

INTER TEL (DELAWARE), INC

Form 10-K/A

April 30, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K/A**

Amendment No. 1

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**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF  
1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

Commission file number 0-10211

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**INTER-TEL (DELAWARE), INCORPORATED**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction

of incorporation or organization)

**1615 S. 52<sup>nd</sup> Street**

**Tempe, Arizona**  
(Address of principal executive offices)

(Registrant's telephone number, including area code)

**86-0220994**  
(I.R.S. Employer

Identification No.)

**85281**  
(Zip Code)

**(480) 449-8900**

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Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par Value of \$0.001 per share

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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 Exchange 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, and (2) has been subject to such filing requirements for the past 90 days. 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. YES  NO

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.

Large accelerated filer  Accelerated Filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$560.7 million based on the closing sale price as reported on the Nasdaq Global Market System. Shares of Common Stock held by each executive officer and director as of June 30, 2006 have been excluded in that such persons may be deemed to be affiliates.

As of March 8, 2007, there were 27,004,312 shares of the registrant's common stock outstanding.

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**INTER-TEL (DELAWARE), INCORPORATED**

**2006 FORM 10-K/A ANNUAL REPORT**

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**EXPLANATORY NOTE**

Inter-Tel (Delaware), Incorporated (the Company or Inter-Tel ) is filing this Amendment No. 1 to Form 10-K for the sole purpose of timely providing certain information required by Part III of Form 10-K. No other changes are being made to the Company s Annual Report on Form 10-K filed March 15, 2007.

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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**Executive Officers:**

The names of the executive officers of Inter-Tel and their ages, titles, and biographies as of the end of the period covered by this report and as updated through March 1, 2007 are set forth below.

**Norman Stout; age 49, Director and Chief Executive Officer.** Mr. Stout was appointed Chief Executive Officer and a member of Inter-Tel's Board of Directors on February 22, 2006. He began his tenure at Inter-Tel in 1994 as a director. Four years later, he joined Inter-Tel as executive vice president, chief administrative officer and president of Inter-Tel Software and Services. Prior to joining Inter-Tel, Mr. Stout was Chief Operating Officer of Oldcastle Architectural Products and since 1996, Mr. Stout also had served as President of Oldcastle Architectural West. Mr. Stout held previous positions as President of Superlite Block; Chief Financial Officer and Chief Executive Officer (successively) of Boorhem-Fields, Inc. of Dallas, Texas; and as a Certified Public Accountant with Coopers & Lybrand. He currently serves on the board of Hypercom Corporation, a public company headquartered in Phoenix, Arizona. Mr. Stout holds a Bachelor of Business Administration degree in Accounting from Texas A&M and an MBA from the University of Texas.

**Craig W. Rauchle; age 51; President and Chief Operating Officer.** Mr. Rauchle was elected President in February 2005. He was elected Chief Operating Officer in August 2001 and served as our Executive Vice President from December 1994 to February 2005. As President and Chief Operating Officer, Mr. Rauchle is responsible for Inter-Tel's sales and support functions, marketing, procurement, distribution and research and development activities. He had been our Senior Vice President and continues as President of Inter-Tel Technologies, Inc., our wholly owned sales subsidiary. Mr. Rauchle joined Inter-Tel in 1979 as Branch General Manager of the Denver Direct Sales Office and in 1983 was appointed the Central Region Vice President and subsequently the Western Regional Vice President. From 1990 to 1992, Mr. Rauchle served as President of Inter-Tel Communications, Inc. In 2006, he was elected to the board of directors of iMergent (ticker symbol IIG on the American Stock Exchange). Mr. Rauchle holds a Bachelor of Arts degree in Communications from the University of Denver.

**Jeffrey T. Ford; age 45; Senior Vice President and Chief Technology Officer.** Mr. Ford was elected Senior Vice President in May 1998 and has served as our Chief Technology Officer since 1997. He was elected President of Inter-Tel Integrated Systems, Inc. (IIS) in May 1998, after serving as Senior Vice President of IIS for one year and Vice President of Software Engineering of IIS from 1993 to 1997. He joined Inter-Tel in 1983 as a software design engineer. Mr. Ford holds a Bachelor of Science degree in Computer Systems Engineering from Arizona State University and an SEP certificate from the Stanford Graduate School of Business.

**John L. Gardner; age 61; General Counsel, Senior Vice President and Assistant Secretary.** Mr. Gardner has served as our General Counsel from June 1986 until January 1990 and from March 1995 through present. He has served as Senior Vice President since February 2003, as Vice President from March 1995 to February 2003 and as Assistant Secretary since March 1995. He joined Inter-Tel in 1986 after thirteen years with the firm of John L. Gardner & Associates. Mr. Gardner is an attorney licensed to practice in Arizona and Texas as well as the Federal Courts of the Fifth Circuit of the United States, and holds a Doctor of Jurisprudence Degree from the University of Houston and a Bachelor of Arts degree in political science from Texas Tech University.

**Kurt R. Kneip; age 44; Chief Financial Officer, Senior Vice President and Secretary.** Mr. Kneip has served as our Chief Financial Officer since September 1993. He has served as Senior Vice President since February 2003 and as Vice President from September 1993 to February 2003. He was elected Secretary and Treasurer in October 1994. In May 1996 he was elected Assistant Treasurer, as John Abbott was elected Treasurer. He joined Inter-Tel in May 1992 as Director of Corporate Tax, after seven years with the accounting firms of Ernst & Young and KPMG Peat Marwick. Mr. Kneip is a Certified Public Accountant, and holds a Bachelor of Science degree in Commercial Economics from South Dakota State University and a Masters Degree in Professional Accountancy from the University of South Dakota.

**Table of Contents****Directors:**

The names of each of the directors and certain information about each of them are set forth below.

<b>Name of Nominee</b>	<b>Age</b>	<b>Current Position</b>	<b>Director Since</b>
Alexander Cappello (1,3)	51	Chairman of the Board	2005
Norman Stout	49	Director and Chief Executive Officer	2006
J. Robert Anderson (1,2)	70	Director	1997
Gerald W. Chapman (1,3)	66	Director	1999
Gary D. Edens (1,3)	65	Director	1994
Steven E. Karol (3)	52	Director	2006
Steven G. Mihaylo	63	Director	1969
Dr. Anil Puri	58	Director	2006
Robert Rodin (2)	53	Director	2006
Kenneth Urish	56	Director	2006
Agnieszka Winkler (2,3)	61	Director	2005

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- (1) Member of the audit committee.
- (2) Member of the compensation committee.
- (3) Member of the corporate governance and nominating committee.

**MR. CAPPELLO** was elected as one of our directors in the April 2005 annual meeting of stockholders, and to Chairman at the July 2005 Board meeting. Since March 1996, Mr. Cappello has served as the Chairman and Chief Executive Officer of the Cappello Group, Inc., a global boutique merchant bank, which includes Cappello Capital Corp. (member SIPC-NASD). He has thirty years experience in corporate management & finance, investment banking, merchant banking both in the U.S. and overseas. He is currently or has been a member of the board of directors of several companies and institutions including: RAND Corporation-Center for Middle East Public Policy, Genius Products, Inc. (NASDAQ:GNPI), Avantogen (ASX:ACU), Advanced Biotherapy, Inc. (OTC:ADVB.OB), Swiss American Financial (Chairman), and the USC Board of Trustees. Mr. Cappello is a member of the Young Presidents Organization (YPO), where he has served as Chairman of the International Board from 2003 to 2005. He received a Bachelor of Science degree from the Marshall School of Business at USC in 1977 with honors. He has been a guest lecturer at the USC, UCLA, and Harvard Business Schools and is a contributing author of The New Investor Relations being published by Bloomberg PRESS.

**MR. STOUT** was appointed Chief Executive Officer and a member of Inter-Tel's Board of Directors on February 22, 2006. He began his tenure at Inter-Tel in 1994 as a director. Four years later, he resigned from the board and joined Inter-Tel as executive vice president, chief administrative officer and president of Inter-Tel Software and Services. Prior to joining Inter-Tel, Mr. Stout was Chief Operating Officer of Oldcastle Architectural Products and since 1996, Mr. Stout also had served as President of Oldcastle Architectural West. Mr. Stout held previous positions as President of Superlite Block; Chief Financial Officer and Chief Executive Officer (successively) of Boorhem-Fields, Inc. of Dallas, Texas; and as a Certified Public Accountant with Coopers & Lybrand. He currently serves on the board of Hypercom Corporation, a public company headquartered in Phoenix, Arizona. Mr. Stout holds a Bachelor of Business Administration degree in Accounting from Texas A&M and an MBA from the University of Texas.

**MR. ANDERSON** has served as one of our directors since February 1997 and currently serves as the Chairman of our Compensation Committee. Mr. Anderson held various positions at Ford Motor Company from 1963 to 1983, serving as President of the Ford Motor Land Development Corporation from 1978 to 1983. He served as Senior Vice President, Chief Financial Officer and as a member of the Board of Directors of The Firestone Tire and Rubber Company from 1983 to 1989, and as Vice Chairman of Bridgestone/Firestone, Inc. from 1989 through 1991. He most recently served as Vice Chairman, Chief Financial Officer and as a member of the Board of Directors of the Grumman Corporation from 1991 to 1994. He currently serves on the board B-G Corp. and he served on the Board of GenCorp, Inc. until 2006. Mr. Anderson is currently semi-retired, and he is an active leader in various business, civic and philanthropic organizations.

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**MR. CHAPMAN** was elected as one of our directors in December 1999 and previously served as one of our directors from 1989 to 1992. He currently serves as the Chairman of our Audit Committee. As a Certified Public Accountant, he served with a local accounting firm from 1963 through 1969, at which time he joined Ernst & Ernst, a predecessor entity of Ernst & Young LLP. He became a partner of Ernst & Young in 1977 and, until retiring from the firm in 1989, served as engagement partner on a wide variety of audit, assurance and consulting engagements. Additionally, he managed Ernst & Young's practices in Arizona as well as various offices in the adjoining southwest states from 1980 through 1989. He then operated his own consulting firm through 1992 and joined Arthur Andersen in 1993 as a partner specializing in providing business consulting services. He retired from Arthur Andersen in 1999. Mr. Chapman currently serves on the board of CoBiz Inc., a public company headquartered in Denver, Colorado. Additionally, he provides services for a small number of clients requiring strategic and market-driven services.

**MR. EDENS** has served as one of our directors since October 1994 and currently serves as the Chairman of our Corporate Governance and Nominating Committee. He was an executive with Southern Broadcasting Company from 1968 to 1982, chief executive officer of Harte-Hanks Radio, Inc from 1982 to 1984, and chairman and chief executive officer of Edens Broadcasting, Inc. from 1984 to 1994. Mr. Edens has served on a number of corporate boards, such as Great Western Bank and Citibank (Arizona), as well as holding leadership positions on the Radio Advertising Board, National Radio Broadcasters Association and Young Presidents' Organization. In 1998 he was chairman of the annual international financial seminar for Chief Executives Organization and World Presidents' Organization. Since 1994, he has been president of The Hanover Companies, Inc., a private investment firm. He holds a B.S. Degree in Business Administration from the University of North Carolina at Chapel Hill. In 2005 he participated in continuing education for directors at Harvard Business School.

**MR. KAROL** was elected as one of our directors in February 2006. Mr. Karol is founder, Managing Partner, and Chairman of HMK Enterprises, Inc. and Watermill Group, which consists of Watermill Ventures and Watermill Advisors. He has been an investor, operator, and advisor for almost thirty years. Through HMK and Watermill, he has owned and operated close to 50 companies and has built both into enterprises with over \$1 billion in revenue on several occasions. Mr. Karol serves on the Board of Directors of StockerYale (NASDAQ: STKR). He is also on several Non-for-Profit Boards, including the Tufts University Board of Overseers for the School of Engineering (Chairman), the Vermont Academy Board of Trustees (Chairman), and The Brain Tumor Society (Chairman of Strategic Planning). He is a former International President of the Young Presidents' Organization where he held many positions throughout his twenty-six year relationship with the organization. He is a former trustee of the Boston Ballet and a former overseer of the Boston Symphony Orchestra. Mr. Karol received his Bachelor of Science degree from Tufts University in 1976. He completed the President's Program of Leadership at the Graduate School of Business Administration at Harvard University in 1996.

**MR. MIHAYLO** was elected as one of our directors in May 2006 and is a private investor. He is the founder of Inter-Tel, and served as Chairman of the Board of Directors of Inter-Tel from July 1969 to October 1982 and from September 1983 to July 2005. He served as President of Inter-Tel from 1969 to 1983, from 1984 to December 1994, and from May 1998 to February 2005. He served as Inter-Tel's Chief Executive Officer from the time of the Company's formation in July 1969 to February 22, 2006. Mr. Mihaylo received a bachelor's degree in business administration, with a concentration in Accounting and Finance, from California State University, Fullerton. Mr. Mihaylo has been active in and supported educational charitable endeavors during his career, including Junior Achievement of Arizona, Big Bear Lake California High School, the University of Arizona, Arizona State University, Bishop Manogue Catholic High School, the University of Nevada, Reno, The Arizona Science Center, Juvenile Diabetes Research Foundation, The Goldwater Institute and The Desert Botanical Gardens.

**DR. PURI** was elected as one of our directors in May 2006. He has served as the Dean of the College of Business and Economics at California State University, Fullerton from 1998 to present. His business address is 800 North State College Boulevard, California State University, Fullerton, California 92834. Dr. Puri received bachelors and masters degrees in economics from Panjab University in India and a masters degree and a Ph.D. in economics from the University of Minnesota. Dr. Puri is a member of the American Economic Association, the Western Economic Association, the National Association of Business Economists and the Association of University Bureaus of Economic Research. He is the author of numerous journal articles in the field of economics, and makes numerous presentations every year to business, community, and

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professional organizations and at university events, and has presented the California State University, Fullerton Annual Economic Forecasts since 1993.

**MR. RODIN** who was elected as one of our directors in February 2006, is currently the Chairman and CEO of RDN Group; strategic advisors focused on corporate transitions, customer interface, sales and marketing, and supply chain management. Previously, Mr. Rodin was Chairman and CEO of eConnections, a provider of extended supply chain intelligence solutions, which he founded in 1999. From 1991 to 1999, he served as the CEO of Marshall Industries (NYSE:MI), a \$1.8 billion industrial electronics distributor and supply chain management company. Marshall Industries was recognized as the World's Number One Business to Business Website, by Advertising Age Magazine and Information Week Magazine highlighted Marshall Industries as the World's Number One Company in the Use of Technology. Additionally, CIO Magazine recognized Mr. Rodin as one of the Top 100 Leaders for the New Millennium. Following the sale of Marshall to Avnet (NYSE:AVT) in 1999, Mr. Rodin served as president of global supply chain management and electronic commerce solutions and as a member of the Avnet Global Managing Board. Mr. Rodin currently serves as Director of Napster (NASDAQ: NAPS), Director and Vice Chairman of CommerceNet and Director of SM&A (NASDAQ: WINS). Mr. Rodin's best selling book, *Free, Perfect and Now: Connecting to the Three Insatiable Customer Demands*, chronicles the radical transformation of Marshall Industries. The changes he led have been taught as case studies at Harvard Business School, Columbia, USC, MIT, and Stanford University.

**MR. URISH** was elected as one of our directors in May 2006. He is managing member of Urish Popeck & Co., LLC, a certified public accounting firm with multi-disciplinary practice units. He has been a member of Urish Popeck & Co., LLC from its inception in February 1976 to present. Mr. Urish has a bachelors degree in accounting from The Pennsylvania State University. He has served on the Board of Directors, and as a member of the Audit Committee thereof, of Black Rock Liquidity Funds from 1999 to present. Mr. Urish is the co-editor of *Financial Management and Analysis: Methodologies to Manage and Improve Operating Performance*, which was adapted as a business development series. He is a member of the American, Pennsylvania, and Florida Institutes of Certified Public Accountants, President of the Board of Trustees of *The Pittsburgh Catholic*, the official newspaper of the Pittsburgh Diocese, a member of the National Association of Certified Fraud Examiners, a member of the Board of Trustees of Holy Family Foundation, a former Division Chair of the United Way of Allegheny County, the former Chairman and former President of DFK Accountancy Group, and a former member of the Board of Directors of DFK International. Mr. Urish has recently been named The Pennsylvania State University Alumnus of the Year of the Department of Accounting for 2005.

**MS. WINKLER** was elected as one of our directors in the April 2005 annual meeting of stockholders. Ms. Winkler was the founder, Chairman and CEO of two companies, Winkler Advertising, founded in 1984, and TeamToolz, Inc., founded in 1999, both of which were acquired. She is currently founder and Chairman of The Winkler Group, a management consultancy specializing in marketing efficiency and effectiveness for Fortune 1000 companies. She has served on the board of directors of two NASDAQ companies, SuperCuts and RenoAir, and currently serves as Vice Chairman on the Board of Directors of IP Locks, Inc. and the Board of Trustees of Santa Clara University. In addition, she has served on the boards of numerous professional and civic institutions throughout her career and currently serves as Vice Chairman on the board of the Committee of 200 Foundation and sits on the Board of the Western Folklife Center. Winkler has a BA and an MA and received an MBA from Santa Clara University in 1981. A frequent keynote speaker on the subjects of marketing and branding at industry meetings globally, she is also the author of *Warp Speed Branding: The Impact of Technology on Marketing*, published by Wiley in the US, China and Turkey.

### **Audit Committee**

The Audit Committee of the Board of Directors consists of directors Chapman, Anderson, Cappello and Edens. Each of the current members of the Committee is independent within the meaning of the Nasdaq director independence standards, as currently in effect. The Board of Directors has determined that director Chapman is an Audit Committee financial expert as defined in SEC rules. Mr. Chapman serves as Chairman of the Audit Committee.

Pursuant to the Audit Committee Charter, the Audit Committee reviews, acts and reports to the Board of Directors of the Company on various auditing and accounting matters, including the appointment of the Company's independent auditors, the scope of the Company's annual audits, fees to be paid to the

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Company's independent auditors, the performance of the Company's independent auditors, the sufficiency of the Company's internal controls and the Company's accounting and financial management practices.

The Audit Committee met five (5) times during the last fiscal year. The Audit Committee also meets with our independent auditors in an executive session, without the presence of our management, on a quarterly basis, following completion of their quarterly reviews and annual audit and prior to our earnings announcements, to review the results of their work. The Audit Committee Charter, as amended, is available on the Company's web site at [www.inter-tel.com](http://www.inter-tel.com), by first clicking "Company", then "Corporate Governance", and then "Board Committees". The charter is also available in print to any stockholder who requests it.

### **Compliance With Section 16(a) of the Exchange Act**

Section 16(a) of the Securities and Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based on review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the year ended December 31, 2006, all Section 16(a) filing requirements applicable to its officers, directors and ten percent shareholders were complied with, except as follows: During 2006, Mr. Rauchle exercised stock options and sold such stock pursuant to a 10b5-1 plan. Stock option exercises and related stock sales transacted on two dates for Mr. Rauchle were not reported on Form 4 within two business days, because Company representatives did not process these transactions amid confusion regarding multiple option exercises of similar size that were transacted within a short period of time pursuant to the 10b5-1 plan. Upon discovery that such transactions were separate and distinct transactions, Form 4's were promptly filed one business day after each respective deadline.

On May 31, 2006, the Board of Directors approved the correction of an error related to the awards of stock options from the Director Stock Option Plan to two directors upon their commencement of service on the Board. Directors Cappello and Winkler joined the board on the date of the annual meeting of shareholders in 2005. These directors received stock options five business days following the date of the annual meeting along with other non-employee directors at that time according to the terms of the Director Plan. However, the Board determined that a second award of options upon commencement of service on the Board should also have been awarded to each of these individuals, also pursuant to the Director Plan provisions. Accordingly, during 2006, the Board notified the stock option administrator to issue the awards to these two individuals. The Form 4's were promptly filed upon notification of this error and completion of the 2005 stock option paperwork, although the Form 4's were not filed within two business days of the original award date.

Directors Rodin and Karol joined the Board of Directors on March 1, 2006. Stock options were granted pursuant to the terms of the Director Stock Option Plan to each of these directors on March 8, 2006. The stock options for Messrs. Karol and Rodin were not reported on Form 4 within two business days because Company representatives were unable to obtain a power of attorney in time to complete the filings. For the same reason, the Company was also unable to file Form 3's on a timely basis.

Director Urish joined the Board of Directors on May 5, 2006. Stock options were granted pursuant to the terms of the Director Stock Option Plan to Mr. Urish on May 12, 2006. The stock options for Mr. Urish were not reported on Form 4 within two business days because Company representatives were unable to obtain a power of attorney in time to complete the filings. For the same reason, the Company was also unable to file his Form 3 on a timely basis.



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### **Code of Business Conduct**

Inter-Tel has a Code of Business Conduct ( Code ) that applies to all of our employees, including our principal executive officer and principal financial and accounting officer, and also to our board of directors. This code is posted on our Internet web site. The Internet address for our web site is <http://www.inter-tel.com>, and the code may be found as follows:

1. From our main web page at <http://www.inter-tel.com>, first click on Company.
2. Then click on About Inter-Tel .
3. Next, click on Code of Business Conduct.

We will provide a copy of the Code upon request made by email to [financialinfo@inter-tel.com](mailto:financialinfo@inter-tel.com) or by writing to us at Inter-Tel (Delaware), Incorporated, Attention: Investor Relations, 1615 S. 52<sup>nd</sup> Street, Tempe, Arizona 85281. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code by posting such information on our web site, at the address and location specified above, and to the extent required, by filing a Current Report on Form 8-K with the SEC disclosing such information.

## **ITEM 11. EXECUTIVE COMPENSATION COMPENSATION DISCUSSION AND ANALYSIS**

### **Overview of Compensation Program**

The Compensation Committee (for purposes of this analysis, the Committee ) of the Board has responsibility for establishing, implementing and continually monitoring adherence with the Company s compensation philosophy. The Committee ensures that the total compensation paid to the executive officers is fair, reasonable and competitive. Generally, the types of compensation and benefits provided to executive officers, including the named executive officers, are similar to those provided to other members of the Company s executive leadership team.

Throughout this section, the individuals who served as the Company s Chief Executive Officer and Chief Financial Officer during fiscal 2006, as well as the other individuals included in the Summary Compensation Table, are referred to as the named executive officers .

### **Compensation Philosophy and Objectives**

The Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by the Company, and which aligns executives interests with those of the stockholders by rewarding individual performance and performance of the Company measured against established goals, with the ultimate objective of improving stockholder value. The Committee evaluates both performance and compensation to ensure that the Company maintains its ability to attract and retain superior employees in key positions and that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of our peer companies. To that end, the Committee believes executive compensation packages provided by the Company to its executives, including the named executive officers, should include fixed cash compensation as well as variable cash and stock-based compensation that reward performance as measured against established goals.

Except as noted in Certain Other Benefits below, non-cash compensation has been limited to stock option grants to purchase Common Stock at fair market value at the grant date, performance share awards based on earnings per share targets, and other perquisites. All named executive officers and certain employees of the Company have participated in such stock incentive plans. Performance share awards were first awarded to executives in 2006, and are based entirely on performance-based earnings per share targets. These plans are designed to attract and retain qualified personnel and to tie their performance to the enhancement of stockholder value. Stock options vest annually on a straight-line basis through vesting periods ranging from three to five years from the date of grant.



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Executive officers, together with other permanent Inter-Tel employees, may also participate in the Company's 401(k) Thrift Savings Plan and the Inter-Tel Employee Stock Purchase Plan. Please refer to the Summary Compensation Table below for additional information regarding the 401(k) match on employee contributions.

### **Role of Executive Officers in Compensation Decisions**

The Committee makes all compensation decisions for the named executive officers and approves recommendations regarding equity awards for all elected officers of the Company. Decisions regarding the non-equity compensation of other executive officers are made by the Chief Executive Officer and President.

The Chief Executive Officer annually reviews the performance of each of the named executive officers (other than the Chief Executive Officer whose performance is reviewed by the Committee). The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Committee. The Committee can exercise its discretion in modifying any recommended adjustments or awards to executives.

### **Setting Executive Compensation**

Based on the foregoing objectives, the Committee has structured the Company's annual and long-term incentive-based cash and non-cash executive compensation to motivate executives to achieve the business goals set by the Company and reward the executives for achieving such goals. The Committee engaged Radford Surveys + Consulting (Radford), an outside consulting firm specializing in technology companies and a division of Aon Consulting, Inc., to conduct a review of its compensation program and provide compensation surveys for the Chief Executive Officer as well as for other key executives. Radford provides the Committee with relevant market data and alternatives to consider when making compensation decisions for the Chief Executive Officer and on the recommendations being made by the Company's management for executives other than the Chief Executive Officer.

In making compensation decisions, the Committee compares both total compensation and specific composition of total compensation against comparable officer positions in other publicly traded high technology companies with revenues of \$200 million to \$1 billion. The peer group was reviewed by the Committee, and includes companies against which the Committee believes Inter-Tel competes for talent and for stockholder investments. The committee has been working to achieve an appropriate composition of the elements of compensation that aligns more closely with stockholders interests by keeping fixed compensation on the lower end of the peer group, but allowing overall compensation to remain competitive by allowing for a more generous risk based incentive compensation.

The total compensation program for executives includes fixed cash as well as variable cash and equity-based compensation. The Compensation Committee determines the level of salary for executive officers and determines the salary or salary ranges based upon periodic reviews of base salary levels for comparable officer positions in similar companies of comparable size. Salary changes are based upon comparable market rates, the Compensation Committee's assessment of the executive's performance, and the scope and complexity of the position held.

### **2006 Executive Compensation Components**

#### *Base Salary*

The Company provides named executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. Base salary ranges for named executive officers are determined for each executive based on his or her position and responsibility by using market data. During its review of base salaries for executives for 2006, the Committee primarily considered:

market data provided by our outside consultants, including Radford surveys and consultation;

internal review of the executive's compensation, both individually and relative to other officers;

individual performance of the executive; and

criteria to properly allocate base salary and incentive targets to achieve results aligned with stockholders' interests. Salary levels are typically considered annually as part of the Company's performance review process as well as upon a promotion or other change in job responsibility. Merit based increases to salaries of named executive officers are based on the Committee's assessment of the individual's performance and on input from the Chief Executive Officer.

**Table of Contents***Performance-Based Incentive Compensation*

At the beginning of 2006, the Compensation Committee considered the Company's target earnings per share goals and the operating plans of the Company. In addition, the Committee took into consideration the following factors: past and anticipated performance of the individual and the company; compensation surveys; matching named executive management and other senior management compensation plans to corporate-wide goals, including revenue and earnings per share goals; new product and market expectations and competitive factors; offering incentives for profitable revenue growth; assets employed and consideration of best uses of corporate cash and investments; providing equity incentives, including stock options and performance share awards; excluding pro forma measurements items such as SFAS 123R from EPS incentive calculations; and other similar factors. The Compensation Committee set revenue and earnings per share performance levels for the consolidated Company, upon which incentives were established for each of the executives. Cash bonus awards, based upon meeting or exceeding such performance levels (limited to a maximum percentage of base salary), were set for each executive officer. With the exception of Mr. Ford, named executive officer bonuses were based entirely on Inter-Tel revenue and earnings per share targets. Twenty five percent (25%) of the bonus opportunity for Mr. Ford was based on earnings and other specific measurements within his operating segment of the Company, and seventy five percent (75%) was based on Inter-Tel's consolidated revenue and earnings per share targets. As fixed base compensation was set on the lower end of the peer group for the named executive officers, the Committee provided a larger percentage opportunity for maximum bonus targets, therefore allowing overall compensation to remain competitive should net sales and earnings per share targets be achieved. Maximum bonus awards as a percentage of annual base compensation were set for the named executive officers, as follows:

<b>Officer</b>	<b>2006 Bonus Target (as a percentage of annual base compensation)</b>	<b>Maximum 2006 Stretch Bonus Target (as a percentage of annual base compensation)</b>
Norman Stout	100%	150%
Craig W. Rauchle	100%	150%
Jeffrey T. Ford	100%	150%
John L. Gardner	70%	100%
Kurt R. Kneip	70%	100%

For 2006, bonus goals based on earnings per share calculations excluded the impact of the proxy battle and related costs, SFAS 123R expenses, legal costs incurred in the first quarter of 2006 in connection with a 2005 legal settlement, and certain tax benefits, each as more specifically identified in Inter-Tel's Annual Report on Form 10-K for the year ended December 31, 2006. In addition, the Committee is authorized to use its discretion to revise the calculated bonus amounts upwards or downwards based on any information the Committee deems appropriate.

The cash bonuses in the Summary Compensation Table reflect the performance of the named executive officers against the targets established at the beginning of each year. No bonuses were earned in connection with earnings per share goals for 2005, although Mr. Ford earned a bonus of \$14,261 based on measurements within his operating segment of the Company.

The Company granted stock options to four of the five above Named Executive Officers during the year ended December 31, 2006. Refer to Option Grants in Last Fiscal Year table for additional information.

*Stock Ownership Guidelines*

We have not adopted specific stock ownership guidelines for our officers, although such ownership is encouraged.

*Long-Term Incentive Compensation: Stock Options and Performance Share Awards*Stock Option Grants

Stock option grants assist the Company to enhance the link between the creation of stockholder value and long-term executive incentive compensation; provide an opportunity for increased equity ownership by executives; and maintain competitive levels of total compensation.

Stock option award levels vary among participants based on their positions within the Company and are granted pursuant to approval by the Committee or full Board of Directors. Newly hired or promoted



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employees, other than executive officers, receive their award of stock options, if applicable, on the first business day of the month on or after their hire or promotion, and only if sufficient options exist in a pool of options previously approved by the Compensation Committee of Board of Directors. Newly hired executive officers who are eligible to receive options may be awarded such options on the same basis as other employees, or as determined by the Compensation Committee or full Board of Directors.

Options are awarded at the Nasdaq closing price of the Company's Common Stock on the date of the grant. The Committee has never granted options with an exercise price that is less than the closing price of the Company's Common Stock on the grant date, nor has it granted options that are priced on a date other than the grant date.

Options granted vest annually over three to five years, with a ten-year option term. Vesting ceases upon termination of employment except in the case of death or total disability, although vested options may be exercised generally within 30 days of termination. Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights or the right to receive dividends or dividend equivalents.

Attributed costs of the stock options granted described above for the named executive officers for the fiscal year ended December 31, 2006, are included in column (f) of the Summary Compensation Table.

**Performance Share Awards**

Performance shares have been awarded based on the achievement of pre-established corporate performance goals over two-year performance periods. During the year ended December 31, 2006, the Company granted 80,000 performance shares of common stock. The performance share awards vest primarily with the achievement by the Company of certain earnings per share targets over the Company's fiscal years ended December 31, 2007 and December 31, 2008, with 50% vesting each year (on April 27 following the close of each respective fiscal year) upon the achievement of such targets. In the event either target is missed, the applicable shares for that year do not vest and are forfeited. The market price of the Company's common stock on the date of grant was \$23.44 for 41,000 performance shares awarded to selected non-executive officers on April 27, 2006 and \$21.23 for 39,000 performance shares granted to selected named executive officers on August 8, 2006. Expense is recognized in accordance with SFAS 123R over the vesting period for awards that are considered probable of vesting. For the year ended December 31, 2006, compensation expense totaling \$240,000 was recorded in connection with these awards. Such expense relates to the portion of the awards (currently 50 percent) that are considered probable of vesting. When the remaining 50% of the outstanding awards becomes probable of vesting, expense will be recorded in an amount that equals the cumulative expense that would have been recorded if the award had been considered probable of vesting from the date of the grant.

Attributed costs of the performance share awards described above for the named executive officers for the fiscal year ended December 31, 2006, are included in column (e) of the Summary Compensation Table.

**Employee Stock Purchase Plan**

The Company maintains an Employee Stock Purchase Plan, under which eligible employees are granted the right to purchase shares of Inter-Tel Common Stock at a price per share that is 85% of the lesser of the fair market value of the shares at: (i) the participant's entry date into each six-month offering period, or (ii) the end of each six-month offering period. Employees may designate up to 10% of their compensation for the purchase of stock. Under the Plan, we sold 62,257 shares for approximately \$1,113,000 (\$17.88 per share) to employees in 2006, 69,325 shares for approximately \$1,196,000 (\$17.25 per share) to employees in 2005, and 49,758 shares for approximately \$1,051,000 (\$21.13 per share) to employees in 2004. None of the named executive officers participated in the plan from 2004 to 2006. At December 31, 2006, 335,002 shares remained authorized under the Plan, although the Plan is scheduled to expire pursuant to its terms at its original 10-year plan expiration date of May 30, 2007, after the current six-month Offering Period ends.

**Retirement Benefits**

Inter-Tel offers a 401(k) defined contribution plan to its employees based in the United States, including its named executive officers. Since the 401(k) plan's inception, the Company has matched a

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percentage of elective employee contributions. In recent years, the Company has matched 50% of individual contributions up to a maximum of 6% of annual base salary. 401(k) match amounts for the named executive officers are included in the Summary Compensation Table and related footnotes. The Company does not offer other pension or retirement programs to its employees or named executive officers.

*Nonqualified Deferred Compensation*

Inter-Tel does not offer deferred compensation programs to its employees or named executive officers.

*Perquisites and Certain Other Benefits*

To remain competitive in the market for a high-caliber management team, Inter-Tel provides some of its executive officers, including the CEO, with certain fringe benefits, including a car allowance to three of its five named executive officers; reimbursement of club dues to two of its named executive officers; use by selected individuals of Inter-Tel telephone systems in the home; and selected use of corporate aircraft for business purposes. The Committee periodically reviews fringe benefits made available to the Company's executive officers, including the CEO. For additional information regarding the personal benefits described above for the named executive officers for the fiscal year ended December 31, 2006, refer to column (i) of the Summary Compensation Table.

Named executive officers are also offered the same benefits as other employees, including Company-sponsored health, medical and dental benefits; life insurance options; and flexible spending benefits for reimbursement of medical and dependent care expenses. For additional information regarding fringe benefits made available to the Company's executive officers, please see Summary Compensation Table.

The Company has entered into Change of Control Severance Agreements with the named executive officers. The Change of Control Severance Agreements are designed to promote stability and continuity of senior management. Information regarding applicable payments under such agreements for the named executive officers is provided under the heading Potential Payments Made Upon Termination on page 17 for additional information.

**Chief Executive Officer**

The Chief Executive Officer's salary for 2006 was determined based upon a review of the salaries of Chief Executive Officers of similar companies of comparable size and capitalization and upon a review of the Chief Executive Officer's performance compared with the prior year and the 2006 budget. Consideration was also given to the tenure of the new CEO with the Company and his knowledge of the Company and the telecommunications industry. As fixed base compensation was set on the lower end of the peer group for the chief executive officer, the Committee provided a larger percentage opportunity for his maximum bonus target, therefore allowing overall compensation to remain competitive should net sales and earnings per share targets be achieved. The Compensation Committee determined that the CEO's 2006 maximum bonus opportunity should increase to 150% of base salary compared to 125% of base salary in 2005. For 2007, the Compensation Committee determined that the CEO's 2007 target bonus opportunity should be 100% of base salary, with a maximum bonus opportunity of 125% of base salary.

The Company entered into an employment agreement with the CEO during October 2006. The employment agreement outlines Mr. Stout's duties, term of employment (awarded a contract through August 1, 2009), salary, bonus, benefits and perquisites, as well as termination provisions. Refer to Potential Payments Made Upon Termination on page 17 for additional information regarding Mr. Stout's employment agreement.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Form 10-K/A.

April 30, 2007

COMPENSATION COMMITTEE:  
J. Robert Anderson (Chairman),  
Robert Rodin, and  
Agnieszka Winkler





**Table of Contents****SUMMARY COMPENSATION TABLE**

The table below summarizes the total compensation paid or earned by each of the named executive officers for the fiscal year ended December 31, 2006. The Company entered into an employment agreement with Mr. Stout during 2006. In addition, although the Company has not entered into any employment agreements with any of the other named executive officers, in March 2004 the Company entered into change of control severance agreements with Messrs. Rauchle, Ford, Gardner and Kneip (refer to Exhibits 10.63 and 10.64 of our Annual Report on Form 10-K filed March 12, 2004). When setting total compensation for each of the named executive officers, the Committee reviews the executive's compensation, including equity and non-equity based compensation.

The named executive officers were entitled to receive bonus payments for the fiscal year ended December 31, 2006 pursuant to achievement of pre-determined goals established by the Compensation Committee and approved by the Board of Directors for 2006. Amounts listed under column (g), Non-Equity Incentive Plan Compensation, include such bonuses accrued at December 31, 2006, which were paid out before March 15, 2007.

The following table sets forth information regarding compensation earned by our current and former Chief Executive Officers, our Chief Financial Officer and three other most highly compensated executive officers during 2006:

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-Qualified Deferred Compensation Earnings	All Other Compensation	Total (\$)
		(\$ (1))	(\$ (d))	(\$ (2))	(\$ (3))	(\$ (4))	(\$ (h))	(\$ (5))	(j)
(a) Norman Stout Current Chief Executive Officer	2006	400,001		61,750	469,028	283,000		18,209	1,231,988
Steven G. Mihaylo (6) Former Chief Executive Officer	2006	125,260						1,676	126,936
Craig W. Rauchle President and Chief Operating Officer	2006	365,000		24,700	440,428	258,238		18,209	1,106,575
Jeffrey T. Ford Sr. Vice President and Chief Technology Officer	2006	281,000		4,940	64,012	149,407		6,715	506,074
John L. Gardner Sr. Vice President and General Counsel	2006	210,001		4,940	47,179	104,003		12,441	378,564
Kurt R. Kneip Sr. Vice President, Chief Financial Officer, Secretary and Assistant Treasurer	2006	201,000			12,723	88,392		6,115	308,230

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- (1) Salary includes base salary and payment in respect of accrued vacation, holidays, and sick days.
- (2) The amounts in column (e) reflect the dollar amounts recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with SFAS 123R of performance share awards and thus include amounts from awards granted in 2006. The total shares that may be issued under the performance share awards to each of the individuals is as follows:

Stout 25,000

Rauchle 10,000

Ford 2,000

Gardner 2,000

Assumptions used in the calculation of these amounts are based on the likelihood of meeting or exceeding pre-established EPS goals established for 2007 and 2008 (50% of the awards for each year). As of December 31, 2006, the Company has deemed probable the likelihood of attaining only the 2007 EPS goals (not the 2008 EPS goals) as set forth in the awards; accordingly, stock-based compensation has been accrued through December 31, 2006 related to these awards.

- (3) The amounts in column (f) reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with SFAS 123R of stock option awards and thus include amounts from awards granted in and prior to 2006. Assumptions used in the calculation of this amount are included in footnote B to the Company's audited financial statements for the fiscal year ended December 31, 2006 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2007.
- (4) The amounts in column (g) reflect the cash awards to the named individuals under the bonus plan, which is discussed in further detail on page 10 under the heading "Performance-Based Incentive Compensation". For the year 2006, the Non-Stock Incentive Plan Compensation listed on this table reflects the performance of the Chief Executive Officer and each of the named executive officers in the year shown for the 2006 incentive bonus plan. These bonuses were paid on March 8, 2007.
- (5) Includes the following payments we paid to or on behalf of the executives:

Name and Principal Position	Year	Car Allowance (\$)	Club Memberships (\$)	Moving Allowance (\$)	Life Insurance Premiums (\$)	401(k)	Other (\$)(7)	Total (\$)
						Matching Contributions		
Norman Stout	2006	6,398	5,096		90	6,600	25	18,209
Steven G. Mihaylo	2006	1,600			76			1,676
Craig W. Rauchle	2006	6,000	6,009		145	5,263	792	18,209
Jeffrey T. Ford	2006				90	6,600	25	6,715
John L. Gardner	2006	6,000			416	6,000	25	12,441
Kurt R. Kneip	2006				60	6,030	25	6,115

- (6) Mr. Mihaylo resigned as Chief Executive Officer on February 22, 2006 and he resigned as a member of the Board of Directors on March 6, 2006. Mr. Mihaylo rejoined the Board of Directors on May 6, 2006. Amounts included in the above table represent compensation only for the period Mr. Mihaylo served as Inter-Tel's CEO and not the period he served as a Director beginning February 23, 2006. During his term as Chief Executive Officer, Mr. Mihaylo received no compensation for his service on the Board of Directors. Compensation paid to Mr. Mihaylo for his service on the Board of Directors is included in the Director Summary Compensation Table.
- (7) The Company offers the same health care programs and benefits to named executive officers as it does to other full-time associates of the Company. Accordingly, no amounts have been included in other compensation associated with Company health care contributions related to these programs and benefits. Messrs. Stout, Rauchle and Ford have Inter-Tel IP telephones that can be plugged in at their homes and offices, and Mr. Mihaylo has an Inter-Tel telephone system in his home. No amounts have been included in other compensation related to these telephones or telephone systems. During 2006, Mr. Rauchle had access to the Company aircraft principally for business use. No amounts have been included in the above tables for such use based on the de minimus incremental costs to the Company.



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**GRANTS OF PLAN BASED AWARDS**

<b>Estimated Future Payouts</b>	<b>Estimated Future Payouts</b>
<b>Under Non-Equity Incentive</b>	<b>Under Equity Incentive</b>
<b>Plan Awards (1)</b>	<b>Plan Awards (2)</b>