Intermec, Inc.
Form 10-Q
May 06, 2008

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

FORM 10-Q

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

For the quarterly period ended March 30, 2008

OR

o 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: 001-13279

Intermec, Inc.
(Exact name of registrant as specified in its charter)

Delaware	95-4647021
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6001 36th Avenue West, Everett, WA	98203-1264
(Address of principal executive offices)	(Zip Code)

(425) 265-2400
(Registrant's telephone number, including area code)

[None]
(Former name, former address and former fiscal year, if changed since last report)

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 ý No o

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 Exchange Act (Check one):.

Large accelerated filer ý	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 27, 2008
Common Stock, $0.01 par value per share	61,553,416 shares

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FOR THE QUARTER ENDED March 30, 2008

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERMEC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(thousands of dollars, except per share amounts)
(unaudited)

	Quarter Ended	
	March 30, 2008	April 1, 2007
Revenues:		
Product	$ 179,574	$ 141,512
Service	37,205	37,806
Total revenues	216,779	179,318
Costs and expenses:		
Cost of product revenues	107,705	92,194
Cost of service revenues	21,706	22,583
Research and development	16,522	16,506
Selling, general and administrative	58,636	53,055
Total costs and expenses	204,569	184,338
Operating profit (loss)	12,210	(5,020)
Interest income	1,675	2,553
Interest expense	(1,790)	(2,295)
Earnings (loss) before income taxes	12,095	(4,762)
Provision (benefit) for income taxes	4,389	(330)
Net earnings (loss)	$ 7,706	$ (4,432)
Basic earnings (loss) per share	$ 0.13	$ (0.07)
Diluted earnings (loss) per share	$ 0.13	$ (0.07)
Shares used in computing basic earnings (loss) per share	60,956	59,990
Shares used in computing diluted earnings (loss) per share	61,475	59,990

See accompanying notes to condensed consolidated financial statements.

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INTERMEC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands of dollars)
(unaudited)

	March 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 186,528	$ 237,247
Short-term investments	1,137	28,230
Accounts receivable, net of allowance for doubtful accounts and sales returns of $11,700 and $12,854	166,033	191,487
Inventories	130,172	113,145
Net current deferred tax assets	61,532	61,532
Other current assets	13,752	14,690
Total current assets	559,154	646,331
Property, plant and equipment, net	48,490	47,732
Intangibles, net	3,906	4,138
Net deferred tax assets	146,873	150,154
Other assets	58,397	52,280
Total assets	$ 816,820	$ 900,635
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current liabilities:		
Accounts payable and accrued expenses	$ 141,416	$ 141,667
Payroll and related expenses	24,900	32,170
Deferred revenue	54,948	49,020
Current debt	-	100,000
Total current liabilities	221,264	322,857
Long-term deferred revenue	19,114	20,109
Other long-term liabilities	74,946	73,558
Shareholders' investment:		
Common stock (250,000 shares authorized, 61,490 and 61,192 shares issued and outstanding)	615	612
Additional paid-in-capital	685,099	679,241
Accumulated deficit	(189,917)	(196,795)
Accumulated other comprehensive income	5,699	1,053
Total shareholders' investment	501,496	484,111
Total liabilities and shareholders' investment	$ 816,820	$ 900,635

See accompanying notes to condensed consolidated financial statements.

INTERMEC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(thousands of dollars)
(unaudited)

	Quarter Ended	
	March 30, 2008	April 1, 2007
Cash and cash equivalents at beginning of period	$ 237,247	$ 155,027
Cash flows from operating activities:		
Net earnings (loss)	7,706	(4,432)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,742	3,093
Change in prepaid pension costs, net	706	(990)
Deferred taxes	3,804	166
Stock-based compensation and other	2,056	1,654
Excess tax benefits from stock-based payment arrangements	(581)	(649)
Changes in operating assets and liabilities:		
Accounts receivable	25,454	9,685
Inventories	(21,380)	(13,301)
Other current assets	938	152
Accounts payable and accrued expenses	(372)	282
Payroll and related expenses	(7,270)	(9,543)
Other long-term liabilities	3,525	2,895
Other operating activities	(812)	(891)
Net cash provided by (used in) operating activities	17,516	(11,879)
Cash flows from investing activities:		
Capital expenditures	(3,803)	(2,160)
Purchases of investments	(760)	(595)
Sale of investments	27,755	837
Patent legal fees	(778)	(535)
Other investing activities	-	(42)
Net cash provided by (used in) investing activities	22,414	(2,495)
Cash flows from financing activities:		
Repayment of debt	(100,000)	-
Excess tax benefits from stock-based payment arrangements	581	649
Stock options exercised	2,345	1,389
Other financing activities	879	521
Net cash provided by (used in) financing activities	(96,195)	2,559
Effect of exchange rate changes on cash and cash equivalents	5,546	749
Resulting decrease in cash and cash equivalents	(50,719)	(11,066)

Cash and cash equivalents at end of period	$	186,528	$	143,961

See accompanying notes to condensed consolidated financial statements.

INTERMEC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Presentation

Our interim financial periods are based on a thirteen-week internal accounting calendar. In our opinion, the accompanying balance sheets, interim statements of operations and statements of cash flows include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The financial statements include the accounts of Intermec and our subsidiaries. Intercompany transactions and balances have been eliminated. Equity investments in which we exercise significant influence but do not exercise control and are not the primary beneficiary are accounted for using the equity method. Investments in which we are not able to exercise significant influence over the investee are accounted for under the cost method. Preparing our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and financial data included in the accompanying notes to the financial statements. Actual results and outcomes may differ from our estimates and assumptions.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K, as amended, for the year-ended December 31, 2007 (the "Annual Report on Form 10-K for the year ended December 31, 2007").

Reclassification and Correction of Error

Prior to the fourth quarter of 2007, we provided the effect of exchange rates on cash and cash equivalents as supplemental information within the Consolidated Statement of Cash Flows. We have determined that the effect of exchange rates on cash and cash equivalents should more appropriately be recorded as a reconciling item between beginning and ending cash and cash equivalents and accordingly have reclassified $0.7 million from "net cash provided by operating activities" within the Consolidated Statement of Cash Flows to "effect of exchange rate changes on cash and cash equivalents" for the quarter ended April 1, 2007 for comparability. Also, expenses incurred for research and development have been reclassified from selling, general and administrative expenses for the quarter ended April 1, 2007 for comparability.

Accounting Changes

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other generally accepted accounting principles. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. We adopted SFAS No. 159 effective January 1, 2008 and elected to not adopt the fair value option for any financial assets or liabilities. The adoption did not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies to all financial instruments that are being measured and reported on a fair value basis. As defined in this statement, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We adopted SFAS No. 157 effective January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on our condensed consolidated financial statements. While SFAS 157 is effective in the first fiscal quarter of 2008, the FASB provided a one year deferral for the implementation with respect to other nonfinancial assets and liabilities. We have deferred implementation of SFAS No. 157 for our nonfinancial assets and liabilities.

SFAS No. 157 requires financial assets and liabilities to be classified and disclosed in one of the following three categories:

Level 1: Inputs based on quoted market prices for identical assets or liabilities in active markets.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Our level 1 financial instrument values are based on quoted market prices in active markets for identical assets, which we use to value our certificates of deposit, money market funds and equity securities. Our level 2 financial instrument values are based on comparable sales, such as quoted market rates for similar contracts. We do not have any financial instruments that require valuation using level 3 inputs.

INTERMEC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Presentation (continued)

Our financial assets and liabilities subject to these fair value measurement provisions comprised the following (thousands of dollars):

	Level 1	Level 2	Level 3	Balance as of March 30, 2008
Money market funds	$ 108,208	$ -	$ -	$ 108,208
Certificates of deposit	7,674	-	-	7,674
Stock	377	-	-	377
Derivative instruments - assets	-	2,799	-	2,799
Total assets at fair value	$ 116,259	$ 2,799	$ -	$ 119,058

	Level 1	Level 2	Level 3	Balance as of March 30, 2008
Derivative instruments - liabilites	$ -	$ (7,042)	$ -	$ (7,042)
Total liabilities at fair value	$ -	$ (7,042)	$ -	$ (7,042)

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)". SFAS No. 158 has new provisions regarding the measurement date as well as certain disclosure requirements. Effective December 31, 2008, SFAS No. 158 will require us to measure plan assets and benefit obligations at fiscal year end. We currently perform this measurement at September 30 of each year. In addition, beginning in fourth quarter of 2007, SFAS No. 158 required that we eliminate the use of a three-month lag period when recognizing the impact of curtailments or settlements and instead, recognize these amounts in the period in which they occur. The provisions of SFAS No. 158 do not permit retrospective application. We expect to incur between $0.5 million and $1.0 million as an adjustment to retained earnings upon adoption of the remainder of this statement.

In September 2006, the Emerging Issues Task Force ("EITF") issued EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" ("EITF 06-04"), which we adopted on January 1, 2008. The Task Force concluded that an employer should recognize a liability for future benefits in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" or Accounting Principles Board Opinion 12 ("Opinion 12"), "Classification and Disclosure of Allowances Disclosure of Depreciable Assets and Depreciation Deferred Compensation Contracts Capital Changes Convertible Debt and Debt Issued with Stock Warrants Amortization of Debt Discount and Expense or Premium" based on the substantive agreement with the employee. Upon adoption of EITF 06-4, as of January 1, 2008, we increased accumulated deficit $0.9 million, recognized a $1.4 million long-term liability, and recorded a tax effect of $0.5 million within long-term deferred tax assets.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations," which will be effective for all business acquisitions with an acquisition date on or after January 1, 2009. This statement generally requires an acquirer to recognize the assets acquired, the liabilities assumed, contingent purchase consideration, and any noncontrolling interest in the acquiree, at fair value on the date of acquisition. SFAS No. 141R also requires an acquirer to expense most transaction and restructuring costs as incurred, and not include such items in the cost of the acquired entity. We are currently evaluating the impact of the adoption of SFAS No. 141R on our consolidated financial statements.

2. Inventories

Inventories comprise the following (thousands of dollars):

	March 30, 2008	December 31, 2007
Raw materials	$ 68,115	$ 65,257
Work in process	373	1,318
Finished goods	61,684	46,569
Inventories	$ 130,172	$ 113,145

INTERMEC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

3. Debt

We have an unsecured Revolving Credit Facility (the “Revolving Facility”) with a maximum amount available under the Revolving Facility of $50.0 million. Net of outstanding letters of credit and limitations on availability, we had borrowing capacity at March 30, 2008, of $46.9 million under the Revolving Facility. We made no borrowings under the Revolving Facility during 2008, and as of March 30, 2008, no borrowings were outstanding under this facility. As of March 30, 2008, we were in compliance with all financial covenants of the Revolving Facility. The Revolving Facility matures in October 2012.

During March 2008, we paid off our $100.0 million senior unsecured debt.

We also have letter-of-credit reimbursement agreements totaling $4.6 million at March 30, 2008, compared to $3.9 million at December 31, 2007.

4. Provision for Income Taxes

The tax provision for the quarter ended March 30, 2008 reflects an effective tax rate for continuing operations of 36.3% compared to a U.S. statutory rate of 35%. The tax provision for the quarter includes a 1.4% benefit related to settlement of a foreign tax dispute. The tax benefit for the quarter ended April 1, 2007 resulted from an operating loss and reflects an effective tax benefit from continuing operations of (6.9%) compared to a U.S. statutory rate of 35%. The tax benefit for the quarter ended April 1, 2007 was reduced primarily due to a reduction of foreign deferred tax assets as a result of recording a valuation allowance and the impact of changes in tax rates.

5. Shares Used in Computing Earnings (Loss) per Share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding and issuable for the applicable period. Diluted earnings (loss) per share is computed using basic weighted average shares plus the dilutive effect of unvested restricted stock and outstanding stock options using the “treasury stock” method.

	Quarter Ended	
	March 30, 2008	April 1, 2007
Weighted average shares - basic	60,956,467	59,990,018
Dilutive effect of unvested restricted shares and stock options	518,473	-
Weighted average shares - diluted	61,474,940	59,990,018

Our employees and directors held options to purchase 1,523,065 shares of our common stock for the quarter ended March 30, 2008, that were not included in weighted average shares diluted because they were antidilutive to the diluted earnings per share computation. These options could become dilutive in future periods if the average market price of our common stock exceeds the exercise price of the outstanding options and we report net earnings. For the quarter ended April 1, 2007, diluted weighted average shares excludes 918,171 weighted average unvested stock options and restricted shares, because they would have been anti-dilutive, due to our reported net loss.

INTERMEC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

6. Equity

For the quarter ended March 30, 2008, we granted 113,000 options to employees with a Black-Scholes value of $9.32 a share, which will vest annually in even quantities over the next five years. The Black-Scholes assumptions used for this calculation were as follows:

Fair value assumptions	March 30, 2008
Expected life in years	4.80
Annualized volatility	44.66%
Annual rate of quarterly dividends	0.00%
Discount rate - bond equivalent yield	2.94%

Our accumulated other comprehensive income comprised the following (thousands of dollars):

	March 30, 2008	December 31, 2007
Currency translation adjustment, net	$ 13,597	$ 8,842
Unamortized benefit plan costs, net of tax benefit of $4,669 and $4,320, respectively	(7,895)	(7,884)
Unrealized gain (loss) on securities, net	(3)	95
Accumulated other comprehensive income	$ 5,699	$ 1,053

Other comprehensive income for the quarters ended March 30, 2008 and April 1, 2007, was as follows (thousands of dollars):

	Quarter Ended	
	March 30, 2008	April 1, 2007
Net income (loss)	$ 7,706	$ (4,432)
Other comprehensive income (loss):		
Change in equity due to foreign currency translation adjustments	4,755	71
Unrealized (loss) gain on investment, net of tax	(98)	7
Amortization of benefit plan costs, net of tax	(11)	963
Other comprehensive income (loss)	$ 12,352	$ (3,391)

7. Segment Reporting

We design, develop, manufacture, integrate, sell, resell and service wired and wireless automated identification and data collection (“AIDC”) products, including radio frequency identification (“RFID”) products, mobile computing products, wired and wireless bar code printers and label media products. Our reportable segments comprise products and services. The product segment generates revenue from the design, development, manufacture, sale and resale of AIDC products, including RFID products and license fees. The service segment generates revenue from customer support, product maintenance and other services related to the products and systems integration.

The accounting policies of our two reportable segments are the same as those used to prepare our condensed consolidated financial statements. Performance and resource allocation are primarily measured by sales and standard gross profit. All other earnings, costs and expenses are aggregated and reported on a consolidated basis.

For the quarter ended March 30, 2008, one customer accounted for more than 10% of our revenues. Total sales to this customer were $26.6 million for the quarter ended March 30, 2008. For the quarter ended April 1, 2007, one customer accounted for more than 10% of our revenues. Total sales to this customer were $18.3 million for the quarter ended April 1, 2007.

INTERMEC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

7. Segment Reporting (continued)

The following table sets forth our operations by reportable segment (millions of dollars):

	Quarter Ended March 30, 2008	Quarter Ended April 1, 2007
Revenues:		
Product	$ 179.6	$ 141.5
Service	37.2	37.8
Total	$ 216.8	$ 179.3
Gross profit:		
Product	$ 71.9	$ 49.3
Service	15.5	15.2
Total	$ 87.4	$ 64.5

The following table sets forth our revenues by product lines (millions of dollars):

	Quarter Ended March 30, 2008	Quarter Ended April 1, 2007
Revenues:		
Systems and solutions	$ 126.0	$ 93.5
Printer and media	53.6	48.0
Service	37.2	37.8
Total	$ 216.8	$ 179.3

8. Commitments and Contingencies

Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of warranty claims. We actively study trends of warranty claims and take action to improve product quality and minimize warranty claims. The following table indicates the change in our warranty accrual included in current liabilities (thousands of dollars):

	Quarter Ended March 30, 2008	Quarter Ended April 1, 2007
Beginning Balance	$ 4,305	$ 6,800
Payments	(791)	(693)
Increase in liability (new warranties issued)	764	261
Ending Balance	$ 4,278	$ 6,368

We have entered into a variety of agreements with third parties that include indemnification clauses, both in the ordinary course of business and in connection with our divestitures of certain product lines. These clauses require us to compensate these third parties for certain liabilities and damages incurred by them.

FASB Interpretation No. 45, “Guarantors’ Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,” requires that we estimate and record the fair value of guarantees as a liability. We do not believe that we have any significant exposure related to such guarantees and therefore have not recorded a liability as of March 30, 2008, or December 31, 2007. We have not made any significant indemnification payments as a result of these clauses.

We currently, and from time to time, are subject to claims and lawsuits arising in the ordinary course of business. Such claims and lawsuits may take the form of counter claims in lawsuits we bring to enforce our rights. The ultimate resolution of currently pending proceedings is not expected to have a material adverse effect on our business, financial condition, results of operations or liquidity.

INTERMEC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

9. Pension and Other Postretirement Benefit Plans

The information in this note represents the net periodic pension and post-retirement benefit costs and related components in accordance with SFAS 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits (as amended)." The components of net pension and postretirement periodic benefit cost (credit) for the quarters ended March 30, 2008, and April 1, 2007, are as follows (thousands of dollars):

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Other Postretirement Benefit Plans	
Quarters Ended March 30, 2008, and April 1, 2007:	2008	2007	2008	2007	2008	2007
Service cost	$ 366	$ 452	$ -	$ -	$ -	$ -
Interest cost	2,705	2,678	666	644	44	44
Expected return on plan assets	(2,871)	(2,611)	(904)	(836)	-	-
Amortization and deferrals:						
Transition asset	-	-	(42)	(42)	-	-
Actuarial loss	349	942	-	102	-	-
Prior service cost	144	145	-	-	-	-
Net pension and postretirement periodic benefit cost (income)	$ 693	$ 1,606	$ (280)	$ (132)	$ 44	$ 44

During the quarter ended March 30, 2008, we contributed approximately $2.5 million to our pension and other postretirement benefit plans, comprising $1.0 million in benefits paid pertaining to unfunded U.S. defined benefit plans, $0.9 million in matching contributions to our 401(k) plan, and $0.6 million in contributions to our foreign pension plans. Benefits paid pertaining to our other postretirement benefit plans were not material during the first quarter of 2008. We expect to contribute an additional $10.1 million to these plans during the remainder of 2008, of which $5.3 million relates to benefit payments on our unfunded U.S. defined benefit plans, $2.7 million in matching contributions to our 401(k) plan, $1.8 million in contributions to our foreign pension plans and $0.3 million in benefit payments pertaining to our other postretirement benefit plans.

In September 2006, the EITF issued EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," which we adopted on January 1, 2008. The Task Force concluded that an employer should recognize a liability for future benefits in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" or Opinion 12, "Classification and Disclosure of Allowances Disclosure of Depreciable Assets and Depreciation Deferred Compensation Contracts Capital Changes Convertible Debt and Debt Issued with Stock Warrants Amortization of Debt Discount and Expense or Premium" based on the substantive agreement with the employee.

We have endorsement split-dollar life insurance policy agreements, which we own and control, with a group of employees. Each of these agreements was entered into as a separate agreement between us and the employee, and we endorsed a portion of the death benefits to the employee's beneficiary. Under the guidance of EITF 06-4 these agreements represent a post retirement plan, and we have accrued a liability for the present value of the future death benefit in accordance with FAS 106, for any endorsement split-dollar life insurance policies.

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

Forward-Looking Statements and Risk Factors

Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 (alternatively: Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) and are dependent upon a variety of important factors that could cause actual results to differ materially from those reflected in such forward-looking statements.

Forward-looking statements include but are not limited to statements about: maintaining or improving our revenues, gross margins or profits of our continuing operations, for the current period or any future period; competing effectively with our current products and planned products, and introducing new products; effectively completing restructuring activities, including the closure of certain facilities and redeployment of related functions; maintaining or reducing expenses; maintaining or improving operational efficiency; increasing product development capacity; using our investment in research and development to generate future revenue; and the applicability of accounting policies used in our financial reporting. When used in this document and in documents it references, the words "anticipate," "believe," "will," "intend," "project" and "expect" and similar expressions as they relate to Intermec or our management are intended to identify such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this quarterly report.

Forward-looking statements involve and are dependent upon certain risks and uncertainties and are not guarantees of future performance. A number of factors can impact our business and determine whether we can or will achieve any forward-looking statement made in this report. Any one of these factors could cause our actual results to differ materially from those expressed or implied in a forward-looking statement. We outline these risk factors in reports that we file with the SEC, in press releases and on our website, www.intermec.com. You are encouraged to review the discussion below in Part I, "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," and Part II, "Item 1A. Risk Factors," of this filing, as well as the Risk Factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007, which discuss risk factors associated with our business.

Results of Operations

The following discussion compares our results of operations for the quarters ended March 30, 2008, and April 1, 2007. Results of operations and percentage of revenues were as follows (millions of dollars):

	Quarter Ended			
	March 30, 2008		April 1, 2007	
	Amounts	Percent of Revenues	Amounts	Percent of Revenues
Revenues	$ 216.8		$ 179.3	
Costs and expenses:				
Cost of revenues	129.4	59.7%	114.7	64.0%
Research and development	16.5	7.6%	16.5	9.2%
Selling, general and administrative	58.7	27.1%	53.1	29.6%
Total costs and expenses	204.6	94.4%	184.3	102.8%

Operating profit (loss)		12.2	5.6%	(5.0)	-2.8%
Interest, net		(0.1)	-0.1%	0.3	0.1%
Earnings (loss) before income taxes		12.1	5.6%	(4.7)	-2.7%
Provision (benefit) for income taxes		4.4	2.0%	(0.3)	-0.2%
Net earnings (loss)	$	7.7	3.6%	$ (4.4)	-2.5%

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

Revenues

Revenues by category and as a percentage of total revenues from operations for the quarters ended March 30, 2008, and April 1, 2007, were as follows (millions of dollars):

	Quarter Ended					
	March 30, 2008		April 1, 2007			
	Amount	Percent of Revenues	Amount	Percent of Revenues	Change	Percentage Change
Revenues by category:						
Systems and solutions	$ 126.0	58.1%	$ 93.5	52.1%	$ 32.5	34.8%
Printer and media	53.6	24.7%	48.0	26.8%	5.6	11.7%
Service	37.2	17.2%	37.8	21.1%	(0.6)	(1.6)%
Total revenues	$ 216.8	100.0%	$ 179.3	100.0%	$ 37.5	20.9%

Revenues by geographic region and as a percentage of total revenues from operations for the quarters ended March 30, 2008, and April 1, 2007, were as follows (millions of dollars):

	Quarter Ended					
	March 30, 2008		April 1, 2007			
	Amount	Percent of Revenues	Amount	Percent of Revenues	Change	Percentage Change
Revenues by geographic region:						
North America	$ 114.1	52.6%	$ 91.1	50.8%	$ 23.0	25.2%
Europe, Middle East and Africa (EMEA)	78.0	36.0%	62.9	35.1%	15.1	24.0%
All others	24.7	11.4%	25.3	14.1%	(0.6)	(2.4)%
Total revenues	$ 216.8	100.0%	$ 179.3	100.0%	$ 37.5	20.9%

The increase in quarterly revenue of $37.5 million, or 20.9%, was primarily attributable to a $38.1 million increase in product revenue, which was partially offset by a $0.6 million decrease in service revenue. The increase in product revenue was attributable to a $32.5 million increase in systems and solution products and a $5.6 million increase in printer and media products. Growth of $32.5 million, or 34.8%, by Systems and Solutions was attributed to ongoing strength in the CN3 and newly launched CN3e products within the terminal family. These deployments occurred in every region and within our targeted verticals of transportation and logistics, retail and industrial. Additionally, growth of $5.6 million, or 11.7%, in our printer and media business was driven by new orders for industrial printers as well as our portable printers. Growth came from North America, EMEA and the Asia Pacific regions.

Service revenues decreased $0.6 million, or 1.6%, over the corresponding prior-year period. This decrease was primarily attributable to a decrease in hardware sales during early 2007, which resulted in lower service contracts.

Geographically, revenues in North America and EMEA increased $23.0 million, or 25.2%, and $15.1 million, or 24.0%, respectively, over the corresponding prior-year period. The increases were primarily attributable to strong hardware demand in both regions, with new product introductions driving a majority of the growth. The changes in foreign currency conversion rates favorably impacted EMEA revenue by $7.0 million as compared to prior year period.

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

Gross Profit

Gross profit and gross margin by revenue category for the quarters ended March 30, 2008 and April 1, 2007, were as follows (millions of dollars):

	Quarter Ended					
	March 30, 2008			April 1, 2007		
	Gross Profit		Gross Margin	Gross Profit		Gross Margin
Product	$	71.9	40.0%	$	49.3	34.9%
Service		15.5	41.7%		15.2	40.3%
Total Gross Profit and Gross Margin	$	87.4	40.3%	$	64.5	36.0%

The total gross profit for the quarter ended March 30, 2008, increased $22.9 million, or 35.5%, compared to the corresponding prior-year period. The increase in total gross profit primarily resulted from a $22.6 million increase in product gross profit due to the product revenue growth and improvement in related gross margins.

Product gross margin for the quarter ended March 30, 2008, increased 5.1 percentage points as compared to the quarter ended April 1, 2007. The increase in product gross margin is primarily due to higher unit volume, higher absorption on higher volumes and favorable impact of foreign currency on revenue. Service gross margins increased 1.4 percentage points for the quarter ended March 30, 2008, over the corresponding prior-year period, due to improvements in the cost structure.

Research and Development

	Three months ended					
	March 30, 2008		Change from prior year		April 1, 2007	
Research and development expense	$	16.5	$	-	$	16.5

The total research and development expense was $16.5 million for the quarters ended March 30, 2008 and April 1, 2007.

Selling, General and Administrative