

INTER TEL INC
Form 11-K
June 27, 2005

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**FORM 11-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549**

ANNUAL REPORT

**PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

- þ **Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2004**

OR

- o **Transition report pursuant to Section 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission file number 333-106868

- 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, Incorporated

1615 South 52nd Street
Tempe, AZ 85281

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

**Financial Statements and Supplemental Schedule
December 31, 2004 and 2003**

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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, 2004 and 2003, and the related statement of changes in net assets available for benefits for the year ended December 31, 2004. 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 misstatements. 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, 2004 and 2003, and the changes in net assets available for benefits for the year ended December 31, 2004 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.

May 20, 2005
Phoenix, Arizona

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TAX DEFERRED SAVINGS PLAN AND RETIREMENT TRUST****STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

	December 31,	
	2004	2003
ASSETS:		
Cash and cash equivalents	\$ 10,265	\$ 60,509
Investments, at fair value	58,773,340	50,187,368
Receivables		
Employer contribution	1,752,905	1,549,374
Participant contributions	164,999	430
Interest and dividends		3,343
Total receivables	1,917,904	1,553,147
Total Assets	60,701,509	51,801,024
LIABILITIES:		
Excess contribution refund payable	109,974	185,864
NET ASSETS AVAILABLE FOR BENEFITS	\$ 60,591,535	\$ 51,615,160

See accompanying notes to financial statements.

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

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31, 2004

Additions to net assets attributed to:	
Interest and dividends	\$ 1,004,780
Net appreciation in fair value of investments	4,911,107
Contributions:	
Employer	1,752,905
Participant	5,695,036
Rollovers	557,443
Total additions	13,921,271
Deductions from net assets attributed to:	
Benefits paid to participants	4,883,549
Administrative expenses	61,347
Total deductions	4,944,896
Net increase in net assets	8,976,375
Net assets available for benefits at beginning of year	51,615,160
Net assets available for benefits at end of year	\$ 60,591,535

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

(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, Incorporated and its subsidiaries (the Company). The Plan is administered by the Company. Effective January 1, 2001, an employee becomes eligible to participate in the Plan subsequent to the pay period in which the employee completes one hour of service. The Plan was established on December 1, 1984 and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Contributions - Each year, participants may contribute a percentage or dollar amount of their annual compensation to the Plan up to the annual IRS maximum through regular payroll deductions. Participants have the opportunity to change the previously elected percentage or dollar contributions each business day, to be effective at the next bi-weekly payroll period. Eligible participants receive a discretionary matching Company contribution. For 2004, the Company matched 50 percent of the participant s basic contribution limited to six percent of the participant s 2004 compensation. At the Company s discretion, it may allocate a non-elective contribution at the end of each Plan year according to the terms of the Plan.

Participant accounts - Each participant s account is credited with the participant s contributions, the Company s contributions and an allocation of Plan earnings. Allocations are based on participant account balances. The benefit a participant is entitled to receive is the participant s vested account balance. 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 through individual self-directed brokerage accounts.

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

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Forfeitures - Forfeited balances of terminated participants' nonvested accounts are used to reduce future employer contributions. In 2004, forfeitures totaled \$108,487 and are reflected as a reduction of employer contributions receivable and employer contributions at December 31, 2004 in the accompanying financial statements.

Participant loans - Participants can borrow from their accounts 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 up to a maximum of five years, with the exception of loans for the purchase of a primary residence, which carry a maximum of up to twenty years. Loans are secured by the balance in the participant's account and bear interest at a rate commensurate with prevailing rates at the time the loan is made as determined by the loan administrator. Principal and interest is generally 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. Upon death, disability, or retirement, participants or their beneficiaries may elect to receive lump sums or annual installments over a 10 year period.

Plan termination - Although the Company intends to continue the Plan indefinitely for the benefit of its participants, the Company has the right to discontinue its contributions at any time and to terminate or modify 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 they are traded. Securities, limited partnerships and real estate promissory notes 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. 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, and the reported amounts of changes in net assets during the year. Actual results could differ from those estimates.

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Concentrations of credit and investment risk - The Plan provides for various investment fund options, which in turn invest in any combination of mutual funds and other investment securities. 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.

(3) Investments

Investment information is summarized as follows:

	2004	December 31, 2003
Investments at fair value:		
Common stock	\$ 7,076,257	\$ 7,936,622
Preferred stock	3,750	
Corporate obligations	61,039	
Common/collective trust funds	1,955,373	686,046
Money market accounts	8,114,166	9,005,186
Mutual funds	38,506,142	30,874,850
Unit investment trusts	1,560,551	172,643
Participant loans	1,435,900	1,267,283
Limited partnerships	17,350	26,831
Real estate note		173,700
Promissory note	12,612	14,007
Limited liability company units	30,200	30,200
Total investments, at fair value	\$ 58,773,340	\$ 50,187,368

During 2004, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in fair value as follows:

Common stock	\$ 473,074
Preferred stock	60
Corporate obligations	13,006
Common/collective trust funds	188,408
Mutual funds	3,992,916
Unit investment trusts	231,396
Limited partnerships	12,247
	\$ 4,911,107

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

	2004
First Eagle Overseas A	\$ 5,153,620
Growth Fund of America CL F	5,332,963
Icon Information Tech Fund	4,075,227
Inter-Tel, Incorporated Common Stock	4,126,330
Pimco Renaissance Fund D	5,197,518
Schwab Govt Security Fund	7,230,469
Schwab S&P 500 Investor SHS	4,364,578
Vanguard Windsor II Fund	5,589,981
	2003
First Eagle Overseas A	\$ 3,637,535
Growth Fund of America CL F	4,781,382
Icon Information Tech Fund	3,771,845
Inter-Tel, Incorporated Common Stock	4,693,292
Schwab Govt Security Fund	7,159,907
Schwab S&P 500 Investor SHS	3,640,409
Vanguard Windsor II Fund	4,191,084
Weitz Value Portfolio	4,855,694

(4) Administrative expenses

Substantially all of the Plan's administrative expenses, except for record-keeper fees associated with several specific fund expenses and special transaction fees, are paid by the Company.

(5) Differences between financial statements and Form 5500

The following is a reconciliation of items reported in these financial statements to the amounts reported in Form 5500 for (1) contributions of participants, (2) interest and dividend income, and (3) corrective distributions:

Description	Amount per Financial Statements (a)	Corrective Distributions	Amount per Form 5500
Contributions: Participant	\$ 5,695,036	\$ 99,643	\$ 5,794,679
Interest and Dividends	1,004,780	10,331	1,015,111
Corrective distributions		(109,974)	(109,974)

(a) Corrective distributions are reported net in these Financial Statements.

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(6) 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 asset custodian; accordingly, these transactions qualify as party-in-interest transactions. Such transactions, while considered party-in-interest transactions under ERISA regulations, are permitted under the provisions of the Plan and are specifically exempt from the prohibition of party-in-interest transaction under ERISA. Fees paid and accrued by the Plan to the record-keeper for administrative fees amounted to \$61,347 for the year ended December 31, 2004.

(7) Income tax status

The Plan has received a favorable 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, that the related trust is exempt from federal and state income or franchise taxation. 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 ERISA, and, therefore, believes that the Plan is qualified and the related trust is exempt from federal and state income or franchise taxes.

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INTER-TEL, INCORPORATED **EIN: 86-0220994**
TAX DEFERRED SAVINGS PLAN AND RETIREMENT TRUST: PLAN #001
SCHEDULE H, LINE 4(i)
SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2004

(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:			
	A C L N Ltd.	115 shares	**	\$ 1
	ABB Ltd. ADR	300 shares	**	1,698
	ABM Industries Inc	5 shares	**	90
	ADAPTEC	200 shares	**	1,518
	Advanced Photonix	1,250 shares	**	2,275
	Advanced Viral Research	13,000 shares	**	1,846
	Agere Systems Inc.	9 shares	**	12
	Alexander & Baldwin Inc.	85 shares	**	3,606
	Allianz AG ADR	300 shares	**	3,987
	Aluminum Corp China ADR	5 shares	**	293
	Amazon.com Inc.	200 shares	**	8,858
	Amdocs Limited	200 shares	**	5,250
	American Movil ADR Inc.	100 shares	**	5,204
	American Cap Strategies Ltd.	100 shares	**	3,335
	American Technology Corp.	2,000 shares	**	22,100
	Amerisourcebergen Corporation	100 shares	**	5,868
	Ameritrade Holding Corp. New	200 shares	**	2,844
	Amgen Incorporated	49 shares	**	3,143
	Amsurg Corp.	90 shares	**	2,659
	Amylin Pharmaceuticals Inc.	2,000 shares	**	46,720
	Anheuser Busch Co. Inc.	300 shares	**	15,219
	Annaly Mtg. Mgmt. Inc.	250 shares	**	4,905
	Applied Materials Inc.	600 shares	**	10,260
	Applied Micro Circuits	252 shares	**	1,061
	Arthrocare Corp.	300 shares	**	9,618
	AT & T Corp. New	295 shares	**	5,623
	Atmel Corp.	150 shares	**	588

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(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
	Avanex Corp.	500 shares	**	1,655
	Barrick Gold Corporation	400 shares	**	9,688
	Best Buy Inc.	100 shares	**	5,942
	BHP Billiton Ltd. ADR	154 shares	**	3,699
	Bluefly Inc.	2,597 shares	**	6,025
	Bristol-Myers Squibb Co.	8,000 shares	**	204,960
	Broadwing Corp.	4 shares	**	36
	Brown & Brown Inc.	300 shares	**	13,065
	Calamp Corp.	325 shares	**	2,906
	Calpine Corporation	1,000 shares	**	3,940
	Chesapeake Energy Corporation	230 shares	**	3,795
	Chicago Mercantile Exchange	17 shares	**	3,888
	China Pete and Chem ADR	45 shares	**	1,845
	Cisco System Inc.	5,300 shares	**	102,396
	Coca Cola Company	250 shares	**	10,427
	Coded Communications Corp.	15,500 shares	**	2
	Coeur D Alene Mines CP	4,000 shares	**	15,720
	Conexant Systems Inc.	300 shares	**	597
	Covad Communications Group Inc.	750 shares	**	1,613
	Critical Path Inc	6 shares	**	9
	Cummins Engine Inc.	47 shares	**	3,938
	Davita Inc.	77 shares	**	3,044
	Debt Strategy FD Inc.	375 shares	**	2,625
	Dell Inc.	100 shares	**	4,214
	Dentsply International	16 shares	**	899
	Digital Lightwave Inc.	210 shares	**	277
	Diversified Corp.	1,000 shares	**	150
	DRDGold Ltd. ADR	5,800 shares	**	8,932
	DSL.net Inc.	1,000 shares	**	230
	Earthlink Inc.	1,000 shares	**	11,520
	Earthshell Corp.	8,000 shares	**	20,000
	Eastman Kodak Company	303 shares	**	9,758
	Ebay Inc.	213 shares	**	24,780
	EduLink Inc.	43,000 shares	**	13
	Emulex Corp.	600 shares	**	10,104
	Encana Corporation	65 shares	**	3,709
	Exxon Mobile Corporation	100 shares	**	5,126
	Finisar Corp.	500 shares	**	1,140

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Florida Rock Inds Inc.	67 shares	**	3,989
Forest Labs Inc.	100 shares	**	4,486
Foster Wheeler Ltd. 07WT	900 shares	**	639
Foster Wheeler New	45 shares	**	714
Foundry Networks Inc.	50 shares	**	658
Freescale Semiconductor	161 shares	**	2,956
Frozen Food Express Inds	270 shares	**	3,483

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(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
	General Electric Co.	2,212 shares	**	80,727
	Gillette Co.	200 shares	**	8,956
	Globalstar Telecom	500 shares	**	3
	Goldspring Inc.	20,000 shares	**	2,800
	Goodyear Tire & Rubber Company	371 shares	**	5,437
	Gunslinger Records Inc.	42,500 shares	**	43
	Hewlett Packard Company	689 shares	**	14,448
	Hollis-Eden Pharmaceuticals Inc.	1,000 shares	**	9,420
	Home Depot Inc.	1,332 shares	**	56,943
	HSBC Holdings Plc Adr New	35 shares	**	2,980
	I D Biomedical Corp.	125 shares	**	1,869
	Impath Inc.	16 shares	**	70
	Integra Lifesciences Hldgs.	80 shares	**	2,954
	Intel Corp.	5,327 shares	**	124,589
*	Inter-Tel Incorporated	150,706 shares	**	4,126,330
	International Business Machines	102 shares	**	10,027
	Intuitive Surgical New	100 shares	**	4,002
	Ionatron Inc.	3,000 shares	**	33,990
	Iridium World Communications	60 shares	**	2
	ISCO International Inc.	4,640 shares	**	1,670
	IVAX Corporation	77 shares	**	1,218
	JDS Uniphase Corporation	180 shares	**	571
	Jupitermedia Corporation	286 shares	**	6,801
	K-Tel International Inc.	362 shares	**	34
	Keithley Instruments Inc.	35 shares	**	689
	Level 3 Communications	1,300 shares	**	4,407
	Ligand Pharmaceuticals	300 shares	**	3,492
	Lowes Companies	1,364 shares	**	78,540