Intermec, Inc.
Form 10-Q
August 11, 2006

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 July 2, 2006

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

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 July 28, 2006**
Common Stock, $0.01 par value per share	63,801,477 shares

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REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JULY 2, 2006

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERMEC, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share amounts)
(unaudited)

	Three Months Ended		Six Months Ended	
	July 2, 2006	**July 3, 2005**	**July 2, 2006**	**July 3, 2005**
Revenues:				
Product	$ 192,440	$ 181,007	$ 358,790	$ 342,950
Service	38,997	36,452	76,478	71,004
Intellectual property settlement			23,000	
Total Revenues	231,437	217,459	458,268	413,954
Costs and expenses:				
Cost of product revenues	116,401	101,954	217,015	194,701
Cost of service revenues	21,413	21,084	44,274	41,970
Cost of intellectual property settlement			6,462	
Selling, general and administrative	78,496	75,777	156,289	148,548
Restructuring Charge	1,135		2,242	
Total costs and expenses	217,445	198,815	426,282	385,219
Operating profit from continuing operations	13,992	18,644	31,986	28,735
Gain on sale of investments	2,305		2,305	
Interest income (expense), net	1,766	(1,120)	2,910	(3,246)
Earnings from continuing operations before income taxes	18,063	17,524	37,201	25,489
Provision for income taxes	6,767	5,669	10,835	8,222
Earnings before discontinued operations	11,296	11,855	26,366	17,267
Earnings (loss) from discontinued operations, net of tax	(940)	213	(2,019)	(1,719)
Net earnings	$ 10,356	$ 12,068	$ 24,347	$ 15,548
Basic earnings (loss) per share				
Continuing operations	$ 0.18	$ 0.19	$ 0.42	$ 0.28
Discontinued operations	$ (0.02)	0.01	$ (0.03)	(0.03)
Net earnings per share	$ 0.16	$ 0.20	$ 0.39	$ 0.25
Diluted earnings (loss) per share				
Continuing operations	$ 0.18	$ 0.19	$ 0.41	$ 0.28
Discontinued operations	$ (0.02)	0.00	$ (0.03)	(0.03)
Net earnings per share	$ 0.16	$ 0.19	$ 0.38	$ 0.25
Shares used in computing basic earnings (loss) per share	63,252	61,361	63,138	61,228
Shares used in computing diluted earnings (loss) per share	64,529	62,768	64,565	62,792

See accompanying notes to consolidated financial statements.

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

	July 2, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 303,683	$ 256,782
Short-term investments	19,130	
Accounts receivable, net of allowance for doubtful accounts and sales returns of $8,943 and $8,157	162,379	180,985
Inventories	104,628	82,088
Net current deferred tax assets	51,554	100,656
Assets held for sale	8,239	8,517
Other current assets	18,275	29,468
Total Current Assets	667,888	658,496
Property, plant and equipment, net of accumulated depreciation of $105,146 and $99,032	38,778	30,820
Intangibles, net	6,794	6,871
Net deferred tax assets	182,046	137,578
Other assets	63,424	68,955
Total assets	$ 958,930	$ 902,720
LIABILITIES AND SHAREHOLDERS INVESTMENT		
Current Liabilities:		
Accounts payable and accrued expenses	$ 155,399	$ 148,731
Payroll and related expenses	30,639	31,011
Deferred revenue	44,861	38,369
Total current liabilities	230,899	218,111
Long-term deferred revenue	19,479	20,095
Long-term debt	100,000	100,000
Other long-term liabilities	89,754	88,711
Shareholders investment:		
Common stock	632	627
Additional paid-in capital	750,362	736,224
Accumulated deficit	(220,557)	(244,903)
Accumulated other comprehensive loss	(11,639)	(16,145)
Total shareholders investment	518,798	475,803
Total liabilities and shareholders investment	$ 958,930	$ 902,720

See accompanying notes to consolidated financial statements.

INTERMEC, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)
(unaudited)

	Six Months Ended July 2, 2006	July 3, 2005
Cash and cash equivalents at beginning of period	$ 256,782	$ 217,899
Cash flows from operating activities of continuing operations:		
Net earnings from continuing operations	24,347	17,267
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	5,186	4,992
Change in prepaid pension costs, net	3,392	5,767
Deferred taxes	10,097	9,537
Stock-based compensation and other	5,125	587
Excess tax benefits from stock-based payment arrangements	(3,076)	
Changes in operating assets and liabilities:		
Accounts receivable	18,616	5,137
Inventories	(22,540)	(22,929)
Other current assets	3,524	(1,168)
Accounts payable and accrued expenses	9,770	3,951
Payroll and related expenses	94	(4,495)
Other long-term liabilities	2,294	6,355
Other operating activities	5,557	(2,819)
Net cash provided by operating activities of continuing operations	62,386	22,182
Cash flows from investing activities of continuing operations:		
Capital expenditures	(12,304)	(5,510)
Purchases of investments	(19,695)	6,051
Decrease in restricted cash		50,000
Proceeds from sales of investments	565	
Other investing activities	5	190
Net cash (used in) provided by investing activities of continuing operations	(31,429)	50,731
Cash flows from financing activities of continuing operations:		
Repayment of long-term obligations		(100,000)
Excess tax benefits from stock-based payment arrangements	3,076	
Stock options exercised	4,340	7,644
Other financing activities	1,616	1,258
Net cash provided by (used in) financing activities of continuing operations	9,032	(91,098)
Net cash provided by (used in) continuing operations	39,989	(18,185)
Net cash used in operating activities of discontinued operations		(27,350)
Net cash provided by investing activities of discontinued operations	6,912	405
Resulting increase (decrease) in cash and cash equivalents	46,901	(45,130)
Cash and cash equivalents at end of period	$ 303,683	$ 172,769

See accompanying notes to consolidated financial statements.

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

1. Description of the Business

Effective January 1, 2006, we changed our name from UNOVA, Inc. to Intermec, Inc. (Intermec). We design, develop, manufacture, integrate, sell, resell and service wired and wireless automated identification and data collection (AIDC) products and systems, mobile computing products and systems, wired and wireless bar code printers, label media and radio frequency identification (RFID) products and systems. Our products and services are used by customers within and outside of the United States to improve the productivity, quality and responsiveness of their business operations including supply chain management, enterprise resource planning and field sales and service. We grant licenses to use portions of our intellectual property portfolio, including certain patent rights essential to and/or useful in RFID and AIDC products, and receive license fees as well as ongoing royalties based on sales by licensees. Customers for our products and services operate in market segments that include manufacturing, warehousing, direct store delivery, retail, consumer packaged goods, field service, government, and transportation and logistics.

In 2005, we divested our Industrial Automation Systems (IAS) businesses, which comprised the Cincinnati Lamb and Landis Grinding Systems divisions. The IAS businesses are classified as discontinued operations for accounting purposes in Intermec s consolidated financial statements and related notes.

2. Basis of Presentation

Our interim financial periods are based on a thirteen-week internal accounting calendar. In the opinion of management, the accompanying balance sheets and 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 its 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 financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, and financial data included in the accompanying notes to the financial statements. Actual results and outcomes may differ from management s 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 and the financial statements and notes thereto included in our December 31, 2005 Form 10-K.

Certain amounts in our prior-period consolidated financial statements and notes have been reclassified to conform to the current-period presentation. The consolidated statement of cash flows for the six months ended July 3, 2005, reflects the reclassification of $50 million in restricted cash from financing activities to investing activities and $3.9 million of cash used in operating activities of discontinued operations was reclassified from operating activities of continuing operations.

3. Stock-Based Compensation

We adopted Statement of Financial Accounting Standards (SFAS) 123 (revised 2004), Share-Based Payment (SFAS 123(R)), using the modified prospective transition method beginning January 1, 2006. SFAS 123(R) eliminates the ability to account for share-based compensation transactions, as we formerly did, using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees, and generally requires that such transactions be accounted for using a fair-value-based method and recognized as expenses in our consolidated statements of operations.

Our consolidated financial statements for the three and six months ended July 2, 2006, reflect the impact of adopting SFAS 123(R). In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

Stock-based compensation expense recognized in the consolidated statement of operations during the second quarter of 2006 included compensation expense for stock-based payment awards granted prior to, but not yet vested, as of December 31, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 148 Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148) and compensation expense for the stock-based payment awards granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with SFAS 123(R). Stock-based compensation

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expense recognized in the statement of operations for the three and six months ended July 2, 2006, is based on options ultimately expected to vest, the expense has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the pro forma information required under SFAS 148 for the periods prior to January 1, 2006, we accounted for forfeitures as they occurred.

Accordingly, during the three and six month periods ended July 2, 2006, we recorded stock-based compensation expense for awards granted prior to, but not yet vested, as of January 1, 2006, as if the fair value method required for pro forma disclosure under SFAS 123 were in effect for expense recognition purposes, adjusted for estimated forfeitures. For stock-based awards granted after January 1, 2006, we have recognized compensation expense based on the estimated grant date fair value method using the Black-Scholes valuation model. For these awards, we have recognized compensation expense using a straight-line amortization method. Because SFAS 123(R) requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation for the three and six month periods ended July 2, 2006, has been reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behaviors as well as trends of actual option forfeitures. The impact on our results of operations of recording stock-based compensation for the three and six month periods ended July 2, 2006 was as follows (in thousands):

	Three Months Ended July 2, 2006	**Six Months Ended July 2, 2006**
Cost of revenues	$ 72	$ 110
Selling, general and administrative	925	2,811
	$ 997	$ 2,921

Prior to adopting SFAS 123(R), we presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS 123(R) requires cash flows resulting from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised options in excess of the deferred tax asset attributable to stock compensation costs for such options. As a result of adopting SFAS 123(R), $3.1 million of excess tax benefits for the six months ended July 2, 2006, has been classified as a source of cash from financing activities. Cash received from option exercises under all share-based payment arrangements for the six month periods ended July 2, 2006 and July 3, 2005, was $4.3 million and $7.7 million, respectively. The total income tax benefit recognized in the statement of operations for stock-based compensation costs was $0.4 million, and $1.1 million for the three and six month periods ended July 2, 2006, and $0.3 and $0.6 for the three and six month periods ended July 3, 2005.

We calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The following assumptions were used for each respective period:

	July 2, 2006		**July 3, 2005**	
Risk-free interest rates	4.88	%	3.72	%
Expected lives (in years)	4.8		5.0	
Expected dividend yield	0.0	%	0.0	%
Expected volatility	44.9	%	56.0	%

Our computation of expected volatility for the second quarter of 2006 is based on a combination of historical and market-based implied volatility from traded options on a group of peer stocks. Prior to 2006, our computation of expected volatility was based on historical volatility. Our computation of expected life in 2006, was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value of the options granted based on the above assumptions are $12.16 and $12.89 for the three and six month periods ended July 2, 2006 and $10.26 and $10.66 for the three and six month periods ended July 3, 2005, respectively. All grants of our options under all plans must be approved or authorized by the Compensation Committee of the Board of Directors, which consists entirely of outside directors.

The following table summarizes the pro forma effect of stock-based compensation as if the fair value method of accounting for stock compensation had been applied in periods prior to January 1, 2005.

	Three Months Ended July 3, 2005	Six Months Ended July 3, 2005
Net earnings as reported	$ 12,068	$ 15,548
Add: stock compensation expense recorded under the intrinsic value method, net of tax effect	584	1,068
Less: pro forma stock compensation expense computed under the fair value method, net of tax effect	(1,308)	(2,592)
Pro forma net earnings	$ 11,344	$ 14,024
Net earnings per share as reported:		
Basic	$ 0.20	$ 0.25
Diluted	$ 0.19	$ 0.25
Pro forma net earnings per share:		
Basic	$ 0.18	$ 0.23
Diluted	$ 0.18	$ 0.22

Our 2001, 1999 and 1997 Stock Incentive Plans and the our 2004 Omnibus Incentive Compensation Plan (the Stock Incentive Plans, collectively) provide for the grant of incentive awards to officers and other key employees. The numbers of shares authorized for grant under the 2004, 2001 and 1999 plans are 3,000,000, 1,000,000, and 4,500,000, respectively. No additional shares are authorized for grant under the 1997 plan, which was frozen subsequent to the approval of the 1999 Stock Incentive Plan. As of July 2, 2006, there were 536,294 options outstanding that were granted under the 1997 Plan before it was frozen.

Incentive awards may be granted in the form of stock options with or without related stock appreciation rights, restricted stock, restricted stock units and performance units. Under the Stock Incentive Plans, stock options may not be granted at an exercise price less than the market value of Intermec s common stock on the date of grant. The Stock Incentive Plans options generally vest in equal increments over five years and expire in ten years.

The 2002 Director Stock Option and Fee Plan (2002 DSOP) and the 1997 Director Stock Option Plan (1997 DSOP , collectively DSOPs) provide for the grant of stock options to Intermec s non-employee directors. The numbers of shares authorized for grant under the 2002 DSOP is 745,000. No additional shares are authorized under the 1997 DSOP. Subsequent to the grant of 255,000 options under the 1997 DSOP, it was frozen upon the approval of the 2002 DSOP. Under the 2002 DSOP, stock options are granted annually at an exercise price equal to the fair market value of Intermec s common stock on the date of grant. The number of options granted annually to each director is fixed by the Director Plan. Such options become fully exercisable on the first anniversary of their date of grant. Additionally, there was a grant in January, 2006 to the Director s that vested immediately. Therefore, the corresponding expense was recorded in the quarter ended April 2, 2006.

As of July 2, 2006 there were 2,470,355 shares available for grant under our Stock Incentive Plans and DSOPs. The following table summarizes changes in options outstanding and exercisable under our stock award plans:

	Number of Shares	Average Exercise Price Per Share	Remaining Term (in years)	Intrinsic Value (in millions)
Stock Options				
Nonvested balance at December 31, 2005	3,218,926	$ 13.35		
Granted	568,250	28.31		
Exercised	(404,125)	10.74		
Forfeited	(26,966)	18.97		
Canceled	(5,800)	15.19		
Outstanding balance at July 2, 2006	3,350,285	16.14	6.46	$ 79.1
Exercisable at July 2, 2006	2,023,157	13.54	4.98	46.9

As of July 2, 2006, there was $8.8 million of total unrecognized compensation cost related to non-vested options. That cost is expected to be recognized over a weighted average period of 3 years and 0 months.

	Number of Shares	Weighted-Average Grant Date Fair Value
Restricted stock awards:		
Nonvested balance at December 31, 2005	86,070	11.52
Granted	89,088	27.25
Vested	(66,802)	9.14
Forfeited	(3,387)	19.39
Nonvested balance at July 2, 2006	104,969	26.13

The fair value of each restricted stock award (RSA) is the market price of our stock on the date of grant. The total intrinsic value of RSA s vested during the three and six months ended July 2, 2006, and July 3, 2005, was $1.2 and $ 1.8 million, and $ 1.2 and $ 2.6 million, respectively. As of July 2, 2006, there was $ 2.7 million of total unrecognized compensation cost related to non-vested RSA s. That cost is expected to be recognized over a weighted average period of 1 year and 1 month.

Shared Performance Stock Awards are a form of stock award in which the number of shares ultimately received depends on our performance against specified performance targets. The performance period is January 1 through December 31 and covers a period of 3 fiscal years. At the end of the performance period, the number of shares of stock and stock awards issued will be determined by adjusting upward or downward from the target in a range between 0% and 200%. The final performance percentage on which the payout will be based, considering performance metrics established for the performance period, will be determined by the Board of Directors or a committee of the board in its sole discretion. Shares of stock will be issued following the end of the performance period. Shared Performance Stock Awards are amortized over the vesting period (generally 32 months) using the straight line method. Total compensation expense related to performance stock awards was $ 0.8 and $ 1.5, for the three and six month periods ended July 2, 2006 and $0.3 and $0.6 for the three and six month periods ended July 3, 2005, respectively.

We administer the Employee Stock Purchase Plan under which 5.0 million shares are reserved for issuance. Employees with three months of continuous service prior to an offering period are eligible to participate in the plan. Eligible employees may elect to become participants in the plan and may contribute up to $21,250 per year through payroll deductions to purchase stock purchase rights. Participants may, at any time and for any reason, cancel their payroll deduction authorizations and have the balance in their stock purchase right account applied to the purchase of shares or have the amount refunded. The offering period begins on the first day of the quarter and ends on the last day of the quarter. The stock purchase rights are used to purchase the common stock of Intermec at 85 percent of the fair market value of a share as of the grant date applicable to the participant. We treat this expense as compensation.

4. Inventories

Inventories comprise the following (thousands of dollars):

	July 2, 2006	December 31, 2005
Raw materials	$ 55,394	$ 50,505
Work in process	739	705
Finished goods	48,495	30,878
Inventories	$ 104,628	$ 82,088

5. Notes Receivable

In connection with the sale of Cincinnati Lamb, we received a $12.5 million long-term note receivable secured by the assets sold, bearing interest at an annual rate of LIBOR plus three percent (8.33% as of July 2, 2006) with interest payable quarterly. Principal payments on the note are due beginning April 2007, in six semiannual installments of $1.5 million, $2.0 million, $2.0 million, $2.5 million, $2.0 million and $2.5 million. As of July 2, 2006, the estimated fair value of the note is $10.9 million, based on the estimated cash flows from the note and a risk-adjusted discount rate equal to LIBOR plus eight percent. Our consolidated balance sheet as of July 2, 2006, classifies the $10.9 million note receivable as other current assets and other assets.

As part of the sale of Landis Grinding Systems we received a $10 million two-year note at an interest rate of five percent per annum guaranteed by the buyer s parent company. As of July 2, 2006, the estimated fair value of the note is $9.6 million, based on the estimated cash flows from the note and a risk-adjusted discount rate equal to LIBOR plus 2.25% (7.94% as of July 2, 2006). This long-term note receivable is included in other assets on our balance sheet.

6. Long-term Debt and Interest, net

Intermec has a secured long-term 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, Intermec had borrowing capacity at July 2, 2006, of $18.1 million under the Revolving Facility. We made no borrowings under the Revolving Facility during 2006, and as of July 2, 2006, no borrowings were outstanding under this facility. As of July 2, 2006, we were in compliance with all financial covenants of this agreement.

We have $100.0 million of ten-year senior unsecured debt outstanding as of July 2, 2006. Interest payments at 7.0% are due semi-annually in March and September. Including underwriting fees, discounts and other issuance costs, the effective interest rate is 7.175%. In March 2005, we retired the $100.0 million of seven-year notes, which were entered into in March, 1998.

Interest income (expense) comprises the following (thousands of dollars):

	Three Months Ended		Six Months Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
Interest income	$ 3,979	$ 1,351	$ 7,339	$ 3,153
Interest expense	2,213	2,471	4,429	6,399
Net interest income (expense)	$ 1,766	$ (1,120)	$ 2,910	$ (3,246)

We also have letter-of-credit reimbursement agreements totaling $13.2 million at July 2, 2006, compared to $25.8 million at December 31, 2005. As of July 2, 2006, $7.9 million of the agreements related to performance on contracts with current customers and vendors, and $4.1 million of the agreements related to customer contracts assumed by the purchaser of the Cincinnati Lamb operations that were sold and $1.4 million of the agreements related to customer contracts assumed by the purchaser of the Landis operations that were sold. We are indemnified by the purchaser of the Cincinnati Lamb operations on the $4.1 million of letter-of-credit agreements related to Cincinnati Lamb and the beneficiary of a backup letter-of-credit in the aggregate amount of $0.6 million issued pursuant to the terms of the sale.

We believe it is not practicable to estimate fair values of these instruments and consider the risk of non-performance on the contracts to be remote. We are indemnified by the purchaser of the Landis operations on the $1.3 million letter-of-credit agreement to Landis.

7. Discontinued Operations

During 2005, we completed our divestiture of the IAS businesses with the sale of the Cincinnati Lamb business in the first quarter of 2005 and the sale of the Landis Grinding Systems business in the fourth quarter of 2005. The loss from discontinued operations for the three and six month periods ended July 2, 2006, include period expenses related to finalizing the sale of the Landis Grinding Systems and changes to the estimated purchase price adjustment, net of tax benefits.

The loss from discontinued operations for the three and six month periods ended July 3, 2005, includes the operating results of the Cincinnati Lamb and Landis Grinding Systems businesses as well as the loss on the sale of Cincinnati Lamb, net of related tax benefits.

8. Restructuring Costs

In March 2006, we announced our plan to close our design centers in Goteborg and Lund, Sweden. The activities currently assigned to the design centers in Sweden will be reassigned to other parts of Intermec or moved to third-party vendors to improve efficiencies and benefit from reduced cost. In addition to the anticipated cost savings, this realignment of resources is expected to increase new product development capacity. The total cost of closing the design centers in Sweden and the elimination of 65 positions in Sweden is estimated to be $4.5 million. The estimated restructuring costs include $2.8 million of employee termination expense, facility closure costs of $1.4 million non-cash, asset impairment expense of $0.1 million and other related costs of $0.2 million. During the six months ended July 2, 2006, we have already recorded restructuring charges of $2.3 million, mostly employee termination costs, in accordance with SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146), and anticipate that the majority of the remaining unrecognized restructuring costs will be recognized over the last 2 quarters of 2006.

9. Intellectual Property Settlement

During the first quarter of 2006, we received compensation in relation to a settlement of a patent dispute regarding certain of Intermec s intellectual property (IP). Intermec s patents involved its smart battery management technology in which a portable computer incorporates a rechargeable battery that uses a processor chip to communicate data to the portable computer so that the computer can monitor and regulate battery use. The effective date of this settlement was February 27, 2006, and the terms are confidential. The operating profit from this settlement, net of attorneys fees and costs, is $16.5 million for the first quarter of 2006. IP settlement compensation of $23.0 million is classified as revenue and $6.5 million of related legal costs are classified as cost of intellectual property settlement in our consolidated statements of operations.

10. Provision for Income Taxes

The tax provision for the three and six month periods ended July 2, 2006, reflects an effective tax rate for continuing operations of 37.4% and 29.1% respectively, compared to a U.S. statutory rate of 35%. The tax provision was reduced by $2.2 million primarily due to the favorable conclusion of a Canadian tax audit during the first quarter of 2006.

The tax provision for the three and six month periods ended July 3, 2005 reflects an effective tax rate for continuing operations of 32.4% and 32.3% compared to a U.S. statutory rate of 35%. The reduction in the effective tax rate is primarily due to favorable foreign currency exchange variance associated with foreign tax contingency accruals.

11. Shares Used in Computing Earnings per Share

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

	Three months Ended	
	July 2, 2006	**July 3, 2005**
Weighted average common shares Basic	63,252,443	61,360,586

Dilutive effect of unvested restricted shares and stock options	1,276,159	1,407,696
Weighted average shares Diluted	64,528,602	62,768,282

	Six months Ended July 2, 2006	July 3, 2005
Weighted average common shares Basic	63,138,099	61,228,208
Dilutive effect of unvested restricted shares and stock options	1,427,263	1,563,680
Weighted average shares Diluted	64,565,362	62,791,888

Our employees and directors held options to purchase 586,401 and 339,776 shares of our common stock for the three and six months ended July 2, 2006, and 136,920 and 121,710 for the three and six month periods ended July 3, 2005, respectively, 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.

12. 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). The components of net pension and postretirement periodic benefit cost (credit) for the three and six month periods ended July 2, 2006, and July 3, 2005, are as follows (thousands of dollars):

Three Months Ended July 2, 2006, and July 3, 2005:	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Other Postretirement Benefit Plans	
	2006	2005	2006	2005	2006	2005
Service Cost	$ 1,741	$ 2,406	$ 273	$ 850	$ 4	$ 33
Interest Cost	2,988	2,520	552	1,157	66	166
Expected return on plan assets	(2,508)	(2,506)	(756)	(1,034)		
Amortization and deferrals:						
Transition asset			(39)	(85)		
Actuarial loss	1,241					