

BENCHMARK ELECTRONICS INC
Form 10-Q
May 10, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1 10560

BENCHMARK ELECTRONICS, INC.

(Exact name of registrant as specified in its charter)

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	Texas	74 2211011
	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
	3000 Technology Drive	77515
	Angleton, Texas	(Zip Code)
	(Address of principal executive offices)	

(979) 849 6550

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of May 6, 2016, there were 49,309,715 Common Shares of Benchmark Electronics, Inc., par value \$0.10 per share, outstanding.

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.****BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets**

(in thousands, except par value)	March 31, 2016 (unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 519,167	\$ 465,995
Accounts receivable, net of allowance for doubtful accounts of \$3,314 and \$3,417, respectively	414,184	479,140
Inventories	389,919	411,986
Prepaid expenses and other assets	37,058	31,351
Income taxes receivable	36	156
Total current assets	1,360,364	1,388,628
Property, plant and equipment, net of accumulated depreciation of \$387,852 and \$379,088, respectively	173,969	178,170
Goodwill, net	199,469	199,290
Deferred income taxes	14,841	14,088
Other, net	110,571	113,702
	\$ 1,859,214	\$ 1,893,878
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt and capital lease obligations	\$ 12,306	\$ 12,284
Accounts payable	218,237	251,163
Income taxes payable	5,014	5,069
Accrued liabilities	66,113	64,578
Total current liabilities	301,670	333,094
Long-term debt and capital lease obligations, less current installments	219,998	222,909
Other long-term liabilities	17,135	15,971
Shareholders' equity:		
Preferred shares, \$0.10 par value; 5,000 shares authorized, none issued	—	—
Common shares, \$0.10 par value; 145,000 shares authorized; issued and outstanding – 49,664 and 50,178, respectively	4,966	5,018
Additional paid-in capital	619,994	624,997
Retained earnings	709,357	704,905

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 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

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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.

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

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

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

Voting of Proxies

The only class of the Company's capital stock currently outstanding is its common stock. Shares of the common stock represented by all properly executed proxies received in time for the scheduled meeting will be voted in accordance with the choices specified in the proxies. If multiple proxies are received with respect to the same shares, the latest dated proxy will be voted with respect to those shares. See Revocability of Proxy below.

In the event that a quorum is not present at the time the Special Meeting is convened, the stockholders entitled to vote at the meeting, present in person or represented by proxy, will have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting. If the Company proposes to adjourn the meeting by a vote of stockholders, the persons named in the enclosed form of proxy will vote all shares of stock for which they have voting authority in favor of such adjournment. If a quorum is not present, in person or by proxy, the Company may elect to terminate the meeting and the Mihaylo Resolution will be deemed to have not been

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approved. The Company has not been notified of any other matter subject to stockholder vote to be proposed and voted upon at the Special Meeting, and, consequently, no matters other than the Mihaylo Resolution will be brought to a vote at the Special Meeting.

Voting Rights

Holders of shares of the Company's common stock at the close of business on August 28, 2006, the Record Date, are entitled to notice of, and to vote at, the Special Meeting, provided that only shares that remain issued and outstanding as of the date of the Special Meeting will be entitled to vote, in person or by proxy, at the meeting. As of August 28, 2006, 26,686,491 shares of the Company's common stock were outstanding. Each share of common stock outstanding on the Record Date is entitled to one vote on the Mihaylo Resolution. The presence, in person or by proxy, of stockholders representing at least a majority of the issued and outstanding stock entitled to vote constitutes a quorum for the transaction of business at the meeting. The Mihaylo Resolution is a precatory resolution and is non-binding on the Board.

Under Delaware law and our bylaws, the vote of the majority of the stock having voting power present in person or represented by proxy at the Special Meeting shall be the act of the stockholders. As a result, the fact that you abstain and do not vote in favor of the Mihaylo Resolution will have the same effect as if you had voted against the Mihaylo Resolution.

Solicitation of Proxies

The costs of this solicitation by the Special Committee will be borne by the Company. Proxy solicitations will be made by mail. They also may be made by personal interview, telephone, facsimile transmission, and telegram or the Internet. We expect the total cost of this solicitation to be approximately \$500,000. The Special Committee has engaged Innisfree M&A Incorporated, a proxy solicitation firm, to solicit votes for a solicitation fee of \$, plus reasonable out-of-pocket expenses. Innisfree expects it will employ approximately 50 persons in the solicitation. Total expenditures by the Company in connection with this solicitation prior to the date of this Proxy Statement have been approximately \$75,000.

Multiple Stockholders Sharing One Address

In some instances, we may deliver to multiple stockholders sharing a common address only one copy of this proxy statement and its attachments. If requested by phone or in writing, we will promptly provide a separate copy of the proxy statement and its attachments to a stockholder sharing an address with another stockholder. Requests by phone should be directed to our Corporate Secretary at (480) 449-8900, or to Innisfree M&A Incorporated at (888) 750-5834 (Stockholders call toll free) or (212) 750-5833 (Banks and Brokers call collect), and requests in writing should be sent to Inter-Tel (Delaware), Incorporated, Attention: Corporate Secretary, 1615 S. 52nd Street, Tempe, Arizona 85281. Stockholders sharing an address who currently receive multiple copies and wish to receive only a single copy should contact their broker or send a signed, written request to us at the address above.

Deadline for Receipt of Stockholder Proposals

Proposals of stockholders of the Company that are intended to be presented by such shareholders at the annual meeting of the Company for the fiscal year ending December 31, 2006 must be received by the Company no later than January 10, 2007, in order to be included in the proxy statement and form of proxy relating to such meeting.

SEC rules also establish a different deadline for submission of stockholder proposals that are not intended to be included in the Company's proxy statement with respect to discretionary voting. If a stockholder gives notice of such a

proposal after the discretionary vote deadline, the Company's proxy holders will be allowed to use their discretionary voting authority to vote against the stockholder proposal when and if the proposal is raised at the Company's year 2007 Annual Meeting. The discretionary vote deadline for the 2007 Annual Meeting is April 1, 2007, 45 calendar days prior to the anniversary of the mailing date of the Company's annual meeting proxy statement.

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Revocability of Proxy

The giving of the enclosed proxy does not preclude the right to vote in person should the stockholder giving the proxy so desire. A proxy may be revoked at any time prior to its exercise by delivering a written statement to the Company's Secretary that the proxy is revoked, by presenting a later-dated proxy, or by attending the Special Meeting and voting in person.

Additional Materials

A form of proxy is included with the mailing of this proxy statement. A copy of the Company's Annual Report to Stockholders on Form 10-K, as amended on Form 10-K/A, each as filed with the Securities and Exchange Commission, which includes the Company's audited financial statements for the year ended December 31, 2005, as well as the Company's most recent Form 10-Q dated August 9, 2006, will be furnished without charge to beneficial owners of shares or stockholders of record as of the Record Date upon request to our Corporate Secretary at (480) 449-8900, or to Innisfree M&A Incorporated at (888) 750-5834 (Shareholders call toll free) or (212) 750-5833 (Banks and Brokers call collect), and requests in writing should be sent to Inter-Tel (Delaware), Incorporated, Attention: Corporate Secretary, 1615 S. 52nd Street, Tempe, Arizona 85281.

Other Matters To Be Considered At The Meeting

Pursuant to Sections 2.3 and 2.5 of the Company's By-laws, the business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice of the meeting. The Special Committee is not aware at the present time of any other matter which is scheduled to be voted upon by stockholders at the Special Meeting. However, if any other matter properly comes before the Special Meeting, the proxies will vote all proxies held by them in accordance with their best judgment with respect to each such matter.

Stockholders will have no appraisal or similar rights with respect to the Mihaylo Resolution.

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As of August 28, 2006, the Company had 26,686,491 issued and outstanding shares. The following table presents information regarding the beneficial ownership of the Company's capital stock as of August 28, 2006: (a) each director and nominee for director of the Company who owned shares as of such date, (b) each of the Named Executive Officers (defined below), (c) all directors and executive officers of the Company as a group and (d) each person known by the Company to be the beneficial owner of more than 5% of the outstanding shares of Common Stock. The beneficial owners named have, to our knowledge, sole voting and investment power with respect to the shares beneficially owned, subject to community property laws where applicable.

Shares of Common Stock Beneficially Owned

Name	Owned		Total Number of Shares(1)	Percent of Total(3)
	Excluding Stock Options	Right to Acquire(2)		
J. Robert Anderson	20,000	35,000	55,000	*
Alexander L. Cappello		15,000	15,000	*
Jerry W. Chapman	4,069	35,000	39,069(4)	*
Gary D. Edens	19,792	35,000	54,792	*
Steven E. Karol		7,500	7,500	*
Dr. Anil K. Puri				*
Robert Rodin		7,500	7,500	*
Kenneth L. Urish				*
Agnieszka Winkler		15,000	15,000	*
Norman Stout	18,861	380,333	399,194(5)	1.4
Craig W. Rauchle	5,898	289,395	295,293	1.1
Jeffrey T. Ford	63,672	134,000	197,672(6)	*
Kurt R. Kneip	25,078	41,500	66,578(7)	*
Steven G. Mihaylo	5,179,498		5,179,498	18.7
P.O Box 19790, Reno, NV 89511 All directors and executive officers as a group (14 persons)	5,336,868	995,228	6,332,096	22.9

* Less than 1%.

(1) Determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended. Under this rule, a person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days from the Record Date (August 28, 2006) upon the exercise of options. Each beneficial owner's percentage

ownership is determined by assuming that all options held by such person (but not those held by any other person) that are exercisable within 60 days from the Record Date have been exercised. All persons named in the table have sole voting and investment power with respect to all shares issuable pursuant to stock options. Unless otherwise noted in subsequent footnotes to this table, the Company believes that all persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned by them.

- (2) Shares that can be acquired through stock options vested through August 28, 2006, or within 60 days of that date.
- (3) Determined by dividing total number of shares by the sum of the total consolidated outstanding shares on the Record Date of 26,686,491 plus 995,228 shares that can be acquired through stock options as identified in item (2) above.
- (4) With respect to 4,069 of these shares, Mr. Chapman shares voting and investment power with his spouse.
- (5) With respect to 18,861 of these shares, Mr. Stout shares voting and investment power with his spouse.
- (6) With respect to 62,417 of these shares, Mr. Ford shares voting and investment power with his spouse.
- (7) With respect to 20,000 of these shares, Mr. Kneip shares voting and investment power with his spouse.

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Forward-Looking Statements

This proxy solicitation and accompanying materials contain forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These include statements concerning the anticipated impact on stockholder value of the Company's long term strategy; the timing and impact on stockholder value of new product announcements, releases and enhancements; the results of prior and continued investment in research and development; the effect on the Company of convergence and consolidation trends in the industry; and the ability of management to execute the Company's strategy and adapt to changes in the industry. Such statements are based on current assumptions that involve risks and uncertainties which could cause the actual results, performance, or achievements of the Company to be materially different from those described in such statements, including, market acceptance of new and existing products, software and services; dependence on continued new product development; product defects, timely and successful hiring and retention of employees; retention of existing dealers and customers; industry, competitive and technological changes; general market and economic conditions; the composition, product and channel mixes, timing and size of orders from and shipments to major customers; price and product competition; and availability of inventory from vendors and suppliers. For a further list and description of such risks and uncertainties, please see the risks factors contained in the Company's Form 10-K, as amended on Form 10-K/A, each as filed with the SEC, other subsequently filed current and periodic reports, and the Company's most recent Form 10-Q dated August 9, 2006. Inter-Tel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Forward-looking statements may be identified by the use of words such as may, will, should, expect, plan, anticipate, believe, estimate, predict, intend and continue, or the negative of these terms, and include the assumptions that underlie such statements. The Company's actual results could differ materially from those expressed or implied in these forward-looking statements as a result of various risks and uncertainties.

There can be no assurance that any transaction will result from the Special Committee's strategic review or as to the terms thereof. As has already been publicly stated, the Special Committee or its advisors may wish to have additional conversations with the Mihaylo Group or its advisors as part of this review. The Company does not anticipate disclosure of developments with respect to the strategic review until the Special Committee deems necessary and appropriate.

THE COMPANY STRONGLY ADVISES ALL STOCKHOLDERS OF THE COMPANY TO READ THIS PROXY STATEMENT AND OTHER PROXY MATERIALS THAT ARE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AS THEY BECOME AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. SUCH PROXY MATERIALS WILL BE AVAILABLE AT NO CHARGE ON THE SECURITIES AND EXCHANGE COMMISSION'S WEB SITE AT [HTTP://WWW.SEC.GOV](http://www.sec.gov). IN ADDITION, THE COMPANY WILL PROVIDE COPIES OF THE DEFINITIVE PROXY STATEMENT (WHEN AVAILABLE), AS WELL AS COPIES OF ANY DOCUMENTS INCORPORATED HEREIN BY REFERENCE, WITHOUT CHARGE, UPON REQUEST. REQUESTS FOR COPIES OF PROXY MATERIALS OR DOCUMENTS INCORPORATED BY REFERENCE SHOULD BE DIRECTED TO OUR CORPORATE SECRETARY AT (480) 449-8900, OR TO INNISFREE M&A INCORPORATED AT (888) 750-5834 (SHAREHOLDERS CALL TOLL FREE) OR (212) 750-5833 (BANKS AND BROKERS CALL COLLECT), AND REQUESTS IN WRITING SHOULD BE SENT TO INTER-TEL (DELAWARE), INCORPORATED, ATTENTION: CORPORATE SECRETARY, 1615 S. 52ND STREET, TEMPE, ARIZONA 85281.

September 1, 2006 INTER-TEL (DELAWARE), INCORPORATED

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IF YOU HAVE ANY QUESTIONS OR REQUIRE ASSISTANCE,
PLEASE CONTACT:

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

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APPENDIX A

[LETTERHEAD OF HOULIHAN LOKEY HOWARD & ZUKIN FINANCIAL ADVISORS, INC]

August 11, 2006

*The Special Committee of the Board of Directors of Inter-Tel, Incorporated
1615 5. 52nd Street
Tempe, Arizona 85281*

Dear Members of the Special Committee:

We understand that an affiliate of Steven G. Mihaylo (Mihaylo), the former Chairman and Chief Executive Officer and largest shareholder of Inter-Tel, Incorporated (the Company), together with Vector Capital Corporation (Vector) have formed INTL Acquisition Corp. (IAC) and IAC has presented to the Board of Directors of the Company a written offer (the Offer) to acquire all of the outstanding common stock of the Company (other than the shares beneficially owned by IAC) (the Proposed Acquisition) pursuant to a merger agreement to be negotiated whereby IAC or a direct or indirect wholly-owned subsidiary of IAC would be merged with and into the Company and all of outstanding common stock of the Company (other than the shares beneficially owned by IAC) would be converted into the right to receive \$22.50 per share in cash (the Proposed Merger Consideration). Such proposed transaction is referred to herein as the Proposed Transaction .

We understand that, in connection with the Proposed Acquisition, IAC has received equity commitments from (i) Mihaylo to contribute to IAC or a wholly-owned subsidiary of IAC certain shares of Company common stock beneficially owned by Mihaylo and (ii) Vector to provide to IAC or a wholly-owned subsidiary of IAC \$96,400,000 of equity financing (collectively, the Equity Commitments).

We understand that, in connection with the Proposed Acquisition, IAC has received debt- financing commitments from Deutsche Bank Trust Company Americas, Deutsche Bank Securities, Inc., Royal Bank of Canada and RBC Capital Markets to provide certain credit facilities including (i) a first- lien term loan facility in an aggregate principal amount of up to \$200,000,000, (ii) a \$30,000,000 revolving credit facility and (iii) a second-lien term loan facility in an aggregate principal amount of up to \$100,000,000 (collectively, the Financing Commitments).

You have requested that Houlihan Lokey Howard & Zukin Financial Advisors, Inc. (Houlihan Lokey) provide an opinion (the Opinion) to the Special Committee of the Board of Directors of the Company (the Special Committee) as to fairness or inadequacy, as appropriate, from a financial point of view, as of the date hereof, of the Proposed Merger Consideration to be received by the common stockholders of the Company (other than IAC and its affiliates) in connection with the Proposed Transaction.

In connection with this Opinion, we have made such reviews, analyses and inquiries as we have deemed necessary and appropriate under the circumstances. Among other things, we:

1. reviewed the Company s annual reports to shareholders on Form 10-K for the fiscal years ended December 31, 2005, 2004 and 2003, quarterly reports on Form 10-Q for the quarters ended June 30 and March 31, 2006 and September 30 and June 30, 2005 and Proxy Statement on Form 14A, dated May 10, 2006;

2. spoke with certain members of the management of the Company regarding the operations, financial condition, future prospects and projected operations and performance of the Company and regarding the Proposed Transaction,

and spoken with representatives of the Company's financial advisors and counsel and with the Special Committee's counsel regarding the Company, the Proposed Transaction, and related matters;

3. reviewed the following agreements and documents in connection with the Proposed Transaction:

a. the Offer;

b. the Equity Commitments; and

c. the Financing Commitments.

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4. reviewed forecasts and projections prepared by the Company's management with respect to the Company;
5. reviewed the historical market prices and trading volume for the Company's publicly traded securities for the past one year;
6. reviewed certain other publicly available financial data for certain companies that we deemed relevant and publicly available transaction prices and premiums paid in other change of control transactions that we deemed relevant for companies in industries related to the Company; and
7. conducted such other financial studies, analyses and inquiries as we have deemed appropriate.

We have relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information (including, without limitation, the financial forecasts and projections) furnished, or otherwise made available, to us, discussed with or reviewed by us, or publicly available, and do not assume any responsibility with respect to such data, material and other information. In addition, we have relied upon and assumed, without independent verification, that the financial forecasts and projections have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial results and condition of the Company, and we express no opinion with respect to such forecasts and projections or the assumptions on which they are based. We have relied upon and assumed, without independent verification, that there has been no material change in the assets, liabilities, financial condition, results of operations, business or prospects of the Company since the date of the most recent financial statements provided to us, and that there is no information or facts that would make the information reviewed by us incomplete or misleading.

Furthermore, we have not been requested to make, and have not made, any physical inspection or independent appraisal or evaluation of any of the assets, properties or liabilities (contingent or otherwise) of the Company, nor were we provided with any such appraisal or evaluation. This Opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. We have not undertaken, and are under no obligation, to update, revise, reaffirm or withdraw this Opinion, or otherwise comment on or consider events occurring after the date hereof. Subsequent events that could materially affect the conclusions set forth in this Opinion include, without limitation, adverse changes in industry performance or market conditions; changes to the business, financial condition and results of operations of the Company; and changes in the terms of the Proposed Transaction.

This Opinion is furnished for the use and benefit of the Special Committee in connection with its consideration of the Proposed Transaction and is not intended to, and does not, confer any rights or remedies upon any other person, and is not intended to be used, and may not be used, for any other purpose, without our express, prior written consent. This Opinion is not intended to be, and does not constitute, a recommendation to any security holder as to how such security holder should vote with respect to the Proposed Transaction. This Opinion may not be disclosed, reproduced, disseminated, quoted, summarized or referred to at any time, in any manner or for any purpose, nor shall any references to Houlihan Lokey, HLHZ (as defined below) or any of its affiliates be made by the Company or any of its affiliates, or any other recipient of this Opinion, without the prior written consent of Houlihan Lokey.

We advise you that Houlihan Lokey, was retained to act as financial advisor and investment banker to the Special Committee in connection with evaluating certain potential transactions by the Company, including in connection with certain aspects of the Proposed Transaction. The Company will pay Houlihan Lokey a fee for providing this Opinion, which is not contingent upon the consummation of the Proposed Transaction. The Company has agreed to reimburse us for expenses and indemnify us against certain liabilities and expenses.

We have not been requested to opine as to, and this Opinion does not address: (i) the underlying business decision of the Company, its security holders or any other party whether to proceed with or effect the Proposed Transaction, (ii) the fairness or inadequacy of any portion or aspect of the Proposed Transaction not expressly addressed in this Opinion, (iii) the fairness or inadequacy of any portion or aspect of the Proposed Transaction to the holders of any class of securities, creditors or other constituencies of the Company, or any other party other than those set forth in this Opinion, (iv) the relative merits of the Proposed Transaction as compared to any alternative business strategies that might exist for the Company or the effect of any other transaction in which the Company

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might engage, or (v) the tax or legal consequences of the Proposed Transaction to either the Company or its security holders, or any other party. Furthermore, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. It is assumed that such opinions, counsel or interpretations have been or will be obtained from the appropriate professional sources.

Based upon and subject to the foregoing, and in reliance thereon, it is our opinion that, as of the date hereof, the Proposed Merger Consideration that would be received by the common stockholders of the Company (other than IAC and its affiliates) in connection with the Proposed Transaction is inadequate to such common stockholders from a financial point of view.

HOULIHAN LOKEY HOWARD & ZUKIN FINANCIAL ADVISERS, INC.

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PLEASE VOTE TODAY!

SEE REVERSE SIDE

FOR THREE EASY WAYS TO VOTE.

TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE AND RETURN IN THE ENVELOPE PROVIDED

Inter-Tel (Delaware), Incorporated

REVOCABLE PROXY

For Special Meeting of Stockholders on October 24, 2006

This Proxy is solicited on behalf of the Special Committee of the Board of Directors (the Special Committee) of Inter-Tel (Delaware), Incorporated (the Company).

The undersigned appoints Alexander L. Cappello and Norman Stout with full powers of substitution, to act as attorney and proxy for the undersigned to vote, as designated on this proxy, all shares of the Common Stock of the Company which the undersigned is entitled to vote at the Company's Special Meeting of Stockholders to be held on October 24, 2006, at 10:00 A.M. local time, at the offices of Shell & Wilmer, One Arizona Center, 400 E. Van Buren Street, 19th Floor Conference Room, Phoenix, Arizona 85004, and at any adjournment or postponement thereof, in the manner indicated.

THIS PROXY WILL BE VOTED AS DIRECTED, BUT IF YOU SIGN WITHOUT OTHERWISE MARKING THE FORM, THIS PROXY WILL BE VOTED AS RECOMMENDED BY THE SPECIAL COMMITTEE AND IN THE DISCRETION OF THE APPOINTED PROXIES ON ANY OTHER MATTERS THAT MAY COME BEFORE THE SPECIAL MEETING. AT THE PRESENT TIME, THE SPECIAL COMMITTEE KNOWS OF NO OTHER BUSINESS TO BE PRESENTED AT THE SPECIAL MEETING.

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INTER-TEL (DELAWARE), INCORPORATED
YOUR VOTE IS IMPORTANT

Please take a moment now to vote your shares of Inter-Tel (Delaware), Incorporated
common stock for the upcoming Special Meeting of Stockholders.

YOU CAN VOTE TODAY IN ONE OF THREE WAYS:

1. **Vote by Telephone** Call toll-free from the U.S. or Canada at **1-866-849-9670**, on a touch-tone telephone. If outside the U.S. or Canada, call **1-215-521-1347**. Please follow the simple instructions provided. You will be required to provide the unique control number shown below.

OR

2. **Vote by Internet** Please access **<https://www.proxyvotenow.com/intl>**, and follow the simple instructions provided. Please note you must type an **s** after **http**. You will be required to provide the unique control number shown below.

CONTROL NUMBER:

You may vote by telephone or Internet 24 hours a day, 7 days a week.
Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner
as if you had executed a proxy card.

OR

3. **Vote by Mail** If you do not have access to a touch-tone telephone or to the Internet, please sign, date and return the proxy card in the envelope provided, or mail to: Inter-Tel (Delaware), Incorporated, c/o Innisfree M&A Incorporated, FDR Station, P.O. Box 5155, New York, NY 10150-5155.

**TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE AND RETURN IN THE ENVELOPE
PROVIDED**

THE SPECIAL COMMITTEE RECOMMENDS A VOTE AGAINST THE PROPOSAL

PROPOSAL: 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.

AGAINST FOR ABSTAIN

Date: _____, 2006

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Signature

Signature

Title(s)

Please sign exactly as your name appears hereon. Where stock is registered jointly, all owners must sign. Corporate owners should sign full corporate name by an authorized person. Executors, administrators, trustees or guardians should indicate their status when signing.

PLEASE DATE AND SIGN THIS PROXY BEFORE RETURNING IT IN THE ENVELOPE PROVIDED