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CLERK U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
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13 UNITED STATES DISTRICT COURT
14 NORTHERN DISTRICT OF CALIFORNIA

CRB

15 WILLIAM WATKINS, Individually and
16 on Behalf of All Others Similarly Situated, **CV 08**

Case No: **0271**

17 Plaintiff,)

CLASS ACTION COMPLAINT FOR
VIOLATIONS OF FEDERAL
SECURITIES LAWS

18 v.)

19 SHORETEL, INC., JOHN W. COMBS,)
20 MICHAEL E. HEALY, EDWIN J. BASART,)
21 GARY J. DAICHENDT, THOMAS VAN)
22 OVERBEEK, KENNETH D. DENMAN,)
23 CHARLES D. KISSNER, EDWARD F.)
24 THOMPSON, LEHMAN BROTHERS, INC.,)
25 J.P. MORGAN SECURITIES, INC. and)
26 PIPER JAFFRAY & CO.,)

JURY TRIAL DEMANDED

23 Defendants.)

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I. NATURE OF THE ACTION

1. This is a class action brought on behalf of the purchasers of ShoreTel, Inc. ("ShoreTel" or the "Company") common stock pursuant to the July 3, 2007 Initial Public Offering ("IPO" or the "Offering") of 9.085 million shares of common stock. In connection with this Offering – of which 7.9 million shares were sold in the IPO and 1.185 million shares were sold pursuant to an oversubscription option granted to the IPO underwriters – Defendants raised gross proceeds of at least \$86.3075 million.

2. ShoreTel, its entire Board of Directors, its Chief Financial Officer and the Underwriters involved in the Offering (including, Lehman Brothers, Inc., J.P. Morgan Securities, Inc. and Piper Jaffray & Co.), are each charged with including or allowing the inclusion of materially false and misleading statements in the Registration Statement and Prospectus issued in connection with the IPO, in direct violation of the Securities Act of 1933. Furthermore, Defendants each failed to conduct an adequate due diligence investigation into the Company prior to the IPO, and they also each failed to reveal, at that time of the IPO, that the Company was not operating according to plan and that ShoreTel's sales already had been, and foreseeably would continue to be, adversely affected as a result of a slow-down in demand for ShoreTel products and services.

3. It was not until January 7, 2008, however, that investors learned the truth about the Company – including that the problems which existed at the time of the IPO would result in extremely disappointing results for the third quarter of fiscal 2008 (the period ended December 31, 2007), including much lower than expected revenues and higher than expected costs and expenses. In addition, by this time, it became obvious to investors that the Company did not maintain adequate internal controls, and that a proper due diligence investigation into the Company, by the Underwriters, was not properly carried out prior to the Offering.

4. Following the publication of these disappointing results the price of ShoreTel stock collapsed. As evidence of this, shares of ShoreTel fell over 50% in a single trading day – plummeting from a close of over \$13.00 per share the prior trading day, to a close of \$6.02 per share on January 7, 2008. ShoreTel also experienced exceptionally heavy trading volume with over 6 million shares traded – over thirty times the Company's recent average daily trading volume.

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II. JURISDICTION AND VENUE

5. The claims asserted herein arise under §§ 11 and 15 of the Securities Act of 1933 (the “Securities Act”).

6. Jurisdiction is conferred by § 22 of the Securities Act.

7. Venue is proper pursuant to § 22 of the Securities Act, as Defendant ShoreTel and/or the Individual Defendants and Underwriter Defendants – Lehman Brothers, Inc., J.P. Morgan Securities, Inc. and Piper Jaffray & Co. – are located in this District, maintain offices in this District and conduct business in this District.

8. In addition to the foregoing, the wrongful conduct complained of herein substantially took place in this District.

9. Intradistrict Assignment: Assignment to the San Jose division of this Court is appropriate because Defendants’ headquarters and principal place of business is in Sunnyvale, California. Because the action arises in the County of Santa Clara, pursuant to Northern District of California Local Rule 3-2(d), assignment to the San Jose Division is proper.

III. THE PARTIES

A. Plaintiff

10. Plaintiff **WILLIAM WATKINS** purchased shares of ShoreTel common stock pursuant and/or traceable to the Company’s materially false and misleading Registration Statement and Prospectus issued by defendants in connection with the July 2007 IPO, including those shares detailed in the attached Certification, incorporated herein by reference, and was damaged thereby.

B. Corporate Defendants

11. Defendant **SHORETEL** is a Delaware corporation founded in 1996 and headquartered in Sunnyvale, California. ShoreTel and its subsidiaries provide switch-based Internet protocol (IP) telecommunications systems primarily for domestic enterprises. 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. ShoreTel sells its systems through a network of 470 channel partners.

1 12. The individuals identified as Defendants in subparagraphs (a) - (d) below, are referred
2 to collectively herein as the "Individual Defendants." The Individual Defendants are each liable for
3 the false statements contained in the materially false and misleading Registration Statement and joint
4 Prospectus, as alleged herein, as those statements were "group-published" information. The
5 Individual Defendants include the following:

6 a) Defendant **JOHN W. COMBS** ("Combs") is, and at the time of the July 2007
7 IPO was, Chairman of the Board of Directors, Chief Executive Officer, President and Co-Founder of
8 ShoreTel. Defendant Combs signed the materially false and misleading Registration Statement and
9 filed with the SEC the materially false and misleading Prospectus issued in connection with the IPO.

10 b) Defendant **MICHAEL E. HEALY** ("Healy") is, and at the time of the July
11 2007 IPO was, Chief Financial Officer and Principal Accounting Officer of the Company.
12 Defendant Healy substantially assisted in the preparation of the materially false and misleading
13 Registration Statement and filed with the SEC the materially false and misleading Prospectus issued
14 in connection with the IPO.

15 c) Defendant **EDWIN J. BASART** ("Basart") is, and at the time of the July
16 2007 IPO was, a Founder of the Company, its Chief Technology Officer and a member of the Board
17 of Directors of ShoreTel. Defendant Basart signed the materially false and misleading Registration
18 Statement and filed with the SEC the materially false and misleading Prospectus issued in connection
19 with the IPO.

20 d) The defendants identified below are, and at the time of the July 2007 IPO
21 were, members of the Board of Directors of the Company, and signed the materially false and
22 misleading Registration Statement and filed with the SEC the materially false and misleading
23 Prospectus issued in connection with the IPO, as follows: **GARY J. DAICHENDT** ("Daichendt"),
24 **KENNETH D. DENMAN** ("Denman"), **CHARLES D. KISSNER** ("Kissner"), **THOMAS VAN**
25 **OVERBEEK** ("Overbeek"), and **EDWARD F. THOMPSON** ("Thompson").

26 **C. IPO Underwriter Defendants**

27 13. In connection with the July 2007 ShoreTel Initial Public Offering, defendants
28 **LEHMAN BROTHERS, INC.** ("Lehman Bros."), **J.P. MORGAN SECURITIES, INC.** ("J.P.

1 Morgan”) and **PIPER JAFFRAY & CO.** (“Piper Jaffray”), are each investment banks that acted as
 2 Underwriters and/or Lead Underwriters of the Offering – distributing 7.9 million shares of ShoreTel
 3 stock to investors and initiating the first public market for ShoreTel shares (not including 1.805
 4 million shares sold pursuant to an oversubscription option), as follows:

Underwriters	Number of Shares
Defendant Underwriter Lehman Brothers Inc.	2,765,000
Defendant Underwriter J.P. Morgan Securities Inc.	2,765,000
Defendant Underwriter Piper Jaffray & Co.	1,185,000
Non-Defendant Underwriter: JMP Securities LLC	592,500
<u>Non-Defendant Underwriter: Wedbush Morgan Securities Inc.</u>	<u>592,500</u>
Total	7,900,000

11 14. In connection with the July 2007 IPO, the Underwriter Defendants were paid over
 12 \$6.04 million in gross fees – paid indirectly by purchasers of the Company’s shares. The
 13 Underwriter Defendants were paid at least \$0.665 per share in connection with the sale of the 9.085
 14 million shares, including shares sold pursuant to the exercise of the Underwriter’s over-subscription
 15 option, as follows:

	No Exercise	Full Exercise
Per share	\$0.665	\$0.665
Total	\$5,253,500	\$6,041,525

19 15. Shareholders were willing to, and did, pay over \$6.041 million in combined fees to
 20 compensate the Underwriter Defendants for conducting a purported significant “due diligence”
 21 investigation into ShoreTel in connection with the IPO. The Underwriter Defendants’ due diligence
 22 investigation was a critical component of the Initial Public Offering, and was supposed to provide
 23 investors with important safeguards and protections.

24 16. The due diligence investigation that was required by the Underwriter Defendants
 25 included a detailed investigation into ShoreTel sales, accounting, controls, procedures and also
 26 required defendants to test the assumptions and verify the projections adopted or ratified by
 27 defendants, to the extent a reasonable investor with access to such confidential corporate information
 28

1 would. A reasonable due diligence investigation would have extended well beyond a mere casual
2 review of ShoreTel books and records, and its accounting, financial reports and operational and
3 financial controls. The failure of the Underwriter Defendants to conduct an adequate due diligence
4 investigation was a substantial contributing factor leading to the harm complained of herein.

5 17. In addition to the foregoing, because of the Underwriter Defendants' and Individual
6 Defendants' positions with the Company, they each had access to the adverse undisclosed
7 information about ShoreTel's business, operations, products, operational trends, financial statements,
8 markets and present and future business prospects via access to internal corporate documents
9 (including the Company's operating plans, budgets and forecasts and reports of actual operations
10 compared thereto), conversations and connections with other corporate officers and employees,
11 attendance at management and Board of Directors meetings and committees thereof and via reports
12 and other information provided to them in connection therewith.

13 18. In addition to the Underwriting Defendants, it is also appropriate to treat the
14 Individual Defendants as a group for pleading purposes and to presume that the false, misleading and
15 incomplete information conveyed in the Company's public filings, press releases and other
16 publications as alleged herein are the collective actions of the narrowly defined group of defendants
17 identified above. Each of the Individual Defendants, by virtue of their high-level positions with the
18 Company, directly participated in the management of the Company, was directly involved in the
19 day-to-day operations of the Company at the highest levels and was privy to confidential proprietary
20 information concerning the Company and its business, operations, products, growth, financial
21 statements, and financial condition, as alleged herein. Accordingly, the Individual Defendants were
22 also involved in drafting, producing, reviewing and/or disseminating the false and misleading
23 statements and information alleged herein, and approved or ratified these statements, in violation of
24 the federal securities laws.

25 19. As officers and controlling persons of a publicly-held company whose common stock
26 was, and is, registered with the SEC pursuant to the Exchange Act, and was traded on the Nasdaq
27 stock market exchange (the "Nasdaq"), and governed by the provisions of the federal securities laws,
28 the Individual Defendants each had a duty to disseminate promptly, accurate and truthful

1 information with respect to the Company's financial condition and performance, growth, operations,
2 financial statements, business, products, markets, management, earnings and present and future
3 business prospects, and to correct any previously-issued statements that had become materially
4 misleading or untrue, so that the market price of the Company's publicly-traded common stock
5 would be based upon truthful and accurate information. The Individual Defendants'
6 misrepresentations and omissions made in connection with the issuance of common stock in July
7 2007, violated these specific requirements and obligations.

8 20. The Individual Defendants, because of their positions of control and authority as
9 officers and/or directors of the Company, were able to and did control the content of the various SEC
10 filings, press releases and other public statements pertaining to the Company at the time of the
11 Offering. Each Individual Defendant was provided with copies of the documents alleged herein to
12 be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to
13 prevent their issuance or cause them to be corrected. Accordingly, each of the Individual
14 Defendants is responsible for the accuracy of the public reports and releases detailed herein and are
15 therefore primarily liable for the representations contained therein.

16 **IV. MATERIALLY FALSE & MISLEADING STATEMENTS**
17 **IN THE REGISTRATION STATEMENT AND PROSPECTUS**

18 21. On July 3, 2007, ShoreTel published a release announcing that defendants had priced
19 the Initial Public Offering of its shares at \$9.50 per share. This release stated, in part, the following:

20 SUNNYVALE, CA, July 3, 2007 - ShoreTel, Inc., a leading provider of enterprise
21 IP telephony solutions, today announced the pricing of its initial public offering of
22 7,900,000 shares of its common stock at a price to the public of \$9.50 per share. In
addition, ShoreTel® has granted the underwriters a 30-day option to purchase up to
an additional 1,185,000 shares of common stock. ShoreTel's common stock will
trade on the Nasdaq Global Market under the ticker "SHOR".

23 Lehman Brothers Inc. and J.P. Morgan Securities Inc. are acting as joint book-
24 running managers for the offering, and Piper Jaffray & Co., JMP Securities LLC,
and Wedbush Morgan Securities Inc. are acting as co-managers.

25 The offering is being made only by means of a prospectus, a copy of which may be
26 obtained from the prospectus department of Lehman Brothers Inc., c/o Broadridge,
1155 Long Island Avenue, Edgewood, NY 11717 (fax: 1-631-254-7140, or e-mail at
27 qiana.smith@broadridge.com) or from J.P. Morgan Securities Inc., 4 Chase
Metrotech Center, CS Level; Brooklyn, New York 11245 (telephone: 1-866-430-
28 0686).

22. The same day, on Form 424B4, defendants also filed with the SEC a Registration Statement in connection with the ShoreTel IPO. The IPO Registration Statement and Prospectus portrayed ShoreTel as a company that had experienced – and was continuing to experience – significant growth in revenues, earning, gross margins and other positive key financial and operational metrics. As evidence of this, the Registration Statement stated, in part, the following:

We have experienced significant growth in recent periods, with our total revenue growing from \$18.8 million for 2004 to \$61.6 million for 2006. This growth in revenue has largely been driven by increased demand for IP telecommunications systems from new enterprise customers, as well as sales of additional products to our installed enterprise customer base. Our operating expenses have also increased significantly from \$15.7 million for 2004 to \$30.4 million for 2006. This growth in operating expenses has primarily been driven by our growth in headcount, from 76 employees at June 30, 2004 to 174 employees at June 30, 2006, and to 250 employees at March 31, 2007. We expect to continue to add personnel in all functional areas, including additional sales and support personnel... [Emphasis added.]

23. The statements concerning the Company's recent growth trends were further confirmed by the selected financial statements that defendants included in ShoreTel's Registration Statement that focused on purported substantial recent gains in Net Income, Revenue, Net Cash and Gross Profit, in addition to other key financial metrics, in part, as follows:

CONSOLIDATED STATEMENTS OF CASH FLOWS (Dollars in thousands)	Year Ended June 30,			Nine Months Ended March 31,	
	2004	2005	2006	2006	2007
				(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	\$(6,251)	\$(1,402)	\$4,002	\$ 2,332	\$ 4,188
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Accounts payable	1,199	1,020	809	(1,066)	3,780
Deferred revenue	1,167	2,841	1,505	937	5,398
[Data Omitted]	***	***	***	***	***
Net cash provided by (used in) operating activities	(5,392)	(4,957)	7,266	4,525	5,039

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended June 30,			Nine Months Ended March 31,	
	2004	2005	2006	2006	2007
	(Unaudited)				
	(Dollars in thousands, except per share amounts)				
REVENUE:					
Product	\$ 16,587	\$ 31,970	\$ 55,300	\$ 37,972	\$ 61,473
Support and services	2,241	3,512	6,308	4,552	7,431
	18,828	35,482	61,608	42,524	68,904
COST OF REVENUE:					
Product	7,725	13,961	21,855	15,723	21,271
Support and services	1,660	2,907	5,425	3,942	4,853
	9,385	16,868	27,280	19,665	26,124
GROSS PROFIT	9,443	18,614	34,328	22,859	42,780

24. In addition to the foregoing, the IPO Registration Statement and Prospectus also reported that defendants continually tested and monitored these key financial metrics, and that all known or foreseeable trends regarding the Company's business was disclosed at the time of the July 2007 IPO. As evidence of this, the ShoreTel IPO Prospectus also stated, in part, the following:

Key Business Metrics

We monitor a number of key metrics to help forecast growth, establish budgets, measure the effectiveness of sales and marketing efforts and measure operational effectiveness.

Initial and repeat sales orders....

Deferred revenue....

Gross margin....

Operating expense management....

[Emphasis added.]

25. The representations concerning the Company's ability to monitor, adjust and report key financial metrics at the time of the July 2007 IPO was especially important to ShoreTel investors because, at the time of the Offering, ShoreTel had reported that certain internal control deficiencies had been detected. As evidence of this, the IPO Registration Statement stated, in part, the following:

Internal Control Over Financial Reporting

In connection with the audit of our financial statements for the six-month period ended December 31, 2006, our independent registered public accounting firm noted

1 in their report to our audit committee that we have material weaknesses and
2 significant deficiencies in our internal control over financial reporting as of
3 December 31, 2006 that could, if not remedied, affect our ability to record, process
and report financial data. In their report, our independent registered public
accounting firm has noted two specific material weaknesses:

- 4 • we do not have a sufficient number of accounting personnel with the
5 relevant technical accounting and financial reporting experience and skills to
6 facilitate the preparation of timely and accurate consolidated financial
statements; and
- 7 • we do not have sufficient internal controls related to the identification of all
8 products and services associated with a sales arrangement, including
9 commitments made by our sales and marketing personnel and channel
partners to provide specified upgrades, services or additional products to
customers in the future, including through product roadmap presentations to
customers.

10 If VSOE of fair value does not exist for commitments to provide specified upgrades,
11 services or additional products to customers in the future, as has been the case from
12 time to time in the past, we defer all revenue from the arrangement until the earlier
of the point at which VSOE of fair value does exist or all such elements from the
arrangement have been delivered.

13 In addition to the material weaknesses noted by our independent registered public
14 accounting firm, the following two significant deficiencies in the design or
operation of our internal control over financial reporting were also noted:

- 15 • we do not accurately maintain data sufficient to readily track and validate the
16 existence of fixed assets and we have no formal procedures in place to
ensure that fixed assets continue to be held and used;
- 17 • we do not have adequate procedures for identifying and recording period-
end accrued expenses and in-transit inventory.

18 These material weaknesses and significant deficiencies resulted in a number of audit
19 adjustments to our consolidated financial statements for the six-month period ended
20 December 31, 2006 that were noted during the course of the audit. In addition, these
material weaknesses and significant deficiencies contributed to delays in the
completion of our financial statements.

21 26. In addition to the foregoing, the IPO Registration Statement also stated that
22 defendants had already taken material steps reasonably believed to be sufficient to cure such control
23 and procedure deficiencies, in part, as follows:

24 We are in the process of taking steps intended to remedy these material weaknesses
25 and significant deficiencies. Since both material weaknesses relate at least in part to
26 inadequate staffing, we are addressing them through the hiring of additional
27 personnel. We hired a new Chief Financial Officer in May 2007, and we are
28 currently seeking to hire a Corporate Controller, a Revenue Accounting Manager
and other finance and accounting personnel. Further, we expect that our former
Chief Financial Officer, John Finegan, will be actively employed as our Vice
President of Finance for an indefinite period as new staff members are hired and
integrated.

1 To further address the material weakness related to the proper accounting for sales
2 arrangements containing future commitments, we are implementing additional
3 procedures and training programs for all personnel involved in the selling and
4 marketing of our products and services and in the preparation of our financial
5 statements. We have also analyzed product roadmaps used for sales presentations to
6 determine when or if a specified upgrade right has been provided to a customer
7 notwithstanding that a contract does not explicitly provide for that right. For sales
8 prior to March 31, 2007, we identified a few instances in which we created specified
9 upgrade or enhancement rights as a result of these roadmap presentations. However,
10 these were not significant to our results of operations or financial statements. We are
11 continuing to analyze our product roadmap presentations used in connection with
12 sales made subsequent to March 31, 2007. If it is subsequently determined that these
13 presentations resulted in commitments for specified upgrades or enhancements, we
14 would be required to defer the recognition of revenue attributable to such sales until
15 such commitments had been satisfied.

16 27. The statements made by defendants and contained in the Company's Registration
17 Statement and Prospectus, were materially false and misleading at the time of the July 2007 IPO for,
18 among other reasons, the following:

19 a) At the time of the IPO, the Company was already evidencing a deterioration
20 across its product line, such that ShoreTel was no longer operating according to plan and such that it
21 was foreseeable that the Company would not be able to achieve earnings, revenue, profits or gross
22 margin projections made by defendants at the time of the Offering;

23 b) At the time of the IPO, in an effort to mask reduction in demand and declines
24 in sales, defendants prematurely recognized revenues by pulling sales forward into earlier periods
25 and by stuffing its distribution channel with excess products and inventory – more than could
26 foreseeably be used in the near term – and had taken other measures designed to further prematurely
27 recognizing revenues by draining sales from consecutive periods;

28 c) At the time of the IPO, in addition to the reported control deficiencies that
29 existed within the Company, it is now obvious that ShoreTel did not maintain even the minimum
30 standards of good Corporate Governance or controls and procedures that were reasonably necessary
31 to conduct operations, as is required by the SEC and the Company's own internal guidelines and
32 standards of business conduct;

33 d) As a result of the foregoing undisclosed problems that existed at the time of
34 the July 2007 ShoreTel IPO, and thereafter throughout the relevant period, guidance sponsored

1 and/or endorsed by defendants was not reasonable or based on the true facts that existed at that time;
2 and

3 e) At the time of the July 2007 IPO, defendants had not conducted an adequate
4 due diligence investigation into ShoreTel, that would have revealed many of the issues, and that
5 would most likely have prevented the sale of this Company to shareholders through the public equity
6 markets at that time, or at the inflated price at which these shares were originally sold.

7 28. In addition to the materially false and misleading statements contained in the
8 Registration Statement and joint Prospectus, in recognition of the purported success of the ShoreTel
9 IPO, on July 17, 2007, the Company filed with the SEC pursuant to Form 8-K, a notice of increased
10 bonuses and compensation of certain officers that stated, in part, the following:

11 Item 5.02. Re: Compensatory Arrangements of Certain Officers.

12 **Approval of Executive Bonus Plan for First Half of Fiscal Year 2008.**

13 On July 11, 2007, the Compensation Committee (the "Committee") of the Board of
14 Directors of ShoreTel, Inc. (the "Company") approved the *Executive Bonus Plan*
15 for the first six months of fiscal year 2008 (the "Plan"). Individuals who are deemed
16 to be "officers" of the Company for purposes of Section 16 of the Securities
17 Exchange Act of 1934, as amended ("Executive Officers"), including each of the
18 Company's named executive officers, are *eligible to receive cash awards following*
19 *December 31, 2007, based upon the attainment of performance objectives*
20 *established by the Committee for the six-month period*, the size of the bonus pool
21 and each participant's performance rating. The performance objectives under the
22 Plan consist of pre-defined ranges of: (i) revenue; (ii) non-GAAP operating profit;
23 and (iii) customer satisfaction, based on scores from the Company's satisfaction
24 surveys. The bonus pool is equal to the product of (a) a percentage determined
25 under the Plan, based on the extent to which all three performance objectives are
26 achieved within the pre-defined ranges established by the Committee, multiplied by
27 (b) a dollar amount equal to 45% times the sum of each participant's base salary six-
28 month period, except for the CEO, a dollar amount equal to 85% of the CEO's base
salary for the six-month period. Each participant's performance rating depends on
the participant's achievement of pre-defined individual performance goals and
objectives established for the participant by the Committee, and may be adjusted by
the Committee to reflect his or her achievement relative to the achievement of other
participants.

Under the Plan, the bonus target for the Company's Chief Executive Officer is
currently 85% of his base salary, and the target bonus is 45% of base salary for
other Executive Officers. The maximum cash award any participant may receive
under the Plan is 225% of that participant's target bonus, although total payments
under the Plan cannot exceed the bonus pool.

[Emphasis added.]

1 CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
2 PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15(d) -14(a), AS ADOPTED
3 PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

- 4 1. I have reviewed this annual report on Form 10-K of ShoreTel, Inc.;
- 5 2. Based on my knowledge, this report does not contain any untrue statement of a
6 material fact or omit to state a material fact necessary to make the statements
7 made, in light of the circumstances under which such statements were made,
8 not misleading with respect to the period covered by this report;
- 9 3. *Based on my knowledge, the financial statements, and other financial
10 information included in this report, fairly present in all material respects the
11 financial condition, results of operations and cash flows of the registrant as
12 of, and for, the periods presented in this report;*
- 13 4. The registrant's other certifying officer(s) and I are responsible for
14 establishing and maintaining disclosure controls and procedures (as defined in
15 Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
- 16 a. *Designed such disclosure controls and procedures, or caused such
17 disclosure controls and procedures to be designed under our supervision,
18 to ensure that material information relating to the registrant, including its
19 consolidated subsidiaries, is made known to us by others within those
20 entities, particularly during the period in which this report is being
21 prepared;*
- 22 b. *Evaluated the effectiveness of the registrant's disclosure controls and
23 procedures and presented in this report our conclusions about the
24 effectiveness of the disclosure controls and procedures, as of the end of the
25 period covered by this report based on such evaluation; and*
- 26 c. Disclosed in this report any change in the registrant's internal control over
27 financial reporting that occurred during the registrant's fourth fiscal quarter
28 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.

27 Date: Sept. 27, 2007 /s/ JOHN W. COMBS

28 John W. Combs

1 Chairman, President and Chief Executive Officer
2 (Principal Executive Officer)

3 Date: Sept. 27, 2007 /s/ MICHAEL E. HEALY

4 Michael E. Healy
5 Chief Financial Officer
(Principal Accounting and Financial Officer)

6 **CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
7 **PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
8 **SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

9 I, John W. Combs, certify, pursuant to 18 U.S.C. Section 1350, as adopted
10 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report
11 on Form 10-K of ShoreTel, Inc. for the year ended June 30, 2007 fully complies
12 with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of
13 1934 and that *information contained in such Annual Report on Form 10-K fairly*
14 *presents in all material respects the financial condition and results of operations*
15 *of ShoreTel, Inc.*

16 Dated: Sept. 27, 2007 By: /s/ JOHN W. COMBS

17 Name: John W. Combs
18 Title: Chairman, President and Chief Exec. Officer
19 (Principal Executive Officer)

20 **CERTIFICATION OF CHIEF FINANCIAL OFFICER**
21 **PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED**
22 **PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

23 I, Michael E. Healy, certify, pursuant to 18 U.S.C. Section 1350, as adopted
24 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report
25 on Form 10-K of ShoreTel, Inc. for the year ended June 30, 2007 fully complies
26 with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of
27 1934 and that *information contained in such Annual Report on Form 10-K fairly*
28 *presents in all material respects the financial condition and results of operations*
of ShoreTel, Inc.

Dated: Sept. 27, 2007 By: /s/ MICHAEL E. HEALY

Name: Michael E. Healy
Title: Chief Financial Officer
(Principal Accounting and Financial Officer)

[Emphasis added.]

32. As further evidence of the purported success of the Company's July 2007 IPO, on
October 29, 2007, when defendants reported results for the first quarter of fiscal 2008, the period
ended September 30, 2007, the Company published a release that also stated, in part, the following:

1 the result of *“the unwillingness of selling stockholders to sell under the current capital market*
2 *conditions.”*

3 37. Thereafter, to further assure investors that the Company was operating according to
4 plan, on December 5, 2007, ShoreTel also published a release announcing that it had been selected –
5 by a subsidiary of its own outside auditors, Deloitte & Touche – as among the “2007 Deloitte
6 *Technology Fast 500.*” At that time, the Company published a release that stated, in part, the
7 following:

8 **ShoreTel Named to 2007 Deloitte Technology Fast 500**

9 **ShoreTel Grows 759 Percent Over Five Years**

10 SUNNYVALE, CA, December 5, 2007 - ShoreTel, Inc., (NASDAQ: SHOR), a
11 leading provider of Pure IP Unified Communications solutions, today announced it
12 has been named to the Deloitte Technology Fast 500, a ranking of the fastest
13 growing technology, media, telecommunications and life sciences companies in
14 North America based on fiscal year revenue growth over a five-year period from
2002 through 2006. ShoreTel revenues grew from just over \$7 million in 2002 to
more than \$61 million in 2006, an increase of 759 percent. The company was
ranked 216 out of 500 companies.

15 *“ShoreTel is delivering on the promise of unified communications for the*
16 *enterprise,” said Steve Timmerman, vice president of marketing at ShoreTel.*
“Our phenomenal growth is the direct result of great products, top-notch channel
partners, and an absolute dedication to customer satisfaction.”

17 *Two recent announcements demonstrate ShoreTel’s continuing momentum....*
18 [*Emphasis added.*]

19 **V. THE TRUE FINANCIAL AND OPERATIONAL CONDITION OF**
20 **SHORETEL IS BELATEDLY DISCLOSED**

21 38. On January 7, 2008, over 6.0 million shares of ShoreTel traded – over 20 times
22 average daily trading volume – and Company shares plummeted – falling over 50% – after
23 defendants reported results for the second quarter of fiscal 2008 that were well below plan. At that
24 time, defendants revealed that, for the quarter ended December 31, 2007, the Company would post
25 revenues almost 20% lower than analysts’ consensus estimates. At that time, defendants first
26 belatedly revealed that sales to new customers were substantially lower than expected, and that sales
to existing customers was not sufficient to offset these declines.

27 39. The huge decline in the price of Company shares was evidence that investors
28 concluded that defendants had used existing customers to mask declines in new customer sales, and

1 that the sudden shortfall in sales was the belated admission that the sales channels could no longer
2 support the Company's excessive inventory, and that defendants could no longer hide declining
3 demand and slowed sales.

4 40. As investors realized after the publication of these shocking and belated adverse
5 admissions, the true but undisclosed negative conditions that existed at the time of the July 2007
6 IPO, and that continued to adversely impact the Company after that time included, in part, the
7 following:

8 a) At the time of the IPO, the Company was already evidencing a deterioration
9 across its product line, such that ShoreTel was no longer operating according to plan and such that it
10 was foreseeable that the Company would not be able to achieve earnings, revenue, profits or gross
11 margin projections made by defendants at the time of the Offering;

12 b) At the time of the IPO, in an effort to mask reduction in demand and declines
13 in sales, defendants prematurely recognized revenues by pulling sales forward into earlier periods
14 and by stuffing its distribution channel with excess products and inventory – more than could
15 foreseeably be used in the near term – and had taken other measures designed to further prematurely
16 recognizing revenues by draining sales from consecutive periods;

17 c) At the time of the IPO, in addition to the reported control deficiencies that
18 existed within the Company, it is now obvious that ShoreTel did not maintain even the minimum
19 standards of good Corporate Governance or controls and procedures that were reasonably necessary
20 to conduct operations, as is required by the SEC and the Company's own internal guidelines and
21 standards of business conduct;

22 d) As a result of the foregoing undisclosed problems that existed at the time of
23 the July 2007 ShoreTel IPO, and thereafter throughout the relevant period, guidance sponsored
24 and/or endorsed by defendants was not reasonable or based on the true facts that existed at that time;
25 and

26 e) At the time of the July 2007 IPO, defendants had not conducted an adequate
27 due diligence investigation into ShoreTel, that would have revealed many of the issues, and that
28

1 would most likely have prevented the sale of this Company to shareholders through the public equity
2 markets at that time, or at the inflated price at which these shares were originally sold.

3 **VI. CAUSATION AND ECONOMIC LOSS**

4 41. In connection with the July 2007 ShoreTel IPO, defendants signed a materially false
5 and misleading Registration Statement and filed with the SEC and made available to shareholders a
6 materially false and misleading Prospectus. These filings were essential in allowing defendants to
7 complete the Initial Public Offering of 9.085 million ShoreTel shares and raised over \$86.0 million,
8 and to create a public market for trading in Company stock, immediately thereafter.

9 42. On January 7, 2008, when defendants' prior misrepresentations and illegal and
10 improper conduct came to be revealed and was apparent to investors, shares of ShoreTel declined
11 precipitously – evidence that the prior artificial inflation in the price of Company shares was
12 eradicated. As a result of their purchases of ShoreTel stock in connection with the IPO, including
13 those who purchase shares traceable to the Offering in the public markets immediately thereafter,
14 plaintiff and other members of the Class suffered economic losses, i.e. damages under the federal
15 securities laws.

16 43. By improperly characterizing the Company's financial results and misrepresenting its
17 prospects, the defendants presented a misleading image of ShoreTel's business and future growth
18 prospects. Within the IPO Prospectus and Registration Statement, defendants repeatedly
19 emphasized the ability of the Company to continue to generate revenues, earnings, profits, expenses
20 and gross margins within expectations sponsored and/or endorsed by defendants. These claims
21 caused and maintained the artificial inflation in ShoreTel's stock at the time of the July 2007 IPO,
22 and thereafter until the truth about the Company was ultimately revealed to investors.

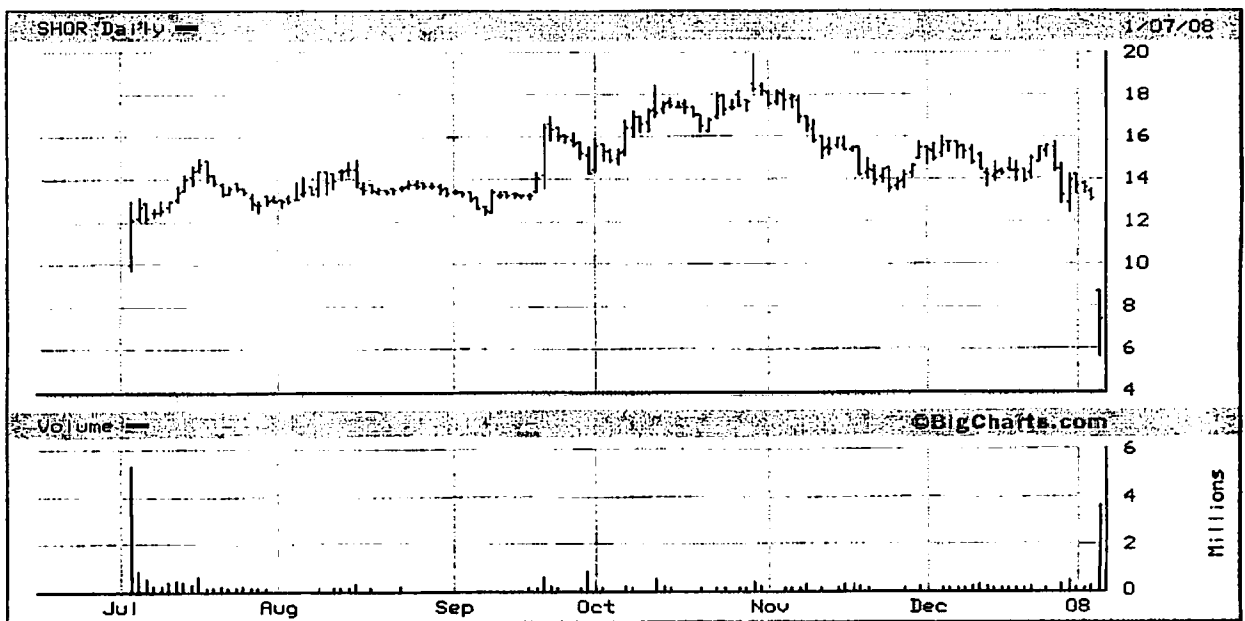
23 44. Defendants' false and materially misleading statements caused ShoreTel shares to
24 trade at artificially inflated levels from the time of the IPO, when they were offered at \$9.50 per
25 share, until such shares reached an all-time record trading high of almost \$20.00 per share in October
26 2007.

27 45. On January 7, 2008, however, as investors learned the truth about the Company, and
28 learned that defendants could not operate the Company according to plan and that ShoreTel was

1 operating well below guidance – which conditions were or should have been obvious to defendants
2 at the time of the July 2007 IPO – shares of the Company collapsed. Defendants’ belated disclosures
3 had an immediate, adverse impact on the price of ShoreTel shares.

4 46. These belated revelations also evidenced defendants’ prior misrepresentation of
5 ShoreTel’s business prospects due to defendants’ false statements. As investors and the market
6 ultimately learned, the Company’s prior business prospects had been overstated as were the
7 Company’s results of operations. As this adverse information became known to investors, the prior
8 artificial inflation was immediately eliminated from ShoreTel’s share price, and shareholders were
9 damaged as a result of this related share price decline.

10 47. The economic loss, i.e. damages suffered by Plaintiff and other members of the Class,
11 was a direct result of defendants’ misrepresentations and omissions being revealed to investors, and
12 the subsequent significant decline in the value of the Company’s shares was also the direct result of
13 defendants’ prior misstatements and omissions being revealed, as evidenced by the chart below:



24 VII. CLASS ACTION ALLEGATIONS

25 48. This is a class action on behalf of all persons who purchased ShoreTel shares, or
26 traceable stock, pursuant to the July 2007 Registration Statement and Prospectus (the “Class”),
27 excluding defendants. Class members are so numerous that joinder of them all is impracticable.

28

1 statements contained in the Registration Statement and Prospectus at the time it became effective, to
2 assure that those statements were true and that there was no omission to state material facts required
3 to be stated in order to make the statements contained therein not misleading.

4 56. The officers and directors of ShoreTel who were signatories to the Registration
5 Statement and the Underwriter Defendants were responsible for the preparation of the Prospectus
6 and the Registration Statement. By virtue of the material misrepresentations contained in the
7 Registration Statement and Prospectus, Plaintiff and the Class have been damaged.

8 57. By reason of the conduct herein alleged, each Defendant named in this Claim for
9 Relief violated §11 of the Securities Act.

10 58. The Individual Defendants by reason of their stock ownership and positions with
11 ShoreTel, were and are controlling persons of ShoreTel and are liable under §15 of the Securities
12 Act.

13 **PRAYER**

14 **WHEREFORE**, Plaintiff prays for judgment as follows: declaring this action to be a proper
15 class action; awarding damages, including interest; and such other relief as the Court may deem
16 proper.

17 **JURY TRIAL DEMANDED**

18 Plaintiff hereby demands a trial by jury.

19 DATED: January 15, 2008

HAGENS BERMAN SOBOL SHAPIRO LLP

20  with permission by 
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Attorneys for Plaintiff

CERTIFICATION IN SUPPORT OF APPLICATION FOR LEAD PLAINTIFF

William Watkins (name) ("plaintiff") declares, as to the claims asserted under the federal securities law, that:

1. Plaintiff has fully reviewed the facts of the complaint(s) filed in this action alleging violations of the securities laws and plaintiff is willing to serve as a lead plaintiff in this case and all other related cases that may be consolidated with it.
2. Plaintiff did not purchase securities of ShoreTel Inc., at the direction of counsel or in order to participate in a private action under the federal securities laws.
3. Plaintiff is willing to serve as a representative party on behalf of a class, including providing testimony at deposition and trial, if necessary.
4. During the Class Period, plaintiff has executed transactions in the securities of ShoreTel, Inc. as follows. See Attached Schedule.
5. In the last three years, plaintiff has not sought to serve as a representative party on behalf of a class in an action filed under the federal securities laws, except as indicated herein.
6. Plaintiff will not accept payment for serving as a lead plaintiff beyond its pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the Class as ordered or approved by the Court.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: January 10, 2008

Name of Plaintiff William Watkins

**Schedule of plaintiff's Transaction(s) in
ShoreTel, Inc.**

Purchase(s):	<u>Date</u>	<u>Units</u>	<u>Price</u>
	07/05/2007	100	\$12.58
	07/05/2007	200	12.95
	01/07/2008	100	6.3577
Sale(s):	<u>Date</u>	<u>Units</u>	<u>Price</u>
	01/08/2008	400	\$5.5624
LOSS	01/08/2008	\$2,273.85	

William A. Watkins
William Watkins