INTER TEL (DELAWARE), INC
Form DEFA14A
July 13, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

Filed by the Registrant x   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

x Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

Inter-Tel (Delaware), Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Inter-Tel (Delaware), Incorporated has prepared a slide presentation to use at investor meetings. This presentation was first given to Institutional Shareholder Services on July 12, 2007.

A copy of this slide presentation follows:

July 12, 2007
Investor Presentation Follow-Up:
Vote
FOR
the
Mitel
Merger

at
August
2
nd
Special Meeting of Stockholders

1
Why Sell Now?
Remaining standalone entails substantial execution risk in an increasingly competitive landscape and a rapidly consolidating industry
The
Mitel
deal

represents
a
full
and
fair
value
to
all
stockholders
Special Committee conducted a thorough exploration of all strategic alternatives
(including standalone alternatives) prior to approving the Mitel
merger
No higher firm offer:

Since the Company was effectively put in play in April 2006 when
Mihaylo
publicly
indicated he was interested in acquiring Inter-Tel

In the almost 2 1/2 month period since the Mitel
merger announcement
The Mihaylo
leveraged recapitalization strategy produces less value, is less certain
to close and entails much higher risk to Inter-Tel stockholders
We believe the Mitel
deal is in the best interest of stockholders

2

Recent Developments

Several Inter-Tel stockholders requested the Special Meeting be postponed to allow time to consider recent developments

On June 29, 2007, the Special Committee postponed the Special Meeting to allow stockholders to fully consider a number of significant recent developments:

Preliminary update on Q2 sales forecast and 2007 outlook which were below expectations

Significant recent declines in the price of Inter-Tel's stock

Mitel
letter of June 21 indicating it would not increase its offer, and setting forth its reasons why not

Implications for potential alternatives and sale process from weakening in the debt markets

Mihaylo's
definitive proxy mailed to stockholders only one day before the previously scheduled vote
Current record date is close of business on July 9, 2007 with the Special Meeting scheduled for August 2, 2007

3
Financial performance has been negatively impacted by the increasingly competitive landscape, new market entrants, Mitel merger announcement and ongoing proxy distractions

If Mitel merger voted down, expect distractions to continue with ongoing

proxy contest
Inter-Tel did not meet the second quarter net sales used in the proxy statement and expects second half 2007 and full year 2007 net sales to be well below those used in proxy statement, based on the current sales trends and trajectory
EBITDA margins in the proxy were projected to be 12.0% for 2007 and 13.3% for 2008

Q1 actual EBITDA margin was only 7.5% and actual LTM (3/31/07) EBITDA margin was only 10.9%
1

We believe margins likely to come out substantially lower than those included in the proxy
Company Not Meeting Projections
Inter-Tel Net Sales ($mm)
Inter-Tel EBITDA ($mm)
1 As of 3/31/07; refer to page 18 for GAAP reconciliation detail
2 As of 6/30/07, based on mid-point, $114.5 million, of estimated net sales projection released July 6, 2007
458.4
460.9
459.5
498.1
530.4
400
500
600
2006 Net Sales
Trailing 12
Months
Net Sales [1]
Trailing 12
Months
Net Sales [2]
2007 Projections
Included in
Proxy
2008 Projections
Included in
Proxy
Proxy Forecast
51.7
50.2
59.7
70.4
25
50
75
2006 EBITDA
Trailing 12 Months
EBITDA [1]
2007 Projections
Included in

Proxy
2008 Projections
Included in
Proxy
Proxy Forecast

4
Intense Global Competition Attacks Small to
Medium Size Enterprise Market
Internet
produces
dynamic
changes

to
traditional
sales
channels,
barriers
and
speed
Large scale, global, multi-billion market cap companies entering space

Cisco: Entered market in 1997 ($170 billion market cap)

Market share in IP systems from 0% to 17%

Dominant market share in data networking business provides it with entry and strong growth platform

Microsoft: Adds voice to offering in 2006 ($280 billion market cap)

Firmly established on hundreds of millions of desktops and well positioned to implement voice on applications

Ability to integrate voice into leading EUI/application platforms

Google: Entering market in July 2007 ($170 billion market cap)

Over 500 million unique monthly visitors

Entering
voice
markets
through
purchase
of
GrandCentral
Communications
in
July
2007

Cell Phone:

Cellular carriers try to make cell phones the standard business communications system

Continue to add business applications for messaging, presence, always on with mobility

Skype: Founded in 2003

Purchased by EBay in 2005

2.5 million daily visitors that could ultimately bypass traditional platforms
Traditional PBX vendors (Avaya, Nortel, NEC, Siemens) fighting for share in PBX market

The SME market seen as an opportunity by traditional and non-traditional PBX players

5
Inter-Tel
and
its
advisors
repeatedly
approached

Mitel
and
Francisco
Partners
seeking
an
increase
in
purchase price
Mitel
sent a letter to Inter-Tel on June 21, 2007 stating it would not increase its offer price because:

Inter-Tel s
Q1 07
fiscal
performance
was
below
analyst
consensus
as
well
as
Mitel s
expectations

Mitel
believes
that
the
revenue
and
earnings
projections
reflected
in
the
Inter-Tel
proxy
statement
would
be
a
challenge
for
a
standalone
Inter-Tel
to
achieve

Mitel s offer is a full 10% higher than the highest firm offer received from any party to acquire 100% of the company s shares, including Steve Mihaylo. The Mitel offer is the only firm offer received, despite a 24-month sale process and contacts with several other interested but unnamed parties who previously evaluated acquiring Inter-Tel

In order to justify its offer price, Mitel stockholders are taking considerable risk on the ability to drive material synergies in the post-combination company

Mitel also noted that at the time of Mitel s offer 7 of the 11 analysts who covered Inter-Tel had either a sell or hold recommendation, that its

$25.60 price equaled the average of the price targets from such analysts, and since the merger announcement, several financial analysts had indicated that $25.60 was an attractive price to Inter-Tel stockholders

Mitel noted that the recent acquisition of Avaya, a leading telephony industry player, was effected at an EBITDA multiple that is lower than it has offered for Inter-Tel 1

Mitel

Will Not Increase Purchase Price

1 Based on Mitel calculations

6

Weakening Debt Markets

Leveraged loan markets have weakened significantly in the past several weeks

Mitel

has committed financing in place

We believe the weakening leverage loan markets make it very difficult for buyers to finance a higher price

One of the factors driving recent record levels of M&A activity has been relatively inexpensive debt financing

Experts react to current market volatility
1
:

Today, there are signs that the era of placid markets and cheap money may be coming to an end Central banks are pushing up short-term interest rates, and bond markets are pushing up long-term rates.

David Wessel, Wall Street Journal, June 28, 2007 investors are wondering if the game of buyout bingo will soon come to an end as the investors who purchase the debt that fuels such takeovers begin to balk at some of the riskier deals

David Reilly, Wall Street Journal, June 28, 2007

Is recent debt-market turmoil going to get worse, and possibly even end the corporate buyout boom?

Jon Hilsenrath, Wall Street Journal, June 29, 2007

"One thing

we
have
to
say
goodbye
to
is
the
peak
of
private
equity
and
the
pricing
power they had,"
Peter Andersen, Dreman
Value Management, as quoted by Reuters,
July 5, 2007
1
Permission
to
use
the
above
quotes
neither
sought
nor
obtained

7
Mitel
Offer Provides Premium Value
1
13D
filing
on

4/10/06 represents first public indication of a potential proxy fight (and acquisition) while 1/19/07 is date of public Mihaylo letter to Inter-Tel, indicating possibility of another proxy fight

2 Q1 2007 earnings miss per FactSet

3 Price targets prior to merger based on Brean Murray, Kaufman, Lehman and Wedbush Morgan research as

of
2/16/07
and
price
targets
prior
to
proxy
battle
based
on
Kaufman
research
as
of
2/22/06
and
Lehman
research
as
of
2/15/06
4
As
of
3/31/07,
refer
to
page
18
for
GAAP
reconciliation detail;
enterprise
value
of
$533.4
million based
on
Mitel offer
5
Avaya
LTM
EBITDA
multiple
as
of
3/31/07
6
Historical

LTM
EBITDA
per
FactSet
Based on the implied EBITDA multiple, the Mitel
merger values Inter-Tel generally in-line with the buyout
valuation of industry leader Avaya
Mitel
offer price is at a significant premium to analysts
long-term price targets prior to commencement of
Mihaylo s
most recent proxy contest and the Mitel
merger announcement
1 day premium of 7.6% understates actual premium
because
Inter-Tel
price
was
affected
due
to
prevalent
takeover
speculation
and
the
fact
that
the
Mitel
merger
was announced just minutes after announcing a 43%
Q1 earnings miss
2
Meaningful premium to long-term average share price,
even with a price affected by takeover speculation
Median Price Targets
3
LTM EBITDA Multiple
22.6%
premium
over
unaffected
share
price
prior
to
Mihaylo s
initial
13D

filing
on
4/10/06
and
17.3%
premium
to
share
price
prior
to
Mihaylo
letter
sent
1/19/07
1
$22.50
$20.00
$15
$20
$25
$30
Prior to Proxy Battle
Prior to Mitel Merger Announcement
Mitel Offer: $25.60
Mitel Premium: 13.8%
Mitel Premium: 28.0%
Premium to Average Prices ($25.60 Per Share Offer)
Price
Premium
Prior to Mihaylo
13D Filing on 4/10/06
1
$20.88
22.6%
Prior to Mihaylo
Letter on 1/19/07
1
$21.83
17.3%
2 Year Average
$21.27
20.4%
1 Year Average
$21.99
16.4%
6 Month Average
$22.62
13.2%
3 Month Average

$23.48
9.0%
10.6x
11.1x
7.5x
0x
10x
20x
Inter-Tel at Deal
4
Avaya at Deal
5
Inter-Tel 5 Year
Historical Average
6

8
Thorough Discussion Process
2007
Summer 2004: Met with
Company A to discuss
business combination
did not progress beyond

preliminary stage
May
December 2005:
Discussed 4 potential
acquisitions and a potential
acquisition by Company A.
Proceeded to due diligence
but Inter-Tel did not pursue
2004
2005
2006
November 2005: Inter-
Tel was contacted
again by Company A
and engaged in
intensive discussions
March 2006: Continued
talks with Company A but
afterwards did not receive
any further
communications
April
June 2006:
Discussions with
Company B for
potential business
combination
November 2006:
Discussed
potential deal with
Company D
2003
October 2003: Met with
Mitel
to discuss potential
deal. Decided not to
pursue deal at the time
May 2005: Met again
with Mitel
to discuss
potential deal
June 2005: Investment
bank arranged meetings
between Inter-Tel and
several private equity firms.
Several follow-up meetings
and limited due diligence
followed, but no proposals
July 2005: Discussions
with investment banks

and a least 5 financial
sponsors regarding
potential deals
August
September
2005: Two financial
sponsors, including
Francisco Partners,
submitted expressions
of interest
October 2005: Contacted
by sponsor-owned
strategic partner
regarding potential deal
January 2006:
Further discussions
with Company A
March -
April 2006:
Periodically met with
investment banks and
met with a potential
target
June 14, 2006:
Mihaylo/Vector
public offer at
$22.50 per share
July 28, 2006:
Mihaylo/Vector resubmit
public offer for $22.50
per share
July 2006: Mitel
indicates interest
in acquiring Inter-
Tel
August 21, 2006:
Mihaylo/Vector publicly states
willingness to pay $23.25 per
share
September 2006:
Discussions with
Company C regarding
potential deal
April 26, 2007:
Mitel
merger
announced
January
February
2006: Discussions with

investment banks and
preliminary talks with
one acquisition target
June 21, 2007:
Mitel
not
increasing offer
May 14, 2007: Vector
sent letter expressing
willingness to pay
$26.50 per share but
subsequently failed
to make an offer
No additional
offer has
emerged
August 2006: UBS
begins to explore
various strategic options

9
Inter-Tel and its financial advisor explored strategic options including formal and informal market checks prior to signing of the Mitel
merger agreement
2006 proxy contest and Mihaylo/Vector bids to buy the Company in 2006 put the Company in play

Mihaylo's
Sell the Company Proposal
called for a sale to the highest bidder and indicated he
would support a sale to highest bidder, even if he was not the buyer

UBS approached every logical strategic buyer
on multiple occasions during this time period
Special Committee rejected as inadequate Mihaylo/Vector $22.50 and $23.25 bids and
negotiated Mitel merger at price $2.35 above highest Mihaylo/Vector price and 22.6% above the
share price prior to April 10, 2006 launch of proxy contest
Mitel contract was specifically negotiated to allow Company ability to get a higher price after the
Mitel merger announcement:

Provisions allowing extra latitude to promote bid from Mihaylo
or Vector

Company can consider and accept superior proposals

Termination fee of 2.8% of the deal price
in line with market
In 2 1/2 months since the Mitel merger announcement, no other buyer has come forward with a
higher bid
Thorough Sale Process

10
Despite
months
of
being
in
play ,

only
Mitel
made
fully
financed
offer
to
acquire
Inter-Tel
and
only
Vector
expressed any interest in a transaction but ultimately withdrew
In 2006 the Special Committee allowed full due diligence to Mihaylo/Vector

Special Committee deemed original offer of $22.50 and last and best offer of $23.25 inadequate
The
Special
Committee
determined
not
to
involve
Mihaylo
and
Vector
prior
to
Mitel
announcement
due
to:

Conflicts arising from prior attempts to acquire the Company

Previously tried to disrupt Inter-Tel opportunities
Given
that
Inter-Tel
was
imminently
releasing
Q1
earnings
that
were
43%
below
consensus
1

and
Mitel
indicated it would walk away if the fully-negotiated agreement was not signed, the Special Committee opted to take the fully-negotiated deal in hand

Specifically negotiated the flexibility to respond to interest from Mihaylo/Vector or others post-announcement
Special
Committee
committed
to
maximizing
stockholder
value

deemed
the
Vector
$26.50
indication
of
interest
reasonably
likely
to
lead
to
superior
offer
and
immediately
allowed
Vector
to
conduct
requested
confirmatory due diligence

Vector decided not to make any firm offer
Special Committee Efforts to Facilitate a Higher
Bid From Mihaylo/Vector
1 Q1
2007
earnings
miss
per
FactSet

12
CONCLUSION: VOTE FOR THE MITEL MERGER
Significant recent developments reinforce the Special Committee s view that the
Mitel
deal is in the best interests of stockholders

Inter-Tel s financial performance and future outlook are below projections

Increasing competition and ongoing distractions will continue should the
Company remain a standalone entity

Mitel
stated that it will not raise its offer

Weakening debt markets make other bidders less likely
The Special Committee conducted a full review of the Company s strategic options
during last 2 years including standalone opportunities, acquisitions and a sale
Special Committee directed a thorough sales process
Mitel
price is a premium of 17% -
22% to the unaffected stock price
The
Board
of
Directors
recommends:
Vote
For
The
Mitel
Merger

13
Appendix

14
Mihaylo Recapitalization NOT AN ACQUISITION
PROPOSAL
Provides Less Value, Less Certainty and
More Risk
Mihaylo
has no legal obligation to implement his leveraged recapitalization strategy
it

may not happen
Mihaylo
leveraged recapitalization strategy relies on debt financing commitments
that
have
never
been
publicly
disclosed
or
made
available.
Based
on
limited detail
disclosed, commitments contain conditions that are non-customary
Mihaylo
leveraged recapitalization strategy value based on projections from the proxy that
are unlikely to be achieved
We believe the blended value received by stockholders will be substantially below the
$25.60 Mitel
offer

At
least
40%
of
value
will
depend
on
the
trading
price
of
stub
shares
that
we believe
will trade significantly lower than the current share price

Reduced trading liquidity with a public float reduced to approximately 1/3 of current
dollar volume

Increased debt load

Increased risk and price volatility
Increases business execution risk as Inter-Tel s strategic flexibility and ability to compete
and invest in new products would be significantly impaired

15
Mihaylo debt funding is expressly conditioned on him being named
Chairman of Inter-Tel
When
Mihaylo
thought
he
and

Vector Capital were the highest bidder for Inter-Tel in 2006, he pushed for a prompt sale to the highest bidder, and publicly said he would support a sale to the highest bidder, even if it was not him Mihaylo claims that Inter-Tel is worth more than $25.60 per share, but has not

made
an
offer
to
pay
more
for Inter-Tel than the Mitel price
Instead of paying more, Mihaylo
proposes a front-end loaded, leveraged recapitalization strategy, financed entirely with Inter-Tel s own cash and debt, that we believe:

Provides less value, less certainty and more risk to Inter-Tel stockholders

Significantly increases Mr. Mihaylo s ownership and voting control and gives him a potential veto right on any future sale of Inter-Tel

Would allow him to pay much less to take over Inter-Tel if his recapitalization strategy fails and the stock

price significantly declines
Mihaylo
sent Inter-Tel a letter demanding significant changes at the company that would:

Reduce size of Board to six members, of which he would choose three

Immediately make him Chairman of the Board and interim
CEO

Allow him and his Board nominees to select any new CEO

Give
him
significant
control
over
Inter-Tel
without
a
stockholder
vote
or
paying
any
"control
premium"
to
other stockholders
Stockholders Should Not Be Misled By Mihaylo s
Personal Agenda

16

About Inter-Tel (Delaware), Incorporated

Inter-Tel (Nasdaq: INTL) offers value-driven communications products; applications utilizing networks and server-based communications software; and a wide range of managed services that include voice and data network design and traffic provisioning, custom application development, and financial solutions packages. An industry-leading provider focused on the communication needs of business enterprises, Inter-Tel employs approximately 1,940 communications professionals, and services business customers through a network of 57 company-owned, direct sales offices and approximately 300 authorized providers in North America, the United Kingdom, Ireland, Australia and South Africa. More information is available at www.inter-tel.com.

Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, concerning the pending acquisition of Inter-Tel by Mitel, certain preliminary financial results of Inter-Tel and anticipated future results, and the leveraged recapitalization strategy proposed by Mr. Mihaylo, among other things. Forward-looking statements are statements in the future tense or that include words such as intends,
believe , expect , proposed , anticipates , project
and words of similar import.

Forward-looking statements are based on assumptions, suppositions and uncertainties, as well as on management s best possible evaluation of future events. However, actual results may differ materially from those reflected in forward-looking statements based on a number of factors, many of which are beyond the control of Inter-Tel. Such factors may include, without excluding other considerations, fluctuations in quarterly results, actual GAAP results of operations, evolution in customer demand for Inter-Tel s products and services, risks associated with the proposed acquisition by Mitel or the outcome of any discussions with or actions by Mr. Mihaylo, the impact of price pressures exerted
by competitors, and general market trends
or economic changes.

For additional information about risk factors that could cause actual results to differ materially from those described in the forward-looking statements, please see Inter-Tel s filings with the SEC, including Inter-Tel s Form 10-K filed on March 15, 2007, Inter-Tel s Form 10-K/A filed on April 30, 2007, Inter-Tel s Form 8-K filed on July 6, 2007 and other Inter-Tel Current Reports on Form 8-K, Inter-Tel s Quarterly Reports on Form 10-Q, as well as the definitive proxy statement filed on May 29, 2007 and the proxy supplement filed on July 10, 2007.

17

Disclaimer

This presentation includes statements and information from published material, public filings and other such sources. Permission to reprint or use these statements and information was neither sought nor obtained.

Additional Information

In connection with soliciting proxies for the pending Mitel merger, Inter-Tel filed a definitive proxy statement with the Securities and Exchange Commission on May 29, 2007 and a proxy supplement on July 10, 2007.

INVESTORS AND SECURITY HOLDERS ARE ADVISED TO READ THE DEFINITIVE PROXY STATEMENT AND THE PROXY SUPPLEMENT, AS WELL AS ANY AMENDMENTS OR SUPPLEMENTS THERETO, BECAUSE THEY CONTAIN, OR WILL CONTAIN, IMPORTANT INFORMATION. Copies of the definitive proxy statement, the proxy supplement and other documents filed by Inter-Tel can be obtained without charge at the Securities and Exchange Commission s web site at www.sec.gov or from Inter-Tel by contacting Inter-Tel (Delaware), Incorporated, Attention: Investor Relations, 1615 S. 52nd Street, Tempe, AZ 85281, Telephone: 480-449-8900.

Inter-Tel and its directors, officers and employees may be deemed to be participants in the solicitation of proxies from its stockholders in connection with the proposed merger with Mitel. Information concerning the interests of Inter-Tel s participants in the solicitation is included in the definitive proxy statement, the proxy supplement and related proxy materials for the special meeting of stockholders, which is scheduled for August 2, 2007.

Inter-Tel and the Inter-Tel logo are trademarks of Inter-Tel (Delaware), Incorporated.

18

GAAP Reconciliation

This presentation includes some non-GAAP financial measures, as defined in Regulation G promulgated under the Securities Exchange Act of 1934, as amended. The following table includes the most directly comparable GAAP financial measures and a reconciliation of the non-GAAP financial measures to such comparable GAAP financial measures:

(US$ in millions, unless indicated)

LTM
Q2'06A
Q3'06A
Q4'06A
Q1'07A
Period
Revenue
115.9
117.0
118.5
109.5
460.9
Cost of Goods Sold
59.1
58.9
59.0
56.1
233.1
Gross Profit
56.8
58.1
59.5
53.4
227.8
SG&A
1
39.0
39.4
40.3
40.5
159.2
R&D
8.5
8.4
7.5
7.9
32.3
Total Operating Expenses
47.5
47.8
47.8
48.4
191.5
EBIT
9.3
10.3
11.7
5.0
36.3
Depreciation

2.3
2.4
2.4
2.2
9.2
Amortization
1.2
1.2
1.2
1.1
4.7
Pro Forma EBITDA
12.7
13.9
15.3
8.3
50.2
Less FAS 123R Expense, & Proxy Related Expenses & Other
2.7
4.0
2.6
2.9
12.2
GAAP EBITDA
10.1
9.9
12.8
5.4
38.1
Source: Public
Filings
&
Management
Note:
1 Includes amortization of intangibles