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INTER TEL INC
Form 11-K
July 08, 2003

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

(X) Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002

OR

() 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, 2002 AND 2001

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Schedule H, Line 4(i) - Schedule of Assets (Held at end of year).....11

INDEPENDENT AUDITORS' REPORT

To the Participants and the Plan Administrator of the Inter-Tel, Incorporated Tax Deferred Savings Plan and Retirement Trust:

We have audited the accompanying statements of net assets available for benefits of Inter-Tel, Incorporated Tax Deferred Savings Plan and Retirement Trust at December 31, 2002 and 2001, and the related statement of changes in net assets available for benefits for the year ended December 31, 2002. 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Inter-Tel, Incorporated Tax Deferred Savings Plan and Retirement Trust at December 31, 2002 and 2001, and the changes in net assets available for benefits for the year ended December 31, 2002 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 17, 2003
Phoenix, Arizona

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

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

DECEMBER 31,

| DECEMBER 31, | |
|--------------|-------|
| 2002 | 2001 |
| ----- | ----- |

ASSETS:

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| | | |
|------------------------------------|--------------|--------------|
| Cash and cash equivalents | \$ 47,933 | \$ 33,599 |
| | ----- | ----- |
| Investments, at fair value | 34,699,660 | 36,208,468 |
| | ----- | ----- |
| Receivables | | |
| Employer contribution | 1,502,302 | 1,414,318 |
| Participant contributions | 1,718 | 10,778 |
| Interest and dividends | 6,816 | 42,103 |
| | ----- | ----- |
| Total receivables | 1,510,836 | 1,467,199 |
| | ----- | ----- |
| Total Assets | 36,258,429 | 37,709,266 |
| LIABILITIES: | | |
| Excess contribution refund payable | -- | 11,434 |
| | ----- | ----- |
| Net assets available for benefits | \$36,258,429 | \$37,697,832 |
| | ===== | ===== |

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, 2002

| | | |
|--|--|-------------|
| ----- | | |
| Additions to net assets attributed to: | | |
| Interest and dividends | | \$ 635,385 |
| Contributions: | | |
| Employer | | 1,502,302 |
| Participant | | 4,775,629 |
| Rollovers | | 718,380 |
| | | ----- |
| Total additions | | 7,631,696 |
| | | ----- |
| Deductions from net assets attributed to: | | |
| Net depreciation in fair value of investments | | 7,155,258 |
| Benefits paid to participants | | 2,305,599 |
| Administrative expenses | | 63,324 |
| Other | | 54,651 |
| | | ----- |
| Total deductions | | 9,578,832 |
| | | ----- |
| Asset Transfers to the Plan | | 507,733 |
| | | ----- |
| Net decrease in net assets | | (1,439,403) |
| Net assets available for benefits at beginning of year | | 37,697,832 |

Net assets available for benefits at end of year

\$ 36,258,429
=====

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, 2002 AND 2001

(1) DESCRIPTION OF THE PLAN

The following description of the Inter-Tel, Incorporated Tax Deferred Savings Plan and Retirement Trust (the "Plan") provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

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

CONTRIBUTIONS - Each year, participants may contribute a percentage or dollar amount of their annual compensation to the Plan up to the annual IRS maximum through regular payroll deductions. Participants have the opportunity to change the previously elected percentage or dollar contributions each business day, to be effective at the next bi-weekly payroll period. Eligible participants receive a discretionary matching Company contribution. For 2002, the Company matched 50 percent of the participant's basic contribution limited to six percent of the participant's 2002 compensation. At the Company's discretion, it may allocate profit sharing contributions at the end of each Plan year according to the terms of the Plan.

PARTICIPANT ACCOUNTS - Each participant's account is credited with the participant's contributions, the Company's contributions and an allocation of Plan earnings. Allocations are based on participant account balances. The benefit a participant is entitled to receive is the participant's vested account balance. Participants may elect to have their accounts invested in mutual funds or common stock of the Company as offered by the Plan, or they may elect to have their accounts invested through individual self-directed brokerage accounts.

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

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

FORFEITURES - Forfeited balances of terminated participants' nonvested accounts are used to reduce future employer contributions. In 2002, forfeitures totaled \$64,938 and are reflected as a reduction of employer contributions receivable and employer contributions at December 31, 2002 in the accompanying financial statements.

PARTICIPANT LOANS - Participants can borrow from their accounts a minimum of \$1,000, up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loan terms range up to a maximum of five years, with the exception of loans for the purchase of a primary residence, which carry a maximum of up to twenty years. Loans are secured by the balance in the participant's account and bear interest at a rate commensurate with prevailing rates at the time the loan is made as determined by the loan administrator. Principal and interest is generally paid ratably through payroll deductions.

PAYMENT OF BENEFITS - Upon termination of service, a participant may receive a lump-sum amount equal to the vested value of his or her account. Upon death, disability, or retirement, participants or their beneficiaries may elect to receive lump sums or annual installments over a 10 year period.

PLAN TERMINATION - Although the Company intends to continue the Plan indefinitely for the benefit of its participants, the Company has the right to discontinue its contributions at any time and to terminate or modify the Plan, subject to the provisions of ERISA. In the event of termination of the Plan, participants will become 100 percent vested in all of their accounts.

(2) SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Plan are as follows:

INVESTMENT VALUATION AND INCOME RECOGNITION - The Plan's investments are stated at fair value. Securities and mutual funds traded on national securities exchanges are valued at the last quoted sales price on the principal exchange on which they are traded. Securities, limited partnerships and real estate promissory notes for which no price is readily available on the valuation date are valued at fair value as determined by the Plan Administrator. Participant loans are valued at their outstanding balances, which approximates fair value. Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

USE OF ESTIMATES - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets, and the reported amounts of changes in net assets during the year. Actual results could differ from those estimates.

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

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

CONCENTRATIONS OF CREDIT AND INVESTMENT RISK - The Plan provides for various investment fund options, which in turn invest in any combination of mutual and other investment funds. 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.

RECLASSIFICATIONS - Certain amounts in the 2001 statement of net assets available for benefits have been reclassified to conform to the current year presentation.

(3) INVESTMENTS

Investment information is summarized as follows:

| | December 31, | |
|----------------------------------|--------------|--------------|
| | 2002 | 2001 |
| Investments at fair value: | | |
| Common stock | \$ 4,933,982 | \$ 4,579,931 |
| Preferred stock | 1,131 | 829 |
| Money market accounts | 5,298,864 | 4,190,407 |
| Mutual funds | 22,944,772 | 25,694,096 |
| Unit investment trusts | 64,265 | 19,455 |
| Participant loans | 1,068,334 | 1,100,090 |
| Limited partnerships | 28,716 | 21,695 |
| Real estate note | 295,813 | 534,813 |
| Promissory note | 33,583 | 36,952 |
| Limited liability company units | 30,200 | 30,200 |
| | ----- | ----- |
| Total investments, at fair value | \$34,699,660 | \$36,208,468 |
| | ===== | ===== |

During 2002, 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 | \$ (201,703) |
| Preferred stock | 302 |
| Mutual funds | (6,951,945) |
| Limited partnerships | 5,399 |
| Unit investment trusts | (7,311) |
| | ----- |
| | \$ (7,155,258) |
| | ===== |

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

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

| | 2002 |
|--------------------------------------|-------------|
| | ----- |
| CR Suisse Fixed Income | \$1,824,778 |
| Growth Fund of America | 3,558,782 |
| Inter-Tel, Incorporated Common Stock | 2,453,531 |
| Invesco Technology II Fund | 2,339,006 |
| Invesco Total Return Fund | 2,029,662 |
| Janus Worldwide Fund | 2,405,702 |
| Schwab Government Securities Fund | 4,303,425 |
| Schwab S&P 500 - Investor Shares | 2,331,598 |
| Vanguard Windsor II Fund | 3,094,771 |
| Weitz Value Portfolio | 3,419,215 |
| | 2001 |
| | ----- |
| Dreyfus Disciplined Stock Fund | \$4,428,725 |
| Inter-Tel, Incorporated Common Stock | 2,363,642 |
| Investco Technology II Fund | 4,109,519 |
| Investco Total Return Fund | 2,158,077 |
| Janus Worldwide Fund | 2,874,776 |
| Schwab Government Securities Fund | 2,990,201 |
| Schwab S & P 500 - Investor Shares | 2,287,649 |
| Vanguard Windsor II Fund | 2,941,160 |
| Weitz Value Portfolio | 3,611,381 |

(4) ADMINISTRATIVE EXPENSES

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

(5) PARTY-IN-INTEREST TRANSACTIONS

Certain plan investments are shares of common stock of the Company or are funds held and managed by Charles Schwab Trust Company, the asset custodian; accordingly, these transactions qualify as party-in-interest transactions. Such transactions, while considered party in interest transactions under ERISA regulations, are permitted under the provisions of the Plan and are specifically exempt from the prohibition of party in interest transaction under ERISA. Fees paid and accrued by the Plan to the record-keeper for administrative fees amounted to \$63,324 for the year ended December 31, 2002.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

(6) DIFFERENCES BETWEEN FINANCIAL STATEMENTS AND FORM 5500

The following is a reconciliation of net assets available for benefits as reported in the financial statements to the Form 5500:

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| | December 31, | |
|--|-------------------|-------------------|
| | 2002 | 2001 |
| Net assets available for benefits as reported in the financial statements | \$ 36,258,429 | \$ 37,697,832 |
| Amounts allocated to withdrawn participants | -- | (3,564) |
| Net assets available for benefits as reported in the Form 5500 | \$ 36,258,429 | \$ 37,694,268 |

The following is a reconciliation of benefits paid to participants as reported in the financial statements to the Form 5500:

| | Year Ended December 31, 2002 |
|--|------------------------------------|
| Benefits paid to participants as reported in the financial statements | \$ 2,305,599 |
| Less: Amounts allocated on Form 5500 to withdrawn participants at December 31, 2001 | (3,564) |
| Less: Corrective distributions | (11,569) |
| Benefits paid to participants as reported in the Form 5500 | \$ 2,290,466 |

Amounts allocated to withdrawn participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to year-end but not yet paid.

(7) INCOME TAX STATUS

The Plan has received a favorable determination letter from the Internal Revenue Service dated January 8, 1992 stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code ("the Code") and, therefore, that the related trust is exempt from federal and state income or franchise taxation. 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 ERISA, and, therefore, believes that the Plan is qualified and the related trust is exempt from federal and state income or franchise taxes..

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SUPPLEMENTAL SCHEDULE

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, 2002

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| (a) | (B) IDENTITY OF ISSUE, BORROWER, LESSOR OR SIMILAR PARTY | (C) DESCRIPTION OF INVESTMENT INCLUDING MATURITY DATE, RATE INTEREST, COLLATERAL, PAR OR MATURITY VALUE | (D) COST |
|-----|---|--|----------|
| | Common Stock: | | |
| | 8x8, Inc. | 2,500 shares | ** |
| | 3Com Corporation | 100 shares | ** |
| | Abaxis, Inc | 2,000 shares | ** |
| | ABM Industries, Inc | 4 shares | ** |
| | ACLN Ltd. | 115 shares | ** |
| | ADAPTEC | 200 shares | ** |
| | Advanced Viral Research | 13,000 shares | ** |
| | Aerocentury Corp. | 3,900 shares | ** |
| | Agere Systems Inc | 9 shares | ** |
| | Allianz AG ADR | 300 shares | ** |
| | Amdocs Limited | 200 shares | ** |
| | American Movil AOR Inc. | 100 shares | ** |
| | Amylin Pharmaceuticals, Inc | 2,000 shares | ** |
| | Anheuser Busch Co. Inc. | 102 shares | ** |
| | Annaly Mortgage Management, Inc | 300 shares | ** |
| | AOL Time Warner Inc. | 100 shares | ** |
| | Applied Materials, Inc. | 600 shares | ** |
| | Aquila, Inc. | 2,000 shares | ** |
| | Asiainfo Holdings, Inc. | 2,000 shares | ** |
| | Avanex Corp. | 20 shares | ** |
| | Aware, Inc. | 700 shares | ** |
| | Axtive Corporation | 2,500 shares | ** |
| | Bassett Furniture Industries | 567 shares | ** |
| | Biocryst Pharmaceuticals | 1,500 shares | ** |
| | Biogen | 500 shares | ** |
| | Biotransplant, Inc. | 500 shares | ** |
| | Boeing Company | 2,400 shares | ** |
| | Brooktrout, Inc. | 500 shares | ** |
| | California Amplifier, Inc. | 200 shares | ** |
| | Calpine Corporation | 1,000 shares | ** |
| | Charter Communications | 5,055 shares | ** |
| | Chevron Texaco Corp. | 1,000 shares | ** |
| | Cisco System, Inc. | 5,300 shares | ** |
| | CKE Restaurants, Inc. | 5,000 shares | ** |
| | Coca Cola Company | 240 shares | ** |
| | Coded Communications Corp. | 15,500 shares | ** |
| | Cohu, Inc. | 500 shares | ** |
| | Comdisco Holding Co. Rts | 10,000 shares | ** |
| | Corvis Corp. | 59 shares | ** |
| | Costco Wholesale Corp. | 300 shares | ** |
| | Covad Communications Group, Inc. | 5,750 shares | ** |
| | Critical Path, Inc | 25 shares | ** |
| | Dell Computer Corp. | 100 shares | ** |
| | Deltagen, Inc. | 2,500 shares | ** |
| | Digital Lightwave, Inc. | 210 shares | ** |

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| | | |
|--------------------------------|----------------|----|
| Disney Walt HLDG, Co. | 193 shares | ** |
| Divine Inc. | 17 shares | ** |
| DSL.Net Inc. | 1,000 shares | ** |
| Dynergy, Inc. Cl A | 552 shares | ** |
| Earthlink, Inc. | 1,001 shares | ** |
| Eastman Kodak Company | 3,685 shares | ** |
| EduLink, Inc. | 20,000 shares | ** |
| EFunds Corp. | 1,300 shares | ** |
| Emulex Corp. | 600 shares | ** |
| Enron Corp. | 40 shares | ** |
| Enterasys Networks, Inc. | 350,000 shares | ** |
| Exxon Mobile Corp. | 140 shares | ** |
| Foster Wheeler Ltd. | 900 shares | ** |
| Foundry Networks, Inc. | 87 shares | ** |
| Frontier Insurance Group, Inc. | 183 shares | ** |
| Frozen Food Express, Inc. | 270 shares | ** |
| General Electric Co. | 1,101 shares | ** |
| Genome Therapeutics Corp. | 1,900 shares | ** |
| Gillette Co. | 200 shares | ** |
| Global Crossing Ltd. | 515 shares | ** |
| Global Power Equipment Group | 2,500 shares | ** |
| Globalstar Telecom | 500 shares | ** |
| Goodrich Corporation | 3,000 shares | ** |
| Goodyear Tire & Rubber Company | 371 shares | ** |
| Gunslinger Records, Inc. | 42,500 shares | ** |
| Hewlett Packard Company | 689 shares | ** |
| Hollis-Eden Pharmaceuticals | 61 shares | ** |

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| | | |
|---------------------------------|----------------|----|
| Home Depot, Inc. | 1,159 shares | ** |
| House 2 Home, Inc. | 2,000 shares | ** |
| Impath, Inc. | 16 shares | ** |
| Infosys Tech Spon Adr | 300 shares | ** |
| Intel Corp. | 4,899 shares | ** |
| International Business Machines | 100 shares | ** |
| * Inter-Tel, Incorporated | 117,338 shares | ** |
| Iomega Corp. | 1,050 shares | ** |
| Iridium World Communications | 60 shares | ** |
| ISCO International, Inc. | 5,440 shares | ** |
| IVAX Corp. | 62 shares | ** |
| J M Smuckers Co. | 5 shares | ** |
| Juniper Networks, Inc. | 200 shares | ** |
| Kafus Industries, Ltd. | 20,000 shares | ** |
| Keithley Instruments, Inc. | 34 shares | ** |
| King Pharmaceuticals, Inc. | 973 shares | ** |
| K-Tel International, Inc. | 362 shares | ** |
| Level 3 Communications, Inc. | 300 shares | ** |
| Ligand Pharmaceuticals | 300 shares | ** |
| Limited, Inc. | 1 share | ** |
| Lipid Sciences, Inc. | 2,000 shares | ** |
| Lowe's Corp. Carolina Group | 700 shares | ** |
| Lowe's Companies | 1,208 shares | ** |
| Lucent Technologies, Inc. | 437 shares | ** |
| Lumenon Innovation Lightwave | 150 shares | ** |
| Lynx Therapeutics | 2,500 shares | ** |
| Macrochem Corp. Del | 3,000 shares | ** |
| Mangosoft, Inc. | 250 shares | ** |
| Maxim Integrated Products, Inc. | 65 shares | ** |

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| | | |
|---------------------------|---------------|----|
| McHenry Metals Golf Corp. | 5,000 shares | ** |
| McLeod USA, Inc. | 1,900 shares | ** |
| McLeodusa Inc. | 111 shares | ** |
| Merck & Co., Inc. | 2,500 shares | ** |
| Metromedia Fiber Network | 1,801 shares | ** |
| Microsemi Corp. | 31 shares | ** |
| Microsoft Corp. | 3,045 shares | ** |
| Motorola, Inc. | 940 shares | ** |
| Moving Bytes, Inc. | 20,000 shares | ** |
| Multex Systems, Inc. | 500 shares | ** |
| Nabors Industries, Ltd. | 55 shares | ** |
| Napro Biotherapeutics | 2,000 shares | ** |
| Neomagic Corp. | 500 shares | ** |
| Network Commerce, Inc. | 133 shares | ** |
| NMS Communications | 840 shares | ** |
| Nokia Corp | 494 shares | ** |

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| | | |
|------------------------------------|---------------|----|
| Nortel Networks Corp. | 14,385 shares | ** |
| Northpoint Communication Holdings | 1,000 shares | ** |
| Northwestern Corp. | 1,100 shares | ** |
| Novell, Inc. | 4,000 shares | ** |
| Oilex, inc | 9,000 shares | ** |
| Oracle Corp. | 2,203 shares | ** |
| Palm, Inc. | 33 shares | ** |
| Penn Traffic Co. | 500 shares | ** |
| Perot System Corp. | 150 shares | ** |
| Petsmart, Inc. | 3,700 shares | ** |
| Pfizer, Inc. | 1,000 shares | ** |
| Pinnacle Systems | 4,300 shares | ** |
| PNC Bk Corp. | 1,700 shares | ** |
| Polycom | 286 shares | ** |
| Practiceworks, Inc. | 386 shares | ** |
| Priceline.com, Inc. | 200 shares | ** |
| Qualcomm, Inc. | 374 shares | ** |
| Qwest Communications International | 2,866 shares | ** |
| Read-Rite Corp. | 2,600 shares | ** |
| RF Micro Devices Inc. | 2,100 shares | ** |
| Ribozyme Pharm, Inc. | 7,500 shares | ** |
| Ritchie Brothers Auctioneers | 400 shares | ** |
| Saba Software, Inc. | 2,500 shares | ** |
| Save the World Air, Inc. | 5,900 shares | ** |
| Scientific Atlanta, Inc. | 4,000 shares | ** |
| Sears Roebuck & Company | 430 shares | ** |
| Siebel Systems, Inc. | 28 shares | ** |
| Sonic Corp. | 100 shares | ** |
| Southtrust Corp. | 2,000 shares | ** |
| Southwest Airlines | 135 shares | ** |
| Spectralink Corp. | 500 shares | ** |
| Starbase Corp. | 50 shares | ** |
| Storagenetworks, Inc. | 154 shares | ** |
| Sun Microsystems, Inc. | 3,455 shares | ** |
| Sysco Corp. | 1,000 shares | ** |
| Target Corp. | 200 shares | ** |
| Targeted Genetics Corp. | 2,000 shares | ** |
| Teardrop Golf Company | 2,000 shares | ** |
| Techne Corp. | 116 shares | ** |
| Telaxis Communications Corp. | 1,800 shares | ** |

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| | | |
|-------------------------------|--------------|----|
| Telefonos de Mexico | 100 shares | ** |
| Telegen Corp. | 3,790 shares | ** |
| Terayon Communication Systems | 205 shares | ** |
| Texas Instruments, Inc. | 3,500 shares | ** |
| The Charles Schwab Corp. | 1,000 shares | ** |

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| | | |
|-------------------------------------|----------------|----|
| Tyco Intl. Ltd. | 500 shares | ** |
| U. S. Physical Therapy, Inc. | 1,200 shares | ** |
| Vitalworks, Inc. | 1,548 shares | ** |
| Vitesse Semiconductor Corp. | 46 shares | ** |
| Walgreen Company | 201 shares | ** |
| Wal-Mart Stores, Inc. | 100 shares | ** |
| Wattage Monitor, Inc. | 6,000 shares | ** |
| Worldcom, Inc. | 70,661 shares | ** |
| Worldcom, Inc - MCI Group | 27 shares | ** |
| Xcelera, Inc. | 50 shares | ** |
| Xerox Corp. | 2 shares | ** |
| 3M Company | 222 shares | ** |
| Preferred Stock: | | |
| Practiceworks 6% B | 377 shares | ** |
| Mutual Funds: | | |
| AIM Equity Fund Class A | 1,948 shares | ** |
| Artisan Midcap Fund | 169 shares | ** |
| AXA Rosenbert US Small Cap Fund | 118 shares | ** |
| Baron Asset Fund | 59 shares | ** |
| Berger Mid Cap Value Fund | 696 shares | ** |
| Buffalo Small Cap Fund | 823 shares | ** |
| Calamos Growth FD CL A | 63 shares | ** |
| Calvert Income Fund | 130 shares | ** |
| CR Suisse Capital Appreciation Fund | 120 shares | ** |
| CR Suisse Fixed Income | 188,510 shares | ** |
| Dodge & Cox Income Fund | 2,251 shares | ** |
| Dodge & Cox Stock Fund | 33 shares | ** |
| Dreyfus Appreciation Fund | 1,628 shares | ** |
| Dreyfus Disciplined Stock Fund | 1 share | ** |
| Dreyfus Premier Emerging Mkts CL A | 241 shares | ** |
| Fidelity Magellan Fund | 297 shares | ** |
| Franklin Small Cap Growth Fund | 2,437 shares | ** |
| Fremont US Micro Cap Fund | 1,136 shares | ** |
| Gabelli Growth Fund | 263 shares | ** |
| Growth Fund of America CL F | 192,680 shares | ** |
| Harbor Bond Fund | 94 shares | ** |
| Harbor International Growth Fund | 155 shares | ** |
| Hennessy Cornerstone Growth Fund | 455 shares | ** |
| Invesco Leisure Fund | 710 shares | ** |
| Invesco Technology Fund | 60 shares | ** |
| Invesco Technology II Fund | 136,068 shares | ** |
| Invesco Total Return Fund | 97,113 shares | ** |

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| | | |
|------------------------------------|----------------|----|
| Janus Balance Fund | 2,148 shares | ** |
| Janus Growth & Income Fund | 325 shares | ** |
| Janus Mercury Fund | 1,027 shares | ** |
| Janus Olympus Fund | 150 shares | ** |
| Janus Overseas Fund | 134 shares | ** |
| Janus Worldwide Fund | 74,874 shares | ** |
| Jensen Portfolio, Inc. | 1,446 shares | ** |
| Julius Baer Intl Equity Fund | 1,724 shares | ** |
| Loomis Sayles Bond Fund | 5,524 shares | ** |
| Managers Special Equity Fund | 33 shares | ** |
| Meridian Value Fund | 378 shares | ** |
| MFS Research Fund | 82 shares | ** |
| Navellier Mid Cap Growth | 1,678 shares | ** |
| NB Genesis Fund | 123 shares | ** |
| NB Ltd Maturity Bond Fund | 431 shares | ** |
| Oakmark Equity Income Fund | 256 shares | ** |
| Oakmark Fund | 445 shares | ** |
| Oakmark International Fund | 277 shares | ** |
| Oakmark Select Fund | 1,633 shares | ** |
| PBHG Clipper Focus PBHG | 233 shares | ** |
| Pimco Real Return Fund | 5,368 shares | ** |
| Pioneer Mid Cap Value Class A | 3,059 shares | ** |
| Prime Retail, Inc. | 333 shares | ** |
| Putnam Growth & Income Fund | 3,009 shares | ** |
| Putnam Intl Growth Fund CL A | 109 shares | ** |
| Royce Low Priced Stock Fund | 534 shares | ** |
| Royce Opportunity Fund | 524 shares | ** |
| Royce Special Equity Fund | 361 shares | ** |
| Royce Total Return Fund | 1,571 shares | ** |
| RS Diversified Growth Fund | 274 shares | ** |
| Safeco Growth Opportunities | 51,986 shares | ** |
| * Schwab 1000 Fund | 197 shares | ** |
| * Schwab S&P 500 - Investor shares | 172,201 shares | ** |
| Scudder Technology Fund | 99 shares | ** |
| Sound Shore Fund | 117 shares | ** |
| Strong Advantage Common Stock | 580 shares | ** |
| Strong Government Securities Fund | 213 shares | ** |
| Strong Mid Cap Disciplined Fund | 243 shares | ** |
| Strong Ultra Short Fund | 1,508 shares | ** |
| Templeton Developing Markets Trust | 1,947 shares | ** |
| Templeton Foreign Fund | 8,809 shares | ** |
| Thompson Plumb Growth Fund | 83 shares | ** |
| Torray Fund | 105 shares | ** |
| Turner Mid Cap Fund | 192 shares | ** |
| Van Kampen Emerging Growth Fund | 114 shares | ** |

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| | | |
|---|----------------|----|
| Van Kampen Real Estate Sec Fund | 288 shares | ** |
| Vanguard F-1 Secs GNMA Portfolio | 258 shares | ** |
| Vanguard Growth Index Fund | 633 shares | ** |
| Vanguard Healthcare Fund | 522 shares | ** |
| Vanguard Index Trust 500 Portfolio | 151 shares | ** |
| Vanguard International Growth Portfolio | 742 shares | ** |
| Vanguard Wellesley Income Fund | 2,030 shares | ** |
| Vanguard Windsor II Fund | 148,787 shares | ** |
| Weitz Value Portfolio | 122,465 shares | ** |
| White Oak Growth Stock | 47 shares | ** |

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|---------------------------------|------------------------------------|--|----|
| Unit Investment Trusts: | | | |
| | Ishares S&P Smallcap 600 | 800 shares | ** |
| | Nasdaq 100 | 500 shares | ** |
| Money Market Accounts: | | | |
| * | Charles Schwab Money Market Fund | 995,064 shares | ** |
| * | Schwab Government Securities Fund | 4,303,425 shares | ** |
| * | Schwab Stock Liquidity | 375 shares | ** |
| Limited Partnerships: | | | |
| | Beaconsfield LP Fund I | 1 unit | ** |
| | Beaconsfield LP Fund II | 1 unit | ** |
| | Kaneb Pipe Line Partners LP | 78 units | ** |
| Limited Liability Company Units | | | |
| | Angstrom Preferred Holdings, LLC | 20,000 units | ** |
| Promissory Note: | | | |
| | Baptist Foundation Promissory Note | Interest rate: 11.75%; maturity date: November 7, 2012; unsecured | ** |
| Real estate note: | | | |
| | Forest Lakes Real Estate | Interest rate: 14%; maturity date: August 1, 2004; secured by real estate | ** |
| 17 | | | |
| * | Participant loans | Interest rates ranging from 6.75% to 7.5% | ** |
| | Total investments | | |

* 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

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By /s/ Kurt R. Kneip

Inter-Tel, Incorporated
Kurt R. Kneip
Sr. Vice President and Chief Financial Officer
Date: July 8, 2003

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EXHIBIT INDEX

Exhibits:

Exhibit 23.1 - Consent of Independent Accountants
Exhibit 99 - Section 906 Certification

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