INTER TEL (DELAWARE), INC
Form 11-K
June 28, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 11-K

x **Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2006

OR

¨ **Transition report pursuant to Section 15(d) of the Securities Exchange Act of 1934**
For the transition period from ______ to ______

Commission file number 000-10211

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Inter-Tel, Incorporated

Tax Deferred Savings Plan and Retirement Trust

1615 South 52nd Street

Tempe, AZ 85281

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Inter-Tel (Delaware), Incorporated

1615 South 52nd Street

Tempe, AZ 85281

Table of Contents

INTER-TEL, INCORPORATED

TAX DEFERRED SAVINGS PLAN AND RETIREMENT TRUST

Financial Statements and Supplemental Schedule

December 31, 2006 and 2005

Table of Contents

Table of Contents

INTER-TEL, INCORPORATED

TAX DEFERRED SAVINGS PLAN

AND RETIREMENT TRUST

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Participants and the Plan Administrator of the

INTER-TEL, INCORPORATED TAX DEFERRED SAVINGS PLAN AND RETIREMENT TRUST

We have audited the accompanying statements of net assets available for benefits of ***Inter-Tel, Incorporated Tax Deferred Savings Plan and Retirement Trust*** at December 31, 2006 and 2005, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these 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 audits 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, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of ***Inter-Tel, Incorporated Tax Deferred Savings Plan and Retirement Trust*** at December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management, and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ MAYER HOFFMAN MCCANN P.C.

June 27, 2007
Phoenix, Arizona

Table of Contents

INTER-TEL, INCORPORATED

TAX DEFERRED SAVINGS PLAN AND RETIREMENT TRUST

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	December 31, 2006	December 31, 2005
ASSETS:		
CASH AND CASH EQUIVALENTS	$ 28,105	$ 15,030
INVESTMENTS, AT FAIR VALUE	76,434,189	67,031,368
RECEIVABLES		
Employer contribution	1,986,079	1,903,281
Participant contributions	86	213,505
Interest receivable	208	
Total receivables	1,986,373	2,116,786
TOTAL ASSETS	78,448,667	69,163,184
LIABILITIES:		
Excess contribution refund payable	72,684	124,273
NET ASSETS AVAILABLE FOR BENEFITS	$ 78,375,983	$ 69,038,911

See accompanying notes to financial statements.

Table of Contents

INTER-TEL, INCORPORATED

TAX DEFERRED SAVINGS PLAN AND RETIREMENT TRUST

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31, 2006

Additions:	
Contributions:	
Employer	$ 1,986,880
Participant	6,651,015
Rollovers	671,585
Total contributions	9,309,480
Interest and dividends	3,805,842
Net appreciation in fair value of investments	5,818,785
Total additions	18,934,107
Deductions:	
Benefits paid to participants	9,514,192
Administrative expenses	82,843
Total deductions	9,597,035
NET INCREASE	9,337,072
NET ASSETS AVAILABLE FOR BENEFITS, beginning of year	69,038,911
NET ASSETS AVAILABLE FOR BENEFITS, end of year	$ 78,375,983

See accompanying notes to financial statements.

Table of Contents

INTER-TEL, INCORPORATED

TAX DEFERRED SAVINGS PLAN AND RETIREMENT TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

(1) Description of the Plan

The following description of the Inter-Tel, Incorporated Tax Deferred Savings Plan and Retirement Trust (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan s provisions.

General The Plan is a defined contribution plan covering all employees of Inter-Tel (Delaware), Incorporated and its subsidiaries (the Company). Effective January 1, 2001, an employee was eligible to participate in the Plan subsequent to the pay period in which the employee completes one hour of service. Effective November 1, 2005, new employees are automatically enrolled at 1% unless they elect not to participate. The Plan was established on December 1, 1984 and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions Each year, participants may contribute a percentage or dollar amount of their annual compensation up to the IRS maximum through regular payroll deductions. At any time during the year, participants have the opportunity to change the previously elected percentage or dollar deferral. Participants employed by the Company on December 31 of each year are eligible to receive a discretionary matching Company contribution. For 2006, the Company matched 50% of the participant s basic contribution limited to six percent of the participant s 2006 compensation. At the Company s discretion, it may allocate additional funds at the end of each Plan year based on each participant s salary.

Participant accounts Each participant s account is credited with the participant s contributions, the Company s contributions and an allocation of Plan earnings or losses. Allocations are based on participant account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant s account. Participants may elect to have their accounts invested in mutual funds or common stock of the Company as offered by the Plan, or they may elect to have their accounts invested in any combination of common and preferred stocks, bonds and mutual funds, or other investments available through individual self-directed brokerage accounts.

Vesting Participants immediately vest in their voluntary contributions plus actual earnings thereon and amounts rolled over from former plans into the Plan. Vesting in the Company s matching contribution is based on years of continuous service. The employer contribution portion of each participant account vests starting at the end of the first year of service at a graduated amount each year until reaching the sixth year of service. After six years, the participant is 100 percent vested in the employer contribution account.

Forfeitures Forfeited balances of terminated participants nonvested accounts are used to reduce employer contributions. In 2006, forfeitures of $108,000 were used to reduce the employer contribution receivable and employer contributions at December 31, 2006 in the accompanying financial statements. As of December 31, 2006 and 2005, the forfeitures balance was approximately $2,000 and $0, respectively.

Participant loans Participants may borrow from their fund amounts a minimum of $1,000, up to a maximum equal to the lesser of $50,000 or 50% of their vested account balance. Loan terms range from one to five years or up to twenty years for the purchase of a primary residence. Loans are secured by the balance in the participant s account and bear interest at a rate commensurate with prevailing rates (prime plus 2%) at the time the loan is made as determined by the loan administrator. Principal and interest is paid ratably through payroll deductions.

Payment of benefits Upon termination of service, a participant may receive a lump-sum amount equal to the vested value of his or her account, or upon death, disability, or retirement, elect to receive annual installments over a 10 year period.

Table of Contents

(1) Description of the Plan (continued)

Plan termination Although it has not expressed any intent to do so, the Company has the discretionary right to discontinue its contributions at any time and to terminate the Plan, subject to the provisions of ERISA. In the event of termination of the Plan, participants will become 100 percent vested in all of their accounts.

(2) Significant accounting policies

The significant accounting policies followed by the Plan are as follows:

Investment valuation and income recognition The Plan s investments are stated at fair value. Securities and mutual funds traded on national securities exchanges are valued at the last quoted sales price on the principal exchange on which traded as of the last day of the Plan s year end. Securities and the limited partnership, for which no price is readily available on the valuation date, are valued at fair value as determined by the Plan Administrator. Participant loans are valued at their outstanding balances, which approximates fair value. The fair value of units of common/collective trusts are determined by Charles Schwab Trust Company.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Use of estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits, and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from those estimates.

Concentrations of credit risk The Plan provides for various investment fund options, which in turn invest in any combination of mutual and other investment funds. Investment securities are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risks in the near term could materially affect participants account balances and the amounts reported in the statements of net assets available for benefits and the statement of changes in net assets available for benefits. See Note 3 below for detail of investments exceeding five percent of the Plan s net assets.

(3) Investments

Investment information is summarized as follows:

	December 31,	
	2006	**2005**
Investments at fair value:		
Common stocks	$ 5,442,458	$ 8,236,736
Preferred stock	3,774	3,645
Corporate obligations		51,714
Common/collective trusts	5,627,232	3,858,278
Money market accounts	9,233,393	8,551,687
Mutual funds	54,275,576	44,368,577
Unit investment trusts	96,131	317,142
Participant loans	1,700,689	1,579,458
Other assets	9,694	10,186
Limited partnerships	2,430	11,133
Promissory note	12,612	12,612
Limited liability company units	30,200	30,200
Total investments, at fair value	$ 76,434,189	$ 67,031,368

Table of Contents

(3) Investments (continued)

During 2006, the Plan s investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in fair value as follows:

Common stocks	$ 1,543,930
Preferred stock	118
Corporate obligations	(463)
Common/collective trusts	538,681
Mutual funds	3,593,009
Limited partnerships	127,614
Unit investment trusts	15,896
	$ 5,818,785

Investments that represent five percent or more of the Plan s net assets at December 31 are as follows:

	2006
Schwab Government Securities Fund	$ 8,069,400
Baron Growth Fund	4,504,226
First Eagle Overseas A	9,757,070
Growth Fund of America R4	7,225,084
Schwab S&P 500 Index Inv	6,101,946
Vanguard Selected Value	6,379,593
Vanguard Windsor II Fund	8,563,801

	2005
Schwab Government Securities Fund	$ 7,669,598
Baron Growth Fund	3,824,734
First Eagle Overseas A	7,011,060
Growth Fund of America R4	6,344,575
Icon Information Tech Fund	3,656,483
Schwab S&P 500 Index Inv	4,862,510
Vanguard Selected Value	4,539,119
Vanguard Windsor II Fund	6,897,170

(4) Administrative expenses

Substantially all of the Plan s administrative expenses, except for record-keeper fees, are paid by the Company.

(5) Party-in-interest transactions

Certain plan investments are shares of common stock of the Company or are funds held and managed by Charles Schwab Trust Company, the trustee; therefore, these transactions qualify as party-in-interest transactions. Fees paid and accrued by the Plan to the trustee for administrative fees amounted to $82,843 for the year ended December 31, 2006.

Table of Contents

(6) Income tax status

The Plan has received a determination letter from the Internal Revenue Service dated February 11, 2004 stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from taxation. Subsequent amendments have been structured to and are intended to maintain the Plan s tax status. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code, and, therefore, believes that the Plan is qualified and the related trust is tax-exempt.

(7) Excess contribution refund payable

The Plan did not meet the requirements of the average deferral percentage test under the Internal Revenue Code for the years ended December 31, 2006 and 2005. Excess contributions and related investment earnings amounting to $72,684 and $124,273 for the years ended December 31, 2006 and 2005, respectively, are recorded as liabilities in the accompanying statements of net assets available for benefits. The 2006 excess contributions are also recorded as reduction to participant contributions and investment earnings in the accompanying statement of changes in net assets available for benefits. The Plan reimburses excess contributions to affected participants in the year following the year such contributions are withheld.

Table of Contents

INTER-TEL, INCORPORATED **EIN: 86-0220994**
TAX DEFERRED SAVINGS PLAN AND RETIREMENT TRUST: PLAN #001

FORM 5500, SCHEDULE H, LINE 4(i)
SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2006

(a)	(b) Identity of issue, borrower, lessor or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par or maturity value	(d) Cost	(e) Current value
	Common stocks:			
	Adaptec	200 shares	**	$ 932
	Adtran, Inc	400 shares	**	9,080
	Advanced Micro Devices	200 shares	**	4,070
	Advanced Viral Research	1,300 shares	**	429
	Alcatel Lucent ADR	3,721 shares	**	52,913
	Allianz SE ADR	300 shares	**	6,126
	Aluminum Corp China ADR	1,085 shares	**	25,498
	Amazon.Com, Inc.	50 shares	**	1,973
	Amdocs Limited	200 shares	**	7,750
	American Cap Strategies, Ltd	135 shares	**	6,245
	American Technology Corp	2,000 shares	**	7,840
	Amicas, Inc.	1,548 shares	**	4,551
	Amsurg Corp	90 shares	**	2,070
	Amylin Pharmaceuticals, Inc	2,000 shares	**	72,140
	Anheuser Busch Co. Inc.	300 shares	**	14,760
	Apple Computer, Inc.	450 shares	**	38,178
	Applied Materials, Inc.	400 shares	**	7,380
	Archer Daniels Midland Co	300 shares	**	9,588
	Arthrocare Corp	100 shares	**	3,992
	Atwood Oceanics, Inc	200 shares	**	9,794
	Barrick Gold Corporation	400 shares	**	12,280
	Best Buy, Inc.	225 shares	**	11,068
	Broadwing, Corp	4 shares	**	62
	Brown & Brown, Inc.	600 shares	**	16,926
	Calamp Corp	200 shares	**	1,688
	Calpine Corporation	1,000 shares	**	1,100
	Canon Inc SPN ADR	50 shares	**	2,830
	Cardero Resources Corp	4,000 shares	**	5,880
	CBIZ Inc	1,000 shares	**	6,970
	Celgene Corp	50 shares	**	2,877
	China Life Ins Co ADR	79 shares	**	3,990
	China Pete & Chem ADR	45 shares	**	4,169
	China Software Tech Grp	312 shares	**	94
	Chipotle Mexican Grill	35 shares	**	1,995
	Cisco System, Inc.	3,500 shares	**	95,655
	Coeur D Alene Mines CP	8,500 shares	**	42,075
	Conoco Phillips	205.529 shares	**	14,788
	Consolidated Edison, Inc.	40 shares	**	1,923
	Core Molding Techs, Inc.	250 shares	**	2,413

Covad Commun Group, Inc.	750 shares	**	1,035
Critical Path, Inc.	6 shares	**	1
Cummins Engine, Inc.	20.06 shares	**	2,371
Davita, Inc.	45 shares	**	2,560
Dell, Inc.	1,200 shares	**	30,108

Table of Contents

INTER-TEL, INCORPORATED **EIN: 86-0220994**
TAX DEFERRED SAVINGS PLAN AND RETIREMENT TRUST: PLAN #001

FORM 5500, SCHEDULE H, LINE 4(i)
SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2006

(a)	(b) Identity of issue, borrower, lessor or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par or maturity value	(d) Cost	(e) Current value
	Dentsply International	75 shares	**	2,239
	Desire Petroleum ORD	1,000 shares	**	665
	Diageo PLC	30 shares	**	2,379
	Digital Lightwave, Inc.	210 shares	**	32
	Dreamworks Animation Inc.	65 shares	**	1,917
	DSL.net, Inc.	1,000 shares	**	19
	Duke Energy Corp	62 shares	**	2,059
	E M C Corp Mass	800 shares	**	10,560
	Eagle Materials, Inc.	50 shares	**	2,162
	Earthshell, Corp	8,000 shares	**	2,080
	EBay, Inc.	1,351 shares	**	40,625
	Edulink, Inc.	43,000 shares	**	4
	Emergency Filtration Prds.	13,000 shares	**	6,240
	Emulex, Corp	600 shares	**	11,706
	Encana Corporation	40 shares	**	1,838
	Ensco Intl Inc.	200.069 shares	**	10,015
	Exxon Mobil Corporation	205.018 shares	**	15,711
	First Horizon National Corp	40 shares	**	1,671
	Flextronics International, Ltd.	600 shares	**	6,888
	Forest Labs, Inc.	100 shares	**	5,060
	Foster Wheeler ORD	45 shares	**	2,481
	Foster Wheeler, Ltd 07WT	900 shares		