

ZEBRA TECHNOLOGIES CORP/DE

Form 10-Q

August 01, 2008

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 28, 2008

OR

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

For the transition period from _____ to _____

Commission File Number: 000-19406

Zebra Technologies Corporation

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2675536
(I.R.S. Employer
Identification No.)

333 Corporate Woods Parkway, Vernon Hills, IL 60061

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (847) 634-6700

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

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

As of July 25, 2008, there were the following shares outstanding:

| | |
|---------------------------------------|------------|
| Class A Common Stock, \$.01 par value | 65,210,384 |
|---------------------------------------|------------|

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION

QUARTER ENDED JUNE 28, 2008

INDEX

| | PAGE |
|---|-------------|
| <u>PART I - FINANCIAL INFORMATION</u> | |
| Item 1. <u>Consolidated Financial Statements</u> | |
| <u>Consolidated Balance Sheets as of June 28, 2008 (unaudited) and December 31, 2007</u> | 3 |
| <u>Consolidated Statements of Earnings (unaudited) for the three and six months ended June 28, 2008 and June 30, 2007</u> | 4 |
| <u>Consolidated Statements of Comprehensive Income (unaudited) for the three and six months ended June 28, 2008 and June 30, 2007</u> | 5 |
| <u>Consolidated Statements of Cash Flows (unaudited) for the six months ended June 28, 2008 and June 30, 2007</u> | 6 |
| <u>Notes to Consolidated Financial Statements</u> | 7 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 21 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 29 |
| Item 4. <u>Controls and Procedures</u> | 30 |
| <u>PART II - OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | 31 |
| Item 1A. <u>Risk Factors</u> | 31 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 31 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u> | 32 |
| Item 6. <u>Exhibits</u> | 33 |
| <u>SIGNATURES</u> | 34 |

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands)

| | June 28, 2008 (Unaudited) | December 31, 2007 |
|--|---------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 41,916 | \$ 38,211 |
| Restricted cash | 1,870 | 2,497 |
| Investments and marketable securities | 81,936 | 98,438 |
| Accounts receivable, net | 179,081 | 150,775 |
| Inventories, net | 101,339 | 85,038 |
| Deferred income taxes | 14,625 | 14,772 |
| Prepaid expenses and other current assets | 8,915 | 31,101 |
| Total current assets | 429,682 | 420,832 |
| Property and equipment at cost, less accumulated depreciation and amortization | 78,948 | 67,686 |
| Long-term deferred income taxes | 28,592 | 28,407 |
| Goodwill | 261,517 | 246,510 |
| Other intangibles, net | 119,058 | 119,424 |
| Long-term investments and marketable securities | 144,426 | 142,033 |
| Other assets | 8,240 | 9,386 |
| Total assets | \$ 1,070,463 | \$ 1,034,278 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 56,882 | \$ 42,351 |
| Accrued liabilities | 66,663 | 69,437 |
| Deferred revenue | 14,750 | 9,633 |
| Income taxes payable | 2,587 | 751 |
| Total current liabilities | 140,882 | 122,172 |
| Deferred rent | 2,212 | 961 |
| Other long-term liabilities | 9,878 | 8,452 |
| Total liabilities | 152,972 | 131,585 |
| Stockholders' equity: | | |
| Preferred Stock | | |
| Class A Common Stock | 722 | 722 |
| Additional paid-in capital | 144,725 | 141,522 |

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

| | | |
|--|---------------------|---------------------|
| Treasury stock | (247,409) | (205,058) |
| Retained earnings | 1,013,682 | 960,512 |
| Accumulated other comprehensive income | 5,771 | 4,995 |
| Total stockholders equity | 917,491 | 902,693 |
| Total liabilities and stockholders equity | \$ 1,070,463 | \$ 1,034,278 |

See accompanying notes to consolidated financial statements.

Table of Contents**ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EARNINGS**

(Amounts in thousands, except per share data)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
| | June 28, 2008 | June 30, 2007 | June 28, 2008 | June 30, 2007 |
| Net sales | \$ 253,782 | \$ 208,912 | \$ 500,059 | \$ 417,488 |
| Cost of sales | 126,067 | 109,510 | 249,429 | 218,296 |
| Gross profit | 127,715 | 99,402 | 250,630 | 199,192 |
| Operating expenses: | | | | |
| Selling and marketing | 34,322 | 29,069 | 65,183 | 57,233 |
| Research and development | 22,849 | 13,869 | 42,756 | 28,054 |
| General and administrative | 24,216 | 19,875 | 49,261 | 37,808 |
| Amortization of intangible assets | 4,679 | 2,620 | 9,193 | 4,943 |
| Exit costs | 4,680 | | 7,914 | |
| Acquired in-process research and development | | | | 1,853 |
| Total operating expenses | 90,746 | 65,433 | 174,307 | 129,891 |
| Operating income | 36,969 | 33,969 | 76,323 | 69,301 |
| Other income (expense): | | | | |
| Investment income | 2,722 | 5,724 | 5,127 | 11,028 |
| Foreign exchange gains | (69) | (182) | 631 | (7) |
| Other, net | (651) | (376) | (905) | (300) |
| Total other income | 2,002 | 5,166 | 4,853 | 10,721 |
| Income before income taxes | 38,971 | 39,135 | 81,176 | 80,022 |
| Income taxes | 13,445 | 13,502 | 28,006 | 27,673 |
| Net income | \$ 25,526 | \$ 25,633 | \$ 53,170 | \$ 52,349 |
| Basic earnings per share | \$ 0.39 | \$ 0.37 | \$ 0.81 | \$ 0.76 |
| Diluted earnings per share | \$ 0.39 | \$ 0.37 | \$ 0.81 | \$ 0.75 |
| Basic weighted average shares outstanding | 65,128 | 69,098 | 65,664 | 68,996 |
| Diluted weighted average and equivalent shares outstanding | 65,502 | 69,559 | 66,046 | 69,453 |

See accompanying notes to consolidated financial statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
| | June 28, 2008 | June 30, 2007 | June 28, 2008 | June 30, 2007 |
| Net income | \$ 25,526 | \$ 25,633 | \$ 53,170 | \$ 52,349 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | (226) | 1,625 | 1,572 | 1,446 |
| Changes in unrealized gains/(losses) on hedging transactions, net of tax (benefit) | 3,295 | 196 | (640) | 115 |
| Changes in unrealized losses on investments, net of tax benefit | (840) | (604) | (156) | (415) |
| Comprehensive income | \$ 27,755 | \$ 26,850 | \$ 53,946 | \$ 53,495 |

See accompanying notes to consolidated financial statements.

Table of Contents**ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

| | Six Months Ended | |
|--|--------------------------|--------------------------|
| | June 28, 2008 | June 30, 2007 |
| Cash flows from operating activities: | | |
| Net income | \$ 53,170 | \$ 52,349 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 18,607 | 12,243 |
| Stock-based compensation | 6,536 | 6,557 |
| Excess tax benefit from share-based compensation | (131) | (690) |
| Acquired in-process research and development | | 1,853 |
| Deferred income taxes | (3,185) | (1,893) |
| Changes in assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable, net | (29,780) | 6,676 |
| Inventories | (14,754) | 3,515 |
| Other assets | 1,485 | (547) |
| Accounts payable | 13,129 | (7,022) |
| Accrued liabilities | (3,876) | (381) |
| Deferred revenue | 6,793 | 168 |
| Income taxes payable | 1,796 | (1,114) |
| Other operating activities | 762 | 1,002 |
| Net cash provided by operating activities | 50,552 | 72,716 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (20,249) | (10,903) |
| Acquisition of businesses acquired, net of cash acquired | (17,987) | (127,426) |
| Acquisition of intangible assets | (470) | |
| Purchases of investments and marketable securities | (305,088) | (360,792) |
| Maturities of investments and marketable securities | 227,129 | 332,542 |
| Sales of investments and marketable securities | 113,838 | 114,145 |
| Net cash used in investing activities | (2,827) | (52,434) |
| Cash flows from financing activities: | | |
| Purchase of treasury stock | (48,402) | (6,048) |
| Proceeds from exercise of stock options and stock purchase plan purchases | 3,383 | 6,382 |
| Excess tax benefit from share-based compensation | 131 | 690 |
| Net cash provided by (used in) financing activities | (44,888) | 1,024 |
| Effect of exchange rate changes on cash | 868 | 835 |
| Net increase in cash and cash equivalents | 3,705 | 22,141 |
| Cash and cash equivalents at beginning of period | 38,211 | 39,648 |

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

| | | |
|--|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 41,916 | \$ 61,789 |
| Supplemental disclosures of cash flow information: | | |
| Income taxes paid | 27,096 | 30,101 |
| Supplemental disclosures of non-cash transactions: | | |
| Purchase of treasury shares not paid in the second quarter of 2008 | \$ 570 | |
| See accompanying notes to consolidated financial statements. | | |

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation

Management prepared these unaudited interim consolidated financial statements for Zebra Technologies Corporation and subsidiaries (Zebra) according to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles (GAAP) for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in Zebra's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

The consolidated balance sheet as of December 31, 2007, in this Form 10-Q is taken from the audited consolidated balance sheet in our Form 10-K. These interim financial statements include all adjustments (of a normal, recurring nature) necessary to present fairly Zebra's consolidated financial position as of June 28, 2008, the consolidated results of operations for the three and six months ended June 28, 2008 and June 30, 2007, and cash flows for the six months ended June 28, 2008 and June 30, 2007. These results, however, are not necessarily indicative of results for the full year.

Note 2 Fair Value Measurements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 was effective for Zebra on January 1, 2008. We have currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with accounting principles generally accepted in the United States. The adoption of SFAS No. 159 did not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 was effective for our Company on January 1, 2008. However, in February 2008, the FASB released FASB Staff Position (FSP FAS 157-2 – Effective Date of FASB Statement No. 157), which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 for our financial assets and liabilities did not have a material impact on our consolidated financial statements. We do not believe the adoption of SFAS No. 157 for our non-financial assets and liabilities, effective January 1, 2009, will have a material impact on our consolidated financial statements.

As defined in SFAS No. 157, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in the assessment of fair value.

Table of Contents

Financial assets and liabilities carried at fair value as of June 28, 2008 are classified in the table below in one of the three categories described above (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|--|-------------------|-----------------|-----------|-------------------|
| Assets: | | | | |
| Restricted cash | \$ 1,870 | \$ | \$ | \$ 1,870 |
| Available-for-sale securities | 226,362 | | | 226,362 |
| Money market investments related to the deferred compensation plan | 3,875 | | | 3,875 |
| Total assets at fair value | \$ 232,107 | \$ | \$ | \$ 232,107 |
| Liabilities: | | | | |
| Forward contracts (1) | \$ (145) | \$ 7,832 | \$ | \$ 7,687 |
| Liabilities related to the deferred compensation plan | 3,703 | | | 3,703 |
| Total liabilities at fair value | \$ 3,558 | \$ 7,832 | \$ | \$ 11,390 |

1) The fair value of forward contracts are calculated as follows:

- a. Fair value of forward collar contract associated with forecasted sales hedges are calculated using the midpoint of ask and bid rates for similar contracts.
- b. Fair value of regular forward contracts associated with forecasted sales hedges are calculated using the month-end exchange rate adjusted for the discount rate (3 month LIBOR rate).
- c. Fair value of balance sheet hedges are calculated at the month end exchange rate adjusted for current forward points unless the hedge has been traded but not settled at month end. If this is the case, the fair value is calculated at the rate at which the hedge is being settled.

Note 3 Stock-Based Compensation

As of June 28, 2008, Zebra had a stock option plan and a stock purchase plan available for future grants. We accounted for these plans in accordance with SFAS No. 123(R), *Share-Based Payments*. Zebra recognizes compensation costs over the vesting period of 1 month to 5 years.

The compensation expense and the related tax benefit for share-based payments were included in the Consolidated Statement of Earnings as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|----------------------------|--------------------|------------------|------------------|------------------|
| | June 28, 2008 | June 30, 2007 | June 28, 2008 | June 30, 2007 |
| Cost of sales | \$ 275 | \$ 391 | \$ 585 | \$ 842 |
| Selling and marketing | 665 | 691 | 1,356 | 1,115 |
| Research and development | 530 | 534 | 1,014 | 1,191 |
| General and administrative | 1,648 | 1,603 | 3,581 | 3,409 |
| Total compensation | 3,118 | 3,219 | 6,536 | 6,557 |

Income tax benefit

\$ 1,076 \$ 1,111 \$ 2,255 \$ 2,262

SFAS No. 123(R) requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized (excess tax benefits) to be classified as financing cash flows in the statement of cash flows. As a result, \$131,000 of excess tax benefits for the six months ended June 28, 2008, have been classified as financing cash flows. The excess tax benefits for the six months ended June 30, 2007 was \$690,000.

Table of Contents

For purposes of calculating the compensation cost consistent with SFAS No. 123(R), the fair value is estimated on the date of grant using a binomial model. Volatility is based on an average of the implied volatility in the open market and the annualized volatility of Zebra's stock prices over our entire stock history. The following table shows the weighted-average assumptions used for stock option grants as well as the fair value of the options granted based on those assumptions:

| | Six Months Ended | |
|---|------------------|------------------|
| | June 28, 2008 | June 30, 2007 |
| Expected dividend yield | 0% | 0% |
| Forfeiture rate | 8.99% | 7.69% |
| Volatility | 37.79% | 34.73% |
| Risk free interest rate | 3.17% | 4.55% |
| - Range of interest rates | 0.81% - 3.87% | 4.55% - 5.03% |
| Expected weighted-average life | 5.09 years | 4.88 years |
| Fair value of options granted | \$ 7,456,000 | \$ 6,753,000 |
| Weighted-average grant date fair value of options granted | \$ 13.50 | \$ 13.79 |

The fair value of the purchase rights of all Zebra employees issued under the Stock Purchase Plan is estimated using the following weighted-average assumptions for purchase rights granted. Expected lives of three months to one year have been used along with these assumptions.

| | Six Months Ended | |
|-------------------------|------------------|------------------|
| | June 28, 2008 | June 30, 2007 |
| Fair market value | \$ 32.64 | \$ 36.42 |
| Option price | \$ 27.74 | \$ 30.95 |
| Expected dividend yield | 0% | 0% |
| Expected volatility | 28% | 21% |
| Risk free interest rate | 1.36% | 4.89% |

Stock option activity for the six-month period ended June 28, 2008, was as follows:

| Fixed Options | Shares | 2008 | |
|--------------------------------------|--------------|---------------------------------|-------|
| | | Weighted-Average Exercise Price | |
| Outstanding at beginning of year | 3,024,956 | \$ | 34.70 |
| Granted | 552,311 | | 36.18 |
| Exercised | (155,198) | | 17.72 |
| Forfeited | (44,858) | | 36.78 |
| Expired | (18,210) | | 43.60 |
| Outstanding at end of period | 3,359,001 | \$ | 35.66 |
| Options exercisable at end of period | 1,667,109 | \$ | 32.89 |
| Intrinsic value of options exercised | \$ 2,643,000 | | |

Table of Contents

The following table summarizes information about fixed stock options outstanding at June 28, 2008:

| Range of Exercise Prices | Number of Shares | Options Outstanding | | Options Exercisable | |
|--------------------------|------------------|---|---------------------------------|---------------------|---------------------------------|
| | | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number of Shares | Weighted-Average Exercise Price |
| \$ 1.29-\$21.62 | 595,015 | 4.39 years | \$ 17.77 | 487,132 | \$ 18.25 |
| \$ 21.62-\$35.70 | 684,064 | 5.58 years | 29.80 | 448,433 | 27.39 |
| \$ 35.70-\$41.25 | 966,611 | 9.08 years | 38.45 | 116,092 | 40.72 |
| \$ 41.25-\$46.18 | 655,024 | 7.46 years | 44.24 | 325,013 | 45.16 |
| \$ 46.18-\$53.92 | 458,287 | 5.74 years | 49.45 | 290,439 | 49.06 |
| | 3,359,001 | | | 1,667,109 | |

| | Options Outstanding | Options Exercisable |
|---|---------------------|---------------------|
| Aggregate intrinsic value | \$ 11,946,000 | \$ 9,975,000 |
| Weighted-average remaining contractual term | 6.8 years | 4.9 years |

As of June 28, 2008, there was \$30,254,000 of unearned compensation cost related to stock options granted under the plans. That cost is expected to be recognized over a weighted-average period of 3.0 years.

Note 4 Inventories

The components of inventories are as follows (in thousands):

| | June 28, 2008 | December 31, 2007 |
|-------------------|---------------|-------------------|
| Raw materials | \$ 49,687 | \$ 46,572 |
| Work in process | 3,978 | 2,124 |
| Finished goods | 47,674 | 36,342 |
| Total inventories | \$ 101,339 | \$ 85,038 |

Note 5 Business Combinations

Multispectral Solutions Inc. On April 1, 2008, Zebra acquired all of the outstanding stock of Multispectral Solutions Inc. (MSSI) for \$17,987,000, which is net of cash acquired and includes transaction costs. Headquartered in Germantown, Maryland, MSSI is a global provider of ultra wideband (UWB) real-time locating systems and other UWB-based wireless technology. The consolidated statements of earnings reflect the results of operations of MSSI since the effective date of the purchase. The pro forma impact of this acquisition was not significant.

The following table (in thousands) summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition.

| | At December 14, 2007 |
|------------------------|----------------------|
| Current assets | \$ 1,558 |
| Property and equipment | 58 |

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

| | |
|------------------------------|------------------|
| Intangible assets | 8,000 |
| Goodwill | 12,322 |
| Total assets acquired | \$ 21,938 |
| Deferred tax liability | (3,011) |
| Current liabilities | (940) |
| Net assets acquired | \$ 17,987 |

Table of Contents

On a preliminary basis pending the receipt of final valuations, the purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of \$12,322,000. The intangible assets of \$8,000,000 consist of the following (in thousands):

| | Amount | Useful life |
|------------------------|--------|-------------|
| Customer relationships | 1,000 | 10 years |
| Developed technology | 7,000 | 8 years |

The goodwill is not deductible for tax purposes.

Navis, LLC. On December 14, 2007, Zebra acquired all of the outstanding stock of Navis Holdings, LLC (Navis) for \$143,942,000, which is net of cash acquired and includes transaction costs. Headquartered in Oakland, California, Navis provides solutions to optimize the flow of goods through marine terminals and other operations managing cargo in the supply chain. The consolidated statements of earnings reflect the results of operations of Navis since the effective date of the purchase. The pro forma impact of this acquisition was not significant.

The following table (in thousands) summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition.

| | At December 14, 2007 |
|------------------------------|-------------------------|
| Current assets | \$ 26,124 |
| Property and equipment | 2,601 |
| Intangible assets | 58,400 |
| Goodwill | 76,459 |
| Total assets acquired | \$ 163,584 |
| Current liabilities | (19,642) |
| Net assets acquired | \$ 143,942 |

On a preliminary basis pending the receipt of final valuations, the purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of \$76,459,000. The intangible assets of \$58,400,000 consist of the following (in thousands):

| | Amount | Useful life |
|------------------------|----------|-------------|
| Trade names | \$ 2,300 | 2 years |
| Customer relationships | 39,000 | 15 years |
| Developed technology | 17,100 | 6 years |

The goodwill is deductible for tax purposes.

Note 6 Investments and Marketable Securities

We classify our investments in marketable debt securities as available-for-sale in accordance with the classifications defined in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. As of June 28, 2008, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term investments on the balance sheet due to our ability and intent to hold them until maturity.

SFAS No. 115 requires that changes in the market value of available-for-sale securities are reflected in the accumulated other comprehensive income caption of stockholders' equity in the balance sheet, until we dispose of the securities. Once these securities are disposed of, either by sale

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

or maturity, the accumulated changes in market value are transferred to investment income. On the cash flow statements, changes in the balances of *available-for-sale* securities are shown as purchases, sales and maturities of investments and marketable securities under investing activities.

Changes in market value of *trading* securities would be recorded in investment income as they occur, and the related cash flow statement would include changes in the balances of trading securities as operating cash flows.

All investments in marketable debt securities except partnership interests are classified as available-for-sale securities. We account for partnership interests using the cost method until our ownership percentage reaches 5% of the total partnership portfolio value, because at that point we begin using the equity method to account for the partnership interest. As of June 28, 2008, we were in the process of liquidating all of our interests in these partnerships, which totaled

Table of Contents

\$717,000. This liquidation will be complete by the end of 2008. For the six months ended June 28, 2008, we recorded investment income of \$638,000 related to the gains on the liquidations of the partnership interests. No other gains or losses on trading securities were recorded in investment income.

Change in unrealized gains and losses on available-for-sale securities are included in these financial statements as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 28, 2008 | June 30, 2007 | June 28, 2008 | June 30, 2007 |
| Changes in unrealized gains and losses on available- for-sale securities, net of tax, recorded in accumulated other comprehensive income | \$ (840) | \$ (604) | \$ (156) | \$ (415) |

Note 7 Stockholders Equity

Share count and par value data related to stockholders equity are as follows:

| | June 28, 2008 | December 31, 2007 |
|-------------------------------|------------------|----------------------|
| Preferred Stock | | |
| Par value per share | \$ 0.01 | \$ 0.01 |
| Shares authorized | 10,000,000 | 10,000,000 |
| Shares outstanding | | |
| Common Stock - Class A | | |
| Par value per share | \$ 0.01 | \$ 0.01 |
| Shares authorized | 150,000,000 | 150,000,000 |
| Shares issued | 72,151,857 | 72,151,857 |
| Shares outstanding | 65,057,438 | 66,370,248 |
| Treasury stock | | |
| Shares held | 7,094,419 | 5,781,609 |

Zebra reissued 177,790 treasury shares upon exercise of stock options and purchases under the stock purchase plan during the first six months of 2008.

Note 8 Other Comprehensive Income (Loss)

Stockholders equity includes certain items classified as accumulated other comprehensive income, including:

Foreign currency translation adjustment relates to our non-U.S. subsidiary companies that have designated a functional currency other than the U.S. dollar. We are required to translate the subsidiary functional currency financial statements to dollars using a combination of historical, month-end, and average foreign exchange rates. This combination of rates creates the foreign currency translation adjustment component of other comprehensive income.

Unrealized gains (losses) on foreign currency hedging activities relate to derivative instruments used to hedge the currency exchange rates for forecasted euro sales. These hedges are designated as cash flow hedges, and we have deferred income statement recognition of gains and losses until the hedged transaction occurs. See Note 11 for more details.

Unrealized gains (losses) on investments classified as available-for-sale are deferred from income statement recognition until the gains or losses are realized. See Note 6 above for more details.

Table of Contents

The components of other comprehensive income included in the Consolidated Statements of Comprehensive Income are as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 28, 2008 | June 30, 2007 | June 28, 2008 | June 30, 2007 |
| Foreign currency translation adjustments | \$ (226) | \$ 1,625 | \$ 1,572 | \$ 1,446 |
| Changes in unrealized gains and losses on foreign currency hedging activities: | | | | |
| Gross | \$ 5,282 | \$ 314 | \$ (1,027) | \$ 184 |
| Income tax (benefit) | 1,987 | 118 | (387) | 69 |
| Net | \$ 3,295 | \$ 196 | \$ (640) | \$ 115 |
| Changes in unrealized losses on investments classified as available-for-sale: | | | | |
| Gross | \$ (1,346) | \$ (968) | \$ (250) | \$ (665) |
| Income tax benefit | (506) | (364) | (94) | (250) |
| Net | \$ (840) | \$ (604) | \$ (156) | \$ (415) |

The components of accumulated other comprehensive income (loss) included in the Consolidated Balance Sheets are as follows (in thousands):

| | June 28, 2008 | As of December 31, 2007 |
|--|------------------|-------------------------------|
| Foreign currency translation adjustments | \$ 12,249 | \$ 10,677 |
| Unrealized losses on foreign currency hedging activities: | | |
| Gross | \$ (10,279) | \$ (9,252) |
| Income tax benefit | (3,869) | (3,482) |
| Net | \$ (6,410) | \$ (5,770) |
| Unrealized gains and losses on investments classified as available-for-sale: | | |
| Gross | \$ (109) | \$ 141 |
| Income tax (benefit) | (41) | 53 |
| Net | \$ (68) | \$ 88 |

Table of Contents**Note 9 Earnings Per Share**

Earnings per share were computed as follows (in thousands, except per share amounts):

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 28, 2008 | June 30, 2007 | June 28, 2008 | June 30, 2007 |
| Basic earnings per share: | | | | |
| Net income | \$ 25,526 | \$ 25,633 | \$ 53,170 | \$ 52,349 |
| Weighted average common shares outstanding | 65,128 | 69,098 | 65,664 | 68,996 |
| Per share amount | \$ 0.39 | \$ 0.37 | \$ 0.81 | \$ 0.76 |
| Diluted earnings per share: | | | | |
| Net income | \$ 25,526 | \$ 25,633 | \$ 53,170 | \$ 52,349 |
| Weighted average common shares outstanding | 65,128 | 69,098 | 65,664 | 68,996 |
| Add: Effect of dilutive securities - stock options | 374 | 461 | 382 | 457 |
| Diluted weighted average and equivalent shares outstanding | 65,502 | 69,559 | 66,046 | 69,453 |
| Per share amount | \$ 0.39 | \$ 0.37 | \$ 0.81 | \$ 0.75 |

Potentially dilutive securities that were excluded from the earnings per share calculation consist of stock options with an exercise price greater than the average market closing price of the Class A common stock. These options were as follows:

| | Three Months Ended | | Six Months Ended | |
|-----------------------------|--------------------|---------------|------------------|---------------|
| | June 28, 2008 | June 30, 2007 | June 28, 2008 | June 30, 2007 |
| Potentially dilutive shares | 2,062,000 | 1,448,000 | 2,349,000 | 1,467,000 |

Note 10 Goodwill and Other Intangible Asset Data

Intangible asset data are as follows (in thousands):

| | June 28, 2008 | | December 31, 2007 | |
|------------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets | | | | |
| Current technology | \$ 58,962 | \$ (17,352) | \$ 51,700 | \$ (13,526) |
| Patent and patent rights | 31,897 | (8,533) | 31,697 | (6,468) |
| Customer relationships | 62,122 | (8,038) | 60,685 | (4,664) |
| Total | \$ 152,981 | \$ (33,923) | \$ 144,082 | \$ (24,658) |

Unamortized intangible assets

| | | |
|----------|------------|------------|
| Goodwill | \$ 261,517 | \$ 246,510 |
|----------|------------|------------|

Aggregate amortization expense

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

| | | |
|--|----------|-----------|
| For the year ended December 31, 2007 | | \$ 11,128 |
| For the three months ended June 28, 2008 | \$ 4,679 | |
| For the six months ended June 28, 2008 | 9,193 | |
| Estimated amortization expense | | |
| For the year ended December 31, 2008 | 18,573 | |
| For the year ended December 31, 2009 | 18,467 | |
| For the year ended December 31, 2010 | 16,497 | |
| For the year ended December 31, 2011 | 16,112 | |
| For the year ended December 31, 2012 | 15,198 | |
| Thereafter | 43,404 | |

Table of Contents

We test the impairment of goodwill each year or between annual impairment dates whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last assessment during June 2008. At that time, no adjustment to goodwill was necessary due to impairment.

We evaluate the impairment of identifiable intangibles and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors considered that may trigger an impairment review consist of:

Significant underperformance relative to expected historical or projected future operating results,

Significant changes in the manner of use of the acquired assets or the strategy for the overall business,

Significant negative industry or economic trends,

Significant decline in Zebra's stock price for a sustained period, and

Significant decline in market capitalization relative to net book value.

If we believe that one or more of the above indicators of impairment have occurred, we compare the carrying value to the undiscounted cash flows of the asset to determine if the carrying value is recoverable. If the carrying value is not determined to be recoverable, we measure impairment based on a projected discounted cash flow using a discount rate that incorporates the risk inherent in the cash flows.

Note 11 Derivative Instruments

In the normal course of business, portions of Zebra's operations are subject to fluctuations in currency values. We manage these risks using derivative financial instruments.

Hedging of Net Assets

We use forward contracts and options to manage exposure related to our pound and euro denominated net assets. We record gains and losses on these contracts and options in income each quarter along with the transaction gains and losses related to our net euro asset position, which would ordinarily offset each other. Summary financial information related to these activities follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 28, 2008 | June 30, 2007 | June 28, 2008 | June 30, 2007 |
| Change in gains and losses from foreign exchange derivatives | \$ 92 | \$ 115 | \$ (3,928) | \$ (108) |
| Gain/(loss) on net foreign currency assets | (161) | (297) | 4,559 | 101 |
| Net foreign exchange gain | \$ (69) | \$ (182) | \$ 631 | \$ (7) |

As of
June 28,
2008 December 31,
2007

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

| | | | |
|--|----|--------|----------|
| Notional balance of outstanding contracts: | | | |
| Pound/US dollar | £ | 3,500 | £ 3,000 |
| Euro/US dollar | | 13,000 | 14,000 |
| Euro/Pound | | 21,000 | 20,500 |
| Net fair value of outstanding contracts | \$ | (70) | \$ (104) |

Table of Contents*Hedging of Anticipated Sales*

We manage the exchange rate risk of anticipated euro denominated sales using forward contracts and option collars. We designate these contracts as cash flow hedges. Gains and losses on these contracts are deferred in other comprehensive income until the contracts are settled and the hedged sales are realized, at which time the deferred gains or losses will be reported as an increase or decrease to sales. Summary financial information related to the cash flow hedges of future revenues follows (in thousands, except percentages):

| | June 28, 2008 | As of December 31, 2007 |
|--|------------------|-------------------------------|
| Net unrealized losses deferred in other comprehensive income: | | |
| Gross | \$ (10,279) | \$ (9,252) |
| Income tax benefit | (3,869) | (3,482) |
| Net | \$ (6,410) | \$ (5,770) |
| Notional balance of outstanding contracts | | |
| | 51,300 | 108,500 |
| Hedge effectiveness | 100% | 100% |
| | June 28, 2008 | June 30, 2007 |
| Net losses included in revenue for the: | | |
| Three months ended | \$ (5,009) | \$ (955) |
| Six months ended | (7,797) | (1,090) |

Note 12 Segment Information

As a result of the acquisitions of WhereNet Corp., proveo AG, Navis Holdings, LLC, and Multispectral Solutions Inc., Zebra now has two reportable segments: Specialty Printing Group (SPG) and Enterprise Solutions Group (ESG).

SPG includes direct thermal and thermal transfer label and receipt printers, passive radio frequency identification (RFID) printer/encoders, dye sublimation card printers and digital photo printers. Also included in this group is a comprehensive range of specialty supplies consisting of self-adhesive labels, thermal transfer ribbons, thermal printheads, batteries and other accessories, including software for label design and printer network management.

ESG has evolved since the beginning of 2007 with the acquisitions of WhereNet Corp., proveo AG, Navis Holdings, LLC, and Multispectral Solutions Inc. The solutions that these companies provide are sold on a contract basis and are typically installed over several quarters. These contracts cover a range of services, including design, installation and ongoing maintenance services.

Segment information is as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|-------------------|--------------------|------------------|------------------|------------------|
| | June 28, 2008 | June 30, 2007 | June 28, 2008 | June 30, 2007 |
| Net sales: | | | | |
| SPG | \$ 228,762 | \$ 202,794 | \$ 453,513 | \$ 404,689 |
| ESG | 25,020 | 6,118 | 46,546 | 12,799 |
| Total | \$ 253,782 | \$ 208,912 | \$ 500,059 | \$ 417,488 |

Operating profit (loss):

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

| | | | | |
|---------------------|------------------|------------------|------------------|------------------|
| SPG | \$ 59,563 | \$ 50,999 | \$ 121,168 | \$ 102,790 |
| ESG | (7,639) | (2,970) | (14,703) | (6,550) |
| Corporate and other | (14,955) | (14,060) | (30,142) | (26,939) |
| Total | \$ 36,969 | \$ 33,969 | \$ 76,323 | \$ 69,301 |

| | June 28, 2008 | December 31, 2007 |
|-----------------------------|--------------------------|------------------------------|
| Identifiable assets: | | |
| SPG | \$ 412,573 | \$ 370,786 |
| ESG | 346,153 | 320,689 |
| Corporate and other | 311,737 | 342,803 |
| Total | \$ 1,070,463 | \$ 1,034,278 |

Table of Contents

Corporate and other includes corporate administration costs or assets that support both reporting segments.

Prior period amounts have been restated to conform to requirements of SFAS No. 131, *Disclosures about Segments of and Enterprise and Related Information*.

Note 13 Costs associated with Exit or Disposal Activities

During the first quarter of 2008, we initiated two different plans to close facilities. These plans are being accounted for under SFAS No. 146, *Accounting for Cost Associated with Exit or Disposal Activities*. All exit costs associated with these activities are identified on a separate line of our Consolidated Statement of Earnings, as part of operating expenses. These plans are intended to reduce costs and improve manufacturing efficiency.

In January 2008, we initiated a plan to close our supplies manufacturing plant in Warwick, Rhode Island. This plant's operations were transferred to a new facility in Flowery Branch, Georgia, which is now our East Coast supplies manufacturing facility. This transition was completed during the second quarter. We do not expect to incur any further costs associated with this plan. Costs incurred through June 28, 2008 were (in thousands):

| Type of Cost | |
|--|---------------|
| Severance, stay bonuses, and other employee-related expenses | \$ 341 |
| Other exit costs | 227 |
| Total | \$ 568 |

In February 2008, we announced plans to establish regional distribution and configuration centers, consolidate our supplier base, and transfer final assembly of thermal printers to Jabil Circuit, Inc., a global third-party electronics manufacturer. These actions are intended to optimize our global printer product supply chain by improving responsiveness to customer needs and increasing Zebra's flexibility to meet emerging business opportunities. As a result, all printer manufacturing in our Vernon Hills, Illinois and Camarillo, California will be transferred to Jabil's facility in Guangzhou, China. This transition is expected to take 18 to 24 months to complete. As of June 28, 2008, we expect to incur the following exit costs (in thousands):

| Type of Cost | Cost incurred | | Total costs expected to be incurred |
|--|---------------------|--------------------------|-------------------------------------|
| | as of June 28, 2008 | Additional cost expected | |
| Severance, stay bonuses, and other employee-related expenses | \$ 2,831 | \$ 3,169 | \$ 6,000 |
| Professional services | 3,194 | 1,771 | 4,965 |
| Relocation and transition costs | 1,321 | 12,800 | 14,121 |
| Total | \$ 7,346 | \$ 17,740 | \$ 25,086 |

Table of Contents

Liabilities and expenses related to exit activities for the six months ended June 28, 2008, were as follows (in thousands):

| | Severance, stay bonuses, and other employee- related expenses | Professional services | Relocation and transition costs | Other exit costs | Total |
|---|--|--------------------------|--|------------------------|----------|
| Accrued liabilities related to exit activities at December 31, 2007 | \$ | \$ | \$ | \$ | \$ |
| Expenses incurred for the three months ended March 29, 2008 | 1,439 | 1,051 | 744 | | 3,234 |
| Expenses incurred for the three months ended June 28, 2008 | 1,733 | 2,143 | 577 | 227 | 4,680 |
| Expenses incurred for the six months ended June 28, 2008 | 3,172 | 3,194 | 1,321 | 227 | 7,914 |
| Less: Amounts paid for the six months ended June 28, 2008 | (341) | (3,155) | (1,321) | (111) | (4,928) |
| Accrued liabilities related to exit activities at June 28, 2008 | \$ 2,831 | \$ 39 | \$ | \$ 116 | \$ 2,986 |

All current exit costs are included in operating expenses for the Specialty Printing Group.

Note 14 Contingencies

On January 31, 2003, a Writ of Summons was filed in the Nantes Commercial Court, Nantes, France, by Printherm, a French corporation, and several of its shareholders (collectively, Printherm), against Zebra Technologies France (ZTF), a French corporation and wholly-owned subsidiary of Zebra. Printherm seeks damages in the amount of 15,304,000 and additional unspecified damages in connection with ZTF s termination of negotiations in December 2000 respecting the proposed acquisition by Zebra of the capital stock of Printherm. The negotiation was terminated based on unsatisfactory results of the ongoing due diligence. We believe that Printherm s claims are without merit and that a loss is not likely to occur. We will vigorously defend the action.

Printherm filed bankruptcy proceedings on August 30, 2004, and the Commercial Court ordered its liquidation on November 30, 2004. The case was put on hold until the Court-appointed liquidator filed a submission in August 2005, which started the proceedings again. ZTF filed its answer on November 19, 2005, in anticipation of a Court-ordered December 19, 2005, hearing date. In response to a request by Printherm s liquidator, the Court postponed the hearing date until March 27, 2008 to provide time for Printherm to respond to ZTF s answer. The Printherm liquidator filed its response to ZTF s answer shortly before the March 27 hearing date. ZTF argued that the filing date provided ZTF with insufficient time to prepare for the hearing, and the Court struck the case from the docket as a sanction against Printherm. Printherm s liquidator was required to reinstate the case before the Court. A final hearing to consider statute of limitations and substantive arguments is scheduled for December 11, 2008.

On April 9, 2008, a complaint was filed in the U.S. District Court for the Northern District of Illinois by Barcode Informatica, Ltd. (Barcode), a former Brazilian reseller, against Zebra. The complaint alleges that Zebra wrongfully terminated Barcode s reseller status and tortiously interfered with Barcode s alleged bid for the sale of printers to Brazilian Post. Barcode s claim seeks an unspecified amount of damages. We believe that Barcode s claims are without merit and we will vigorously defend the action.

Table of Contents

Note 15 Warranty. In general, Zebra provides warranty coverage of one year on printers against defects in material and workmanship. Printheads are warranted for nine months and batteries are warranted for three months. A provision for warranty expense is recorded at the time of shipment and adjusted quarterly based on historical warranty experience. The following is a summary of Zebra's accrued warranty obligation (in thousands).

| | Six Months Ended June 28, 2008 | Six Months Ended June 30, 2007 |
|--------------------------------------|-----------------------------------|-----------------------------------|
| Balance at the beginning of the year | \$ 3,411 | \$ 2,250 |
| Warranty expense year-to-date | 3,054 | 3,448 |
| Warranty payments made year-to-date | (2,243) | (2,203) |
| Balance at the end of the period | \$ 4,222 | \$ 3,495 |

During 2005, Zebra began providing for environmental recycling reserves similar to warranty reserves. In the European Union, we have an obligation in the future to recycle printers. This reserve is based on all new printers sold after August 13, 2005, and printers sold prior to that date that are returned to us upon our sale of a new printer to a customer. The following is a summary of Zebra's accrued recycling obligation (in thousands).

| | Six Months Ended June 28, 2008 | Six Months Ended June 30, 2007 |
|--------------------------------------|-----------------------------------|-----------------------------------|
| Balance at the beginning of the year | \$ 3,706 | \$ 2,115 |
| Recycling expense year-to-date | (2,496) | 842 |
| Recycling payments made year-to-date | (9) | |
| Exchange rate impact | (43) | 51 |
| Balance at the end of the period | \$ 1,158 | \$ 3,008 |

We reexamined the environmental recycling reserves based on our three years of experience providing for such reserves and determined the reserve to be higher than necessary. Therefore, we released \$3,757,000 from the reserve during the second quarter of 2008. This change resulted in an increase to net income of \$2,461,000 and earnings per share of \$0.04 per diluted share.

Note 16 Income Taxes

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*. According to FIN No. 48, we identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. The net income tax assets recognized under FIN No. 48 did not differ from the net assets recognized before adoption, and, therefore, we did not record an adjustment related to the adoption of FIN No. 48. Zebra did not have any unrecognized tax benefits as of June 28, 2008.

Zebra has concluded all U.S. federal income tax audits for years through 2004. The tax years 2004 through 2007 remain open to examination by multiple state taxing jurisdictions.

Zebra's continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense. For the quarter ended June 28, 2008, we did not accrue any interest or penalties into income tax expense.

The effective income tax rate for the second quarter of 2008 was constant at 34.5% compared with the second quarter of 2007. The effective income tax rate for the year to-date was 34.5% for 2008 compared with 34.6% for the corresponding period in 2007.

Note 17 New Accounting Pronouncements

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* – an amendment of FASB Statement No. 133. This Statement requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption.

Table of Contents

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, to create greater consistency in the accounting and financial reporting of business combinations. SFAS No. 141(R) establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement applies to fiscal years beginning after December 15, 2008 and will generally affect accounting for acquisitions going forward.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations***Consolidated Results of Operations*

Net sales for the second quarter of 2008 increased 21.5% with strength in all regions, compared with the second quarter of 2007. Sales from recent acquisitions supplemented continued robust sales growth of our established specialty printing lines. Gross profit margin increased primarily from a favorable adjustment to our estimate of the environmental recycling reserve, favorable foreign currency movements and lower raw material costs. Higher operating expenses resulted from increases in payroll costs, advertising costs, project costs, professional service fees, travel and entertainment expenses, and offsite meetings. Recent acquisitions contributed to the increases in operating expenses by increasing second quarter selling and marketing expenses by \$4,609,000, research and development expenses by \$6,078,000, general and administrative expenses by \$1,567,000, and amortization of intangibles by \$2,216,000. We also incurred exit costs during the quarter of \$4,680,000 related to the transfer of our printer manufacturing to a third-party manufacturer and the closure of our Warwick, Rhode Island, supplies manufacturing facility. For the year to-date, exit costs were \$7,914,000.

| | Three Months Ended | | | Percent of Total Sales - 2008 | Percent of Total Sales - 2007 |
|----------------------------|--------------------|---------------|----------------|-------------------------------|-------------------------------|
| | June 28, 2008 | June 30, 2007 | Percent Change | | |
| Net sales | \$ 253,782 | \$ 208,912 | 21.5 | 100.0 | 100.0 |
| Cost of sales | 126,067 | 109,510 | 15.1 | 49.7 | 52.4 |
| Gross profit | 127,715 | 99,402 | 28.5 | 50.3 | 47.6 |
| Operating expenses | 90,746 | 65,433 | 38.7 | 35.7 | 31.3 |
| Operating income | 36,969 | 33,969 | 8.8 | 14.6 | 16.3 |
| Other income | 2,002 | 5,166 | (61.2) | 0.8 | 2.4 |
| Income before income taxes | 38,971 | 39,135 | (0.4) | 15.4 | 18.7 |
| Income taxes | 13,445 | 13,502 | (0.4) | 5.3 | 6.4 |
| Net income | \$ 25,526 | \$ 25,633 | (0.4) | 10.1 | 12.3 |
| Diluted earnings per share | \$ 0.39 | \$ 0.37 | | | |
| | Six Months Ended | | | Percent of Total Sales - 2008 | Percent of Total Sales - 2007 |
| | June 28, 2008 | June 30, 2007 | Percent Change | | |
| Net sales | \$ 500,059 | \$ 417,488 | 19.8 | 100.0 | 100.0 |
| Cost of sales | 249,429 | 218,296 | 14.3 | 49.9 | 52.3 |
| Gross profit | 250,630 | 199,192 | 25.8 | 50.1 | 47.7 |
| Operating expenses | 174,307 | 129,891 | 34.2 | 34.8 | 31.1 |
| Operating income | 76,323 | 69,301 | 10.1 | 15.3 | 16.6 |
| Other income | 4,853 | 10,721 | (54.7) | 0.9 | 2.5 |
| Income before income taxes | 81,176 | 80,022 | 1.4 | 16.2 | 19.1 |
| Income taxes | 28,006 | 27,673 | 1.2 | 5.6 | 6.6 |
| Net income | \$ 53,170 | \$ 52,349 | 1.6 | 10.6 | 12.5 |
| Diluted earnings per share | \$ 0.81 | \$ 0.75 | | | |

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

Sales by product category, percent change, and percent of total sales for the three and six months ended June 28, 2008, and June 30, 2007, were (in thousands, except percentages):

| Product Category | Three Months Ended | | Percent Change | Percent of Total Sales - 2008 | Percent of Total Sales - 2007 |
|------------------------------|--------------------|---------------|----------------|-------------------------------|-------------------------------|
| | June 28, 2008 | June 30, 2007 | | | |
| Hardware | \$ 185,640 | \$ 158,297 | 17.3 | 73.1 | 75.8 |
| Supplies | 43,803 | 40,285 | 8.7 | 17.3 | 19.3 |
| Service and software | 27,516 | 9,559 | 187.9 | 10.8 | 4.6 |
| Shipping and handling | 1,832 | 1,726 | 6.1 | 0.8 | 0.8 |
| Cash flow hedging activities | (5,009) | (955) | NM | (2.0) | (0.5) |
| Total sales | \$ 253,782 | \$ 208,912 | 21.5 | 100.0 | 100.0 |

Table of Contents

| Product Category | Six Months Ended | | Percent Change | Percent of Total Sales - 2008 | Percent of Total Sales - 2007 |
|------------------------------|------------------|---------------|----------------|-------------------------------|-------------------------------|
| | June 28, 2008 | June 30, 2007 | | | |
| Hardware | \$ 365,821 | \$ 317,885 | 15.1 | 73.3 | 76.2 |
| Supplies | 85,706 | 78,367 | 9.4 | 17.1 | 18.8 |
| Service and software | 52,695 | 18,952 | 178.0 | 10.5 | 4.5 |
| Shipping and handling | 3,634 | 3,374 | 7.7 | 0.7 | 0.8 |
| Cash flow hedging activities | (7,797) | (1,090) | NM | (1.6) | (0.3) |
| Total sales | \$ 500,059 | \$ 417,488 | 19.8 | 100.0 | 100.0 |

Sales to customers by geographic region, percent changes and percent of total sales for the three and six months ended June 28, 2008, and June 30, 2007, were (in thousands, except percentages):

| Geographic Region | Three Months Ended | | Percent Change | Percent of Total Sales - 2008 | Percent of Total Sales - 2007 |
|--------------------------------|--------------------|---------------|----------------|-------------------------------|-------------------------------|
| | June 28, 2008 | June 30, 2007 | | | |
| Europe, Middle East and Africa | \$ 93,787 | \$ 76,146 | 23.2 | 37.0 | 36.4 |
| Latin America | 21,367 | 15,412 | 38.6 | 8.4 | 7.4 |
| Asia-Pacific | 26,356 | 18,986 | 38.8 | 10.4 | 9.1 |
| Total International | 141,510 | 110,544 | 28.0 | 55.8 | 52.9 |
| North America | 112,272 | 98,368 | 14.1 | 44.2 | 47.1 |
| Total sales | \$ 253,782 | \$ 208,912 | 21.5 | 100.0 | 100.0 |

| Geographic Region | Six Months Ended | | Percent Change | Percent of Total Sales - 2008 | Percent of Total Sales - 2007 |
|--------------------------------|------------------|---------------|----------------|-------------------------------|-------------------------------|
| | June 28, 2008 | June 30, 2007 | | | |
| Europe, Middle East and Africa | \$ 191,157 | \$ 152,130 | 25.7 | 38.2 | 36.4 |
| Latin America | 37,350 | 27,935 | 33.7 | 7.5 | 6.7 |
| Asia-Pacific | 50,134 | 34,549 | 45.1 | 10.0 | 8.3 |
| Total International | 278,641 | 214,614 | 29.8 | 55.7 | 51.4 |
| North America | 221,418 | 202,874 | 9.1 | 44.3 | 48.6 |
| Total sales | \$ 500,059 | \$ 417,488 | 19.8 | 100.0 | 100.0 |

Zebra's non-operating income and expense items are summarized in the following table (in thousands):

| | Three Months Ended | | Six Months Ended | |
|------------------------------|--------------------|---------------|------------------|---------------|
| | June 28, 2008 | June 30, 2007 | June 28, 2008 | June 30, 2007 |
| Investment income | \$ 2,722 | \$ 5,724 | \$ 5,127 | \$ 11,028 |
| Foreign exchange gain (loss) | (69) | (182) | 631 | (7) |
| Other, net | (651) | (376) | (905) | (300) |
| Total other income | \$ 2,002 | \$ 5,166 | \$ 4,853 | \$ 10,721 |

Rate of Return Analysis:

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

| | | | | |
|---|------------|------------|------------|------------|
| Average cash and marketable securities balances | \$ 288,216 | \$ 473,780 | \$ 275,664 | \$ 527,132 |
| Annualized rate of return | 3.8% | 4.8% | 3.7% | 4.2% |

Cash and marketable securities balances and resulting investment income for the second quarter of 2008 have decreased substantially compared to the second quarter of 2007 due to payments for recent acquisitions.

Table of Contents*Specialty Printing Group*

| | Three Months Ended | | | Percent Change | Percent of Total Sales - 2008 | Percent of Total Sales - 2007 |
|--------------------|--------------------|------------------|------|-------------------|----------------------------------|----------------------------------|
| | June 28, 2008 | June 30, 2007 | | | | |
| Net sales | \$ 228,762 | \$ 202,794 | 12.8 | 100.0 | 100.0 | |
| Cost of sales | 113,338 | 105,688 | 7.2 | 49.5 | 52.1 | |
| Gross profit | 115,424 | 97,106 | 18.9 | 50.5 | 47.9 | |
| Operating expenses | 55,861 | 46,107 | 21.2 | 24.4 | 22.7 | |
| Operating income | 59,563 | 50,999 | 16.8 | 26.1 | 25.2 | |

| | Six Months Ended | | | Percent Change | Percent of Total Sales - 2008 | Percent of Total Sales - 2007 |
|--------------------|------------------|------------------|------|-------------------|----------------------------------|----------------------------------|
| | June 28, 2008 | June 30, 2007 | | | | |
| Net sales | \$ 453,513 | \$ 404,689 | 12.1 | 100.0 | 100.0 | |
| Cost of sales | 226,151 | 209,954 | 7.7 | 49.9 | 51.9 | |
| Gross profit | 227,362 | 194,735 | 16.8 | 50.1 | 48.1 | |
| Operating expenses | 106,194 | 91,945 | 15.5 | 23.4 | 22.7 | |
| Operating income | 121,168 | 102,790 | 17.9 | 26.7 | 25.4 | |

Net sales in our Specialty Printing Group (SPG) increased 12.8% during the second quarter of 2008 compared with the second quarter of 2007, with all geographic regions contributing to the growth. New printer products (defined as printers released within 18 months prior to the end of the applicable fiscal period) accounted for 18.8% of printer sales in the second quarter of 2008, compared with 9.2% of printer sales in the second quarter of 2007 and 19.1% for the first quarter of 2008. Year to-date new printer products accounted for 18.9% of printer sales in 2008, compared with 10.7% for the corresponding period of 2007.

Our international sales are denominated in multiple currencies, primarily the dollar, pound and euro. This directly causes our reported sales to be subject to fluctuations based on changes in currency rates. To partially protect Zebra against these currency rate fluctuations, we hedge a portion of the anticipated euro-denominated sales. We estimate that favorable foreign exchange movements of the euro and the pound versus the dollar had a positive impact of \$4,646,000 on sales, net of the hedging activities, during the second quarter of 2008. For the year to-date, the net positive impact of the currency rate fluctuations and hedging activities was \$11,173,000. See Note 11 to the Consolidated Financial Statements included in this report for a more detailed discussion of our hedging program.

Printer unit volumes and average selling price information is summarized below:

| | Three Months Ended | | | Percent Change | Six Months Ended | | |
|---|--------------------|------------------|-----|-------------------|------------------|------------------|-------------------|
| | June 28, 2008 | June 30, 2007 | | | June 28, 2008 | June 30, 2007 | Percent Change |
| Total printers shipped | 238,458 | 226,542 | 5.3 | 480,859 | 456,329 | 5.4 | |
| Average selling price of printers shipped | \$ 630 | \$ 573 | 9.9 | \$ 622 | \$ 570 | 9.1 | |

For the second quarter of 2008, unit volumes increased in nearly all printer product lines compared to the second quarter of 2007.

Gross profit margin for SPG was affected by favorable product mix and favorable foreign currency movements net of hedging activities, which increased second quarter gross profit by \$3,960,000. In addition, we reexamined our environmental recycling reserve based on our three years of experience providing for such reserves and determined the reserve to be higher than necessary. Therefore, we released \$3,757,000 from the reserve during the second quarter of 2008. Favorable foreign currency movements, net of hedging activities, for the year to-date were \$9,666,000.

Table of Contents

Operating expenses increased for SPG in 2008, compared to the same periods in 2007, in the following amounts:

| | Three Months Ended June 28, 2008 | Six Months Ended June 28, 2008 |
|---------------------------|---|---|
| Payroll and benefit costs | \$ 2,232 | \$ 3,152 |
| Advertising costs | 1,003 | 1,010 |
| Sales meeting expenses | 1,231 | 1,825 |
| Exit costs | 4,679 | 7,914 |
| Facility relocation costs | 417 | 994 |
| Other changes | 192 | (646) |
| Total increases | \$ 9,754 | \$ 14,249 |

Exit costs relate to the transfer of our printer manufacturing to a third-party manufacturer and the closure of our Warwick, Rhode Island, supplies manufacturing facility. Facility relocation costs relate to the move of our High Wycombe, UK location into a new facility.

Enterprise Solutions Group

| | Three Months Ended June 28, 2008 | June 30, 2007 | Percent Change | Percent of Total Sales - 2008 | Percent of Total Sales - 2007 |
|--------------------|---|--------------------------|---------------------------|--|--|
| Net sales | \$ 25,020 | \$ 6,118 | 309.0 | 100.0 | 100.0 |
| Cost of sales | 12,729 | 3,822 | 233.0 | 50.9 | 62.5 |
| Gross profit | 12,291 | 2,296 | 435.3 | 49.1 | 37.5 |
| Operating expenses | 19,930 | 5,266 | 278.5 | 79.7 | 86.1 |
| Operating loss | (7,639) | (2,970) | NM | (30.6) | (48.6) |

| | Six Months Ended June 28, 2008 | June 30, 2007 | Percent Change | Percent of Total Sales - 2008 | Percent of Total Sales - 2007 |
|--------------------|---|--------------------------|---------------------------|--|--|
| Net sales | \$ 46,546 | \$ 12,799 | 263.7 | 100.0 | 100.0 |
| Cost of sales | 23,278 | 8,342 | 179.0 | 50.0 | 65.2 |
| Gross profit | 23,268 | 4,457 | 422.1 | 50.0 | 34.8 |
| Operating expenses | 37,971 | 11,007 | 245.0 | 81.6 | 86.0 |
| Operating loss | (14,703) | (6,550) | NM | (31.6) | (51.2) |

During 2007 and 2008, Zebra acquired four companies which are being combined to make up our Enterprise Solutions Group (ESG). On January 25, 2007, we acquired WhereNet Corp., a provider of active radio frequency identification (RFID) based wireless solutions used to track and manage enterprise assets. On July 2, 2007, we acquired proveo AG, a provider of complete hardware and software systems for tracking motorized vehicles using global positioning systems (GPS). On December 14, 2007, we acquired Navis Holdings, LLC., a provider of software solutions to optimize the flow of goods through marine terminals and other operations managing cargo movement through ports and intermodal facilities. On April 1, 2008, we acquired Multispectral Solutions Inc., a global provider of ultra wideband (UWB) real-time locating systems and other UWB-based technology. Together, these companies give Zebra the ability to deliver more high-value applications that help our customers identify, track and manage assets, transactions and people.

ESG operating expenses for the second quarter of 2008 reflect spending rates for all of the businesses acquired during 2007 and 2008 that comprise ESG. The operating expenses for ESG for the second quarter of 2008 are not comparable to the operating expenses for the second quarter of 2007 because the operating expenses for the second quarter of 2007 do not include the financial results for all of those businesses.

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

Operating expenses for ESG include amortization expense of \$3,296,000 for the second quarter of 2008, and \$1,230,000 for the second quarter of 2007. For the year to-date, amortization expense for ESG was \$6,336,000, compared to \$2,162,000 for the corresponding period in 2007. A charge for acquired in process technology of \$1,853,000 was also included in year to-date expenses for 2007.

Table of Contents

Liquidity and Capital Resources

As of June 28, 2008, Zebra had \$270,148,000 in cash and investments and marketable securities, compared with \$281,179,000 at December 31, 2007. Factors affecting cash and investment balances during the first six months of 2008 include (note that changes discussed below include the impact of foreign currency):

Operations provided cash in the amount of \$50,552,000, primarily from net income.

Accounts receivable increased \$29,780,000 because of higher sales. Days sales outstanding increased to 64 days in the second quarter of 2008 compared to 59 days at the end of 2007, largely from longer business cycles of recently acquired businesses.

Inventories increased \$14,754,000 in support of our global supply chain initiatives, introduction of new products and key customer requirements. Inventory turns decreased to 5.0 during the second quarter of 2008 compared to 5.6 at the end of 2007.

Accounts payable increased \$13,129,000, due to timing of vendor payments.

Taxes payable increased \$1,796,000 because of the timing of tax payments.

Purchases of property and equipment totaled \$20,249,000.

Purchase of Multispectral Solutions Inc., totaled \$17,987,000.

Net purchases of investments totaled \$35,879,000.

Purchases of treasury shares totaled \$48,402,000. Zebra made open market repurchases of our shares under authorizations of the Board of Directors dated July 30, 2007 and February 25, 2008. An additional 17,266 shares had been repurchased for \$570,000 as of June 28, 2008, but the cash had not yet been transferred.

Stock option exercises and purchases under the stock purchase plan contributed \$3,383,000.

In February 2008, we announced that printer manufacturing is being transferred to a third-party manufacturer. This transition is expected to occur over 18 to 24 months. See Note 13 to the Consolidated Financial Statements included in this report for further information.

Management believes that existing capital resources and funds generated from operations are sufficient to finance anticipated capital requirements. It is our intention to actively pursue opportunities to acquire other businesses.

Critical Accounting Policies and Estimates

Management prepared the consolidated financial statements of Zebra Technologies Corporation under accounting principles generally accepted in the United States of America. These principles require the use of estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions we used are reasonable, based upon the information available.

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

Our estimates and assumptions affect the reported amounts in our financial statements. The following accounting policies comprise those that we believe are the most critical in understanding and evaluating Zebra's reported financial results.

Revenue Recognition

Product revenue is recognized once four criteria are met: (1) we have persuasive evidence that an arrangement exists; (2) delivery has occurred and title has passed to the customer, which happens at the point of shipment provided that no significant obligations remain; (3) the price is fixed and determinable; and (4) collectability is reasonably assured. Other items that affect our revenue recognition include:

Customer Returns

Customers have the right to return products that do not function properly within a limited time after delivery. We monitor and track product returns and record a provision for the estimated future returns based on historical experience and any notification received of pending returns. Returns have historically been within expectations and the provisions established, but Zebra cannot guarantee that it will continue to experience return rates consistent with historical patterns. Historically, our product returns have not been significant. However, if a significant issue should arise, it could have a material impact on our financial statements.

Growth Rebates

Some of our channel program partners are offered incentive rebates based on the attainment of specific growth targets related to products they purchase from us over a quarter or year. These rebates are recorded as a reduction to revenue. Each quarter, we estimate the amount of outstanding growth rebates and establish a reserve for them based on shipment history. Historically, actual growth rebates have been in line with our estimates.

Table of Contents

Price Protection

Some of our customers are offered price protection by Zebra as an incentive to carry inventory of our product. These price protection plans provide that if we lower prices, we will credit them for the price decrease on inventory they hold. We estimate future payments under price protection programs quarterly and establish a reserve, which is charged against revenue. Our customers typically carry limited amounts of inventory, and Zebra infrequently lowers prices on current products. As a result, the amounts paid under these plans have been minimal.

Software Revenue

We sell four types of software and record revenue as follows:

Our Enterprise Solutions Group has *fixed fee software implementation projects*, for which we use the percentage of completion method for revenue recognition. Under this method of accounting, we recognize revenue based on the ratio of costs incurred to total estimated costs. If increases in projected costs-to-complete are sufficient to create a loss contract, the entire estimated loss is charged to operations in the period the loss first becomes known.

Our printers contain *embedded firmware*, which is part of the hardware purchase. We consider the sale of this firmware to be incidental to the sale of the printer and do not attribute any revenue to it.

We sell a limited amount of *prepackaged, or off-the-shelf, software* for the creation of bar code labels using our printers. There is no customization required to use this software, and we have no post-shipment obligations on the software. Revenue is recognized at the time this prepackaged software is shipped.

We sometimes provide *custom software* as part of a printer installation project. We bill custom software development services separate from the related hardware. Revenue related to custom software is recognized once the custom software development services have been completed and accepted by the customer.

Shipping and Handling

We charge our customers for shipping and handling services based upon our internal price list for these items. The amounts billed to customers are recorded as revenue when the product ships. Any costs incurred related to these services are included in cost of sales.

From time to time, Zebra will enter into sales transactions that include more than one product type. This bundle of products might include printers, current or future supplies, and services. When this type of transaction occurs, we allocate the purchase price to each product type based on the fair value of the individual products. The revenue for each individual product is then recognized when the recognition criteria for that product is fully met.

Investments and Marketable Securities

Investments and marketable securities at June 28, 2008, consisted of the following:

| | |
|----------------------------|-------|
| U.S. government securities | 18.9% |
| State and municipal bonds | 79.5% |
| Corporate bonds | 1.3% |
| Partnership interests | 0.3% |

We classify our debt and marketable equity securities in one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those debt securities that Zebra has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as

available-for-sale except for partnership interests described below.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of discounts or premiums. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized. As of June 28, 2008, Zebra's investments in marketable debt securities are classified as available-for-sale. In addition, as of June 28, 2008, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term in the balance sheet due to our ability and intent to hold them until maturity.

Table of Contents

All investments in marketable securities except partnership interests are classified as available-for-sale securities. We account for partnership interests using the cost method until our ownership percentage in a partnership reaches 5% of the total partnership portfolio value. At that time, we begin using the equity method to account for the partnership. As of June 28, 2008, we were in the process of liquidating all of our interests in these partnerships, which totaled \$717,000. This liquidation will be complete by the end of 2008.

Accounts Receivable

We have standardized credit granting and review policies and procedures for all customer accounts, including:

Credit reviews of all new customer accounts,

Ongoing credit evaluations of current customers,

Credit limits and payment terms based on available credit information,

Adjustments to credit limits based upon payment history and the customer's current credit worthiness, and

An active collection effort by regional credit functions, reporting directly to the corporate financial officers.

We reserve for estimated credit losses based upon historical experience and specific customer collection issues. Over the last three years, accounts receivable reserves varied from 0.6% to 3.5% of total accounts receivable. Accounts receivable reserves as of June 28, 2008, were \$5,329,000, or 2.9% of the balance due. We feel this reserve level is appropriate considering the quality of the portfolio as of June 28, 2008. While credit losses have historically been within expectations and the provisions established, we cannot guarantee that our credit loss experience will continue to be consistent with historical experience.

Inventories

We value our inventories at the lower of the actual cost to purchase or manufacture using the first-in, first-out (FIFO) method, or the current estimated market value. We review inventory quantities on hand and record a provision for excess and obsolete inventory based on forecasts of product demand and production requirements for the subsequent twelve months.

Over the last three years, our reserves for excess and obsolete inventories have ranged from 7.2% to 14.2% of gross inventory. As of June 28, 2008, inventory reserves were \$7,880,000, or 7.2% of gross inventory. We feel this reserve level is appropriate considering the quantities and quality of the inventories as of June 28, 2008.

Valuation of Long-Lived and Intangible Assets and Goodwill

We test the impairment of goodwill each year or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last assessment during June 2008. At that time, no adjustment to goodwill was necessary due to impairment.

We evaluate the impairment of identifiable intangibles and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors considered that may trigger an impairment review consist of:

Significant underperformance relative to expected historical or projected future operating results,

Significant changes in the manner of use of the acquired assets or the strategy for the overall business,

Significant negative industry or economic trends,

Significant decline in Zebra's stock price for a sustained period, and

Significant decline in market capitalization relative to net book value.

If we believe that one or more of the above indicators of impairment have occurred and the undiscounted cash flow test is failed in the case of amortizable assets, we measure impairment based on projected discounted cash flows using a discount rate that incorporates the risk inherent in the cash flows. Net intangible assets, long-lived assets and goodwill amounted to \$459,523,000 as of June 28, 2008.

Income Taxes

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. According to FIN No. 48, we identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. The net income tax assets recognized under FIN No. 48 did not differ from the net assets recognized before adoption, and, therefore, we did not record an adjustment related to the adoption of FIN No. 48. Zebra did not have any unrecognized tax benefits as of June 28, 2008.

Table of Contents

Zebra has concluded all U.S. federal income tax audits for years through 2003. The tax years 2002 through 2006 remain open to examination by multiple state taxing jurisdictions.

Zebra's continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense. For the quarter ended June 28, 2008, we did not accrue any interest or penalties into income tax expense.

Contingencies

We record estimated liabilities related to contingencies based on our estimates of the probable outcomes. Quarterly, we assess the potential liability related to pending litigation, tax audits and other contingencies and confirm or revise estimates and reserves as appropriate.

For a discussion of open legal matters, see Note 14 to the Consolidated Financial Statements included in this report for further information.

Stock-based Compensation

As of June 28, 2008, Zebra had an active stock option plan and a stock purchase plan available for future grants. We accounted for these plans in accordance with SFAS No. 123(R), *Share-Based Payments*. Zebra recognizes compensation costs over the vesting period of 1 month to 5 years. See Note 3 to the Consolidated Financial Statements included in this report for further information.

Significant Customer

ScanSource, Inc. is our most significant customer. Our net sales to ScanSource, Inc., an international distributor of Zebra products, as a percentage of total net sales, were as follows:

| | June 28, 2008 | June 30, 2007 |
|----------------------------|--------------------------|--------------------------|
| For the three months ended | 14.7% | 17.9% |
| For the six months ended | 15.1% | 16.9% |

No other customer accounted for 10% or more of total net sales during these time periods.

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 and are highly dependent upon a variety of important factors which could cause actual results to differ materially from those reflected in such forward looking statements. These factors include:

Market acceptance of Zebra's printer and software products and competitors' product offerings and the potential effects of technological changes,

The effect of market conditions in North America and other geographic regions,

Our ability to control manufacturing and operating costs, including the success of migrating final printer product assembly offshore to a third-party manufacturer,

Success of acquisitions and their integration,

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-Q

Interest rate and financial market conditions because of our large investment portfolio,

Foreign exchange rates due to the large percentage of our international sales and operations, and

The outcome of litigation in which Zebra is involved, particularly litigation or claims related to infringement of third-party intellectual property rights.

When used in this document and documents referenced, the words anticipate, believe, estimate, will and expect and similar expressions as they relate to Zebra or its management are intended to identify such forward-looking statements. We encourage readers of this report to review Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, for a further discussion of issues that could affect Zebra's future results. Zebra undertakes 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.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in Zebra's market risk during the quarter ended June 28, 2008. For additional information on market risk, refer to the Quantitative and Qualitative Disclosures About Market Risk section of our Form 10-K for the year ended December 31, 2007. See Note 6 to the Consolidated Financial Statements included in this report for further discussion of investments and marketable securities.

In the normal course of business, portions of Zebra's operations are subject to fluctuations in currency values. We manage these risks using derivative financial instruments.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this Form 10-Q. The controls evaluation was conducted under the supervision of our Disclosure Committee, and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Office and Chief Financial Officer, have concluded that our disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by us in this report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

Zebra completed acquisitions of WhereNet Corp., and Navis Holding, LLC during 2007. In our report on internal controls over financial reporting included in our Form 10-K for the period ended December 31, 2007, we excluded these acquisitions from the scope. For our report on internal controls over financial reporting to be included in Form 10-K for the period ended December 31, 2008, these acquisitions will be included in the scope. Management is currently in the process of documenting and evaluating the internal controls for these acquisitions.

In January 2008, Zebra began a program to update substantially all of its key financial systems over a three year period. The requirements for internal controls over financial reporting are a fundamental element of the design and implementation of these systems. As pieces of these systems are implemented, we conduct appropriate levels of testing and monitoring of the systems and update our internal controls over financial reporting with respect to the impacted areas. During the quarter ended June 28, 2008, we made additional changes to our controls and procedures as part of our ongoing monitoring of our controls. However, none of these changes has materially affected, or is reasonably likely to materially affect, and there were no other changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Office and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Zebra have been detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Table of Contents**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

Pursuant to a merger agreement between Zebra, Waldo Acquisition Corp. (Zebra's wholly owned subsidiary), and WhereNet Corp. (WhereNet), Zebra acquired WhereNet in January 2007. As part of the closing of the WhereNet acquisition, an escrow balance of approximately \$13,600,000 was established against the total purchase price. On January 24, 2008, we made an indemnification claim against the sellers of WhereNet for the entire escrow balance, based on alleged inaccuracies in WhereNet's representations to us under the merger agreement. On July 21, 2008, Daniel Doles and Crosspoint Venture Partners 1996, LLP, as the representatives of the shareholders of former WhereNet under the merger agreement, filed a declaratory action against Zebra in the United States District Court for the Northern District of California. The complaint disputes our right to the escrow balance and seeks declaratory relief regarding the WhereNet shareholders' and Zebra's rights and obligations with respect to the escrow balance. Zebra has not yet responded to the complaint.

See Note 14 to the Consolidated Financial Statements included in this report for additional information regarding other legal proceedings.

Item 1A. Risk Factors

In addition to the other information included in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, and the factors identified under "Safe Harbor" at the end of Item 2 of Part I of this Quarterly Report on Form 10-Q, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Zebra. 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, and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Treasury Shares

During the second quarter of 2008, Zebra purchased 461,413 shares of Zebra's Class A Common Stock as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced program | Maximum number of shares that may yet be purchased under the program |
|----------------------------------|---|-------------------------------------|---|---|
| April 2008 (March 29 - April 26) | 444,147 | \$ 32.98 | 444,147 | 1,907,366 |
| May 2008 (April 27 - May 24) | | | | 1,907,366 |
| June 2008 (May 25 - June 28) | 17,266 | \$ 32.80 | 17,266 | 1,890,100 |
| Total | 461,413 | | 461,413 | |

- (1) On February 25, 2008, Zebra announced that the Board authorized the purchase of 3,000,000 shares of Zebra common stock at prices to be determined at management's discretion. The authorization did not have an expiration date. All remaining shares authorized for purchase at June 28, 2008 were authorized under the Board's 2008 authorization.

Table of Contents

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Company held its Annual Meeting of Stockholders on May 22, 2008.

(b) The Company's stockholders voted on the following proposals:

1. **Proposal 1.** Election of Directors

For the election of the following named persons as directors of Zebra Technologies Corporation to hold office for a three-year term expiring at the 2011 Annual Meeting or until their respective successors are duly elected and qualified:

| Directors | For | Authority Withheld |
|--------------------------|------------|---------------------------|
| <u>Anders Gustafsson</u> | 60,986,195 | 1,722,883 |
| <u>Andrew K. Ludwick</u> | 61,382,423 | 1,326,655 |

2. **Proposal 2.** To ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as the independent auditors of the Company's financial statements for the year ending December 31, 2008.

| For | Against | Abstain |
|-------------------|------------------|----------------|
| <u>61,300,736</u> | <u>1,304,287</u> | <u>104,055</u> |

Table of Contents

Item 6. Exhibits

- 10.1 Form of Restricted Stock Agreement under the Company's 2006 Zebra Technologies Corporation Incentive Compensation Plan. (1)
 - 10.2 Employment Agreement by and between Michael C. Smiley and the Company dated May 1, 2008. (2)
 - 10.3 First Amendment to Non-Qualified Stock Option Agreement dated February 8, 2002, by and between Christopher G. Knowles and the Company dated May 22, 2008. (3)
 - 10.4 First Amendment to Non-Qualified Stock Option Agreement dated February 8, 2006, by and between Christopher G. Knowles and the Company dated May 22, 2008. (3)
 - 10.5 Form of Director 4-Year Vesting Non-Qualified Stock Option Agreement under the 2006 Zebra Technologies Corporation Incentive Compensation Plan. (3)
 - 10.6 Form of Director 4-Year Vesting Non-Qualified Stock Option Agreement under the 2006 Zebra Technologies Corporation Incentive Compensation Plan. (3)
 - 10.7 Manufacturing Services Agreement between Jabil Circuit, Inc. and the Company dated May 30, 2007 (portions of this exhibit have been omitted and have been filed separately with the Commission pursuant to a request for confidential treatment.) (4)
 - 31.1 Rule 13a-14(a)/15d-14(a) Certification
 - 31.2 Rule 13a-14(a)/15d-14(a) Certification
 - 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
-
- (1) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on April 30, 2008, and incorporated herein by reference.
 - (2) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on May 7, 2008, and incorporated herein by reference.
 - (3) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on May 29, 2008, and incorporated herein by reference.
 - (4) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Quarterly Report on Form 10-Q filed on May 1, 2008, and incorporated herein by reference.

Table of Contents

SIGNATURES

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

ZEBRA TECHNOLOGIES CORPORATION

Date: July 30, 2008

By: /s/ Anders Gustafsson
Anders Gustafsson
Chief Executive Officer

Date: July 30, 2008

By: /s/ Michael C. Smiley
Michael C. Smiley
Chief Financial Officer