

INTER TEL INC
Form 11-K
June 29, 2006

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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, 2005**

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, 2005 and 2004
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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 and Retirement Trust at December 31, 2005 and 2004, and the related statement of changes in net assets available for benefits for the year ended December 31, 2005. 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, 2005 and 2004, and the changes in net assets available for benefits for the year ended December 31, 2005 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 15, 2006

Phoenix, Arizona

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

| | December 31, | |
|--|----------------------|----------------------|
| | 2005 | 2004 |
| ASSETS: | | |
| Cash and cash equivalents | \$ 15,030 | \$ 10,265 |
| Investments, at fair value | 67,031,368 | 58,773,340 |
| Receivables | | |
| Employer contribution | 1,903,281 | 1,752,905 |
| Participant contributions | 213,505 | 164,999 |
| Total receivables | 2,116,786 | 1,917,904 |
| Total Assets | 69,163,184 | 60,701,509 |
| LIABILITIES: | | |
| Excess contribution refund payable | 124,273 | 109,974 |
| NET ASSETS AVAILABLE FOR BENEFITS | \$ 69,038,911 | \$ 60,591,535 |

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, 2005

Additions:

Contributions:

| | |
|-------------|--------------|
| Employer | \$ 1,905,906 |
| Participant | 6,319,163 |
| Rollovers | 657,130 |

| | |
|---------------------|-----------|
| Total contributions | 8,882,199 |
|---------------------|-----------|

| | |
|---|-----------|
| Interest and dividends | 2,477,970 |
| Net appreciation in fair value of investments | 242,117 |

| | |
|-----------------|------------|
| Total additions | 11,602,286 |
|-----------------|------------|

Deductions:

| | |
|-------------------------------|-----------|
| Benefits paid to participants | 3,095,694 |
| Administrative expenses | 59,216 |

| | |
|------------------|-----------|
| Total deductions | 3,154,910 |
|------------------|-----------|

| | |
|--------------|-----------|
| Net increase | 8,447,376 |
|--------------|-----------|

| | |
|--|------------|
| Net assets available for benefits, beginning of year | 60,591,535 |
|--|------------|

| | |
|--|---------------|
| Net assets available for benefits, end of year | \$ 69,038,911 |
|--|---------------|

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, 2005 AND 2004**

(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). 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. 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 to the Plan a percentage or dollar amount of their annual compensation up to the annual 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 2005, the Company matched 50% of the participant s basic contribution limited to six percent of the participant s 2005 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. 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, 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 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.

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Forfeitures Forfeited balances of terminated participants' nonvested accounts are used to reduce employer contributions. In 2005, forfeitures totaled \$130,577 and are reflected as a reduction of the employer contributions receivable and employer contributions at December 31, 2005 in the accompanying financial statements.

Participant loans Participants can 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 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.

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. 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, and the reported amounts of changes in net assets 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 any combination of mutual and other investment funds.

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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:

| | December 31 | |
|----------------------------------|--------------------|---------------|
| | 2005 | 2004 |
| Investments at fair value: | | |
| Common stock | \$ 8,236,736 | \$ 7,076,257 |
| Preferred stock | 3,645 | 3,750 |
| Corporate obligations | 51,714 | 61,039 |
| Common/collective trusts | 3,858,278 | 1,955,373 |
| Money market accounts | 8,551,687 | 8,114,166 |
| Mutual funds | 44,368,577 | 38,506,142 |
| Unit investment trusts | 317,142 | 1,560,551 |
| Participant loans | 1,579,458 | 1,435,900 |
| Other assets | 10,186 | |
| Limited partnerships | 11,133 | 17,350 |
| Promissory note | 12,612 | 12,612 |
| Limited liability company units | 30,200 | 30,200 |
| Total investments, at fair value | \$ 67,031,368 | \$ 58,773,340 |

During 2005, 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 stock | \$ (513,019) |
| Preferred stock | (102) |
| Corporate obligations | (9,090) |
| Common/collective trusts | 224,493 |
| Mutual funds | 549,175 |
| Limited partnerships | 1,188 |
| Unit investment trusts | (10,528) |
| | \$ 242,117 |

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

| | 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 |

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| | 2005 |
|---|-------------|
| | 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 Government Security Fund | 7,230,469 |
| Schwab S&P 500 - Investor SHS | 4,364,578 |
| Vanguard Windsor II Fund | 5,589,981 |
| (4) <u>Administrative expenses</u> | |

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 \$59,216 for the year ended December 31, 2005.

(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.

Table of Contents**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, 2005**

| (a) | (b) Identity of issue, borrower, lessor or similar party | (c) Description of investment including maturity date and rate of interest, collateral, par or maturity value | (d) Cost | (e) Current value |
|-----|---|---|----------|----------------------|
| | Common stocks: | | ** | |
| | AT&T Inc | 9,000 shares | ** | \$220,410 |
| | ABB Ltd ADR | 400 shares | ** | 3,888 |
| | ADAPTEC | 200 shares | ** | 1,164 |
| | Advanced Photonix CL A | 1,000 shares | ** | 2,760 |
| | Advanced Viral Research | 13,000 shares | ** | 910 |
| | Alexander & Baldwin, Inc. | 50.694 shares | ** | 2,750 |
| | Allianz AG ADR | 300 shares | ** | 4,542 |
| | Aluminum Corp China ADR | 6 shares | ** | 458 |
| | Amazon Com, Inc. | 200 shares | ** | 9,430 |
| | Amdocs Limited | 200 shares | ** | 5,500 |
| | America Movil ADR | 300 shares | ** | 8,709 |
| | American Cap Strategies, Ltd | 100 shares | ** | 3,621 |
| | American International Group | 5,000 shares | ** | 341,150 |
| | American Technology Corp | 2,000 shares | ** | 6,620 |
| | Amerisourcebergen Corp | 200 shares | ** | 8,280 |
| | Ameritrade Hldg Corp | 200 shares | ** | 4,800 |
| | Amgen Incorporated | 49 shares | ** | 3,864 |
| | Amicas, Inc. | 1,548 shares | ** | 7,678 |
| | Amsurg Corp | 90 shares | ** | 2,057 |
| | Amylin Pharmaceuticals, Inc | 2,000 shares | ** | 79,840 |
| | Anglogold Ashanti ADR | 50 shares | ** | 2,466 |
| | Anheuser Busch Co. Inc. | 300 Shares | ** | 12,888 |
| | Apple Computer, Inc. | 110 shares | ** | 7,908 |
| | Applied Digital Solu | 1,753 shares | ** | 5,013 |
| | Applied Materials, Inc. | 400 shares | ** | 7,176 |
| | Arthrocare Corp | 100 shares | ** | 4,214 |
| | Barrick Gold Corporation | 400 shares | ** | 11,148 |
| | Best Buy, Inc. | 225 shares | ** | 9,783 |
| | BHP Billiton Ltd ADR | 100 shares | ** | 3,342 |
| | Bluefly, Inc. | 2,597 shares | ** | 2,909 |
| | Broadwing, Corp | 4 shares | ** | 24 |
| | Brown & Brown, Inc. | 600 shares | ** | 18,324 |
| | CB Richard Ellis Group, Inc. | 50 shares | ** | 2,942 |
| | Cal Dive International, Inc. | 100 shares | ** | 3,589 |

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| | | | |
|------------------------|----------------|----|--------|
| Calamp Corp | 200 shares | ** | 2,098 |
| Calpine Corporation | 1,000 shares | ** | 208 |
| Castelle, Inc. | 300 shares | ** | 930 |
| Celgene Corp | 60 shares | ** | 3,888 |
| Cemex SA ADR | 30 shares | ** | 1,780 |
| China Pete & Chem ADR | 45 shares | ** | 2,232 |
| Cinergy Corp | 40 shares | ** | 1,698 |
| Cisco System, Inc. | 3,350 shares | ** | 57,352 |
| Coca Cola Company | 352.622 shares | ** | 14,214 |
| Coeur D Alene Mines CP | 5,500 shares | ** | 22,000 |

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| (a) | (b) Identity of issue, borrower, lessor or similar party | (c) Description of investment including maturity date and rate of interest, collateral, par or maturity value | (d) Cost | (e) Current value |
|-----|---|---|----------|----------------------|
| | Conexant Systems, Inc. | 1,000 shares | ** | 2,260 |
| | Conoco Phillips | 200.985 shares | ** | 11,693 |
| | Consolidated Edison, Inc. | 40 shares | ** | 1,853 |
| | Covad Commun Group, Inc. | 750 shares | ** | 735 |
| | Coventry Health Care, Inc. | 6,000 shares | ** | 341,760 |
| | Critical Path, Inc. | 6 shares | ** | 2 |
| | Cryptologic, Inc. | 200 shares | ** | 3,918 |
| | Cummins Engine, Inc. | 35.391 shares | ** | 3,175 |
| | Cyberonics, Inc. | 100 shares | ** | 3,230 |
| | Davita, Inc. | 45 shares | ** | 2,279 |
| | Dell, Inc. | 500 shares | ** | 14,975 |
| | Desire Petroleum ORD | 1,000 shares | ** | 566 |
| | Devon Energy CP | 100 shares | ** | 6,254 |
| | Digital Lightwave, Inc. | 210 shares | ** | 44 |
| | DSL.net, Inc. | 1,000 shares | ** | 40 |
| | Dun & Bradstreet, Corp | 4,000 shares | ** | 267,840 |
| | Earthshell, Corp | 8,000 shares | ** | 16,000 |
| | EBay, Inc. | 426 shares | ** | 18,412 |
| | EduLink, Inc. | 43,000 shares | ** | 17 |
| | Emulex, Corp | 600 shares | ** | 11,874 |
| | Encana Corporation | 80 shares | ** | 3,613 |
| | Exxon Mobil Corporation | 300.988 shares | ** | 16,906 |
| | First Horizon National Corp | 40 shares | ** | 1,538 |
| | Flextronics International, Ltd. | 600 shares | ** | 6,264 |
| | Forest Labs, Inc. | 100 shares | ** | 4,068 |
| | Foster Wheeler, Ltd | 900 shares | ** | 1,818 |
| | Foster Wheeler ORD | 45 shares | ** | 1,655 |
| | Foundry Networks, Inc. | 50 shares | ** | 690 |
| | Freeport-McMoran Copper & Go CL B | 200 shares | ** | 10,760 |
| | Freescale SemiConductor CL B | 161 shares | ** | 4,052 |
| | Frontline Ltd ORD | 203.415 shares | ** | 7,713 |
| | Frozen Food Express INDS | 270 shares | ** | 2,978 |
| | Garmin, Ltd | 100 shares | ** | 6,635 |
| | General Electric Company | 2,117.019 shares | ** | 74,202 |
| | Global Industries | 70 shares | ** | 795 |
| | Globalstar Telecom ORD | 500 shares | ** | 5 |
| | Goldcorp, Inc. | 500 shares | ** | 11,140 |
| | Goldspring, Inc. | 20,000 shares | ** | 440 |
| | Great Plains Energy, Inc. | 50 shares | ** | 1,398 |

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| | | | |
|-----------------------------------|------------------|----|-----------|
| Gunslinger Records, Inc. | 42,500 shares | ** | 43 |
| Hewlett-Packard Company | 689 shares | ** | 19,726 |
| Hollis-Eden Pharmaceuticals, Inc. | 1,000 shares | ** | 4,840 |
| Home Depot, Inc. | 1,291.157 shares | ** | 52,266 |
| HSBC HLDGS PLC ADR | 25 shares | ** | 2,012 |
| Imergent, Inc. | 250,000 shares | ** | 1,650,000 |
| IMPath Liquidating TR | 16 shares | ** | 32 |
| Intel Corp | 4,664.4 shares | ** | 116,423 |
| Inter-Tel Inc. Common Stock | 169,106 shares | ** | 3,309,404 |
| Intl Business Machines | 102.679 shares | ** | 8,440 |
| Intl Game Technology | 11 shares | ** | 339 |
| Intuitive Surgical | 50 shares | ** | 5,864 |
| Ionatron, Inc. | 3,000 shares | ** | 30,330 |
| Iridium World Communications CL | 60 shares | ** | 1 |
| ISCO International, Inc. | 4,640 shares | ** | 1,485 |

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| (a) | (b) Identity of issue, borrower, lessor or similar party | (c) Description of investment including maturity date and rate of interest, collateral, par or maturity value | (d) Cost | (e) Current value |
|-----|---|---|----------|----------------------|
| | K-Tel Intl Inc. | 362 shares | ** | 9 |
| | Keyspan Corp | 45 shares | ** | 1,606 |
| | Knightsbridge Tankers, Ltd. | 102.253 shares | ** | 2,480 |
| | Level 3 Communications, Inc. | 2,000 shares | ** | 5,740 |
| | Ligand Pharmaceuticals Class B | 300 shares | ** | 3,345 |
| | Lowes Companies | 1,472.837 shares | ** | 98,179 |
| | Lucent Technologies, Inc. | 18,368 shares | ** | 48,859 |
| | Mangosoft Inc. | 9 shares | ** | 36 |
| | Marvel Entertainment, Inc. | 100 shares | ** | 1,638 |
| | Marvell Tech Group, Ltd. | 100 shares | ** | 5,609 |
| | Maxim Integrated prods, Inc. | 65 shares | ** | 2,356 |
| | Maxtor Corp | 1,000 shares | ** | 6,940 |
| | McHenry Metals Golf Corp | 5,000 shares | ** | 1 |
| | McLeodUSA, Inc.CL A | 111 shares | ** | 1 |
| | Merck & Co, Inc. | 1,500 shares | ** | 47,715 |
| | Microage, Inc. Neomagic Corp. | 250 shares | ** | 1 |
| | Microsoft Corp Network Commerce, Inc. | 4,812.07 shares | ** | 125,836 |
| | Millipore Corp NMS Communications | 50 shares | ** | 3,302 |
| | Motorola Incorporated Nokia Corp | 1,723.877 shares | ** | 38,942 |
| | Movie Gallery, Inc. Nortel Networks Corp. | 1,000 shares | ** | 5,610 |
| | Moving Bytes, Inc. Northpoint Communication Holdings | 10,000 shares | ** | 100 |
| | National-Oilwell, Inc. Northwestern Corp. | 92 shares | ** | 5,768 |
| | Neomagic Corp Novell, Inc. | 100 shares | ** | 856 |
| | Neopharm, Inc. Oilex, inc. | 300 shares | ** | 3,237 |
| | Netflix, Inc. Oracle Corp. | 3,140 shares | ** | 84,968 |
| | Newmont Mining Corp Palm, Inc. | 450.454 shares | ** | 24,054 |
| | NMS Communications Penn Traffic Co. | 1,101 shares | ** | 3,842 |
| | Nokia Corp SPON ADR Perot System Corp. | 594 shares | ** | 10,870 |
| | Nortel Networks CP Petsmart, Inc. | 18,865 shares | ** | 57,727 |
| | Northpoint Commun HLDGS Pfizer, Inc. | 1,000 shares | ** | 1 |
| | Novartis AG NovkPinnacle Systems | 50 shares | ** | 2,624 |
| | O Reilly Automotive, Inc. PNC Bk Corp. | 1,000 shares | ** | 32,010 |
| | Oilex Inc. Polycom | 9,000 shares | ** | 1 |
| | Oracle Corporation Practiceworks, Inc. | 2,200 shares | ** | 26,862 |
| | Pacific Sunwear California Inc. Priceline.com, Inc. | 100 shares | ** | 2,492 |
| | Packeteer, Inc. Qualcomm, Inc. | 100 shares | ** | 777 |
| | Palm, Inc. Qwest Communications International | 7 shares | ** | 223 |
| | Patterson Companies Read-Rite Corp. | 300 shares | ** | 10,020 |

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| | | | |
|---|------------------|----|--------|
| Petrochina CO ADR RF Micro Devices Inc. | 35.853 shares | ** | 2,938 |
| Pfizer Incorporated Ribozyme Pharm, Inc. | 1,000 shares | ** | 23,320 |
| Pinnacle West Cap Corp Ritchie Brothers Auctioneers | 40 shares | ** | 1,654 |
| Polycom Saba Software, Inc. | 101 shares | ** | 1,545 |
| Priceline.com Inc. Save the World Air, Inc. | 33 shares | ** | 737 |
| Procter & Gamble Co. Scientific Atlanta, Inc. | 195 shares | ** | 11,287 |
| Psychiatric Solutions Sears Roebuck & Company | 65 shares | ** | 3,818 |
| Qwest Communs International, Inc. Siebel Systems, Inc. | 1,966.052 shares | ** | 11,108 |
| Rayonier, Inc. Sonic Corp. | 69.004 shares | ** | 2,750 |
| Redhat, Inc. Southtrust Corp. | 500 shares | ** | 13,630 |
| Regions Financial CP Regions Southwest Airlines | 40 shares | ** | 1,366 |
| RF Micro Devices, Inc. Spectralink Corp. | 100 shares | ** | 541 |
| Ritchie Bros Auctioneers Storagenetworks, Inc. | 1,000 shares | ** | 42,250 |
| Sandisk, Corp. Sun Microsystems, Inc. | 200 shares | ** | 12,564 |
| Save the World Air, Inc. Sysco Corp. | 5,900 shares | ** | 4,248 |
| Scientific Atlanta, Inc. Target Corp. | 50 shares | ** | 2,154 |

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| (a) | (b) Identity of issue, borrower, lessor or similar party | (c) Description of investment including maturity date and rate of interest, collateral, par or maturity value | (d) Cost | (e) Current value |
|-----|---|---|----------|-------------------|
| | Sonic, Corp. Targeted Genetics Corp. | 150 shares | ** | 4,425 |
| | Southwest Airlines, Co. Teardrop Golf Company | 135 shares | ** | 2,218 |
| | Spectralink, Corp. Techne Corp. | 500 shares | ** | 5,935 |
| | Starbucks, Corp. Telaxis Communications Corp. | 30 shares | ** | 900 |
| | Stericycle, Inc. Telefonos de Mexico | 50 shares | ** | 2,944 |
| | Stryker, Corp. Terayon Communication Systems | 1,000 shares | ** | 44,430 |
| | Sun Microsystems, Inc. Texas Instruments, Inc. | 1,200 shares | ** | 5,028 |
| | Suncor Energy, Inc. The Charles Schwab Corp. | 50 shares | ** | 3,157 |
| | Superconductor Tech Tyco Intl. Ltd. | 90 shares | ** | 39 |
| | Symantec Corp U. S. Physical Therapy, Inc. | 200 shares | ** | 3,500 |
| | Sysco Corp Vitalworks, Inc. | 1,000 shares | ** | 31,050 |
| | Target Corporation Vitesse Semiconductor Corp. | 204.515 shares | ** | 11,242 |
| | Tektronix, Inc. Walgreen Company | 100.255 shares | ** | 2,828 |
| | Telefon DE MX A ADR | 200 shares | ** | 4,848 |
| | Tenaris S A ADR | 55 shares | ** | 6,298 |
| | Terabeam, Inc. | 450 shares | ** | 1,251 |
| | Texas Instruments, Inc. | 700 shares | ** | 22,449 |
| | The Charles Schwab, Inc. | 1,000 shares | ** | 14,670 |
| | Thor Industries, Inc. | 100.737 shares | ** | 4,037 |
| | Tidewater Inc./Citizen Certificates | 70.746 shares | ** | 3,145 |
| | Time Warner, Inc. | 100 shares | ** | 1,744 |
| | TXU Corp | 0.487 shares | ** | 24 |
| | Tyco Intl, Ltd. | 500 shares | ** | 14,430 |
| | Universal Forest Product | 55 shares | ** | 3,039 |
| | Universal Tech Institute | 400 shares | ** | 12,376 |
| | Verisign, Inc. | 200 shares | ** | 4,380 |
| | Vintage Pete, Inc. | 0.138 shares | ** | 7 |
| | Wachovia, Corp. | 2,780 shares | ** | 146,951 |
| | Wal-Mart Store, Inc. | 1,030 shares | ** | 48,204 |
| | Walgreen Co. | 203.864 shares | ** | 9,023 |
| | Washington Mutual Inc. | 349 shares | ** | 15,182 |
| | Wattage Monitor, Inc. | 6,000 shares | ** | 1 |
| | Wellpoint, Inc. | 100 shares | ** | 7,979 |
| | Willis Group Holdings | 300 shares | ** | 11,082 |
| | Xerox Corp. | 1.947 shares | ** | 29 |
| | Zones, Inc. | 200 shares | ** | 1,000 |
| | 3Com Corp | 100 shares | ** | 360 |
| | 8x8 Inc | 2,500 shares | ** | 4,625 |

| | | | |
|-------------------------------------|-------------------|----|-----------|
| Total common stocks | | | 8,236,736 |
| Preferred Stock: | | | |
| Annaly Mtg Mgmt PFD | 150 shares | ** | 3,645 |
| Mutual funds: | | | |
| Acadian Emerging Mkts Port Instl CL | 384.556 shares | ** | 9,783 |
| Allianz RCM Global healthcare Fund | 553.710 shares | ** | 12,342 |
| Alpine Intl Real Estate Equity FD | 558.489 shares | ** | 16,972 |
| American Balanced Fund CL | 636.292 shares | ** | 11,339 |
| Ariel | 19,596.986 shares | ** | 981,221 |
| Ariel Appreciation Fund | 173.686 shares | ** | 8,115 |
| Ariel Fund | 572.752 shares | ** | 28,678 |
| Artisan International Fund | 693.896 shares | ** | 17,563 |
| Artisan International Value Fund | 153.356 shares | ** | 3,383 |

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| (a) | (b) Identity of issue, borrower, lessor or similar party | (c) Description of investment including maturity date and rate of interest, collateral, par or maturity value | (d) Cost | (e) Current value |
|-----|---|---|----------|-------------------|
| | Artisan Midcap FD | 176.568 shares | ** | 5,459 |
| | Artisan Midcap Value Fund | 1,946.281 shares | ** | 36,493 |
| | Baron Asset Fund | 65.789 shares | ** | 3,703 |
| | Baron Growth Fund | 84,245.248 shares | ** | 3,824,734 |
| | Bridgeway Ultra-Small Co Market | 1,431.858 shares | ** | 25,688 |
| | Burnham Financial Services FD | 153.261 shares | ** | 3,241 |
| | Calamos Growth A | 31,709.979 shares | ** | 1,745,951 |
| | Calamos Growth FD CL A | 359.156 shares | ** | 19,775 |
| | Calvert Income Fund | 156.452 shares | ** | 2,622 |
| | Chase Growth Fund | 135.062 shares | ** | 2,620 |
| * | Constellation TIP Health Biotech II | 151.472 shares | ** | 2,414 |
| | Dodge & Cox Balanced Fund | 719.391 shares | ** | 58,515 |
| | Dodge & Cox Intl Stock Fund | 3,118.646 shares | ** | 109,246 |
| | Dodge & Cox Stock Fund | 47.009 shares | ** | 6,450 |
| | Dreyfus Appreciation Fund | 902.070 shares | ** | 35,857 |
| | Dreyfus Midcap Index Fund | 419.987 shares | ** | 11,734 |
| | Dreyfus Premier Emerging Markets CL | 639.740 shares | ** | 13,831 |
| | Dreyfus Small Cap Stock Index | 334.815 shares | ** | 7,178 |
| | Equity Residual PPTY Trust | 115.306 shares | ** | 4,511 |
| | Fairholme Fund | 1,725.994 shares | ** | 43,478 |
| | Fidelity Latin American Fund | 154.818 shares | ** | 4,951 |
| | Fidelity Magellan Fund | 314.872 shares | ** | 33,515 |
| | First Eagle Overseas A | 304,299.47 shares | ** | 7,011,060 |
| | FPA Capital Fund | 1,130.048 shares | ** | 48,456 |
| | Franklin SM Cap Growth CL A | 258.826 shares | ** | 9,763 |
| | Growth Fund of America R4 | 206,798.399 shares | ** | 6,344,575 |
| | Growth Fund of America CL Fund | 624.787 shares | ** | 19,181 |
| | Harbor Bond Fund | 108.302 shares | ** | 1,258 |
| | Harbor International Growth Fund | 157.841 shares | ** | 1,733 |
| | Harding Loevner Emerging Markets | 598.091 shares | ** | 20,808 |
| | Hennessy Cornerstone Growth Fund | 1,698.097 shares | ** | 32,875 |
| | ICAP International Fund | 206.756 shares | ** | 6,800 |
| | ICAP Select Equity Port | 70.843 shares | ** | 2,562 |
| | Icon Information Tech Fund | 418,361.857 shares | ** | 3,656,483 |
| | Inst 1 Select S&P50 Index | 1,773.357 shares | ** | 17,379 |
| | Janus Growth & Income Fund | 405.449 shares | ** | 14,600 |
| | Janus Mid Cap Value Inv Shares | 834.315 shares | ** | 18,622 |
| | Janus Overseas Fund | 138.160 shares | ** | 4,398 |
| | JPMorgan Core Bond Fund | 230,450.174 shares | ** | 2,449,685 |

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| | | | |
|-------------------------------------|------------------|----|---------|
| Laudus US Small Cap Investor Shares | 118.289 shares | ** | 1,453 |
| Loomis Sayles Bond Fund | 3,295.455 shares | ** | 44,686 |
| Loomis Sayles Small Cap | 651.242 shares | ** | 16,301 |
| Managers Fremont Micro Cap Fund | 51.921 shares | ** | 1,648 |
| Managers Special Equity Fund | 36.059 shares | ** | 3,129 |
| Meridian Value FD | 690.616 shares | ** | 23,916 |
| MFA Mortgage Investments | 300 shares | ** | 1,710 |
| Navellier Mid Cap Growth | 1,677.852 shares | ** | 49,077 |
| NB Genesis Fund | 129.555 shares | ** | 4,401 |
| NB International FD Inv Class | 821.953 shares | ** | 17,812 |
| NB Ltd maturity Bond Fund | 480.497 shares | ** | 4,387 |
| Oakmark Equity Income FD | 6,366.953 shares | ** | 159,046 |
| Oakmark Fund | 552.269 shares | ** | 22,577 |
| Oakmark International Fund | 303.547 shares | ** | 6,836 |
| Oppenheimer Developing markets CL A | 1,229.477 shares | ** | 44,667 |

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|-----|---|---|----------|-------------------|
| | Oppenheimer Intl Bond Fund CL A | 443.664 shares | ** | 2,556 |
| | Pimco Emerging Markets Bond Fund CL D | 452.554 shares | ** | 5,051 |
| | Pimco Total Return Fund Instl Class | 8,166.556 shares | ** | 85,749 |
| | Pioneer Mid Cap Value Fund CL A | 491.4 shares | ** | 11,469 |
| | Putnam Growth & Income CL A | 1,513.304 shares | ** | 29,857 |
| | Putnam Intl Equity Fund CL A | 115.054 shares | ** | 3,006 |
| | Royce Total Return Fund | 1,725.171 shares | ** | 21,737 |
| | RS Smaller Company Growth Fund | 855.139 shares | ** | 18,052 |
| | Schwab Premier Equity Inv Shares | 1,006.438 shares | ** | 11,433 |
| | Schwab Short-Term Bond Market Index Fund | 1,220.634 shares | ** | 12,133 |
| | | 253,255.731 | | |
| | Schwab S&P500 Index Inv | shares | ** | 4,862,510 |
| | Schwab Total Bond Market Index Fund | 1,402.208 shares | ** | 13,868 |
| | Schwab Total Stock Market Inv | 17,583.441 shares | ** | 375,231 |
| | Schwab 1000 Index Fund Investor SHA | 413.086 shares | ** | 14,966 |
| | Selected American Shares | 841.379 shares | ** | 33,849 |
| | Senior High Income Portfolio Inc. | 112.367 shares | ** | 632 |
| | Sound Shore Fund | 557.620 shares | ** | 20,426 |
| | SSGA Intl Stock Selection Fund | 248.880 shares | ** | 2,745 |
| | Strong Advisor Common Stock Fund CL Z | 726.838 shares | ** | 15,823 |
| | Tamarack Mico Cap Value Fund CL S | 945.072 shares | ** | 18,920 |
| | Templeton Developing markets Trust | 294.034 shares | ** | 6,886 |
| | Templeton Dragon Fund | 185.864 shares | ** | 3,565 |
| | Templeton Emerging Market Fund | 211.617 shares | ** | 4,116 |
| | Templeton Foreign Fund CL A | 2,203.596 shares | ** | 27,942 |
| | Third Avenue Value Fund | 272.885 shares | ** | 14,949 |
| | Torray Fund | 118.8 shares | ** | 4,636 |
| | Tweedy Browne Global Value Fund | 420.742 shares | ** | 11,108 |
| | US Global Regent Eastern European | 714.151 shares | ** | 28,209 |
| | UMB Scout Small Cap Fund | 162.244 shares | ** | 2,572 |
| | Value Line Income & Growth Fund | 311.257 shares | ** | 2,605 |
| | Van Kampen Real Estate SEC Fund A | 638.133 shares | ** | 15,775 |
| | Vanguard Energy Fund | 496.067 shares | ** | 27,805 |
| | Vanguard GNMA Fund Investor SHS | 283.848 shares | ** | 2,924 |
| | | 240,674.382 | | |
| | Vanguard Selected Value | shares | ** | 4,539,119 |
| | Vanguard Wellesley Income Fund | 483.674 shares | ** | 10,191 |
| | | 220,145.872 | | |
| | Vanguard Windsor II Fund | shares | ** | 6,897,170 |

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|--------------------------------------|-------------------|----|------------|
| Vanguard 500 Index Fund Investor SHS | 175.239 shares | ** | 20,138 |
| WF Advantage Mid Cap Disciplined | 323.198 shares | ** | 6,629 |
| WF Advantage Ultra Short Term Income | 1,673.537 shares | ** | 15,313 |
| William Blair Intl Growth Fund | 541.866 shares | ** | 13,666 |
| Total Mutual funds | | | 44,368,577 |
| Unit Investment Trusts: | | | |
| IShares MSCI Brazil Index | 100 shares | ** | 3,337 |
| IShares MSCI Japan Index Fund | 600 shares | ** | 8,112 |
| IShares TR Dow Jones Select Dividend | 4,000 shares | ** | 245,040 |
| Nasdaq 100 Shares | 1,500.875 shares | ** | 60,653 |
| Total Unit Investment Trusts | | | 317,142 |
| Money Market Accounts: | | | |
| Schwab Cash Reserves Sweep Shares | 31,727.550 shares | ** | 31,728 |
| | 825,388.400 | | |
| Schwab Money Market Fund | shares | ** | 825,388 |
| Schwab US Treasury Money Fund | 24,495.920 shares | ** | 24,496 |

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|-----|--|---|----------|-------------------|
| | Schwab Government Securities Fund | 7,669,597.85 shares | ** | 7,669,598 |
| | Stock Liquidity | 477.52 shares | ** | 477 |
| | Total Money Market Accounts | | | 8,551,687 |
| | Common/Collective Trusts: | | | |
| | Schwab Managed Retirement 2010 | 55,707.846 shares | ** | 769,883 |
| | Schwab Managed Retirement 2020 | 113,850.047 shares | ** | 1,702,058 |
| | Schwab Managed Retirement 2030 | 54,392.592 shares | ** | 865,930 |
| | Schwab Managed Retirement 2040 | 31,930.474 shares | ** | 515,677 |
| | Schwab Managed Retirement, Inc. | 451.770 shares | ** | 4,730 |
| | Total Common/Collective Trusts | | | 3,858,278 |
| | Corporate Obligations: | | | |
| | Swiss Government | 65,000 shares | ** | 51,714 |
| | Other Assets: | | | |
| | San Juan Basin Royal TR | 233.915 shares | ** | 10,186 |
| | Limited Liability Company Units | | | |
| | Angstrom Preferred Holdings, LLC | 20,000 units | ** | 30,200 |
| | Promissory Note: | | | |
| | Baptist Foundation Promissory Note | Interest rate: 11.75%; maturity date: November 7, 2012; unsecured | ** | 12,612 |
| | Limited Partnerships: | | | |
| | Beaconsfield LP Fund I | 1 unit | ** | 11,133 |
| | Participant loans | | | |
| | | Interest rates ranging from 6.00% to 11.00% | ** | 1,579,458 |
| | Total investments | | | \$67,031,368 |

- * Denotes a party-in-interest
 - ** Disclosure of historical cost information is not required for participant directed investments.
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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Inter-Tel, Incorporated Tax Deferred Savings Plan and Retirement Trust has duly caused this report to be signed by the undersigned hereunto duly authorized.

Inter-Tel, Incorporated Tax Deferred Savings Plan and Retirement Trust

/s/ Kurt R. Kneip

Inter-Tel, Incorporated

Kurt R. Kneip

Sr. Vice President and Chief Financial Officer

Date: June 29, 2006

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EXHIBIT INDEX

Exhibit:

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm