INTER TEL (DELAWARE), INC

FORM 10-Q
(Quarterly Report)

Filed 08/11/95 for the Period Ending 06/30/95

Address	1615 S. 52ND STREET
	.
	TEMPE, AZ, 85281
Telephone	480-449-8900
CIK	0000350066
SIC Code	3661 - Telephone and Telegraph Apparatus
Industry	IT Services & Consulting
Sector	Technology
Fiscal Year	12/31

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(Quarterly Report)

Filed 8/11/1995 For Period Ending 6/30/1995

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended Commission File Number:

June 30, 1995 0-10211

INTER-TEL, INCORPORATED

Incorporated in the State of Arizona I.R.S. No. 86-0220994

7300 West Boston Street
Chandler, Arizona 85226

(602) 961-9000

Common Stock
(10,750,231 shares outstanding as of June 30, 1995)

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 periods that the registrant was required file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

INDEX

INTER-TEL, INCORPORATED AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

INTER-TEL, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)(1)

(In thousands) ASSETS	June 30, 1995	Dec. 31, 1994
CURRENT ASSETS		
Cash	$ 10,370	$ 15,530
Accounts receivable - net	20,099	16,895
Inventories	20,914	15,567
Net investment in sales-leases	3,191	1,613
Prepaid expenses and other assets	4,228	4,176
TOTAL CURRENT ASSETS	58,802	53,781
PROPERTY & EQUIPMENT	8,811	6,008
OTHER ASSETS	7,636	7,629
	$ 75,249	$ 67,418

LIABILITIES AND SHAREHOLDERS' EQUITY
CURRENT LIABILITIES

	June 30, 1995	Dec. 31, 1994
Accounts payable	$ 8,809	$ 5,534
Other current liabilities	11,103	11,002
TOTAL CURRENT LIABILITIES	19,912	16,536
OTHER LIABILITIES	6,655	5,784
SHAREHOLDERS' EQUITY		
Common Stock	27,739	27,435
Retained earnings	21,160	18,049
Equity adjustment for foreign currency translation	(5)	(122)
	48,894	45,362
Less receivable from Employee Stock Ownership Trust	(212)	(264)
TOTAL SHAREHOLDERS' EQUITY	48,682	45,098
	$ 75,249	$ 67,418

(1) Financial data for all periods have been restated to reflect the acquisitions of American Telcom Corp. of Georgia, Inc. and Access West, Inc. in May 1995, each accounted for as a pooling of interests.

INTER-TEL, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited) (1)

(In thousands, except per share amounts)	Three Months Ended June 30, 1995	Three Months Ended June 30, 1994	Six Months Ended June 30, 1995	Six Months Ended June 30, 1994
NET SALES	$ 36,335	$ 30,379	$ 70,894	$ 58,465
Cost of Sales	21,224	18,114	41,830	35,508
GROSS PROFIT	15,111	12,265	29,064	22,957
Research & Development	1,422	1,115	2,880	2,135
Selling general and administrative	10,449	8,809	20,342	16,769
Special Charge	1,315 (2)	-	1,315 (2)	-
	13,186	9,924	24,537	18,904
OPERATING INCOME	1,925 (2)	2,341	4,527 (2)	4,053
Interest and Other Income	254	148	565	285
Interest expense	(44)	(37)	(77)	(62)
INCOME BEFORE INCOME TAXES	2,135 (2)	2,452	5,015 (2)	4,276
INCOME TAXES	811	935	1,906	1,626
NET INCOME	$ 1,324 (2)	$ 1,517	$ 3,109 (2)	$ 2,650
NET INCOME PER SHARE	$ 0.12 (2)	$ 0.14	$ 0.28 (2)	$ 0.24
Average number of common shares outstanding	11,191	10,851	11,129	10,848

(1) Financial data for all periods have been restated to reflect the acquisitions of American Telcom Corp. of Georgia, Inc. and Access West, Inc. in May 1995, each accounted for as a pooling of interests.

(2) Operating Income includes a special charge of $1,315,000, which reduced net income by $815,000 or $.07 per share. This special charge reflects the costs associated with integrating the operations of the two acquired companies. Without this special charge, the Company would have reported operating income of approximately $3,240,000 and net income of approximately $2,139,000, or $.19 per share, in the quarter ended June 30, 1995, and operating income of approximately $5,842,000 and net income of approximately $3,924,000, or $.35 per share, in the six months ended June 30, 1995.

INTER-TEL, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)(1)

(In thousands, except per share amounts)	Three Months Ended June 30, 1995	Three Months Ended June 30, 1994	Six Months Ended June 30, 1995	Six Months Ended June 30, 1994
OPERATING ACTIVITIES				
NET INCOME	$ 1,324	$ 1,517	$ 3,109	$ 2,650
Adjustments to reflect operating activities:				
Depreciation and amortization	580	429	1,108	769
Changes in operating assets and liabilities	(4,984)	(1,763)	(7,686)	(4,643)
Other	2,127	479	2,001	1,277
NET CASH PROVED BY (USED IN) OPERATING ACTIVITIES	(953)	662	(1,468)	53
INVESTING ACTIVITIES				
Proceeds from disposal of property and equipment	(4)	0	1	5
Additions to property and equipment	(1,390)	(594)	(3,998)	(1003)
NET CASH USED IN INVESTING ACTIVITIES	(1,394)	(594)	(3,997)	(998)
FINANCING ACTIVITIES				
Proceeds from exercise of stock options	208	70	305	120
NET CASH USED IN FINANCING ACTIVITIES	208	70	305	120
INCREASE (DECREASE) IN CASH	(2,139)	138	(5,160)	(825)
CASH AT BEGINNING OF PERIOD	12,509	13,736	15,530	14,699
CASH AT END OF PERIOD	$ 10,370	$ 13,874	$ 10,370	$ 13,874

(1) Financial data for all periods have been restated to reflect the acquisitions of American Telcom Corp. of Georgia, Inc. and Access West, Inc. in May 1995, each accounted for as a pooling of interests.

INTER-TEL, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 1995

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the interim periods presented have been included. Operating results for the three and six months ended June 30, 1995 are not necessarily indicative of the results that may be expected for the year ending December 31, 1995. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1994.

NOTE B--INCOME PER SHARE

Primary income per share is based on the weighted average number of common shares outstanding during each period and common stock equivalents.

NOTE C--RESTATEMENT FOR POOLING OF INTERESTS

The financial statements for all prior periods have been restated to include the accounts of American Telcom Corp. of Georgia, Inc. ("American Telcom") and Access West, Inc., ("Access West") which were acquired by the Company in separate pooling of interests transactions in May 1995, in which 279,081 total shares of Inter-Tel Common Stock were issued. Neither American Telcom nor Access West constituted a significant subsidiary as defined under the regulations. In the statements of income for the six months ended June 30, 1994 net sales increased by $5,816,000 and net income decreased by $68,000 as a result of the restatement. The restatement reduced earnings per share by $.02 per share for the six months ended June 30, 1994. In the statements of income for the three months ended March 31, 1995 net sales and net income increased by $3,905,000 and $26,000, respectively, as a result of the restatement. The restatement did not affect earnings per share for the period.

NOTE D--SPECIAL CHARGE

Net income in the three months and six months ended June 30, 1995 includes a special charge reflecting the costs associated with integrating the operations of the acquired companies. The special charge principally includes costs associated with redundancy in inventories, equipment abandonment, the combination and relocation of business operations, employee terminations, and the write-off of intangible assets. Without this special charge, the Company would have reported net income of $2.1 million, or $.19 per share for the second quarter, an increase of 41% over net income of $1.5 million for the second quarter of 1994, and $3.9 million, or $.35 per share, in the six months ended June 30, 1995, an increase of 48.1% over net income of $2.7 million in the first six months of 1994.

PART I.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Net sales for the second quarter of 1995 increased 19.6% to $36.3 million from $30.4 million in the second quarter of 1994. Net sales increased 21.3% to $70.9 million in the first six months of 1995 from $58.5 million in the first six months of 1994. For these periods, the increases were primarily attributable to increased shipments of AXXESS systems and software products through the Company's dealer network and direct sales offices, and an increase in sales of long distance services.

The following table sets forth certain statement of operations data of the Company expressed as a percentage of net sales for the periods indicated:

Three Months Ended June 30, Six Months Ended June 30,

	1995	1994	1995	1994
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Sales	58.4	59.6	59.0	60.7
	-----	-----	-----	-----
Gross profit	41.6	40.4	41.0	39.3
Research and development	3.9	3.7	4.0	3.7
Selling, general and administrative	28.8	29.0	28.7	28.7
Special charge	3.6	--	1.9	--
	-----	-----	-----	-----
Operating income	5.3	7.7	6.4	6.9
Interest and other income	0.7	0.5	0.8	0.5
Interest expense	0.1	0.1	0.1	0.1
Income taxes	2.2	3.1	2.7	2.8
	-----	-----	-----	-----
Net income	3.7	5.0	4.4	4.5
	=====	=====	=====	=====

Gross profit for the second quarter of 1995 increased 23.2% to $15.1 million from $12.3 million for the second quarter of 1994. Gross profit increased to $29.1 million, or 41.0% of net sales, in the first six months of 1995 from $23.0 million, or 39.3% of net sales, in the first six months of 1994. Gross margin increased during both periods primarily as a result of a higher percentage of sales derived from AXXESS systems and software, which was offset in part by a higher percentage of sales through dealers and increased sales of the company's long distance services.

Research and development expenses for the second quarter of 1995 increased to $1.4 million from $1.1 million for the second quarter of 1994. Research and development expenses increased to $2.9 million, or 4.0% of net sales, in the first six months of 1995 from $2.1 million, or 3.7% of net sales, in the first six months of 1994. This increase in both comparable periods was primarily attributable to expenses relating to the introduction of new products, including the AXXESS version 3.0, the Inter-Tel Axxent and AxxessoryTalk version 3.0. The Company expects that research and development expenses will continue to increase in absolute dollars as the Company continues to develop and enhance existing and new technologies and products. These expenses may vary, however, as a percentage of net sales.

Selling, general and administrative expenses for the second quarter of 1995 increased 18.6% to $10.4 million from $8.8 million for the second quarter of 1994. Selling, general and administrative expenses increased to $20.3 million, or 28.7% of net sales, in the first six months of 1995 from $16.8 million, or 28.7% of net sales, in the first six months of 1994. This increase in absolute dollars in both periods was primarily attributable to the costs associated with hiring and training sales personnel throughout Inter-Tel's 25 direct sales offices. Higher sales commissions were also paid based upon increased levels of net sales. The Company expects that selling, general and administrative expenses will increase in absolute dollars, but may vary as a percentage of net sales.

Interest and other income in both periods consisted primarily of interest income.

Net income for the second quarter was $1.3 million ($.12 per share) compared to net income of $1.5 million ($.14 per share) for the second quarter of 1994. Net income increased 17.3% to $3.1 million, or $.28 per share, in the first six months of 1995 from $2.7 million, or $.24 per share, in the first six months of 1994. Net income in both periods includes a special charge of approximately $815,000, or $.07 per share, reflecting the costs associated with integrating the operations of the two acquired companies. The special charge principally includes costs associated with redundancy in inventories, equipment abandonment, the combination and relocation of business operations, employee terminations, and the write-off of intangible assets. Without this special charge, the Company would have reported net income of $2.1 million, or $.19 per share for the second quarter, an increase of 41% over net income of $1.5 million for the second quarter of 1994, and $3.9 million, or $.35 per share, in the six months ended June 30, 1995, an increase of 48.1% over net income of $2.7 million in the first six months of 1994.

Inflation/Currency Fluctuation

Inflation and currency fluctuations have not previously had a material impact on Inter-Tel's operations. International sales and procurement agreements have traditionally been denominated in U.S. currency. Moreover, a significant amount of contract manufacturing has been or is expected to be moved to domestic sources. The expansion of international operations in the United Kingdom and Europe and anticipated sales in Japan and Asia and elsewhere could result in higher international sales as a percentage of total revenues, but international revenues are currently not significant.

Liquidity and Capital Resources

The Company continues to expand its dealer network, which has required and is expected to continue to require working capital for increased accounts receivables and inventories. During the first six months of 1995, accounts receivable and inventories increased approximately $9.1 million. This increase was principally funded by operating cash flow and existing cash balances. The Company also expended approximately $4.0 million during the first six months of 1995 for property and equipment. The Company intends to continue to make significant capital expenditures through the end of 1995, principally relating to the implementation of the Company's new MIS systems. At June 30, 1995, the Company had $10.4 million in cash and equivalents, which represents a decrease of approximately $5.0 million from December 31, 1994.

The Company has a loan agreement with Bank One, Arizona, N.A. This agreement provides for a $5.0 million, unsecured, revolving line of credit, which is being used primarily to support international letters of credit to suppliers. Outstanding balances bear interest at the bank's prime rate. In the fourth quarter of 1993, the Company repaid all long and short term debt from a portion of the net proceeds received from its 1993 public offering. The remaining proceeds were added to working capital.

The Company offers to its customers lease financing and other services, including its Totalease program, through its Inter-Tel Leasing subsidiary. The Company funds its Totalease program in part through the sale to financial institutions of rental income streams under the leases. Resold Totalease rentals totaling $27.0 million and $19.9 million remain unbilled at June 30, 1995 and December 31, 1994, respectively. The Company is obligated to repurchase such income streams in the event of defaults by lease customers and, accordingly, maintains reserves based upon loss experience and past due accounts. Although the Company to date has been able to resell the rental streams from leases under the Totalease program profitably and on a substantially current basis, the timing and profitability of lease resales could impact the Company's business and operating results, particularly in an environment of fluctuating interest rates. If the Company is required to repurchase rental streams and realize losses thereon in amounts exceeding its reserves, its operating results will be adversely affected.

The Company believes that its working capital and credit facilities, together with the net proceeds from its recently announced pending public offering and cash generated from operations, will be sufficient to fund purchases of capital equipment, finance any cash acquisitions which the Company may consider and provide adequate working capital for the foreseeable future. However, to the extent that additional funds are required in the future to address working capital needs and to provide funding for capital expenditures, expansion of the business or additional acquisitions, the Company will seek additional financing. There can be no assurance that additional financing will be available when required or on acceptable terms.

PART II. OTHER INFORMATION

ITEM l. LEGAL PROCEEDINGS--Not Applicable

ITEM 2. CHANGES IN SECURITIES--Not Applicable

ITEM 3. DEFAULTS ON SENIOR SECURITIES--Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

On April 27, 1995, at the Company's annual meeting of shareholders, the shareholders of the Company elected the following directors, each of whom was a nominee of the Company:

Name	Votes For	Votes Withheld
Steven G. Mihaylo	7,976,288	1,775
Gary D. Edens	7,976,288	1,775
Maurice H. Esperseth	7,976,288	1,775
C. Roland Haden	7,976,288	1,775
Norman Stout	7,976,288	1,775
Kathleen R. Wade	7,976,288	1,775

ITEM 5. OTHER INFORMATION

In May 1995, American Telcom Corp. of Georgia, Inc. and Access West, Inc. were acquired by the Company in two separate pooling of interests transactions. A total of 279,081 shares of Inter-Tel Common Stock was exchanged for all the outstanding common stock of American Telcom Corporation of Georgia, Inc. and Access West, Inc. Neither of these corporations met the criteria of a significant subsidiary under the regulations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits:

Exhibit 11.1 - Computation of Earnings Per Share

Exhibit 27.1 - Financial Data Schedule for June 30, 1995

Exhibit 27.2 - Financial Data Schedules (Restated) for March 31, 1995 and December 31, 1994

Reports on Form 8-K -- None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date August 9, 1995	Steven G. Mihaylo
	Steven G. Mihaylo, Chairman of the Board and Chief Executive Officer
Date August 9, 1995	Kurt R. Kneip
	Kurt R. Kneip, Vice President and Chief Financial Officer

EXHIBIT 11.1

STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

(Thousands, except per share amounts)	Three Months Ended June 30, 1995	Three Months Ended June 30, 1994	Six Months Ended June 30, 1995	Six Months Ended June 30, 1994
PRIMARY				
Average shares outstanding	10,729	10,613	10,700	10,601
Net effect of dilutive stock options--based on the treasury stock method using average market price	426	238	429	247
TOTAL	11,191	10,851	11,129	10,848
Net Income	$ 1,324	$ 1,517	$ 3,109	$ 2,650
Per share amount	$ 0.12	$ 0.14	$ 0.28	$ 0.24
FULLY DILUTED				
Average shares outstanding	10,729	10,613	10,700	10,601
Net effect of dilutive stock options--based on the treasury stock method using the quarter-end market price, if higher than the average market price	512	238	512	247
TOTAL	11,241	10,851	11,212	10,848
Net Income	$ 1,324	$ 1,517	$ 3,109	$ 2,650
Per share amount	$ 0.12	$ 0.14	$ 0.28	$ 0.24

Note: Financial data for all periods have been restate to reflect two acquisitions in May 1995, each accounted for as a pooling of interests in which 279,081 total shares were issued.

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE INTER-TEL, INCORPORATED AND SUBSIDIARIES FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD START	JAN 01 1995
PERIOD END	JUN 30 1995
EXCHANGE RATE	1
CASH	10370
SECURITIES	0
RECEIVABLES	21451
ALLOWANCES	1352
INVENTORY	20914
CURRENT ASSETS	58802
PP&E	20817
DEPRECIATION	12006
TOTAL ASSETS	75249
CURRENT LIABILITIES	19912
BONDS	0
COMMON	27739
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	(217)
TOTAL LIABILITY AND EQUITY	75249
SALES	70894
TOTAL REVENUES	70894
CGS	41830
TOTAL COSTS	41830
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	77
INCOME PRETAX	5015
INCOME TAX	1906
INCOME CONTINUING	3109
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	3109
EPS PRIMARY	.28
EPS DILUTED	.28

ARTICLE 5

THIS SCHEDULE CONTAINS RESTATED SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE INTER-TEL, INCORPORATED AND SUBSIDIARIES FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 1995 AND YEAR ENDED DECEMBER 31, 1994 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH RESTATED FINANCIAL STATEMENTS

RESTATED:

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	3 MOS	YEAR
FISCAL YEAR END	DEC 31 1995	DEC 31 1994
PERIOD START	JAN 01 1995	JAN 01 1994
PERIOD END	MAR 31 1995	DEC 31 1994
EXCHANGE RATE	1	1
CASH	12509	15530
SECURITIES	0	0
RECEIVABLES	17887	18101
ALLOWANCES	1321	1206
INVENTORY	15781	15567
CURRENT ASSETS	54368	53781
PP&E	19604	17037
DEPRECIATION	11471	11029
TOTAL ASSETS	69702	67418
CURRENT LIABILITIES	17290	16536
BONDS	0	0
COMMON	27531	27435
PREFERRED MANDATORY	0	0
PREFERRED	0	0
OTHER SE	(312)	(386)
TOTAL LIABILITY AND EQUITY	46953	45098
SALES	34559	122617
TOTAL REVENUES	34559	122617
CGS	20606	73482
TOTAL COSTS	20606	73482
OTHER EXPENSES	0	0
LOSS PROVISION	0	0
INTEREST EXPENSE	33	120
INCOME PRETAX	2880	9597
INCOME TAX	1095	3648
INCOME CONTINUING	1785	5949
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	1785	5949
EPS PRIMARY	.16	.55
EPS DILUTED	.16	.55

End of Filing