

INTER TEL INC
Form DEFC14A
September 19, 2006

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SCHEDULE 14A

Information Required in Proxy Statement

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

Inter-Tel (Delaware), Incorporated
(Name of Registrant as Specified In Its Charter)

N/A
(Name of Person(s) Filing Proxy Statement if other than the Registrant)

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- o Fee paid previously with preliminary materials.
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No:

(3) Filing Party:

(4) Date Filed:

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September 19, 2006

Dear Stockholders:

You are invited to attend a Special Meeting of our stockholders to be held on Tuesday, October 24, 2006, at 10:00 A.M., local time, at the offices of Snell & Wilmer, One Arizona Center, 400 E. Van Buren Street, 19th Floor Conference Room, Phoenix, Arizona 85004. This Special Meeting has been demanded by Steven G. Mihaylo for the sole purpose of voting on a resolution proposed by Mr. Mihaylo, the former Chief Executive Officer of the Company, a member of the Board of Directors, and a stockholder, that would urge the Board to arrange for the prompt sale of the Company (the Mihaylo Resolution). The Mihaylo Resolution is a non-binding stockholder proposal and will serve solely as a means for stockholders to express their sentiments regarding whether this is an appropriate time for the sale of the Company.

You are likely aware that on July 28, 2006, Mr. Mihaylo and certain other parties (the Mihaylo Group) submitted an unsolicited offer to acquire all of the outstanding shares of the Company for \$22.50 per share (the July 28 Offer). The July 28 Offer was unanimously rejected as inadequate by the Special Committee of the Company's Board of Directors (the Special Committee). Prior to the July 28 Offer, pursuant to a Settlement Agreement between the Company and Mr. Mihaylo dated May 5, 2006, Mr. Mihaylo and two of his designees were appointed to the Company's Board of Directors. Concurrently therewith, the Special Committee was formed in order to avoid any conflicts of interest in connection with Mr. Mihaylo's expressed interest in acquiring the Company. All of the members of the Special Committee are independent directors, except that Norman Stout is the Company's Chief Executive Officer. On August 21, 2006, the Mihaylo Group submitted a revised offer to acquire all of the outstanding shares of the Company for \$23.25 per share (the August 21 Offer). Although the August 21 Offer increased the offer price by approximately 3%, it was conditioned on a commitment by the Special Committee to implement and conclude a sale process with respect to the Company within 30 days. The August 21 Offer was also rejected by the Special Committee.

The Special Committee unanimously rejected both proposals because we determined that such proposals did not reflect the intrinsic value of the Company and were not in the best interests of the Company's stockholders. The Board of Directors has recently approved a new strategic plan for the Company, and the Special Committee has complete confidence in management and management's ability to create greater stockholder value by continuing to execute the Company's long term strategic plan. The Special Committee believes that Mr. Mihaylo's decision to force the Company to call this Special Meeting and submit the Mihaylo Resolution for stockholder approval is intended to short circuit the Special Committee's recently announced strategic review of the Company and to facilitate the Mihaylo Group's acquisition of the Company on terms that the Special Committee has now twice rejected.

The Special Committee has unanimously recommended that our stockholders vote **AGAINST** the Mihaylo Resolution. We urge you to read carefully the information in the attached proxy statement before deciding how to vote with respect to the Mihaylo Resolution.

We thank all of you for your continued support and invite you to attend the Special Meeting. However, whether or not you plan to attend, please vote **AGAINST** the Mihaylo Resolution as soon as possible by telephone, by Internet, or by signing, dating and returning the enclosed WHITE Proxy Card.

Sincerely,

ALEXANDER L. CAPPELLO
Chairman

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INTER-TEL (DELAWARE), INCORPORATED

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held on October 24, 2006**

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders of Inter-Tel (Delaware), Incorporated, a Delaware corporation, will be held on October 24, 2006, at 10:00 A.M., local time, at the offices of Snell & Wilmer, One Arizona Center, 400 E. Van Buren Street, 19th Floor Conference Room, Phoenix, Arizona 85004, for the following purpose:

To vote upon a resolution put forward by Mr. Steven G. Mihaylo that states as follows (the Mihaylo Resolution):
RESOLVED, that the stockholders of Inter-Tel (Delaware), Incorporated (Inter-Tel) urge the Inter-Tel Board of Directors to arrange for the prompt sale of Inter-Tel to the highest bidder.

The Mihaylo Resolution is a precatory resolution and is non-binding on the Board of Directors. The Mihaylo Resolution is more fully described in the Proxy Statement accompanying this Notice and will be discussed at the Special Meeting with adequate time allotted for stockholder questions.

Only stockholders of record at the close of business on August 28, 2006 are entitled to notice of and to vote at the Special Meeting.

YOUR VOTE IS IMPORTANT, NO MATTER HOW MANY OR HOW FEW SHARES YOU OWN. PLEASE SIGN AND DATE THE ENCLOSED WHITE PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE PROMPTLY. PROPERLY VOTING AND RETURNING THE ENCLOSED WHITE PROXY CARD AUTOMATICALLY REVOKES ANY PROXY PREVIOUSLY SIGNED OR RETURNED BY YOU.

DO NOT RETURN ANY BLUE PROXY CARD SENT TO YOU BY MR. MIHAYLO AND VECTOR CAPITAL CORPORATION. Even if you have previously voted on Mr. Mihaylo s and Vector Capital Corporation s blue proxy card, you have every legal right to change your vote by executing the WHITE Proxy Card by telephone, by Internet or by signing, dating and returning the enclosed WHITE Proxy Card. ONLY YOUR LATEST DATED PROXY WILL COUNT AT THE MEETING.

All stockholders are invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to vote the WHITE Proxy Card as promptly as possible by telephone, by Internet, or by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage-prepaid envelope. Any stockholder attending the Special Meeting may vote in person even if he or she has previously returned a proxy. If you hold your shares through a bank, broker or other custodian, they can only vote your shares upon your instruction. If you wish to vote at the Special Meeting, you must obtain and present a legal proxy from the record holder of your shares.

Sincerely,

KURT R. KNEIP
Secretary

Tempe, Arizona
September 19, 2006

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If you have questions or need assistance voting your shares, please call our proxy solicitor:

INNISFREE M&A INCORPORATED
Stockholders Call Toll Free: (888) 750-5834
Banks and Brokers Call Collect: (212) 750-5833

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**PROXY STATEMENT OF
INTER-TEL (DELAWARE), INCORPORATED
1615 S. 52nd Street, Tempe, Arizona 85281
(480) 449-8900**

Special Meeting of Stockholders to be Held on October 24, 2006.

General

This Proxy Statement and the enclosed WHITE Proxy Card are being furnished by Inter-Tel (Delaware), Incorporated, a Delaware corporation (the Company), at the direction of the Special Committee of our Board of Directors (the Special Committee), to holders of the Company's common stock in connection with its solicitation of proxies for use at the special meeting of stockholders of the Company to be held on October 24, 2006 at 10:00 A.M., local time, at the offices of Snell & Wilmer, One Arizona Center, 400 E. Van Buren Street, 19th Floor Conference Room, Phoenix, Arizona 85004, and at any adjournment or postponement thereof (the Special Meeting). The record date for determining stockholders entitled to notice of and to vote at the Special Meeting is the close of business on August 28, 2006 (the Record Date). The Special Meeting is called by the Company solely to comply with its contractual obligation to do so upon the demand of Mr. Mihaylo pursuant to a Settlement Agreement with Mr. Mihaylo, described in more detail below.

Pursuant to a Settlement Agreement with Mr. Mihaylo, dated May 5, 2006, Mr. Mihaylo and Dr. Anil K. Puri and Kenneth L. Urish, Mr. Mihaylo's two designees to the Board (such three directors, collectively, the Mihaylo Directors), were appointed to the Company's Board of Directors. Concurrently therewith, the Special Committee was formed in order to avoid any conflicts of interest in connection with Mr. Mihaylo's expressed interest in acquiring the Company. All of the members of the Special Committee are independent directors, except that Norman Stout is the Company's Chief Executive Officer. (See Background D. The Special Committee on page 9 below.)

This Proxy Statement and the WHITE Proxy Card are first being mailed or furnished to the stockholders of the Company on or about September 21, 2006.

The Mihaylo Resolution

The meeting will be held for the sole purpose of voting on the resolution (the Mihaylo Resolution) put forward by Steven G. Mihaylo, to wit:

RESOLVED, that the stockholders of Inter-Tel (Delaware), Incorporated (Inter-Tel) urge the Inter-Tel Board of Directors to arrange for the prompt sale of Inter-Tel to the highest bidder.

The Mihaylo Resolution is a precatory resolution and is non-binding on the Board.

Mr. Mihaylo is joined in supporting the Mihaylo Resolution by Summit Capital Management LLC (Summit), an entity of which Mr. Mihaylo is the sole member and managing member, The Steven G. Mihaylo Trust, Vector Capital Corporation (Vector), Christopher G. Nicholson (who is affiliated with Vector), and INTL Acquisition Corp. (an entity controlled by Mr. Mihaylo and Vector) (collectively, the Mihaylo Group).

The Special Committee Unanimously Recommends That You Vote AGAINST the Mihaylo Resolution

The Special Committee is committed to maximizing value for ALL of the Company's stockholders. The Board appointed Mr. Stout as the Company's Chief Executive Officer on February 22, 2006, and, under Mr. Stout's

leadership, the Company's management has presented to the Board of Directors a long term strategic plan that was approved by the Board in June 2006. The Special Committee has complete confidence in management's ability to execute the strategic plan, which is in its early stages of implementation.

The Special Committee does not believe this is the appropriate time to sell the Company. The Special Committee believes that through the Mihaylo Resolution and the Mihaylo Group's offers to acquire the

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Company, the Mihaylo Group intends to reap for themselves the benefits resulting from the more than \$50 million the Company has spent on research and development since 2003 attributable to the Inter-Tel 5000 and 7000 series communications systems and applications, to the detriment of the Company's other stockholders.

In addition, the Special Committee announced on August 11, 2006 that it has committed to conduct a serious and thorough review of the Company's strategic options. The Special Committee recognizes that a possible sale of the Company is one of the potential outcomes of its strategic review, and would, in accordance with its fiduciary duties, consider such a sale if the Special Committee were to determine that such a sale would result in greater value creation for stockholders than continuing to pursue the Company's strategic business plan or pursuing another alternative. However, the Special Committee does not believe that the best interests of the Company's stockholders would be served by the adoption of the Mihaylo Resolution, for the reasons stated above and the following reasons, among others:

A sale process designed only to deliver the highest immediately available price, without consideration of other means of delivering potential greater long-term value, could force the Company to accept an offer that, like the Mihaylo Group's various proposals, does not reflect the intrinsic value of the Company and its advanced technology and consequently fails to provide appropriate value to all of the Company's stockholders. While the strategic review is underway, the Special Committee believes that the continued execution of management's current strategy, including the rollout of the recently released Inter-Tel 5600 and version 2.0 software for the Inter-Tel 5000 family, the forthcoming introduction of the 7000 communications systems, and enhancements to the Company's portfolio of advanced software applications, is the best course to enhance stockholder value.

The Mihaylo Resolution would forestall the members of the Special Committee from considering alternatives to maximize stockholder value, other than a prompt sale of the Company. Requiring the Special Committee to pursue a prompt sale of the Company to the exclusion of other potential strategic alternatives would inappropriately restrict the Board's ability to discharge its fiduciary duties and use its best business judgment to select what it in good faith believes is the best alternative for the maximization of stockholder value.

If the Mihaylo Resolution were adopted, it would undoubtedly create a "fire sale" atmosphere, thereby requiring the Company to negotiate with potential bidders from a position of weakness, and almost certainly result in a reduction of the value that stockholders could obtain in a sale.

Although Mr. Mihaylo claims the Mihaylo Resolution would cause the Company's Board to establish a process that creates a level playing field for all interested bidders to submit offers for the Company, a sale process conducted with undue and arbitrary haste, such as the 30-day sale process demanded by the Mihaylo Group as a condition to its August 21, 2006 acquisition proposal, would unfairly and inappropriately favor the Mihaylo Group, which has already been afforded the opportunity for extensive due diligence over a nearly 90 day period, and also has the advantage of Mr. Mihaylo's knowledge of the Company and its business arising from his more than 36 years of service as the Company's Chief Executive Officer and current position on the Board.

The Mihaylo Resolution is unnecessary since the Special Committee already has in place a strategic review process designed to maximize stockholder value, which should be permitted to run its course under the supervision of the Special Committee's experienced members, all of whom are independent except for Mr. Stout.

If adopted, the Mihaylo Resolution could be further disruptive of and harmful to the Company's day-to-day operations and would cause uncertainty among the Company's customers, employees, vendors, and other stakeholders, resulting in potential disruption of the Company's business to the detriment of the Company's stockholders.

Finally, the Special Committee believes that the Mihaylo Resolution is simply another step in Mr. Mihaylo's continuing efforts to gain control of the Company without paying stockholders a premium that reflects the inherent value of the Company. To that end, the Mihaylo proxy statement specifically notes that if

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the Mihaylo Resolution is receiving significant support from the stockholders of the Company, Mr. Mihaylo and Vector may consider calling an additional special meeting of stockholders to remove the entire Inter-Tel Board and elect a slate of new directors. The Special Committee believes that the interests of all stockholders are best served by the continued execution of the Company's strategic plan, coupled with the strategic review that it has committed to conduct, and that Mr. Mihaylo's objective in electing a new slate of directors would be either to facilitate his acquisition of the Company at the lowest possible price or to facilitate the sale of stock he holds in the Company.

YOUR VOTE IS IMPORTANT, NO MATTER HOW MANY OR HOW FEW SHARES YOU OWN. PLEASE SIGN AND DATE THE ENCLOSED **WHITE PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE PROMPTLY.**

PROPERLY VOTING AND RETURNING THE ENCLOSED **WHITE PROXY CARD AUTOMATICALLY REVOKES ANY PROXY PREVIOUSLY SIGNED OR RETURNED BY YOU.**

DO NOT RETURN ANY BLUE PROXY CARD SENT TO YOU BY STEVEN G. MIHAYLO AND VECTOR CAPITAL CORPORATION. Even if you previously have voted on the Mihaylo and Vector blue proxy card, you have every legal right to change your vote by executing the **WHITE Proxy Card by telephone, by Internet, or by signing, dating and returning the enclosed **WHITE** Proxy Card in the postage-paid envelope provided. ONLY YOUR LATEST DATED PROXY WILL COUNT AT THE MEETING.**

IMPORTANT NOTE

IF YOUR SHARES OF COMMON STOCK ARE REGISTERED IN YOUR OWN NAME, PLEASE VOTE TODAY BY TELEPHONE, BY INTERNET OR BY SIGNING, DATING AND RETURNING THE ENCLOSED **WHITE PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE.**

IF YOUR SHARES OF COMMON STOCK ARE HELD IN THE NAME OF A BROKERAGE FIRM, BANK, NOMINEE OR OTHER INSTITUTION, ONLY IT CAN SIGN A **WHITE PROXY CARD WITH RESPECT TO YOUR SHARES OF COMMON STOCK AND ONLY UPON RECEIPT OF SPECIFIC INSTRUCTIONS FROM YOU. ACCORDINGLY, YOU SHOULD CONTACT THE PERSON RESPONSIBLE FOR YOUR ACCOUNT AND GIVE INSTRUCTIONS FOR A **WHITE** PROXY CARD TO BE SIGNED REPRESENTING YOUR SHARES OF COMMON STOCK. THE SPECIAL COMMITTEE URGES YOU TO CONFIRM IN WRITING YOUR INSTRUCTIONS TO THE PERSON RESPONSIBLE FOR YOUR ACCOUNT AND TO PROVIDE A COPY OF SUCH INSTRUCTIONS TO THE COMPANY TO THE ATTENTION OF THE CORPORATE SECRETARY AT 1615 S. 52ND STREET, TEMPE, ARIZONA 85281.**

IF YOU HAVE ANY QUESTIONS ABOUT VOTING YOUR PROXY OR REQUIRE ASSISTANCE, PLEASE CONTACT:

**INNISFREE M&A INCORPORATED
Stockholders Call Toll Free: (888) 750-5834
Banks and Brokers Call Collect: (212) 750-5833**

Background

Mr. Mihaylo's demand for the Special Meeting was made on August 25, 2006, immediately after the Special Committee rejected the Mihaylo Group's August 21, 2006, offer to acquire the Company, at \$23.25 per share. The Mihaylo Group had made a previous offer of \$22.50 per share on July 28, 2006, which was also rejected by the Special Committee. Each of these offers is discussed in more detail below.

Mr. Mihaylo founded the Company in 1969 and served as its Chief Executive Officer until February 22, 2006. However, during 2005 the Board raised questions with respect to the strategic direction of the Company under Mr. Mihaylo's leadership. On July 22, 2005, Mr. Mihaylo resigned as Chairman of the Board and the Board elected Mr. Alexander L. Cappello, who had been elected to the Board at the Company's 2005 Annual Meeting, to replace Mr. Mihaylo as Chairman. On February 22, 2006, Mr. Mihaylo resigned as Chief

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Executive Officer, and the Board appointed Mr. Stout to replace him. Mr. Mihaylo resigned from the Board on March 6, 2006, and was reappointed to the Board, along with the other Mihaylo Directors, on May 6, 2006.

A. The July 28 Offer

On July 28, 2006, Mr. Mihaylo and Vector submitted to the Board a proposal to acquire all of the outstanding shares of the Company, other than those held by Mr. Mihaylo, for a cash price of \$22.50 per share (the July 28 Offer).

At a meeting held on August 11, 2006, the Special Committee, with the assistance of its financial and legal advisors, determined that the July 28 Offer was inadequate, and subsequently issued the following press release announcing its rejection:

INTER-TEL REJECTS MIHAYLO GROUP S UNSOLICITED ACQUISITION PROPOSAL

TEMPE, Ariz., August 11, 2006 Inter-Tel (Delaware), Incorporated (Nasdaq: INTL), today announced that a Special Committee of its Board of Directors, with the assistance of its financial and legal advisors, has rejected as inadequate an unsolicited acquisition proposal from Steven G. Mihaylo and Vector Capital (the Mihaylo Group) to purchase all shares of Inter-Tel, other than those held by Mr. Mihaylo, for cash at a price of \$22.50 per share.

The Special Committee concluded that the Mihaylo Group s proposal does not reflect the intrinsic value of Inter-Tel and its advanced technology and consequently fails to provide appropriate value to all Inter-Tel shareholders. The Special Committee believes that the continued execution of management s current long-term strategy, including the rollout of the exciting new Inter-Tel 5600 and version 2.0 software for the Inter-Tel 5000 family, the forthcoming introduction of the 7000 communications systems, and enhancements to Inter-Tel s portfolio of advanced software applications represents a superior alternative for enhancing shareholder value. The Special Committee also believes that accepting the Mihaylo Group s submitted offer, before the company has had the opportunity to fully implement its strategy, would deprive shareholders other than Mr. Mihaylo from realizing Inter-Tel s intrinsic value, particularly in light of the Company s significant recent investment in research and development (R&D) on these new products, software applications, and solutions.

While the Special Committee has complete confidence in management s current long-term strategy, the Special Committee is committed to enhancing value for all Inter-Tel shareholders. Consistent with this commitment, Inter-Tel announced that the Special Committee has authorized UBS Investment Bank, the Company s financial advisor, to review and explore various strategic options for the Company. The Company noted that there can be no assurance that any transaction will result from this effort or as to the terms thereof. The Company does not anticipate disclosure of developments with respect to the strategic review until the review has been completed.

The Special Committee, with the assistance of its financial and legal advisors, carefully considered the proposal from the Mihaylo Group. In making its unanimous decision to reject the proposal, the Committee considered, among other things:

The opinion provided by Houlihan Lokey Howard & Zukin financial advisor to the Special Committee;

That this is not the appropriate time to sell the company in light of the significant shareholder value expected to be delivered by the Company s current long-term strategy, including the rollout of version 2.0 software for the Inter-Tel 5000 family of communication systems, the continued rollout of the Inter-Tel 5600 communications system, and the forthcoming introduction of the Inter-Tel 7000 standards-based multimedia business communications platform;

The Company's significant recent investment in R&D to develop and enhance its products;

The recent enhancement of Inter-Tel's call center applications to include multi-media contact center functionality;

Enhancements to the company's presence management and multi-media collaboration applications;

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The early indications of success with the new Lake products designed for the small office / home office (SOHO) market;

The Company's favorable market position in light of the convergence and consolidation in its industry; and

Management's ability to successfully execute the Company's current long-term strategy and adapt to changes taking place in the industry.

The Special Committee is comprised of all members of Inter-Tel's Board of Directors other than Mr. Mihaylo and his two designees on the Board. The Special Committee's letter to Mr. Mihaylo regarding its determination will be filed with the Securities and Exchange Commission on Form 8-K.

Houlihan Lokey Howard & Zukin is acting as financial advisor to the Special Committee, UBS Investment Bank is acting as financial advisor to Inter-Tel, and Bingham McCutchen LLP is acting as legal advisor to the Special Committee.

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At the August 11, 2006 meeting of the Special Committee at which the July 28 Offer was considered, Houlihan Lokey Howard & Zukin, financial advisor to the Special Committee, provided its oral opinion (which was confirmed later that day in writing) that the July 28 Offer was inadequate to the Company's common stockholders from a financial point of view. The opinion letter provided by Houlihan Lokey Howard & Zukin is attached hereto as Appendix A. Houlihan Lokey Howard & Zukin has consented to the use of its opinion and the references to Houlihan Lokey Howard & Zukin in this Proxy Statement.

###

Following the August 11, 2006 meeting of the Special Committee, Mr. Cappello, the Chairman of the Special Committee, sent the following letter to the Mihaylo Group on behalf of the Special Committee, conveying the Special Committee's rejection of the July 28 Offer:

[Letterhead of Inter-Tel, Incorporated]

August 11, 2006

*Steven G. Mihaylo
Christopher Nicholson
INTL Acquisition Corp.
P.O. Box 19790
Reno, Nevada 89511*

Gentlemen:

The Special Committee of the Board of Directors of Inter-Tel (Delaware), Incorporated (the Company) has carefully considered, along with our outside advisors, the proposal you have made to acquire the Company for \$22.50 per share in cash. As a result of that deliberation, the Special Committee has rejected your proposal and concluded that your proposal is inadequate and is not in the best interests of the Company's shareholders, other than the Mihaylo Group. As set forth in the attached press release, we believe that Inter-Tel and its shareholders will be

best served by the Committee, with the help of its financial advisor and other experts, reviewing and exploring various strategic options for the Company. With all of the access we provided to both you and your advisors and consultants, we were disappointed that the price per share in your proposal remained unchanged from your original proposal.

Over the course of the past few months, the Company has incurred significant costs in responding to your proposals. Moreover, significant management time and attention has been diverted in connection with your proposals, including countless hours providing you with detailed diligence material.

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It is time that the Company return its focus to operations and continued implementation of its strategic plan. To that end, we urge you to carefully consider the continuing harm to the Company that could result should you carry forward with your threat to call a Special Meeting to consider a nonbinding precatory resolution to sell the Company in light of, as noted above, the Committee's decision to explore all options. Continuing to pursue your own personal agenda at significant cost to the Company and distraction of senior management is not in the best interests of the Company.

The Special Committee remains committed to serving the best interests of the Company and all of its shareholders.

Very truly yours,

*Alexander L. Cappello
On behalf of the Special Committee*

###

B. The August 21 Offer

Ten days later, on August 21, 2006, the Mihaylo Group submitted a letter to the Special Committee proposing to purchase all outstanding shares of the Company, other than those held directly or indirectly by Mr. Mihaylo, with the purchase price for such revised offer increased by 75 cents per share, or approximately 3% (the August 21 Offer). The August 21 Offer also had a new requirement that the Special Committee publicly commit to commence immediately a sales process designed to result in the prompt sale of the Company with such sale process to be completed within 30 days. This 30 day requirement was imposed by the Mihaylo Group despite the fact that the Mihaylo Group had originally taken nearly 90 days to complete its due diligence of the Company, and even though it has the advantage of Mr. Mihaylo's knowledge of the Company and its business arising from his more than 36 years of service as the Company's Chief Executive Officer and current position on the Board.

At a meeting held on August 25, 2006, the Special Committee, with the assistance of its financial and legal advisors, considered and rejected the August 21 Offer, and subsequently issued the following press release:

***INTER-TEL REJECTS REVISED CONDITIONAL PROPOSAL FROM MIHAYLO GROUP
Company to Continue Review of Strategic Options***

TEMPE, Ariz., August 25, 2006 Inter-Tel (Delaware), Incorporated (Nasdaq: INTL), today announced that the Special Committee of its Board of Directors, with the assistance of its financial and legal advisors, has rejected the revised unsolicited acquisition proposal from Steven G. Mihaylo and Vector Capital (the Mihaylo Group) to purchase all outstanding shares of Inter-Tel, other than those held by Mr. Mihaylo, for cash at a price of \$23.25 per share, which is conditioned on the Special Committee publicly committing to sell the Company to the highest bidder within the next 30 days.

The Committee does not believe the Mihaylo Group's conditional offer to increase its proposal by 75¢ per share, or approximately 3 percent, is sufficiently attractive to warrant departing from a thorough review of the Company's strategic options. In addition, the Special Committee rejected the Mihaylo Group's demand that the Company announce a 30-day sale process because the Committee believes this would unfairly and inappropriately favor the Mihaylo Group, which has already been afforded the opportunity for extensive due diligence.

The Committee noted that, contrary to the Mihaylo Group's assertion, it is in fact conducting a serious and thorough review of the Company's strategic options. The Mihaylo Group's willingness to increase its offer will be further

considered as a part of that review process and the Committee or its advisors may wish to have (as they have had in the past) conversations with the Mihaylo Group as part of this review.

The Special Committee believes that the Mihaylo Group's latest proposal still does not reflect the intrinsic value of Inter-Tel and its advanced technology and consequently fails to provide appropriate value to all Inter-

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Tel shareholders. The Special Committee believes that the continued execution of management's current long-term strategy, including the rollout of the recently released Inter-Tel 5600 and version 2.0 software for the Inter-Tel 5000 family, the forthcoming introduction of the 7000 communications systems, and enhancements to Inter-Tel's portfolio of advanced software applications, represents a superior alternative for enhancing shareholder value.

The Special Committee also believes that accepting the Mihaylo Group's revised proposal before the company has had the opportunity to fully implement its strategy would deprive shareholders other than Mr. Mihaylo from realizing Inter-Tel's intrinsic value, particularly in light of the Company's significant recent investment in research and development (R&D) on these new products, software applications, and solutions.

Working with its outside advisors, the Committee is continuing to proceed with its review of the Company's strategic options, as previously announced on August 11, 2006. There can be no assurance that any transaction will result from this effort or as to the terms thereof. The Company does not anticipate disclosure of developments with respect to the strategic review until the Committee deems necessary and appropriate.

The Special Committee is comprised of all members of Inter-Tel's Board of Directors other than Mr. Mihaylo and his two designees on the Board. The Special Committee's letter to Mr. Mihaylo regarding its determination will be filed with the Securities and Exchange Commission on Form 8-K.

Houlihan Lokey Howard & Zukin is acting as financial advisor to the Special Committee, UBS Investment Bank is acting as financial advisor to Inter-Tel, and Bingham McCutchen LLP is acting as legal advisor to the Special Committee.

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Following the August 25, 2006 meeting of the Special Committee, Mr. Cappello, the Chairman of the Special Committee, sent the following letter to the Mihaylo Group on behalf of the Special Committee, conveying the Special Committee's rejection of the August 21 Offer:

August 25, 2006

Steven G. Mihaylo
Christopher Nicholson
INTL Acquisition Corp.
P.O. Box 19790
Reno, Nevada 89511

Gentlemen:

The Special Committee of the Board of Directors of Inter-Tel (Delaware), Incorporated (the Company), along with its outside advisors, has carefully considered your unsolicited revised proposal, dated August 21, 2006, which proposed to increase your offer to acquire the Company by 75¢ per share to \$23.25 per share in cash conditioned on the Special Committee publicly committing to sell the Company to the highest bidder within the next 30 days. We are disappointed that with all the access we provided to you and your advisors and consultants and all the effort and expense incurred by the Company in reviewing and considering your July 28, 2006 proposal, it did not represent your best offer.

The Committee does not believe your conditional offer to increase your proposal by approximately 3 percent is sufficiently attractive to warrant departing from a thorough review of its strategic options by announcing a 30 day

sale process that would unfairly and inappropriately favor you given the extensive due diligence you have already been afforded. In our view our shareholders' best interests would best be served by continuing to pursue our current plan, rather than by having the Company be sold at a price that does not reflect the inherent value of Inter-Tel, or by having you dictate a sale process that will only favor you at their expense.

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We arrived at our decision to execute the current strategic plan while exploring options to increase shareholder value after extensive review and discussion. For the reasons set forth in our August 11, 2006 press release, we continue to believe that it is a proper and prudent course of action. Contrary to your assertion, the Committee is in fact conducting a serious and thorough review of the Company's strategic options. Your willingness to increase your offer by approximately 3 percent will be further considered as a part of that review process. Indeed, the Committee or its advisors may wish to have (as we have had in the past) conversations with you or your advisors as part of this review. Let me emphasize that, while that process is underway, the Company and management will continue to implement the Company's strategic plan so all shareholders can receive the benefits of the Company's investment in its new products and technologies.

One point on which we appear to be in agreement is that the expense and disruption of your threatened proxy contest would not be beneficial to the Company or its shareholders. If you believe that the Committee members have not made the right decision in deciding to consider its strategic options as opposed to committing to a process that only favors you at the expense of other shareholders, you are free to raise that issue at the next annual meeting.

The Special Committee remains committed to serving the best interests of the Company and all of its shareholders.

Very truly yours,

*Alexander L. Cappello,
On behalf of the Special Committee*

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C. The 2006 Proxy Contest, Settlement Agreement and Prior Events

Activities Prior to 2006 Proxy Contest

Mr. Mihaylo founded the Company in 1969. However, during 2005 the Board raised questions with respect to the strategic direction of the Company under Mr. Mihaylo's leadership. On July 22, 2005, Mr. Mihaylo resigned as Chairman of the Board and the Board elected Mr. Cappello to replace Mr. Mihaylo as Chairman. On February 22, 2006, Mr. Mihaylo resigned as Chief Executive Officer, and the Board appointed Mr. Stout to replace him. Mr. Mihaylo resigned as a director of the Company on March 6, 2006.

2006 Proxy Contest

Less than five weeks after Mr. Mihaylo resigned as a director of the Company, on April 7, 2006, Mr. Mihaylo submitted to the Board advance notices of director nominations and stockholder business to be brought before the 2006 annual meeting of stockholders (the 2006 Annual Meeting) stating that he intended to appear at the 2006 Annual Meeting in person or by proxy to, among other things, (i) nominate a slate of three directors for election at the 2006 Annual Meeting, and (ii) introduce at the 2006 Annual Meeting several resolutions to be submitted to the vote of the stockholders, including a resolution urging the Board to arrange for the prompt sale of the Company to the highest bidder and resolutions to repeal recently adopted amendments to the Amended and Restated Bylaws of the Company with respect to stockholders' ability to call a special meeting and the advance notice provisions. Just three days later, on April 10, 2006, Mr. Mihaylo sent a letter to the Board indicating his interest in meeting with the Board or its advisors to discuss a possible all cash acquisition of the Company. Mr. Mihaylo engaged a proxy solicitation firm and, on April 21, 2006, filed a preliminary proxy statement with the SEC as preparation to engage in a proxy contest with respect to the election of directors of the Company at the 2006 Annual Meeting.

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Settlement Agreement

On May 5, 2006, the Company, Mr. Mihaylo and Summit entered into a settlement agreement (the Settlement Agreement) to settle the potential proxy contest in connection with the 2006 Annual Meeting. In addition to other provisions, the Settlement Agreement stipulated that the Company would appoint the Mihaylo Directors to the Board, effective May 6, 2006, and the Board would be increased from eight to 11 directors, all of which the Company would nominate and recommend for re-election to the Board at the 2006 Annual Meeting. Mr. Mihaylo would withdraw his proxy solicitation for the 2006 Annual Meeting, including his stockholder proposals, and would vote in favor of the slate of 11 directors nominated by the Company and the other proposals presented by the Company. Mr. Mihaylo and Summit also agreed that, prior to December 31, 2006, other than by evaluating and making a Mihaylo Proposal (as defined below), they will not acquire, offer or propose to acquire, or agree to acquire, any common stock, provided that activities in connection with evaluating and making a Mihaylo Proposal are not subject to this restriction.

The Company agreed to provide promptly to Mr. Mihaylo and his advisors and financing sources, upon reasonable notice, access to the reasonable due diligence information requested in good faith, in order to facilitate the making of an all cash acquisition proposal for all outstanding shares of Common Stock (other than shares beneficially owned by Mr. Mihaylo) accompanied by commitment letters (subject only to customary conditions) of financial institutions of national reputation demonstrating a reasonable certainty of his ability to finance the transaction in its entirety (a Mihaylo Proposal).

The Agreement also stipulated that, if the Board determined that the initially submitted Mihaylo Proposal was not in the best interests of the Company's stockholders (or did not make such determination within 10 business days of submission of the Mihaylo Proposal), then, subject to certain time limitations, upon the request of Mr. Mihaylo (a Mihaylo Meeting Request), the Company would promptly call a special meeting of stockholders to vote on the proposals set forth in the Mihaylo Meeting Request, including, without limitation, any proposal urging the Board to arrange for the prompt sale of the Company to the highest bidder (the Mihaylo Resolution), and the Company would not contest the calling of the special meeting as to the Mihaylo Resolution but could oppose the Mihaylo Resolution and any other proposals that were included in the Mihaylo Meeting Request.

The Company considered Mr. Mihaylo's notices and letter and determined to enter into the Settlement Agreement for several reasons, including to avoid a costly and distracting proxy contest, to help ensure stockholder approval for the reincorporation in Delaware, to establish an orderly process to allow Mr. Mihaylo to submit an all cash proposal to acquire the Company that he indicated he intended to submit, and, finally, since the Company has cumulative voting in the election of directors, Mr. Mihaylo, voting alone in a contested election, would have been able to elect at least two of his director nominees.

On June 14, 2006, Mr. Mihaylo and Vector submitted a proposal to the Board to acquire all of the outstanding shares of Common Stock (other than shares beneficially owned by Mr. Mihaylo) for \$22.50 per share in cash, which, despite the fact that Mr. Mihaylo had been the Chief Executive Officer of the Company from 1969 until February 22, 2006, was conditioned upon Mr. Mihaylo and Vector conducting additional due diligence on the Company (the June 14 Offer).

Counsel to the Special Committee advised the Special Committee that the June 14 Offer did not conform with the requirements provided in the Settlement Agreement because of the requirement in the June 14 Offer for confirmatory due diligence . However, on June 28, 2006, Mr. Mihaylo, Summit and the Company entered into the Amendment to Settlement Agreement, pursuant to which the time for Mr. Mihaylo to provide a proposal that qualified as a Mihaylo Proposal was extended until July 28, 2006 and Mr. Mihaylo and his advisors and consultants were given additional access to due diligence information regarding the Company, and it was agreed that the Special Committee would not respond to the June 14 Offer.

D. The Special Committee

The Special Committee was formed in May 2006 concurrently with Mr. Mihaylo's and the other Mihaylo Directors appointment to the Board, in order to avoid any conflicts of interest in connection with

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Mr. Mihaylo s expressed interest in acquiring the Company. The names of the members of the Special Committee and their biographical information are set forth below. As noted elsewhere, all of the members of the Special Committee are independent, except Mr. Stout.

Name	Age	Position(s) with Company	Director Since
J. Robert Anderson	69	Director	1997
Alexander L. Cappello	50	Chairman of the Board	2005
Jerry W. Chapman	65	Director	1999
Gary D. Edens	64	Director	1994
Steven E. Karol	51	Director	2006
Robert Rodin	52	Director	2006
Norman Stout	48	Director and CEO	2006
Agnieszka Winkler	60	Director	2005

MR. J. ROBERT 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 boards of GenCorp, Inc. and B-G Corp. Mr. Anderson is currently semi-retired, and he is an active leader in various business, civic and philanthropic organizations.

MR. ALEXANDER L. CAPPELLO was elected as one of our directors in the April 2005 annual meeting of shareholders, 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 over 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: University of Southern California (USC) Board of Trustees/ President of the Board of Governors & Alumni Association, RAND Corporation-Center for Middle East Public Policy, Genius Products, Inc. (NASDAQ:GNPI), CytRx Pharmaceuticals, Inc. (NASDAQ: CYTR), and Swiss American Financial & Euro American Financial (Chairman). Mr. Cappello is a member of the Young Presidents Organization, where he has served as Chairman of the International Board from 2003-2005. 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. JERRY W. 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 directors 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. GARY D. 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 1968-1982, Harte-Hanks Radio, Inc, chief executive officer, 1982-1984, and Edens

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Broadcasting, Inc., chairman and chief executive officer 1984-1994. 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. STEVEN E. 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 several corporate boards including: Mooney Aircraft Company (OTC:MNYG.OB) (Chairman), StockerYale (NASDAQ: STKR), and J. Walter Company. He is also on several not-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 1997.