

Intermec, Inc.
Form 10-Q
October 29, 2010

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

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 26, 2010

OR

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
(State or other jurisdiction of
incorporation or organization)

95-4647021
(I.R.S. Employer
Identification No.)

6001 36th Avenue West, Everett, WA
(Address of principal executive offices)

98203-1264
(Zip Code)

(425) 348-2600
(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 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

Edgar Filing: Intermecc, Inc. - Form 10-Q

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company
filer

(Do not check if a smaller reporting
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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 October 25, 2010 |
|--|---------------------------------|
| Common Stock, \$0.01 par value per share | 60,123,637 shares |

INTERMEC, INC.
 TABLE OF CONTENTS
 REPORT ON FORM 10-Q
 FOR THE QUARTER ENDED SEPTEMBER 26, 2010

| | | Page Number |
|--------------------------------------|---|----------------|
| PART I. FINANCIAL INFORMATION | | |
| <u>ITEM 1.</u> | <u>Financial Statements</u> | |
| | <u>Condensed Consolidated Statements of Operations (Unaudited) for the Three and Nine Months Ended September 26, 2010, and September 27, 2009</u> | <u>1</u> |
| | <u>Condensed Consolidated Balance Sheets (Unaudited) as of September 26, 2010, and December 31, 2009</u> | <u>2</u> |
| | <u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 26, 2010, and September 27, 2009</u> | <u>3</u> |
| | <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | <u>4 - 13</u> |
| <u>ITEM 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>14 - 21</u> |
| <u>ITEM 3.</u> | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | <u>21</u> |
| <u>ITEM 4.</u> | <u>Controls and Procedures</u> | <u>21</u> |
| PART II. OTHER INFORMATION | | |
| <u>ITEM 1.</u> | <u>Legal Proceedings</u> | <u>22</u> |
| <u>ITEM 1A.</u> | <u>Risk Factors</u> | <u>22</u> |
| <u>ITEM 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>22</u> |
| <u>ITEM 5.</u> | <u>Other Information</u> | <u>22 - 23</u> |
| <u>ITEM 6.</u> | <u>Exhibits</u> | <u>24</u> |
| | <u>Signature</u> | |

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERMEC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 26, 2010 | September 27, 2009 | September 26, 2010 | September 27, 2009 |
| Revenues: | | | | |
| Product | \$ 134,559 | \$ 125,822 | \$ 379,032 | \$ 377,824 |
| Service | 34,154 | 32,969 | 100,072 | 101,255 |
| Total revenues | 168,713 | 158,791 | 479,104 | 479,079 |
| Costs and expenses: | | | | |
| Cost of product revenues | 83,511 | 79,289 | 238,354 | 243,583 |
| Cost of service revenues | 19,726 | 18,239 | 58,845 | 58,089 |
| Research and development | 16,489 | 14,065 | 49,777 | 45,353 |
| Selling, general and administrative | 47,741 | 44,460 | 138,573 | 140,178 |
| Gain on intellectual property sales | (2,944) | - | (2,944) | - |
| Restructuring charges | 1,817 | 2,703 | 2,779 | 18,631 |
| Impairment of facility | - | - | 3,008 | - |
| Total costs and expenses | 166,340 | 158,756 | 488,392 | 505,834 |
| Operating profit (loss) | 2,373 | 35 | (9,288) | (26,755) |
| Interest income | 243 | 325 | 787 | 927 |
| Interest expense | (318) | (261) | (986) | (713) |
| Earnings (loss) before income taxes | 2,298 | 99 | (9,487) | (26,541) |
| Income tax expense (benefit) | 9,182 | 35 | 3,750 | (9,663) |
| Net (loss) earnings | \$ (6,884) | \$ 64 | \$ (13,237) | \$ (16,878) |
| Basic (loss) earnings per share | \$ (0.11) | \$ 0.00 | \$ (0.21) | \$ (0.27) |
| Diluted (loss) earnings per share | \$ (0.11) | \$ 0.00 | \$ (0.21) | \$ (0.27) |
| Shares used in computing basic (loss) earnings per share | 61,412 | 61,714 | 61,732 | 61,593 |
| Shares used in computing diluted (loss) earnings per share | 61,412 | 62,062 | 61,732 | 61,593 |

See accompanying notes to condensed consolidated financial statements.

INTERMEC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

| | September 26, 2010 | December 31, 2009 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 173,781 | \$ 201,884 |
| Short-term investments | 37,416 | 36,301 |
| Accounts receivable, net | 107,412 | 106,890 |
| Inventories, net | 85,336 | 101,537 |
| Current deferred tax assets, net | 48,466 | 51,140 |
| Assets held for sale | 3,196 | - |
| Other current assets | 16,543 | 16,826 |
| Total current assets | 472,150 | 514,578 |
| Property, plant and equipment, net | 36,255 | 37,383 |
| Other acquired intangibles, net | 2,718 | 2,587 |
| Deferred tax assets, net | 182,433 | 182,457 |
| Other assets | 31,004 | 34,404 |
| Total assets | \$ 724,560 | \$ 771,409 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 86,597 | \$ 102,607 |
| Payroll and related expenses | 21,979 | 20,683 |
| Deferred revenue | 37,261 | 39,038 |
| Total current liabilities | 145,837 | 162,328 |
| Long-term deferred revenue | 22,915 | 22,010 |
| Pension and other postretirement benefits liabilities | 78,673 | 81,897 |
| Other long-term liabilities | 15,116 | 14,891 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock (250,000 shares authorized, 62,441 and 62,203 shares issued and 60,038 and 61,653 outstanding) | 624 | 622 |
| Additional paid-in-capital | 692,370 | 703,590 |
| Accumulated deficit | (187,482) | (174,245) |
| Accumulated other comprehensive loss | (43,493) | (39,684) |
| Total shareholders' equity | 462,019 | 490,283 |
| Total liabilities and shareholders' equity | \$ 724,560 | \$ 771,409 |

See accompanying notes to condensed consolidated financial statements.

INTERMEC, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)
 (Unaudited)

| | Nine Months Ended | |
|--|-----------------------|-----------------------|
| | September 26, 2010 | September 27, 2009 |
| Cash and cash equivalents at beginning of the period | \$ 201,884 | \$ 221,335 |
| Cash flows from operating activities: | | |
| Net loss | (13,237) | (16,878) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,137 | 11,879 |
| Impairment of facility | 3,008 | - |
| Deferred taxes | 805 | (11,835) |
| Stock-based compensation | 7,515 | 5,922 |
| Gain on intellectual property sales | (2,944) | - |
| Gain on company owned life insurance | (863) | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (289) | 33,743 |
| Inventories | 15,453 | 27,684 |
| Accounts payable and accrued expenses | (14,875) | (22,357) |
| Deferred revenue | (619) | (6,556) |
| Other long-term liabilities | 273 | (40) |
| Other operating activities | (343) | (2,199) |
| Net cash provided by operating activities | 5,021 | 19,363 |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (9,903) | (7,617) |
| Sales of property, plant and equipment | - | 1,867 |
| Purchases of investments | (6,645) | (35,645) |
| Maturities of investments | 5,800 | - |
| Capitalized patent legal fees | (1,230) | (3,709) |
| Other investing activities | 68 | - |
| Net cash used in investing activities | (11,910) | (45,104) |
| Cash flows from financing activities: | | |
| Stock repurchase | (20,037) | - |
| Stock options exercised and other | 1,482 | 1,682 |
| Net cash (used in) provided by financing activities | (18,555) | 1,682 |
| Effect of exchange rate changes on cash and cash equivalents | (2,659) | 5,593 |
| Resulting decrease in cash and cash equivalents | (28,103) | (18,466) |
| Cash and cash equivalents at end of the period | \$ 173,781 | \$ 202,869 |

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 mainly 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 consolidated financial statements include the accounts of Intermecc and our subsidiaries. Intercompany transactions and balances have been eliminated. 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 for the year ended December 31, 2009, as amended (the "2009 Form 10-K").

Recent Accounting Pronouncements Not Yet Adopted

In October 2009, the Financial Accounting Standard Board ("FASB") updated its guidance on software revenue recognition. According to this update, tangible products containing software components and non-software components, which function together to deliver the tangible product's essential functionality are no longer within the scope of the software revenue guidance. This update provides additional guidance on how to determine which software, if any, relating to the tangible product should be excluded from the scope of the software revenue guidance. This update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after January 1, 2011. This update must be adopted in the same period using the same transition method as indicated below in the update to revenue arrangements with multiple deliverables. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In October 2009, the FASB updated its guidance on revenue arrangements with multiple deliverables. This guidance alters the criteria for separating consideration in multiple-deliverable arrangements. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. This update also replaces the term "fair value" in the revenue allocation guidance with "selling price" to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a market participant. It also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangements to all deliverables using the relative selling price method. This update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after January 1, 2011. We are currently assessing the potential impact that adoption of this guidance may have on our consolidated financial statements.

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

Immaterial Restatement of the Statement of Cash Flows

Subsequent to the issuance of our 2009 consolidated financial statements, we determined that certain balances within the 2009 condensed consolidated statement of cash flows were misstated due to non-cash foreign currency adjustments related to working capital items that were inappropriately mapped to the effect of exchange rates on cash and cash equivalents contrary to ASC 230, Statement of Cash Flows. In addition, we corrected for the tax benefit from stock-based payment arrangements as prescribed by ASC 718, Compensation – Stock Compensation. As a result, the affected line items under cash flows from operating activities, cash flows from financing activities, and effect of exchange rate changes on cash and cash equivalents of the condensed consolidated statement of cash flows for the nine months ended September 27, 2009, have been restated as follows (in thousands):

| | As Reported | Nine Months Ended September 27, 2009 Reclassification | Correction | As Restated |
|--|--------------|---|-------------|--------------|
| Cash flows from operating activities: | | | | |
| Deferred taxes | \$ (12,022) | | \$ 187 | \$ (11,835) |
| Excess tax shortfall (benefit) from stock-based payment arrangements | 640 | | (640) | - |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | 31,157 | | 2,586 | 33,743 |
| Inventories | 26,838 | | 846 | 27,684 |
| Accounts payable and accrued expenses | (22,030) | | (327) | (22,357) |
| Deferred revenue | - | \$ (5,590) | (966) | (6,556) |
| Other long-term liabilities | (5,630) | \$ 5,590 | - | (40) |
| Other operating activities | (1,768) | | (431) | (2,199) |
| Net cash provided by operating activities | 18,108 | | 1,255 | 19,363 |
| Cash flows from financing activities: | | | | |
| Excess tax shortfall (benefit) from stock-based payment arrangements | (640) | | 640 | - |
| Net cash provided by financing activities | 1,042 | | 640 | 1,682 |
| Effect of exchange rate changes on cash and cash equivalents | \$ 7,488 | | \$ (1,895) | \$ 5,593 |

The restatements impacted only line items within the condensed consolidated statement of cash flows, and do not result in any change in the beginning and ending balances of cash and cash equivalents from the amounts previously reported. The restated line items do not have any impact on the condensed consolidated balance sheets or statements of operations for any period. In addition, the above condensed consolidated statements of cash flows for the nine months ended September 27, 2009, reflects a reclassification of deferred revenue from other long-term liabilities to a separate line item. We have also set forth in Part II, Item 5, disclosure regarding impact of the restatement of the affected line items of the consolidated statement of cash flows for the years ended December 31, 2009 and 2008, and of the condensed consolidated statement of cash flows for the three months ended March 28, 2010, and March 29, 2009. We do not consider any of these corrections to be material.

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

2. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our financial assets and liabilities subject to these fair value measurement provisions as of September 26, 2010, were comprised of the following (in thousands):

| | Level 1 | Level 2 | Level 3 | Fair Value as of September 26, 2010 |
|--------------------------------------|------------|-------------|---------|--|
| Money market funds | \$ 87,256 | \$ - | \$ - | \$ 87,256 |
| Certificates of deposit | 31,102 | - | - | 31,102 |
| Bond fund | 30,864 | - | - | 30,864 |
| Stock | 178 | - | - | 178 |
| Derivative instruments – assets | - | 850 | - | 850 |
| Total assets at fair value | \$ 149,400 | \$ 850 | \$ - | \$ 150,250 |
| | | | | Fair Value as of September 26, 2010 |
| Derivative instruments – liabilities | \$ - | \$ (1,320) | \$ - | \$ (1,320) |
| Total liabilities at fair value | \$ - | \$ (1,320) | \$ - | |