Intermec, Inc.
Form 10-K
March 21, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006
OR
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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, Washington www.intermec.com (Address of principal executive offices)	**98203-1264** (Zip Code)

Registrant's telephone number, including area code: **(425) 265-2400**
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	New York Stock Exchange
Rights to Purchase Series A Junior Participating Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K o.

Indicate by check mark whether the registrant is 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

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

As of July 2, 2006, which was the last business day of the registrant's most recent second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $1.5 billion, based on the closing sale price as reported on the New York Stock Exchange.

On February 28, 2007, there were 59,884,736 shares of Common Stock outstanding, exclusive of treasury shares.

Documents Incorporated by Reference

Certain information required to be reported in Part III of this Annual report on Form 10-K is herein incorporated by reference from the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission with respect to the registrant's Annual Meeting of Shareholders scheduled to be held on May 16, 2007.

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PART I

SAFE HARBOR

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. These factors include, but are not limited to, our ability to maintain or to improve the revenues and profits of our continuing operations, maintain or reduce expenses, maintain or improve operational efficiency, use our investment in research and development to generate future revenue, maintain or improve year-over-year growth in the revenues and profits of our continuing operations and the other factors described in Part I, "Item 1A, Risk Factors," and in Part II, "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation," of this filing. 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 report on Form 10-K.

Such forward-looking statements involve and are dependent upon certain risks and uncertainties. When used in this document and in documents it refers to, the words "anticipate," "believe," "will," "intend," "project" and "expect" and si expressions as they relate to us or our management are intended to identify such forward-looking statements.

Forward-looking statements 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 discussed 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.

ITEM1. BUSINESS

General

Effective January 1, 2006, we changed our name from UNOVA, Inc. to Intermec, Inc. ("Intermec", "us", "we", "our"). We became an independent public company when our common stock was distributed to the shareholders of Western Atlas Inc., our former parent company, on October 31, 1997. We are a Delaware corporation and our headquarters are located in Everett, Washington. Our major offices and manufacturing facilities are located in the states of Washington, Iowa, and Ohio and internationally in the United Kingdom, the Netherlands, France, Canada, Mexico and Singapore.

Information on our company may be found at the Internet website *www.intermec.com*. Our annual reports on Form 10-K and certain of our other filings with the Securities and Exchange Commission ("SEC") are available in PDF format through our Investor Relations website at *www.intermec.com/IntermecInc/investorinfo.asp*. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are also available on the SEC website at *www.sec.gov*. The contents of these websites are not incorporated by reference into this report or in any other report or document we file. Our references to the addresses of these websites are intended to be inactive textual references only. Shareholders may request a free copy of the annual reports on Form 10-K and quarterly reports on Form 10-Q from:

Intermec, Inc.
Attention: Investor Relations
6001 36th Avenue West

Everett, WA 98203-1264

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ITEM 1. BUSINESS (Continued)

Continuing Operations

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 products are sold to customers within and outside of the United States in market segments that include industrial goods, consumer packaged goods, transportation and logistics, retail and the public sector, in work applications such as manufacturing production, warehousing, field service, direct store delivery, in-transit visibility, store floor operations and management and RFID supply chain management. Our products are used by customers to improve the productivity, quality and responsiveness of their business operations including supply chain management, enterprise resource planning and field sales and service.

We have the following primary revenue sources:

- revenue from the design, development, manufacture, sale and resale of wired and wireless AIDC products, mobile computing products, wired and wireless bar code printers, label media and RFID products and license fees and revenue from licenses of our intellectual property (IP) portfolio and

- revenue from customer support, product maintenance and other services related to the products and systems integration described above.

Discontinued Operations

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 our consolidated financial statements and related notes. The IAS businesses are producers of manufacturing products and services, including integrated manufacturing systems, machining systems, stand-alone machine tools and precision grinding and abrasives operations primarily serving the global aerospace, automotive, off-road vehicle and diesel engine industries as well as the industrial components, heavy equipment and general job shop markets.

Products and Services

Our products include wired and wireless AIDC products, including RFID products, mobile computing products, wired and wireless barcode printers, label media and related services. These products and services allow customers to identify, track and manage their assets and other resources and improve the efficiency and effectiveness of their business operations.

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ITEM 1. BUSINESS (Continued)

Products

Bar Code Scanners

Our bar code scanning products include wireless handheld computers and terminals, linear and area imagers incorporating active pixel technology, and badge and laser scanners. These products are able to read or collect data and move that data directly into standard enterprise resource planning ("ERP") systems, warehouse management systems ("WMS"), and order fulfillment, transportation, logistics and other business applications. We also manufacture rugged handheld computers for use in warehouses and industrial environments. These products are used primarily by non-office workers, such as warehouse, delivery, manufacturing and field service workers, and other employees who operate outside the typical office environment.

Our bar code scanning products are typically used for workforce automation: tracking of work-in-process and finished-goods inventory through manufacturing, distribution and other commercial operations, “total asset” visibility, and real-time monitoring of inventory levels and order status. AIDC products of the type we sell replace manual data collection techniques that are more susceptible to errors or omissions due to inaccurate keystrokes, illegible handwriting or overlooked transactions.

Enterprise Wireless Network Technology and Services

We were one of the first companies to provide a network architecture that allows customers to use multiple radio technologies within one Local Area Network ("LAN") system. Starting in the early 1980s, we installed digital communication equipment that linked mobile computers and host servers within industrial workspaces such as warehouses, distribution centers, factories and large outdoor facilities. In 1998, the Institute for Electronic and Electrical Engineering (“IEEE”) promulgated a new standard for high-speed network communication via wireless radio signals. The 802.11b standard allows customers to purchase interoperable digital radios for client computing devices.

In the years since the 802.11b standard was established, several large network equipment vendors have begun selling 802.11b, 802.11a/b and 802.11g wireless LAN systems, increasing penetration for this technology among office workers and in public spaces such as hotels, restaurants and airports. We have been named a Solutions Technology Integrator partner by Cisco Systems Inc. (“Cisco”). We use our wireless LAN expertise to enable our AIDC products to work seamlessly across a Cisco network. Our device management software allows centralized management of our wireless products on the network.

Our wireless AIDC products include all major radio technologies, including synthesized UHF, 900 MHz, 802.11a/b/g and Bluetooth. This radio independence allows our customers to choose the most efficient radio technology for their facilities.

Mobile Computing Products

Our mobile computing products include handheld and vehicle-mounted mobile computers and accessories and related services that facilitate local-area and wide-area wireless and wired data communications. These products typically contain multiple wireless technologies (such as wide-area GPRS and CDMA, with 802.11 and Bluetooth) that can operate simultaneously in a mobile computer. This allows customers to communicate remotely with their field employees. We also develop and sell handheld computer software tools that can integrate the information into customers’ enterprise management systems.

We have developed a client framework that resides on our products allowing enhanced control by third-party device management software that can interoperate with a customer's existing system management software. This allows centralized management and control of remote devices such as mobile computers. Our mobile computing portfolio may also include AIDC devices, specialized peripherals and printer products.

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ITEM 1. BUSINESS (Continued)

To assist our customers with the automation of business processes, we provide professional services such as installation, maintenance, site security and systems integration. Our line of handheld and vehicle-mounted computers use Microsoft Windows®, Windows® CE and Windows Mobile®, and embedded Windows XP operating systems, as well as scanning and Internet Protocol-based data communication capabilities. Our mobile computing product families range from relatively low-cost, handheld batch and wireless data collection devices to higher-cost pen-based computers with wired and wireless network capabilities and flexible vehicle-mount communications.

Our mobile computing products allow a customer's remote workers to access centralized computer applications and databases, automatically collect data and send and receive data on a real-time basis. We and our partners offer mobile computing application software for workforce automation, customer-level sales ordering, pricing and forecasting, account settlement and other software products that manage workforce automation and order dispatching, "total field asset" visibility, real-time proof of delivery, and other customer information.

Printer and Label Media Products

Our line of bar code printers ranges from relatively low-cost, light-duty models to higher-cost, heavy-duty, industrial models that accommodate a number of printing widths, materials and label configurations. Our printers can be wired or can be wirelessly attached to enterprise networks. Our specialty printers provide custom capabilities, including color printing, a global language enabler and high resolution (400 DPI) printing that ensures sharp fonts and precise graphics even on extremely small labels such as those used by the electronics industry. Our printer product line includes printers that can read and write to RFID tags.

Our media products include pressure-sensitive bar code labels and thermal transfer ribbons, which are sold to customers worldwide. We also design and manufacture specialized labels to meet customer requirements for extreme environments such as clean rooms, chemical baths and high humidity.

Radio Frequency Identification (RFID) Products

RFID facilitates wireless communication of product information that exceeds the information available from a barcode. This communication occurs between a RFID reader and RFID tags comprising a computer chip and antenna encased in a protective covering. RFID tags are programmed by users to contain identification, serial numbers, history and other product data. Certain RFID tags contain read/write memory to allow updates and tag reuse. Unlike laser-scanned bar codes, RFID tags do not require "line of sight" to be read. Customers are increasingly using RFID technology to track pallets, cartons, containers and individual items through their supply chains or for access security applications.

Our RFID product line is focused on passive UHF technology and consists of RFID tags, readers, software and related equipment sold under the Intermec trade name. Our RFID products comply with the EPCglobal Generation 2 UHF standard (the "Gen 2 Standard") and with other EPCglobal and International Standards Organization ("ISO") standards being adopted by customers worldwide.

We have approximately 157 RFID patents and 24 companies have taken licenses under those patents, including Cisco, Motorola, Inc., Texas Instruments, Avery Dennison, and Zebra Technologies, Inc.

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ITEM 1. BUSINESS (Continued)

Services

With our customer support services, professional services and installation services, we help customers design, implement and deploy AIDC systems in their businesses. Our project management teams create strategic plans that identify the customer's operational goals and AIDC solutions that will accomplish the business objectives. Our project management teams also define the functional requirements for implementing AIDC products and systems in the customer's business. This includes the reason why they are needed, how they will be used, and how they will impact business processes.

Our project management teams prepare an implementation plan, evaluate ADIC products and integrate new AIDC products into the customer's existing system. Because we have relationships with many vendors that provide complementary AIDC products, systems and services, we offer customers a "one-stop shopping" experience and comprehensive AIDC solutions. We also provide customers with:

- A single point of contact for project communications
- Project planning, including defining the scope of work, preparing a statement of work, developing project objectives, developing schedules, identifying acceptance procedures, and documenting a project plan
- Project implementation, including proper site preparation; tracking, site evaluation surveys and installation schedules; coordination of the activities of all resources involved in the implementation; project status reports; and implementation of project controls
- Oversight and management of the overall installation process, including managing communications, tracking equipment shipment, managing change requests, and identifying problems and resolving them
- Project completion and closeout

We provide global repair and support through a global network of service centers. These service centers provide maintenance and repair services to our customers. Our customer service representatives ("CSR") are dispatched from approximately 60 U.S. locations and from centers outside of the United States. Our Global Education Services unit provides AIDC training services and solutions, including the design and delivery of training programs and assistance in creating training programs to be delivered by the customer's employees.

Technologies

We offer a line of data capture products which includes linear imaging, area imaging, RFID and a laser scanning engine based on micro-electro mechanical system ("MEMS") technology. Our product suite provides customers with a range of automated identification and AIDC products for their application and cost requirements.

We regularly integrate new technologies into our products to meet customer demand for enhanced functionality and to differentiate our products from competitive offerings. Recent examples of technologies added to our products include:

- Ruggedized Windows CE and Windows Mobile-based computers
- Short-range radio system networks using Bluetooth technology

- MEMS-based laser scanning devices
- Low-cost, miniature linear image scan engines

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ITEM 1. BUSINESS (Continued)

- Devices that use the Internet to simplify the management of wireless networks
- Ergonomic integrated terminals with modular designs and a variety of scan engines

Business Strategy

Our strategy consists of:

- Technology leadership in the AIDC industry
- Expanding and leveraging our IP portfolio
- Focusing on supply-chain industries and application areas
- Supplying a broad-based portfolio of products, including terminals, scanners and printers
- Providing integrated AIDC solutions
- Partnering with global industry leaders
- Achieving economies of scale and scope
- Profitably increasing market share
- Increasing the scale of the business

Our strategy is focused on customers in certain vertical markets, including:

- *Industrial Goods.* This vertical market includes firms primarily involved in business-to-business commerce. They supply raw materials, components and assemblies to consumer goods manufacturers and service providers (e.g., aerospace, chemical, oil and gas, and electronics). This vertical also includes firms that produce large, durable goods for businesses and consumers (e.g., automotive, computers and household appliances).

- *Consumer Goods.* This vertical market includes firms that make products for retailers and those that sell directly to the general public. Segments within the vertical include food, beverage, consumer packaged goods, footwear/apparel, health/beauty, health/pharmacy, house wares/appliances, electronics, recreation, and media/publishing companies.

- *Transportation and Logistics.* This vertical market consists of firms providing shipping and transportation services with their own equipment, as well as non-asset-based logistics providers. The most common non-asset firms are third-party logistics and fourth-party logistics providers. Segments within this vertical include motor freight, air transport, railways, waterborne transportation and logistics service providers.

- *Retail.* This is a large, competitive and mature vertical market. Customers in this vertical include global Tier 1 companies with $3 billion or more in sales. Segments within the vertical range from grocery, pharmaceutical and specialty outlets to department and warehouse-style mega-stores.

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Government agencies. This vertical market includes U.S. federal, state and local government entities, although foreign government opportunities are growing at an increasing rate. The U.S. Department of Defense was an early adopter of automated data capture ("ADC") technologies and has been actively deploying automated identification technology ("AIT") logistics applications for more than two decades. Other departments of the federal government are beginning to adopt these technologies to improve their operations. State and local governments are also beginning to adopt these technologies particularly in the areas of public safety and service improvement.

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ITEM 1. BUSINESS (Continued)

Our strategy is focused on certain application markets, including:

- *Manufacturing operations.* Manufacturers use data collection and computing technology to capture and monitor product flow during the production process, from raw materials or parts through to the finished goods stage. They also use the technology to track the activities and value-added content of labor and to capture product genealogy, product location and lines, supplier information for warranty and liability risk reduction and for regulatory compliance.

- *Warehouse and distribution center operations.* Warehouses and logistics operations rely on wireless networks and handheld and mobile computers to transmit inventory data regarding movement, location, quantity and attributes to central host computers. When information is updated in real time, customers have greater visibility to their business operations and are able to avoid inventory shortages and improve customer service by providing more accurate shipping and delivery information. As competition places more pressure on companies for faster operational performance, they typically upgrade their supply chain technologies to improve working capital efficiency and customer satisfaction standards, such as delivery speed, in-stock availability and order accuracy.

- *Field service.* Field service managers focus on work order management and asset management. Work orders tie field service technicians to specific jobs. Management must have information from the point where the work is being performed to optimize an entire range of operations including dispatch, routing and scheduling, status updates, service history, parts usage, call type and resolution, schematics, diagnostics, billing information, invoicing, collections, including credit cards, parts ordering and availability, vehicle location and driving directions, as well as internal metrics such as time to repair, labor tracking and job costing. Automated data collection systems linked with field service management software deliver the real-time information required to improve efficiency and reduce costs while increasing customer satisfaction. Asset management is the utilization, movement, and storage of the resources and capital equipment used by or used to support field service employees. This includes vehicles, parts inventory in transit or on the truck, and test and measurement equipment, as well as assets at remote or customer locations, such as consigned inventory and leased equipment. Equipment tagging and access control to secure storage are growing areas for RFID solutions.

- *Direct store delivery ("DSD").* DSD is the delivery of consumer good products from a supplier/distributor directly to a retail store, bypassing a retailer’s warehouse. Activities typically include in-store inventory management, store-level authorized item management, store-level ordering/forecasting, product pricing, promotion, invoicing, the physical delivery and return of merchandise, the electronic exchange of delivery data with a retail store (DEX/UCS) and shelf merchandising. General wholesalers and distributors are not included in this category.

- *In-transit visibility.* Transportation customers want to know where their shipment is, who picked up a package or shipment, when it was delivered, what condition it was in on delivery, and who signed for it. Whether the transporter is a private fleet or third party logistics provider using for-hire air, truck, railway or ocean container operations, the increasing cost of assets, wages, fuel and insurance and operating ratios that run around 90% requires maximum use of assets. This means turning them faster, eliminating empty return runs, reducing equipment downtime and optimizing effective, efficient maintenance. All forms of transportation use some form of carrier-specified numbering to identify the parcels, pallets or containers that make up a shipment for a particular customer. Mobile computing devices linked with bar code labels and/or RFID tags can provide signature capture and critical item tracking capabilities.

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ITEM 1. BUSINESS (Continued)

- *Retail store operations.* Retailers strive to reduce the number of out-of-stocks and to increase the time and amount spent by each customer during each visit. Retail store operations personnel need tools for managing the flow and tracking of merchandise in the store from receiving to stocking, ordering, pricing, price changing, checkout, returns and transfers. They use scanners, mobile computers, printers, RFID and other data capture devices as the primary technologies to accomplish these tasks.

- *Retail store management.* A recent trend is the desire of retail executives to get the store manager out of the back office and onto the store floor, where he or she can interact with customers and store personnel. To achieve this, store managers need mobile computing tools that give them access to corporate information, store operations metrics and clerk applications and provide in-store merchandise scanning capabilities. This creates demand for scanning, RFID and mobile computing solutions geared specifically for the store manager.

- *RFID supply chain*. RFID supply chain includes RFID compliance, as well as all the applications mentioned above. The addition of RFID technology can enhance the optimization and visibility of information all along a company's supply chain. RFID compliance involves the application of RFID tags onto cases and pallets and the use of interrogators to read and write to those tags to meet the information collection and management requirements of manufactures, retailers and government entities. This includes traveling bills-of-material, manufacturing production routers, product history (genealogy), repair and upgrade databases, and bill of lading and security devices.

Markets and Customers

Because AIDC solutions can be used by a company of any size, the AIDC market is large. Market growth is driven by the need for technologies and solutions that improve quality, productivity and cost efficiency in business and government, particularly through logistics automation, supply chain execution, asset tracking, enterprise resource planning ("ERP") and e-commerce solutions. We cover the market through a combination of a globally coordinated dedicated sales and service organization, two-tier distributors, resellers and independent hardware, software and service vendors. Distributors, resellers and independent vendors of complementary products and services extend our reach in our target and application markets and allow us to cost-effectively penetrate and grow market share with small, mid-sized and large businesses.

We sell and service our products through multiple sales and distribution channels: (1) a direct field sales force that concentrates on large or complex sales; (2) premier value-added resellers (known as Honours Partners) that provide application-specific solutions with major systems integrators and enterprise computing companies; and (3) distributors that provide value-added services to smaller independent software vendors and resellers.

Our direct sales organization serves customers from offices throughout the Americas, Europe, the Middle East and Africa and in selected Asia Pacific countries, including China and Australia. Indirect sales channels include preferred and non-exclusive relationships with value-added distributors and master resellers. Sales of accessories, certain services and low-cost transactional-based business can be transacted over the Internet. We have a field-based business development function which identifies new market opportunities and supports the sales effort in those new areas.

International sales opportunities exist in countries where communications infrastructure, mobile computing practices and other systems and applications are similar to or likely to become similar to those in the U.S. The extent of wireless systems opportunities in any particular country is based on the level of industrialization, communication infrastructure, the status of bar code implementation, and the regulatory environment for wireless communication technologies. The major markets for printers and media are manufacturing, distribution, warehousing, transportation, health care, government and other services.

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ITEM 1. BUSINESS (Continued)

Our customer base consists of businesses of many sizes in retail, consumer goods, industrial goods and transportation and logistics as well as government agencies, distributors and resellers. For 2006, one customer accounted for more than 10% of our revenues. Total sales to this customer were $99.8 million, $80.7 million and $66.5 million for the years ended December 31, 2006, 2005 and 2004, respectively. No single customer accounted for more than 10% of our revenues in 2005 or 2004.

Competition

The market for AIDC products is fragmented. Independent market surveys suggest that we are one of the larger participants measured by revenues. Motorola, Inc. and its wholly-owned subsidiary, Symbol Technologies, Inc., are major competitors supplying a range of barcode, RFID and mobile computing products and services. We also face strong competition in single AIDC product lines from suppliers such as Zebra Technologies Corporation, which supplies barcode and RFID printers and Hand Held Products, which supplies barcode imagers.

The market for AIDC products and systems is highly competitive and rapidly changing. Some firms, including Fujitsu and Casio, manufacture and market hand held systems for field-based ordering and selling applications. In addition, a number of firms manufacture and market radio-linked data communication products, including Hand Held Products LXE, Motorola (formerly Symbol) and Psion/Teklogix. Consumer personal digital assistants from suppliers such as Palm, Hewlett Packard and Dell are potential competitors for certain light-duty enterprise computing applications. Companies such as Motorola (formerly Symbol) and Entersys compete against us and Cisco in the wireless network business.

In the printer market, we face competition from Zebra, Datamax, SATO, Printronix and many others, depending on the geographic area. In the label media area, we face competition from a large number of large and small media producers including, among many others, Avery Denison and Brady.

We compete primarily on the basis of our technology and expertise in applications for specific vertical markets (integrated solutions, open-systems architecture, and networking and communications expertise), customer relationships and value-added service. Other attributes, such as high level support services, product functionality, performance, ruggedness and overall product quality, are important for market success.

Research and Development

Research and development expenditures related to our continuing operations amounted to $72.4 million, $66.5 million and $65.9 million, all of which was sponsored by us, in the years ended December 31, 2006, 2005 and 2004, respectively.

Intellectual Property

We strive to protect our investment in technology and to secure competitive advantage by obtaining IP protection within and outside of the United States. Over a period of years, we have obtained approximately 588 patents and a number of trademarks, copyrights and trade secrets. When appropriate, we have obtained licenses to use IP controlled by other organizations. The combination of our IP and our licenses to use third-party IP have been of value in the growth of our business and is expected to be of value in the future. However, we do not believe that our business depends on any single patent, trademark, copyright, trade secret or on any single IP license agreement and we do not believe that our business would be materially affected by the expiration or termination thereof.

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ITEM 1. BUSINESS (Continued)

We believe that the duration of our patents is adequate relative to the expected lives of our products. Because of the fast pace of innovation and product development in the AIDC industry, our products may be obsolete before the patents related to them expire, and sometimes are obsolete before the patents related to them are even granted. As we expand our product offerings, we try to obtain patents related to such offerings and, when appropriate, we seek licenses to use inventions patented by third parties. Established competitors in existing and new industries, as well as companies that purchase and enforce patents may already have patents covering similar products. There is no assurance that we will be able to obtain patents covering our products or that we will be able to obtain licenses from other organizations on favorable terms or at all.

To distinguish our products and services from those of our competitors, we have obtained certain trademarks and trade names and, as we expand our product and service offerings, we try to obtain trademarks and trade names to cover those new offerings. Established competitors in existing and new industries may attempt to secure the same or similar trademarks or trade names covering similar products and services. There is no assurance that we will be able to obtain trademarks or trade names covering our own products and services or that we will be able to obtain licenses for desirable trademarks or trade names from other organizations on favorable terms or at all.

We protect certain details of our processes, products and strategies as trade secrets by restricting access to that information. We have ongoing programs designed to maintain the confidentiality of such information but there is no assurance that these programs will prevent unauthorized disclosures of such confidential information. From time to time, we license our IP to generate revenue or to facilitate our effort to market and sell our products and services. While such licenses have been of value in the growth of our business in the past and are expected to be of value in the future, we do not believe that our business is dependent upon any single IP and would not be materially affected by the expiration or termination thereof. We may attempt to license more of our intellectual property to other organizations in the future. There is no assurance that any of these efforts will be successful.

We try to protect our investment in technology and to secure competitive advantage by enforcing our IP rights. The extent of the legal protection given to different types of IP rights varies greatly from one country to another. There is no assurance that our effort to enforce our intellectual property in any jurisdiction will be successful or will be successful enough to materially benefit our business.

Seasonality and Backlog

Our quarterly results reflect seasonality in the sale of our products and services, since our revenues are typically highest in the fourth fiscal quarter and the lowest in the first fiscal quarter. See “Quarterly Financial Information” on page Q-1 of this Form 10-K for quarterly revenues and expenses.

Sales backlog for our continuing operations was $42.9 million, $64.3 million and $76.0 million at December 31, 2006, 2005 and 2004, respectively. Our business typically operates without a significant backlog of firm orders and we do not consider backlog to be a significant measure for indicating future sales.

Employees

At December 31, 2006, we had 2,407 full-time employees, of which 2,378 were engaged in our wholly-owned subsidiary, Intermec Technologies Corporation, and 29 were engaged in our holding company, Intermec, Inc. Approximately 69% of our full-time employees are located in the United States, approximately 20% are located in Europe, the Middle East and Africa (“EMEA”), and the remaining are located throughout the rest of the world, including the Asia Pacific region, South America, Canada and Mexico.

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ITEM 1. BUSINESS (Continued)

EXECUTIVE OFFICERS OF THE REGISTRANT.

Our executive officers are elected each year by the Board of Directors at its first meeting following the Annual Meeting of Stockholders to serve during the ensuing year and until their respective successors are elected and qualified or until their earlier resignation or removal. Newly-hired executive officers are elected at the time of their employment to serve until the next Board of Directors meeting first following an Annual Meeting of Stockholders and until their successors are elected and qualified or until their earlier resignation or removal. There are no family relationships between any of our executive officers and any director or other executive officer. The following information indicates the positions and ages of our executive officers at March 1, 2007, and their business experience during the prior five years.

Name	Age	Position with Company and Principal Business Affiliations During Past Five Years
Larry D. Brady	64	Chairman of the Board since August 2001. Chief Executive Officer since September 2000. Director since September 1999, and President since July 1999. Served as Chief Operating Officer from July 1999 to September 2000. For prior business experience, see the description of Directors in “Election of Directors” in the 2006 Proxy Statement and in our 2007 Proxy Statement, when filed.
Lanny H. Michael	55	Senior Vice President and Chief Financial Officer since joining Intermec in September 2006. Prior thereto, business consultant and advisor serving private companies from 2004 to 2006, including short-term roles as interim chief operating officer of a retail chain store, and chief financial officer of a logistics company and a startup airline. Prior thereto, employed by Airborne, Inc. from 1981 to 2004, including as Executive Vice President and Chief Financial Officer from 2000-2004 .
Steven J. Winter	50	Senior Vice President since May 2006; Vice President since 1999. President and Chief Operating Officer of our Intermec Technologies Corporation subsidiary (“ITC”) since September 2005. Prior thereto, Executive Vice President and Chief Operating Officer of ITC from October 2004 to September 2005. Prior thereto, Executive Vice President from March 2004 to September 2004. Prior thereto, Senior Vice President of Global Services of ITC from November 1999 to March 2004. Mr. Winter has been employed by ITC since 1977.
Janis L. Harwell	52	Senior Vice President and General Counsel since September 2004 and Corporate Secretary since January 2006. Prior thereto, Vice President, General Counsel and Secretary of Renessen LLC, an agricultural biotechnology joint venture formed by Cargill, Inc. and Monsanto Company, from January 1999 to August 2004.

Fredric B. Anderson	39	Vice President, Corporate Controller, since September 2005. Acting Chief Financial Officer September 2005 to September 2006. Prior thereto, Director of Accounting and Financial Reporting, and Chief Accounting Officer, from July 2002 to September 2005. Prior thereto, employed by Ernst & Young LLP from 1990 to 2002, including as Senior Manager from 1998 to 2002.
Kenneth L. Cohen	63	Vice President and Treasurer since January 2004 and Vice President, Taxes since July 2000. Prior thereto, Staff Vice President, Taxes from October 1997. Mr. Cohen has been employed by the Company or its predecessors since 1989.

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ITEM 1. BUSINESS (Continued)

Environmental and Regulatory Matters

In January 2003, the European Parliament and Council adopted Directive 2002/95/EC on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (the “RoHS Directive”). The RoHS Directive went into effect on July 1, 2006; and prohibits firms from putting on the European Union ("EU") market new electrical and electronic equipment that contains more than permitted levels of lead, cadmium, hexavalent chromium, polybrominated biphenyl ("PBB") and polybrominated diphenyl ether ("PBDE"). The RoHS Directive does not apply to units of equipment already placed on the EU market prior to July 1, 2006. In addition, the RoHS Directive contains exemptions for (a) certain types of equipment; (b) reuse of equipment placed on the EU market prior to July 1, 2006; and (c) spare parts for the repair of equipment placed on the EU market prior to July 1, 2006.

The State of California also has adopted restrictions on the use of certain materials in electronic products that are intended to harmonize with the RoHS Directive. Those restrictions go into effect in 2007. Other U.S. states are considering similar legislation. Similarly, China has promulgated use restrictions on the same substances as the RoHS Directive. China has not yet defined the scope of affected products or the effective date of the regulation and it is unclear whether China’s use restrictions will be consistent with the use restrictions set forth in the RoHS Directive. Other countries outside of the EU may adopt RoHS-type regulations in the future.

We have redesigned some of our current products to bring them into compliance with the RoHS Directive and similar regulations in other jurisdictions. In other cases, we are replacing non-compliant products with new products that comply with these regulations. During 2006, we incurred $7.7 million, primarily related to redesigning products to comply with these regulations. We expect to incur additional costs in the future for compliance with the RoHS Directive and similar regulations in other jurisdictions. The amount and timing of such expenditures are uncertain due to uncertainties about the effective date and final content of RoHS-type regulations in various jurisdictions and the possibility that RoHS-type regulations in one jurisdiction will not be consistent with RoHS-type regulations in other jurisdictions.

Radio emissions are the subject of governmental regulation in all countries in which we currently conduct or expect to conduct business. In North America, both the Canadian and U.S. governments publish radio emission regulations and changes thereto after public hearings. In other countries, regulatory changes can be introduced with little or no grace period for implementation. Furthermore, there is little consistency among the regulations of various countries. Future regulatory changes in North America, China and other jurisdictions are possible. These conditions introduce uncertainty into our product-planning process and could have an adverse effect on our ability to sell our wireless products in a given country or adversely affect our cost of supplying wireless products in a given country.

Raw Materials

We use a variety of raw materials in the manufacture of our products and we obtain such raw materials from a variety of suppliers. In general, the raw materials we use are available from numerous alternative sources. As is customary for our industry, we at various times enter into certain single-source component part supply agreements. We believe these agreements will be renewed in the ordinary course of business.

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ITEM 1A. RISK FACTORS

You are encouraged to review the discussion of Forward Looking Statements and Risk Factors appearing in this report at Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operation.”

In addition to the other information set forth in this report, you should carefully consider the following factors, which could materially affect our business, financial condition or operating results. The risks described in this report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

- ***Business combinations, private equity transactions and similar events have altered the structure of the AIDC industry and could intensify competition within the industry.*** Motorola’s acquisition of Symbol Technologies, Inc., Metrologic Instruments’ private equity transaction and similar events have altered the structure of the automated identification and data capture (“AIDC”) industry and may spawn more transactions and additional structural changes. Separately or together, any of these events could intensify competition within the AIDC industry by expanding the presence in our industry of firms that have not traditionally participated extensively in this line of business, and enhancing the business and financial resources of some firms in our industry. There is no assurance that any of the strategies we employ to react to the structural changes in our industry will be successful. Failure of our strategies could result in material adverse impacts to our revenues, revenue growth and results of operations.

- ***Some of our competitors are substantially larger or are more profitable than we are which may give them a competitive advantage.*** Some of our competitors are substantially larger in terms of revenue or profit than we are. The scale advantage of these firms may allow them to invest more in research and development ("R&D"), systems and human resources than we can. These advantages may enable our larger competitors to weather market downturns longer or adapt more quickly to market trends or price declines than we can. Those competitors may also be able to precipitate such market changes. There is no assurance that the strategies we use to counteract our competitors’ advantages will successfully offset all or a portion of this scale imbalance. If we are unable to offset all or a significant portion of this imbalance, our revenues, revenue growth and results of operations may be materially and adversely affected.

- ***Macroeconomic conditions beyond our control could lead to decreases in demand for our products or deterioration in the quality of our accounts receivable.*** A deterioration of political or economic conditions in a given country or region could affect potential customers in a way that reduces demand for our products. In addition, our sales are typically made on unsecured credit terms that are generally consistent with the prevailing business practices in the country in which the customer is located. A deterioration of political or economic conditions in a given country or region could reduce or eliminate our ability to collect on accounts receivable in that country or region. In any of these events, our results of operations could be materially and adversely affected.

- ***Rapid technological change or technological convergence could hurt results of operations by increasing product or inventory obsolescence.*** Rapid technological change or technological convergence could render our products obsolete or cause us to have excess inventory or obsolete inventory. In such event, we might have to sell all or a portion of the excess or obsolete products or parts at substantially lower prices than originally planned, or write off the carrying value of all or a portion of the excess or obsolete inventory. This could materially and adversely impact our revenues, gross profit margins and results of operations.

- ***Our business may be adversely affected if we do not continue to improve our business processes and systems and attract and retain skilled managers and employees.*** In order to increase sales and profits, we must continue to expand our operations into new product and geographic markets and deepen our penetration of the markets we currently serve, and do so in efficient and cost effective ways. To achieve and support these activities, we need to

continue to improve our business processes and our financial, information technology and enterprise resource planning systems, and from time-to-time restructure aspects of our business organization. Successful completion of these projects will require skillful managers and a skilled workforce. Our business could be materially and adversely affected if we are not successful in these areas.

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ITEM 1A. RISK FACTORS (Continued)

- ***Our industry is characterized by product and technology cycles which may intensify competition, particularly at the end of a cycle.*** Customer requirements for AIDC products are rapidly evolving. To keep up with new customer requirements and distinguish Intermec from our competitors, we must frequently introduce new products. There is no assurance that we will be able to successfully launch new products before competitors launch comparable products. If we experience delays or other problems with the introduction of our new products or competitors are able to launch comparable products faster, our sales, profits and results of operations could be materially and adversely affected.

- ***Changes in customer mix can have an impact on sales growth, margin mix and volatility.*** Since sales to large enterprises tend to have lower prices and gross margins than sales to medium and small businesses, customer mix may have a material effect on our sales growth and gross margins and may increase volatility. There is no assurance that we will be able to successfully implement our sales strategy. Our revenue, revenue growth, gross profit margins and results of operations could be materially and adversely affected if we do not achieve our objectives.

- ***If the market for RFID products does not develop as we currently anticipate, our revenues and results of operations could be adversely affected.*** There is uncertainty about the volume and the timing of demand for RFID products in the vertical markets and applications that we target. There is no assurance that demand for RFID products in our target markets will achieve anticipated levels at the projected times. RFID customers typically use pilot programs, qualification processes and certification processes to decide which vendor's equipment to purchase. There is no assurance that we will be successful in these programs or processes. The purchase decisions of some large RFID customers influence the purchase decisions of other customers. There is no assurance that any of these influential customers will select us as an RFID vendor. Since a customer may change RFID vendors over time or purchase from two or more RFID vendors at the same time, there is no assurance that we will be the sole source for any RFID customer or that we will be able to obtain repeat business from any RFID customer. Some vendors are giving RFID products to customers without charge or selling them at prices that are below cost, at cost or only slightly above cost. If this persists longer than anticipated, our sales, revenues or results of operations could be materially and adversely affected.

- ***Technological convergence could intensify competition in some of our target markets.*** A number of firms have developed handheld mobile computing and communication devices such as personal digital assistants and cell phones for light-duty consumer and business applications. Improvements in the computing power, the communication capabilities or the ruggedness of these devices might make them attractive substitutes for some of the products that we have developed for AIDC applications. To respond, we must continue to improve our AIDC products by investing in R&D. There is no assurance that we will be able to make sufficient investments in R&D to keep up with technological convergence or that such investments will result in competitive products. If our response to technological convergence is not effective, our sales, profits or results of operations could be materially and adversely affected.

- ***Export controls, import controls and operating conditions in markets outside of the U.S. could adversely affect our revenues, gross profit margins and results of operations.*** We sell a significant percentage of our products in markets outside of the U.S. and one element of our strategy is to expand sales outside of the U.S., particularly in developing countries. U.S. and foreign government restrictions on the export or import of technology could prevent us from selling some or all of our products in one or more countries outside of the U.S. Our sales outside of the U.S. could also be materially and adversely affected by burdensome laws, regulations, tariffs, quotas, taxes, trade barriers or capital flow restrictions imposed by the U.S. or foreign governments. In addition, political and economic instability in foreign countries could reduce demand for our products or impair or eliminate our ability to sell or deliver those products to customers in those countries or put our foreign assets at risk. There is no assurance that we

will be able to continue or expand sales of our products in any foreign market. Disruptions of such sales could materially and adversely impact our revenues, revenue growth, gross profit margins and results of operations.

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ITEM 1A. RISK FACTORS (Continued)

- ***Changes or disruptions in our international design, manufacture, production, delivery, service and support operations or in our international outsourcing arrangements could have an adverse effect on our operations and results of operations***. A significant percentage of our products and components for those products are designed, manufactured, produced, delivered, serviced or supported in countries outside of the U.S. and, from time to time, we outsource one or more of these activities, or portions of these activities, by arranging for companies outside of the U.S. to perform these tasks. For operational, legal or other reasons, we may have to change the mix of U.S. and international operations or move outsourced activities from one overseas vendor to another. In addition, U.S. or foreign government actions or economic or political instability may disrupt or require changes in our international operations or international outsourcing arrangements. The process of implementing such changes and dealing with such disruptions is complex. There is no assurance that we will be able to accomplish these tasks at all or in an efficient or cost-effective manner. If we encounter difficulties in making such transitions, our revenues, gross profit margins and results of operations could be materially and adversely affected.

- ***Fluctuations in foreign exchange rates may adversely impact our cash flows and earnings.*** Due to our global operations, our cash flow and earnings are exposed to foreign exchange rate fluctuations. When appropriate, we may attempt to limit our exposure to foreign exchange rate changes by entering into short-term foreign currency exchange contracts. There is no assurance that we will hedge or will be able to hedge such foreign currency exchange risk or that our hedges will be successful. Our foreign currency exchange gains or losses (net of hedges) may materially and adversely impact our cash flows and earnings.

- ***Seasonal variations in demand could increase the volatility of our financial results.*** Our quarterly results reflect seasonality in the sale of our products and services, as our revenues are typically highest in the fourth fiscal quarter and the lowest in the first fiscal quarter. These seasonal fluctuations could increase the volatility of our revenues, gross margins and results of operations from one period to another.

- ***Our results of operations could suffer if we are unable to expand and enforce our patent estate.*** One element of our strategy is to expand our AIDC patent estate and to use that estate to differentiate Intermec in the marketplace or generate royalty revenue, or both. The creation and maintenance of a patent estate is a complex activity with uncertain outcomes. There is no assurance that we can or will obtain valuable AIDC patents in the jurisdictions where we and our competitors operate. As part of our intellectual property strategy, we may be required to initiate patent infringement lawsuits. Patent lawsuits are complex proceedings and the results are very difficult to predict. There is no assurance that we will prevail in all or any of these cases. Adverse results in such patent lawsuits could give competitors the legal right to compete with us and our licensees using technology that is similar to or the same as ours. Our results of operations could be materially and adversely impacted if we do not adequately invest in the acquisition, maintenance and enforcement of AIDC patents, if we are unable to obtain AIDC patents covering products and services that customers consider valuable enough to purchase or if our effort to enforce our patents is unsuccessful.

- ***Expansion in developing markets with weak intellectual property regimes could hurt our results of operations if we are unable to protect our technology in those jurisdictions.*** Our strategy includes expanding operations in and into developing countries (e.g., China) where the institutional structures for creating and enforcing intellectual property rights are very new and where government agencies, courts and market participants have little experience with intellectual property rights. There is no assurance that we will be able to protect our technology in such countries because we may not be able to obtain or enforce patents or other intellectual property rights in those jurisdictions and because alternative methods of protecting our technology may not be effective. Our ability to prevent competitors in these developing markets from misappropriating our technology could materially and adversely affect our sales, revenues and results of operations in those developing markets and in markets supplied

from those developing markets.

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ITEM 1A. RISK FACTORS (Continued)

- ***Patents controlled by our competitors, potential competitors or others may prevent us from selling or may increase the cost of our products.*** Our competitors, potential competitors and companies that purchase and enforce patents may have patents covering AIDC products and services similar to those we market and sell. These firms may try to use their patents to prevent us from selling some of our AIDC products, to collect royalties from us with respect to sales of products they claim are covered by their patents, or to deter us from enforcing our patents against them. As part of this effort, the patent-holders may initiate patent infringement lawsuits against us or our customers. As explained above, patent lawsuits are complex proceedings with uncertain outcomes. There is no assurance that we or our customers will prevail in any patent lawsuits initiated by third party patent-holders. If the results of such litigation are adverse to us or our customers, we could be enjoined from practicing an invention covered by the patent in question and we may also be required to pay damages for past infringement, which, in our case, might have a material adverse effect on results of operations. If an injunction is issued, we may not be able to sell a particular product or product line, which could materially and adversely impact our sales, revenues and results of operations. If third party patent-holders are willing to license or sell their patents to us, or if we must redesign the affected products, the associated costs could have a material and adverse effect on our sales, revenues or results of operations.

- ***Operating gains and expenses related to patent litigation may materially impact or increase the volatility of our financial results.*** Since patent litigation involves complex technical and economic issues, it is difficult to predict the amount or the timing of gains and expenses associated with such litigation. In some periods, patent litigation recoveries and expenses could result in large fluctuations from prior periods, increasing the volatility of our financial results and possibly impacting our earnings per share.

- ***Standards setting activities influence demand for AIDC products and may have a material impact on our sales and results of operations.*** AIDC customers typically want the ability to choose between two or more vendors and to seamlessly use the products of one vendor that work with the products of other vendors. We and other AIDC vendors try to respond to these customer requirements by participating in standards setting activities sponsored by organizations such as ISO, AIM, IEEE and EPCglobal. Depending on the standard, the standards organization and the form of participation, we may decide to or we may be required to license one or more of our patents or patent claims on a royalty-free or RAND basis. It is also possible that, during standards setting and product certification activities associated with EPCglobal, EPCglobal rules regarding disclosure of patents may result in a royalty-free or RAND license of one or more patents or patent claims. Such licenses might prevent us from obtaining injunctive relief against infringers of our patents or prevent us from collecting any royalty for the use of our patented inventions and RAND licenses would limit our royalty from a licensee to a reasonable amount that is consistent with the royalty we collect from other licensees of the same technology.

- ***U.S. and international technical and environmental standards and regulations may hamper or prevent sales or increase our costs, which might adversely impact our sales, revenues and results of operations.*** Many jurisdictions have technical and environmental standards and regulations that govern or influence the design, components or ope