new mobile UC solution](#)
2013-07-25T06:30:05 AKDT 6:30 AM-Comms Dealer
- [How Healthcare Organizations Take Advantage of](#)
2013-07-24T12:43:59 AKDT 12:43 PM-ShoreTel, Inc. Blog
- [ShoreTel announces joining of the HP](#)
2013-07-23T05:07:00 AKDT 5:07 AM-InfoTech Spotlight
- [ShoreTel announces availability of the ShoreTel](#)
2013-07-23T03:04:31 AKDT 3:04 AM-InfoTech Spotlight

Powered by FirstRain

Public Filings

The following data includes both open and closed filings found in D&B's database on this company.

Record Type	Number of Records	Most Recent Filing Date
Bankruptcies	0	-
Judgments	1	04/28/06
Liens	0	-
Suits	1	07/23/11
UCCs	4	05/17/13

The public record items contained herein may have been paid, terminated, vacated or released prior to todays date.

Corporate Linkage

Subsidiaries (Domestic)

Company	City , State	D-U-N-S® NUMBER
AGITO NETWORKS, INC.	SANTA CLARA , California	82-838-4482
GECKOTECH, LLC	CHICAGO , Illinois	19-252-8177

Subsidiaries (International)

Company	City , Country	D-U-N-S® NUMBER
SHORETEL PTY LTD	NORTH SYDNEY , AUSTRALIA	75-533-5408
SHORETEL UK LTD	Maidenhead , UNITED KINGDOM	77-979-4432

Branches (Domestic)

Company	City , State	D-U-N-S® NUMBER
SHORETEL, INC.	CHICAGO , Illinois	96-544-1038
SHORETEL, INC.	ROCHESTER , New York	96-538-9567
SHORETEL, INC.	PHOENIX , Maryland	07-836-6516
SHORETEL, INC.	NEW YORK , New York	80-682-3006
SHORETEL, INC.	ROCHESTER , New York	07-872-9348

Predictive Scores

Currency: Shown in USD unless otherwise indicated 

Credit Capacity Summary

This credit rating was assigned because of D&B's assessment of the company's creditworthiness. For more information, see the [D&B Rating Key](#)

D&B Rating :

5A3

Financial Strength:

5A indicates 50 million and over

Composite credit appraisal:

3 is fair

The Rating was changed on February 11, 2013 because of changes in financial information, payment information, or other information about this business.

Below is an overview of the companys rating history since 05-19-2007

D&B Rating	Date Applied
5A3	02-11-2013
5A2	12-04-2007
--	09-27-2007
1R3	08-16-2007
1R4	07-10-2007
1R3	07-09-2007
1R4	06-22-2007
1R3	06-13-2007
1R4	05-31-2007
1R3	05-19-2007

Sales:

200,112,000.00

Number of Employees Total:

634 (250 here)

Worth:

156,062,000

(As of 31-Mar-13)

Working Capital:

\$30,961,000

(As of 30-Jun-12)

Payment Activity:	(based on 93 experiences)
Average High Credit:	38,067
Highest Credit:	600,000
Total Highest Credit:	3,013,000

Note: The Worth amount in this section may have been adjusted by D&B to reflect typical deductions, such as certain intangible assets.

D&B Credit Limit Recommendation

Conservative credit Limit	1,000,000
Aggressive credit Limit:	1,000,000

Risk category for this business : **LOW**

The Credit Limit Recommendation (CLR) is intended to serve as a directional benchmark for all businesses within the same line of business or industry, and is not calculated based on any individual business. Thus, the CLR is intended to help guide the credit limit decision, and must be balanced in combination with other elements which reflect the individual company's size, financial strength, payment history, and credit worthiness, all of which can be derived from D&B reports. Risk is assessed using D&Bs scoring methodology and is one factor used to create the recommended limits. See Help for details.

Financial Stress Class Summary

The Financial Stress Score predicts the likelihood of a firm ceasing business without paying all creditors in full, or reorganization or obtaining relief from creditors under state/federal law over the next 12 months. Scores were calculated using a statistically valid model derived from D&Bs extensive data files. The Financial Stress Class of 3 for this company shows that firms with this class had a failure rate of 0.24% (24 per 10,000), which is lower than the average of businesses in D & B's database

Financial Stress Class : **3** 

(Lowest Risk:1; Highest Risk:5)
Moderate risk of severe financial stress, such as a bankruptcy, over the next 12 months.

Probability of Failure:

- Among Businesses with this Class: **0.24 %** (24 per 10,000)
- Financial Stress National Percentile : **50** (Highest Risk: 1; Lowest Risk: 100)
- Financial Stress Score : **1477** (Highest Risk: 1,001; Lowest Risk: 1,875)
- Average of Businesses in D&Bs database: **0.48 %** (48 per 10,000)

The Financial Stress Class of this business is based on the following factors:

- Low proportion of satisfactory payment experiences to total payment experiences.
- Negative change in net worth.
- UCC Filings reported.
- High number of inquiries to D & B over last 12 months.
- High proportion of past due balances to total amount owing.

Notes:

- The Financial Stress Class indicates that this firm shares some of the same business and financial characteristics of other companies with this classification. It does not mean the firm will necessarily experience financial stress.
- The Probability of Failure shows the percentage of firms in a given Class that discontinued operations over the past year with loss to creditors. The Probability of Failure - National Average represents the national failure rate and is provided for comparative purposes.
- The Financial Stress National Percentile reflects the relative ranking of a company among all scorable companies in D&Bs file.
- The Financial Stress Score offers a more precise measure of the level of risk than the Class and Percentile. It is especially helpful to customers using a scorecard approach to determining overall business performance.

Norms	National %
This Business	50
Region: PACIFIC	52
Industry: MANUFACTURING	52
Employee range: 500+	61
Years in Business: 11-25	68

This Business has a Financial Stress Percentile that shows:

- Higher risk than other companies in the same region.
- Higher risk than other companies in the same industry.
- Higher risk than other companies in the same employee size range.
- Higher risk than other companies with a comparable number of years in business.

Credit Score Summary

The Commercial Credit Score (CCS) predicts the likelihood of a business paying its bills in a severely delinquent manner (91 days or more past terms), obtaining legal relief from its creditors or ceasing operations without paying all creditors in full over the next 12 months. The Credit Score class of 3 for this company shows that 5.8% of firms with this class paid one or more bills severely delinquent, which is lower than the average of businesses in D & B's database.

Credit Score Class : 3 

Lowest Risk:1;Highest Risk :5

Incidence of Delinquent Payment

- Among Companies with this Classification: **5.80 %**
- Average compared to businesses in D&Bs database: **10.20 %**
- Credit Score Percentile : **50** (Highest Risk: 1; Lowest Risk: 100)
- Credit Score : **499** (Highest Risk: 101; Lowest Risk:670)

The Credit Score Class of this business is based on the following factors:

- Proportion of past due balances to total amount owing
- Higher risk industry based on delinquency rates for this industry
- Financial ratios
- Evidence of open suits and judgments
- Proportion of slow payments in recent months

Notes:

- The Commercial Credit Score Risk Class indicates that this firm shares some of the same business and financial characteristics of other companies with this classification. It does not mean the firm will necessarily experience severe delinquency.
- The Incidence of Delinquent Payment is the percentage of companies with this classification that were reported 91 days past due or more by creditors. The calculation of this value is based on D&B's trade payment database.
- The Commercial Credit Score percentile reflects the relative ranking of a firm among all scorable companies in D&B's file.
- The Commercial Credit Score offers a more precise measure of the level of risk than the Risk Class and Percentile. It is especially helpful to customers using a scorecard approach to determining overall business performance.

Norms	National %
This Business	50
Region: PACIFIC	50
Industry: MANUFACTURING	62
Employee range: 500-38527	84
Years in Business: 11-25	66

This business has a Credit Score Percentile that shows:

- Similar risk compared to other companies in the same region.
- Higher risk than other companies in the same industry.
- Higher risk than other companies in the same employee size range.
- Higher risk than other companies with a comparable number of years in business.

Trade Payments

Currency: Shown in USD unless otherwise indicated 

D&B PAYDEX®

The D&B PAYDEX is a unique, weighted indicator of payment performance based on payment experiences as reported to D&B by trader references. Learn more about the D&B PAYDEX

Timeliness of historical payments for this company.

Current PAYDEX is	69	Equal to 16 days beyond terms (Pays more slowly than the average for its industry of 8 days beyond terms)
Industry Median is	75	Equal to 8 days beyond terms
Payment Trend currently is		Unchanged, compared to payments three months ago

Indications of slowness can be the result of dispute over merchandise, skipped invoices etc. Accounts are sometimes placed for collection even though the existence or amount of the debt is disputed.

Total payment Experiences in D&Bs File (HQ)	93
Payments Within Terms (not weighted)	85 %
Trade Experiences with Slow or Negative Payments(%)	21.51%
Total Placed For Collection	0
High Credit Average	38,067
Largest High Credit	600,000
Highest Now Owing	60,000
Highest Past Due	15,000

D&B PAYDEX® : 69

(Lowest Risk:100; Highest Risk:1)

When weighted by amount, payments to suppliers average 16 days beyond terms

3-Month D&B PAYDEX® : 69

(Lowest Risk:100; Highest Risk:1)

Based on payments collected over last 3 months.

When weighted by amount, payments to suppliers average 16 days beyond terms

D&B PAYDEX® Comparison

Current Year

PAYDEX® of this Business compared to the Primary Industry from each of the last four quarters. The Primary Industry is Mfg internet protocol telecommunications systems and software , based on SIC code 3661 .

Shows the trend in D&B PAYDEX scoring over the past 12 months.

	9/12	10/12	11/12	12/12	1/13	2/13	3/13	4/13	5/13	6/13	7/13	8/13
This Business	74	75	75	75	73	72	71	71	70	70	70	69
Industry Quartiles												
Upper	79	.	.	78	.	.	79	.	.	79	.	.
Median	75	.	.	75	.	.	75	.	.	75	.	.
Lower	69	.	.	69	.	.	70	.	.	70	.	.

- Current PAYDEX for this Business is 69 , or equal to 16 days beyond terms
- The 12-month high is 75 , or equal to 8 DAYS BEYOND terms
- The 12-month low is 69 , or equal to 16 DAYS BEYOND terms

Previous Year

Shows PAYDEX of this Business compared to the Primary Industry from each of the last four quarters. The Primary Industry is Mfg internet protocol telecommunications systems and software , based on SIC code 3661 .

Previous Year	09/11 Q3'11	12/11 Q4'11	03/12 Q1'12	06/12 Q2'12
This Business	72	77	72	72
Industry Quartiles				

	State of Utah				
Upper		79	78	79	79
Median		76	76	76	76
Lower		69	69	68	68

- Based on payments collected over the last 4 quarters.
- Current PAYDEX for this Business is 69 , or equal to 16 days beyond terms
 - The present industry median Score is 75 , or equal to 8 days beyond terms
 - Industry upper quartile represents the performance of the payers in the 75th percentile
 - Industry lower quartile represents the performance of the payers in the 25th percentile

Payment Habits

For all payment experiences within a given amount of credit extended, shows the percent that this Business paid within terms. Provides number of experiences to calculate the percentage, and the total credit value of the credit extended.

\$ Credit Extended	# Payment Experiences	Total Amount	% of Payments Within Terms
Over 100,000	5	2,100,000	64%
50,000-100,000	7	525,000	80%
15,000-49,999	8	190,000	89%
5,000-14,999	23	160,000	88%
1,000-4,999	13	25,000	100%
Under 1,000	23	7,300	78%

Based on payments collected over last 24 months.

All Payment experiences reflect how bills are paid in relation to the terms granted. In some instances, payment beyond terms can be the result of disputes over merchandise, skipped invoices etc.

Payment Summary

There are 93 payment experience(s) in D&Bs file for the most recent 24 months, with 61 experience(s) reported during the last three month period.

The highest **Now Owes** on file is 60,000 . The highest **Past Due** on file is 15,000

Below is an overview of the companys currency-weighted payments, segmented by its suppliers primary industries:

	Total Revd (#)	Total Amts	Largest High Credit	Within Terms (%)	Days Slow <31 31-60 61-90 90> (%) (%) (%)			
Top Industries								
Nonclassified	16	671,750	600,000	100	0	0	0	0
Telephone communictns	9	290,050	95,000	96	4	0	0	0
Misc business service	6	102,500	80,000	61	0	0	39	0
Whol computers/softwr	5	330,250	250,000	52	48	0	0	0
Whol electronic parts	5	16,750	10,000	69	31	0	0	0
Security broker/deal	5	11,750	5,000	100	0	0	0	0
Mfg computers	4	1,050,000	600,000	51	29	1	0	19
Misc equipment rental	4	6,750	5,000	100	0	0	0	0
Public finance	3	52,500	40,000	100	0	0	0	0
Radiotelephone commun	2	90,750	90,000	100	0	0	0	0
Misc business credit	2	65,250	65,000	50	50	0	0	0
Data processing svcs	2	10,000	10,000	100	0	0	0	0
Mfg process controls	2	10,000	5,000	100	0	0	0	0
Arrange cargo transpt	1	250,000	250,000	50	50	0	0	0
Executive office	1	20,000	20,000	100	0	0	0	0

Trucking non-local	1	10,000	State of Utah 10,000	0	0	100	0	0
Help supply service	1	5,000	5,000	100	0	0	0	0
Photocopying service	1	5,000	5,000	100	0	0	0	0
Holding company	1	2,500	2,500	100	0	0	0	0
Mfg misc plastic prdt	1	2,500	2,500	100	0	0	0	0
Whol service paper	1	1,000	1,000	100	0	0	0	0
Air courier service	1	1,000	1,000	100	0	0	0	0
Reg misc coml sector	1	750	750	100	0	0	0	0
Mfg railroad equip	1	500	500	0	100	0	0	0
Gravure printing	1	500	500	100	0	0	0	0
Lithographic printing	1	100	100	100	0	0	0	0
Mfg misc office eqpt	1	100	100	100	0	0	0	0
Coating/engrave svcs	1	50	50	0	100	0	0	0
Whol electrical equip	1	0	0	0	0	0	0	0
Other payment categories								
Cash experiences	10	4,650	2,500					
Payment record unknown	2	1,050	1,000					
Unfavorable comments	0	0	0					
Placed for collections	0	N/A	0					
Total in D&B's file	93	3,013,000	600,000					

Accounts are sometimes placed for collection even though the existence or amount of the debt is disputed.

Indications of slowness can be result of dispute over merchandise, skipped invoices etc.

Detailed payment history for this company

Date Reported (mm/yy)	Paying Record	High Credit	Now Owes	Past Due	Selling Terms	Last Sale Within (month)
08/13	Ppt	7,500	500	0		1 mo
	Ppt	5,000	0	0		6-12 mos
	Ppt	100	0	0	N30	6-12 mos
07/13	Ppt	600,000	0	0		6-12 mos
	Ppt	95,000	0	0		1 mo
	Ppt	70,000	25,000	0		1 mo
	Ppt	60,000	10,000	0		1 mo
	Ppt	40,000				6-12 mos
	Ppt	25,000	0	0		6-12 mos
	Ppt	15,000	1,000	0		1 mo
	Ppt	10,000	7,500	0		1 mo
	Ppt	10,000	10,000	0		1 mo
	Ppt	10,000	0	0		2-3 mos
	Ppt	5,000	0	0		2-3 mos
	Ppt	5,000	500	0		1 mo
	Ppt	5,000	2,500	0	N30	1 mo
	Ppt	2,500	0	0	N30	6-12 mos
	Ppt	2,500	1,000	0	N30	1 mo
	Ppt	2,500	1,000	0	N30	1 mo
	Ppt	1,000	750	0		1 mo

	Ppt	1,000	State of Utah	0	0 Lease Agreemnt	4-5 mos
	Ppt	1,000		750	0 N30	1 mo
	Ppt	250		250	0	1 mo
	Ppt	250		0	0	4-5 mos
	Ppt	50		0	0	2-3 mos
	Ppt	50		0	0	2-3 mos
	Ppt	0		0	0 N30	6-12 mos
	Ppt-Slow 30	600,000		2,500	2,500	1 mo
	Ppt-Slow 30	250,000		40,000	500 N30	1 mo
	Ppt-Slow 30	65,000		0	0	4-5 mos
	Ppt-Slow 30	65,000		2,500	100 N30	1 mo
	Ppt-Slow 30	15,000		5,000	0	1 mo
	Ppt-Slow 30	5,000		5,000	2,500	1 mo
	Ppt-Slow 30	5,000		1,000	0	1 mo
	Ppt-Slow 60	25,000		750	500	1 mo
	Ppt-Slow 90	80,000		0	0	1 mo
	Ppt-Slow 90+	400,000		60,000	15,000	1 mo
	Slow 5	250		0	0	6-12 mos
	Slow 15	500		0	0	2-3 mos
	Slow 15	100		0	0	6-12 mos
06/13	Ppt			0	0	4-5 mos
	Ppt	10,000		10,000	0	1 mo
	Ppt	7,500		2,500	0	1 mo
	Ppt	7,500		2,500	0	1 mo
	Ppt	5,000		50	Lease Agreemnt	
	Ppt	5,000		500	0	1 mo
	Ppt	2,500		1,000	0	1 mo
	Ppt	2,500		1,000	0	1 mo
	Ppt	2,500		2,500	0	1 mo
	Ppt	750		750	0	1 mo
	Ppt	250		250	0	1 mo
	Ppt	250		250	0	1 mo
	(053)	1,000		0	0	6-12 mos
05/13	Ppt	5,000		0	0	6-12 mos
	(055) Satisfactory .	750				1 mo
	(056)	750			Cash account	1 mo
	(057)	50				1 mo
04/13	Ppt	25,000		0	0	6-12 mos
	(059)	50			Cash account	1 mo
	(060)	50			Cash account	1 mo
03/13	Ppt	100				2-3 mos
	(062)	1,000			Cash account	1 mo
01/13	Ppt	5,000		0	0	6-12 mos
	Ppt	500		0	0	6-12 mos
12/12	Ppt	20,000				1 mo
08/12	Ppt	1,000		0	0	2-3 mos
07/12	Ppt	5,000		0	0 N30	6-12 mos
06/12	(068) Cash own	100			Cash	1 mo

	option .			account	
04/12	Ppt	90,000	35,000	0	1 mo
03/12	Slow 60	250	0	0	6-12 mos
02/12	Ppt	1,000	0	0 N30	6-12 mos
	Ppt	500	500	0 N30	1 mo
	Ppt	250	250	0 N30	1 mo
	Ppt-Slow 60	750	250	0	1 mo
01/12	(075) Cash own option .	50		Cash account	6-12 mos
12/11	Ppt	500	500	0 N30	1 mo
11/11	Slow 90+	50	0	0	6-12 mos
10/11	Ppt	50	0	0	6-12 mos
09/11	Ppt	2,500	0	0	6-12 mos
07/11	Slow 60	10,000	0	0	6-12 mos

Payments Detail Key: ■ 30 or more days beyond terms

Payment experiences reflect how bills are paid in relation to the terms granted. In some instances payment beyond terms can be the result of disputes over merchandise, skipped invoices, etc. Each experience shown is from a separate supplier. Updated trade experiences replace those previously reported.

Public Filings

Currency: Shown in USD unless otherwise indicated 

Summary

The following data includes both open and closed filings found in D&B's database on this company.

Record Type	# of Records	Most Recent Filing Date
Bankruptcy Proceedings	0	-
Judgments	1	04/28/06
Liens	0	-
Suits	1	07/23/11
UCCs	4	05/17/13

The following Public Filing data is for information purposes only and is not the official record. Certified copies can only be obtained from the official source.

Judgments

Judgment award	5,000
Status	Unsatisfied
CASE NO.	SC171004
Judgment type	Judgment
Against	SHORETEL, INC.
In favor of	QUEXION LLC
Where filed	SAN DIEGO COUNTY SMALL CLAIMS COURT/SAN DIEGO, SAN DIEGO, CA
Date status attained	04/28/06
Date entered	04/28/06
Latest Info Received	05/26/06

Suits

Status	Pending	State of Utah	Bid JP14001
DOCKET NO.	201107700201CE		
Plaintiff	COMMONWEALTH OF PENNSYLVANIA, CITY OF PHILADELPHIA, PHILADELPHIA, PA		
Defendant	INC SHORETEL		
Cause	CODE ENFORCEMENT		
Where filed	PHILADELPHIA MUNICIPAL COURT, PHILADELPHIA, PA		
Date status attained	07/23/11		
Date filed	07/23/11		
Latest Info Received	08/19/11		

If it is indicated that there are defendants other than the report subject, the lawsuit may be an action to clear title to property and does not necessarily imply a claim for money against the subject.

UCC Filings

Collateral	Negotiable instruments including proceeds and products - Inventory including proceeds and products - Assets including proceeds and products - Account(s) including proceeds and products - and OTHERS
Type	Original
Sec. Party	SILICON VALLEY BANK, AS ADMINISTRATIVE AGENT, SANTA CLARA, CA
Debtor	SHORETEL, INC.
Filing No.	2012 1015876
Filed With	SECRETARY OF STATE/UCC DIVISION, DOVER, DE
Date Filed	2012-03-15
Latest Info Received	04/13/12

Collateral	Equipment and proceeds
Type	Original
Sec. Party	BANK OF THE WEST, SAN FRANCISCO, CA
Debtor	SHORETEL, INC.
Filing No.	2012 2042184
Filed With	SECRETARY OF STATE/UCC DIVISION, DOVER, DE
Date Filed	2012-05-26
Latest Info Received	06/22/12

Collateral	Equipment and proceeds
Type	Amendment
Sec. Party	BANK OF THE WEST, SAN FRANCISCO, CA
Debtor	SHORETEL, INC.
Filing No.	2012 2436535
Filed With	SECRETARY OF STATE/UCC DIVISION, DOVER, DE
Date Filed	2012-06-24
Latest Info Received	07/20/12
Original UCC Filed Date	2012-05-26
Original Filing No.	2012 2042184

Collateral	Leased Equipment
Type	Original
Sec. Party	UNION LEASING CORP., BOULDER, CO
Debtor	SHORETEL, INC.
Filing No.	2013 1905216
Filed With	SECRETARY OF STATE/UCC DIVISION, DOVER, DE
Date Filed	2013-05-17
Latest Info Received	06/11/13

Government Activity

Activity summary

Borrower (Dir/Guar)	NO
Administrative Debt	NO
Contractor	YES
Grantee	NO
Party excluded from federal program(s)	NO

Possible candidate for socio-economic program consideration

Labour Surplus Area	YES (2013)
Small Business	YES (2013)
8(A) firm	N/A

The details provided in the Government Activity section are as reported to Dun & Bradstreet by the federal government and other sources.

Special Events

Currency: Shown in USD unless otherwise indicated 

Special Events

08/13/2013 -CHANGE OF CHIEF EXECUTIVE :

According to published reports, ShoreTel announced that its board of directors has named Don Joos to serve as the company's president and chief executive officer.

05/30/2013 -ANNOUNCED CHIEF EXECUTIVE CHANGE :

On May 2, 2013, According to the published reports on May 6, 2013, Peter Blackmore announced his intention to retire and resign as the President, Chief Executive Officer and Director of ShoreTel, Inc. as soon as a successor is announced.

History & Operations

Currency: Shown in USD unless otherwise indicated 

Company Overview

Company Name:	SHORETEL, INC.
Street Address:	960 Stewart Dr Sunnyvale , CA 94085
Phone:	

Phone:	408 331-3300
URL:	http://www.shoretel.com
Stock Symbol:	SHOR
History	Is clear
Present management control	17 years
Annual Sales	200,112,000

History

The following information was reported: **08/13/2013**

Officer(s): DON JOOS, PRES-CEO
MICHAEL E HEALY, SR V PRES-CFO
EDWIN J BASART, CTO+
AVA M HAHN, V PRES-GENERAL COUNSEL-SEC
PEDRO E RUMP, SR V PRES ENGINEERING & OPERATIONS
DONALD J GIRSKIS, SR V PRES WORLDWIDE SALES

DIRECTOR(S) : The officers identified by (+) and Peter Blackmore, Gary J Daichendt, Mark F Bregman, Kenneth D Denman, Michael Gregoire, Charles D Kissner and Edward F. Thompson.

The Company was originally incorporated in California in September 1996, and reincorporated into Delaware in June 2007. Business started 1996.

The Company's common stock is traded on the NASDAQ Global Market under the symbol "SHOR ". As of September 1, 2011, there were 108 stockholders of record and approximately 2,000 beneficial owners. As of September 1, 2011, those shareholders identified by the company as beneficially owning 5% or more of the outstanding shares were :

Entities affiliated with Lehman Brothers Holdings Inc. (10.5%); Entities affiliated with Foundation Capital (6.2%) and T. Rowe Price Associates, Inc. (5.4%). As of the same date, officers and directors as a group beneficially owned 4.3% of the outstanding shares.

RECENT EVENT :

On April 13, 2012, Dan Hoffman, Pres, stated that Shoretel Inc., Sunnyvale, CA, has acquired M5 Networks Inc., New York, NY, on March 23, 2012. With the acquisition, M5 Networks Inc. will now be a wholly-owned subsidiary of Shoretel Inc. Terms were not disclosed. Further details are unavailable.

The Company has acquired Agito Networks, Inc., Santa Clara, CA, on October 21, 2010.

MICHAEL E HEALY. He has served as the Company's Senior Vice President and Chief Financial Officer since May 2007. From February 2004 to May 2007, he served as Chief Financial Officer and Senior Vice President of Finance of Genesis Microchip Inc. From November 2002 to February 2004, he served as Chief Financial Officer of Jamcracker, Inc. From September 1997 to June 2002, he held senior level finance positions at Exodus Communications, Inc. including as Senior Vice President of Finance prior to February 2002, and as its Chief Financial Officer and Corporate Treasurer from February 2002 to June 2002. He holds a B.S. in Accounting from Santa Clara University and is a Certified Public Accountant. He is a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

EDWIN J BASART. He co-founded the Company in 1996 and has served as its Chief Technology Officer and as a director since inception. Prior to co-founding the Company, he co-founded Network Computing Devices, Inc. where he served as Vice President of Engineering, and Ridge Computers, Inc. where he served as Vice President of Software. He holds a B.S. in English from Iowa State University and an M.S. in Electrical Engineering from Stanford University.

AVA M HAHN. She has served as the Company's Vice President, General Counsel and Secretary since May 2009. She joined ShoreTel in June 2007 serving in the position of General Counsel and Secretary. From August 2002 to May 2007, she served as General Counsel, Assistant General Counsel and Secretary for Genesis Microchip, Inc. She holds a J.D. from Columbia Law School and a B.A. from the University of California, Berkeley.

PEDRO E RUMP. He has served as the Company's Senior Vice President of Engineering and Operations since January 2011. Prior to then, he served as its Vice President of Engineering and Operations since 2006. From July 2004 to January 2006, he served as Vice President of Engineering and Operations at Dust Networks, Inc. From January 2004 to July 2004, he served as Vice President of Engineering at Sonim Technologies, Inc. From January 2003 to January 2004, he served as Vice President of Engineering at Littlefeet Inc. From January 2002 to October 2002, he served as Vice President of Inviso. He holds a B.S. and M.S. in Electrical Engineering from the Swiss Federal Institute of Technology.

DONALD J GIRSKIS. He has served as the Company's Senior Vice President of Worldwide Sales since February 2008. He served as interim Chief Executive Officer from October to December 2010. From 1993 to 2008, he held a variety of executive positions at Sprint-Nextel most recently as the Senior Vice President and General Manager of Boost Mobile. At Nextel, he held the position of Area Vice President of Sales, Area Vice President of Marketing, Vice President of Engineering, and General Manager. Prior to Sprint-Nextel, he held sales management positions with Businessland, and Los Angeles Cellular Telephone Company. He holds a B.A. in Business Administration from California State University at Fullerton.

PETER BLACKMORE. He has served as the Company's Chief Executive Officer and a Board member since December 2010. Prior to joining ShoreTel, he was President, Chief Executive Officer and a member of the Board of directors of UTStarcom, Inc. from July 2008 to September 2010. From July 2007 to July 2008, he was President and Chief Operating Officer for UTStarcom. Before this position, he was Executive Vice President of Unisys Corporation, from February 2005 to July 2007. He holds an M.A. in Economics from Trinity College, Cambridge, U.K.

GARY J DAICHENDT. Director since April 2007. He has served as the Chairman of the Board since July 2010. He has been a managing member of TheoryR Properties LLC since October 2002.

MARK F BREGMAN. Director since May 2007. He has served as Chief Technology Officer of NeuStar, Inc. since July 2011.

KENNETH D DENMAN. Director since May 2007. He served as Chief Executive Officer and a Director of Openwave Systems, Inc. from November 2008 to September 2011.

MICHAEL GREGOIRE. Director since November 2008. He served as Chairman and CEO of Taleo Corporation since March 2005.

CHARLES D KISSNER. Director since April 2006. He currently serves as Chairman of the Board of Aviat Networks, Inc., formerly Harris Stratex Networks, Inc.

EDWARD F THOMPSON. Director since January 2006. He has served as a Senior Advisor to Fujitsu Limited and as a Director of several Fujitsu subsidiaries or portfolio companies since 1995.

DON JOOS. He joined ShoreTel in April 2011 as vice president of global services.

Business address has changed from 960 Stewart Dr, Sunnyvale, CA, 94085 to 6500 River Place Blvd Bldg 4, Austin, TX, 78730.

Business Registration

CORPORATE AND BUSINESS REGISTRATIONS PROVIDED BY MANAGEMENT OR OTHER SOURCE
The Corporate Details provided below may have been submitted by the management of the subject business and may not have been verified with the government agency which records such data.

Registered Name: ShoreTel, Inc
Business type: CORPORATION
Corporation type: PROFIT
Date incorporated: Jan 18 2007
State of incorporation: DELAWARE
Filing date: Jan 18 2007
Status: ACTIVE
Where filed: SECRETARY OF STATE/CORPORATIONS DIVISION , DOVER , DE

Operations

08/13/2013

Description: The Company provides switch-based Internet protocol (IP) telecommunications systems. The Company's systems are based on its distributed software architecture and switch-based hardware platform that enable a single telecommunications system to serve multi-site enterprises.
Terms are Net 30 days. Sells to commercial concerns. Territory : International.
Nonseasonal.

Employees: 634 which includes officer(s). 250 employed here.

Facilities: Leases 63,781 sq. ft. in a building.

Branches: This business has multiple branches, detailed branch information is available in D & B's linkage or family tree products.

Subsidiaries: This business has multiple subsidiaries, detailed subsidiary information is available in D & B's linkage or family tree products.

SIC & NAICS

SIC:
Based on information in our file, D&B has assigned this company an extended 8-digit SIC. D&B's use of 8-digit SICs enables us to be more specific about a company's operations than if we use the standard 4-digit code.
The 4-digit SIC numbers link to the description on the Occupational Safety & Health Administration (OSHA) Web site. Links open in a new browser window.
3661 0000 Telephone and telegraph apparatus
3663 0000 Radio and t.v. communications equipment
3663 0200 Television broadcasting and communications equipment
3663 9906 Mobile communication equipment
7372 0000 Prepackaged software

NAICS:

334210 Telephone Apparatus Manufacturing
334220 Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing
334220 Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing
334220 Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing
511210 Software Publishers

Financials

Currency: Shown in USD unless otherwise indicated 

Company Financials: D&B

05/30/2013

Three-year Statement Comparative:

State of Utah

Bid JP14001

	Interim Consolidated Mar 31 2013	Fiscal Consolidated Jun 30 2012	Fiscal Consolidated Jun 30 2011
Current Assets	113,652,000	115,180,000	162,166,000
Current Liabilities	92,020,000	84,219,000	52,311,000
Current Ratio	1.24	1.37	3.1
Working Capital	21,632,000	30,961,000	109,855,000
Other Assets	182,732,000	180,252,000	24,935,000
Net Worth	156,062,000	170,232,000	121,424,000
Sales	227,940,000	246,632,000	200,112,000
Long Term Liab	48,302,000	40,981,000	13,366,000
Net Profit (Loss)	(23,402,000)	(20,737,000)	(11,463,000)

Company Financial: EDGAR (Annual Statements)

Balance Sheet

Period Ending	Fiscal Consolidated Jun 30 2012	Fiscal Consolidated Jun 30 2011	Fiscal Consolidated Jun 30 2010
ASSETS			
Current Assets			
Cash and Cash Equivalents	37,120,000	89,695,000	68,426,000
Short Term Investments	18,375,000	16,057,000	47,375,000
Net Trade Receivables	34,198,000	33,812,000	24,596,000
Inventory	20,212,000	19,062,000	10,300,000
Other Current Assets	5,275,000	3,540,000	7,779,000
Total Current Assets	115,180,000	162,166,000	158,476,000
Property, Plant and Equipment	12,811,000	8,236,000	6,019,000
Long Term Investments	UN	UN	UN
Deferred Long Term Asset Charges	UN	UN	UN
Other Assets	1,925,000	714,000	1,201,000
Goodwill	120,212,000	7,415,000	0
Total Assets	295,432,000	187,101,000	170,721,000
Accumulated Amortization	UN	UN	UN
Intangible Assets	45,304,000	8,570,000	5,025,000
LIABILITIES			
Current Liabilities			
Accounts Payable	38,992,000	25,949,000	26,190,000
Short Term And Current Long Term Debt	UN	UN	UN
Other Current Liabilities	45,227,000	26,362,000	19,450,000
Total Current Liabilities	84,219,000	52,311,000	45,640,000
Long Term Debt	19,946,000	0	UN
Deferred Long Term Liability Charges	13,683,000	11,321,000	9,269,000
Negative Goodwill	UN	UN	UN
Minority Interest Expense	UN	UN	UN
Other Liabilities	7,352,000	2,045,000	1,346,000
Misc Stocks Options Warrant	UN	UN	UN
Total Liabilities	125,200,000	65,677,000	56,255,000

SHAREHOLDER'S EQUITY

Preferred Stock Amount	0	0	0
Common Stock	310,646,000	241,063,000	222,491,000
Retained Earnings	-140,416,000	-119,679,000	-108,216,000
Treasury Stock	UN	UN	UN
Capital Surplus	UN	UN	UN
Other Equity	2,000	40,000	191,000
Total Equity	170,232,000	121,424,000	114,466,000

Income Statement

Period Ending	Fiscal Consolidated Jun 30 2012	Fiscal Consolidated Jun 30 2011	Fiscal Consolidated Jun 30 2010
Sales (Revenue)	246,632,000	200,112,000	148,464,000
Cost of Goods Sold	88,153,000	66,645,000	52,051,000
Gross Profit	158,479,000	133,467,000	96,413,000
Sales And General Admin	122,265,000	99,749,000	75,861,000
Research and Development Expense	51,909,000	45,548,000	33,596,000
Non-Recurring Charges	4,524,000	340,000	0
Other Operating Items	UN	UN	UN
Operating Income	-20,219,000	-12,170,000	-13,044,000
Net Total Other Income and Expenses	-905,000	767,000	243,000
Earnings Before Interest and Taxes	-21,124,000	-11,403,000	-12,801,000
Interest Expense	560,000	127,000	159,000
Earning Before Tax	-21,684,000	-11,530,000	-12,960,000
Income Tax Expense	-947,000	-67,000	-156,000
Equity Earnings or Loss	UN	UN	UN
Minority Interest Expense	UN	UN	UN
Net Income From Continuing Operations	-20,737,000	-11,463,000	-12,804,000
Discontinued Operations	UN	UN	UN
Effect of Accounting Changes	UN	UN	UN
Extraordinary Items	UN	UN	UN
Other Non-Operating Expenses	0	0	0
Net Income	-20,737,000	-11,463,000	-12,804,000
Preferred Stocks and Other Adjustments	UN	UN	UN
Net Income Applicable to Common Shares	-20,737,000	-11,463,000	-12,804,000

Statement of Cash Flow

Period Ending	Fiscal Consolidated Jun 30 2012	Fiscal Consolidated Jun 30 2011	Fiscal Consolidated Jun 30 2010
Depreciation	9,234,000	5,274,000	3,021,000
Net Income Adjustments	11,733,000	11,276,000	10,694,000
Changes in Liabilities	11,175,000	9,261,000	14,321,000
Changes in Accounts Receivables	2,216,000	-9,156,000	-3,059,000
Changes in Inventories	-1,071,000	-8,701,000	1,851,000
Changes in Other Operating Activities	-2,235,000	4,819,000	-2,843,000
Net Cash Flows - Operating Activities	10,315,000	1,310,000	11,181,000
Capital Expenditures	-4,228,000	-5,883,000	-4,650,000

Investments	State of Utah	-2,592,000	30,558,000	-13,690,000
Other Cash Flows from Investing Activities		-78,985,000	-12,109,000	-1,403,000
Net Cash Flows - Investing Activities		-85,805,000	12,566,000	-19,743,000
Dividends Paid		UN	UN	UN
Sale and Purchase of Stock		3,855,000	7,915,000	3,103,000
Net Borrowings		20,056,000	0	0
Other Cash Flows from Financing Activities		-590,000	-522,000	-125,000
Net Cash Flows - Financing Activities		22,915,000	7,393,000	3,169,000
Effect of Exchange Rate		UN	UN	UN
Change in Cash and Cash Equivalents		-52,575,000	21,269,000	-5,393,000

Financial Ratios

Period Ending	Fiscal Consolidated Jun 30 2012	Fiscal Consolidated Jun 30 2011	Fiscal Consolidated Jun 30 2010
Solvency Ratios			
Current Ratio	1.37	3.10	3.47
Quick Ratio	1.06	2.67	3.08
Current Liabilities to Net Worth (%)	49.47	43.08	39.87
Total Liabilities to Net worth (%)	73.55	54.09	49.15
Current Liabilities to Inventory (%)	416.68	274.43	443.11
Fixed Assets to Net Worth (%)	7.53	6.78	5.26
Cash Ratio	0.66	2.02	2.54
Efficiency Ratios			
Accounts Payable to Sales Ratio	0.16	0.13	0.18
Sales to Working Capital Ratio	7.97	1.82	1.32
Sales to Inventory (%)	1220.23	1049.80	1441.40
Assets to Sales (%)	119.79	93.50	114.99
ROCE (%)	-10.00	-8.46	-10.23
Profitability Ratios			
Return on Net Worth (%)	-12.18	-9.44	-11.19
Return on Assets (%)	-7.02	-6.13	-7.50
Return on Sales (%)	-8.56	-5.70	-8.62
Gross Profit Margin (%)	64.26	66.70	64.94
Operating Margin (%)	-8.20	-6.08	-8.79
Pre-Tax Profit Margin (%)	-8.79	-5.76	-8.73
Profit Margin (%)	-8.41	-5.73	-8.62
Pre-Tax Return on Equity (%)	-12.74	-9.50	-11.32
After Tax Return on Equity (%)	-12.18	-9.44	-11.19
Operating Income to Interest Ratio	-36.11	-95.83	-82.04
Financial Leverage Ratios			
EBITDA to EBIT Ratio	1.44	1.46	1.24
Debt to Income Ratio	-6.04	-5.73	-4.39
Debt to Equity Ratio	0.74	0.54	0.49
Equity Ratio (%)	57.62	64.90	67.05
Interest Coverage Ratio	-37.72	-89.79	-80.51
Interest Coverage by EBITDA Ratio	-54.21	-131.31	-99.51

Note:UN=Unavailable

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Company Financial: EDGAR (Quarterly Statements)
Balance Sheet

Quarter	Q3	Q2	Q1	Q4
Quarter Ending	Mar 31 2013	Dec 31 2012	Sep 30 2012	Jun 30 2012
ASSETS				
Current Assets				
Cash and Cash Equivalents	36,773,000	43,839,000	41,215,000	37,120,000
Short Term Investments	11,598,000	8,217,000	13,933,000	18,375,000
Net Trade Receivables	32,085,000	31,834,000	30,302,000	34,198,000
Inventory	21,991,000	20,383,000	19,053,000	20,212,000
Other Current Assets	11,205,000	12,490,000	6,016,000	5,275,000
Total Current Assets	113,652,000	116,763,000	110,519,000	115,180,000
Property, Plant and Equipment	16,390,000	14,502,000	11,693,000	12,811,000
Long Term Investments	UN	UN	UN	UN
Deferred Long Term Asset Charges	UN	UN	UN	UN
Other Assets	3,467,000	2,769,000	2,578,000	1,925,000
Goodwill	122,750,000	122,665,000	122,523,000	120,212,000
Total Assets	296,384,000	298,827,000	291,005,000	295,432,000
Accumulated Amortization	UN	UN	UN	UN
Intangible Assets	40,125,000	42,128,000	43,692,000	45,304,000
LIABILITIES				
Current Liabilities				
Accounts Payable	53,043,000	51,608,000	39,354,000	38,992,000
Short Term And Current Long Term Debt	UN	UN	UN	UN
Other Current Liabilities	38,977,000	47,384,000	45,497,000	45,227,000
Total Current Liabilities	92,020,000	98,992,000	84,851,000	84,219,000
Long Term Debt	29,974,000	19,960,000	19,966,000	19,946,000
Deferred Long Term Liability Charges	14,628,000	14,373,000	14,246,000	13,683,000
Negative Goodwill	UN	UN	UN	UN
Minority Interest Expense	UN	UN	UN	UN
Other Liabilities	3,700,000	6,539,000	6,978,000	7,352,000
Misc Stocks Options Warrant	UN	UN	UN	UN
Total Liabilities	140,322,000	139,864,000	126,041,000	125,200,000
SHAREHOLDER'S EQUITY				
Preferred Stock Amount	0	0	0	0
Common Stock	319,881,000	317,767,000	313,408,000	310,646,000
Retained Earnings	-163,818,000	-158,807,000	-148,453,000	-140,416,000
Treasury Stock	UN	UN	UN	UN
Capital Surplus	UN	UN	UN	UN
Other Equity	-1,000	3,000	9,000	2,000
Total Equity	156,062,000	158,963,000	164,964,000	170,232,000

Income Statement

Quarter	Q3	Q2	Q1	Q4
Quarter Ending	Mar 31 2013	Dec 31 2012	Sep 30 2012	Jun 30 2012

Sales (Revenue)	State of Utah	78,320,000	74,636,000	74,984,000	78,458,000
Cost of Goods Sold		30,880,000	30,748,000	29,118,000	30,667,000
Gross Profit		47,440,000	43,888,000	45,866,000	47,791,000
Sales And General Admin		38,767,000	41,031,000	39,351,000	37,362,000
Research and Development Expense		13,065,000	12,195,000	13,953,000	14,719,000
Non-Recurring Charges		0	UN	UN	36,000
Other Operating Items		UN	UN	UN	UN
Operating Income		-4,392,000	-9,338,000	-7,438,000	-4,326,000
Net Total Other Income and Expenses		-194,000	-250,000	11,000	-399,000
Earnings Before Interest and Taxes		-4,586,000	-9,588,000	-7,427,000	-4,725,000
Interest Expense		364,000	676,000	413,000	467,000
Earning Before Tax		-4,950,000	-10,264,000	-7,840,000	-5,192,000
Income Tax Expense		61,000	90,000	197,000	-147,000
Equity Earnings or Loss		UN	UN	UN	UN
Minority Interest Expense		UN	UN	UN	UN
Net Income From Continuing Operations		-5,011,000	-10,354,000	-8,037,000	-5,045,000
Discontinued Operations		UN	UN	UN	UN
Effect of Accounting Changes		UN	UN	UN	UN
Extraordinary Items		UN	UN	UN	UN
Other Non-Operating Expenses		0	0	0	0
Net Income		-5,011,000	-10,354,000	-8,037,000	-5,045,000
Preferred Stocks and Other Adjustments		UN	UN	UN	UN
Net Income Applicable to Common Shares		-5,011,000	-10,354,000	-8,037,000	-5,045,000

Statement of Cash Flow

Quarter	Q3	Q2	Q1	Q4
Quarter Ending	Mar 31 2013	Dec 31 2012	Sep 30 2012	Jun 30 2012
Depreciation	4,159,000	3,922,000	3,728,000	3,905,000
Net Income Adjustments	2,218,000	3,916,000	3,676,000	2,923,000
Changes in Liabilities	-201,000	5,575,000	106,000	-9,087,000
Changes in Accounts Receivables	-251,000	-1,532,000	3,896,000	-1,538,000
Changes in Inventories	-1,357,000	-1,330,000	1,159,000	2,964,000
Changes in Other Operating Activities	587,000	919,000	-1,394,000	6,252,000
Net Cash Flows - Operating Activities	144,000	1,116,000	3,134,000	374,000
Capital Expenditures	-4,024,000	-3,902,000	-1,792,000	-1,603,000
Investments	-3,442,000	5,673,000	4,398,000	2,559,000
Other Cash Flows from Investing Activities	-9,506,000	-805,000	-750,000	-327,000
Net Cash Flows - Investing Activities	-16,972,000	966,000	1,856,000	629,000
Dividends Paid	UN	UN	UN	UN
Sale and Purchase of Stock	106,000	937,000	27,000	1,133,000
Net Borrowings	9,697,000	-318,000	-304,000	-4,891,000
Other Cash Flows from Financing Activities	-41,000	-77,000	-618,000	-47,000
Net Cash Flows - Financing Activities	9,762,000	542,000	-895,000	-4,211,000
Effect of Exchange Rate	UN	UN	UN	UN
Change in Cash and Cash Equivalents	-7,066,000	2,624,000	4,095,000	-3,208,000

Financial Ratios

Quarter	Q3	Q2	Q1	Q4
---------	----	----	----	----

Quarter Ending	Mar 31 2013	Dec 31 2012	Sep 30 2012	Jun 30 2012
Solvency Ratios				
Current Ratio	1.24	1.18	1.30	1.37
Quick Ratio	0.87	0.85	1.01	1.06
Current Liabilities to Net Worth (%)	58.96	62.27	51.44	49.47
Total Liabilities to Net worth (%)	89.91	87.99	76.41	73.55
Current Liabilities to Inventory (%)	418.44	485.66	445.34	416.68
Fixed Assets to Net Worth (%)	10.50	9.12	7.09	7.53
Cash Ratio	0.53	0.53	0.65	0.66
Efficiency Ratios				
Accounts Payable to Sales Ratio	0.68	0.69	0.52	0.50
Sales to Working Capital Ratio	3.62	4.20	2.92	2.53
Sales to Inventory (%)	356.15	366.17	393.55	388.18
Assets to Sales (%)	378.43	400.38	388.09	376.55
ROCE (%)	-2.24	-4.80	-3.60	-2.24
Profitability Ratios				
Return on Net Worth (%)	-3.21	-6.51	-4.87	-2.96
Return on Assets (%)	-1.69	-3.46	-2.76	-1.71
Return on Sales (%)	-5.86	-12.85	-9.90	-6.02
Gross Profit Margin (%)	60.57	58.80	61.17	60.91
Operating Margin (%)	-5.61	-12.51	-9.92	-5.51
Pre-Tax Profit Margin (%)	-6.32	-13.75	-10.46	-6.62
Profit Margin (%)	-6.40	-13.87	-10.72	-6.43
Pre-Tax Return on Equity (%)	-3.17	-6.46	-4.75	-3.05
After Tax Return on Equity (%)	-3.21	-6.51	-4.87	-2.96
Operating Income to Interest Ratio	-12.07	-13.81	-18.01	-9.26
Financial Leverage Ratios				
EBITDA to EBIT Ratio	1.91	1.41	1.50	1.83
Debt to Income Ratio	-28.00	-13.51	-15.68	-24.82
Debt to Equity Ratio	0.90	0.88	0.76	0.74
Equity Ratio (%)	52.66	53.20	56.69	57.62
Interest Coverage Ratio	-12.60	-14.18	-17.98	-10.12
Interest Coverage by EBITDA Ratio	-24.02	-19.99	-27.01	-18.48

Note:UN=Unavailable

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Additional Financial Data

Interim Consolidated statement dated MAR 31 2013

Assets		Liabilities	
Cash	36,773,000	Accts Pay	15,098,000
Accts Rec	32,085,000	Purchase Consideration	3,525,000
Inventory	21,991,000	Accruals	37,945,000
Mktble Securities	11,598,000	Deferred Revenue	35,452,000
Indemnification Asset	5,674,000		
Prepaid Exps & Other Current Assets	5,531,000		
Curr Assets	113,652,000	Curr Liabs	92,020,000

Fixt & Equip	16,390,000	Revolving Credit Facility-Net	29,974,000
Goodwill	122,750,000	L.T. Liab-Other	3,700,000
Intangible Assets-Net	40,125,000	Def. Credits/Income	14,628,000
Other Assets	3,467,000	COMMON STOCK	319,881,000
		ACCUM OTHER COMPREHENSIVE LOSS	(1,000)
		RETAINED EARNINGS	(163,818,000)
Total Assets	296,384,000	Total Liabilities + Equity	296,384,000

From JUL 01 2012 to MAR 31 2013 sales \$227,940,000; cost of goods sold \$90,746,000. Gross profit \$137,194,000; operating expenses \$158,362,000. Operating income \$(21,168,000); other income \$118,000; other expenses \$2,004,000; net income before taxes \$(23,054,000); Federal income tax \$348,000. (net loss) \$23,402,000.

Statement obtained from Securities And Exchange Commission. Prepared from books without audit.

Accounts receivable shown net less \$650,000 allowance. Fixed assets shown net less \$18,283,000 depreciation.

Explanations
The net worth of this company includes intangibles.

Statement obtained from Securities And Exchange Commission.

Key Business Ratios

Statement Date	Mar 31 2013		
Based on this Number of Establishments	11		
Industry Norms Based On 11 Establishments			
	This Business	Industry Median	Industry Quartile
Profitability			
Return on Sales %	(10.3)	(1.5)	4
Return on Net Worth %	UN	(0.9)	UN
Short-Term Solvency			
Current Ratio	1.2	3.0	4
Quick Ratio	0.7	1.5	4
Efficiency			
Assets to Sales %	UN	101.8	UN
Sales / Net Working Capital	10.5	1.9	1
Utilization			
Total Liabilities / Net Worth (%)	UN	48.3	UN

UN = Unavailable

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the year ended June 30, 2012

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number: 001-33506

SHORETEL, INC.

(Exact name of Registrant as specified in its charter)

Delaware **3661** **77-0443568**
(State or other jurisdiction of incorporation or organization) (Primary standard industrial code number) (I.R.S. employer identification no.)

960 Stewart Drive
Sunnyvale, CA 94085-3913
(408) 331-3300

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

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, \$0.001 par value.

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of December 31, 2011 was approximately \$236.4 million (based on the last reported sale price of \$6.38 on December 31, 2011 on The NASDAQ Global Select Market). This calculation does not reflect a determination that persons are affiliates for any other purposes. Shares of stock held by ten percent stockholders have been excluded from this calculation as they may be deemed affiliates.

The number of shares outstanding of the registrant's common stock as of August 30, 2012 was 58,315,627.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the Registrant's definitive proxy statement (the "2012 Proxy Statement") for the 2012 Annual Meeting of Stockholders.

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TRADEMARKS

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AVAILABLE INFORMATION

Our Internet address is www.shoretel.com. On our Internet website, we make publicly available free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

In addition, the public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

The charters of our Audit Committee, our Compensation Committee and our Corporate Governance and Nominating Committee, as well as our Code of Business Conduct and Ethics, are available on the Investor Relations section of our website under "Corporate Governance." This information is also available by writing to us at the address on the cover of this Annual Report on Form 10-K.

This report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations concerning matters that are not historical facts. Words such as “projects,” “believes,” “anticipates,” “plans,” “expects,” “intends” and similar words and expressions are intended to identify forward-looking statements. While we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot assure you that those expectations will prove to be correct. Important factors that could cause our actual results to differ materially from those expectations are disclosed in this report, including, without limitation, in the “Risk Factors” described in Part I, Item 1A. All forward-looking statements are expressly qualified in their entirety by these factors and all related cautionary statements. We do not undertake any obligation to update any forward-looking statements.

PART I

ITEM 1. BUSINESS

Overview

ShoreTel is a leading provider of brilliantly simple business communication solutions, comprised of integrated voice, video, data and mobile applications based on Internet Protocol (IP) technologies. We provide customers with a choice to operate our solution in their own premise-based data centers, or to subscribe to our cloud-based hosted communication service which we refer to as ShoreTel Sky. Our distributed Internet Protocol (“IP”) architecture enables multi-site enterprises to be served by a single integrated communication system. These solutions enable a single point of management, easy installation and a high degree of scalability and reliability. They also provide end-users with a consistent, full suite of features across the enterprise, regardless of location, which helps IT management meet growing demands for powerful communication capabilities. As a result, we believe our solutions enable enhanced end-user productivity and provide lower total cost of ownership and higher customer satisfaction than alternative systems.

We sell our solutions through our extensive network of over 1,000 authorized resellers served either by national distributors or by ShoreTel directly. ShoreTel solutions are also sold by strategic partners under their brand names, such as AT&T and HP for our mobility services.

We were originally incorporated in California in September 1996, and reincorporated in Delaware in June 2007. ShoreTel is based in Sunnyvale, California, and has regional offices North America, Europe, Asia and Australia.

Business Communication Products and Services

History

ShoreTel introduced its first suite of premise products in 1998. We believe our unique focus and approach has resulted in high customer satisfaction and low total cost of ownership.

In order to meet the customer’s evolving requirements for alternative forms of communications, such as instant messaging, desktop sharing and collaboration, we extended our portfolio of IP telephony solutions by developing integrated Unified Communications (UC) capabilities and applications. We maintain our same approach of making UC brilliantly simple, resulting in a high adoption rate for these new emerging solutions.

With the increasing adoption of smart phones and tablets and with more employees requesting the support of devices they bring to work for communication purposes, we extended our mobility service offering of our UC solution in 2010 by acquiring Agito Networks, a provider of mobility solutions supported on IP based Private Branch Exchanges (PBXs). We anticipate more customers will enable their employees to use the

most appropriate device for communications for each user no matter whether they are located at the office, home, airport or around the world. Our strategy is to provide a complete portfolio of IP-based desk phones, and software applications for smartphones, tablets and computers to ensure customers have the most flexibility with their communication needs.

Over time, we observed an increasing number of customers embracing cloud-based services and hosted applications. We made a strategic decision in 2012 to acquire M5 Networks, Inc. (“M5” or “M5 Networks”). M5’s technology, service experience, execution in service delivery, and reputation for excellence in customer service provides the foundation to provide hosted services, and we now offer integrated hosted services to our premise customers. We have expanded M5’s existing solutions to create the ShoreTel Sky offering, which includes hosted UC services for a mobile device. We are developing and planning the introduction of new ShoreTel Sky services which will also become available to our existing and new premise customers.

We believe we have a unique opportunity to leverage our customer satisfaction and experience in delivering a world class service to customers in premise solutions, within the hosted ShoreTel Sky services organization. We now have an opportunity to offer customers a choice of a premise or a hosted platform from which to access Unified Communications applications.

Business Communication Solutions

ShoreTel provides a diverse set of applications for both premise and ShoreTel Sky customers, consisting of IP Telephony, Unified Communications, Contact Center, Conferencing, Video, Enterprise Mobility and professional services.

IP Telephony

ShoreTel offers a broad range of IP telephony solutions that provide business features commonly offered in existing legacy Time Division Multiplexing (TDM) PBXs, but with lower cost and lesser complexity for system administrators or users. Complex star codes on phone key pads are replaced by intuitive user interfaces. We replaced complex administration historically required for system management by highly skilled system administrators with extensive training with intuitive web application interfaces, which results in significantly lower cost of ownership to the customer.

- *IP Phones:* We offer a range of innovative, high performance designed business phones to meet the needs of the different types of end-users across the enterprise. Our phones are designed to provide superior ergonomics, sound quality and appearance. We offer a variety of phones that vary by user interface style and size, sound quality, line capacity and Gigabit Ethernet support. A large color touch screen graphical user interface with haptic feedback is available to provide a rich user experience and high functionality. Our products use beam forming microphones to provide enhanced speakerphone sound quality. ShoreTel IP Phones are designed to function with minimal configuration, simplifying installation. Remote workers can also utilize ShoreTel IP Phones using an integrated Virtual Private Network (VPN) feature and mobile workers can select Wi-Fi phones that work with the open interfaces of the system. We also support a variety of third party phones from leading manufacturers such as Polycom, Ascom and Cisco Systems for our ShoreTel Sky customer deployments.
- *Unified Messaging:* Unified Messaging solutions enable users to obtain voice mail messages from a variety of devices, including desktop phones, and various third party tablets and smart phones. In addition, our technology is integrated with Microsoft Outlook, enabling end users to receive, send, be notified of and play voice mail messages through their laptops.
- *Automated Attendant:* Our Automated Attendant software provides end users with an automated call answering and routing capability that enables the enterprise to direct callers to appropriate individuals, groups or messages.

Unified Communications

ShoreTel Unified Communications enables the integration of IP telephony solutions with instant messaging, desktop collaboration and video.

- *PC Clients:* ShoreTel Communicator is designed for users across an organization, whether an operator, a contact center agent, a knowledge worker or a mobile worker. Available on multiple operating systems, ShoreTel Communicator makes it easy for people to communicate any way they choose: by video, voice (wired or wireless), instant messaging (IM), and more. One single interface makes training simple and reduces the IT workload because there is just a single application to support and no additional servers to deploy and maintain.
- *Conferencing and Collaboration:* ShoreTel enables enterprises to conduct large audio conferences and provides collaboration tools for application sharing, desktop sharing, and instant messaging and end-user presence information.
- *Microsoft Integration™:* For customers seeking to leverage their investment in Microsoft's Unified Communications portfolio, ShoreTel offers a range of integration options. Users can leverage their Microsoft Exchange messaging platform and Microsoft Office.

Contact Center

Contact Center enables organizations to route incoming contacts to the most appropriate agent in a multisite contact center, regardless of location. ShoreTel Contact Center includes a range of options including agent phones, switching infrastructure, end-user interfaces, and platform software. The solution features call handling, self-service, multi-media, and reporting capabilities. Contact Center applications provide a range of features to satisfy the needs of all sizes of organizations, from basic call center capabilities to sophisticated distributed multimedia contact center capabilities.

Enterprise Mobility

ShoreTel Mobility extends the capabilities of a desk phone and Unified Communications capabilities to leading smartphones and allows the user to communicate from any location, including office, home or through Wi-Fi hotspots, enabling access to any cellular or Wi-Fi network, simply and cost effectively. ShoreTel Mobility solutions for smartphone users consist of a ShoreTel appliance coupled with system management and end-user software. Our mobility offering also works across several leading IP-PBXs and UC systems on the market today, including Cisco, Avaya, and Microsoft Lync. Mobility solutions are available both as part of our premise solution and also offered as a separate service as part of ShoreTel Sky.

- *ShoreTel RoamAnywhere Client:* ShoreTel Mobility's RoamAnywhere Client for mobile devices is designed to extend UC applications with location technology information to single- and dual-mode (WiFi and cellular) mobile handsets. End users can use their enterprise deskphone features such as extension dialing, call transfer and directory query on their smartphones. Additionally, they can make and receive calls from both enterprise and personal cellular numbers while the best network (Wi-Fi or cellular) is automatically selected. Seamless and automatic network handover helps call continuity across networks, and moves calls to Wi-Fi when available, thereby reducing usage costs.
- *ShoreTel Mobility Router:* The ShoreTel Mobility Router is a scalable network appliance that integrates enterprise wireless LANs, carrier cellular networks, IP telephony and location technology to extend voice and UC to mobile devices. The router allows users to make and receive calls from both the enterprise and personal mobile phone numbers and automatically selects the best network (Wi-Fi or cellular) with fast and automatic network handover, to optimize cost, call quality and battery life of the mobile phone.

Application Development Professional Services

ShoreTel offers custom application development, integration and implementation services for businesses with unique communication requirements. We offer businesses the option to enhance their communications solution by enabling the integration of best in breed business applications including several customer relationship management (CRM) solutions, such as Salesforce.com, Microsoft Dynamics, Netsuite and RightNow, as well as cost recovery applications, including Equitrak, Copitrak, and Lexis/Nexis Time Matters. These integrations are designed to improve the productivity of end users that use these applications by seamlessly integrating communications capabilities into their data-driven workflow. Customers or partners can create additional integrated applications using the open interfaces of the system available for developers through the ShoreTel Innovation Network. ShoreTel Innovation Network is where other third-party companies can offer solutions that complement our product offerings, such as video technology, wireless phones, contact center call recording, and networking equipment.

ShoreTel's Unique Distributed Architecture for Premise Customers

ShoreTel provides a unique modern hardware and software architecture for premise customers, which offers the high availability and reliability needed for mission critical communications previously served by TDM technologies. Our premise business communication solutions are comprised of hardware and software components including ShoreTel Voice Switches, ShoreTel IP Phones, ShoreTel Service Appliances and ShoreTel Client and Server Software Applications. ShoreTel provides client and server-side application software for control and management of IP phones for individuals, workgroups such as contact centers, as well as the system manager. Client applications are available for personal computers, mobile phones and web browsers. Our systems are based on a combination of our proprietary software, industry-standard interfaces and protocols, and customized and off-the-shelf hardware components.

- *ShoreTel Voice Switches:* We offer a range of ShoreTel designed switches of varying capabilities to meet the needs of enterprises of all sizes. The modular nature of our switches allows our enterprise customers to easily expand their system capacity by deploying additional switches across their network. ShoreTel Voice Switches are comprised of off-the-shelf, embedded microprocessors and networking components, such as Ethernet controllers, and customized integrated circuits. These Voice Switches run on an embedded operating system, and use random access memory and flash memory as well as our switch call management software for application processing. Our switches provide call management functionality. Each switch in the system is capable of independently establishing and terminating calls without relying on a centralized call control server. As a result, enterprise Unified Communications can survive a variety of LAN, WAN and hardware failures. The reliability of our switches is enhanced by two key design features: (i) the use of flash memory instead of disk drives and (ii) running an embedded operating system optimized for real-time processing, such as call management. Unlike disk drives, flash memory does not rely on mechanical movement, and therefore is less likely to break down. Furthermore, our embedded operating system enables a higher performing and more reliable software platform relative to server-centric IP systems because it is optimized for real-time processing. The reliability of the system can be further improved by adding an additional switch to the headquarters location to create “n+1” redundancy, rather than requiring a dedicated back-up switch for each primary switch to improve reliability as needed by alternative systems. In addition, our switches connect to the public telephone network through one of several interfaces, including high-density T1 and E1 interfaces.
- *ShoreTel Service Appliances:* We offer a range of ShoreTel designed appliances for specific applications, such as conferencing and collaboration. The administration of these service appliances is functionally integrated with the IP Telephony Web Administration. Appliances are automatically recognized by the ShoreTel Director software and user functions are seamlessly integrated with the user management application, eliminating the complexity found with other systems.

- *ShoreTel Director*: ShoreTel Director provides enterprises with a single point of system management, enabling IT administrators to view and manage the entire system from any location using a single application. A new end user's extension, mailbox and automated attendant profile can be added from a single management screen, avoiding the additional work required with most PBXs, voice mail systems and automated attendants.
- *Small Business Edition*: Our Small Business Edition (SBE) solution is targeted for smaller enterprises who are in their early stages or are currently operating on a relatively smaller scale than our enterprise customers. The solution is a bundled solution consisting of system software, user licenses and voice switches. This solution allows our customers to economically scale our products and solutions as their organizations begin to grow and expand. Customers that grow beyond the capacity of the SBE solution may expand their investment by adding additional switches and licenses, while preserving their original investment and avoiding costly upgrades.
- *ShoreTel IP Phones*: ShoreTel IP phones are comprised of enterprise IP phone semiconductors using customized LCD displays, microphones, speaker circuitry and custom software providing single installation and management, ease of use and a rich feature set.

Our distributed software architecture for premise customer includes software that:

- allows a geographically-distributed system to operate and be managed as a single system;
- enables calling between ShoreTel Voice Switches and allows calls to be distributed among Voice Switches instead of using a single centralized call control server;
- enables ShoreTel Voice Switches to obtain call routing information;
- monitors the bandwidth consumed on each WAN segment and prevents the system from exceeding bandwidth limitations;
- monitors all call activity on Voice Switches, and enables integration of ShoreTel and third-party applications;
- coordinates the functions of all servers and Voice Switches on the system, allowing them to perform as a single, virtual server;
- enables remote ShoreTel and third-party applications to access and modify our systems;
- enables the Voice Switches to communicate with the application server, and receive system configuration information;
- allows each Voice Switch to maintain a comprehensive view of the system;
- provides a graphical user interface for our phones; and
- allows the system to scale from small to large simply by adding additional components.

ShoreTel Global Services

We complement our premise product offerings with a broad range of services to help us maintain and expand our relationships with our enterprise customers and distribution partners. Our product support contracts provide us with recurring revenue. Typically, our resellers provide many of these services, with ShoreTel providing manufacturer and escalation support as needed, or if requested by the enterprise customer, we provide these services directly.

ShoreTel Global Services provides support, training, system design and installation, and professional services including:

- Our support services include web-based access support services and tools, access to technical support engineers, hardware replacement, software updates and monitoring capabilities. These services are offered under support contracts with terms of up to five years.
- Training services include certification programs for resellers, training programs at enterprise customer or reseller locations and self-paced, computer-based desktop training programs.
- System design and installation services include the assessment of network capabilities used in Unified Communications, contact center and mobility requirements of a particular enterprise, the configuration of systems to meet customer specifications and maximize operating efficiencies, management of the installation, and the subsequent testing and implementation of our systems.
- Professional services include standard and custom software development to extend system capabilities, enable UC integration with other enterprise applications, streamline business processes and address enterprise customer-specific business opportunities and collaborate with third party developers through ShoreTel's SDK program, the ShoreTel Innovation Network.

ShoreTelSky Architecture and Services for Hosted Customers

Our ShoreTel Sky services offer a secure and managed business communications solution to an organization with minimal capital investment. The heart of the ShoreTel Sky service is our Call Conductor core technology, a ShoreTel designed and developed modular software architecture operating on an industry standard platform, which makes it easy to add capabilities in response to a customer's evolving needs and enables it to integrate readily with leading business applications. This was specifically designed to meet the unique requirements of the hosted communications market, offering a full portfolio of services to customers, including soft-switch services for IP telephony, integrated software modules for Unified Communications, Contact Center, Mobility, Conferencing and Collaboration, Business Intelligence Analytics and Reporting. By incorporating a multi-tenant software foundation, multiple customers can be served simultaneously by servers located in data centers. ShoreTel Sky technologies are complemented by a series of services modules that enable billing, diagnostics, system monitoring, CALEA regulatory compliance, E911 routing and other relation operational services. A variety of customer selectable network services are also available, including local and long distance network services, toll free numbers, number porting and other value-added network services.

ShoreTel Sky Operations

We have a centrally managed platform consisting of data management, monitoring, control and billing systems that support our ShoreTel Sky services. This platform consists of a customer quotation portal, customer provisioning, customer access, fraud control, network security, call routing, call monitoring, media processing and normalization, call reliability, and call record storage and billing. Our platform monitors our process of digitizing and compressing voice and video into packets and transmitting these packets over data networks around the world. We maintain a call switching platform in software that manages call control, and routes calls to an appropriate destination or customer premise equipment. Our billing and back office systems manage and enroll customers and bill calls as they originate and terminate on the service.

Network Operations Center

We maintain network operations centers in New York and provide voice and data operations support 24 hours a day, 7 days per week. We use various tools to monitor and manage all elements of our network in real-time. We also monitor the network elements of some of our larger customers. Additionally, our network operations center provides technical support to troubleshoot equipment and network problems. We also rely upon the network operations centers and resources of our telecommunications carrier partners to augment our monitoring and response efforts.

Customer and Technical Support

We maintain a call center in New York that provides customer service and technical support to our ShoreTel Sky customers. In addition, we have outsourced some customer support activities to third parties. Customers who access our services directly through our website receive customer service and technical support through multilingual telephone communication, web-based sessions, "chat" sessions, and e-mail support.

ShoreTel Sky Professional Services

ShoreTel provides consultation and professional services for integrating other hosted services with the ShoreTel Sky offering, such as Salesforce.com integration and other Customer Relationship Management Applications integration. This includes application specification gathering, design services, implementation services and operational consultation services.

ShoreTel Sky Data Centers

ShoreTel operates multiple data centers in the United States, which are co-located in service facilities operated by third party operators. These data centers have specific guidelines for providing world class service for customers including sufficient physical building security, network operations and resiliency services and backup power generation. These operations centers house the application servers and proprietary technologies used to provide services to customers.

The key elements of our ShoreTel Sky applications and services include:

- ShoreTel designed modular software architecture and service creation environment for rapid design;
- development and introduction of new services;
- demonstrated excellence in customer service, with high customer satisfaction rating;
- experience in customer implementations;
- complete portfolio of operational services for billing, system management, and other requirements; and
- support for industry standard interfaces, enabling support for third party devices from other vendors such as Cisco and Polycom.

Industry Recognition

We have achieved broad industry recognition for our technology and high customer and channel partner satisfaction. (Our channel partners include resellers as well as value-added distributors who in turn sell to the resellers.) We have won the "best overall" CustomerSat Achievement award (ACE) for three years in a row. ShoreTel received Gartner's highest possible rating of Strong Positive¹ in their most recent 2012 Unified Communications MarketScope Report for SMB Businesses in North America.

Customers

As of June 30, 2012, we have sold our solutions to more than 24,000 businesses in 50 countries. We serve a wide range of vertical markets, including professional services, financial services, government, education, health care, manufacturing, non-profit organizations, and technology industries.

ShoreTel has been selected by industry leaders that place our communication solutions at the heart of their organizations for serving their employees and customers, such as The San Francisco Giants, Miami Marlins, Verizon Center, Cleveland Clinic, City of Arlington, GreenBay Public Schools, CNet, Brita, Brunswick, Wedbush Securities, First Republic Bank, US Army Corp of Engineers, USDA, Cummins, Fujitsu, Girl Scouts of America, HayGroup, Robert Half, Gensler, Twitter, LinkedIn, Good Samaritan Society, Maxim, and Randstad.

Focus on Customer Satisfaction

We believe that maintaining the highest possible levels of customer satisfaction is critical to our ability to retain existing and gain new enterprise customers. We believe that satisfied enterprise customers will purchase more of our products and serve as advocates for our systems, and we work closely with them as they deploy and use our systems. We follow implementations with a formal review with the enterprise customer that involves contacts with our internal staff and third-party technical personnel. We take prompt action to resolve any issues that might have been identified. We also have frequent follow-up contacts with our enterprise customers to promptly resolve issues and ensure that they are fully satisfied with their system. We also survey enterprise customers that use our technical support services and our knowledge base system users to ensure that high-quality support services are being provided, using industry-recognized Net Promoter Score customer loyalty metric. Through this process, we gain valuable insights into the existing and future requirements of our enterprise customers' activities and this helps us develop product enhancements that address the evolving requirements of enterprises.

Additionally, to promote high-quality support throughout our services organization, we measure performance indicators of our services organization, including call answer times, call abandon rates, customer satisfaction with technical support, time to issue resolution, call interaction quality, as well as customer satisfaction with system implementation, training services and technical support, and use the results to direct the management of our services organization.

We also monitor our enterprise customers' satisfaction with our channel partners by surveying our enterprise customers after the system is installed. We actively encourage our channel partners to maintain and improve our enterprise customers' levels of satisfaction. We also monitor our channel partners' satisfaction with ShoreTel, as their satisfaction with and advocacy of ShoreTel is also very important to our success.

Sales and Marketing

We sell our premise products and services primarily through an extensive network of channel partners that include resellers and value-added distributors. Our hosted services are sold through indirect channel resellers and a direct sales force. As of June 30, 2012, we had over 1,000 channel partners in our network. These channel partners range in size from single-site, regional firms with specialized products and services to multi-national firms that provide a full range of IT products and services. They also include the top U.S. telecommunication carriers: AT&T, WindStream and Qwest/CenturyLink. Our channel partners market and sell our products into both the large and small-to-medium enterprise markets.

¹ Gartner, "MarketScope for Unified Communications for the SMB Market, North America", August 2010. The Gartner Report described herein represents data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Filing) and the opinions expressed in the Gartner Report are subject to change without notice. Gartner does not endorse any vendor, product or

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We maintain a sales organization that recruits, qualifies and trains new channel partners, participates in sales presentations to potential enterprise customers and assesses customer feedback to assist in developing product roadmaps. As part of our increased focus on sales to large accounts, we also have a major accounts program whereby sales personnel assist our channel partners in selling to and providing support for large enterprise customer accounts.

We believe our channel partner network allows us to effectively sell our systems without the need to build large dedicated in-house sales and service capabilities. We continue to work with existing channel partners to expand their sales of our systems and to recruit new channel partners with a focus on increasing market coverage.

Our internal marketing team focuses on increasing our “Brilliantly Simple” brand awareness, communicating product advantages and generating qualified leads for our sales force and channel partners. In addition to providing marketing materials, we communicate product and service offerings through e-mail and direct mail campaigns, print and web-based advertising, press releases and web-based demonstrations.

Backlog

Our backlog at June 30, 2012, 2011 and 2010 was approximately \$4.6 million, \$6.1 million and \$9.1 million, respectively. Our backlog consists of orders received from our resellers but not shipped before the end of the quarter in which the order was received, and excludes orders from our value-added distributors, as we recognize product revenue on sales made through distributors upon sell-through to our resellers. Although we believe that the orders included in the backlog are firm, all orders are subject to possible rescheduling by customers and some orders may be cancelled by customers, and we may elect to allow such cancellations without penalty to the customer. Therefore, we do not believe that our backlog, as of any particular date, is necessarily indicative of actual revenue for any future period.

Research and Development

We believe that our ability to enhance our current products and services, develop and introduce new products and services on a timely basis, maintain technological competitiveness and meet enterprise customer requirements is essential to our success. To this end, we have assembled a team of engineers with expertise in various fields, including voice and IP communications, Unified Communications network design, data networking and software engineering. Our research and development activities are conducted in Sunnyvale, California, Austin, Texas and Rochester, New York. We have invested significant time and financial resources into the development of our architecture, including our switches, routers and related software. We intend to continue to expand our product and service offerings, improve the features available on our products and services and integrate our systems with third-party enterprise applications. Research and development expenses were \$51.9 million, \$45.5 million and \$33.6 million in fiscal years 2012, 2011 and 2010, respectively.

Manufacturing and Suppliers

We outsource the manufacturing of our premise hardware products. This outsourcing allows us to:

- avoid costly capital expenditures for the establishment of manufacturing operations;
- focus on the design, development, sales and support of our hardware products; and
- leverage the scale, expertise and purchasing power of specialized contract manufacturers.

Currently, we have arrangements for the production of our switches and mobility routers with a contract manufacturer in the United States and for the production of our phones with contract manufacturers located in China. Our reliance on contract manufacturers involves a number of potential risks, including the absence of adequate capacity, ownership of certain elements of electronic designs, and reduced control over delivery schedules. Our contract manufacturers provide us with a range of operational and manufacturing services, including component procurement and performing final testing and assembly of our products. We typically depend on our contract manufacturers to procure components and to maintain adequate manufacturing capacity. We typically fulfill product orders out of our California, New York, United Kingdom or Australia warehouses.

We regularly provide forecasts for orders, and we order products from our contract manufacturers based on our projected sales levels, which is well in advance of receiving customer orders. However, enterprise customers may generally cancel or reschedule orders without penalty, and delivery schedules requested by enterprise customers for these orders frequently vary based upon each enterprise customer's particular needs.

We also rely on a sole or limited number of suppliers for several key components utilized in the assembly of our premise products. For example, our contract manufacturers purchase semiconductors that are essential to the production of our phones from a single source supplier, and we have not identified any alternative suppliers for these components. This reliance is amplified by the fact that our contract manufacturers maintain relatively low inventories and acquire components only as needed. As a result, our ability to respond to enterprise customer orders efficiently may be constrained by the then-current availability or terms and pricing of these components. Constraints on our ability to respond efficiently is partially offset by build-up of levels of safety stock inventory which lets us respond to our enterprise customer orders in a timely manner. We cannot assure you that we will be able to obtain a sufficient quantity of these components in a timely manner to meet the demands of our enterprise customers or that prices of these components will not increase. In addition, we cannot assure you that our suppliers will continue to offer components that we need. Any delays or any disruption of the supply of these components could also materially and adversely affect our operating results.

Financial Information about Geographic Areas

For financial information about geographic areas, refer to Note 13 to the Consolidated Financial Statements in Item 8 of this report.

Competition

The market for business communication solutions is quickly evolving, highly competitive and subject to rapid technological change. As a result of the convergence of voice, video, messaging, mobility and data networking technologies that characterize IP enterprise Unified Communications solutions, we compete against vendors of premise-based solutions, hosted solutions, some of which have solutions in both markets.

- Providers of premise-based business communication solutions, including Alcatel-Lucent, Aastra, Avaya, Cisco, Digium, Interactive Intelligence, Mitel, NEC and Siemens
- Providers of Unified Communications software applications providers, including Alcatel Lucent, Aastra, Avaya, Cisco Systems, Huawei, IBM, Interactive Intelligence, Siemens Enterprise Communications, Microsoft, Mitel, NEC and Toshiba
- Providers of hosted communication service providers including Tier 1 operators such as AT&T, British Telecom, Verizon, incumbent local exchange carriers, and competitive local exchange carriers, and independent providers such as 8x8, Broadsoft, Cisco Systems, West IP Communications, Google, Microsoft, Siemens Enterprise Networks, RingCentral, Thinking Phones, and Smoothstone/West IP.

In addition, because the market for our products is subject to rapid technological change as the market evolves, we may face competition in the future from companies that do not currently compete in the enterprise unified communications market, including companies that currently compete in other sectors of the information technology, communications and software industries or communications companies that serve consumer rather than enterprise customers.

We may also face increased competition from Internet portal-focused providers who extend their portfolio to include business communications solutions, such as Skype/Microsoft, Google and Yahoo.

In particular, as more enterprises converge their voice and data networks, the business information technology and communication applications deployed on converged networks become more integrated. We may face increased competition from current leaders in information technology infrastructure, information technology, personal and business applications and the software that connects the network infrastructure to those applications. This could include network systems providers such as Brocade and Juniper Networks.

We could also face competition from new market entrants, whether from new ventures or from established companies moving into the market. Competition from these and other potential market entrants may take many forms, including offering products and applications similar to those we offer as part of a larger, bundled offering or as a cloud-based or hosted services offering. In addition, technological developments and consolidation within the communications industry result in frequent changes to our group of competitors.

Many of our current and potential competitors are substantially larger than we are and have higher brand familiarity with buyers, and significantly greater financial, sales, marketing, distribution, technical, manufacturing and other resources. We believe that we currently compete favorably with regard to the principal competitive factors applicable to our products and services, which include price, feature set, reliability, scalability, usability, total cost of ownership, customer satisfaction and service.

For more information concerning competition, please see “Risk Factors - Risks Related To Our Business and Industry – “The market in which we operate is intensely competitive, and many of our competitors are larger, more established and better capitalized than we are” and – “As voice, video, messaging and data networks converge, we are likely to face increased competition from Microsoft and other companies in the information technology, personal and business applications and software industries.”

Regulatory

Voice over IP (VoIP) communication services, like ours, have been subject to less regulation at the state and federal levels than traditional telecommunications services. Providers of traditional telecommunications services are subject to the highest degree of regulation, while providers of information services are largely exempt from most federal and state regulations governing traditional common carriers. The Federal Communications Commission (FCC) has subjected VoIP service providers to a smaller subset of regulations that apply to traditional telecommunications service providers and have not yet classified VoIP services as either telecommunications or information. However, the FCC is currently examining the status of VoIP service providers and the services they provide in multiple open proceedings and may increase regulations that apply to ShoreTel Sky services.

The effect of any future laws, regulations and orders on the ShoreTel Sky offering is unknown at this time. But as a general matter, increased regulation and the imposition of additional funding obligations increases service costs that may or may not be recoverable from our customers. This increased regulation could result in making our services less competitive with traditional telecommunications services if we increase our retail prices or decreasing our profit margins if we attempt to absorb such costs.

Intellectual Property

A factor of our success as a company is our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, as well as customary contractual protections.

As of June 30, 2012, we have 53 patents issued in the United States, and have 72 patent applications in the United States. Our patents have a range of expiration dates. The earliest patent to expire will do so in 2016, and the last to expire will do so in 2031.

The steps we have taken to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our intellectual property rights and may challenge our issued patents. In addition, other parties may independently develop similar or competing technologies designed around any patents that are or may be issued to us. We intend to enforce our intellectual property rights vigorously, and from time to time, we may initiate claims against third parties that we believe are infringing on our intellectual property rights if we are unable to resolve matters satisfactorily through negotiation. If we fail to protect our proprietary rights adequately, our competitors could offer similar products, potentially significantly harming our competitive position and decreasing our revenue.

Employees

As of June 30, 2012, we had 933 employees in North America, Europe, Asia and Australia, of which 342 were in sales and marketing, 275 were in research and development, 227 were in global support services, and 89 were in general and administrative functions. None of our employees are represented by labor unions and we consider current employee relations to be good.

Executive Officers

The following table sets forth information about our executive officers as of September 1, 2012:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Peter Blackmore	64	President, Chief Executive Officer and Director
Michael E. Healy	51	Senior Vice President and Chief Financial Officer
Edwin J. Basart	63	Founder and Chief Technology Officer
		Vice President, Corporate Development,
Ava M. Hahn	39	General Counsel and Secretary
		President and General Manager of the Cloud
Dan Hoffman	43	Division
Don Joos	42	Senior Vice President, Business Operations
David Petts	49	Senior Vice President, Worldwide Sales
Pedro E. Rump	56	Senior Vice President, Engineering and Operations

Peter Blackmore has served as our President and Chief Executive Officer and a director since December 2010. From July 2008 to September 2009 Mr. Blackmore served as President, Chief Executive Officer and a member of the Board of Directors of UTStarcom, Inc., a provider of IP-based network solutions, and served as President and Chief Operating Officer of UTStarcom from July 2007 to June 2008. From 2005 until he joined UTStarcom, Mr. Blackmore served as Executive Vice President in charge of world-wide sales, marketing and technology at Unisys Corporation. Prior to joining Unisys in 2005, Mr. Blackmore served as Executive Vice President of the Customer Solutions Group at Hewlett-Packard Company from 2004 and as Executive Vice President of the Enterprise Systems Group from 2002 through 2004. From 1991 until its acquisition by Hewlett-Packard in 2002, Mr. Blackmore served in a number of senior management positions with Compaq Computer Corporation, most recently as its Executive Vice President of worldwide sales and services from 2000 through 2002. Mr. Blackmore serves on the board of directors of MEMC Electronic Materials, Inc. Mr. Blackmore holds an M.A. in economics from Trinity College, Cambridge, U.K.

Michael E. Healy has served as our Senior Vice President and Chief Financial Officer since May 2007. From February 2004 to May 2007, he served as Chief Financial Officer and Senior Vice President of Finance of Genesis Microchip Inc., a supplier of display image processors. From November 2002 to February 2004, Mr. Healy served as Chief Financial Officer of Jamcracker, Inc., a software and application service provider. From September 1997 to June 2002, Mr. Healy held senior level finance positions at Exodus Communications, Inc., an Internet infrastructure outsourcing services provider (Exodus Communications sold substantially all of its assets in January 2002 and changed its name to EXDS, Inc. in February 2002), including as Senior Vice President of Finance prior to February 2002, and as its Chief Financial Officer and Corporate Treasurer from February 2002 to June 2002. From 1987 to 1997, Mr. Healy held various financial management positions at Apple Computer, Inc., and was an auditor at Deloitte & Touche LLP from 1983 to 1987. Mr. Healy holds a B.S. in accounting from Santa Clara University and is a Certified Public Accountant. Mr. Healy is a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

Edwin J. Basart co-founded ShoreTel in 1996 and has served as our Chief Technology Officer and as a director since inception. Mr. Basart also served as a director from 1996 to November 2011 and has served as Special Advisor to the Board since November 2011, and will also continue to serve as our Chief Technology Officer. Prior to co-founding ShoreTel, Mr. Basart co-founded Network Computing Devices, Inc., a provider of thin client computing hardware and software, where he served as Vice President of Engineering, and Ridge Computers, Inc. where he served as Vice President of Software. Mr. Basart began his career as a software engineer at Hewlett Packard. Mr. Basart holds a B.S. in English from Iowa State University and an M.S. in electrical engineering from Stanford University.

Ava M. Hahn has served as our Vice President, General Counsel and Secretary since May 2009 and added Corporate Development to her responsibilities in April 2012. Ms. Hahn joined ShoreTel in June 2007 serving in the position of General Counsel and Secretary. From August 2002 to May 2007, Ms. Hahn served as General Counsel, Assistant General Counsel and Secretary for Genesis Microchip, Inc., a supplier of display image processors. From August 2000 to August 2002, Ms. Hahn served as Director, Legal Affairs for LuxN, Inc., a provider of optical access equipment. Prior to then, Ms. Hahn was in private practice at Wilson Sonsini Goodrich & Rosati, P.C. Ms. Hahn holds a J.D. from Columbia Law School and a B.A. in history from the University of California, Berkeley.

Dan Hoffman has served as our President and General Manager of Cloud Division since March 2012. Before ShoreTel, Mr. Hoffman served as Chief Executive Officer of M5 Networks, Inc. since May 2001. Prior to M5 Networks, Inc., Mr. Hoffman co-founded Global Internet Group where he served as President, from July 1998 to January 1999, before selling the company to Asia Online, an ISP holding company based in Hong Kong. Mr. Hoffman served as Managing Director from January 1999 to January 2001. Mr. Hoffman holds a M.B.A. from the Wharton School of Business, a M.A. in international studies from the University of Pennsylvania and a A.B. Magna Cum Laude in Slavic language and literature from Harvard.

Don Joos has served as our Senior Vice President of Business Operations since July 2012. Mr. Joos joined ShoreTel in April 2011 as our Vice President of Global Services. Prior to joining ShoreTel, from December 2001 to April 2011, Mr. Joos served in senior management roles at Avaya, most recently as Vice President Channel Transformation. Prior to then, Mr. Joos held a variety of operational roles, including Vice President, Integration and Global Customer Satisfaction, Vice President, North America Services, Vice President, Implementation Services, and Vice President, Global Customer Care Centers. Mr. Joos also held service and operational roles at Williams Communication Solutions, Nortel Communication Solutions and Marshalls Inc. Mr. Joos holds a B.A. in sports management from Springfield College in Massachusetts.

David Petts has served as our Senior Vice President of Worldwide Sales since July 2012. Before ShoreTel, Mr. Petts served in several sales leadership roles at Nokia from June 2005 to July 2012. Prior to Nokia, Mr. Petts held a number of executive management roles with Hewlett Packard and Compaq both in the United States and the United Kingdom. Mr. Petts holds a B.S. in economics and quantitative studies from Queen Mary College, London University.

Pedro E. Rump has served as our Senior Vice President of Engineering and Operations since January 2011. Prior to then, he served as our Vice President of Engineering and Operations since 2006. From July 2004 to January 2006, Mr. Rump served as Vice President of Engineering and Operations at Dust Networks, Inc., a developer of embedded wireless sensor networking products. From January 2004 to July 2004, Mr. Rump served as Vice President of Engineering at Sonim Technologies, Inc., a provider of VoIP applications. From January 2003 to January 2004, Mr. Rump served as Vice President of Engineering at Littlefoot Inc. From January 2002 to October 2002, Mr. Rump served as Vice President of Inviso, a developer of signal transport and display solutions for television and telecommunications. Mr. Rump holds a B.S. and M.S. in electrical engineering from the Swiss Federal Institute of Technology.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Industry

We may not be able to achieve our strategic initiatives and grow our business as anticipated.

We have recently embarked on strategic initiatives to (a) offer hosted Unified Communications applications, and (b) enable the mobile device to be fully integrated with the enterprise PBX and enjoy the same or better features as a desk phone. We cannot assure you that we will be able to achieve these initiatives. Our success depends on our ability to appropriately manage our expenses as we invest in these initiatives, enter into beneficial channel relationships, develop new products and service offerings and successfully execute our marketing and sales strategies. If we are not able to execute on these actions, our business may not grow as we anticipated, we could spend monies on developing products that never reach commercial success and thus our operating results could be adversely affected.

We have made acquisitions in the past and expect to acquire other companies or technologies, which could divert our management's attention, result in additional dilution to our stockholders, increase expenses, and otherwise disrupt our operations and harm our operating results.

We acquired Agito Networks in October 2010 and acquired M5 Networks, Inc. ("M5") in March 2012, in a cash and stock transaction valued up to approximately \$160 million. We may acquire or invest in other businesses, products or technologies that we believe could complement or expand our product line, enhance our technical capabilities or otherwise offer growth opportunities. The acquisition of M5 and other potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated. We cannot assure you that we will realize the anticipated benefits of these acquisitions.

There are inherent risks in integrating and managing corporate acquisitions, and we have limited experience with acquisitions. If we acquire any other additional businesses, we may not be able to integrate the acquired personnel, operations, product lines and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- unanticipated costs or liabilities associated with the acquisition;
- incurrence of acquisition-related direct and indirect costs;
- diversion of management's attention from other business concerns;
- risks related to entering into new markets;
- harm to our existing business relationships with business partners and customers as a result of the acquisition;

- the potential loss of key employees;
- use of resources that are needed in other parts of our business;
- risks associated with unknown liabilities for sales, use, telecom, utility and other taxes;
- use of substantial portions of our available cash to consummate the acquisition; and
- risks and costs associated with the incurrence of debt financing sufficient to have available the cash needed to consummate the acquisition.

In addition, a significant portion of the purchase price of the other companies that we acquire may be allocated to goodwill and other indefinite lived intangible assets, which must be assessed for impairment. Also, contingent consideration related to the acquisitions may be remeasured to fair value at each reporting period, with any changes in the value recorded as income or expense. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process which could harm our results of operations.

Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. In addition, if an acquired business fails to meet our expectations, our operating results, business and financial condition may suffer.

The market in which we operate is intensely competitive, and many of our competitors are larger, more established and better capitalized than we are.

The market for both premise and hosted Unified Communications is extremely competitive. Our premise competitors include Cisco Systems, Inc., Avaya and Mitel Networks Corporation. Our hosted competitors include 8x8, Broadsoft, Smoothstone and RingCentral. In addition, our ShoreTel Sky customers are not subject to long-term contractual commitments to purchase our services and can terminate our service and switch to competitors' offerings on short notice.

We also compete with much larger companies such as Microsoft in the unified communications market. Many of our competitors are substantially larger and have greater financial, technical, research and development, sales and marketing, manufacturing, distribution and other resources. We could also face competition from new market entrants, whether from new ventures or from established companies moving in to the market. Some competitors have advantages over us, including:

- greater market presence, name recognition and brand reputation;
- larger distribution channels;
- a larger installed base of telecommunications and networking systems with enterprise customers;
- larger and more geographically distributed services and support organizations and capabilities;
- a broader offering of telecommunications and networking products, applications and services;
- a more established international presence to address the needs of global enterprises;
- larger patent and intellectual property portfolios;
- longer operating histories;
- a longer history of implementing large-scale telecommunications or networking systems;

- more established relationships with industry participants, customers, suppliers, distributors and other technology companies;
- the ability to acquire technologies or consolidate with other companies in the industry to compete more effectively; and
- the ability to bundle a broader offering of telecom and networking equipment and services into an IP PBX offering, and offer these products as part of a hosted services offering.

Given their capital resources, many of these competitors are in a better position to withstand any significant reduction in capital spending by enterprise customers on telecommunications equipment and are not as susceptible to downturns in a particular market. This risk is enhanced because we focus our business primarily on the enterprise IP telecommunications market.

We compete primarily on the basis of price, feature set, reliability, scalability, usability, total cost of ownership, customer satisfaction and service. Because some of our competitors have greater financial strength than we do and are able to offer a more diversified bundle of products and services, they have offered and in the future may offer telecommunications products at lower prices than we do. In order to remain competitive from a cost perspective, we have in the past reduced the prices of our products, and we may be required to do so in the future, in order to gain enterprise customers. Price reductions could have a negative effect on our gross margins.

Our competitors may also be able to devote more resources to developing new or enhanced products, including products that may be based on new technologies or standards. If our competitors' products become more accepted than our products, our competitive position will be impaired and we may not be able to increase our revenue or may experience decreased gross margins. If any of our competitors' products or technologies become the industry standard, if they are successful in bringing their products to market earlier, or if their products are more technologically capable than ours, then our sales could be materially adversely affected. We may not be able to maintain or improve our competitive position against our current or future competitors, and our failure to do so could materially and adversely affect our business.

The impact of the current economic climate and adverse credit markets may impact customer demand for our premise solution and our ShoreTel Sky services.

Our business depends on the overall demand for information technology, and in particular for IP-based telecommunications systems. Many of our existing and target customers are in the small and medium business sector. Although we believe our products and services have the lowest total cost of ownership of our competitors, our target customers may be more likely to be significantly affected by economic downturns than larger, more established businesses. Additionally, these customers often have limited discretionary funds which they may choose to spend on items other than our products and services. The purchase of our premise solution involves significant upfront expenditures. If credit is not available to them, it may be difficult or impossible for our resellers and/or end customers to purchase our products. If small and medium businesses continue to experience economic hardship, this could negatively affect the overall demand for our products and services, delay and lengthen sales cycles and lead to slower growth or even a decline in our revenue, increase in net loss and cash flows.

If we fail to manage our growth effectively, our business could be harmed.

We plan to further expand our operations, particularly in developing a more sophisticated billing and operating support system to support the growth of our ShoreTel Sky business. We will need to increase our spending in order to fund this development. This growth will place a significant strain on our management, administrative, operational and financial infrastructure. Our success will depend upon our ability to manage this growth effectively. If we do not increase our revenues commensurate to our increased spending, we will not be profitable. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. Failure

to effectively manage growth could result in difficulty in filling enterprise customer orders, declines in product quality or customer satisfaction, increases in costs, production and distribution difficulties, and any of these difficulties could adversely impact our business performance and results of operations.

The gross margins on our premise products and ShoreTel Sky offering may decrease due to competitive pressures or otherwise, which could negatively impact our profitability.

It is possible that the gross margins on our premise products or ShoreTel Sky solution will decrease in the future in response to competitive pricing pressures, new product introductions by us or our competitors, changes in the costs of components or telecommunications costs, manufacturing issues, the shift in our channel distribution model towards more value-added distributors, royalties we need to pay to use certain intellectual property, growth of our international business, or other factors. The margins on our ShoreTel Sky solution are also impacted by the fact that we sell the broadband connection, which is typically a lower-margin business, as well as the hosted telephony service. We sell the broadband connection because we believe it helps us provide better quality of service to our customers. If we experience decreased gross margins and we are unable to respond in a timely manner by introducing and selling new, higher-margin products successfully and continually reducing our product costs, our gross margins may decline, which will harm our business and results of operations.

As voice, video, messaging and data networks converge, we are likely to face increased competition from Microsoft and other companies in the information technology, personal and business applications and software industries.

The convergence of voice, video, messaging and data networks and their wider deployment by enterprises has led information technology and communication applications deployed on converged networks to become more integrated. This integration has created an opportunity for the leaders in information technology, personal and business applications and the software that connects the network infrastructure to those applications, to enter the telecommunications market and offer products that compete with our systems, commonly referred to as Unified Communications. Competition from these potential market entrants may take many forms, and they may offer products and applications similar to those we offer. For example, Microsoft Corporation has announced its Lync server, which Microsoft states is a single platform that can enhance, extend, and even replace traditional and IP PBX systems. This system competes with our ShoreTel Communicator application. Microsoft and other leaders in the information technology, personal and business applications and software industries, have substantial financial and other resources that they could devote to this market.

If Microsoft continues to move into the telecommunications market or if other new competitors from the information technology, personal and business applications or software industries enter the telecommunications market, the market for IP telecommunications systems will become increasingly competitive. If the solutions offered by Microsoft or other new competitors achieve substantial market penetration, or if we cannot integrate our products with Microsoft's solutions, we may not be able to maintain or improve our market position, and our failure to do so could materially and adversely affect our business and results of operations.

If we fail to respond to technological changes and evolving industry standards, our products could become obsolete or less competitive in the future.

The telecommunications industry is highly competitive and characterized by rapidly changing technologies and standards, frequent product introductions and short product life cycles. For example, mobile telephones have experienced rapid adoption and may eventually replace desktop telephones. Accordingly, our operating results depend upon, among other things, our ability to develop and introduce new products and our ability to reduce production costs of existing products. Our long-term success will depend on our ability to stay head of these changes and avoid obsolescence of our products.

The process of developing new technologies and products is complex, and if we are unable to develop enhancements to, and new features for, our existing products or acceptable new products that keep pace with technological developments or industry standards, our products may become obsolete, less marketable and less competitive and our business will be harmed.

In addition, as industry standards evolve, it is possible that one standard becomes predominant in the market. This could facilitate the entry into the market for competing products, which could result in significant pricing pressure. Additionally, if one standard becomes predominant and we adopt that standard, enterprises may be able to create a unified, integrated system by using phones, switches, servers, applications, or other telecommunications products produced by different companies. Therefore, we may be unable to sell complete systems to enterprise customers because the enterprise customers elect to purchase portions of their telecommunications systems from our competitors. For example, if a single industry standard is adopted, customers may elect to purchase our switches, but could purchase software applications and phones from other vendors. This could reduce our revenue and gross margins if enterprise customers instead purchase primarily lower-margin products from us. Conversely, if one standard becomes predominant, and we do not adopt it, potential enterprise customers may choose to buy a competing system that is based on that standard.

We rely on third-party resellers and value-added distributors to sell our premise products, and disruptions to, or our failure to develop and manage our distribution channels could adversely affect our business.

Substantially all of our premise revenue is generated through indirect channel sales. These indirect sales channels consist of third-party resellers and value-added distributors that market and sell telecommunications systems and other products and services to customers. We expect indirect channel sales will continue to generate a substantial majority of our premise revenue in the future. Therefore, our success is highly dependent upon establishing and maintaining successful relationships with third-party resellers, and the financial health of these resellers.

Many of the resellers we recruit never generate significant revenues for us. Recruiting, launching and retaining qualified channel partners and training them in our technology and products requires significant time and resources. In order to develop and expand our distribution channel, we must continue to recruit larger and more productive channel partners. We must also scale and improve our processes and procedures that support our channel, including investment in personnel, systems and training, and those processes and procedures may become increasingly complex and difficult to manage.

We have no long-term contracts or minimum purchase commitments with any of our channel partners, and our contracts with these channel partners do not prohibit them from offering products or services that compete with ours. Our competitors may be effective in providing incentives to existing and potential channel partners to favor their products or to prevent or reduce sales of our products. Our channel partners may choose not to offer our products exclusively or at all. Our failure to establish and maintain successful relationships with channel partners would likely materially adversely affect our business, operating results and financial condition.

Our success in expanding our customer base to larger enterprises will depend in part on our ability to expand our channel to partners that serve those larger enterprises. In addition, we rely on these entities to provide many of the installation, implementation and support services for our products. Accordingly, our success depends in large part on the effective performance of these channel partners. If a partner's performance is ineffective, it may reflect poorly upon ShoreTel or negatively impact our business. For example, if one of these resellers experiences a work stoppage due to a labor union dispute, installation of our phone systems could be delayed and our sales and reputation could suffer. By relying on channel partners, we may in some cases have little or no contact with the ultimate users of our products, thereby making it more difficult for us to establish brand awareness, ensure proper delivery and installation of our products, service ongoing enterprise customer requirements and respond to evolving enterprise customer needs. This difficulty is more pronounced where enterprise customers purchase our systems from a channel partner that purchased through a distributor. Additionally, some of our channel partners are smaller companies that may not have the same financial resources as other of our larger channel partners, which exposes us to collections risks.

Our success depends in part on the growth and public acceptance of wireless local area networks.

We have placed strategic importance on the mobile device, such as a smartphone or tablet, becoming an endpoint of choice for our users. Our ShoreTel Mobility solution is software that integrates the mobile device into our platform so that a wireless mobile device can be used like a wired desk phone. ShoreTel Mobility relies on wireless local area networks (WLAN) and cellular telephone coverage in order to operate. Slow or limited adoption of WLANs could adversely affect the growth of our ShoreTel Mobility base and revenues. In addition, WLANs must improve quality of service for real-time communications, managing effects such as packet jitter, packet loss, and unreliable bandwidth, so that toll-quality service can be consistently provided. Mobile devices must achieve a similar level of reliability that users of the public switched telephone network (PSTN) have come to expect from their telephone service. We must devote substantial resources to educate customers and end users about the benefits of wireless telephony solutions, in general, and our solutions in particular. Substantial, ongoing interaction with our customers in order to train and assist them with the deployment and use of our solutions over these networks is sometimes required. If any or all of these factors fail to occur, our business may be affected adversely.

Our future success depends on our ability to attract, integrate and retain key personnel, and our failure to do so could harm our ability to grow our business.

Our company strategy and future success will depend, to a significant extent, on our ability to attract, integrate and retain our key personnel, namely our management team and experienced sales and engineering personnel. We may experience difficulty assimilating our newly hired personnel, which may adversely affect our business. In addition, we must retain and motivate high quality personnel, and we must also attract and assimilate other highly qualified employees. Competition for qualified management, sales, technical and other personnel can be intense, and we may not be successful in attracting and retaining such personnel. In addition, even if we succeed in hiring additional sales personnel, it may take some period of time before they become productive. Competitors have in the past and may in the future attempt to recruit our employees, and our management and key employees are not bound by agreements that could prevent them from terminating their employment at any time. If we fail to attract, integrate and retain key employees, our ability to manage and grow our business could be harmed.

Our business may be harmed if our contract manufacturers are not able to provide us with adequate supplies.

We outsource the manufacturing of our telephones and switches for our premise business. Currently, we have arrangements for the production of our products with contract manufacturers in the United States and China. Our reliance on contract manufacturers involves a number of potential risks, including the absence of adequate capacity, financial viability, ownership of certain elements of electronic designs, the ongoing viability of those contract manufacturers, and reduced control over delivery schedules.

We depend on our contract manufacturers to finance the production of goods ordered and to maintain adequate manufacturing capacity. Global economic conditions could adversely impact the financial condition of our contract manufacturers and their suppliers that could impact our contract manufacturer's ability to procure components or otherwise manufacture our products. Additionally, as a result of the current economic downturn, the businesses of our contract manufacturers and other suppliers could be adversely affected and they may be required to slow or curtail operations. We do not exert direct control over our contract manufacturers or suppliers of our contract manufacturers, so we may be unable to procure timely delivery of acceptable products to our enterprise customers or incur substantially higher product costs if we move production to other contract manufacturers.

If sales of our products continue to grow, our contract manufacturers may not have sufficient capacity to enable it to increase production to meet the demand for our products. Moreover, our contract manufacturers could have manufacturing engagements with companies that are much larger than we are and whose production needs are much greater than ours. As a result, our contract manufacturers may choose to reallocate resources to the production of products other than ours if capacity is limited.

In addition, our contract manufacturers do not have any written contractual obligation to accept any purchase order that we submit for the manufacture of any of our products nor do we have any assurance that our contract manufacturers will agree to manufacture and supply any or all of our requirements for our products. Furthermore, our contract manufacturers may unilaterally terminate their relationship with us at any time upon 180 days' notice with respect to the contract manufacturers of our switches and 90 days' notice with respect to the contract manufacturer of our phones or seek to increase the prices they charge us. As a result, we are not assured that our current manufacturers will continue to provide us with an uninterrupted supply of products of at an acceptable price in the future.

Even if our contract manufacturers accept and fulfill our orders, it is possible that the products may not meet our specifications. Because we do not control the final assembly and quality assurance of our products, there is a possibility that these products may contain defects or otherwise not meet our quality standards, which could result in warranty claims against us that could adversely affect our operating results and future sales.

If our contract manufacturers are unable or unwilling to continue manufacturing our products in required volumes and to meet our quality specifications, or if they significantly increase their prices, whether caused by uncertain global economic conditions, tightening of the credit markets, their weak financial condition or otherwise, we will have to procure components on their behalf in the short term and identify one or more acceptable alternative contract manufacturers. The process of identifying and qualifying a new contract manufacturer can be time consuming, and we may not be able to substitute suitable alternative contract manufacturers in a timely manner or at acceptable prices. Additionally, transitioning to new contract manufacturers may cause delays in supply if the new contract manufacturers have difficulty manufacturing products to our specifications or quality standards and may result in unexpected costs to our business. Furthermore, we do not own the electronic design for our IP phones, hence it may be more difficult or costly for us to change the contract manufacturer of our phones or to arrange for an alternate of or a replacement for these products in a timely manner should a transition be required. This could also subject us to the risk that our competitors could obtain phones containing technology that is the same as or similar to the technology in our phones.

Any disruption in the supply of products from our contract manufacturers may harm our business and could result in a loss of sales, an increase in lead times on inventory orders and an increase in production costs resulting in lower gross product margins, which could adversely affect our business and results of operations.

If the emerging market for enterprise IP and hosted telecommunications systems does not continue to grow and if we do not increase our market share, our future business would be harmed.

The market for enterprise IP and hosted telecommunications systems is evolving rapidly and is characterized by an increasing number of market entrants. As is typical of a new and rapidly evolving industry, the demand for and market acceptance of, enterprise IP and hosted telecommunications systems products and services are uncertain. We cannot assure you that enterprise telecommunications systems that operate on IP networks will become widespread. In particular, enterprises that have already invested substantial resources in other means of communicating information may be reluctant or slow to implement an IP telecommunications system that can require significant initial capital expenditures as compared to a hybrid system that might require a lower initial capital expenditure despite higher potential total expenditures over the long term. If the market for enterprise IP and hosted telecommunications systems fails to develop or develops more slowly than we anticipate, our products could fail to achieve market acceptance, which in turn could significantly harm our business. This growth may be inhibited by a number of factors, such as:

- initial costs of implementation for a new system;
- quality of infrastructure;
- security concerns;

- equipment, software or other technology failures;
- regulatory encroachments;
- inconsistent quality of service;
- perceived unreliability or poor voice quality over IP networks as compared to circuit-switched networks; and
- lack of availability of cost-effective, high-speed network capacity.

Moreover, as IP-based data communications and telecommunications usage grow, the infrastructure used to support these services, whether public or private, may not be able to support the demands placed on them and their performance or reliability may decline.

Even if enterprise IP telecommunications systems become more widespread in the future, we cannot assure you that our products will attain broad market acceptance. We estimate that our sales represent a very small percentage of the total available market for enterprise IP telecommunications systems. We must increase our market penetration in order to maintain and expand our business.

Our sales cycle can be lengthy and unpredictable, which makes it difficult to forecast the amount of our sales and operating expenses in any particular period.

The sales cycle for our products typically ranges from six to twelve months, or longer. As a result, we may have limited ability to forecast whether or in which period a sale will occur. The success of our product sales process is subject to many factors, some of which we have little or no control over, including:

- the timing of customers' budget cycles and approval processes;
- a technical evaluation or trial by potential enterprise customers;
- our ability to introduce new products, features or functionality in a manner that suits the needs of a particular enterprise customer;
- the announcement or introduction of competing products; and
- the strength of existing relationships between our competitors and potential enterprise customers.

We may expend substantial time, effort and money educating our current and prospective enterprise customers as to the value of, and benefits delivered by, our products and ultimately fail to produce a sale. If we are unsuccessful in closing sales after expending significant resources, our operating results will be adversely affected. Furthermore, if sales forecasted for a particular period do not occur in such period, our operating results for that period could be substantially lower than anticipated and the market price of our common stock could decline.

Our products incorporate some sole sourced components and the inability of these sole source suppliers to provide adequate supplies of these components may prevent us from selling our products for a significant period of time or limit our ability to deliver sufficient amounts of our products.

We rely on sole or limited numbers of suppliers for several key components utilized in the assembly of our products. For example, we source semiconductors that are essential to the operation of our phones from separate single suppliers, and we have not identified or qualified any alternative suppliers for these components. We do not have supply agreements with our sole source suppliers, and the components for our products are typically procured by our contract manufacturers. If we lose access to these components we may not be able to

sell our products for a significant period of time, and we could incur significant costs to redesign our products or to qualify alternative suppliers. This reliance on a sole source or limited number of suppliers involves several additional risks, including:

- supplier capacity constraints;
- price increases;
- purchasing lead times;
- inventory buildup;
- timely delivery; and
- component quality.

This reliance is exacerbated by the fact that we maintain a relatively small amount of inventory and our contract manufacturers typically acquire components only as needed. As a result, our ability to respond to enterprise customer orders efficiently may be constrained by the then-current availability or the terms and pricing of these components. Disruption or termination of the supply of these components could delay shipments of our products and could materially and adversely affect our relationships with current and prospective enterprise customers. Also, from time to time we have experienced component quality issues with products obtained from our contract manufacturers. In addition, any increase in the price of these components could reduce our gross margin and adversely impact our profitability. We may not be able to obtain a sufficient quantity of these components to meet the demands of enterprise customers in a timely manner or prices of these components may increase. In addition, problems with respect to yield and quality of these components and timeliness of deliveries could occur. These delays could also materially and adversely affect our operating results.

If we fail to offer high quality customer support and services, our business would suffer.

Once our Unified Communications systems are deployed within our end customers' sites, our customers depend on our support organization and/or our channel partners to resolve any issues relating to our products. A high level of customer support and services is important for the successful marketing and sale of our products. If we or our channel partners do not help our customers quickly resolve post-deployment issues and provide effective ongoing support, our ability to sell our products to existing customers would suffer and our reputation with potential customers would be harmed. Many of our channel partners offer primary support for the products they sell to customers. If the channel partners fail to provide timely and effective services, our business could be harmed. As we expand our sales, we will be required to hire and train additional support personnel. In addition, as we expand our operations internationally, our support organization will face additional challenges including those associated with delivering support, training and documentation in languages other than English. If we fail to maintain high quality customer support or to grow our support organization to match any future sales growth, our business will suffer.

If we fail to accurately forecast demand for our premise business hardware products, we may have excess or insufficient inventory, which may increase our operating costs, decrease our revenues and harm our business.

We generate forecasts of future demand for our products several months prior to the scheduled delivery to our prospective premise customers and typically prior to receiving a purchase order from our premise customers. We therefore make significant investments before our resellers or customers place orders to purchase our products and before we know if corresponding shipment forecasts will be changed. Our resellers and customers are not contractually bound by the forecasts they provide us until they sign a purchase order, and the orders we ultimately receive often differ from original forecasts. If we underestimate demand for our

products, we will have inadequate inventory, which could result in delays in shipments, loss of orders and reduced revenues. This is exacerbated by the fact that lead times for materials and components that we need can vary significantly and depend on factors such as the specific supplier, contract terms and demand for each component at a given time. On the other hand, if we overestimate demand for our products and increase our inventory in anticipation of customer orders that do not materialize, we will have excess inventory and we will face a risk of significant inventory write-downs. Our failure to forecast demand accurately on a timely basis could result in a decrease in our revenues and gross margins.

If we fail to develop and introduce new products and features in a timely manner, or if we fail to manage product transitions, we could experience decreased revenue or decreased selling prices in the future.

Our future growth depends on our ability to develop and introduce new products successfully. Due to the complexity of the type of products we produce, there are significant technical risks that may affect our ability to introduce new products and features successfully. For example, our future success will depend in part on our ability to introduce new applications such as contact center systems, which are based on complex software, and our ability to integrate our products with other business applications, such as Microsoft Office. As another example, we believe there is increasing demand for communications as a managed service, either on mobile phones or desk phones, whether ours or another vendors'.

In addition, we must commit significant resources to developing new products and features before knowing whether our investments will result in products that are accepted by the market. The success of new products depends on many factors, including:

- the ability of our products to compete with the products and solutions offered by our competitors;
- the cost of our products;
- the reliability of our products;
- the timeliness of the introduction and delivery of our products; and
- the market acceptance of our products.

If we are unable to develop and introduce new products in a timely manner or in response to changing market conditions or enterprise customer requirements, or if these products do not achieve market acceptance, our operating results could be materially and adversely affected.

Product introductions by us in future periods may also reduce demand for, or cause price declines with respect to, our existing products. As new or enhanced products are introduced, we must successfully manage the transition from older products, avoid excessive levels of older product inventories and ensure that sufficient supplies of new products can be delivered to meet enterprise customer demand. Our failure to do so could adversely affect our revenue, gross margins and other operating results.

Our products are highly complex and may contain undetected software or hardware errors, which could harm our reputation and future product sales.

Because our enterprise customers rely on our products for telecommunications, an application that is critical to their business, any failure to provide high quality and reliable products, whether caused by our own failure or failures by our contract manufacturer or suppliers, could damage our reputation and reduce demand for our products. Software products may contain defects, and as such our products have in the past contained, and may in the future contain, undetected errors or defects. Some errors in our products may only be discovered after a product has been installed and used by enterprise customers. Any errors or defects discovered in our products after commercial release could result in loss of revenue, loss of enterprise customers and increased service and warranty costs, any of which could adversely affect our business. In addition, we could face claims

for product liability, tort or breach of warranty. Our purchase orders contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and adversely affect the market's perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, operating results and financial condition could be adversely affected.

We intend to expand our international operations, which could expose us to significant risks.

To date we have limited international operations and have had low amounts of revenue from international enterprise customers. The future success of our business will depend, in part, on our ability to expand our operations and enterprise customer base successfully worldwide. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks that are different from those in the United States. Because of our limited experience with international operations, our international expansion efforts may not be successful. In addition, we will face risks in doing business internationally that could adversely affect our business, including:

- our ability to comply with differing technical and environmental standards and certification requirements outside the United States;
- difficulties and costs associated with staffing and managing foreign operations;
- lower gross margins due to higher discounting;
- greater difficulty collecting accounts receivable and longer payment cycles;
- the need to adapt our products for specific countries;
- availability of reliable broadband connectivity and wide area networks in targeted areas for expansion;
- unexpected changes in regulatory requirements;
- difficulties in understanding and complying with local laws, regulations and customs in foreign jurisdictions;
- tariffs, export controls and other non-tariff barriers such as quotas and local content rules;
- more limited protection for intellectual property rights in some countries;
- adverse tax consequences;
- fluctuations in currency exchange rates, which could increase the price of our products outside of the United States, increase the expenses of our international operations and expose us to foreign currency exchange rate risk;
- restrictions on the transfer of funds;
- new and different sources of competition;
- less access to the end customer due to our use of two-tier distribution internationally.

Our failure to manage any of these risks successfully could harm our future international operations and our overall business.

We are subject to environmental and other health and safety regulations that may increase our costs of operations or limit our activities.

We are subject to environmental and other health and safety regulations relating to matters such as reductions in the use of harmful substances, the use of lead-free soldering and the recycling of products and packaging materials. For example, the European Parliament and the Council of the European Union have published directives on waste electrical and electronic equipment and on the restriction of the use of certain hazardous substances in electrical and electronic equipment. These directives generally require electronics producers to bear the cost of collection, treatment, recovery and safe disposal of past and future products from end users and to ensure that new electrical and electronic equipment does not contain specified hazardous substances. While the cost of these directives to us cannot be determined before regulations are adopted in individual member states of the European Union, it may be substantial and may divert resources, which could detract from our ability to develop new products or operate our business, particularly if we increase international operations. We may not be able to comply in all cases with applicable environmental and other regulations, and if we do not, we may incur remediation costs or we may not be able to offer our products for sale in certain countries, which could adversely affect our results.

The agreement governing our loan imposes restrictions on our business that may limit our business opportunities and hinder our ability to execute our business strategy.

On March 15, 2012, we entered into a Senior Secured Credit Facilities Credit Agreement (the "Credit Agreement") with Silicon Valley Bank. The Credit Agreement contains, and other agreements we may enter into in the future may contain, covenants imposing restrictions on our business, and requires us to maintain certain financial covenants. These restrictions and covenants may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. These covenants place restrictions on our ability to, among other things, incur additional debt, create liens, consolidate or merge, dispose of any property, redeem common stock or make other distributions to stockholders, make investments or enter into transactions with affiliates.

Although we believe we were in compliance with all of our non-financial and financial covenants under the Credit Agreement, our future ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial, and industry conditions. In the event of our default under the Credit Agreement, our lender could declare all amounts borrowed to be due and payable, together with accrued and unpaid interest. If we were unable to repay any debt owed, the lender could proceed against the collateral securing that debt.

We might require additional capital or debt to support our business in the future, and this financing might not be available on acceptable terms, or at all.

Although we anticipate that our current cash, cash equivalents, short-term investments and the available balance on the existing line of credit arrangement will be sufficient to meet our currently anticipated cash needs, if our cash and cash equivalents balances are not sufficient to meet our future cash requirements, we will need to seek additional capital, potentially through additional debt or equity financings, to fund our operations. We may also need to raise additional capital to take advantage of new business or acquisition opportunities. We may seek to raise capital by, among other things:

- issuing additional common stock or other equity securities;
- issuing debt securities; or
- borrowing funds under a credit facility.

We may not be able to raise needed cash on terms acceptable to us or at all. Financings, if available, may be on terms that are dilutive or potentially dilutive to our stockholders. The holders of new securities may also receive rights, preferences or privileges that are senior to those of existing holders of common stock. In addition, if we were to raise cash through a debt financing, such debt may impose conditions or restrictions on our operations, which could adversely affect our business. If new sources of financing are required but are insufficient or unavailable, we would be required to modify our operating plans to the extent of available funding, which would harm our ability to maintain or grow our business.

We have had significant executive management turnover, and may not be able to retain or attract the executives we need to succeed.

In July 2012, we hired a new Senior Vice President of Worldwide Sales. We also made other changes to our senior management team. We cannot assure you that we will be able to retain other key employees, including senior management and executive positions. If we cannot attract and retain these executives and key employees, our business would be harmed, particularly if the departure of any executive or key employee results in a business interruption, or if we are not successful in preserving material knowledge of our departing employees.

Our products include third-party technology and intellectual property, which could present additional risks.

We incorporate certain third-party technologies, such as our contact center, conference bridge and network monitoring software, into our products, and intend to utilize additional third-party technologies in the future. However, licenses to relevant third-party technology or updates to those technologies may not continue to be available to us on commercially reasonable terms, or at all. Furthermore, we do not own the electronic design for our phones, so it may be difficult for us to arrange for an alternate of or a replacement for these products in a timely manner. Therefore, we could face delays in product releases until equivalent technology can be identified, licensed or developed, and integrated into our current products. These delays, if they occur, could materially adversely affect our business.

Failure to protect our intellectual property could substantially harm our business.

Our success and ability to compete are substantially dependent upon our intellectual property. We rely on patent, trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees, enterprise customers, strategic partners and others to protect our intellectual proprietary rights. However, the steps we take to protect our intellectual property rights may be inadequate. We currently have 53 issued U.S. patents and 72 patent applications pending in the U.S.. We cannot assure you that any additional patents will be issued. Even if patents are issued, they may not adequately protect our intellectual property rights or our products against competitors, and third-parties may challenge the scope, validity and/or enforceability of our issued patents. In addition, other parties may independently develop similar or competing technologies designed around any patents that may be issued to us.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect such rights. We may not be able to detect infringement, and may lose our competitive position in the market before we are able to do so. In the event that we detect any infringement of our intellectual property rights, we intend to enforce such rights vigorously, and from time to time we may initiate claims against third parties that we believe are infringing on our intellectual property rights if we are unable to resolve matters satisfactorily through negotiation. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could harm our brand and adversely impact our business, financial condition and results of operations.

If a third party asserts that we are infringing on its intellectual property, whether successful or not, it could subject us to costly and time-consuming litigation or expensive licenses, which could harm our business.

There is considerable patent and other intellectual property development activity in our industry. Our success depends, in part, upon our not infringing upon the intellectual property rights of others. Our competitors, as well as a number of other “non-practicing entities” and individuals, own or claim to own intellectual property relating to our industry and may have substantially larger and broader patent portfolios than we do. From time to time, third parties may claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. Third parties have in the past sent us correspondence regarding their intellectual property and have filed litigation against us, and in the future we may receive claims that our products infringe or violate their intellectual property rights. In this regard, in 2007, Mitel Networks Corporation, one of our competitors, filed a lawsuit against us, which was subsequently settled. Furthermore, we may be unaware of the intellectual property rights of others that may cover some or all of our technology or products. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from selling our products, damage our reputation, or require that we comply with other unfavorable terms, any of which could materially harm our business. In addition, we may decide to pay substantial settlement costs in connection with any claim or litigation, whether or not successfully asserted against us. Even if we were to prevail, any litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations.

Litigation with respect to intellectual property rights in the telecommunications industries is not uncommon and can often involve patent holding companies who have little or no product revenue and against whom our own patents may provide little or no deterrence. We may also be obligated to indemnify our enterprise customers or business partners in connection with any such litigation, which could further exhaust our resources. Furthermore, as a result of an intellectual property challenge, we may be required to enter into royalty, license or other agreements. We may not be able to obtain these agreements on terms acceptable to us or at all. We may have to incur substantial cost in re-designing our products to avoid infringement claims. In addition, disputes regarding our intellectual property rights may deter distributors from selling our products and dissuade potential enterprise customers from purchasing such products. As such, third-party claims with respect to intellectual property may increase our cost of goods sold or reduce the sales of our products, and may have a material and adverse effect on our business.

If we fail to establish and maintain proper and effective internal control over financial reporting, our operating results and our ability to operate our business could be harmed.

The Sarbanes-Oxley Act of 2002 requires, among other things, that we establish and maintain internal control over financial reporting and disclosure controls and procedures. In particular, under the current rules of the Securities and Exchange Commission (SEC), we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our independent registered public accounting firm is also required to report on our internal control over financial reporting. Our and our auditor’s testing may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses and render our internal control over financial reporting ineffective. We have incurred and we expect to continue to incur substantial accounting and auditing expense and expend significant management time in complying with the requirements of Section 404. If we are not able to comply with the requirements of Section 404, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to investigations or sanctions by the SEC, The NASDAQ Stock Market, or NASDAQ, or other regulatory authorities or subject to litigation. To the extent any material weaknesses in our internal control over financial reporting are identified in the future, we could be required to expend significant management time and financial resources to correct such material weaknesses or to respond to any resulting regulatory investigations or proceedings.

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

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

Our principal offices and the facilities of our contract manufacturers are located near known earthquake fault zones, and the occurrence of an earthquake or other catastrophic disaster could damage our facilities or the facilities of our contract manufacturers, which could cause us to curtail our operations.

Our principal offices and our disaster recovery site are located in California near known earthquake fault zones and, therefore, are vulnerable to damage from earthquakes. We are also vulnerable to damage from other types of disasters, such as power loss, fire, floods and similar events. If any disaster were to occur, our ability to operate our business could be seriously impaired. In addition, we may not have adequate insurance to cover our losses resulting from disasters or other similar significant business interruptions. Any significant losses that are not recoverable under our insurance policies could seriously impair our business and financial condition.

Additional Risks Related to Our ShoreTel Sky Business

Success of ShoreTel Sky is dependent on the growth and public acceptance of hosted communications.

Our future success depends on our ability to significantly increase revenues generated from ShoreTel Sky, our hosted Unified Communications solution. Because the use of a hosted solution requires that the user be a subscriber of a broadband Internet service, slow or limited adoption of broadband Internet service could adversely affect the growth of our subscriber base and revenues. Although the number of broadband subscribers worldwide has grown significantly over the last five years, VoIP service has not yet been adopted by a majority of prospective business customers. To increase the deployment of broadband Internet services from broadband Internet service providers, telephone companies and cable companies must continue to invest in the deployment of high speed broadband networks to residential and business customers, over which we have no control.

In addition, VoIP networks must improve quality of service for real-time communications, managing effects such as packet jitter, packet loss, and unreliable bandwidth, so that toll-quality service can be consistently provided. VoIP telephony equipment and services must achieve a similar level of reliability that users of the PSTN have come to expect from their telephone service, and the cost and feature benefits of VoIP must be sufficient to cause customers to switch away from traditional telephony service providers. We must devote substantial resources to educate customers and end users about the benefits of VoIP telephony solutions, in general, and our solutions in particular. Substantial, ongoing interaction with our customers in order to train and assist them with the deployment and use of our solutions over these networks is sometimes required. If any or all of these factors fail to occur, our business may be affected adversely.

A higher rate of customer terminations associated with our ShoreTel Sky business would negatively affect our business by reducing our revenue or requiring us to spend more money to grow our customer base.

Our rate of customer terminations, or annualized customer churn was 4% for the quarter ended June 30, 2012. Our churn rate could increase in the future if customers are not satisfied with our service. Other factors, including increased competition from other VoIP providers, alternative technologies, and adverse business conditions also influence our churn rate.

Because of churn, we have to acquire new customers on an ongoing basis or sell additional services to existing customers just to maintain our existing level of customers and revenues. As a result, marketing expenditures are an ongoing requirement of our business. If our churn rate increases, we will have to acquire even more new customers in order to maintain our existing revenues. We incur significant costs to acquire new customers, and those costs are an important factor in determining our net profitability. Therefore, if we are unsuccessful in retaining customers or are required to spend significant amounts to acquire new customers beyond those budgeted, our revenue could decrease and our net income could decrease.

Any failure in our physical infrastructure for our ShoreTel Sky services could lead to significant costs and disruptions and could reduce our revenue, harm our business reputation and have a material adverse effect on our financial results.

Our leased network and data centers are subject to various points of failure. Problems with cooling equipment, generators, uninterruptible power supply, routers, switches, or other equipment, whether or not within our control, could result in service interruptions for our customers as well as equipment damage. Because our services do not require geographic proximity of our data centers to our customers, our infrastructure is consolidated into a few large facilities. Any failure or downtime in one of our data center facilities could affect a significant percentage of our customers. The total destruction or severe impairment of any of our data center facilities could result in significant downtime of our services and the loss of customer data. Because our ability to attract and retain customers depends on our ability to provide customers with highly reliable service, even minor interruptions in our service could harm our reputation. Additionally, in connection with the expansion or consolidation of our existing data center facilities from time to time, there is an increased risk that service interruptions may occur as a result of server relocation or other unforeseen construction-related issues.

We have experienced interruptions in service in the past. While we have not experienced a material increase in customer attrition following these events, the harm to our reputation is difficult to assess. We have taken and continue to take steps to improve our infrastructure to prevent service interruptions, including upgrading our electrical and mechanical infrastructure. However, service interruptions continue to be a significant risk for us and could materially impact our business.

Any future service interruptions could:

- cause our customers to seek damages for losses incurred;
- require us to replace existing equipment or add redundant facilities;
- affect our reputation as a reliable provider of hosting services;
- cause existing customers to cancel or elect to not renew their contracts; or
- make it more difficult for us to attract new customers.

Any of these events could materially increase our expenses or reduce our revenue, which would have a material adverse effect on our operating results.

Our success also depends on our ability to handle a large number of simultaneous calls, which our network may not be able to accommodate.

We expect the volume of simultaneous calls to increase significantly as the ShoreTel Sky subscriber base grows. Our network hardware and software may not be strained by heavy volume. If we fail to maintain an appropriate level of operating performance, or if our service is disrupted, our reputation could be hurt and we could lose customers or have to issue credits or refunds, all of which could have a material adverse effect on our business, financial condition or operating results.

Our ShoreTel Sky services must comply with industry standards, FCC regulations, state and local regulations, and compliance may be costly and/or require us to modify existing services.

Our ShoreTel Sky service relies on communication standards such as SIP, MGCP and network standards such as TCP/IP and UDP to interoperate with other vendors' equipment. There is currently a lack of agreement among industry leaders about which standard should be used for a particular application, and about the definition of the standards themselves. As standards evolve, we may be required to modify our existing products or develop and support new versions of our services.

We must also comply with certain federal, state and local requirements regarding how we interact with our customers, including marketing practices, consumer protection, privacy, law enforcement and billing issues, the provision of 9-1-1 emergency service and the quality of service we provide to our customers. The failure of our services to comply, or delays in compliance, with various existing and evolving regulations could delay or interrupt the sales of our services, subject us to fines or other imposed penalties, or harm the perception and adoption rates of our service, any of which would have a material adverse effect on our business, financial condition or operating results.

Increased taxes on our service will increase our customers' cost of using our service and/or reduce our profit margins (to the extent the costs are not passed through to our customers) and we may be subject to liabilities for past sales and additional taxes, surcharges and fees.

We have reviewed ShoreTel Sky's state and municipal tax filing history, such as sales, excise, and ad valorem taxes, fees or surcharges and found that there may be jurisdictions for which ShoreTel Sky has an obligation to collect and remit such taxes due on the charges to our customers for our services, but has yet to do so. Additionally, in jurisdictions where ShoreTel Sky does file these returns, its interpretation and application of the tax laws and regulations applicable to these services may be in conflict with the interpretation held by the states and municipalities where we do business. Although we have consistently maintained that these taxes, fees or surcharges do not apply to our service for a variety of reasons depending on the statute or rule that establishes such obligations, some states have changed their statutes as part of streamlined sales tax initiatives and therefore we may have an obligation to collect and remit sales taxes in those states. The collection of these taxes, fees or surcharges may have the effect of decreasing any price advantage we may have over other providers who have historically paid these taxes and fees. Our compliance with these tax initiatives will also make us less competitive with those competitors who choose not to comply with these tax initiatives. As of June 30, 2012, there has been no change in the status of the assessment. We have accrued for taxes that we believe are required to be remitted. If our ultimate liability exceeds the accrued amount, it could result in a material adverse effect on our earnings.

Our emergency and e-911 calling services are different from those offered by traditional wireline telephone companies and may expose us to significant liability. There may be risks associated with limitations associated with e-911 emergency dialing with the ShoreTel Sky service.

Both our emergency calling service and our e-911 calling service differ from the emergency calling services offered by traditional wireline telephone companies. In each case, the differences may cause significant delays, or even failures, in callers' receipt of the emergency assistance they need.

We are offering e-911 service that is similar to the emergency calling services provided to customers of traditional wireline telephone companies in the same area. We route 911 calls to a 911 service aggregation vendor, who in turn routes the calls to the local Public Safety Answering Point, or PSAP. The PSAP should have automatic access to the customer's telephone number and registered location information. If the number is not associated with an address in a 911 call, then the call is routed by the vendor to an emergency response center where a live answer takes place and the address is determined for routing to the correct PSAP. If a customer moves their ShoreTel Sky service to a new location, the customer's registered location information must be updated and verified by the customer. Until that takes place, the customer will have to verbally advise the emergency dispatcher of his or her actual location at the time of an emergency 911 call. This can lead to delays in the delivery of emergency services.

In addition, in the event that a customer experiences a broadband or power outage, or if a network failure were to occur, the customer will not be able to reach an emergency services provider using our services. Delays our customers may encounter when making emergency services calls and any inability of the answering point to automatically recognize the caller's location or telephone number can result in life threatening consequences. Customers may, in the future, attempt to hold us responsible for any loss, damage, personal injury or death suffered as a result of any failure of our e-911 services. In July 2008, the President signed into law the "New and Emerging Technologies 911 Improvement Act of 2008." The law provides public safety, interconnected VoIP providers and others involved in handling 911 calls the same liability protections when handling 911 calls from interconnected VoIP users as from mobile or wired telephone service users. The applicability of the liability protections to our business is unclear at the present time.

There may be risks associated with our ability to comply with the requirements of federal law enforcement agencies.

The FCC requires all interconnected VoIP providers to comply with the Communications Assistance for Law Enforcement Act (CALEA). The FCC allows VoIP providers to comply with CALEA through the use of a solution provided by a trusted third party with the ability to extract call content and call-identifying information from a VoIP provider's network. While the FCC permits companies like us to use the services provided by these third parties to comply with CALEA, we are ultimately responsible for ensuring the timely delivery of call content and call-identifying information to law enforcement, and for protecting subscriber privacy. While we believe we are currently CALEA compliant, we could be subject to an enforcement action by the FCC or law enforcement agencies for any delays related to meeting, or if we fail to comply with, any current or future CALEA obligations.

Reform of federal and state Universal Service Fund programs could increase the cost of our service to our customers diminishing or eliminating our pricing advantage.

The FCC and a number of states are considering reform or other modifications to Universal Service Fund programs. The way we calculate our contribution may change if the FCC or certain states engage in reform or adopt other modifications. In April, 2012, the FCC released a Further Notice of Proposed Rulemaking to consider reforms to the manner in which companies, like us, contribute to the federal Universal Service Fund program. In general, the Further Notice of Proposed Rulemaking is considering questions like: what companies should contribute, how contributions should be assessed, and methods to improve the administration of the system. We cannot predict the outcome of this proceeding nor its impact on our business at this time.

Should the FCC or certain states adopt new contribution mechanisms or otherwise modify contribution obligations that increase our contribution burden, we will either need to raise the amount we currently collect from our customers to cover this obligation or absorb the costs, which would reduce our profit margins. Furthermore, the FCC has ruled that states can require us to contribute to state Universal Service Fund programs. A number of states already require us to contribute, while others are actively considering extending their programs to include the services we provide. We currently pass-through Universal Service Fund contributions to our customers which may result in our services becoming less competitive as compared to those provided by others.

We rely on third party network service providers to originate and terminate substantially all of our public switched telephone network calls.

We leverage the infrastructure of third party network service providers to provide telephone numbers, PSTN call termination and origination services, and local number portability for our customers rather than deploying our own network throughout the United States. This decision has resulted in lower capital and operating costs for our business in the short term but has reduced our operating flexibility and ability to make timely service changes. If any of these network service providers cease operations or otherwise terminate the services that we depend on, the delay in switching our technology to another network service provider, if available, and qualifying this new service could have a material adverse effect on our business, financial condition or operating results.

While we believe that relations with our current service providers are good, and we have contracts in place, there can be no assurance that these service providers will be able or willing to supply cost-effective services to us in the future or that we will be successful in signing up alternative or additional providers. Although we could replace our current providers, if necessary, our ability to provide service to our subscribers could be impacted during this timeframe and this could have an adverse effect on our business, financial condition or results of operations. The loss of access to, or requirement to change, the telephone numbers we provide to our customers also could have a material adverse effect on our business, financial condition or operating results.

Due to our reliance on these service providers, when problems occur in a network, it may be difficult to identify the source of the problem. The occurrence of hardware and software errors, whether caused by our service or another vendor's products, may result in the delay or loss of market acceptance of our products and any necessary revisions may force us to incur significant expenses. The occurrence of some of these types of problems may seriously harm our business, financial condition or operating results.

Risks Related to Ownership of Our Common Stock

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

Since our stock began trading in July 2007, our stock price has fluctuated significantly, from a low of approximately \$3 per share to a high of approximately \$18 per share. At times the stock price has changed very quickly. For example, from July 2011 to June 2012, our stock price dropped from approximately \$11 per share to approximately \$4 per share. If investors purchase shares of our common stock, they may not be able to resell those shares at or above the price at which they purchased them. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- fluctuations in the overall stock market;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- actual or anticipated fluctuations in our operating results;
- changes in operating performance and stock market valuations of other technology companies generally, or those that sell enterprise communication products in particular;
- changes in financial estimates by any securities analysts who follow our company, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our stock;
- ratings downgrades by any securities analysts who follow our company;

- the public's response to our press releases or other public announcements, including our filings with the SEC;
- announcements by us or our competitors of significant technical innovations, customer wins or losses, acquisitions, strategic partnerships, joint ventures or capital commitments;
- introduction of technologies or product enhancements that reduce the need for our products;
- market conditions or trends in our industry or the economy as a whole;
- lawsuits threatened or filed against us and the outcome of such lawsuits;
- shareholder activism;
- future sales of our common stock by our officers, directors and significant stockholders; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, the stock markets, and in particular the NASDAQ Global Select Market, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have initiated securities class action litigation following declines in stock prices of technology companies. Our current litigation could, and any future litigation may, subject us to substantial costs, divert resources and the attention of management from our business, which could harm our business and operating results.

Our operating results may fluctuate in the future, which could cause our stock price to decline.

Our historical revenues and operating results have varied from quarter to quarter. Moreover, our actual or projected operating results for some quarters may not meet our own expectations, or the expectations of stock market analysts and investors, which may cause our stock price to decline. In addition to the factors discussed elsewhere in this "Risk Factors" section, a number of factors may cause our revenue to fall short of our expectations or cause fluctuations in our operating results, including:

- adverse conditions specific to the IP telecommunications market, including decreased demand due to overall economic conditions or reduced discretionary spending by enterprises, rates of adoption of IP telecommunications systems and introduction of new standards;
- our ability to attract and retain larger and more productive channel partners;
- the purchasing and budgeting cycles of enterprise customers, in particular, the tendency of some customers to wait until the end of a quarter in the hopes of obtaining a better price;
- the timing and volume of shipments of our products during a quarter, particularly as we experience an increased level of sales occurring towards the end of a quarter;
- delays in purchasing decisions by our customers from one quarter to the next, or later;
- seasonality in our target markets;
- our ability to attract new channel partners, retain existing channel partners, and their ability to generate revenues;

- changes in accounting rules;
- the timing of recognition of revenue from sales to our customers;
- changes in the mix of our products and services sold during a particular period;
- our ability to control costs, including third-party manufacturing costs and costs of components;
- our ability to maintain sufficient production volumes for our products from our contract manufacturers;
- volatility in our stock price, which may lead to higher stock-based compensation expenses
- volatility and fluctuation in foreign currency exchange rates;
- the timing of costs related to the development or acquisition of technologies or businesses;
- our ability to successfully expand our international operations;
- general economic conditions or economic recession;
- decline in interest rates on our investments; and
- publicly-announced litigation, and the impact of such litigation on our operating results.

Because our operating expenses are largely fixed in the short-term, any shortfalls in revenue in a given period would have a direct and adverse effect on our operating results in that period. We believe that our quarterly and annual revenue and results of operations may vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful. You should not rely on the results of one period as an indication of future performance.

A substantial portion of our product orders are usually received in the last month of each fiscal quarter, with a concentration of such orders in the final two weeks of the quarter. While we typically ship products shortly after the receipt of an order, we may have orders that have not shipped at the end of any given quarter. Because the amount of such product orders may vary, the amount, if any, of such orders at the end of a particular quarter is not a reliable predictor of our future performance.

Because it is difficult for us to predict our quarterly operating results, period-to-period comparisons of our operating results may not be a good indication of our future performance. If, as a result of these difficulties, our revenues and operating results do not meet the expectations of our investors or securities analysts or fall below guidance we may provide to the market, the price of our common stock may decline.

Our charter documents and Delaware law may inhibit a takeover that stockholders consider favorable and could also limit the market price of our stock.

Our restated certificate of incorporation and bylaws and applicable provisions of Delaware law may make it more difficult for or prevent a third party from acquiring control of us without the approval of our board of directors. These provisions:

- prohibit stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;
- limit who may call a special meeting of stockholders;

- established a classified board of directors, so that not all members of our board of directors may be elected at one time;
- provide our board of directors with the ability to designate the terms of and issue a new series of preferred stock without stockholder approval;
- require the approval of two-thirds of the shares entitled to vote at an election of directors to adopt, amend or repeal our bylaws or repeal certain provisions of our certificate of incorporation;
- allow a majority of the authorized number of directors to adopt, amend or repeal our bylaws without stockholder approval;
- do not permit cumulative voting in the election of our directors, which would otherwise permit less than a majority of stockholders to elect directors; and
- set limitations on the removal of directors.

In addition, Section 203 of the Delaware General Corporation Law generally limits our ability to engage in any business combination with certain persons who own 15% or more of our outstanding voting stock or any of our associates or affiliates who at any time in the past three years have owned 15% or more of our outstanding voting stock. These provisions may have the effect of entrenching our management team and may deprive you of the opportunity to sell your shares to potential acquirers at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters, which is located in Sunnyvale, California is a 63,781 square foot leased facility. This lease expires in September 2014. We also occupy leased facilities in Austin, Texas, New York City and Rochester, New York, Chicago, Illinois, and in Europe, Asia and Australia.

We maintain a shipping and warehouse facility in Newark, California for our inventory and we rent space as needed at third-party warehouses. Our inventory is expected to be kept at our facility and at the third party facilities.

We believe that our current facilities are suitable and adequate to meet our current needs, and we intend to add new facilities or expand existing facilities as we add employees. We believe that suitable additional or substitute space will be available on commercially reasonable terms as needed to accommodate our operations.

ITEM 3. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 12 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.**ITEM 5. MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS*****Market Information***

Our common stock has been traded on The NASDAQ Global Select Market under the symbol “SHOR” since July 3, 2007. Prior to that time, there was no public market for our common stock. The following table sets forth for the periods indicated the high and low sale prices of our common stock, as reported by The NASDAQ Global Select Market.

Year Ended June 30, 2012	High	Low
First Quarter.....	\$ 10.70	\$ 4.76
Second Quarter.....	6.88	4.70
Third Quarter.....	7.13	5.15
Fourth Quarter.....	5.75	3.82
Year Ended June 30, 2011	High	Low
First Quarter.....	\$ 6.02	\$ 4.36
Second Quarter.....	7.96	4.90
Third Quarter.....	8.99	6.50
Fourth Quarter.....	12.00	8.09

On August 30, 2012, the last reported sales price of our common stock on the NASDAQ Global Select Market was \$3.98 per share.

Holders of Record

As of August 30, 2012, there were 133 stockholders of record of our common stock, although we believe there are approximately 2,500 beneficial owners since many brokers and other institutions hold our common stock on behalf of stockholders.

Dividend Policy

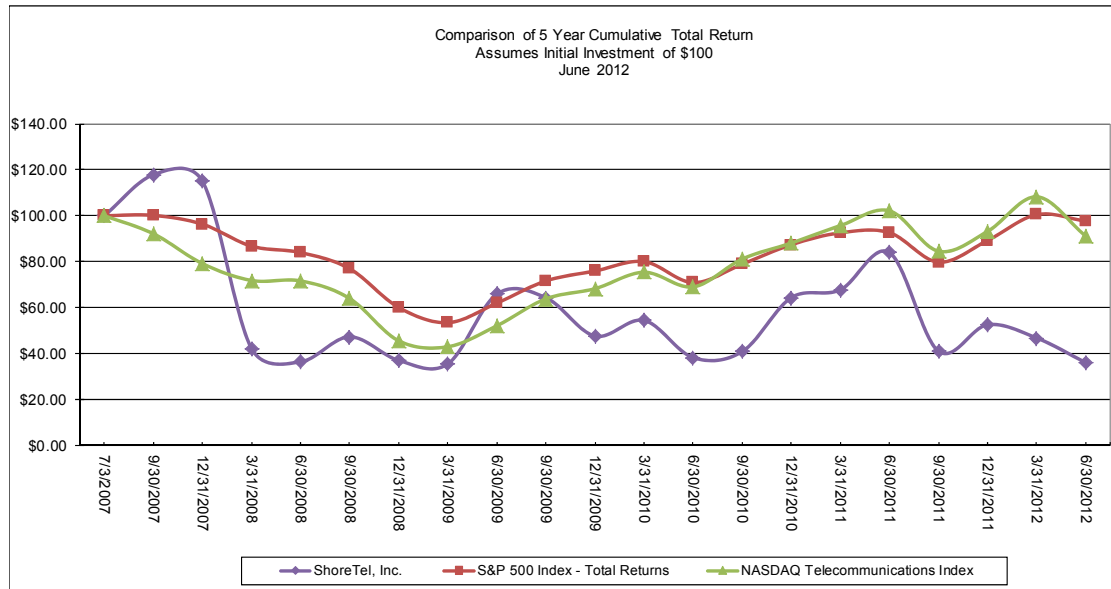
We have never declared or paid dividends on our common stock. We intend to retain any future earnings for use in our business and therefore we do not anticipate declaring or paying any cash dividends in the foreseeable future.

Stock Performance Graphs and Cumulative Total Return (1)

The following graph shows the cumulative total stockholder return of an investment of \$100 in cash on July 3, 2007, the date our common stock first started trading on the NASDAQ Global Select Market through June 30, 2012, for (i) our common stock, (ii) the S&P Small Cap 500 Index and (iii) the NASDAQ Telecommunications Index. Pursuant to applicable SEC rules, all values assume reinvestment of the full amount of all dividends, however no dividends have been declared on our common stock to date. The stockholder return shown on the graph below is not necessarily indicative of future performance, and we do not make or endorse any predictions as to future stockholder returns.

This performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the “Exchange Act,” or incorporated by reference into any filing of ours under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

(1) This Section is not “soliciting material,” is not deemed “filed” with the SEC and is not to be incorporated by reference in any filing of ShoreTel, Inc. under the 1933 Act or the 1934 Act whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.



\$100 invested on 7/3/07 in stock or index. Fiscal year ending June 30,

	7/3/2007	2008	2009	2010	2011	2012
ShoreTel, Inc.	\$ 100.00	\$ 36.38	\$ 65.84	\$ 38.19	\$ 83.95	\$ 36.05
S&P Small Cap 500 Index ..	100.00	83.94	61.94	70.87	92.63	97.67
NASDAQ Telecommunications Index .	100.00	71.62	52.08	69.02	102.15	91.16

Equity Compensation Plan Information

The following table summarizes information about our equity compensation plans as of June 30, 2012. All outstanding awards relate to our common stock.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuances under Equity Compensation Plans (Excluding Securities Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders(1)	10,586,000\$	4.78	5,335,000
Equity compensation plans not approved by security holders	—	—	—
Total	<u>10,586,000\$</u>	4.78	<u>5,335,000</u>

- (1) The number of securities remaining available for future issuance in column (c) includes 5,335,000 shares of common stock authorized and available for issuance under our 2007 Employee Stock Purchase Plan (ESPP) and our 2007 Equity Incentive Plan (2007 Plan). The number of shares authorized for issuance under the ESPP is subject to an annual increase equal to 1% of the outstanding shares on the date of the annual increase or an amount determined by the Board of Directors and the number of shares authorized for issuance under the 2007 Plan is subject to an annual increase equal to 5% of the outstanding shares on the date of the annual increase or an amount determined by the Board of Directors. The number of securities to be issued to participants in column (a) does not include shares of common stock to be issued to participants in consideration of aggregate participant contributions under the ESPP as of June 30, 2012.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in connection with our consolidated financial statements and notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in any future period.

	Year Ended June 30,				
	2012 (a)	2011 (b)	2010	2009	2008
	(In thousands, except per share amounts)				
Revenue:					
Product.....	\$ 182,009	\$ 159,693	\$ 117,138	\$ 109,555	\$ 110,496
Hosted and related services	15,547	-	-	-	-
Support and services	49,076	40,419	31,326	25,267	18,233
Total revenue	246,632	200,112	148,464	134,822	128,729
Cost of revenue:					
Product(1).....	61,884	52,957	40,471	38,149	37,466
Hosted and related services (1)	9,804	-	-	-	-
Support and services(1).....	16,465	13,688	11,580	11,048	10,036
Total cost of revenue	88,153	66,645	52,051	49,197	47,502
Gross profit.....	158,479	133,467	96,413	85,625	81,227
Operating expenses:					
Research and development(1)	51,909	45,548	33,596	30,724	26,811
Sales and marketing(1)	94,797	74,859	55,973	44,652	37,869
General and administrative(1)	27,468	24,890	19,888	19,596	17,645
Acquisition-related costs.....	4,524	340	-	-	-
Litigation settlement.....	-	-	-	4,110	-
Total operating expenses.....	178,698	145,637	109,457	99,082	82,325
Loss from operations	(20,219)	(12,170)	(13,044)	(13,457)	(1,098)
Other income (expense) – net	(1,465)	640	84	1,141	4,101
Income (loss) before provision for (benefit from) income taxes.....	(21,684)	(11,530)	(12,960)	(12,316)	3,003
Provision for (benefit from) income taxes ..	(947)	(67)	(156)	343	861
Net income (loss)	<u>\$ (20,737)</u>	<u>\$ (11,463)</u>	<u>\$ (12,804)</u>	<u>\$ (12,659)</u>	<u>\$ 2,142</u>
Net (loss) per common share (2):					
Basic.....	<u>\$ (0.41)</u>	<u>\$ (0.25)</u>	<u>\$ (0.29)</u>	<u>\$ (0.29)</u>	<u>\$ 0.05</u>
Diluted.....	<u>\$ (0.41)</u>	<u>\$ (0.25)</u>	<u>\$ (0.29)</u>	<u>\$ (0.29)</u>	<u>\$ 0.05</u>
Shares used in computing net loss per share:					
Basic.....	<u>50,591</u>	<u>46,177</u>	<u>44,804</u>	<u>43,714</u>	<u>42,413</u>
Diluted.....	<u>50,591</u>	<u>46,177</u>	<u>44,804</u>	<u>43,714</u>	<u>44,861</u>

- (a) The fiscal year ended June 30, 2012 includes the impact of the acquisition of M5 Networks, Inc., which was completed in the third fiscal quarter.
- (b) The fiscal year ended June 30, 2011 includes the impact of the acquisition of Agito Networks, Inc., which was completed in the second fiscal quarter.

- (1) Includes stock-based compensation expense as follows:

	Year Ended June 30,				
	2012	2011	2010 (In thousands)	2009	2008
Cost of product revenue.....	\$ 132	\$ 123	\$ 139	\$ 113	\$ 74
Cost of hosted and related services.....	37	-	-	-	-
Cost of support and services revenue.....	836	678	838	799	545
Research and development.....	3,614	3,497	3,064	2,829	2,005
Sales and marketing.....	4,031	3,140	3,400	3,468	2,447
General and administrative.....	3,993	3,741	3,213	2,549	2,360
Total stock-based compensation expense ...	<u>\$ 12,643</u>	<u>\$ 11,179</u>	<u>\$ 10,654</u>	<u>\$ 9,758</u>	<u>\$ 7,431</u>

- (2) See Note 8 to the Consolidated Financial Statements in Item 8 for a description of the method used to compute basic and diluted net income (loss) per share.

	As of June 30,				
	2012	2011	2010 (In thousands)	2009	2008
Consolidated balance sheet data:					
Cash, cash equivalents and short-term investments.....	\$ 55,495	\$ 105,752	\$ 115,801	\$ 107,666	\$ 102,811
Working capital.....	30,961	109,855	112,836	111,617	111,993
Total assets.....	295,432	187,101	170,721	155,624	147,797
Line of credit, net of issuance costs.....	19,946	—	—	—	—
Total stockholders' equity.....	170,232	121,424	114,466	113,772	113,213

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this document. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed above in the section entitled "Risk Factors." We report results on a fiscal year ending June 30. For ease of reference within this section, 2012 refers to the fiscal year ended June 30, 2012, 2011 refers to the fiscal year ended June 30, 2011, and 2010 refers to the fiscal year ended June 30, 2010.

Overview

We are a leading provider of IP telecommunications solutions for enterprises. We were founded in September 1996 and shipped our first system in 1998. Since that time, we have continued to develop and enhance our product line. Our acquisition of M5 Networks, Inc. ("M5"), a leader in providing hosted unified communication solutions in the third quarter of fiscal 2012, expanded our products and service offerings to now include hosted solutions. Our acquisition of Agito Networks, Inc. ("Agito"), a leader in platform-agnostic enterprise mobility, in the second quarter of fiscal 2011, expanded our existing mobile solution with the vision of allowing users to communicate on any device, such as a desk phone, mobile phone, or computer, at any location using any cellular or Wi-Fi network simply and cost effectively.

Our solutions are available for businesses to operate in their own premise data centers or on a hosted, cloud-based platform. Solutions within our premise segment are comprised of our switches, IP phones and software application which work with our unique IP architecture to provide a brilliantly integrated communication system. Our ShoreTel Sky solutions are sold within our hosted segment (formerly known as our Cloud segment) and are comprised of M5's unique software delivered to the customer using our routers and IP phones.

Our phone and switch products are manufactured by contract manufacturers located in United States and in China. Our contract manufacturers provide us with a range of operational and manufacturing services, including component procurement, final testing and assembly of our products, which allows us to scale our business without the significant capital investment and on-going expenses required to establish and maintain a manufacturing operation.

We sell our premise products primarily through channel partners that market and sell our systems to enterprises across all industries, including small, medium and large companies and public institutions. Our channel partners include resellers as well as value-added distributors who in turn sell to the resellers. We believe our channel strategy allows us to reach a larger number of prospective enterprise customers more effectively than if we were to sell directly. The number of our authorized channel partners grew to over 1,000 as of June 30, 2012, representing approximately 9% year-over-year growth. Our internal sales and marketing personnel support these channel partners in their selling efforts. In some circumstances, the enterprise customer will purchase products directly from us, but in these situations we typically compensate the channel partner for its sales efforts. At the request of the channel partner, we often ship our products directly to the enterprise customer.

Most channel partners perform installation and implementation services for the enterprises that use our systems. Generally, our channel partners provide the post-contractual support to the enterprise customer by providing first-level support services and purchasing additional services from us under a post-contractual support contract. For channel partners without support capabilities or that do not desire to provide support, we offer full support contracts to provide all of the support to enterprise customers. Our channel partners may provide managed services offerings to the enterprise customer under which the channel partner may purchase our products and services and, in turn, charge the enterprise customer a monthly subscription fee to access those products and services.

During the second quarter of fiscal 2011, we entered into arrangements with two major value-added distributors to distribute our comprehensive line of premise business communication solutions to resellers within the United States in what we refer to as a “two-tier” distribution model. During fiscal 2012, we have expanded our two-tier network and added more value-added distributors to the network. We believe that the two-tier distribution model allows us to better serve our existing channel partners, to reach a larger number of prospective enterprise customers more effectively and to position us to continue to build momentum and capture increased market share in the IP telephony, mobility and UC markets. Furthermore, the two-tier distribution model allows us to scale our business operations without making significant investments in product distribution facilities, thus allowing us to manage our cost structure.

Although, we have historically sold our systems primarily to small and medium sized enterprises, in recent years, we have been expanding our sales and marketing activities to increase our focus on larger enterprise customers, including the creation of a major accounts program whereby our sales personnel assist our channel partners to sell to large enterprise customers. As of June 30, 2012, we had sold our products to approximately 24,000 enterprise customers, representing approximately 36% year-over-year growth. To the extent, we continue to successfully acquire larger enterprise customers in the United States and worldwide, we expect our sales cycle to increase, and the demands on our sales and support infrastructure to increase.

We are headquartered in Sunnyvale, California and have sales, customer support, general and administrative and engineering functions in Austin, Texas. After the acquisition of M5, our ShoreTel Sky services are provided from our offices in New York City and Rochester, New York and Chicago, Illinois. The majority of our personnel work at these locations. Sales, engineering, and support personnel are also located throughout the United States and, to a lesser extent, in Canada, the United Kingdom, Ireland, Germany, Spain, Hong Kong, Singapore and Australia. While most of our customers are located in the United States, we have continued to achieve growth in revenue from international sales, which accounted for approximately 12% of our total revenue for fiscal 2012 as compared with 13% and 10% in fiscal 2011 and 2010, respectively. We expect sales to customers in the United States will continue to comprise the majority of our sales in the foreseeable future.

In fiscal 2012, we continued to grow our market share of the IP telephony market, both in the United States and worldwide. Our total revenue increased to \$246.6 million in fiscal 2012 from \$200.1 million in fiscal 2011, driven by sales to new customers, add-on sales from existing customers and the addition of ShoreTel Sky services revenue after the M5 acquisition. Our operating expenses increased to \$178.7 million in fiscal 2012 from \$145.6 million in fiscal 2011, primarily due to increases in compensation expenses related to growth in headcount (including stock-based compensation), the addition of expenses from the M5 operations and the incurrence of non-recurring acquisition related costs. In fiscal 2012, we increased our headcount by 47%, with most of the growth in headcount coming from the employees assumed and retained in connection with our acquisition of M5, additions to our sales, product development and support workforce to support efforts to grow our sales channel and to enhance our product development activities, among other things.

Key Business Metrics

We monitor a number of key metrics to help forecast growth, establish budgets, measure the effectiveness of our sales and marketing efforts and to measure operational effectiveness.

Initial and repeat sales orders. Our goal is to attract a significant number of new enterprise customers and to encourage existing enterprise customers to purchase additional products and support. Many enterprise customers make an initial purchase and deploy additional sites at a later date and also purchase additional products and support as their businesses expand. As our installed enterprise customer base has grown, a large portion of orders has come from existing enterprise customers. In fiscal year 2012, premise billings from existing enterprise customers represented approximately 54% of total billings compared with 53% and 56% in fiscal 2011 and 2010, respectively.

Deferred revenue. Deferred revenue relates to the timing of revenue recognition for specific transactions based on delivery of service, support, specific commitments, product and services delivered to our value-added distributors that have not been delivered or sold through to resellers, and other factors. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from our transactions and are recognized as the revenue recognition criteria are met. Nearly all of our premise system sales include the purchase of post-contractual support contracts with terms of up to five years, and our renewal rates on these contracts have been high historically. We recognize support revenue on a ratable basis over the term of the support contract. Since we receive payment for support in advance of recognizing the related revenue, we carry a deferred revenue balance on our consolidated balance sheet. This deferred revenue helps provide predictability to our future support and services revenue. Almost all of our hosted services are billed a month in advance. Billings that are collected before the service is delivered are included in the deferred revenue balance on our consolidated balance sheet. These amounts are recognized as revenue as the services are delivered. Our deferred revenue balance at June 30, 2012 was \$49.5 million, of which \$35.8 million is expected to be recognized within one year.

Gross margin. Our gross margin for premise segment products is primarily affected by our ability to reduce hardware costs faster than the decline in average overall system sales prices. We strive to increase our product gross margin by reducing hardware costs through product redesign and volume discount pricing from our suppliers. In general, product gross margin on our switches is greater than product gross margin on our IP phones. As the prices and costs of our hardware components have decreased over time, our software components, which have lower costs than our hardware components, have represented a greater percentage of our overall margin on system sales. We consider our ability to monitor and manage these factors to be a key aspect of maintaining product gross margins and increasing our profitability.

Gross margin for premise segment support and services is slightly lower than gross margin for products and is impacted primarily by labor-related expenses. The primary goal of our support and services function is to ensure a high level of customer satisfaction and our investments in support personnel and infrastructure are made with this goal in mind. We expect that as our installed enterprise customer base grows, we may be able to slightly improve gross margin for support and services through economies of scale. However, the timing of additional investments in our support and services infrastructure could materially affect our cost of support and services revenue, both in absolute dollars and as a percentage of support and services revenue and total revenue, in any particular period.

Gross margin for the hosted segment services is lower than the gross margins for the premise segment and is impacted primarily by the reselling of broadband costs to customers, employee-related expense, data communication cost, carrier cost, telecom taxes, and intangible asset amortization expense. We expect that with the growth in customer base, the gross margins may reflect improvement.

Operating expense. Our operating expenses are comprised primarily of compensation and benefits for our employees. Accordingly, increases in operating expenses historically have been primarily related to increases in our headcount. We intend to expand our workforce to support our anticipated growth, and therefore, our ability to forecast revenue is critical to managing our operating expenses.

Average revenue per user. We calculate the monthly average service revenue per user (ARPU) for our hosted segment as the average monthly recurring revenue per customer divided by the average number of seats per customer. The average monthly recurring revenue per customer is calculated as the monthly recurring service revenue from customers in the period, divided by the simple average number of business customers during the period. Our ARPU includes telco circuits that we resell that could, as a percentage of our business, decline over time as our average customer size increases and therefore they are more apt to have their own networks already established. Our monthly ARPU for the three month period ended June 30, 2012 is \$62.

Customer churn. Customer churn for our hosted segment is calculated by dividing the monthly recurring revenue from customers that have terminated during a period by the simple average of the total monthly recurring revenue from all customers in a given period. The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. Our annualized customer churn as of June 30, 2012 is 4%.

Basis of Presentation

Revenue. We derive our revenue from sales of our premise IP telecommunications systems and related support and services as well as hosted services.

Premise Revenue. Our typical system includes a combination of IP phones, switches and software applications primarily for our premise business. We sell our products through channel partners that include resellers and value-added distributors. Prices to a given channel partner for hardware and software products depend on that channel partner's volume and customer satisfaction levels, as well as our own strategic considerations. In circumstances where we sell directly to the enterprise customer in transactions that have been assisted by channel partners, we report our revenue net of any associated payment to the channel partners that assisted in such sales. This results in recognized revenue from a direct sale approximating the revenue that would have been recognized from a sale of a comparable system through a channel partner. Product revenue has accounted for 74%, 80%, and 79% of our total revenue for fiscal years 2012, 2011 and 2010, respectively.

Premise support and services revenue primarily consists of post-contractual support, and to a lesser extent revenue from training services, professional services and installations that we perform. Post-contractual support includes software updates which grant rights to unspecified software license upgrades and maintenance releases issued during the support period. Post-contractual support also includes both Internet- and phone-based technical support. Revenue from post-contractual support is recognized ratably over the contractual service period. Premise support and services revenues accounted for 20%, 20% and 21% of our total revenue for fiscal 2012, 2011 and 2010, respectively.

Hosted Revenue. Hosted services and solutions consist primarily of our proprietary hosted VoIP Unified Communications system as well as other services such as foreign and domestic calling plans, certain UC applications, internet service provisioning, training and other professional services. Additionally, we offer our customers the ability to purchase phones systems from us directly or rent such systems as part of their service agreements. Our hosted services are sold through indirect channel resellers and a direct sales force. Our customers typically enter into 12 month service agreements

whereby they are billed for such services on a monthly basis. Revenue from our hosted services is recognized on a monthly basis as services are delivered. Revenue associated with various calling plans and Internet services are recognized as such services are provided. Hosted revenues accounted for 6% of our total revenues for fiscal 2012. There was no hosted or related services revenue in any of the fiscal years prior to 2012.

Cost of revenue. Cost of premise product revenue consists primarily of hardware costs, royalties and license fees for third-party software included in our systems, salary and related overhead costs of operations personnel, freight, warranty costs and provision for excess inventory. The majority of these costs vary with the unit volumes of products sold. Cost of premise support and services revenue consists of salary and related overhead costs of personnel engaged in support and service activities. Cost of hosted services revenue consists of personnel and related costs of the hosted operation, data center costs, data communication cost, carrier cost and amortization of intangible assets

Research and development expenses. Research and development expenses primarily include personnel costs, outside engineering costs, professional services, prototype costs, test equipment, software usage fees and facilities expenses. Research and development expenses are recognized when incurred. We capitalize development costs incurred from determination of technological feasibility through general release of the product to customers. We are devoting substantial resources to the development of additional functionality for existing products and the development of new products and related software applications. We intend to continue to make significant investments in our research and development efforts because we believe they are essential to maintaining and improving our competitive position. Accordingly, we expect research and development expenses to continue to increase in absolute dollars.

Sales and marketing expenses. Sales and marketing expenses primarily include personnel costs, sales commissions, travel, marketing promotional and lead generation programs, branding and advertising, trade shows, sales demonstration equipment, professional services fees, amortization of intangible assets, and facilities expenses. We plan to continue to invest in development of our distribution channel by increasing the size of our field sales force to enable us to expand into new geographies and further increase our sales to large enterprise customers. We plan to continue investing in our domestic and international marketing activities to help build brand awareness and create sales leads for our channel partners. We expect that sales and marketing expenses will increase in absolute dollars and remain our largest operating expense category.

General and administrative expenses. General and administrative expenses primarily relate to our executive, finance, human resources, legal and information technology organizations. General and administrative expenses primarily consist of personnel costs, professional fees for legal, accounting, tax, compliance and information systems, travel, recruiting expense, software amortization costs, depreciation expense and facilities expenses. As we expand our business, we expect general and administrative expenses to increase in absolute dollars.

Other income (expense). Other income (expense) primarily consists of interest earned on cash, cash equivalents and short-term investments, gains and losses on foreign currency translations and transactions, interest expense on our debt as well as other miscellaneous items affecting our operating results.

Benefit from income taxes. Benefit from income taxes includes federal, state and foreign tax on our income as well as any adjustments made to our valuation allowance for deferred tax assets. Since our inception, we have accumulated substantial net operating loss and tax credit carryforwards. We account for income taxes under an asset and liability approach. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax reporting purposes, net operating loss carryforwards and other tax credits measured by applying current enacted tax laws. Valuation allowances are provided when necessary to reduce deferred tax assets to an amount that is more likely than not to be realized.

Use of Non-GAAP Financial Measures

We believe that evaluating our ongoing operating results may limit the reader's understanding if limited to reviewing only generally accepted accounting principles (GAAP) financial measures. Many investors and analysts have requested that, in addition to reporting financial information in accordance with GAAP that we also disclose certain non-GAAP information because it is useful in understanding our performance as it excludes non-cash and other non-recurring charges or credits that many investors and management feel may obscure our true operating performance. Likewise, we use these non-GAAP financial measures to manage and assess the profitability of the business and determine a portion of our employee compensation. We do not consider stock-based compensation charges, amortization of purchased intangibles, acquisition-related costs, severance charges, litigation settlement costs, interest charge from change in fair value of contingent consideration and related tax adjustments (non-GAAP adjustments) in managing the core operations. These measures are not based on any standardized methodology prescribed by GAAP and are not necessarily comparable to similar measures presented by other companies. Non-GAAP net income (loss) is calculated by adjusting GAAP net income (loss) for non-GAAP adjustments. Non-GAAP net income (loss) per share per share is calculated by dividing Non-GAAP net income (loss) by the weighted average number of basic and diluted shares outstanding for the period. These measures should not be considered in isolation or as a substitute for measures prepared in accordance with GAAP, and because these amounts are not determined in accordance with GAAP, they should not be used exclusively in evaluating our business and operations. We have provided a reconciliation of non-GAAP financial measures in the following table:

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

	Year Ended June 30, 2012			Year Ended June 30, 2011		
	GAAP	Excludes	Non- GAAP	GAAP	Excludes	Non- GAAP
Revenue:						
Product	\$ 182,009	\$ -	\$ 182,009	\$ 159,693	\$ -	\$ 159,693
Hosted and related services	15,547	-	15,547	-	-	-
Support and services	49,076	-	49,076	40,419	-	40,419
Total revenues	246,632	-	246,632	200,112	-	200,112
Cost of revenue:						
Product	61,884	(1,022)	60,862	52,957	(614)	52,343
Hosted and related services	9,804	(850)	8,954	-	-	-
Support and services	16,465	(836)	15,629	13,688	(678)	13,010
Total cost of revenue	88,153	(2,708)	85,445	66,645	(1,292)	65,353
Gross profit	158,479	2,708	161,187	133,467	1,292	134,759
Gross profit %	64.3%		65.4%	66.7%		67.3%
Operating expenses:						
Research and development	51,909	(3,614)	48,295	45,548	(3,497)	42,051
Sales and marketing	94,797	(5,043)	89,754	74,859	(3,170)	71,689
General and administrative	27,468	(4,534)	22,934	24,890	(4,266)	20,624
Acquisition-related costs	4,524	(4,524)	-	340	-	340
Total operating expenses	178,698	(17,715)	160,983	145,637	(10,933)	134,704
Income (loss) from operations	(20,219)	20,423	204	(12,170)	12,225	55
Other income (expense) - net	(1,465)	203	(1,262)	640	-	640
Income (loss) before provision for income tax	(21,684)	20,626	(1,058)	(11,530)	12,225	695
Provision for (benefit from) income tax	(947)	1,315	368	(67)	81	14
Net income (loss)	<u>\$ (20,737)</u>	<u>\$ 19,311</u>	<u>\$ (1,426)</u>	<u>\$ (11,463)</u>	<u>\$ 12,144</u>	<u>\$ 681</u>
Net income (loss) per share:						
Basic	<u>\$ (0.41)</u>	<u>\$ 0.38</u>	<u>\$ (0.03)</u>	<u>\$ (0.25)</u>	<u>\$ 0.26</u>	<u>\$ 0.01</u>
Diluted (h)	<u>\$ (0.41)</u>	<u>\$ 0.38</u>	<u>\$ (0.03)</u>	<u>\$ (0.25)</u>	<u>\$ 0.26</u>	<u>\$ 0.01</u>
Shares used in computing net income (loss) per share:						
Basic	<u>50,591</u>		<u>50,591</u>	<u>46,177</u>		<u>46,177</u>
Diluted (h)	<u>50,591</u>		<u>50,591</u>	<u>46,177</u>		<u>47,900</u>
(a) Excludes stock-based compensation included in:						
Cost of product revenue	\$ 132			\$ 123		
Cost of hosted and related services	37			-		
Cost of support and services revenue	836			678		
Research and development	3,614			3,497		
Sales and marketing	4,031			3,140		
General and administrative	3,993			3,741		
	<u>\$ 12,643</u>			<u>\$ 11,179</u>		
(b) Excludes amortization of acquisition-related intangibles included in:						
Cost of product revenue	\$ 890			\$ 491		
Cost of hosted and related services	813			-		
Sales and marketing	1,012			30		
General and administrative	41			-		
	<u>\$ 2,756</u>			<u>\$ 521</u>		
(c) Excludes litigation settlement included in:						
General and administrative	<u>\$ 500</u>			<u>\$ -</u>		

(d) Excludes direct acquisition costs included in:

Acquisition-related costs	<u>\$ 4,524</u>	<u>\$ -</u> (i)
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(e) Excludes interest charge from change in fair value of contingent consideration included in:

Other expense	<u>\$ 203</u>	<u>\$ -</u>
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(f) Excludes severance for former Chief Executive Officer included in:

General and administrative	<u>\$ -</u>	<u>\$ 525</u>
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(g) Excludes the deferred tax benefit arising from acquisition and tax impact of the items which are excluded in (a) to (e) above.

(h) Potentially dilutive securities were not included in the calculation of diluted net loss per share for the periods which had a net loss because to do so would have been anti-dilutive.

(i) Acquisition related costs for year ended June 30, 2011 were not adjusted in non-gaap financials based on materiality. The amount is reclassified and reflected in a separate line item to conform to the presentation for year ended June 30, 2012.

Results of Operations

The following table sets forth selected consolidated statements of operations data as a percentage of total revenue for each of the periods indicated.

	Year Ended June 30,		
	2012	2011	2010
Revenue:			
Product	74%	80%	79%
Hosted and related services	6%	—	—
Support and services	20%	20%	21%
Total revenue	100%	100%	100%
Cost of revenue:			
Product	25%	26%	27%
Hosted and related services	4%	—	—
Support and services	7%	7%	8%
Total cost of revenue	36%	33%	35%
Gross profit	64%	67%	65%
Operating expenses:			
Research and development	21%	23%	23%
Sales and marketing	38%	37%	38%
General and administrative	11%	13%	13%
Acquisition-related costs	2%	—	—
Total operating expenses	72%	73%	74%
Operating loss	(8)%	(6)%	(9)%
Other income (expense), net	—	—	—
Loss before benefit from income tax	(8)%	(6)%	(9)%
Benefit from income taxes	—	—	—
Net loss	(8)%	(6)%	(9)%

Comparison of Fiscal 2012 to 2011

Upon the our acquisition of M5 on March 23, 2012, we began operating in two reporting segments which consisted of our historical premise solutions and our hosted solutions associated with the operations of M5. For reporting purposes, management's focuses its review and reporting of such segments based on reported revenue and gross margin as other costs associated with the operating activities are managed on a combined basis.

Revenue

	Year Ended			
	June 30, 2012	June 30, 2011	Change \$	Change %
(in thousands, except percentages)				
Revenue.....	\$ 246,632	\$ 200,112	\$ 46,520	23%

Total revenue increased by \$46.5 million or 23% in fiscal 2012 as compared to fiscal 2011. The increase in the overall revenue is due to the continued growth and expansion of our premise solution business as a result of greater market acceptance of our products and services and due to the additional revenue associated with our hosted business following our acquisition of M5 on March 23, 2012.

Revenue from customers in the United States accounted for approximately 88% and 87% of total revenue for years ended June 30, 2012 and 2011, respectively.

Premise Revenue

Premise product revenue increased by \$22.3 million or 14% in fiscal 2012, primarily due to the higher sales volumes from our channel partners and continued expansion in the U.S. two-tier distribution channel. Our international revenue was 13% of our premise revenue in fiscal 2012 as compared to 13% in fiscal 2011. Our higher sales volume and expanded customer base are the direct result of our investment in the sales and marketing efforts as well as the development of the two-tier distribution channel. premise support and services revenue increased by \$8.7 million or 21% in fiscal 2012, as compared to fiscal 2011. The increase in support and services revenue was primarily due to the increase in support contract renewal rate, customers on time-and-materials arrangements converting to support contracts, an increase in the average contract value that renewed and contract renewals from a larger customer base. The growth in the form of new customers as well as additional sales to the existing customers result in higher post-contractual support revenues.

Hosted Revenue

Hosted and related service revenue contributed \$15.5 million of revenue as a result of our acquisition of M5 during March 2012. There were no such revenues in fiscal year 2011. As we continue to invest in the growth of our hosted segment, we expect the revenue from hosted and related services to increase in future periods.

Gross margin.

	Year Ended			
	June 30, 2012	June 30, 2011	Change \$	Change %
(in thousands, except percentages)				
Cost of revenue	\$ 88,153	\$ 66,645	\$ 21,508	32%
Gross profit.....	158,479	133,467	25,012	19%
Gross margin	64%	67%	n/a	(3%)

Gross margin decreased to 64% in fiscal 2012 as compared to 67% in fiscal 2011. The decrease in the overall gross margins is mostly due to the change in the revenue mix resulting from the addition of the hosted business which has lower margins that the premise business.

Premise Gross Margin

Premise product gross margins decreased to 66% in fiscal 2012 as compared to 67% in fiscal 2011. The decrease is primarily due to a change in our channel sales mix as a greater percentage of total sales were transacted through our domestic value-added distribution partners. Such sales generally have a higher discount and thus lower gross margins than the sales made directly to our resellers. Premise support and services gross margins remained relatively consistent during the period as it remained at 66% in both fiscal year 2012 and fiscal year 2011.

Hosted Gross Margin

Hosted and related service gross margins were 37% for fiscal year 2012. There were no related costs in fiscal year 2011. As the related hosted business continues to expand and grow, we anticipate that we will realize improvements in our gross margins as we achieve synergies and other cost reductions in our service delivery platform.

Operating expenses

	Year Ended			
	June 30, 2012	June 30, 2011	Change \$	Change %
(in thousands, except percentages)				
Research and development.....	\$ 51,909	\$ 45,548	\$ 6,361	14%
Sales and marketing.....	94,797	74,859	19,938	27%
General and administration	27,468	24,890	2,578	10%
Acquisition-related costs.....	4,524	340	4,184	1231%

Research and development. Research and development expenses increased by \$6.4 million or 14% in fiscal 2012 compared to fiscal 2011. The increase in research and development expenses was primarily due to an increase of \$5.8 million in employee-related costs, including stock-based compensation. The increase is primarily due to an increase in the research and development workforce of approximately 67 employees due mainly to an increase in personnel assumed in connection with our acquisition of M5 as well as in premise employees. Other increases in research and development expenses were due to increases of \$0.8 million in facilities costs.

Sales and marketing. Sales and marketing expenses increased by \$19.9 million or 27% in fiscal 2012 compared to fiscal 2011. The increase is primarily due to an increase of \$9.2 million in employee-related costs, including a \$0.9 million increase in stock-based compensation, a \$3.8 million increase in commission expenses associated with more sales employees and higher revenue during the period, a \$3.0 million increase in promotion and marketing expenses related to our continued effort expand our demand generation and branding activities, a \$1.1 million increase in travel-related expenses associated with our expanded marketing team, a \$1.0 million increase in professional fees, a \$1.0 million increase in amortization expense of intangible assets and a \$0.9 million increase in facilities costs. Our sales and marketing workforce increased by approximately 78 employees in fiscal 2012 as a result of our additional investment in the sales efforts as we continue to expand our sales efforts and overall market presence as well as due to the personnel assumed in connection with our acquisition of M5.

General and administrative. General and administrative expenses increased by \$2.6 million or 10% in fiscal 2012 compared to fiscal 2011. The increase in general and administrative expenses was primarily due to an increase of \$1.5 million in employee-related costs, including a \$0.2 million increase in stock-based compensation, a \$0.5 million increase in legal settlement costs, a \$0.9 million increase in additional telecommunication and travel costs, a \$0.3 million increase in third party software costs partially offset by a reduction of \$1.4 million in allocated facilities costs. Our general and administration workforce increased by 27 employees in fiscal 2012 due mainly to an increase in personnel assumed in connection with our acquisition of M5 as well as in premise employees.

Acquisition-related costs. Acquisition related costs increased by \$4.2 million in fiscal 2012 as compared to fiscal 2011. The costs incurred in fiscal 2012 reflects direct costs we incurred in connection with the acquisition of M5 Networks, Inc. and are higher mainly due to the size and the nature of acquisition as compared to the acquisition of Agito Networks, Inc. in fiscal 2011.

Other income, net

	Year Ended			
	June 30, 2012	June 30, 2011	Change \$	Change %
(in thousands, except percentages)				
Other income (expense), net	\$ (1,465)	\$ 640	\$ (2,105)	(329%)

Other income, net. Other income, net changed by \$2.1 million in fiscal 2012 compared to fiscal 2011. Due to strengthening of U.S. dollar against certain foreign currencies in which we transact, our foreign exchange loss increased by \$1.3 million in fiscal 2012. Interest income on short-term investment and cash equivalents reduced by \$0.4 million due to an overall decline in interest rates and a decline in investing funds. Our interest expense for fiscal 2012 increased by \$0.4 million as a result of borrowing under the line of credit agreement as well as interest paid on capital lease agreements assumed in connection with the acquisition of M5.

Benefit from income tax

	Year Ended			
	June 30, 2012	June 30, 2011	Change \$	Change %
(in thousands, except percentages)				
Benefit from income tax	\$ (947)	\$ (67)	\$ (880)	1313%

Benefit from income tax. Income tax benefit increased by approximately \$0.9 million in fiscal 2012 compared with fiscal 2011. The increase in income tax benefit is primarily due to the partial release of valuation allowances against deferred tax assets of \$1.3 million in connection with the recording of deferred tax liabilities from our acquisition of M5, which was partially offset by the recognition of \$0.3 million of income tax expense associated with state and foreign income taxes.

Fiscal 2011 compared to Fiscal 2010

Revenue

	Year Ended			
	June 30, 2011	June 30, 2010	Change \$	Change %
(in thousands, except percentages)				
Revenue.....	\$ 200,112	\$ 148,464	\$ 51,648	35%

Revenue. Total revenue increased by \$51.6 million or 35% in fiscal 2011, reflecting increases in revenues across substantially all of our IP phone systems, switches and software applications, as well as increases in revenues from support and services. Product revenue increased to \$160.0 million in fiscal 2011 from \$117.1 million in fiscal 2010, primarily due to higher sales volume. The increase in sales volume was primarily driven by a 29% year-over-year increase in our enterprise customer base. We also experienced increases in sales volume and revenue from our existing enterprise customers, primarily driven by add-on sales of IP phones, switches, and software applications.

Support and services revenue increased to \$40.4 million in fiscal 2011 from \$31.3 million in fiscal 2010. Revenue from post-contractual support increased by approximately \$8.0 million in fiscal 2011, primarily due to growth in our installed base of our customers and their contract renewals, growth in new enterprise customers, and increased add-on sales to our existing customers. These factors resulted in higher post-contractual support revenues from both the amortization of existing support contracts initiated in prior years and from renewal and new support contracts initiated in fiscal 2011. In addition, the growth in new customers contributed to a combined increase of \$1.1 million in revenues from training, professional services, and installation, as these services are generally purchased in connection with the initial sale of our products to new customers.

Revenue from customers in the United States accounted for approximately 87% and 90% of total revenue for years ended June 30, 2011 and 2010, respectively.

Gross margin

	Year Ended			
	June 30, 2011	June 30, 2010	Change \$	Change %
(in thousands, except percentages)				
Cost of revenue	\$ 66,645	\$ 52,051	\$ 14,594	28%
Gross profit	133,467	96,413	37,054	38%
Gross margin	67%	65%	n/a	2%

Gross margin. Gross margin increased to 67% in fiscal 2011 compared to 65% in fiscal 2010. Product gross margin improved to 67% from 65% in 2010, primarily attributable to the overall increase in revenue, favorable product mix and lower unit manufacturing costs, primarily due to overall decrease in product costs as a result of achieving product design efficiencies. These factors were offset by amortization expenses related to purchased-intangible assets.

Support and services gross margin improved to 66% from 63%, primarily due to productivity gains, as the increase in support and services revenues outpaced the rate of increase in the associated costs, which largely consist of employee-related costs.

Operating expenses

	Year Ended			
	June 30, 2011	June 30, 2010	Change \$	Change %
(in thousands, except percentages)				
Research and development	\$ 45,548	\$ 33,596	\$ 11,952	36%
Sales and marketing	74,859	55,973	18,886	34%
General and administration	24,890	19,888	5,002	25%
Acquisition-related costs	340	-	340	100%

Research and development. Research and development expenses increased by \$12.0 million or 36% in fiscal 2011 compared to fiscal 2010. The increase in research and development expenses was primarily due to an increase of \$8.4 million in employee-related costs, primarily due to headcount additions to our research and development workforce, including the addition of research and development employees from Agito. In fiscal 2011, we had higher spending on various product development costs as we continued to expand our product roadmap, including an increase of \$1.5 million in consulting fees and an increase of \$0.4 million in both equipment expenses related to prototype development and software license expenses, partially offset by a decrease of \$0.3 million in non-recurring engineering expenses. Other increases in research and development expenses were due to increases of \$0.9 million in allocated facilities costs and \$0.3 million in travel expenses.

Sales and marketing. Sales and marketing expenses increased by \$18.9 million or 34% in fiscal 2011 compared to fiscal 2010, primarily due to an increase of \$12.4 million in employee-related costs. In fiscal 2011, we increased our sales force by 46% as part of our strategic focus to expand our enterprise customer base. The growth in our sales force, coupled with the increase in total revenue in fiscal 2011, resulted in a \$1.9 million or 18% increase in commission expense, which is reflected in the increase in compensation expenses. Also contributing to the increase in sales and marketing expenses were increases of \$2.2 million in marketing expenses related to demand generation, channel marketing and branding activities, \$2.1 million in travel-related expenses, \$0.9 million in channel partner co-marketing expenses, and a combined \$1.6 million increase in facilities, equipment and supplies expenses.

General and administrative. General and administrative expenses increased by \$5.0 million or 25% in fiscal 2011 compared to fiscal 2010. The increase in general and administrative expenses was primarily due to an increase of \$3.3 million in employee-related costs, primarily due to headcount additions to our finance and information technology workforce. In addition, we incurred approximately \$0.5 million of severance costs related to our former CEO in the first quarter of 2011. Other increases in general and administrative expenses were due to an increase of \$0.7 million in consulting costs and an increase of \$0.8 million in software license expenses, partially offset by \$0.3 million decrease in other expenses.

Acquisition-related costs. In fiscal 2011, we recorded a charge of \$0.3 million as acquisition-related costs in connection with the acquisition of Agito Networks, Inc. There was no such charge in fiscal 2010.

Other income, net

	Year Ended			
	June 30, 2011	June 30, 2010	Change \$	Change %
(in thousands, except percentages)				
Other income, net	\$ 640	\$ 84	\$ 556	662%

Other income, net. Other income, net increased by \$0.6 million in fiscal 2011 compared to fiscal 2010, primarily due to an increase of approximately \$0.1 million in interest income, and an increase of approximately \$0.5 million in net realized and unrealized foreign exchange gains related to accounts receivable and accounts payable denominated in foreign currencies.

Benefit from income tax

	Year Ended			
	June 30, 2011	June 30, 2010	Change \$	Change %
(in thousands, except percentages)				
Benefit from income tax	\$ (67)	\$ (156)	\$ 89	(57%)

Benefit from income tax. Benefit from income tax decreased by approximately \$0.1 million or 57 % in fiscal 2011 compared to fiscal 2010, primarily due to increases in the state and foreign income tax provisions. The state tax provision was higher in fiscal 2011 due to increases in measurable tax base for certain states that determine tax liabilities based on factors other than income. The foreign tax provision was higher in fiscal 2011 due to higher revenue and pretax earnings by certain of our foreign subsidiaries.

Liquidity and Capital Resources

Cash and Cash Equivalents and Investments

The following table summarizes our cash and cash equivalents and short-term investments (in thousands):

	Year ended June 30,		
	2012	2011	2010
Cash and cash equivalents	\$ 37,120	\$ 89,695	\$ 68,426
Short-term investments	18,375	16,057	47,375
Total	<u>\$ 55,495</u>	<u>\$ 105,752</u>	<u>\$ 115,801</u>

As of June 30, 2012, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$55.5 million and net accounts receivable of \$34.2 million and the balance available of \$29.7 million for borrowing under our Credit Facility.

On March 15, 2012, we entered into a secured credit agreement (the “Credit Facility”) with Silicon Valley Bank to finance a portion of the M5 acquisition, including paying related fees and expenses, and for general corporate purposes. The Credit Facility includes a revolving loan facility for an aggregate principal amount not exceeding \$50 million. The Credit Facility matures on the fifth anniversary of its closing (March 15, 2017) and is payable in full upon maturity. The amounts borrowed and repaid under the Credit Facility can be reborrowed. The borrowings under the Credit Facility will accrue interest either (at our election) at (i) the London interbank offered rate then in effect, plus a margin of between 2.00% and 2.50%, which will be based on the our Consolidated Earnings before interest, taxes, depreciation and amortization (“EBITDA”) (as defined in the Credit Agreement), or (ii) the higher of (a) Silicon Valley Bank’s publicly-announced prime rate then in effect and (b) the federal funds rate plus 0.50%, in each case of (a) or (b), plus a margin of between 0.00% and 0.50%, which will be based upon the our Consolidated EBITDA. We also pay an annual commitment fee during the term of the Credit Agreement which varies depending on our Consolidated EBITDA. The Credit Facility is secured by substantially all of our assets. The amount payable under the Credit Facility was \$20.3 million as of June 30, 2012.

Historically, our principal uses of cash have consisted of the purchase of finished goods inventory from our contract manufacturers, payroll and other operating expenses related to the development and marketing of our products and purchases of property and equipment and acquisitions.

Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the addition of new business initiatives, the timing and extent of our expansion into new territories, the timing of introductions of new products and enhancements to existing products, the continuing market acceptance of our products and acquisition and licensing activities. We may enter into agreements relating to potential investments in, or acquisitions of, complementary businesses or technologies in the future, which could also require us to seek additional equity or debt financing. If needed, additional funds may not be available on terms favorable to us or at all. We believe that the available amounts under the line of credit together with our cash flows from our operations will be sufficient to fund our operating requirements for at least the next twelve months.

The following table shows our cash flows from operating activities, investing activities and financing activities for the stated periods:

	Year Ended June 30,		
	2012	2011	2010
	(In thousands)		
Cash provided by operating activities	\$ 10,315	\$ 1,310	\$ 11,181
Cash provided by (used in) investing activities	\$ (85,805)	\$ 12,566	\$ (19,743)
Cash provided by financing activities	\$ 22,915	\$ 7,393	\$ 3,169

Cash flows from operating activities

Our cash flows from operating activities are significantly influenced by our cash expenditures to support the growth of our business in areas such as research and development, sales and marketing and administration. Our operating cash flows are also influenced by our working capital needs to support growth and fluctuations in inventory, accounts receivable, vendor accounts payable and other assets and liabilities. We procure finished goods inventory from our contract manufacturers and typically pay them in 30 days. We extend credit to our channel partners and typically collect in 30 to 60 days, although these time periods can vary and can be longer. In some cases, we prepay for license rights to third-party products, which we incorporate into our products, in advance of such sales.

Cash flow provided by operating activities increased by \$9.0 million in fiscal 2012, primarily due to higher revenue growth and factors related to timing. Cash provided by operating activities consists of net loss of \$20.7 million offset by \$21.0 million of certain non-cash expenses and inflows of \$10.1 million from changes in operating assets and liabilities. The non-cash expenses include \$12.6 million of stock-based compensation, \$9.0 million of depreciation and amortization and \$1.3 million of release in valuation allowance on deferred tax assets. Changes in operating assets and liabilities include cash inflows from decrease in accounts receivable of \$2.2 million resulting from an improvement in customer collection efforts, an increase in deferred revenues by \$10.6 million, an increase in accounts payable of \$1.3 million and an increase in accrued employee compensation of \$1.1 million. These amounts were partially offset by increases in prepaid expenses of \$1.2 million, an increase in inventories of \$1.1 million, an increase in other assets of \$1.1 million and a decrease in accrued liabilities of \$1.8 million.

Cash flow provided by operating activities decreased by \$9.9 million in fiscal 2011, primarily due to higher spending to support our growth, an increase in inventory, as well as factors related to timing of payments of our liabilities. Cash provided by operating activities consisted of a net loss of \$11.5 million, adjusted by non-cash items of \$16.5 million and cash used by changes in assets and liabilities of \$3.6 million, which primarily consisted of an increase of \$9.1 million in accounts receivable, attributable to higher revenue in fiscal 2011 and timing of cash collections, increase of \$8.7 million in inventory, primarily due to anticipated demand for our solutions in relation to lead times to produce such product by our contract manufacturers, as well as a purposeful build-up of inventory to mitigate any supply chain disruption resulting from the natural disaster in Japan in March 2011, a combined decrease of \$2.3 million in accounts payable, and accrued liabilities and others, partially offset by an increase of \$8.9 million in deferred revenue, driven by higher post-contractual support billings resulting from the increase in our installed base, a decrease of \$4.8 million in prepaid assets and other current assets, reflecting timing of expense recognition and an increase of \$2.7 million in accrued employee compensation.

Cash flows from investing activities

We have classified our investment portfolio as available for sale and our investments are made with a policy of capital preservation and liquidity as the primary objectives. We may hold investments to maturity; however, we may sell an investment at any time if the quality rating of the investment declines, the yield on the investment is no longer attractive or we are in need of cash. Because we invest only in investment securities that are highly liquid with a ready market, we believe that the purchase, maturity or sale of our investments has no material impact to our overall liquidity.

Net cash flow used in investing activities in fiscal 2012 was \$85.8 million and primarily consists of \$78.4 million paid, net of cash received, for our acquisition of M5, \$4.2 million used to purchase property, plant and equipment, \$2.6 million used in purchase of investments securities and \$0.6 million used to purchase an intangible asset.

Net cash flow provided by investing activities was \$12.6 million in fiscal 2011, primarily comprised of \$33.7 million of proceeds from the sales and maturities of investments, offset by \$11.4 million used in the acquisition of Agito, \$5.9 million used to purchase property and equipment, \$3.1 million used to purchase investment securities, and \$0.8 million used to purchase intangible assets.

Cash flows from financing activities

Cash flow provided by financing activities in fiscal 2012 was \$22.9 million and primarily consisted of \$19.9 million borrowings in from the line of credit net of repayments made during the period, \$3.9 million of proceeds from issuance of common stock under various employee benefit plans, offset by \$0.6 million used to pay taxes on vested and released stock awards and \$0.3 million of payments made under various capital lease agreements.

Cash flow provided by financing activities in fiscal 2011 was \$7.4 million which primarily consisted of proceeds of \$7.9 million from the exercise of stock options, offset by \$0.5 million used to pay taxes on vested and released stock awards.

Contractual Obligations

The following is a summary of our contractual obligations as of June 30, 2012:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	Thereafter
(In thousands)					
Operating lease obligations	\$ 20,002	\$ 3,495	\$ 5,992	\$ 5,815	\$ 4,700
Capital lease obligations	2,598	1,183	1,415	-	-
Line of credit	20,332	-	-	20,332	-
Non-cancellable purchase commitments (inventory and software licenses)	22,285	21,972	313	-	-
Outstanding letters of credit	103	103	-	-	-
Total	<u>\$ 65,320</u>	<u>\$ 26,753</u>	<u>\$ 7,720</u>	<u>\$ 26,147</u>	<u>\$ 4,700</u>

The table above excludes unrecognized tax benefits and related interest and penalties accrual of \$0.1 million, as we are unable to reasonably predict the timing of settlement of liabilities related to unrecognized tax benefits. See Note 9 to the Consolidated Financial Statements in Item 8 for a discussion of income taxes.

We contract with independent sources to manufacture our products and purchase components from a variety of suppliers. During the normal course of business, in order to manage future demand for our products and to ensure adequate component supply, we enter into agreements with manufacturers and suppliers which allow us to procure inventory based upon criteria and timing that we define. Certain of these purchase commitments are firm, non-cancelable, and unconditional commitments. In certain instances, these agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed.

The purchase consideration for our acquisition of M5 included a contingent portion ranging from zero to \$13.7 million and is subject to the achievement of certain revenue targets. If these revenue targets are met in full, we will pay the \$13.7 million in cash over the next two years. See Note 2 to the Consolidated Financial Statements for additional information on the acquisition of M5.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements (other than those disclosed above within Contractual Obligations) nor do we have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. These accounting principles require us to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the dates of the consolidated financial statements, the disclosure of contingencies as of the dates of the consolidated financial statements, and the reported amounts of revenue and expenses during the periods presented. Although we believe that our judgments and estimates are reasonable under the circumstances, actual results may differ from those estimates.

We believe the following to be our critical accounting policies because they are important to the portrayal of our financial condition and results of operations and they require critical management judgments and estimates about matters that are uncertain:

- Revenue recognition;
- Stock-based compensation;
- Goodwill and purchased-intangible assets, and
- Accounting for income taxes

If actual results or events differ materially from those contemplated by us in making these estimates, our reported financial condition and results of operations for future periods could be materially affected. See “Risk Factors” for certain matters that may affect our future financial condition or results of operations.

Revenue Recognition

We derive our revenue from the sale of premise enterprise IP telecommunications systems and ShoreTel Sky hosted services.

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (“ASU”) No. 2009-13 (“ASU 2009-13”), which amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product’s essential functionality from the scope of industry specific software revenue recognition guidance. In addition, in October 2009, the FASB issued ASU 2009-14, which:

- (i) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the arrangement consideration should be allocated among its elements;
- (ii) require an entity to allocate the revenue using estimated selling prices (ESP) of the deliverables if there is no vendor specific objective evidence of fair value (VSOE) or third party evidence of selling price (TPE); and
- (iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

For a multiple-element transaction, the total arrangement fees are allocated to all the deliverables based on their respective relative selling prices. The relative selling price is determined using VSOE when available. When VSOE cannot be established, the Company attempts to determine the TPE for the deliverables. TPE is determined based on competitor prices for similar deliverables when sold separately by the competitors. Generally our product offerings differ from those of our competitors and comparable pricing of our competitors is often not available. Therefore, we are typically not able to determine TPE. When we are unable to establish selling price using VSOE or TPE, we use ESP in our allocation of arrangement fees. The ESP for a deliverable is determined as the price at which we would transact if the products or services were sold on a stand-alone basis.

For transactions entered into prior to July 1, 2010, we recognized revenue based on industry specific software revenue recognition guidance. In accordance with industry specific software revenue recognition guidance, we utilized the residual method to determine the amount of product revenue to be recognized. Under the residual method, the fair value of the undelivered elements, such as post-contractual support, is deferred and the remaining portion of the arrangement consideration is recognized as product revenue. VSOE of fair value is limited to the price charged when the same element is sold separately. VSOE of fair value is established for post-contractual support based on the volume and pricing of the stand-alone sales within a narrow range. The fair value of the post-contractual support is recognized on a straight-line basis over the term of the related support period, which is typically one to five years.

Premise revenues:

The sale of IP telecommunication systems include hardware, primarily phones and voice switches, software components and may also include training, installation and post-contractual support for the products. Our business strategy is centered on selling to enterprise customers through channel partners rather than directly. Sales to value-added distributors allows us to leverage our existing distribution infrastructure and sales personnel. In some instances, larger enterprise customers prefer to purchase directly from us. Many of these large account sales are channel partner-assisted and we compensate the channel partner in much the same way as if the channel partner had made the sale directly. The compensation to the channel partner is recorded as an offset to the revenues associated with the direct sale to the enterprise customer.

The typical system includes a combination of IP phones, switches and software applications. For sales transactions made both directly and to resellers revenue is recognized at the time of shipment provided that all the provisions of revenue recognition have been met. For sales to value-added distributors, revenue is initially deferred and is recognized at the time of sale by the distributor to their customer, provided all the provisions of revenue recognition have been met. We refer to this distribution approach as two-tier distribution model and the recognition of revenue at the time of sale by the distributor as the sell through method.

We recognize revenue when persuasive evidence of an arrangement exists, product has shipped or delivery has occurred (depending on when title passes), the sales price is fixed or determinable and free of contingencies and significant uncertainties, and collection is probable. The fee is considered fixed or determinable at the execution of an agreement, based on specific products and quantities to be delivered at specified prices. The agreements with reseller partners generally do not include rights of return or acceptance provisions. Even though substantially all of the contractual agreements do not provide return privileges, there are circumstances for which we will accept a return. We maintain a reserve for such returns based on historical experience with reseller partners. The agreements with our value-added distributors allow for limited rights of return of products generally purchased within the previous 90 days. In addition to such return rights, we generally offer price protection provisions to our distributors when there is a permanent reduction of our sales prices. In such cases, we are obligated to grant the distributor a credit for the difference between the change in the aggregate price of any amounts that have been purchased but unsold by the distributor as of the effective date of such decrease. To the extent that our agreements contain acceptance terms, we recognize revenue upon product acceptance, unless the acceptance provision is deemed to be perfunctory. Payment terms to customers generally range from net 30 to net 60 days. In the event payment terms are extended materially from the Company's standard business practices, the fees are deemed to not be fixed or determinable and revenue is recognized when the payment becomes due. We assess the ability to collect from our customers based on a number of factors, including credit worthiness and past transaction history of the customer. If the customer is not deemed credit worthy, we defer all revenue from the arrangement until payment is received and all other revenue recognition criteria have been met. Shipping charges billed to customers are included in product revenue and the related shipping costs are included in cost of product revenue. Provisions for return allowances and product warranties are recorded at the time revenue is recognized based on our historical experience. The provision for return allowances is recorded as a reduction to revenues on the statement of operations and is included as a reduction to accounts receivable on the balance sheet.

Most of the products and services included in a premise system qualify as separate units of accounting. Many of our products have both software and non-software components that function together to deliver the essential functionality of the integrated system product. We analyze all of our software and non-software products and services and consider the features and functionalities of the individual elements and the stand alone sales of those individual components among other factors, to determine which elements are essential or non-essential to the overall functionality of the integrated system product. We recognize revenue related to installation services and training upon delivery of the service.

Our core software, which we refer to as “essential software,” is integrated with hardware and is essential to the functionality of the integrated system product. We also sell additional software which provides increased features and functions, but is not essential to the overall functionality of the integrated system products, which we refer to as “non-essential software.” At the initial purchase, the customer generally bundles together the hardware, essential software, non-essential software, as needed, and up to five years of post-contractual support. Thereafter, if the enterprise customer increases end users and functionality, it may add more hardware, both essential and non-essential software components, and related post-contractual support by purchasing them separately

The revenue for these multiple element arrangements is allocated to the non-essential software deliverables and the non-software deliverables based on the relative selling prices of all of the deliverables in the arrangement using the hierarchy in the new revenue accounting guidance. The non-essential software deliverables included in a multiple element arrangement are subject to the industry specific software revenue recognition guidance. As we have not been able to obtain VSOE for all of the non-essential software deliverables in the arrangement, revenue allocated to the delivered non-essential software elements is recognized using the residual method in accordance with industry specific software revenue recognition guidance. Under the residual method, the amount of revenue recognized for the delivered non-essential software elements equaled the total allocated consideration less the VSOE of any undelivered elements bundled with such non-essential software elements.

We have been able to establish VSOE for our professional and post contractual support services mainly based on the volume and the pricing of the stand-alone sales for these services within a narrow range. We establish our ESP for products by considering factors including, but not limited to, geographies, customer segments and pricing practices. The determination of ESP is made through consultation with and formal approval by our management. We regularly review VSOE, TPE and ESP and maintain internal controls over the establishment and updates of these estimates.

We have arrangements with our channel partners under which we reimburse them for cooperative marketing costs meeting specified criteria. The reimbursements are limited to 50% of the actual costs charged to the channel partners by third-party vendors for advertising, trade show activities and other related sales and marketing activities for which we receive an identifiable benefit (goods and services that we could have purchased directly from third-party vendors), subject to a limit of the total cooperative marketing allowance earned by each channel partner. We record the reimbursements to the channel partners meeting such specified criteria within sales and marketing expenses on the consolidated statements of operations, and maintain estimated accruals and allowances for these programs.

Hosted revenues:

Our hosted services and solutions consist primarily of our proprietary hosted VoIP Unified Communications system as well as other services such as foreign and domestic calling plans, certain UC applications, Internet service provisioning, training and other professional services. Additionally, we offer our customers the ability to purchase phone systems from us directly or rent such systems as part of their service agreements. Customers are not required to purchase phones from us directly as they can independently purchase such equipment. Our customers typically enter into a 12 month service agreement whereby they are billed for such services on a monthly basis.

Monthly recurring hosted services are recognized on a straight line basis in the period when the service is delivered. The installation fees are recognized based on customer contractual period or on a straight-line basis over the estimated customer life.

We bill most of the monthly recurring hosted service revenue a month in advance. Any amounts billed and collected, but for which the service is not yet delivered, are included in deferred revenue. These amounts are recognized as revenues only when the service is delivered.

We maintain a reserve for credits provided to customers for outages, quality issues, billing disputes or changes in the service levels that are included in the amounts that were billed in advance. The reserve for such credits is based on historical experiences and trends. We also maintain a reserve for amounts that are deemed as uncollectible.

Stock-Based Compensation

We measure all share-based payments to employees based on the grant date fair value of the awards and recognize these amounts in our consolidated statement of operations over the period during which the employee is required to perform services in exchange for the award (generally over the vesting period of the award). We amortize the fair value of share-based payments on a straight-line basis. We have never capitalized stock-based employee compensation cost. Income tax benefits realized upon exercise or vesting of an award in excess of that previously recognized in earnings are presented in the consolidated statements of cash flows as a financing activity.

Stock-based compensation expense recognized in the consolidated statements of operations has been reduced for forfeitures since it is based on awards ultimately expected to vest. If factors change and we employ different assumptions in the application of our option-pricing model in future periods or if we experience different forfeiture rates, the compensation expense that is derived may differ significantly from what we have recorded in the current year.

Goodwill and Purchased-Intangible Assets

Goodwill is tested for impairment on an annual basis on June 30th and, when specific circumstances dictate, between annual tests. When impaired, the carrying value of goodwill is written down to fair value. The goodwill impairment test involves a two-step process. The first step, identifying a potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step would need to be conducted; otherwise, no further steps are necessary as no potential impairment exists. The second step, measuring the impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. Any excess of the reporting unit goodwill carrying value over the respective implied fair value is recognized as an impairment loss. There was no impairment of goodwill identified in fiscal 2012, 2011, or 2010.

Purchased-intangible assets are amortized on a straight-line basis over the periods of benefit, ranging from two to eight years. We perform a review of purchased-intangible assets whenever events or changes in circumstances indicate that the useful life is shorter than we had originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances exist, we assess the recoverability of purchased-intangible assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets. If the useful life of the asset is shorter than originally estimated, we accelerate the rate of amortization and amortize the remaining carrying value over the new shorter useful life. There was no impairment of purchased-intangible assets identified in fiscal 2012, 2011, or 2010.

Accounting for Income Taxes

We account for income taxes using the asset and liability method of accounting for income taxes. Deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefit of which future realization is uncertain.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of deferred tax assets will not be realized. The realization of deferred tax assets is based on several factors, including our past earnings and the scheduling of deferred taxes and projected income from operating activities. During fiscal 2012 the Company released \$1.3 million of valuation allowance against deferred tax assets due to the M5 acquisition, since the amortization of the acquired identifiable intangible property upon which a deferred tax liability was established will provide sufficient future taxable income to enable a partial realization of the Company's deferred tax assets. Except for the aforementioned valuation allowance release, as of June 30, 2012, we do not believe it is more likely than not that the deferred tax assets relating to U.S. federal and state operations are realizable. We intend to maintain the valuation allowance until sufficient positive evidence exists to support reversal of some or all of the valuation allowance. Our income tax benefit recorded in the future will be reduced or increased in the event changes to the valuation allowance are required.

Recent Accounting Pronouncements

Refer to Note 1 to the Consolidated Financial Statements in Item 8 for a discussion of the expected impact of recently issued accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes. In the normal course of our business, we are exposed to foreign currency exchange rate risk inherent in conducting business globally in foreign currencies. We are primarily exposed to foreign currency fluctuations related to collections from accounts receivable balances and cash in banks that are denominated in Australian dollar, British pound and the Euro. During the year ended June 30, 2012, we used derivative instruments to reduce the volatility of earnings associated with changes in foreign currency exchange rates. We used foreign exchange forward contracts to mitigate the gains and losses generated from the re-measurement of certain foreign monetary assets and liabilities, primarily including cash balances, third party accounts receivable and intercompany transactions recorded on the balance sheet. These derivatives are not designated and do not qualify as hedge instruments. Accordingly, changes in the fair value of these instruments are recognized in other income and expenses during the period of change. As of June 30, 2012, a 10% change in the applicable foreign exchange rates would result in an immaterial increase or decrease in our pretax earnings.

In addition, we currently hold our investment portfolio in accounts with three financial firms. While we do not invest our cash in obligations of these firms, if these firms were to experience financial or other regulatory difficulties, it might be difficult for us to access our investments in a timely manner.

Interest Rate Risk

Our exposure to the interest rate risk due to changes in the general level of United States interest rates is due to both our cash equivalents and short term investments and our indebtedness. We maintain an investment portfolio of various holdings, types, and maturities. These securities are generally classified as available for sale and consequently, are recorded on the balance sheet at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income (loss). At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of our investment portfolio. Conversely, declines in interest rates could have a material positive impact on interest earnings for our portfolio. The following table presents the hypothetical change in fair values in the financial instruments we held at June 30, 2012 that are sensitive to changes in interest rates. The modeling technique used measures the change in fair values arising from selected potential changes in interest rates on our investment portfolio, which had a fair value of \$28.7 million at June 30, 2012. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 100, 50 and 25 basis points.

(in thousands)	Decrease in interest rates			Increase in interest rates		
	-100 BPS	-50 BPS	-25 BPS	25 BPS	50 BPS	100 BPS
Total fair market value.....	\$ 28,796	\$ 28,746	\$ 28,722	\$ 28,672	\$ 28,647	\$ 28,598
Percentage change in fair market value.....	0.3%	0.2%	0.1%	-0.1%	-0.2%	-0.3%

We are exposed to changes in interest rates as a result of our borrowings under our Credit Facility. As of June 30, 2012, the weighted-average annualized interest rate on the borrowing was 2.5%. Based on outstanding principal indebtedness of \$20.3 million as of June 30, 2012, if market rates change by 0.5% from the current interest rate, our annual interest expense would increase or decrease by approximately \$0.1 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**SHORETEL, INC. AND SUBSIDIARIES
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
ShoreTel, Inc.
Sunnyvale, California

We have audited the accompanying consolidated balance sheets of ShoreTel, Inc. and its subsidiaries (the "Company") as of June 30, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended June 30, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company has retrospectively adopted new accounting guidance issued by the financial accounting standards board related to the presentation of comprehensive income.

As discussed in Note 1 to the consolidated financial statements, in the year ended June 30, 2011, the Company adopted new accounting guidance issued by the financial accounting standards board related to its method of recognizing revenue for multiple element arrangements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2012, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 13, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
September 13, 2012

SHORETEL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share amounts)

	June 30,	
	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,120	\$ 89,695
Short-term investments	18,375	16,057
Accounts receivable, net of allowances of \$774 and \$737 as of June 30, 2012 and 2011, respectively	34,198	33,812
Inventories	20,212	19,062
Prepaid expenses and other current assets	5,275	3,540
Total current assets	115,180	162,166
Property and equipment - net	12,811	8,236
Goodwill	120,212	7,415
Intangible assets	45,304	8,570
Other assets	1,925	714
Total assets	<u>\$ 295,432</u>	<u>\$ 187,101</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,747	\$ 6,394
Accrued liabilities and other	17,094	8,533
Accrued employee compensation	12,151	11,022
Contingent purchase consideration	9,398	-
Deferred revenue	35,829	26,362
Total current liabilities	84,219	52,311
Line of credit, net of debt issuance costs	19,946	-
Long-term deferred revenue	13,683	11,321
Long-term contingent purchase consideration	3,305	-
Other long-term liabilities	4,047	2,045
Total liabilities	125,200	65,677
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, par value \$.001 per share, authorized 5,000 shares; none issued and outstanding	-	-
Common stock and additional paid-in capital, par value \$.001 per share, authorized 500,000; issued and outstanding, 58,057 and 47,455 shares as of June 30, 2012 and 2011, respectively	310,646	241,063
Accumulated other comprehensive income	2	40
Accumulated deficit	(140,416)	(119,679)
Total stockholders' equity	170,232	121,424
Total liabilities and stockholders' equity	<u>\$ 295,432</u>	<u>\$ 187,101</u>

See notes to consolidated financial statements

SHORETEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended June 30,		
	2012	2011	2010
	(Amounts in thousands, except per share amounts)		
Revenue:			
Product	\$ 182,009	\$ 159,693	\$ 117,138
Hosted and related services	15,547	-	-
Support and services	49,076	40,419	31,326
Total revenue	246,632	200,112	148,464
Cost of revenue:			
Product	61,884	52,957	40,471
Hosted and related services	9,804	-	-
Support and services	16,465	13,688	11,580
Total cost of revenue	88,153	66,645	52,051
Gross profit	158,479	133,467	96,413
Operating expense:			
Research and development	51,909	45,548	33,596
Sales and marketing	94,797	74,859	55,973
General and administrative	27,468	24,890	19,888
Acquisition-related costs	4,524	340	-
Total operating expenses	178,698	145,637	109,457
Loss from operations	(20,219)	(12,170)	(13,044)
Other income (expense):			
Interest income	237	625	567
Interest expense	(560)	(127)	(159)
Other income (expense), net	(1,142)	142	(324)
Total other income (expense)	(1,465)	640	84
Loss before provision for (benefit from) income tax	(21,684)	(11,530)	(12,960)
Benefit from income taxes	(947)	(67)	(156)
Net loss	\$ (20,737)	\$ (11,463)	\$ (12,804)
Net loss per common share, basic and diluted	\$ (0.41)	\$ (0.25)	\$ (0.29)
Shares used in computing net loss per common share, basic and diluted	50,591	46,177	44,804

See notes to consolidated financial statements

SHORETEL, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	Year Ended June 30,		
	2012	2011	2010
	(In thousands)		
Net loss	\$ (20,737)	\$ (11,463)	\$ (12,804)
Other comprehensive income (loss), net of tax:			
Unrealized gains (loss) on short-term investments.....	<u>(38)</u>	<u>(151)</u>	<u>55</u>
Other comprehensive income (loss).....	<u>(38)</u>	<u>(151)</u>	<u>55</u>
Comprehensive loss	<u><u>\$ (20,775)</u></u>	<u><u>\$ (11,614)</u></u>	<u><u>\$ (12,749)</u></u>

See notes to consolidated financial statements

SHORETEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock and Additional Paid-In- Capital				Accumulated Other Comprehensive	Total
	Share	Amount	Deferred Stock Compensation	Accumulated Deficit	Income (Loss)	Stockholders' Equity
	(Amounts in thousands)					
BALANCE - June 30, 2009 ..	44,362	\$ 209,102	\$ (54)	\$ (95,412)	\$ 136	\$ 113,772
Common stock issued under stock-based compensation plans, net of taxes	1,008	2,978				2,978
Stock-based compensation expense		10,600	54			10,654
Vesting of accrued early exercised stock options		18				18
Income tax benefit related to stock option exercises		(207)				(207)
Unrealized gain on short term investments, net.....					55	55
Net loss				(12,804)		(12,804)
BALANCE - June 30, 2010 ..	45,370	222,491	-	(108,216)	191	114,466
Common stock issued under stock-based compensation plans, net of taxes	2,085	7,393				7,393
Stock-based compensation expense		11,179				11,179
Unrealized loss on short term investments, net.....					(151)	(151)
Net loss				(11,463)		(11,463)
BALANCE - June 30, 2011 ..	47,455	241,063	-	(119,679)	40	121,424
Common stock issued under stock-based compensation plans, net of taxes	1,102	3,265				3,265
Stock-based compensation expense		12,643				12,643
Issuance of common shares as consideration in the acquisition of M5 Networks, Inc.	9,500	53,675				53,675
Unrealized loss on short term investments, net.....					(38)	(38)
Net loss				(20,737)		(20,737)
BALANCE - June 30, 2012 ..	58,057	\$ 310,646	\$ -	\$ (140,416)	\$ 2	\$ 170,232

See notes to consolidated financial statements

SHORETEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,		
	2012	2011	2010
	(In thousands)		
Cash flows from operating activities:			
Net loss	\$ (20,737)	\$ (11,463)	\$ (12,804)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	8,998	4,664	2,804
Amortization of premium on investments	236	610	217
Stock-based compensation expense	12,643	11,179	10,654
Excess tax benefit from stock options exercised	-	-	(191)
Loss on disposal of property and equipment and other assets	27	97	340
Deferred tax benefit	-	-	(26)
Release of deferred tax valuation allowance	(1,280)	-	-
Provision (benefit) for doubtful accounts receivable	140	-	(83)
Change in fair value of contingent consideration	203	-	-
Changes in assets and liabilities, net of the effect of acquisitions:			
Accounts receivable	2,216	(9,156)	(3,059)
Inventories	(1,071)	(8,701)	1,851
Prepaid expenses and other current assets	(1,185)	4,299	(4,022)
Other assets	(1,050)	520	1,179
Accounts payable	1,307	(1,333)	(325)
Accrued liabilities and other	(1,833)	(929)	5,052
Accrued employee compensation	1,129	2,654	3,366
Deferred revenue	10,572	8,869	6,228
Net cash provided by operating activities	<u>10,315</u>	<u>1,310</u>	<u>11,181</u>
Cash flows from investing activities:			
Purchases of property and equipment	(4,228)	(5,883)	(4,650)
Purchases of investments	(40,500)	(3,136)	(23,835)
Proceeds from sale/maturities of investments	37,908	33,694	10,145
Purchase of software licenses, patents and other intangible assets	(550)	(770)	(1,403)
Proceeds from sale of property and equipment	-	36	-
Business acquisitions, net of cash acquired	(78,435)	(11,375)	-
Net cash provided by (used in) investing activities	<u>(85,805)</u>	<u>12,566</u>	<u>(19,743)</u>
Cash flows from financing activities:			
Proceeds from issuance of common stock	3,855	7,915	3,103
Taxes paid on vested and released stock awards	(590)	(522)	(125)
Excess tax benefit from stock options exercised	-	-	191
Borrowings from line of credit	25,332	-	-
Debt issuance costs	(406)	-	-
Payments made for the line of credit	(5,000)	-	-
Payments made for capital leases	(276)	-	-
Net cash provided by financing activities	<u>22,915</u>	<u>7,393</u>	<u>3,169</u>
Net increase (decrease) in cash and cash equivalents	(52,575)	21,269	(5,393)
Cash and cash equivalents at beginning of year	89,695	68,426	73,819
Cash and cash equivalents at end of year	<u>\$ 37,120</u>	<u>\$ 89,695</u>	<u>\$ 68,426</u>
Supplemental cash flow disclosure:			
Cash paid for interest	\$ 360	\$ 139	\$ 126
Cash paid (refunds received) for income taxes	\$ 329	\$ (2,105)	\$ (156)
Noncash financing and investing activities:			
Fair value of contingent consideration payable to M5 Networks, Inc.	\$ 12,500	\$ -	\$ -
Shares issued as consideration in the acquisition of M5 Networks, Inc.	\$ 53,675	\$ -	\$ -
Unpaid portion of property and equipment purchases included in period-end accounts payable	\$ 234	\$ 191	\$ 647
Vesting of accrued early exercised stock options	\$ -	\$ -	\$ 18

See notes to consolidated financial statements

SHORETEL, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES**

The Company - ShoreTel, Inc. was incorporated in California on September 17, 1996 and reincorporated in Delaware on June 22, 2007. ShoreTel, Inc. and its subsidiaries (referred herein as “the Company”) is a leading provider of pure Internet Protocol, or IP, Unified Communications systems for enterprises while offering both premise-based and hosted business solutions. The Company’s premise systems are based on its distributed software architecture and switch-based hardware platform which enable multi-site enterprises to be served by a single telecommunications system. The Company’s premise systems enable a single point of management, easy installation and a high degree of scalability and reliability, and provide end users with a consistent, full suite of features across the enterprise, regardless of location. As a result, management believes that the Company’s systems enable enhanced end user productivity and provide lower total cost of ownership and higher customer satisfaction than alternative systems. The Company’s also offers a hosted solution based on the Company’s proprietary unified communication platform. The hosted solution offers a secure and managed business communications solution to enterprises with no required capital investment. The Company’s hosted architecture offers are a wide variety of applications and services which providing a full user experience along with the capability to scale usage based on a customer’s evolving needs

Fiscal Year End - The Company operates on a fiscal year ending June 30.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company’s wholly owned subsidiaries located worldwide. All transactions and balances between the parent and the subsidiaries have been eliminated in consolidation. The functional currency of the subsidiaries is the U.S. dollar. Functional currency monetary assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Gains and losses resulting from the process of remeasuring foreign currency financial statements into U.S. dollars are included in other income (expense).

Reclassifications - Acquisition related costs of \$0.3 million has been reclassified out of general and administration expenses into its separate line item in the statement of operations for the year ended June 30, 2011, to conform to the presentation for the year ended June 30, 2012.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The use of estimates are included in certain areas including revenue recognition, allowance for doubtful accounts, stock-based compensation, inventory and other assets valuation, accounting for income taxes and accounting for goodwill and purchased intangible assets. Actual results could differ from those estimates.

Concentration of Credit Risk - Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents, short-term investments and accounts receivable. As of June 30, 2012, substantially all of the Company’s cash and cash equivalents and short-term investments were managed by multiple financial institutions. Accounts receivable are typically unsecured and are derived from revenue earned from customers. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. At June 30, 2012 one value-added distributor accounted for 22% of the total accounts receivable. As of June 30, 2011, there was no individual value-added distributor, reseller, or end customer that accounted for more than 10% of the total accounts receivable.

Fair Value of Financial Instruments - The carrying amounts of the Company’s financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximate their respective fair market values due to the short maturities of these financial instruments. Refer to Note 6 to the Consolidated Financial Statements for discussion of the methods used to determine the fair value of short-term investments.

Cash and Cash Equivalents - The Company considers all highly liquid investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. The Company's cash and cash equivalents are maintained with various financial institutions.

Investments - The Company's short-term investments are comprised of U.S. Government agency securities, corporate notes and commercial paper. These investments are held in the custody of three major financial institutions. The specific identification method is used to determine the cost basis of disposed fixed income securities. At June 30, 2012 and 2011, the Company's investments were classified as available-for-sale. These investments are recorded in the Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax.

The Company recognizes an impairment charge when a decline in the fair value of its investments is considered to be other-than-temporary. An impairment is considered other-than-temporary if (i) the Company has the intent to sell the security, (ii) it is more likely than not that the Company will be required to sell the security before recovery of its entire amortized cost basis, or (iii) the Company does not expect to recover the entire amortized cost of the security. If an impairment is considered other-than-temporary based on (i) or (ii) described above, the entire difference between the amortized cost and the fair value of the security is recognized in earnings. If an impairment is considered other-than-temporary based on condition (iii), the amount representing credit losses, defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis of the debt security, will be recognized in earnings and the amount relating to all other factors will be recognized in other comprehensive income (OCI). In estimating the amount and timing of cash flows expected to be collected, the Company considers all available information including past events, current conditions, the remaining payment terms of the security, the financial condition of the issuer, expected defaults, and the value of underlying collateral.

Allowance for Doubtful Accounts - The Company records an allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, the credit quality of its customers, current economic conditions and other factors that may affect customers' ability to pay to determine the level of allowance required.

The change in allowance for doubtful accounts is summarized as follows (in thousands):

	June 30,		
	2012	2011	2010
Allowance for doubtful accounts - beginning	\$ 737	\$ 876	\$ 1,330
Current period provision (benefit)	140	-	(83)
Write-offs charged to allowance (net of recoveries)	(103)	(139)	(371)
Allowance for doubtful accounts - ending	<u>\$ 774</u>	<u>\$ 737</u>	<u>\$ 876</u>

Inventories - Inventories, which consist principally of raw materials, finished goods and inventories held by distributors are stated at the lower of cost or market, with cost being determined under a standard cost method that approximates first-in, first-out.

Property and Equipment - Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from two to five years. Leasehold improvements are amortized over the shorter of the estimated useful lives of the asset or the lease term.

Business Combinations - The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, the Company's estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which

may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill to the extent the Company identifies adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

Goodwill and Purchased-Intangible Assets - Goodwill is tested for impairment on an annual basis on June 30th and, when specific circumstances dictate, between annual tests. When impaired, the carrying value of goodwill is written down to fair value. The Company has two reporting units: premise segment and hosted segment. The goodwill impairment test involves a two-step process. The first step, identifying a potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step would need to be conducted; otherwise, no further steps are necessary as no potential impairment exists. The second step, measuring the impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. Any excess of the reporting unit goodwill carrying value over the respective implied fair value is recognized as an impairment loss. There was no impairment of goodwill identified in the fiscal years ended June 30, 2012, 2011 and 2010.

Purchased-intangible assets are amortized on a straight-line basis over the periods of benefit, ranging from two to eight years. The Company performs a review of purchased-intangible assets whenever events or changes in circumstances indicate that the useful life is shorter than it had originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances exist, the Company assesses the recoverability of purchased-intangible assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets. If the useful life of the asset is shorter than originally estimated, the Company accelerates the rate of amortization and amortizes the remaining carrying value over the new shorter useful life. There was no impairment of purchased-intangible assets identified in the fiscal years ended June 30, 2012, 2011 and 2010.

Long-Lived Assets - The Company evaluates the carrying value of long-lived assets to be held and used including intangible assets, when events or circumstances warrant such a review. The carrying value of a long-lived asset to be held and used is considered impaired when the anticipated separately identifiable undiscounted cash flows from such an asset are less than the carrying value of the asset. In that event, an impairment loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Revenue Recognition - The Company derives its revenue from the sale of premise-based enterprise IP telecommunications systems and hosted services.

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (“ASU”) No. 2009-13 (“ASU 2009-13”), which amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product’s essential functionality from the scope of industry specific software revenue recognition guidance. In addition, in October 2009, the FASB issued ASU 2009-14, which:

- (i) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the arrangement consideration should be allocated among its elements;
- (ii) require an entity to allocate the revenue using estimated selling prices (ESP) of the deliverables if there is no vendor specific objective evidence of fair value (VSOE) or third party evidence of selling price (TPE); and
- (iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

For a multiple-element transaction, the total arrangement fees are allocated to all the deliverables based on their respective relative selling prices. The relative selling price is determined using VSOE when available. When VSOE cannot be established, the Company attempts to determine the TPE for the deliverables. TPE is determined based on competitor prices for similar deliverables when sold separately by the competitors. Generally the Company's product offerings differ from those of its competitors and comparable pricing of its competitors is often not available. Therefore, the Company is typically not able to determine TPE. When the Company is unable to establish selling price using VSOE or TPE, the Company uses ESP in its allocation of arrangement fees. The ESP for a deliverable is determined as the price at which the Company would transact if the products or services were sold on a stand-alone basis.

For transactions entered into prior to July 1, 2010, the Company recognized revenue based on industry specific software revenue recognition guidance. In accordance with industry specific software revenue recognition guidance, the Company utilized the residual method to determine the amount of product revenue to be recognized. Under the residual method, the fair value of the undelivered elements, such as post-contractual support, is deferred and the remaining portion of the arrangement consideration is recognized as product revenue. VSOE of fair value is limited to the price charged when the same element is sold separately. VSOE of fair value is established for post-contractual support based on the volume and pricing of the stand-alone sales within a narrow range. The fair value of the post-contractual support is recognized on a straight-line basis over the term of the related support period, which is typically one to five years.

Premise revenues:

The sale of IP telecommunication systems include hardware, primarily phones and voice switches, software components and may also include training, installation and post-contractual support for the products. The Company's business strategy is centered on selling to enterprise customers through channel partners rather than directly. Sales to value-added distributors allow the Company to leverage its existing distribution infrastructure and sales personnel. In some instances, larger enterprise customers prefer to purchase directly from the Company. Many of these large account sales are channel partner-assisted and the Company compensates the channel partner in much the same way as if the channel partner had made the sale directly. The compensation to the channel partner is recorded as an offset to the revenues associated with the direct sale to the enterprise customer.

The typical system includes a combination of IP phones, switches and software applications. For sales transactions made both directly and to resellers revenue is recognized at the time of shipment provided that all the provisions of revenue recognition have been met. For sales to value-added distributors, revenue is initially deferred and is recognized at the time of sale by the distributor to their customer, provided all the provisions of revenue recognition have been met. The Company refers to this distribution approach as its two-tier distribution model and the recognition of revenue at the time of sale by the distributor as the sell through method.

The Company recognizes revenue when persuasive evidence of an arrangement exists, product has shipped or delivery has occurred (depending on when title passes), the sales price is fixed or determinable and free of contingencies and significant uncertainties, and collection is probable. The fee is considered fixed or determinable at the execution of an agreement, based on specific products and quantities to be delivered at specified prices. The agreements with reseller partners generally do not include rights of return or acceptance provisions. Even though substantially all of the contractual agreements do not provide return privileges, there are circumstances for which the Company will accept a return. The Company maintains a reserve for such returns based on historical experience with reseller partners. The agreements with the Company's value-added distributors allow for limited rights of return of products generally purchased within the previous 90 days. In addition to such return rights, the Company generally offers price protection provisions to its distributors when there is a permanent reduction of its sales prices. In such cases, the Company is obligated to grant the distributor a credit for the difference between the change in the aggregate price of any amounts that have been purchased but unsold by the distributor as of the effective date of such decrease. To the extent that the Company's agreements contain acceptance terms, the Company recognizes revenue upon product acceptance, unless the acceptance provision is deemed to be perfunctory. Payment terms to customers generally range from net 30 to

net 60 days. In the event payment terms are extended materially from the Company's standard business practices, the fees are deemed to not be fixed or determinable and revenue is recognized when the payment becomes due. The Company assesses the ability to collect from its customers based on a number of factors, including credit worthiness and past transaction history of the customer. If the customer is not deemed credit worthy, the Company defers all revenue from the arrangement until payment is received and all other revenue recognition criteria have been met. Shipping charges billed to customers are included in product revenue and the related shipping costs are included in cost of product revenue. Provisions for return allowances and product warranties are recorded at the time revenue is recognized based on the Company's historical experience. The provision for return allowances is recorded as a reduction to revenues on the statement of operations and is included as a reduction to accounts receivable on the balance sheet.

Most of the products and services included in a premise-based system qualify as separate units of accounting. Many of the Company's products have both software and non-software components that function together to deliver the essential functionality of the integrated system product. The Company analyzes all of its software and non-software products and services and considers the features and functionalities of the individual elements and the stand alone sales of those individual components among other factors, to determine which elements are essential or non-essential to the overall functionality of the integrated system product. The Company recognizes revenue related to installation services and training upon delivery of the service.

The Company's core software, which we refer to as "essential software," is integrated with hardware and is essential to the functionality of the integrated system product. The Company also sells additional software which provides increased features and functions, but is not essential to the overall functionality of the integrated system products, which we refer to as "non-essential software." At the initial purchase, the customer generally bundles together the hardware, essential software, non-essential software, as needed, and up to five years of post-contractual support. Thereafter, if the enterprise customer increases end users and functionality, it may add more hardware, both essential and non-essential software components, and related post-contractual support by purchasing them separately.

The revenue for these multiple element arrangements is allocated to the non-essential software deliverables and the non-software deliverables based on the relative selling prices of all of the deliverables in the arrangement using the hierarchy in the new revenue accounting guidance. The non-essential software deliverables included in a multiple element arrangement are subject to the industry specific software revenue recognition guidance. As the Company has not been able to obtain VSOE for all of the non-essential software deliverables in the arrangement, revenue allocated to the delivered non-essential software elements is recognized using the residual method in accordance with industry specific software revenue recognition guidance. Under the residual method, the amount of revenue recognized for the delivered non-essential software elements equaled the total allocated consideration less the VSOE of any undelivered elements bundled with such non-essential software elements.

The Company has been able to establish VSOE for its professional and post contractual support services mainly based on the volume and the pricing of the stand-alone sales for these services within a narrow range. The Company establishes its ESP for products by considering factors including, but not limited to, geographies, customer segments and pricing practices. The determination of ESP is made through consultation with and formal approval by the Company's management. The Company regularly reviews VSOE, TPE and ESP and maintains internal controls over the establishment and updates of these estimates.

The Company has arrangements with its channel partners under which the Company reimburses them for cooperative marketing costs meeting specified criteria. The reimbursements are limited to 50% of the actual costs charged to the channel partners by third-party vendors for advertising, trade show activities and other related sales and marketing activities for which the Company receives an identifiable benefit (goods and services that the Company could have purchased directly from third-party vendors), subject to a limit of the total cooperative marketing allowance earned by each channel partner. The Company records the reimbursements to the channel partners meeting such specified criteria within sales and marketing expenses on the consolidated statements of operations, and maintains estimated accruals and allowances for these programs.

Hosted revenues:

The Company's hosted services and solutions consist primarily of our proprietary hosted VoIP Unified Communications system as well as other services such as foreign and domestic calling plans, Certain UC applications, Internet service provisioning, training and other professional services. Additionally, the Company offers their customers the ability to purchase phone systems from them directly or rent such systems as part of their service agreements. The customers are not required to purchase phones from the Company directly as they can independently purchase such equipment. Customers typically enter into a 12 month service agreement whereby they are billed for such services on a monthly basis.

Monthly recurring hosted services are recognized on a straight line basis in the period when the service is delivered. The installation fees are recognized based on customer contractual period or on a straight-line basis over the estimated customer life.

The Company bills most of the monthly recurring hosted service revenue a month in advance. Any amounts billed and collected, but for which the service is not yet delivered, are included in deferred revenue. These amounts are recognized as revenues only when the service is delivered.

The Company maintains a reserve for credits provided to customers for outages, quality issues, billing disputes or changes in the service levels that are included in the amounts that were billed in advance. The reserve for such credits is based on historical experiences and trends. The Company also maintains a reserve for amounts that are deemed as uncollectible.

Warranties - The majority of the Company's products are covered by a one-year limited manufacturer's warranty. Estimated contractual warranty obligations are recorded when related sales are recognized based on historical experience. The determination of such provision requires the Company to make estimates of product return rates and expected costs to repair or replace the product under warranty. If actual costs differ significantly from these estimates, additional amounts are recorded when such costs are probable and can be reasonably estimated. The provisions for product warranties are recorded within cost of goods sold on the statement of operations and included within accrued liabilities and other on the balance sheet.

Research and Development Costs – Research and development expenditures, which include software development costs, are expensed as incurred. Software development costs incurred subsequent to the time a product's technological feasibility has been established through the time the product is available for general release to customers are subject to capitalization.

Income Taxes – The Company utilizes the asset and liability method of accounting for income taxes. Deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as net operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefit of which future realization is uncertain. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and penalties related to uncertain tax positions, if applicable, are recognized in the income tax provision.

Stock-Based Compensation – The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. The Company has a stock-based employee compensation plan (Option Plan). Generally, stock options granted to employees vest ratably over four years from the date of grant, and restricted stock units issued under the 2007 Plan generally vest at 25% one year or 50% two years from the grant date and 1/48 each month thereafter, and have a term of ten years.

The following table shows total stock-based compensation expense included in the accompanying Consolidated Statements of Operations for the years ended June 30, 2012, 2011 and 2010 (in thousands):

	Year Ended June 30,		
	2012	2011	2010
Cost of product revenue	\$ 132	\$ 123	\$ 139
Cost of hosted and related service revenue	37	-	-
Cost of support and services revenue.....	836	678	838
Research and development.....	3,614	3,497	3,064
Sales and marketing	4,031	3,140	3,400
General and administrative.....	3,993	3,741	3,213
Total stock-based compensation expense.....	<u>\$ 12,643</u>	<u>\$ 11,179</u>	<u>\$ 10,654</u>

Foreign currency translation – The Company’s foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs, however, the majority of sales transactions are denominated in U.S. dollars. Foreign currency denominated sales, costs and expenses are recorded at the average exchange rates during the year. Gains or losses resulting from foreign currency transactions are included in the consolidated statements of operations within other income (expense), net.

Accumulated Other Comprehensive income (loss) – Accumulated other comprehensive income (loss) only includes unrealized gains and losses on the Company’s available-for-sale securities.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (ASU) No. 2011-11, *Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)*, that requires an entity to disclose additional information about offsetting and related arrangements to enable users of the financial statements to understand the effect of those arrangements on the financial position. ASU 2011-11 will be effective for the Company beginning July 1, 2013. The adoption of ASU 2011-11 may impact future disclosures but will not impact our consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-8, *Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment (ASU 2011-8)*, which provides guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. The new guidance will be effective for the company beginning July 1, 2012. The adoption of ASU 2011-8 is not expected to have any impact to our consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRSs (ASU 2011-04)*. This ASU represents the converged guidance of the FASB and the International Accounting Standards Board (“IASB”) on fair value measurement and is intended to result in common requirements for measuring fair value and for disclosing information about the fair value measurements, including a consistent meaning of the term “fair value.” The amendments in ASU 2011-04 are effective for public entities for interim periods and fiscal years beginning after December 15, 2011, and should be applied prospectively. Early adoption is not permitted for public entities. The adoption of this guidance did not have an impact on our results of operations or financial position, but resulted in the presentation of enhanced disclosures.

In June 2011, the FASB issued ASU No. 2011-5, *Comprehensive Income (Topic 220) - Presentation of Comprehensive Income*, which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either as a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. In December 2011, the FASB deferred the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. The Company has adopted the disclosure provisions on a retrospective basis, except for the provision deferred. This adoption did not have an impact on our results of operations or financial position, but resulted in the presentation of a separate consolidated statement of comprehensive income (loss).

2. BUSINESS COMBINATIONS

M5 Networks, Inc. Acquisition

On March 23, 2012, the Company acquired all outstanding shares of M5 Networks, Inc. ("M5"), a privately-held company based in New York and a provider of hosted Unified Communications solutions. The acquisition of M5 allows the Company to expand its product offering to include unified communication products and services over a cloud-based platform. The purchase consideration issued includes 9.5 million shares issued to the shareholders of M5, cash payment of \$80.9 million, and additional cash earn-outs (not to exceed \$13.7 million in aggregate) payable over the next two years contingent upon achieving certain revenue targets for the twelve months ending December 31, 2012. The shares issued as consideration are valued based on the closing stock price of the Company's common stock on March 23, 2012, (representing a Level 1 measurement) and the contingent earn-outs are valued using a probability-based approach on various revenue assumptions. Final determination of the earn-out liability can range from zero to \$13.7 million based on the actual achievement of the revenue targets. Any change in the fair value of contingent consideration from events after the acquisition date, will be recognized in earnings of the period when the event occurs. The probability-based approach used to fair value contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. The significant unobservable inputs include projected revenues, percentage probability of occurrence and discount rate to present value the payments.

The summary of the purchase consideration is as follows:

(In thousands)	
Cash	\$ 80,932
Fair Value of shares issued	53,675
Fair Value of Contingent consideration	12,500
	<u>\$ 147,107</u>

In accordance with ASC 805, Business Combinations, the acquisition of M5 was recorded as a purchase business acquisition. Under the purchase method of accounting, the fair value of the consideration was allocated to assets and liabilities assumed at their fair values. The fair value of purchased identifiable intangible assets and contingent earn-outs were derived from model-based valuations from significant unobservable inputs ("Level 3 inputs") determined by management. The fair value of purchased identifiable intangible assets was determined using our discounted cash flow models from income projections prepared by management using an internal rate of return ranging from 11.5% to 13.0%. The fair value of contingent earn-outs was a probability-based approach that includes significant unobservable inputs. Refer to Note 6 for additional details of the inputs used to determine the fair value of the contingent earn-out. The excess of the fair value of consideration paid over the preliminary fair values of net assets and liabilities acquired and identifiable intangible assets resulted in recognition of goodwill of approximately \$112.8 million. The goodwill consists largely of expected synergies from combining the operations of M5 with that of the Company. The goodwill recognized is not deductible for income tax purposes. All of the goodwill recorded in the M5 purchase price allocation is assigned to the Hosted segment.

Preliminary Purchase Price Allocation

The Company prepared an initial determination of the fair value of assets acquired and liabilities assumed as of the acquisition date using preliminary information. Adjustments were made during the fourth quarter of 2012 to the fair value of assets acquired and liabilities assumed as a result of further refinements in the Company's estimates. These adjustments were retrospectively applied to the March 23, 2012 acquisition date balance sheet and are primarily related to income tax matters, stock options and other assets which resulted in an increase in goodwill of \$0.9 million. None of the adjustments had a material impact on the Company's previously reported results of operations.

The total purchase price was preliminarily allocated to M5's net tangible and identifiable intangible assets based on their estimated fair values as of March 23, 2012 as set forth below. The following is the preliminary purchase price allocation:

	(in thousands)	Estimated useful lives (in years)
Current assets.....	\$ 5,870	
Intangible assets:		
Existing technology	15,700	3-8
In process research and development	1,700	(a)
Customer relationships	23,000	7
Non-compete agreements	300	2
Goodwill	112,797	
Other long-term assets	4,966	
Deferred tax liability, net	(1,280)	
Other liabilities assumed	(15,946)	
	<u>\$ 147,107</u>	

- (a) In process research and development is not amortized until the associated project has been completed. Alternatively, if the associated project is determined not to be viable, it will be expensed.

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The estimated fair values of assets acquired and liabilities assumed are considered preliminary and are based on the most recent information available. The Company believes that the information provides a reasonable basis for assigning the fair values of assets acquired and liabilities assumed, but it is waiting for additional information, primarily related to property, plant and equipment, leases, and sales, excise and ad valorem taxes which are subject to change. Thus the provisional measurements of fair value set forth above are subject to change. The Company expects to finalize the valuation as soon as practicable, but not later than one-year from the acquisition date.

In accordance with accounting for business combinations, the Company expensed \$4.5 million for investment bankers fees, legal, consulting and other costs directly related to the acquisition. The Company recorded revenue of \$15.5 million and earned gross profit of \$5.7 million from its hosted and related services business acquired from M5 in the year ended June 30, 2012. Due to the continued integration of the combined business, it is impractical to determine the earnings from M5 beyond the measure of gross profit.

Agito Networks, Inc. Acquisition

On October 19, 2010, the Company acquired Agito Networks, Inc. (“Agito”), a leader in platform-agnostic enterprise mobility, for total cash consideration of \$11.4 million. The acquisition of Agito expands and enhances the Company’s product offering by adding Agito’s mobility solution to the Company’s existing range of products, software and services. In accordance with ASC 805, *Business Combinations*, the total consideration paid for Agito was first allocated to the net tangible assets acquired based on the estimated fair values of the assets at the acquisition date. The excess of the fair value of the consideration paid over the fair value of Agito’s net tangible and identifiable intangible assets acquired resulted in the recognition of goodwill of approximately \$7.4 million, primarily related to expected synergies to be achieved in connection with the acquisition. The goodwill recognized is not deductible for income tax purposes.

The table below shows the allocation of the purchase price to tangible and intangible assets and liabilities assumed (in thousands):

Tangible assets	\$ 261
Goodwill	7,415
Intangible assets:	
Existing technology	2,800
In process research and development	1,120
Customer relationships	300
Liabilities assumed	(521)
	<u>\$ 11,375</u>

The unaudited pro forma financial information in the table below summarizes the combined results of operations for the Company and its Agito and M5 acquisitions as though Agito was combined as of the beginning of fiscal year 2010 and M5 was combined as of the beginning of fiscal year 2011. The pro forma financial information for the period presented also includes the business combination accounting effects resulting from the acquisition, including amortization charges from acquired intangible assets, adjustments to interest expenses for certain borrowings and exclusion of amortization of intangibles acquired by M5 in their prior acquisitions. The pro forma financial information below is also adjusted to exclude the Company’s non-recurring acquisition-related costs of \$4.5 million and M5’s non-recurring acquisition-related costs of \$7.8 million incurred in the year ended June 30, 2012 and to include them in the year ended June 30, 2011. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal year 2010 and 2011, respectively.

	(Unaudited)	
	Year Ended	
	June 30, 2012	June 30, 2011
In thousands, except per share amounts		
Total revenue	\$ 287,549	\$ 238,507
Net loss	(23,324)	(33,488)
Basic and diluted earnings per share	\$ (0.41)	\$ (0.60)

3. BALANCE SHEET COMPONENTS

Balance sheet components consisted of the following:

	As of June 30,	
	2012	2011
	(Amounts in thousands)	
Inventories:		
Raw materials	\$ 130	\$ 283
Distributor inventory	1,858	1,091
Finished goods	18,224	17,688
Total inventories	<u>\$ 20,212</u>	<u>\$ 19,062</u>
Property and equipment:		
Computer equipment and tooling	\$ 18,069	\$ 10,868
Software	2,897	2,311
Furniture and fixtures	2,633	1,925
Leasehold improvements & others	3,040	2,568
Total property and equipment	26,639	17,672
Less accumulated depreciation and amortization	(13,828)	(9,436)
Property and equipment – net	<u>\$ 12,811</u>	<u>\$ 8,236</u>
Deferred revenue:		
Product	\$ 5,803	\$ 3,195
Support and services	40,963	34,488
Hosted and related services	2,746	-
Total deferred revenue	<u>\$ 49,512</u>	<u>\$ 37,683</u>

4. SHORT-TERM INVESTMENTS

The following is a summary of the Company's short-term investments (in thousands):

	June 30, 2012			
	Amortized Cost	Gross Unrelaized Gains	Gross Unrelaized Losses	Fair Value
Corporate notes and commercial paper	\$ 10,667	\$ 6	\$ (2)	\$ 10,671
U.S. Government agency securities	7,706	-	(2)	7,704
Total short-term investments	<u>\$ 18,373</u>	<u>\$ 6</u>	<u>\$ (4)</u>	<u>\$ 18,375</u>
	June 30, 2011			
	Amortized Cost	Gross Unrelaized Gains	Gross Unrelaized Losses	Fair Value
Corporate notes	\$ 6,105	\$ 24	\$ -	\$ 6,129
U.S. Government agency securities	9,912	16	-	9,928
Total short-term investments	<u>\$ 16,017</u>	<u>\$ 40</u>	<u>\$ -</u>	<u>\$ 16,057</u>

The following table summarizes the maturities of the Company's short-term investments by contractual maturity (in thousands):

	June 30, 2012	
	Amortized Cost	Fair Value
Less than 1 year	\$ 10,312	\$ 10,316
Due in 1 to 3 years	8,061	8,059
	<u>\$ 18,373</u>	<u>\$ 18,375</u>

	June 30, 2011	
	Amortized Cost	Fair Value
Less than 1 year	\$ 16,017	\$ 16,057
Due in 1 to 3 years	-	-
	<u>\$ 16,017</u>	<u>\$ 16,057</u>

Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay certain obligations.

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of tangible and intangible assets acquired. Goodwill amounts are not amortized, but rather tested for impairment at least annually, on June 30th every year. There was no impairment of goodwill during fiscal 2012 and 2011.

The following table summarizes the changes in the carrying value of goodwill by segment for the years ended June 30, 2012 and 2011.

	Premise Segment	Hosted Segment	Total
As of June 30, 2010	\$ -	\$ -	\$ -
Addition (See Note 2)	<u>7,415</u>		<u>7,415</u>
As of June 30, 2011	7,415	-	7,415
Addition (See Note 2)	-	112,797	112,797
As of June 30, 2012	<u>\$ 7,415</u>	<u>\$ 112,797</u>	<u>\$ 120,212</u>

Intangible assets

The following is a summary of the Company's intangible assets (in thousands):

	June 30, 2012			June 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	\$ 3,485	\$ (1,673)	\$ 1,812	\$ 2,935	\$ (1,022)	\$ 1,913
Technology	22,848	(3,673)	19,175	6,127	(861)	5,266
Customer relationships	23,300	(1,042)	22,258	300	(30)	270
Non-compete agreements	300	(41)	259	-	-	-
Intangible assets in process...	1,800	-	1,800	1,121	-	1,121
Intangible assets	<u>\$ 51,733</u>	<u>\$ (6,429)</u>	<u>\$ 45,304</u>	<u>\$ 10,483</u>	<u>\$ (1,913)</u>	<u>\$ 8,570</u>

The intangible assets are being amortized over useful lives ranging from 2 years to 8 years.

Amortization of intangible assets for the years ended June 30, 2012, 2011 and 2010 was \$4.5 million, \$1.4 million and \$0.4 million, respectively.

The estimated future amortization expenses for intangible assets for the next five years and thereafter are as follows (in thousands):

<u>Years Ending June 30,</u>	
2013	\$ 9,389
2014	8,842
2015	6,948
2016	6,357
2017	5,504
Thereafter	6,464
Total	<u>\$ 43,504</u>

6. FAIR VALUE DISCLOSURE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal market (or most advantageous market, in the absence of a principal market) for the asset or liability in an orderly transaction between market participants at the measurement date. Further, entities are required to maximize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value, and to utilize a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included within Level 1, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable or are derived principally from, or corroborated by, observable market data by correlation or other means.
- Level 3 — Unobservable inputs that are supported by little or no market activity, are significant to the fair value of the assets or liabilities, and reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The tables below set forth the Company's cash equivalents and short-term investments measured at fair value on a recurring basis (in thousands):

	<u>June 30, 2012</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Cash and cash equivalents:				
Money market funds	\$ 10,322	\$ 10,322	\$ -	\$ -
Short-term investments:				
Corporate notes and commercial paper	10,671	-	10,671	-
U.S. Government agency securities	7,704	-	7,704	-
Total assets measured and recorded at fair value	<u>\$ 28,697</u>	<u>\$ 10,322</u>	<u>\$ 18,375</u>	<u>\$ -</u>
Liabilities:				
Acquisition-related contingent consideration (See Note 2)	<u>\$ 12,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,703</u>

The above table excludes \$26.8 million of cash balances on deposit at banks.

	June 30, 2011			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents:				
Money market funds	\$ 72,445	\$ 72,445	\$ -	\$ -
Short-term investments:				
Corporate notes	6,129	-	6,129	-
U.S. Government agency securities	9,928	-	9,928	-
Total assets measured and recorded at fair value	<u>\$ 88,502</u>	<u>\$ 72,445</u>	<u>\$ 16,057</u>	<u>\$ -</u>

The above table excludes \$17.2 million of cash balances on deposit at banks.

The foreign exchange forward contracts (See Note 14) outstanding as of June 30, 2012 are entered into by the Company on the last day of the period. This fair value is not material.

Money market funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets. Short-term investments are classified within Level 2 of the fair value hierarchy because they are valued based on other observable inputs, including broker or dealer quotations, or alternative pricing sources. When quoted prices in active markets for identical assets or liabilities are not available, the Company relies on non-binding quotes from independent pricing services. Non-binding quotes are based on proprietary valuation models prepared by independent pricing services. These models use algorithms based on inputs such as observable market data, quoted market prices for similar instruments, historical pricing trends of a security as relative to its peers, internal assumptions of the independent pricing service and statistically supported models. The Company corroborates the reasonableness of non-binding quotes received from the independent pricing service by comparing them to the (a) actual experience gained from the purchases and redemption of investment securities, (b) quotes received on similar securities obtained when purchasing securities and (c) monitoring changes in ratings of similar securities and the related impact on the fair value. The types of instruments valued based on other observable inputs include corporate notes and commercial paper and U.S. Government agency securities. We reviewed our financial and non-financial assets and liabilities for the years ended June 30, 2012 and 2011 and concluded that there were no material impairment charges during each of these years. The Company reviews the fair value hierarchy on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels of certain securities within the fair value hierarchy. The Company recognizes transfers into and out of levels within the fair value hierarchy as of the date in which the actual event or change in circumstances that caused the transfer occurs. There were no transfers between Level 1 and Level 2 of the fair value hierarchy.

The fair value of contingent consideration arising from the acquisition of M5 Networks, Inc. (See Note 2), is classified within Level 3 of the fair value hierarchy since it is based on a probability-based approach that includes significant unobservable inputs. The significant unobservable inputs include projected revenues, percentage probability of occurrence and discount rate to present value the payments. A significant increase (decrease) in the projected revenue in isolation could result in a significantly higher (lower) fair value measurement; a significant increase (decrease) in the discount rate in isolation could result in a significantly lower (higher) fair value measurement; and significant increase (decrease) in the probability of occurrence between the outcomes in isolation could result in a significantly higher (lower) fair value measurement. The fair value of the contingent consideration is calculated on a quarterly basis by the Company based on a collaborative effort of the Company's operations, finance and accounting groups based on additional information as it becomes available. Any change in the fair value adjustment is recorded in the earnings of that period. There were no changes in the significant unobservable inputs for the year ended June 30, 2012.

The following table presents quantitative information about the inputs and valuation methodologies used for our fair value measurements classified in Level 3 of the fair value hierarchy as of June 30, 2012.

	<u>Fair Value (in thousands)</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Input</u>	<u>Weighted Average (range)</u>
<u>As of June 30, 2012</u>				
Acquisition-related contingent consideration	\$ 12,703	Multiple outcome discounted cash flow	Revenue (in 000's)	\$59,895
				(\$55,900 - \$60,000)
			Discount rate (%)	6%
			Probability of occurrence (%)	99.80%

The change in the fair value of our contingent consideration relates to the change in the present value of the amounts payable due to passage of time and is as follows (in thousands):

	<u>Fair Value</u>
As of June 30, 2011	\$ -
Add: Fair value of contingent consideration acquired	12,500
Add: Adjustment to present value of contingent consideration	203
As of June 30, 2012	<u>\$ 12,703</u>

Assets and Liabilities That Are Measured at Fair Value on a Nonrecurring Basis

Non-financial assets such as goodwill, intangible assets, and property, plant, and equipment are evaluated for impairment and adjusted to fair value using Level 3 inputs, only when an impairment is recognized. Fair values are considered Level 3 when management makes significant assumptions in developing a discounted cash flow model based upon a number of considerations including projections of revenues, earnings and a discount rate. In addition, in evaluating the fair value of goodwill impairment, further corroboration is obtained using our market capitalization. There was no impairment recorded in the twelve months ended June 30, 2012.

7. LINE OF CREDIT

On March 15, 2012, the Company entered into a secured credit agreement (the "Credit Facility"). The Credit Facility includes a revolving loan facility for an aggregate principal amount not exceeding \$50 million. The Credit Facility matures on the fifth anniversary of its closing (March 15, 2017) and is payable in full upon maturity. The amounts borrowed and repaid under the Credit facility can be reborrowed. The borrowings under the Credit Facility will accrue interest either (at the election of the Company) at (i) the London interbank offered rate then in effect, plus a margin of between 2.00% and 2.50%, which will be based on the Company's Consolidated EBITDA (as defined in the Credit Agreement), or (ii) the higher of (a) the bank's publicly-announced prime rate then in effect and (b) the federal funds rate plus 0.50%, in each case of (a) or (b), plus a margin of between 0.00% and 0.50%, which will be based upon the Company's Consolidated EBITDA. The Company also pays annual commitment fees during the term of the Credit Agreement which varies depending on the Company's Consolidated EBITDA. The Credit Facility is secured by substantially all of the Company's assets. The amounts borrowed are recorded as long-term debt, net of the financing costs, in the Company's consolidated financial statements.

The Credit Agreement contains customary representations and warranties and affirmative and negative covenants, including compliance with financial ratios and metrics. The Credit Agreement requires the Company to maintain a minimum ratio of Liquidity to its Indebtedness (each as defined in the Credit Agreement) and varying amounts of Liquidity and Consolidated EBITDA specified in the Credit Agreement throughout the term of the Credit Facility.

For the year ended June 30, 2012, the Company paid interest at an approximate rate of 2.5%. As of June 30, 2012, the Company had \$20.3 million outstanding under the Credit Facility and was in compliance with all its covenants. The Company amortizes deferred financing costs to interest expense on a straight-line basis over the term of the debt.

8. NET LOSS PER COMMON SHARE

Basic net loss per share is determined by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is determined by dividing net loss by the weighted average number of common shares used in the basic net loss per common share calculation, plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding under the treasury stock method.

The following table is a reconciliation of the numerators and denominators used in computing basic and diluted net loss per common share:

	Year Ended June 30,		
	2012	2011	2010
Numerator:			
Net loss	\$ (20,737)	\$ (11,463)	\$ (12,804)
Denominator:			
Weighted average common shares outstanding	50,591	46,177	44,811
Weighted average common shares subject to repurchase..	-	-	(7)
Weighted average common shares outstanding (basic and diluted)	50,591	46,177	44,804
Net loss per share			
Basic and diluted	\$ (0.41)	\$ (0.25)	\$ (0.29)

Anti-dilutive common equivalent shares related to stock-based awards excluded from the calculation of diluted shares were approximately 10.6 million, 9.1 million, and 8.3 million for the years ended June 30, 2012, 2011 and 2010 respectively.

9. INCOME TAXES

The components of loss before income taxes consist of the following (in thousands):

	Year Ended June 30,		
	2012	2011	2010
Domestic	\$ (21,834)	\$ (11,981)	\$ (13,196)
Foreign	150	451	236
Total	\$ (21,684)	\$ (11,530)	\$ (12,960)

The benefit from income taxes consists of the following (in thousands):

	Year Ended June 30,		
	2012	2011	2010
Current:			
Federal	\$ -	\$ (415)	\$ (392)
State	266	149	125
Foreign	85	207	137
Total current income tax	351	(59)	(130)
Deferred:			
Federal	-	-	-
State	(1280)	-	-
Foreign	(18)	(8)	(26)
Total deferred income tax	(1,298)	(8)	(26)
Benefit from income taxes	\$ (947)	\$ (67)	\$ (156)

The difference between the benefit from income taxes and the amount computed by applying the federal statutory income tax rate to loss before benefit from income tax is as follows (in thousands):

	Year Ended June 30,		
	2012	2011	2010
Benefit from income tax at federal statutory rate	\$ (7,346)	\$ (3,921)	\$ (4,415)
Stock-based compensation	381	105	471
Credits	(850)	(1,622)	(3,032)
State taxes	173	149	112
Net operating loss carryback	-	(299)	(5,348)
Other	(50)	288	648
Increase in valuation allowance	6,745	5,233	11,408
Total	<u>\$ (947)</u>	<u>\$ (67)</u>	<u>\$ (156)</u>

Significant components of deferred tax assets consist of the following (in thousands):

	June 30,	
	2012	2011
Deferred Tax Assets		
Net operating loss carryforwards	\$ 33,223	\$ 21,191
Tax credit carryforwards	11,589	9,122
Stock compensation	14,110	9,962
Other	9,351	5,427
Gross deferred tax assets	68,273	45,702
Valuation allowance	(53,372)	(44,235)
Total deferred tax assets	<u>14,901</u>	<u>1,467</u>
Deferred Tax Liabilities		
Acquisition intangibles	(14,822)	(1,406)
Total deferred tax liabilities	<u>(14,822)</u>	<u>(1,406)</u>
Total net deferred tax assets	<u>\$ 79</u>	<u>\$ 61</u>

During the year ended June 30, 2012, the increase in total deferred tax assets of \$22.6 million was primarily due to the increases in gross net operating losses, tax credit carryforwards and stock compensation expense. This increase in total deferred tax assets was offset in part by a \$13.4 million increase in total deferred tax liabilities on the identifiable intangible property determined in the M5 acquisition. The \$9.2 million increase in net deferred assets was further offset by related increase in the valuation allowance of approximately \$9.2 million. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will be realized. The realization of deferred tax assets is based on several factors, such as the Company's history of past earnings, the scheduling of deferred tax liabilities and projected future income from operating activities. Except as noted in the following paragraph, as of June 30, 2012, management does not believe it is more likely than not that the net U.S. federal and state deferred tax assets are realizable. The Company intends to maintain the valuation allowance on its net deferred tax assets until sufficient positive evidence exists to support reversal of some or all of the allowance. The Company's future income tax expense (benefit) will be affected in the event changes to the valuation allowance are required.

Included in the net operating loss carryforward deferred tax asset is approximately \$0.8 million of deferred tax asset (\$2.3 million pretax) attributable to excess stock option deductions. Because of a provision within ASC 718 concerning when tax benefits related to excess stock option deductions can be credited to paid in capital, the related valuation allowance cannot be reversed, even if the facts and circumstances indicate that it is more likely than that the deferred tax asset can be realized. The valuation allowance will only be reversed as the related deferred tax asset is applied to reduce taxes payable.

The Company released \$1.3 million of the valuation allowance which resulted in a tax benefit for the year ended June 30, 2012. The release was a result of the recording of a net deferred tax liability in connection with the acquisition of M5.

As of June 30, 2012, the Company had federal and California tax credit carryforwards of \$7.0 million and \$7.0 million, respectively. The federal tax credit carryforwards expire at various dates between 2024 and 2033. The California tax credits may be carried forward indefinitely. Including the net operating loss carryforwards available from the Agito and M5 acquisitions, the Company had California and other state net operating loss carryforwards of approximately \$15.5 million and \$14.2 million, respectively, which expire at various dates between 2016 and 2033.

The undistributed earnings from the Company's foreign subsidiaries are not subject to a U.S. tax provision because it is management's intention to permanently reinvest such undistributed earnings outside of the United States. The Company evaluates its circumstances and reassesses this determination on a periodic basis. As of June 30, 2012, the determination of the unrecorded deferred tax liability related to these earnings was not practicable. If circumstances change and it becomes apparent that some or all of the undistributed earnings of the Company's foreign subsidiaries will be remitted in the foreseeable future, the Company will be required to recognize a deferred tax liability on those amounts.

In March 2010, the Company received a favorable tax ruling from the Internal Revenue Service related to the methodology that the Company used to analyze its various equity transactions to determine whether a change in ownership had occurred as defined by Section 382 of the Internal Revenue Code for the years 1997 through 2002. Based on the ruling, the company can utilize an additional \$51.4 million of net operating losses. The Company established a full valuation allowance against these net operating losses.

During fiscal 2011, the Company received a refund of approximately \$1.7 million based on an amended fiscal 2008 federal income tax return filed in fiscal 2010. The refund was due to a carryback of available net operating losses. During fiscal 2011, the Company filed amended fiscal 2006, 2007 and 2008 returns to claim tax refunds for the carryback of AMT losses incurred in fiscal 2010. The refund was received during fiscal 2011, totaling approximately \$0.6 million, of which approximately \$0.3 million was recorded as a tax benefit in the fiscal 2011 tax provision.

After accounting for the additional net operating losses made available under Section 382 as a result of the favorable tax ruling, the carryback of net operating losses used to generate tax refund claims, and the net operating loss carryforwards available from the Agito and M5 acquisitions, the Company had federal net operating loss carryforwards of approximately \$94.6 million as of June 30, 2012. The federal net operating loss carryforwards expire at various dates between 2023 and 2033. The Company has not completed Section 382 studies for net operating losses incurred in the years subsequent to July 2007. Upon the completion of these studies, the amount of net operating losses available for utilization may be limited.

The "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010" (the "2010 Tax Act") was enacted in December 2010, which extended the R&D credit for qualifying activities through December 31, 2011 and extended the bonus depreciation provisions for qualifying property acquired after September 8, 2011 and before January 1, 2012. In addition, the 2010 Tax Act increased the qualifying percentage deduction for bonus depreciation from 50% to 100% for acquired property made during this time. With respect to the provisions of the 2010 Tax Act that expired during the Company's fiscal year 2012, the federal R&D credit has not been extended beyond December 31, 2011 and the qualifying percentage deduction for bonus depreciation reverted back to 50% for qualifying property acquired on or after January 1, 2012 and before January 1, 2013.

The Company maintains liabilities for uncertain tax positions. These liabilities involve considerable judgment and estimation and are continuously monitored by management based on the best information available, including changes in tax regulations, the outcome of relevant court cases, and other pertinent information. As of June 30, 2012, 2011 and 2010, the Company's total amount of unrecognized tax benefit was approximately \$3.6 million, \$3.1 million and \$2.1 million, respectively.

The aggregate annual changes in the balance of gross unrecognized tax benefits are as follows (in thousands):

	Year Ended June 30,		
	2012	2011	2010
Beginning balance	\$ 3,074	\$ 2,091	\$ 1,540
Decrease in tax positions for prior years	(148)	(183)	-
Increase in tax positions for current year	650	1,166	551
Ending balance	<u>\$ 3,576</u>	<u>\$ 3,074</u>	<u>\$ 2,091</u>

As of June 30, 2012, the Company's total amount of unrecognized tax benefit was approximately \$3.6 million of which only \$0.1 million, if recognized, would impact the effective tax rate. The Company does not expect its unrecognized tax benefits to change materially over the next 12 months.

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated statements of operations. Management included an accrual for interest and penalties that is immaterial to the ending balance determined as of June 30, 2012.

While management believes that the Company has adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than the recorded position. Accordingly, the Company's provisions on federal, state and foreign tax-related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved.

The Company's primary tax jurisdiction is in the United States. For federal and state tax purposes, the tax years 2001 through 2011 remain open and subject to tax examination by the appropriate federal or state taxing authorities.

10. COMMON STOCK

Common Shares Reserved for Issuance

At June 30, 2012, the Company had reserved shares of common stock for issuance as follows (in thousands):

Reserved under stock option plans	15,552
Reserved under employee stock purchase plan	369
Total	<u>15,921</u>

11. EMPLOYEE BENEFIT PLANS

Equity Stock Incentive Plans

The Company grants nonqualified ("NSO") and incentive stock options ("ISOs"), restricted stock awards, and restricted stock units to officers, directors, employees and consultants under the 2007 Equity Incentive Plan ("2007 Plan"), which is the successor to the 1997 Plan. The 2007 Plan, provides for the granting of ISOs and NSOs for over a period not to exceed ten years and at exercise prices that are not less than 100% and 85%, respectively, of the estimated fair market value of the Company's common stock on the date of grant as determined by the Board of Directors. Stock options issued under the 2007 Plan generally vest ratably over four years from the date of grant, and restricted stock units issued under the 2007 Plan generally vest 25% at one year or 50% at two years from the date of grant and 1/48th monthly thereafter.

The 2007 Plan provides for automatic annual increases of shares available for issuance of up to 5% of the number of common shares then outstanding. In fiscal 2012 and 2011, the Board of Directors increased the number of shares authorized and available for issuance under the 2007 Plan by 2.4 million and 2.2 million shares, respectively, pursuant to the automatic increase provision. As of June 30, 2012, the Company had 5.0 million shares of common stock available for issuance under the 2007 Plan.

The following table summarizes the Company's stock option activities for the fiscal year ended June 30, 2012 (in thousands, except per share amounts):

	Shares Subject to Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at July 1, 2011	7,931	\$ 5.45		
Options granted	1,920	\$ 6.30		
Options exercised	(214)	\$ 4.14		
Options cancelled/forfeited	(693)	\$ 5.58		
Balance at June 30, 2012	<u>8,944</u>	\$ 5.65	6.48	\$ 2,658
Options exercisable at June 30, 2012	<u>4,893</u>	\$ 5.07	4.93	\$ 2,634
Vested and expected to vest at June 30, 2012	<u>8,261</u>	\$ 5.58	6.26	\$ 2,653

The weighted-average grant-date fair value of options granted during the years ended June 30 2012, 2011, and 2010 was \$3.72, \$3.55, and \$3.55, respectively. The total intrinsic value of options exercised in the years ended June 30, 2012, 2011 and 2010 was \$0.5 million, \$6.4 million and \$2.1 million, respectively, and represents the difference between the fair value of the Company's common stock at the dates of exercise and the exercise price of the options.

The following table summarizes information about outstanding and exercisable options at June 30, 2012 (in thousands, except years and exercise prices):

Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$0.10 – 0.40	219	2.24	\$ 0.33	219	\$ 0.33
\$0.80 – 1.00	337	3.56	0.84	337	0.84
\$2.50 – 3.20	384	4.20	3.13	384	3.13
\$3.50 – 4.80	893	7.92	4.40	119	3.80
\$4.82	2,121	3.56	4.82	1,711	4.82
\$4.93 – 5.08	492	5.61	4.97	479	4.97
\$5.10 – 6.08	1,703	8.38	5.41	592	5.59
\$6.09 – 8.29	1,984	8.40	7.45	662	7.04
\$8.41 – 11.40	789	7.85	10.27	368	10.65
\$12.55 – 15.41	22	4.31	13.48	22	13.48
Total Outstanding	<u>8,944</u>	6.48	\$ 5.65	<u>4,893</u>	\$ 5.07

Stock-based Compensation

The Company estimates the fair value of stock options using the Black-Scholes option-pricing model, which requires the use of the following assumptions: (i) the expected volatility of the Company's common stock, which is based on a blended rate of the Company's own common stock volatility and the volatility data of certain peer companies; (ii) the expected term which is the period that the Company's stock-based awards are expected to be outstanding, and the Company has elected to use the "simplified method" as prescribed by authoritative guidance to compute expected term; (iii) an expected dividend yield, which is assumed to be 0% as the Company has not paid and, as of the date of grant, did not anticipate paying dividends in the foreseeable future; and (iv) a risk-free interest rate, which is based on the U.S. Treasury yield curve in effect on the date of grant for zero coupon U.S. Treasury notes with maturities approximately equal to expected term of the option award. The fair value of each option is estimated on the date of grant using the Black-Scholes option valuation method, with the following assumptions:

	Year Ended June 30,		
	2012	2011	2010
Expected life from grant date of option.	6.08 years	5.75-6.26 years	6.08-6.50 years
Risk-free interest rate.	0.79-1.15%	1.43-2.12%	2.26-2.47%
Expected volatility.	65-66%	57%	57-58%
Expected dividend yield.	0%	0%	0%

As of June 30, 2012 total unrecognized compensation cost related to stock options granted to employees and non-employee directors was \$9.9 million, net of estimated forfeitures, which the Company expects to recognize over 3.0 years.

Employee Stock Purchase Plan

On September 18, 2007, the Board of Directors approved the commencement of offering periods under a previously-approved employee stock purchase plan (the "ESPP"). The ESPP allows eligible employees to purchase shares of the Company's common stock at a discount through payroll deductions. The ESPP consists of six-month offering periods commencing on May 1st and November 1st each year. Under the ESPP, employees purchase shares of the Company's common stock at 90% of the market value at either the beginning of the offering period or the end of the offering period, whichever price is lower. The ESPP was amended in November 2010 to permit employees to purchase shares of the Company's common stock at 85% of market value at either the beginning of the offering period or the end of the offering period, whichever price is lower, effective for the offering period commencing on and after May 1, 2011.

In February of fiscal year 2012 and 2011, pursuant to the automatic increase provisions of the ESPP, the Company's Board of Directors approved increases to the number of shares authorized and reserved for issuance under the ESPP by 481,433 shares and 469,980 shares, respectively.

The fair value of stock purchase rights granted under the ESPP is estimated using the Black-Scholes option pricing model, based on the following assumptions:

	Year Ended June 30,		
	2012	2011	2010
Expected life from grant date of ESPP.	0.50 years	0.50 years	0.50 years
Risk-free interest rate.	0.07-0.15%	0.10-0.20%	0.16-0.26%
Expected volatility.	52-74%	46-52%	46-138%
Expected dividend yield.	0%	0%	0%

Expenses related to shares issued under the ESPP are included in stock-based compensation expense. The Company issued 647,121 shares and 577,193 shares under the ESPP in fiscal 2012 and 2011, respectively, at a weighted average price per share of \$4.59 and \$5.60, respectively. As of June 30, 2012, total unrecognized compensation cost related to the ESPP plan was \$0.4 million, which the Company expects to recognize over 0.5 years.

Restricted Stock Awards and Restricted Stock Units

Restricted stock award and restricted stock unit activity for the year ended June 30, 2012 is as follows (in thousands):

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Outstanding - July 1, 2011	1,196	\$ 5.62
Awarded	962	6.29
Released	(333)	5.92
Forfeited	(184)	6.26
Outstanding - June 30, 2012	<u>1,641</u>	<u>\$ 5.88</u>

The weighted average grant-date fair value of restricted stock awards granted during fiscal 2012, 2011 and 2010 was \$6.3 million, \$5.1 million and \$2.8 million, respectively. As of June 30, 2012, total unrecognized compensation cost related to restricted stock units awarded to employees and directors was \$5.2 million, net of estimated forfeitures, which the Company expects to recognize over 3.0 years.

As permitted under the 2007 Plan, in fiscal 2012, the Company issued 80,690 shares of restricted stock, with a fair value of \$0.4 million, to non-employee directors electing to receive them in lieu of an annual cash retainer. These shares were issued quarterly and vest immediate upon issuance.

12. LITIGATION, COMMITMENTS AND CONTINGENCIES

Litigation – At June 30, 2012, the Company is involved in litigation relating to claims arising out of the ordinary course of business or otherwise. Any litigation, regardless of outcome, is costly and time-consuming, can divert the attention of management and key personnel from business operations and deter distributors from selling the Company's products and dissuade potential customers from purchasing the Company's products. The Company defends itself vigorously against any such claims. Based on the information currently available, management believes that there are no claims or actions pending or threatened against us whose ultimate resolution will have a material adverse effect on our financial position, liquidity or results of operations, although the results of litigation are inherently uncertain. During the year ended June 30, 2012, the Company settled one of the claims against it by entering into a settlement agreement for \$0.5 million. The settlement amount is included in general and administrative expenses.

Leases - The Company leases its facilities under noncancelable operating leases which expire at various times through 2023. The leases provide for the lessee to pay all costs of utilities, insurance, and taxes. In connection with the Company's acquisition of M5 Networks, the Company assumed certain capital leases for equipment and operating leases for equipment and facilities. Future minimum lease payments under the noncancelable capital and operating leases as of June 30, 2012, are as follows (in thousands):

<u>Years Ending June 30,</u>	<u>Operating leases</u>	<u>Capital leases</u>
2013	\$ 3,495	\$ 1,408
2014	3,417	1,207
2015	2,575	311
2016	2,225	-
2017	2,016	-
Thereafter	6,274	-
Total minimum lease payments	<u>\$ 20,002</u>	<u>2,926</u>
Less: amount representing interest		(328)
Present value of total minimum lease payments		2,598
Less: current portion liability		(1,183)
Capital lease obligation, net of current portion		<u>\$ 1,415</u>

The current portion of the capital leases is included in accrued liabilities and other on the consolidated balance sheet. The non-current portion of the capital leases is included in other long-term liabilities on the consolidated balance sheet. Lease obligations for the Company's foreign offices are denominated in foreign currencies, which were converted to U.S. dollars at the interbank exchange rate on June 30, 2012.

Rent expense for the years ended June 30, 2012, 2011, and 2010, was \$2.5 million, \$1.9 million and \$1.4 million, respectively.

Purchase commitments - As of June 30, 2012, the Company had purchase commitments with contract manufacturers for inventory and with technology firms for usage of software licenses totaling approximately \$22.3 million.

Indemnification - Under the indemnification provisions of the Company's customer agreements, the Company agrees to indemnify and defend its customers against infringement of any patent, trademark, or copyright of any country or the misappropriation of any trade secret, arising from the customers' legal use of the Company's services. The exposure to the Company under these indemnification provisions is generally limited to the total amount paid by the customers under pertinent agreements. However, certain indemnification provisions potentially expose the Company to losses in excess of the aggregate amount received from the customer. To date, there have been no claims against the Company or its customers pertaining to such indemnification provisions and no amounts have been recorded.

The Company also has entered into customary indemnification agreements with each of its officers and directors. The Company also has indemnification obligations to the underwriters of its initial public offering pursuant to the underwriting agreement executed in connection with that offering.

13. SEGMENT INFORMATION

Prior to the acquisition of M5, the Company was organized and operated as one reportable segment. In connection with the acquisition of M5, the Company evaluated the guidance in ASC 280, Segment Reporting, and concluded that the acquired business is distinct from the Company's core premise solutions and is therefore a separate reportable segment. M5's hosted solutions and related services are now operated by the Company within its Hosted segment. The Company's legacy premise solutions are operated within the premise segment. The Company's chief operating decision-maker is its Chief Executive Officer (CEO). The Company's CEO

reviews revenue and gross profit for these two distinct segments to evaluate financial performance and allocate resources. No financial information other than revenue and gross profit is reviewed by the CEO in evaluating segment performance. The financial information by the two reportable segments is also accompanied by information about revenue by geographic regions.

The following presents total revenue and gross profit by reportable segments (in thousands):

	Year Ended June 30,		
	2012	2011	2010
Revenues:			
Premise	\$ 231,085	\$ 200,112	\$ 148,464
Hosted	15,547	-	-
Total revenues	<u>\$ 246,632</u>	<u>\$ 200,112</u>	<u>\$ 148,464</u>
Gross profit:			
Premise	\$ 152,736	\$ 133,467	\$ 96,413
Hosted	5,743	-	-
Total gross profit	<u>\$ 158,479</u>	<u>\$ 133,467</u>	<u>\$ 96,413</u>

Other than goodwill, the Company does not identify or allocate assets by operating segment, nor does the CEO evaluate operating segments using discrete asset information. See Note 5 to the consolidated financial statements for information on goodwill by segment.

Revenue by geographic region is based on the ship to address on the customer order. The following presents total revenue by geographic region (in thousands):

	Year Ended June 30,		
	2012	2011	2010
United States of America	\$ 217,585	\$ 177,049	\$ 133,248
International	29,047	23,063	15,216
Total	<u>\$ 246,632</u>	<u>\$ 200,112</u>	<u>\$ 148,464</u>

Revenue from one value-added distributor accounted for approximately 22% of the total revenue during the year ended June 30, 2012. No single value-added distributor, reseller or end customer accounted for more than 10% of the total revenue during the years ended June 30, 2011 and 2010.

The following presents a summary of long-lived assets, excluding deferred tax assets, other assets, and intangible assets (in thousands):

	As at June 30,	
	2012	2011
United States of America	\$ 12,546	\$ 7,725
International	265	511
Total	<u>\$ 12,811</u>	<u>\$ 8,236</u>

14. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In the normal course of business, the Company is exposed to fluctuations in interest rates and the exchange rates associated with foreign currencies. During the year ended June 30, 2012, the Company used derivative instruments to reduce the volatility of earnings associated with changes in foreign currency exchange rates. The Company used foreign exchange forward contracts to mitigate the gains and losses generated from the re-measurement of certain foreign monetary assets and liabilities, primarily including cash balances, third

party accounts receivable and intercompany transactions recorded on the balance sheet. These derivatives are not designated and do not qualify as hedge instruments. Accordingly, changes in the fair value of these instruments are recognized in other income and expenses during the period of change. The fair value recorded during the year ended June 30, 2012 was not material since these contracts were entered into on the last day of the period. These derivatives have maturities of approximately one month.

The following table presents the gross notional value of all our foreign exchange forward contracts outstanding as of June 30, 2012 (in thousands). No such contracts were outstanding as of June 30, 2011.

	June 30, 2012	
	Local Currency Amount	Notional Contract Amount (USD)
Australian dollar	970,000	\$ 985,423
British pound	1,140,000	1,780,087
Euro	480,000	603,672
Total		<u>\$ 3,369,182</u>

15. EMPLOYEE 401(K) PLAN

Employee 401(k) Plan - The Company adopted a defined contribution retirement plan which has been determined by the Internal Revenue Service (IRS) to be qualified as a 401(k) plan (the "Plan"). The Plan covers substantially all employees. The Plan provides for voluntary tax deferred contributions of 1 -20% of gross compensation, subject to certain IRS limitations. Based on approval by the Board of Directors, the Company may make matching contributions to the Plan. The Company has not made any matching contributions to the Plan since inception of the Plan.

16. QUARTERLY FINANCIAL DATA (Unaudited)

The following table summarizes the Company's information on total revenue, gross profit, net loss and earnings per share by quarter for the fiscal years ended June 30, 2012 and 2011. This data was derived from the Company's unaudited consolidated financial statements.

	Three Months Ended							
	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010
(In thousands, except per share amounts)								
Total revenue	\$ 78,458	\$ 56,304	\$ 58,012	\$ 53,858	\$ 56,527	\$ 51,577	\$ 47,729	\$ 44,279
Gross profit	47,791	37,260	37,940	35,488	37,091	35,083	31,757	29,536
Net loss	(5,045)	(8,512)	(2,538)	(4,642)	(1,745)	(2,382)	(3,691)	(3,645)
Basic and diluted net loss per common share	\$ (0.09)	\$ (0.17)	\$ (0.05)	\$ (0.10)	\$ (0.04)	\$ (0.05)	\$ (0.08)	\$ (0.08)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company acquired M5 Networks, Inc. on March 23, 2012. Internal control over financial reporting of M5 was excluded from the evaluation and assessment discussed below. M5's results since the acquisition date are included in the June 30, 2012 consolidated financial statements of the Company and constituted approximately 6.3% of revenue for the year then ended.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), we conducted an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K. Based upon that evaluation, our CEO and our CFO have concluded that the design and operation of our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d) of the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our “internal control over financial reporting” as defined in Exchange Act Rule 13a-15(f) to determine whether any changes in our internal control over financial reporting occurred during the fourth quarter of fiscal 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there have been no such changes during the fourth quarter of fiscal 2012.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our assessment excluded internal control over financial reporting at M5 Networks, Inc. (“M5”) which was acquired on March 23, 2012 and whose financial statement constitutes 6.3% of our consolidated revenue for the year ended June 30, 2012. Based on our evaluation under the framework set forth in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of June 30, 2012.

The effectiveness of our internal control over financial reporting as of June 30, 2012 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its report which appears below.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Our disclosure controls and procedures and our internal controls over financial reporting have been designed to provide reasonable assurance of achieving their objectives. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
ShoreTel, Inc.
Sunnyvale, California

We have audited the internal control over financial reporting of ShoreTel, Inc. and its subsidiaries (the "Company") as of June 30, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting of M5 Networks, Inc. ("M5") which was acquired on March 23, 2012, and whose financial statements constitute 6.3% of the Company's consolidated revenue for the year ended June 30, 2012. Accordingly, our audit did not include the internal control over financial reporting at M5. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2012, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended June 30, 2012 and our report dated September 13, 2012, expressed an unqualified opinion on those financial statements and included an explanatory paragraph relating to the Company's retrospective adoption of new accounting guidance issued by the financial accounting standards board related to the presentation of comprehensive income.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
September 13, 2012

ITEM 9B. OTHER INFORMATION

None.

PART III**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item is incorporated by reference to our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended June 30, 2012.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended June 30, 2012.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended June 30, 2012.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended June 30, 2012.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended June 30, 2012.

PART IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

(a) *(1) Financial Statements* - See Index to Financial Statements at page 65 of this Report.

(2) *Financial Statement Schedule* - Financial statement schedules have been omitted because the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements or the notes to those financial statements.

(3) *Exhibits* - See Exhibit Index at page 101 of this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on this 13th day of September 2012.

ShoreTel, Inc.

By: /s/ MICHAEL E. HEALY

Michael E. Healy
Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints Ava M. Hahn and Michael E. Healy, his or her true and lawful attorney-in-fact and agent with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ PETER BLACKMORE</u> Peter Blackmore	President and Chief Executive Officer and Director (Principal Executive Officer)	September 13, 2012
<u>/s/ MICHAEL E. HEALY</u> Michael E. Healy	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 13, 2012
<u>/s/ GARY J. DAICHENDT</u> Gary J. Daichendt	Chairman of the Board	September 13, 2012
<u>/s/ EDWIN J. BASART</u> Edwin J. Basart	Director	September 13, 2012
<u>/s/ MARK F. BREGMAN</u> Mark F. Bregman	Director	September 13, 2012
<u>/s/ KENNETH DENMAN</u> Kenneth Denman	Director	September 13, 2012
<u>/s/ MICHAEL GREGOIRE</u> Michael Gregoire	Director	September 13, 2012
<u>/s/ CHARLES D. KISSNER</u> Charles D. Kissner	Director	September 13, 2012
<u>/s/ EDWARD F. THOMPSON</u> Edward F. Thompson	Director	September 13, 2012

EXHIBIT INDEX

Exhibit Number	Exhibit Title
2.1	Agreement and Plan of Reorganization by and among the Company, M5 Networks, Inc., Mets Acquisition Corp., Mets Acquisition II LLC, and Fortis Advisors LLC, dated January 31, 2012 (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011 filed on February 9, 2012).
3.1	Third Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended June 30, 2007 filed on September 27, 2007).
3.2	Third Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.01 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, filed on November 9, 2009).
4.1	Form of the Company's Common Stock certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 5 to the Company's Registration Statement on Form S-1 (File No. 333-140630)).
4.2	Seventh Amended and Restated Rights Agreement dated October 20, 2004 by and among the Company and certain of its equity holders (incorporated by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-1 (File No. 333-140630)).
10.1+	Form of Indemnity Agreement between the Company and each of its directors and executive officers (incorporated by reference to Exhibit 10.1 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-140630)).
10.2+	1997 Stock Option Plan and forms of stock option agreement and stock option exercise agreement (incorporated by reference to Exhibit 10.2 of the Company's Registration Statement on Form S-1 (File No. 333-140630)).
10.3+	2007 Equity Incentive Plan and forms of stock option agreement and stock option exercise agreement (incorporated by reference to Exhibit 10.3 of Amendment No. 3 to the Company's Registration Statement on Form S-1 (File No. 333-140630)).
10.4+	2007 Employee Stock Purchase Plan, as amended on November 2, 2010 (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2010 filed on February 4, 2011).
10.5+	ShoreTel FY 2009 Executive Bonus Plan (incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K for the year ended June 30, 2008 filed on September 12, 2008).
10.6+	Executive Employment Agreement dated December 9, 2010, by the Company and Peter Blackmore (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed on May 9, 2011).
10.7+	Offer Letter, dated April 22, 2007, by the Company and Michael E. Healy (incorporated by reference to Exhibit 10.19 of Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-140630)).
10.8+	Fiscal 2012 Executive Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, filed on February 9, 2012).
10.9+	Non-employee director compensation guidelines (incorporated by reference to the Company's Form 8-K filed on February 12, 2008).

- 10.10+ Form of "Tier 2" Retention Incentive Agreement (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed on May 9, 2011).
- 10.11+ Form of Form of "Tier 3" Retention Incentive Agreement (incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed on May 9, 2011).
- 10.12 Manufacturing Services Agreement, dated October 28, 2005, between the Company and Jabil Circuit, Inc. (incorporated by reference to Exhibit 10.17 of the Company's Registration Statement on Form S-1 (File No. 333-140630)).
- 10.13 Lease Agreement between River Place Corporate Park, LP and the Company, dated June 30, 2008, and as amended on September 16, 2009, December 2009, and December 10, 2010 (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2010 filed on February 4, 2011).
- 10.14 Office Lease Oakmead West, dated April 20, 2007, between the Company and Carr NP Properties, L.L.C., and Amendment No. 1 thereto (incorporated by reference to Exhibit 10.18 to Amendment No. 2 of the Company's Registration Statement on Form S-1 (File No. 333-140630) and Exhibit 10.11 of the Company's Annual Report on Form 10-K for the year ended June 30, 2009 filed on September 10, 2009).
- 10.15 Lease Agreement, dated July 21, 2011 between the Company and BRE/US Industrial PropTerties, L.L.C. (incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the year ended June 30, 2011 filed on September 12, 2011).
- 10.16 Board Observer Rights Agreement dated August 17, 2011 between the Company and Edwin J. Basart (incorporated by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K for the year ended June 30, 2011 filed on September 12, 2011).
- 10.17 \$50,000,000 Senior Secured Credit Facilities Credit Agreement dated as of March 15, 2012 among the Company, the lenders named therein and Silicon Valley Bank (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed on May 10, 2012).
- 21 Subsidiaries.
- 23.1 Consent of independent registered public accounting firm.
- 24.1 Power of Attorney (included on the signature page).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer.
- 32.2 Section 1350 Certification of Chief Financial Officer
- + Management Compensatory Plan or Arrangement

(b) Financial Statement Schedules.

All schedules have been omitted because they are either inapplicable or the required information has been given in the consolidated financial statements or the notes thereto.

Exhibit 21**Subsidiaries**

<u>Subsidiary Name</u>	<u>Jurisdiction</u>
ShoreTel International, Inc.	Delaware, USA
ShoreTel Pty Ltd	Australia
ShoreTel Ltd UK.....	UK
ShoreTel GmbH	Germany
ShoreTel Singapore Pte. Ltd.....	Singapore
8058644 Canada, Inc.....	Canada
ShoreTel Philippines Corporation.....	Philippines
ShoreTel Communications Private Limited	India
Agito Networks, Inc.	Delaware, USA
M5 Networks, Inc.	Delaware, USA
M5 Callfinity, Inc.	Massachusetts, USA
M5 Acquisition Corp	Delaware, USA
M5 Telecom-USA, Inc.....	Delaware, USA

Exhibit 23.1**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements (Nos. 333-179449, 333-172072, 333-164726, 333-157192, 333-149220, and 333-144338) on Form S-8 of our report dated September 13, 2012 relating to the consolidated financial statements of ShoreTel, Inc. and its subsidiaries (the "Company") (which report expresses an unqualified opinion and includes explanatory paragraphs relating to the Company's adoption, in the year ended June 30, 2011, of new accounting guidance issued by the financial accounting standards board related to its method for recognizing revenue for multiple element arrangements and the retrospective adoption of changes to the presentation of comprehensive income), and our report dated September 13, 2012 relating to the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended June 30, 2012.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
September 13, 2012

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15(d) -14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Peter Blackmore, certify that:

1. I have reviewed this Annual Report on Form 10-K of ShoreTel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 13, 2012

/s/ PETER BLACKMORE
Peter Blackmore
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15(d) -14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael E. Healy, certify that:

1. I have reviewed this Annual Report on Form 10-K of ShoreTel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 13, 2012

/s/ MICHAEL E. HEALY

Michael E. Healy
Chief Financial Officer
(Principal Accounting and Financial Officer)

Exhibit 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**

I, Peter Blackmore, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

The Annual Report on Form 10-K of ShoreTel, Inc. for the fiscal year ended June 30, 2012, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in such Annual Report on Form 10-K fairly presents in all material respects, the financial condition and results of operations of ShoreTel, Inc.

Dated: September 13, 2012

By: /s/ PETER BLACKMORE
Name: Peter Blackmore
Title: President and Chief Executive
Officer (Principal Executive Officer)

Exhibit 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**

I, Michael E. Healy, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

The Annual Report on Form 10-K of ShoreTel, Inc. for the fiscal year ended June 30, 2012, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and;

The information contained in such Annual Report on Form 10-K fairly presents in all material respects, the financial condition and results of operations of ShoreTel, Inc.

Dated: September 13, 2012

By: /s/ MICHAEL E. HEALY
Name: Michael E. Healy
Title: Chief Financial Officer
(Principal Accounting and Financial Officer)

SHORETEL INC

FORM 8-K

(Current report filing)

Filed 08/08/13 for the Period Ending 08/08/13

Address	960 STEWART DRIVE SUNNYVALE, CA 94085
Telephone	408 331 3300
CIK	0001388133
Symbol	SHOR
SIC Code	3661 - Telephone and Telegraph Apparatus
Industry	Communications Equipment
Sector	Technology
Fiscal Year	06/30

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 OR 15(d) of
The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported)

August 8, 2013

SHORETEL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

001-33506

(Commission File Number)

77-0443568

(IRS Employer Identification No.)

960 Stewart Drive, Sunnyvale, CA

(Address of principal executive offices)

94085

(Zip Code)

Registrant's telephone number, including area code: **(408) 331-3300**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On August 8, 2013, ShoreTel, Inc. issued a press release announcing its financial results for its fiscal quarter ended June 30, 2013, the text of which is furnished herewith as Exhibit 99.1.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory

(b)

Effective August 12, 2013, Mr. Peter Blackmore shall cease to serve as the Company's Chief Executive Officer and resign from the Board.

(c)

On August 8, 2013, ShoreTel, Inc. (the "**Company**") announced that Donald Joos will be promoted to the Company's President and Chief Executive Officer (the "**Executive**") as of August 12, 2013. Mr. Joos was also appointed as a member of the Company's Board of Directors (the "**Board**") effective August 12, 2013. Prior to his promotion, Mr. Joos has served as the Company's Senior Vice President of Business Operations.

Mr. Joos, age 43, joined the Company in April 2011. From 2002 until April 2011, Mr. Joos served as a vice president for Avaya, Inc., a provider of communications solutions. Before joining Avaya in 2002, Mr. Joos helped create an e-commerce start up that is still operating today and held various service and operational roles at Williams Communication Solutions, Nortel Communication Solutions and Marshalls, Inc.

Mr. Joos brings over 15 years of experience in a variety of hardware, software and services companies. The Company believes that it is important for the Chief Executive Officer to serve on the Board, as his day to day experience in managing the Company will provide detailed insight regarding the Company, its markets, strategy and operations for the other Board members.

(e)

Terms of Executive's Employment

The Company entered into an Executive Employment Agreement (the "**Agreement**") with Mr. Joos that provides for the Executive's general employment terms, including certain compensation provisions described below, and specified termination benefits in the event of a Termination Upon a Change of Control (defined below) or a Termination in Absence of a Change of Control (defined below).

Salary and Bonus. The Executive shall receive an annual base salary of \$385,000, less applicable withholding taxes, which shall be reviewed annually by the Compensation Committee of the Board with changes thereto being subject to the definition of Good Reason (defined below). The Executive will be eligible to receive an annual objective-based incentive bonus based on criteria established by the Board equal to the Executive's then-current base salary. Such Target Bonus may be increased at the discretion of the Board to a maximum of one hundred and fifty percent (150%) of the then current Base Salary based on achievement of performance objectives determined by the Board. For the fiscal year ending June 30, 2014, such Target Bonus will be pro-rated by the number of days between Executive's commencement of employment and June 30, 2014.

Additional Benefits. The Company will pay for one annual physical for the Executive. In addition, the Executive shall relocate to the Company's headquarters, in Sunnyvale, California, within 12 months from his commencement of employment and will receive a one-time reimbursement of up to \$150,000 for such relocation costs. Until such relocation, the Company will provide a \$6,000 per month stipend for his business travel between Austin, Texas and the Company's headquarters and for temporary living expenses.

Equity Grants . The Executive will be granted an option to purchase (i) 460,000 shares of the Company's common stock (the "**Common Stock** ") with an exercise price equal to the fair market value on the date of grant (the "**Option** "). The Option will vest as to 25% of the shares subject thereto on the first anniversary of the grant date, with 1/48th of the shares subject to the options vesting on a monthly basis thereafter. The vesting of the options shall accelerate as described below.

Termination in Absence of a Change of Control. In the event of a Termination in Absence of Change of Control and upon the Executive's execution of a binding release agreement within twenty-one (21) days following his termination of service and resignation from the Board, the Executive will be entitled to receive (in addition to any accrued benefits): (1) a lump sum payment in an amount equal to eighteen (18) months of his base salary, less applicable withholding taxes; (2) reimbursement of premiums paid for continuation coverage for up to eighteen (18) months pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985 ("**COBRA** "), subject to Executive's timely election of COBRA coverage and only for so long as Executive is not covered by another group health plan, (3) a lump sum amount equal to his then-current target bonus, less any previously-paid advances on such bonus, prorated for the number of days of Executive's service to the Company for such year, provided that if such termination were to occur in the second (2nd) half of the fiscal year, the first (1st) half incentive plan funded percentage would be used and a performance rating factor of 1.0 in calculating the amount owed would be used, and (4) accelerated vesting of the all of Executive's option awards (including the Option) as if Executive had provided an additional six (6) months of service following the date when he ceased providing services to the Company.

Termination Upon a Change of Control. In the event of a Termination Upon a Change of Control and upon the Executive's execution of a binding release agreement within twenty-one (21) days following his termination of service and resignation from the Board, the Executive will be entitled to receive (in addition to any accrued benefits): (1) a lump sum payment in an amount equal to eighteen (18) months of his base salary, less applicable withholding taxes; (2) reimbursement of premiums paid for continuation coverage for eighteen (18) months pursuant to COBRA, subject to Executive's timely election of COBRA coverage and only for so long as Executive is not covered by another group health plan; (3) a lump sum payment in an amount equal to one hundred and fifty percent (150%) of his then-current target bonus, less applicable withholding taxes and (4) full acceleration of all of Executive's option awards (including the Option). The Executive is required to provide reasonable part-time transition services to the Company (or any successor) following a Termination Upon a Change of Control for a three (3)-month period in order to receive these benefits.

"Change of Control" means:

- (a) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act** ")), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing fifty (50%) percent or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company's outstanding securities;
- (b) the consummation of a merger or consolidation, or series of related transactions, which results in the voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), directly or indirectly, at least fifty (50%) percent of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or
- (c) the sale or disposition of all or substantially all of the Company's assets (or consummation of any transaction, or series of related transactions, having similar effect); or

- (d) a change in the composition of the Company's Board occurring within a twelve (12) month period, as a result of which fewer than a majority of the directors are "Incumbent Directors." "Incumbent Directors" shall mean directors who either (i) are directors as of the date of the Agreement, or (ii) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

"Cause" means

- (a) material failure to perform Executive's duties; provided that no termination for Cause under this subsection (a) shall occur unless the Executive: (i) has been provided with notice of the Company's intention to terminate the Executive for Cause, and (ii) has had at least 30 days to cure or correct such failure (if curable or correctable);
- (b) engagement in intentional misconduct or dishonesty in the performance of Executive's duties, which is materially detrimental to the Company;
- (c) material breach of this Agreement or material failure to follow any reasonable written policies of the Company; provided that no termination for Cause under this subsection (c) shall occur unless the Executive: (i) has been provided with notice of the Company's intention to terminate the Executive for Cause, and (ii) has had at least 30 days to cure or correct such breach (if curable or correctable);
- (d) conviction of or plea of no contest to any felony;
- (e) willful refusal to follow reasonable direction from the Board; provided that no termination for Cause under this subsection (e) shall occur unless the Executive: (i) has been provided with notice of the Company's intention to terminate the Executive for Cause, and (ii) has had at least 30 days to cure or correct such refusal (if curable or correctable); or
- (f) exercise of bad faith in the performance of his responsibilities that results in grossly unsatisfactory performance;
- (g) failure or refusal to comply in any material respect with the terms of the Company's Assignment and Confidentiality Agreement, the Company's insider trading policy, or any other reasonable policies of the Company; provided that no termination for Cause under this subsection (g) shall occur unless the Executive: (i) has been provided with notice of the Company's intention to terminate the Executive for Cause, and (ii) has had at least 30 days to cure or correct his or her behavior (if curable or correctable);
- (h) an act or acts of material fraud or dishonesty undertaken by Executive and intended to result in Executive's substantial gain or personal enrichment at the expense of the Company;
- (i) a good faith determination by the Board that Executive has failed to cooperate with the Company in any investigation or formal proceeding; or
- (j) failure by Executive to relocate from the Austin, Texas area to the Company's headquarters within twelve (12) months of Executive's commencement of employment.

"Good Reason" means a material negative change in the service relationship by the occurrence of any of the following conditions, without the Executive's written consent:

- (a) a reduction of Executive's authority, duties, or responsibilities provided that all reductions occurring over the preceding consecutive twelve (12) month period in the aggregate are material; provided, however, that the following shall not, in and of itself, constitute "Good Reason": removal as a general member of the Board, if Executive remains CEO;
- (b) a material reduction in the Executive's Base Salary (such as a 10% reduction relative to the highest amount in effect since Executive's commencement of employment), other than an equivalent percentage reduction in annual base salaries prior to a Change of Control that applies to the majority of named executive officers;

- (c) (i) within one year from Executive's commencement of employment, the Company's requiring the Executive to be based at any office or location more than 50 miles from the Company's office in Austin, Texas, and (ii) on or after the one year anniversary of his commencement of employment, the Company's requiring the Executive to be based at any office or location more than 50 miles from the Company's headquarters;
- (d) a failure by the Company to nominate or renominate Executive to the Board; provided that the failure of stockholders of the Company to elect Executive to the Board shall not constitute Good Reason;
- (e) a material breach of by the Company of the Agreement; provided that no Good Reason under this subsection (e) shall exist unless the Company: (i) has been provided with notice of the breach, and (ii) has had at least 30 days to cure or correct the breach; or
- (f) a requirement that Executive report to anyone other than the Board.

"Termination" in Absence of Change of Control" is defined as:

- (a) any termination of the Executive's employment by the Company without Cause other than during the period beginning three (3) months prior to the consummation of a Change of Control and ending on the date which is twelve (12) months following a Change of Control; or
- (b) any resignation by the Executive for Good Reason where (i) such Good Reason occurs other than during the period commencing during the period beginning three (3) months prior to the consummation of a Change of Control and ending on the date which is twelve (12) months following the Change of Control, and (ii) notice is provided to the Company within ninety (90) days of the existence of Good Reason with a thirty (30) day opportunity to cure.

"Termination Upon Change of Control" is defined as:

- (a) any termination of the employment of the Executive by the Company without Cause during the period commencing during the period beginning three (3) months prior to the consummation of a Change of Control and ending on the date which is twelve (12) months following the consummation of a Change of Control; or
- (b) any resignation by the Executive for Good Reason where (i) such Good Reason occurs during the period commencing during the period beginning three (3) months prior to the consummation of a Change of Control and ending on the date which is twelve (12) months following the Change of Control, and (ii) notice is provided to the Company within ninety (90) days of the existence of Good Reason with a thirty (30) day opportunity to cure.

"Termination in Absence of Change of Control" and "Termination Upon Change of Control" do not include any termination of the officer's employment (1) by the Company for Cause; (2) by the Company as a result of Executive's Permanent Disability (as defined in Section 409A and Treasury Regulations promulgated thereunder); (3) as a result of Executive's death; or (4) as a result of Executive's voluntary termination of Executive's employment with the Company other than for Good Reason.

Transitional Employment Agreement with Peter Blackmore

Effective August 12, 2013, Mr. Peter Blackmore shall cease to serve as the Company's Chief Executive Officer and resign from the Board.

On August 7, 2013, the Company entered into a transitional employment agreement with Peter Blackmore (" **Advisor** "), whereby Advisor provided a release of claims in favor of the Company and agreed to provide transition advice to the Executive and the Chairman of the Board between August 12, 2013 and February 12, 2014 (this period, the " **Transition Period** "). Either party may terminate the Advisor's services prior to the end of the Transition Period, subject to the Company's obligations set forth below. In the transitional employment agreement, Advisor releases and waives any rights to payments upon a termination of employment, as set forth in his employment agreement with the Company, dated December 9, 2010.

Terms of Service. Following the commencement of the Transition Period, the Company will continue to pay Advisor's regular base salary (annualized at \$400,000), and Advisor will continue to be eligible to participate in the Company's Employee Stock Purchase Plan and 401(k) Plan, will continue to vest in his equity awards, and will continue to participate in Company-sponsored health benefit plans to the fullest extent allowed by such plans. In addition, Advisor will be eligible to receive his bonus for the second half of the Company's 2013 fiscal year for which he was eligible in his capacity as the Company's Chief Executive Officer, subject to determination and approval by the Company's Board (the "**FY2013 Bonus** "). Advisor will not be eligible for any bonus relating to the Company's 2014 fiscal year and will cease to accrue vacation on August 12, 2013.

Benefits Upon Early Termination Without Cause by the Company. If the Company terminates Advisor's services without Cause (as defined below) prior to February 12, 2014, and provided Advisor takes all steps to make a release of claims in favor of the Company effective within 60 days of such termination, then the Advisor will be entitled to receive any accrued benefits at such time and only the following additional benefits: (1) continued payment of Advisor's base salary through February 12, 2014, (2) a lump sum payment of any unpaid portion of his FY2013 Bonus, (3) accelerated vesting of all of Advisor's outstanding equity awards as if he remained in service through February 12, 2014, and (4) reimbursement for the number of full months of COBRA premiums that Advisor will incur up to and through February 12, 2014, subject to Advisor's timely election of COBRA coverage.

Definition of Cause . For purposes of Advisor's transitional employment, "Cause" shall mean Advisor's:

- (a) material failure to perform his duties; provided that no termination for Cause under this subsection (a) shall occur unless the Advisor: (i) has been provided with notice of the Company's intention to terminate the Advisor for Cause, and (ii) has had at least 30 days to cure or correct such failure;
- (b) engagement in intentional misconduct or dishonesty in the performance of his duties under his transitional employment agreement which is materially detrimental to the Company; provided that no termination for Cause under this subsection (b) shall occur unless the Advisor: (i) has been provided with notice of the Company's intention to terminate the Advisor for Cause, and (ii) has had at least 30 days to cure or correct such dishonesty or misconduct (if curable or correctable);
- (c) material breach of the transitional employment agreement or material failure to follow any reasonable written policies of the Company; provided that no termination for Cause under this subsection (c) shall occur unless the Advisor: (i) has been provided with notice of the Company's intention to terminate the Advisor for Cause, and (ii) has had at least 30 days to cure or correct such breach (if curable or correctable);
- (d) conviction of (or pleading guilty or *nolo contendere* to) any felony;
- (e) willful refusal to follow reasonable direction from the Board; provided that no termination for Cause under this subsection (e) shall occur unless the Advisor: (i) has been provided with notice of the Company's intention to terminate the Advisor for Cause, and (ii) has had at least 30 days to cure or correct such refusal (if curable or correctable); or
- (f) exercise of bad faith in the performance of his responsibilities that results in grossly unsatisfactory performance.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
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99.1	Press release of ShoreTel, Inc. dated August 8, 2013
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The information in Items 2.02 and 9.01 of this Current Report is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of Section 18 of the Exchange Act. The information in this Items 2.02 and 9.01 of Current Report shall not be incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SHORETEL, INC.

(Registrant)

August 8, 2013

(Date)

/s/ MICHAEL E. HEALYMichael E. Healy
Chief Financial Officer

EXHIBIT INDEX**Exhibit
Number****Description**

99.1	Press release of ShoreTel, Inc. dated August 8, 2013
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Record Premise Revenue and Profits, 35% Cloud Revenue Growth

SUNNYVALE, Calif., Aug. 8, 2013 /PRNewswire/ -- ShoreTel® (NASDAQ: SHOR), the leading provider of brilliantly simple unified communications platforms, including business phone systems, applications, and mobile UC solutions, today announced financial results for its fiscal fourth quarter and fiscal year 2013.

For the fourth quarter of fiscal 2013, revenue was a record \$85.6 million, an increase of 9 percent sequentially over the third quarter of fiscal 2013 and an increase of 9 percent from the fourth quarter of fiscal 2012. Non-GAAP net income for the fourth quarter of fiscal year 2013 was \$3.4 million, or \$0.06 per share which excludes stock-based compensation charges, amortization of acquisition-related intangibles, other charges and related tax adjustments. This compares with a non-GAAP net loss of \$0.2 million, or \$0.00 per share, in the fourth quarter of fiscal 2012.

For the 2013 fiscal year, revenue was a record of \$313.5 million, up 27 percent from fiscal year 2012. The non-GAAP net loss for fiscal year 2013 was \$1.6 million, or \$0.03 per share, which excludes stock-based compensation charges, amortization of acquisition-related intangibles, litigation settlement costs, severance and other charges, and related tax adjustments. This compares with a non-GAAP net loss of \$1.4 million, or \$0.03 per share, in fiscal 2012.

"Fiscal year 2013 showcased the first full year of cloud revenues from our ShoreTel Sky offering, which have been growing steadily over the last six quarters and were up 35% year-over-year in the fourth quarter," said Peter Blackmore, CEO of ShoreTel. "We reported a very strong and profitable quarter with record revenues of \$85.6 million, up 9% sequentially, driven by record premise revenues and the addition of nearly 1,200 new customers in the fourth quarter." Blackmore continued, "With our continued focus on improving operating efficiencies and sales productivity we drove our non-GAAP operating expenses to 57% of revenue in the fourth quarter. Coupled with the projected growth in our target markets, we are positioned for continued profitability in fiscal 2014."

Fourth Quarter Fiscal 2013 Financial Highlights

Non-GAAP gross margin for the fourth quarter of fiscal year 2013, which excludes stock-based compensation charges, amortization of acquisition-related intangibles, other charges and related tax adjustments, was 61.4 percent, compared with 62.6 percent in the year-ago quarter. GAAP gross margin for the fourth quarter of fiscal year 2013 was 59.9 percent, compared with 60.9 percent in the fourth quarter of fiscal year 2012.

GAAP net loss was \$2.3 million, or \$0.04 per share, in the fourth quarter of fiscal 2013, compared with a GAAP net loss of \$5.0 million, or \$0.09 per share, in the fourth quarter of fiscal 2012.

As of June 30, 2013, the company had \$51.3 million in cash, cash equivalents and short-term investments and generated \$5.9 million in cash flow from operations in the quarter.

Fiscal Year 2013 Financial Highlights

Non-GAAP gross margin, which excludes stock-based compensation charges, amortization of acquisition-related intangibles, other charges and related tax adjustments, was 62 percent for the 2013 fiscal year, compared with 65.4 percent for the 2012 fiscal year. GAAP gross margin for the 2013 fiscal year was 60.1 percent, compared with 64.3 percent for the 2012 fiscal year.

Non-GAAP operating income for fiscal year 2013 was \$0.2 million, compared with non-GAAP operating income of \$0.2 million for the 2012 fiscal year.

GAAP net loss for fiscal 2013 was \$25.7 million, or \$0.44 per share, which included non-cash stock-based compensation charges of \$10.6 million, amortization of acquisition-related intangibles of \$7.6 million, severance charges of \$3.0 million, \$1.9 million charge for a change in estimates for sales, telecom taxes and regulatory fees as well as other charges, and compared to a GAAP net loss of \$20.7 million, or \$0.41 per share, in fiscal 2012.

For fiscal year 2013, the company generated \$10.3 million in cash flow from operations.

Line of Business Results

ShoreTel Sky

ShoreTel Sky revenues of \$19.3 million were up 6 percent sequentially over the third quarter of fiscal 2013 which brought our fiscal year 2013 revenue growth to 26 percent over fiscal year 2012 on an organic basis. The total number of installed customer seats increased 49 percent over the fourth quarter of fiscal 2012. Revenue churn on an annualized basis remains very low at 3 percent.

Premise revenues of \$66.3 million increased 10 percent sequentially from the third fiscal quarter and were up 3 percent from the fourth quarter of fiscal 2012. Non-GAAP gross margins in the premise business were 67.8 percent in the fourth quarter of fiscal 2013, compared with 67.1 percent in the fourth quarter of fiscal 2012. The company continued to increase its market share according to Synergy Research. In its latest report, Synergy estimates that the company's share of the United States Enterprise IP Telephony market increased from 6.4 percent in the December quarter of 2012 to 8.0 percent in the March quarter of 2013.

Select Operational Metrics

	Quarter Ended <u>06/30/13</u>	Quarter Ended <u>03/31/13</u>	Quarter Ended <u>12/31/12</u>	Quarter Ended <u>09/30/12</u>	Quarter Ended <u>06/30/12</u>
Annual recurring revenue run rate (in millions)	\$ 114.7	\$ 108.3	\$ 104.9	\$ 99.0	\$ 93.6
Cloud Monthly Average Revenue Per User (ARPU)	\$ 49	\$ 50	\$ 53	\$ 55	\$ 57
Cloud Average # of Seats per Customer	44	43	41	39	37
Cloud Monthly Revenue Churn Rate	0.3%	0.3%	0.3%	0.3%	0.3%
Total Company Headcount	965	957	965	942	933
Non-GAAP Gross Margin-Premise	67.8%	68.3%	67.3%	67.2%	67.1%
Non-GAAP Gross Margin-Cloud	39.1%	41.7%	43.3%	46.7%	42.2%

Business Highlights

Gains Share in both the U.S. Enterprise IP and U.S. UC as a Service Industries

The company continues to gain share in the IP telephony industry in the United States according to recent data published by Synergy Research Group. In its market share summary report for the first calendar quarter of 2013, Synergy found that ShoreTel had both the highest sequential market share and revenue growth rates for Enterprise IP Telephony compared to Avaya Inc., Cisco Systems, Inc. and Mitel Networks Corporation. In addition, ShoreTel gained share in the Unified Communications as a Service (UCaaS) Private Network segment and retains the number one position in that segment.

Moves into Testing Phase for ShoreTel Connect

ShoreTel completed development of the technical solution for its hybrid premise-to-cloud offering, ShoreTel Connect. Platform development and internal testing are complete, and external testing with customers and reseller partners will commence in the September 2013 quarter. Upon completion of the testing phase and rollout of general availability, customers will have the option to choose premise- or cloud-based UC solutions and applications as well as the ability to include the best of both in an integrated solution. ShoreTel expects to make the first ShoreTel Connect applications available beginning in early calendar 2014.

Introduces New Business-Grade iPad and iPhone Docking Station

The ShoreTel Dock transforms Apple® handhelds that are running the ShoreTel Mobility app into powerful business desk phones and enterprise collaboration tools. Employees can simply slide their ShoreTel Mobility enabled iPhone® or iPad® into the ShoreTel Dock and get instant access to the comfort, battery life and call quality of a business desk phone. The ShoreTel Dock is expected to start shipping in the September 2013 quarter.

New DECT Phones Launched in May 2013

The ShoreTel IP Phone 930D is a feature-rich cordless DECT phone solution well-suited for those needing a full telephony feature set along with in-building roaming capabilities. Designed for use in the front office or corporate environments, the ShoreTel IP Phone 930D solution seamlessly adds cordless handsets to any ShoreTel 14 installation. DECT handsets use a dedicated frequency band that is less congested than alternative wireless technologies and provide secure communication with voice and data encryption.

400 Series Phones Launched in July 2013

The new line of ShoreTel 400 series IP phones includes four new IP phone models that expand the ShoreTel portfolio to deliver new functionality and enhanced usability, including visual voice mail, an advanced user interface, and built-in diagnostics. The intuitive user interface of the 400 series IP phones extends the proven ergonomic advantages of ShoreTel IP phones, with a closer display and keypad and a lighter handset.

Business Outlook

ShoreTel is providing the following outlook for the quarter ending September 30, 2013:

- Revenue is expected to be in the range of \$77 million to \$83 million.
- GAAP gross margin is expected to be in the range of 59.5 percent to 60.5 percent, including approximately \$1.2 million in stock-based compensation charges and amortization of acquisition-related intangibles. Non-GAAP gross margin, which excludes stock-based compensation, amortization of acquisition-related intangibles and other charges, is expected to be in the range of 61 percent to 62 percent.
- GAAP operating expenses are expected to be in the range of \$53 million to \$54 million, including approximately \$4 million in stock-based compensation charges, amortization of acquisition-related intangibles and other charges. Non-GAAP operating expenses, which exclude stock-based compensation and other charges, are expected to be in the range of \$49 million to \$50 million.

Conference Call Information

The company will host a corresponding conference call and live webcast today at 2:00 p.m. Pacific Time. To access the conference call, dial +1-877-317-6789 for callers in the U.S. and +1-412-317-6789 for international callers and provide the operator with the conference identification number 10031474. A live webcast will be available in the Investor Relations section of the company's corporate web site at www.shoretel.com and an archived recording will be available beginning approximately two hours after the completion of the call until the company's announcement of its financial results for the next quarter. An audio telephonic replay of the conference call will also be available beginning at approximately 4:00 p.m. Pacific Time today until approximately 6:00 a.m. Pacific Time on August 16, 2013 by dialing +1-877-344-7529 or +1-412-317-0088 for International callers and providing the conference identification number 10031474.

Use of Non-GAAP Financial Measures

ShoreTel reports all required financial information in accordance with generally accepted accounting principles in the United States ("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 company's performance as it excludes non-cash charges, other non-recurring adjustments and related tax adjustments, that many investors feel may obscure the company's true operating performance. Likewise, management uses these non-GAAP measures to manage and assess the profitability of its business and does not consider stock-based compensation charges and amortization charges related to acquisition-related intangible assets, which are non-cash charges, or other non-recurring items in managing its core operations. ShoreTel has provided a reconciliation of non-GAAP financial measures following the text of this press release. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure.

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, statements regarding future growth and statements in the "Business Outlook" section regarding ShoreTel's 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 intense competition in our industry, our reliance on third parties to sell and support our products, our ability to grow our ShoreTel Sky business, our ability to maintain our premise business in a profitable manner, supply and manufacturing risks, our ability to control costs as we expand our business, increased risk of intellectual property litigation by entering into new markets, our ability to attract, retain and ramp new sales personnel, uncertainties inherent in the product development cycle, uncertainty as to market acceptance of new products and services, the potential for litigation in our industry, risks related to acquisitions, including technology and product integration risks, our ability to retain key personnel and customers and the risk of assuming unknown liabilities, and other risk factors set forth in ShoreTel's Form 10-K for the year ended June 30, 2012, and in its Form 10-Q for the quarter ended March 31, 2013.

Related Links & Conversation

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About ShoreTel

ShoreTel, Inc. (NASDAQ: SHOR) is a provider of business communication solutions whose brilliantly simple unified communications platforms, applications and mobile UC solutions promise a new rhythm of workforce engagement and collaboration. With costly complexity

eliminated by design from its award-winning, all-in-one IP phone system, UC and contact center solution, and its industry-leading hosted phone system, workers enjoy a freedom and self-reliance that other providers can't match. Users have full control to engage and collaborate, no matter the time, place or device, for the lowest cost and demand on IT resources in the industry. ShoreTel is headquartered in Sunnyvale, Calif., and has regional offices and partners worldwide. For more information, visit shoretel.com or shoretelsky.com.

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(Tables follow)

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

	As of June 30, 2013	As of March 31, 2013	As of June 30, 2012
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 43,775	\$ 36,773	\$ 37,120
Short-term investments	7,501	11,598	18,375
Accounts receivable - net	37,118	32,085	34,198
Inventories	18,891	21,991	20,212
Indemnification asset	6,277	5,674	6,570
Prepaid expenses and other current assets	<u>6,417</u>	<u>5,531</u>	<u>5,275</u>
Total current assets	119,979	113,652	121,750
Property and equipment - net	15,625	16,390	10,495
Goodwill	122,750	122,750	122,665
Intangible assets	38,138	40,125	45,304
Other assets	<u>3,295</u>	<u>3,467</u>	<u>2,939</u>
Total assets	<u><u>\$ 299,787</u></u>	<u><u>\$ 296,384</u></u>	<u><u>\$ 303,153</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$ 9,790	\$ 15,098	\$ 9,697
Accrued liabilities and other	17,766	16,622	16,134
Accrued employee compensation	13,159	11,185	12,151
Accrued taxes and surcharges	11,312	10,138	7,852
Purchase consideration	3,577	3,525	9,398
Deferred revenue	<u>39,692</u>	<u>35,452</u>	<u>35,829</u>
Total current liabilities	95,296	92,020	91,061
Line of credit - net	29,004	29,974	19,946
Long-term deferred revenue	15,294	14,628	13,683
Long-term purchase consideration	-	-	3,305
Other long-term liabilities	<u>4,053</u>	<u>3,700</u>	<u>4,926</u>
Total liabilities	<u><u>143,647</u></u>	<u><u>140,322</u></u>	<u><u>132,921</u></u>

Stockholders' equity:

Common stock	322,258	319,880	310,648
Accumulated deficit	(166,118)	(163,818)	(140,416)
Total stockholders' equity	<u>156,140</u>	<u>156,062</u>	<u>170,232</u>
Total liabilities and stockholders' equity	<u>\$ 299,787</u>	<u>\$ 296,384</u>	<u>\$ 303,153</u>

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

	Three Months Ended June 30,		Year Ended June 30,	
	2013	2012	2013	2012
Revenue:				
Product	\$ 51,076	\$ 51,108	\$ 186,190	\$ 182,009
Hosted and related services	19,289	14,253	70,277	15,547
Support and services	<u>15,238</u>	<u>13,097</u>	<u>57,076</u>	<u>49,076</u>
Total revenues	85,603	78,458	313,543	246,632
Cost of revenue:				
Product	17,693	17,166	63,941	61,884
Hosted and related services	12,566	9,024	44,526	9,804
Support and services	<u>4,086</u>	<u>4,477</u>	<u>16,624</u>	<u>16,465</u>
Total cost of revenue	<u>34,345</u>	<u>30,667</u>	<u>125,091</u>	<u>88,153</u>
Gross profit	51,258	47,791	188,452	158,479
Gross profit %	59.9%	60.9%	60.1%	64.3%
Operating expenses:				
Research and development	13,779	14,719	52,992	51,909
Sales and marketing	28,230	29,413	120,222	94,797
General and administrative	10,945	7,949	38,102	27,468
Acquisition-related costs	<u>-</u>	<u>36</u>	<u>-</u>	<u>4,524</u>
Total operating expenses	<u>52,954</u>	<u>52,117</u>	<u>211,316</u>	<u>178,698</u>
Loss from operations	(1,696)	(4,326)	(22,864)	(20,219)
Other income (expense) - net	<u>(526)</u>	<u>(866)</u>	<u>(2,412)</u>	<u>(1,465)</u>
Loss before provision for (benefit from) income tax	(2,222)	(5,192)	(25,276)	(21,684)
Provision for (benefit from) income tax	<u>78</u>	<u>(147)</u>	<u>426</u>	<u>(947)</u>
Net loss	<u>\$ (2,300)</u>	<u>\$ (5,045)</u>	<u>\$ (25,702)</u>	<u>\$ (20,737)</u>
Net loss per share:				
Basic and diluted	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>	<u>\$ (0.44)</u>	<u>\$ (0.41)</u>
Shares used in computing net loss per share:				
Basic and diluted	<u>59,035</u>	<u>57,932</u>	<u>58,633</u>	<u>50,591</u>

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

	2013		2012		2013		2012	
GAAP gross profit	\$ 51,258		\$ 47,791		\$ 188,452		\$ 158,479	
Share-based compensation expense	243	(a)	281	(a)	1,058	(a)	1,005	
Amortization of acquisition-related intangibles	1,017	(b)	1,009	(b)	4,050	(b)	1,703	
Severance and other	15	(c)	-	(c)	25	(c)	-	
Prior quarter charge for change in estimate of sales, use and telecommunications tax	-	(e)	-	(e)	927	(e)	-	
Non-GAAP gross profit	<u>\$ 52,533</u>		<u>\$ 49,081</u>		<u>\$ 194,512</u>		<u>\$ 161,187</u>	
Non-GAAP gross margin	61.4%		62.6%		62.0%		65.4%	
GAAP loss from operations	\$ (1,696)		\$ (4,326)		\$ (22,864)		\$ (20,219)	
Share-based compensation expense	1,704	(a)	2,961	(a)	10,605	(a)	12,643	
Amortization of acquisition-related intangibles	1,906	(b)	1,898	(b)	7,606	(b)	2,756	
Severance and Other	2,045	(c)	-	(c)	3,011	(c)	-	
Prior quarter charge for change in estimate of sales, use and telecommunications tax	-	(e)	-	(e)	1,875	(e)	-	
Litigation settlement	-	(f)	-	(f)	-	(f)	500	
Acquisition-related costs	-	(g)	36	(g)	-	(g)	4,524	
Non-GAAP income from operations	<u>\$ 3,959</u>		<u>\$ 569</u>		<u>\$ 233</u>		<u>\$ 204</u>	
GAAP net loss	\$ (2,300)		\$ (5,045)		\$ (25,702)		\$ (20,737)	
Share-based compensation expense	1,704	(a)	2,961	(a)	10,605	(a)	12,643	
Amortization of acquisition-related intangibles	1,906	(b)	1,898	(b)	7,606	(b)	2,756	
Severance and Other	2,045	(c)	-	(c)	3,011	(c)	-	
Interest charge from change in fair value of purchase consideration	52	(d)	203	(d)	874	(d)	203	
Prior quarter charge for change in estimate of sales, use and telecommunications tax	-	(e)	-	(e)	1,875	(e)	-	
Litigation settlement	-	(f)	-	(f)	-	(f)	500	
Acquisition-related costs	-	(g)	36	(g)	-	(g)	4,524	
Deferred tax benefit (provision) arising from tax impact of above items	(25)	(h)	(263)	(h)	89	(h)	(1,315)	
Non-GAAP net income (loss)	<u>\$ 3,382</u>		<u>\$ (210)</u>		<u>\$ (1,642)</u>		<u>\$ (1,426)</u>	
Non-GAAP net income (loss) per share:								
Basic (i)	<u>\$ 0.06</u>		<u>\$ (0.00)</u>		<u>\$ (0.03)</u>		<u>\$ (0.03)</u>	
Diluted	<u>\$ 0.06</u>		<u>\$ (0.00)</u>		<u>\$ (0.03)</u>		<u>\$ (0.03)</u>	
Shares used in computing net income (loss) per share:								
Basic (i)	<u>59,035</u>		<u>57,932</u>		<u>58,633</u>		<u>50,591</u>	
Diluted	<u>59,806</u>		<u>57,932</u>		<u>58,633</u>		<u>50,591</u>	

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

	2013	2012	2013	
(a) Excludes stock-based compensation included in:				
Cost of product revenue	\$ 12	\$ 26	\$ 110	\$ 132
Cost of hosted and related services revenue	71	37	188	37
Cost of support and services revenue	160	218	760	836
Research and development	311	790	2,789	3,614
Sales and marketing	456	925	2,921	4,031
General and administrative	694	965	3,837	3,993
	<u>\$ 1,704</u>	<u>\$ 2,961</u>	<u>\$ 10,605</u>	<u>\$ 12,643</u>
(b) Excludes amortization of acquisition-related intangibles included in:				
Cost of product revenue	\$ 268	\$ 260	\$ 1,054	\$ 890
Cost of hosted and related services	749	749	2,996	813
Sales and marketing	851	851	3,404	1,012
General and administrative	38	38	152	41
	<u>\$ 1,906</u>	<u>\$ 1,898</u>	<u>\$ 7,606</u>	<u>\$ 2,756</u>
(c) Excludes severance and other expense included in:				
Cost of hosted and related services	\$ -	\$ -	\$ 8	\$ -
Cost of support and services revenue	15	-	17	-
Research and development	136	-	235	-
Sales and marketing	560	-	1,379	-
General and administrative	1,334	-	1,372	-
	<u>\$ 2,045</u>	<u>\$ -</u>	<u>\$ 3,011</u>	<u>\$ -</u>
(d) Excludes interest charge from change in fair value of contingent consideration included in:				
Other expense	<u>\$ 52</u>	<u>\$ 203</u>	<u>\$ 874</u>	<u>\$ 203</u>
(e) Excludes prior quarter charge for change in estimate of sales, use and telecommunications tax recognized in the current quarter:				
Cost of hosted and related services	\$ -	\$ -	\$ 927	\$ -
General and administrative	-	-	948	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,875</u>	<u>\$ -</u>
(f) Excludes litigation settlement included in:				
General and administrative	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500</u>
(g) Excludes direct acquisition costs included in:				
Acquisition-related costs	<u>\$ -</u>	<u>\$ 36</u>	<u>\$ -</u>	<u>\$ 4,524</u>
(h) Excludes the deferred tax benefit (provision) arising from acquisition and tax impact of the items which are excluded in (a) to (g) above.				
(i) Potentially dilutive securities were not included in the calculation of diluted net loss per share for the periods which had a net loss because to do so would have been anti-dilutive.				

SHORETEL, INC.
RECONCILIATION OF GAAP TO NON-GAAP FOR Q1 PROJECTIONS
(Amounts in thousands)
(Unaudited)

Three Months Ending
September 30, 2013

GAAP gross profit %

Adjustments for stock-based compensation and acquisition-related intangible asset amortization

Non-GAAP gross profit %

High

Low

60.5%

59.5%

1.5%

1.5%

62.0%

61.0%

Total GAAP operating expenses

Adjustments for stock-based compensation and acquisition-related intangible asset amortization

Total non-GAAP operating expenses

\$ 54,000	\$ 53,000
\$ (4,000)	\$ (4,000)
<u>\$ 50,000</u>	<u>\$ 49,000</u>

Supplier: **ShoreTel Inc.**

STATE OF UTAH



SOLICITATION NO. JP14001

WSCA-NASPO Data Communications Products & Services

RESPONSES DUE NO LATER THAN:

Aug 30, 2013 11:00:00 AM MDT

RESPONSES MAY BE SUBMITTED ELECTRONICALLY TO:

www.bidsync.com

RESPONSES MAY BE MAILED OR DELIVERED TO:

State of Utah
Division of Purchasing
3150 State Office Building, Capitol Hill
Salt Lake City, Utah 84114-1061

Supplier: **ShoreTel Inc.**

State of Utah

Request for Proposal

Legal Company Name (include d/b/a if applicable) ShoreTel Inc	Federal Tax Identification Number 143020162	State of Utah Sales Tax ID Number 11572973-002-STC	
Ordering Address 960 Stewart Dr	City Sunnyvale	State CA	Zip Code 94085
Remittance Address (if different from ordering address)	City	State	Zip Code
Type ☒ Corporation ☐ Partnership ☐ Proprietorship ☐ Government ☐	Company Contact Person Holly Davis		
Telephone Number (include area code) 408-900-1195	Fax Number (include area code) 408-900-1195		
Company's Internet Web Address www.shoretel.com	Email Address hdavis@shoretel.com		
Discount Terms (for bid purposes, bid discounts less than 30 days will not be considered) net 45X	Days Required for Delivery After Receipt of Order (see attached for any required minimums)		
The undersigned certifies that the goods or services offered are produced, mined, grown, manufactured, or performed in Utah. Yes ☒ No ☐ . If no, enter where produced, etc.			
Offeror's Authorized Representative's Signature		Date	

Shane Harper	7/18/2013
Type or Print Name Shane Harper	Position or Title Director, Vertical Programs

NOTICE

When submitting a response (proposal, quote or bid) electronically through BidSync, it is the sole responsibility of the supplier to ensure that the response is received by BidSync prior to the closing date and time. Each of the following steps in BidSync MUST be completed in order to place an offer:

- A. Login to www.bidsync.com;
- B. Locate the bid (solicitation) to which you are responding;
 - a. Click the "Search" tab on the top left of the page;
 - b. Enter keyword or bid (solicitation) number and click "Search";
- C. Click on the "Bid title/description" to open the Bid (solicitation) Information Page;
- D. "View and Accept" all documents in the document section;
- E. Select "Place Offer" found at the bottom of the page;
- F. Enter your pricing, notes, other required information and upload attachments to this page;
- G. Click "Submit" at the bottom of the page;
- H. Review Offer(s); and
- I. Enter your password and click "Confirm".

Note that the final step in submitting a response involves the supplier's acknowledgement that the information and documents entered into the BidSync system are accurate and represent the supplier's actual proposal, quote or bid. This acknowledgement is registered in BidSync when the supplier clicks "Confirm". BidSync will post a notice that the offer has been received. This notice from BidSync MUST be recorded prior to the closing date and time or the response will be considered late and will not be accepted.

Be aware that entering information and uploading documents into BidSync may take considerable time. Please allow sufficient time to complete the online forms and upload documents. Suppliers should not wait until the last minute to submit a response. It is recommended that suppliers submit responses a minimum of 24 hours prior to the closing deadline. The deadline for submitting information and documents will end at the closing time indicated in the solicitation. All information and documents must be fully entered, uploaded, acknowledged (Confirm) and recorded into BidSync before the closing time or the system will stop the process and the response will be considered late and will not be accepted.

Responses submitted in BidSync are completely secure. No one (including state purchasing staff) can see responses until after the deadline. Suppliers may modify or change their response at any time prior to the closing deadline. However, all modifications or changes must be completed and acknowledged (Confirm) in the BidSync system prior to the deadline. BidSync will post a notice that the modification/change (new offer) has been received. This notice from BidSync MUST be recorded prior to the closing date and time or the response will be considered late and will not be accepted.

Utah Code 46-4-402(2) Unless otherwise agreed between a sender (supplier) and the recipient (State Purchasing), an electronic record is received when: (a) it enters an information processing system that the recipient has designated or uses for the purpose of receiving electronic records or information of the type sent and from which the recipient is able to retrieve the electronic record; and (b) it is in a form capable of being processed by that system.

REQUEST FOR PROPOSAL - INSTRUCTIONS AND GENERAL PROVISIONS

1. SUBMITTING THE PROPOSAL: (a) The Utah Division of Purchasing and General Services (DIVISION) prefers that proposals be submitted electronically. Electronic proposals may be submitted through a secure mailbox at BidSync (formerly RFP Depot, LLC) (www.bidsync.com) until the date and time as indicated in this document. It is the sole responsibility of the supplier to ensure their proposal reaches BidSync before the closing date and time. There is no cost to the supplier to submit Utah's electronic proposals via BidSync. (b) Electronic proposals may require the uploading of electronic attachments. The submission of attachments containing embedded documents is prohibited. All documents should be attached as separate files. (c) If the supplier chooses to submit the proposal directly to the DIVISION in writing: The proposal must be signed in ink, sealed, and delivered to the Division of Purchasing, 3150 State Office Building, Capitol Hill, Salt Lake City, UT 84114-1061 by the "Due Date and Time." The "Solicitation Number" and "Due Date" must appear on the outside of the envelope. All prices and notations must be in ink or typewritten. Each item must be priced separately. Unit price shall be shown and a total price shall be entered for each item offered. Errors may be crossed out and corrections printed in ink or typewritten adjacent and must be initialed in ink by person signing offer. Unit price will govern, if there is an error in the extension. Written offers will be considered only if it is submitted on the forms provided by the DIVISION. (d) Proposals, modifications, or corrections received after the closing time on the "Due Date" will be considered late and handled in accordance with the Utah Procurement Rules, section R33-3-209. (e) Facsimile transmission of proposals to DIVISION will not be considered.

2. PROPOSAL PREPARATION: (a) Delivery time of products and services is critical and must be adhered to as specified. (b) Wherever in this document an item is defined by using a trade name of a manufacturer and/or model number, it is intended that the words, "or equivalent" apply. "Or equivalent" means any other brand that is equal in use, quality, economy and performance to the brand listed as determined by the DIVISION. If the supplier lists a trade name and/or catalog number in the offer, the DIVISION will assume the item meets the specifications unless the offer clearly states it is an alternate, and describes specifically how it differs from the item specified. All offers must include complete manufacturer's descriptive literature if quoting an equivalent product. All products are to be of new, unused condition, unless otherwise requested in this solicitation. (c) Incomplete proposals may be rejected. (d) Where applicable, all proposals must include complete manufacturer's descriptive literature. (e) By submitting the proposal the offeror certifies that all of the information provided is accurate, that they are willing and able to furnish the item(s) specified, and that prices offered are correct. (f) This proposal may not be withdrawn for a period of 60 days from the due date.

3. FREIGHT COST: Suppliers are to provide line item pricing FOB Destination Freight Prepaid. Unless otherwise indicated on the contract/purchase order, shipping terms will be FOB Destination Freight Prepaid.

4. SOLICITATION AMENDMENTS: All changes to this solicitation will be made through written addendum only. Answers to questions submitted through BidSync shall be considered addenda to the solicitation documents. Bidders are cautioned not to consider verbal modifications.

5. PROTECTED INFORMATION: Suppliers are required to mark any specific information contained in their offer which they are claiming as protected and not to be disclosed to the public or used for purposes other than the evaluation of the offer. Each request for non-disclosure must be made by completing the "Confidentiality Claim Form" located at: <http://www.purchasing.utah.gov/contract/documents/confidentialityclaimform.doc> with a specific justification explaining why the information is to be protected. Pricing and service elements of any proposal will not be considered proprietary. All material becomes the property of the DIVISION and may be returned only at the DIVISION's option.

6. BEST AND FINAL OFFERS: Discussions may be conducted with offerors who submit proposals determined to be reasonably susceptible of being selected for award for the purpose of assuring full understanding of, and responsiveness to, solicitation requirements. Prior to award, these offerors may be asked to submit best and final offers. In conducting discussions, there shall be no disclosure of any information derived from proposals submitted by a competing offeror.

7. SAMPLES: Samples of item(s) specified in this offer, brochures, etc., when required by the DIVISION, must be furnished free of expense to the DIVISION. Any item not destroyed by tests may, upon request made at the time the sample is furnished, be returned at the offeror's expense.

8. AWARD OF CONTRACT: (a) The contract will be awarded with reasonable promptness, by written notice, to the responsible offeror whose proposal is determined to be the most advantageous to the DIVISION, taking into consideration price and evaluation factors set forth in the RFP. No other factors or criteria will be used in the evaluation. The contract file shall contain the basis on which the award is made. Refer to Utah Code Annotated 65-

56-408. (b) The DIVISION may accept any item or group of items, or overall best offer. The DIVISION can reject any or all proposals, and it can waive any informality, or technicality in any proposal received, if the DIVISION believes it would serve the best interests of the DIVISION. (c) Before, or after, the award of a contract the DIVISION has the right to inspect the offeror's premises and all business records to determine the offeror's ability to meet contract requirements. (d) The DIVISION will open proposals publicly, identifying only the names of the offerors. During the evaluation process, proposals will be seen only by authorized DIVISION staff and those selected by DIVISION to evaluate the proposals. Following the award decision, all proposals become public information except for protected information (see number 5 above). A register of proposals and contract awards are posted at <http://purchasing.utah.gov/vendor/bidtab.html>. (e) Estimated quantities are for bidding purposes only, and not to be interpreted as a guarantee to purchase any amount. (f) Utah has a reciprocal preference law which will be applied against offerors offering products or services produced in states which discriminate against Utah products. For details see Section 63G-6-404 and 63G-6-405, Utah Code Annotated. (g) Multiple contracts may be awarded if the DIVISION determines it would be in its best interest.

9. DEBRIEFING OF UNSUCCESSFUL OFFERORS:

State Purchasing does not conduct face to face or teleconference debriefings. All debriefings are to be conducted in writing. A debrief request must be submitted in writing to the Purchasing Agent within seven (7) calendar days of the award notification or rejection notification made through written correspondence or posted on BidSync. The debrief response will be limited to critiquing the strength/weakness of an offeror's proposal based on the evaluation criteria. The debriefing is intended as a courtesy to offerors, providing feedback to be used for future opportunities. Comparisons between proposals or evaluations of other proposals will not be allowed.

10. DIVISION APPROVAL: Contracts written with the State of Utah, as a result of this proposal, will not be legally binding without the written approval of the Director of the DIVISION.

11. DEBARMENT: The CONTRACTOR certifies that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction (contract) by any governmental department or agency. If the CONTRACTOR cannot certify this statement, attach a written explanation for review by the DIVISION.

12. ENERGY CONSERVATION AND RECYCLED PRODUCTS: The contractor is encouraged to offer Energy Star certified products or products that meet FEMP (Federal Energy Management Program) standards for energy consumption. The State of Utah also encourages contractors to offer products that are produced with recycled materials, where appropriate, unless otherwise requested in this solicitation.

13. GOVERNING LAWS AND REGULATIONS: All State purchases are subject to the Utah Procurement Code, Title 63 Chapter 56 U.C.A. 1953, as amended, and the Procurement Rules as adopted by the Utah State Procurement Policy Board. These are available on the Internet at www.purchasing.utah.gov. By submitting a bid or offer, the bidder/offeror warrants that the bidder/offeror and any and all supplies, services equipment, and construction purchased by the State shall comply fully with all applicable Federal and State laws and regulations, including applicable licensure and certification requirements.

14. SALES TAX ID NUMBER: Utah Code Annotated (UCA) 59-12-106 requires anyone filing a bid with the state for the sale of tangible personal property or any other taxable transaction under UCA 59-12-103(1) to include their Utah sales tax license number with their bid. For information regarding a Utah sales tax license see the Utah State Tax Commission's website at www.tax.utah.gov/sales. The Tax Commission is located at 210 North 1950 West, Salt Lake City, UT 84134, and can be reached by phone at (801) 297-2200.

(Revision Date: 05 Nov 2012 - RFP Instructions)