

ZEBRA TECHNOLOGIES CORP  
Form 10-Q  
May 02, 2013  
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**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 March 30, 2013

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**

(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.)

**475 Half Day Road, Suite 500, Lincolnshire, IL 60069**

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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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 April 26, 2013, there were 50,923,113 shares of Class A Common Stock, \$.01 par value, outstanding.

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**ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES**

**QUARTER ENDED MARCH 30, 2013**

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(Amounts in thousands)

	March 30, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 49,592	\$ 64,740
Investments and marketable securities	364,529	324,140
Accounts receivable, net	169,255	168,732
Inventories, net	116,417	123,357
Deferred income taxes	12,962	13,484
Prepaid expenses and other current assets	17,379	16,410
<b>Total current assets</b>	<b>730,134</b>	<b>710,863</b>
Property and equipment at cost, less accumulated depreciation and amortization	101,054	101,349
Long-term deferred income taxes	2,134	2,602
Goodwill	94,942	94,942
Other intangibles, net	37,288	39,151
Long-term investments and marketable securities	3,443	5,195
Other assets	14,602	13,646
<b>Total assets</b>	<b>\$ 983,597</b>	<b>\$ 967,748</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 20,141	\$ 23,045
Accrued liabilities	43,932	57,234
Deferred revenue	13,445	13,326
Income taxes payable	2,374	1,609
<b>Total current liabilities</b>	<b>79,892</b>	<b>95,214</b>
Deferred rent	1,245	1,303
Other long-term liabilities	16,096	14,229
<b>Total liabilities</b>	<b>97,233</b>	<b>110,746</b>
Stockholders' equity:		
Preferred Stock	0	0
Class A Common Stock	722	722
Additional paid-in capital	140,736	139,523
Treasury stock	(638,596)	(641,438)
Retained earnings	1,392,062	1,368,520

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Accumulated other comprehensive loss	(8,560)	(10,325)
<b>Total stockholders' equity</b>	886,364	857,002
<b>Total liabilities and stockholders' equity</b>	<b>\$ 983,597</b>	<b>\$ 967,748</b>

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)

	<b>Three Months Ended March 30, 2013</b>	<b>March 31, 2012</b>
Net sales:		
Net sales of tangible products	\$ 225,121	\$ 232,476
Revenue from services and software	11,816	11,399
Total net sales	236,937	243,875
Cost of sales:		
Cost of sales of tangible products	117,111	119,033
Cost of services and software	6,761	4,959
Total cost of sales	123,872	123,992
Gross profit	113,065	119,883
Operating expenses:		
Selling and marketing	33,515	32,114
Research and development	21,858	20,416
General and administrative	25,276	24,320
Amortization of intangible assets	1,863	770
Acquisition costs	482	254
Exit and restructuring costs	1,895	0
Total operating expenses	84,889	77,874
Operating income	28,176	42,009
Other income (expense):		
Investment income	677	592
Foreign exchange loss	(98)	(342)
Other, net	9	(364)
Total other income (expense)	588	(114)
Income before income taxes	28,764	41,895
Income taxes	5,222	11,731
Net income	\$ 23,542	\$ 30,164

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Basic earnings per share	\$ 0.46	\$ 0.58
Diluted earnings per share	\$ 0.46	\$ 0.58
Basic weighted average shares outstanding	50,980	51,998
Diluted weighted average and equivalent shares outstanding	51,366	52,301
See accompanying notes to consolidated financial statements.		

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**ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 30,</b>	<b>March 31,</b>
	<b>2013</b>	<b>2012</b>
Net income	\$ 23,542	\$ 30,164
Other comprehensive income (loss):		
Unrealized gains (losses) on hedging transactions, net of income taxes	1,743	(4,646)
Unrealized holding gains (losses) on investments, net of income taxes	(72)	570
Foreign currency translation adjustment	94	83
Comprehensive income	\$ 25,307	\$ 26,171

See accompanying notes to consolidated financial statements.



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

(Amounts in thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 30,</b>	<b>March 31,</b>
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 23,542	\$ 30,164
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	7,372	5,959
Share-based compensation	2,146	3,800
Excess tax benefit from share-based compensation	(358)	(66)
Loss on sale of property and equipment	136	83
Deferred income taxes	990	(391)
<b>Changes in assets and liabilities:</b>		
Accounts receivable, net	(516)	(1,862)
Inventories, net	6,943	7,169
Other assets	(137)	9,395
Accounts payable	(7,119)	(3,378)
Accrued liabilities	(12,787)	(16,881)
Deferred revenue	1,618	1,151
Income taxes	649	6,135
Other operating activities	1,685	(4,725)
<b>Net cash provided by operating activities</b>	<b>24,164</b>	<b>36,553</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(1,952)	(7,654)
Proceeds from the sale of business	0	13,790
Acquisition of intangible assets	(500)	0
Acquisition of long-term equity investment	(604)	0
Purchases of investments and marketable securities	(106,947)	(132,390)
Maturities of investments and marketable securities	3,144	81,189
Proceeds from sales of investments and marketable securities	65,094	21,748
<b>Net cash used in investing activities</b>	<b>(41,765)</b>	<b>(23,317)</b>
<b>Cash flows from financing activities:</b>		
Purchase of treasury stock	(3,888)	(9,775)
Proceeds from exercise of stock options and stock purchase plan purchases	5,913	1,998
Excess tax benefit from share-based compensation	358	66
<b>Net cash provided by (used in) financing activities</b>	<b>2,383</b>	<b>(7,711)</b>
<b>Effect of exchange rate changes on cash</b>	<b>70</b>	<b>0</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(15,148)</b>	<b>5,525</b>

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Cash and cash equivalents at beginning of period	64,740	36,418
Cash and cash equivalents at end of period	\$ 49,592	\$ 41,943
Supplemental disclosures of cash flow information:		
Income taxes paid, net	\$ 2,271	\$ 7,956
See accompanying notes to consolidated financial statements.		

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**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. These financial statements 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, 2012.

The consolidated balance sheet as of December 31, 2012 included 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 March 30, 2013, the consolidated statement of earnings for the three months ended March 30, 2013 and March 31, 2012, consolidated statement of comprehensive income for the three months ended March 30, 2013 and March 31, 2012, and the consolidated statement of cash flows for the three months ended March 30, 2013 and March 31, 2012. These results, however, are not necessarily indicative of results for the full year.

**Note 2 Fair Value Measurements**

Financial assets and liabilities are to be measured using inputs from three levels of the fair value hierarchy. 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. Zebra uses a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels:

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 (i.e. U.S. Treasuries and money market funds).

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. Included in our investment portfolio at March 30, 2013, is an auction rate security which is classified as available for sale and is reflected at fair value. Due to events in credit markets, however, the auction event for the instrument held by Zebra is failed. Therefore, the fair value of this security is estimated utilizing broker quotations, discounted cash flow analysis or other types of valuation adjustment methodologies at March 30, 2013. These analyses consider, among other items, the collateral underlying the security instruments, the creditworthiness of the counterparty, the timing of expected future cash flows, estimates of the next time the security is expected to have a successful auction, and Zebra s intent and ability to hold such securities until credit markets improve. The security was also compared, when possible, to other securities with similar characteristics.

The decline in the market value of our auction rate security discussed above is considered temporary and has been recorded in accumulated other comprehensive income loss on Zebra s balance sheet. Since Zebra has the intent and ability to hold this auction rate security until it is sold at auction, redeemed at carrying value or reaches maturity, we have classified it as a long-term investment on the balance sheet.

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Financial assets and liabilities carried at fair value as of March 30, 2013, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
U.S. government and agency securities	\$ 91,228	\$ 13,634	\$ 0	\$ 104,862
Obligations of government-sponsored enterprises (1)	0	11,046	0	11,046
State and municipal bonds	0	111,559	0	111,559
Corporate securities	0	137,881	2,588	140,469
Other investments	0	36	0	36
<b>Investments subtotal</b>	<b>91,228</b>	<b>274,156</b>	<b>2,588</b>	<b>367,972</b>
Forward contracts (2)	1,575	1,003	0	2,578
Money market investments related to the deferred compensation plan	3,917	0	0	3,917
<b>Total assets at fair value</b>	<b>\$ 96,720</b>	<b>\$ 275,159</b>	<b>\$ 2,588</b>	<b>\$ 374,467</b>
<b>Liabilities:</b>				
Liabilities related to the deferred compensation plan	\$ 3,917	\$ 0	\$ 0	\$ 3,917
<b>Total liabilities at fair value</b>	<b>\$ 3,917</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 3,917</b>

Financial assets and liabilities carried at fair value as of December 31, 2012, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
U.S. government and agency securities	\$ 83,532	\$ 13,455	\$ 0	\$ 96,987
Obligations of government-sponsored enterprises (1)	0	4,840	0	4,840
State and municipal bonds	0	96,516	0	96,516
Corporate securities	0	128,368	2,588	130,956
Other investments	0	36	0	36
<b>Investments subtotal</b>	<b>83,532</b>	<b>243,215</b>	<b>2,588</b>	<b>329,335</b>
Money market investments related to the deferred compensation plan	3,553	0	0	3,553
<b>Total assets at fair value</b>	<b>\$ 87,085</b>	<b>\$ 243,215</b>	<b>\$ 2,588</b>	<b>\$ 332,888</b>
<b>Liabilities:</b>				
Forward contracts (2)	\$ 1,174	\$ 871	\$ 0	\$ 2,045
Liabilities related to the deferred compensation plan	3,553	0	0	3,553
<b>Total liabilities at fair value</b>	<b>\$ 4,727</b>	<b>\$ 871</b>	<b>\$ 0</b>	<b>\$ 5,598</b>

1) Includes investments in notes issued by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Federal Farm Credit Banks and the Federal Home Loan Bank.

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

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

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The following table presents Zebra's activity for assets measured at fair value on a recurring basis using significant unobservable inputs, Level 3, for the following periods (in thousands):

	Three Months Ended	
	March 30, 2013	March 31, 2012
Balance at beginning of the year	\$ 2,588	\$ 2,588
Transfers to Level 3	0	0
Total losses (realized or unrealized):		
Included in earnings	0	0
Included in other comprehensive income (loss)	0	0
Purchases and settlements (net)	0	0
 Balance at end of period	 \$ 2,588	 \$ 2,588

Total gains and (losses) for the period included in earnings attributable to the change in unrealized losses relating to assets still held at end of period	\$ 0	\$ 0
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The following is a summary of short-term and long-term investments (in thousands):

	Amortized Cost	As of March 30, 2013		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government and agency securities	\$ 104,784	\$ 80	\$ (2)	\$ 104,862
Obligations of government-sponsored enterprises	11,035	11	0	11,046
State and municipal bonds	111,383	199	(23)	111,559
Corporate securities	140,302	643	(476)	140,469
Other investments	36	0	0	36
 Total investments	 \$ 367,540	 \$ 933	 \$ (501)	 \$ 367,972

	Amortized Cost	As of December 31, 2012		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government and agency securities	\$ 96,913	\$ 77	\$ (3)	\$ 96,987
Obligations of government-sponsored enterprises	4,830	10	0	4,840
State and municipal bonds	96,383	161	(28)	96,516
Corporate securities	130,634	790	(468)	130,956
Other investments	36	0	0	36
 Total investments	 \$ 328,796	 \$ 1,038	 \$ (499)	 \$ 329,335

The maturity dates of investments are as follows (in thousands):

As of March 30, 2013	
Amortized Cost	Estimated Fair

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		<b>Value</b>
Less than 1 year	\$ 168,127	\$ 168,361
1 to 5 years	195,556	196,168
6 to 10 years	3,857	3,443
Thereafter	0	0
<b>Total</b>	<b>\$ 367,540</b>	<b>\$ 367,972</b>

The carrying value for Zebra's financial instruments classified as current assets (other than short-term investments) and current liabilities approximate fair value due to their short maturities.

**Table of Contents****Note 3 Investments and Marketable Securities**

Investments in marketable debt securities are classified based on intent and ability to sell investment securities. Zebra's available-for-sale securities are used to fund further acquisitions and other operating needs and therefore may be sold prior to maturity. Investments in marketable debt securities for which Zebra intends to sell within the next year are classified as current and those that we intend to hold in excess of one-year are classified as non-current.

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 or maturity, the accumulated changes in market value are transferred to investment income. On the statement of cash flows, 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 statement of cash flows would include changes in the balances of trading securities as operating cash flows.

Included in Zebra's cash and investments and marketable securities are amounts held by foreign subsidiaries which are generally invested in U.S. dollar-denominated holdings. Zebra had foreign cash and investments of \$195,895,000 as of March 30, 2013, and \$173,483,000 as of December 31, 2012. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation upon repatriation, however, Zebra does not see a need to repatriate these funds.

**Note 4 Accounts Receivable**

The components of accounts receivable are as follows (in thousands):

	March 30, 2013	As of December 31, 2012
Accounts receivable, gross	\$ 170,050	\$ 169,401
Accounts receivable reserves	(795)	(669)
Accounts receivable, net	\$ 169,255	\$ 168,732

**Note 5 Inventories**

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

	March 30, 2013	As of December 31, 2012
Raw material	\$ 30,972	\$ 31,350
Work in process	718	921
Deferred costs of long-term contracts	631	604
Finished goods	97,915	104,137
Inventories, gross	130,236	137,012
Inventory reserves	(13,819)	(13,655)
Inventories, net	\$ 116,417	\$ 123,357

**Note 6 Goodwill and Other Intangible Assets**

Intangible assets are as follows (in thousands):



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	<b>Gross</b>	<b>As of March 30, 2013</b>	<b>Net</b>
	<b>Amount</b>	<b>Accumulated</b>	<b>Amount</b>
		<b>Amortization</b>	
Current technology	\$ 18,978	\$ (12,809)	\$ 6,169
Patent and patent rights	29,569	(15,460)	14,109
Customer relationships	20,493	(3,483)	17,010
Other intangibles, net	\$ 69,040	\$ (31,752)	\$ 37,288
Amortization expense for the three months ended March 30, 2013		\$ 1,863	

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	As of December 31, 2012		
	Gross Amount	Accumulated Amortization	Net Amount
Current technology	\$ 18,978	\$ (12,391)	\$ 6,587
Patent and patent rights	29,569	(14,618)	14,951
Customer relationships	20,493	(2,880)	17,613
Other intangibles, net	\$ 69,040	\$ (29,889)	\$ 39,151
Amortization expense for the three months ended March 31, 2012		\$ 770	

Zebra has \$94,942,000 of goodwill recorded as of March 31, 2013 and December 31, 2012. We test goodwill for impairment on an annual basis or more frequently if we believe indicators of impairment exist.

Factors considered that may trigger an impairment review consist of:

Significant underperformance relative to 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 Zebra believes that one or more of the above indicators of impairment have occurred, we perform an impairment test. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. We generally determine the fair value of our reporting units using three valuation methods: Income Approach, Discounted Cash Flow Analysis, Market Approach, Guideline Public Company Method, and Market Approach, Comparative Transactions Method. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

**Note 7 Costs Associated with Exit and Restructuring Activities**

In December 2012, Zebra began a plan, 2012 restructuring plan, to restructure its Location Solutions business management structure and announced a project to further optimize our manufacturing operations costs, which includes the consolidation and relocation of support functions. The costs below incurred for the year ended December 31, 2012 represent the costs related to the restructuring of Location Solutions business management structure. Costs incurred for 2013 and costs expected to be incurred relate to the following: restructuring of Zebra's manufacturing operations, relocation of a significant portion of Zebra's supply chain operations from the U.S. to China and consolidating activities domestically, restructuring of our sales operations and corporate restructuring.

As of March 30, 2013, we have incurred the following exit and restructuring costs related to the location solutions business management structure and manufacturing operations relocation and restructuring (in thousands):

**Type of Cost**

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	Cost incurred through December 31, 2012	Costs incurred for the three months ended March 30, 2013	Total costs incurred as of March 30, 2013	Additional costs expected to be incurred	Total costs expected to be incurred
Severance, stay bonuses, and other employee-related expenses	\$ 960	\$ 1,862	\$ 2,822	\$ 2,728	\$ 5,550
Professional services	0	12	12	298	310
Relocation and transition costs	0	21	21	459	480
Total	\$ 960	\$ 1,895	\$ 2,855	\$ 3,485	\$ 6,340

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Liabilities and expenses below relate to the 2011 and 2012 exit and restructuring plans (in thousands):

	Three Months Ended	
	March 30, 2013	March 31, 2012
Balance at beginning of period	\$ 967	\$ 1,048
Charged to earnings	1,895	0
Cash paid	(2,161)	(337)
Balance at the end of period	\$ 701	\$ 711

Liabilities related to exit and restructuring activities are included in the accrued liabilities line item on the balance sheet. All exit costs are included in operating expenses under the line item exit and restructuring costs.

**Note 8 Derivative Instruments**

Portions of our operations are subject to fluctuations in currency values. We manage these risks using derivative financial instruments. We conduct business on a multinational basis in a wide variety of foreign currencies. Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries, foreign currency denominated monetary assets and liabilities and transactions arising from international trade. Our objective is to preserve the economic value of non-functional currency denominated cash flows. We attempt to hedge transaction exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign exchange forward and option contracts with third parties.

*Credit and market risk*

Financial instruments, including derivatives, expose us to counter party credit risk for nonperformance and to market risk related to interest and currency exchange rates. We manage our exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. Our counterparties in derivative transactions are commercial banks with significant experience using derivative instruments. We monitor the impact of market risk on the fair value and cash flows of our derivative and other financial instruments considering reasonably possible changes in interest rates and currency exchange rates and restrict the use of derivative financial instruments to hedging activities. We continually monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. The terms and conditions of our credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer.

*Fair Value of Derivative Instruments*

Zebra has determined that derivative instruments for hedges that have traded but have not settled are considered Level 1 in the fair value hierarchy, and hedges that have not traded are considered Level 2 in the fair value hierarchy. Derivative instruments are used to manage risk and are not used for trading or other speculative purposes, nor do we use leveraged derivative financial instruments. Our foreign currency exchange contracts are valued using broker quotations or market transactions, in either the listed or over-the-counter markets.

*Hedging of Net Assets*

We use forward contracts to manage exposure related to our pound and euro denominated net assets. Forward contracts typically mature within three months after execution of the contracts. 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 asset positions, which would ordinarily offset each other.

Summary financial information related to these activities included in our consolidated statement of earnings as other income (expense) is as follows (in thousands):

	Three Months Ended	
	March 30, 2013	March 31, 2012

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Change in gains (losses) from foreign exchange derivatives	\$ 1,581	\$ (2,035)
Gain (loss) on net foreign currency assets	(1,679)	1,693
Foreign exchange loss	\$ (98)	\$ (342)

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	March 30, 2013	As of December 31, 2012
Notional balance of outstanding contracts:		
Pound/US dollar	£ 3,631	£ 3,810
Euro/US dollar	30,729	37,598
Net fair value of outstanding contracts	\$ 24	\$ 18

*Hedging of Anticipated Sales*

We can manage the exchange rate risk of anticipated euro-denominated sales using purchased options, forward contracts, and participating forwards. We designate these contracts as cash flow hedges which mature within twelve months after the execution of the contracts. Gains and losses on these contracts are deferred in other comprehensive income until the contracts are settled and the hedged sales are realized. The deferred gains or losses will then be reported as an increase or decrease to sales.

Summary financial information related to the cash flow hedges is as follows (in thousands):

	March 30, 2013	As of March 31, 2012
Unrealized gains (losses) on hedging transactions:		
Gross	\$ 2,270	\$ (6,538)
Income tax expense (benefit)	527	(1,892)
Net	\$ 1,743	\$ (4,646)

Summary financial information related to the cash flow hedges of future revenues follows (in thousands, except percentages):

	March 30, 2013	As of December 31, 2012
Notional balance of outstanding contracts versus the dollar	84,845	88,680
Hedge effectiveness	100%	100%

  

	March 30, 2013	March 31, 2012
Net gains and (losses) included in revenue	\$ (1,046)	\$ 1,157

*Forward contracts*

We record our forward contracts at fair value on our consolidated balance sheet as either long-term other assets or long-term other liabilities, depending upon the fair value calculation as detailed in Note 2 of Zebra's financial statements. The amounts recorded on our consolidated balance sheet are as follows (in thousands):

	March 30, 2013	As of December 31, 2012
Assets:		
Prepaid expenses and other current assets	\$ 2,578	\$ 0
Total	\$ 2,578	\$ 0
Liabilities:		
Accrued liabilities	\$ 0	\$ 2,045

Total		\$	0	\$	2,045
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**Table of Contents****Note 9 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 one year. Battery based products, such as location tags, are covered by a 30-day warranty. A provision for warranty expense is recorded at the time of sale and adjusted quarterly based on historical warranty experience.

The following table is a summary of Zebra's accrued warranty obligation (in thousands):

	Three Months Ended	
	March 30, 2013	March 31, 2012
Balance at the beginning of the year	\$ 4,252	\$ 4,613
Warranty expense	1,837	1,068
Warranty payments	(1,707)	(1,792)
Balance at the end of the period	\$ 4,382	\$ 3,889

**Note 10 Contingencies**

We are subject to a variety of investigations, claims, suits and other legal proceedings that arise from time to time in the ordinary course of business, including but not limited to, intellectual property, employment, tort and breach of contract matters. We currently believe that the outcomes of such proceedings, individually and in the aggregate, will not have a material adverse impact on our business, cash flows, financial position, or results of operations. Any legal proceedings are subject to inherent uncertainties, and management's view of these matters and their potential effects may change in the future.

**Note 11 Stockholders' Equity**

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

	As of	
	March 30, 2013	December 31, 2012
<b>Preferred Stock</b>		
Par value per share	\$ 0.01	\$ 0.01
Shares authorized	10,000,000	10,000,000
Shares outstanding	0	0
<b>Common Stock - Class A</b>		
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	51,017,867	50,908,267
Treasury stock		
Shares held	21,133,990	21,243,590

During the three-month period ended March 30, 2013, Zebra purchased 87,254 shares of its common stock for \$3,888,000 under a board authorized share repurchase plan, compared with purchases of 264,567 shares of common stock for \$9,775,000 for the three-month period ended March 31, 2012.

A roll forward of Class A common shares outstanding is as follows:

Three Months Ended	
March 30, 2013	March 31, 2012



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Balance at the beginning of the year	50,908,267	52,095,166
Repurchases	(87,254)	(264,567)
Stock option and ESPP issuances	199,715	76,063
Restricted share issuances	3,698	3,635
Restricted share forfeitures	(708)	(1,923)
Shares withheld for tax obligations	(5,851)	0
Balance at the end of the period	51,017,867	51,908,374

**Table of Contents****Note 12 Earnings Per Share**

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

	Three Months Ended	
	March 30, 2013	March 31, 2012
<b>Weighted average shares:</b>		
Weighted average common shares outstanding	50,980	51,998
Effect of dilutive securities outstanding	386	303
Diluted weighted average shares outstanding	51,366	52,301
<b>Basic per share amounts:</b>		
Net income	\$ 23,542	\$ 30,164
Weighted average common shares outstanding	50,980	51,998
Per share amount	\$ 0.46	\$ 0.58
<b>Diluted per share amounts:</b>		
Net income	\$ 23,542	\$ 30,164
Diluted weighted average shares outstanding	51,366	52,301
Per share amount	\$ 0.46	\$ 0.58

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

	Three Months Ended	
	March 30, 2013	March 31, 2012
Potentially dilutive shares	601,000	1,386,000

**Note 13 Share-Based Compensation**

Zebra has a share-based compensation plan and a stock purchase plan available for future grants. Zebra recognizes compensation costs using the straight-line method over the vesting period of up 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	
	March 30, 2013	March 31, 2012
Cost of sales	\$ 184	\$ 235
Selling and marketing	465	361
Research and development	325	388
General and administrative	1,172	2,816
Total compensation	\$ 2,146	\$ 3,800
Income tax benefit	\$ 730	\$ 1,021

Cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized (excess tax benefits) are classified as financing cash flows in the statement of cash flows. The tax benefits classified as financing cash flows for the three months ended March 30,

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2013 was \$358,000 and for the three months ended March 31, 2012 was \$66,000.

The fair value of share-based compensation 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 stock prices over our entire stock history. Stock option grants in the table below include both stock options, all of which were non-qualified, and stock appreciation rights (SAR) that will be settled in Zebra stock. Restricted stock grants are valued at the market closing price on the date of the grant. The following table shows the weighted-average assumptions used for grants of SARs as well as the fair value of the grants based on those assumptions:

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	Three Months Ended	
	March 30, 2013	March 31, 2012
Expected dividend yield	0%	0%
Forfeiture rate	10.21%	11.50%
Volatility	35.90%	35.33%
Risk free interest rate	0.94%	2.01%
Range of interest rates	0.07% - 1.95%	0.01% - 3.18%
Expected weighted-average life	5.48 years	5.42 years
Fair value of stock appreciation rights (SARs) granted	\$ 82,910	\$ 0
Weighted-average grant date fair value of SARs granted	\$ 15.08	\$ 0

Stock option activity was as follows:

Options	Three Months Ended March 30, 2013	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	1,531,844	\$ 41.69
Granted	0	0.00
Exercised	(162,085)	36.76
Forfeited	0	0.00
Expired	0	0.00
Outstanding at end of period	1,369,759	\$ 42.27
Exercisable at end of period	1,366,354	\$ 42.33
Intrinsic value of exercised options	\$ 1,203,000	

The following table summarizes information about stock options outstanding at March 30, 2013:

Aggregate intrinsic value	Outstanding \$ 4,324,000	Exercisable \$ 4,240,000
Weighted-average remaining contractual term	3.1 years	3.1 years

SAR activity was as follows:

SARs	Three Months Ended March 30, 2013	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	1,535,804	\$ 31.66
Granted	5,498	44.95
Exercised	(69,878)	26.18
Forfeited	(33,268)	35.25
Outstanding at end of period	1,438,156	\$ 31.89
Exercisable at end of period	448,788	\$ 26.61
Intrinsic value of exercised SARs	\$ 1,240,000	

The terms of the SARs are established under either the 2006 Incentive Compensation Plan or the 2011 Long-term Incentive Plan (the Plans) and the applicable SAR agreement. Once vested, a SAR entitles the holder to receive a payment equal to the difference between the per-share grant

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price of the SAR and the fair market value of a share of Zebra stock on the date the SAR is exercised, multiplied by the number of SARs exercised. Exercised SARs are settled in whole shares of Zebra stock, and any fraction of a share is settled in cash. The SARs granted typically vest annually in four equal amounts on each of the first four anniversaries of the grant date, with some SARs vesting over a period of five years. All SARs expire 10 years after the grant date.

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The following table summarizes information about SARs outstanding at March 30, 2013:

	Outstanding	Exercisable
Aggregate intrinsic value	\$ 17,139,000	\$ 7,714,000
Weighted-average remaining contractual term	7.6 years	6.9 years

Restricted stock award activity granted under the Plans, are as follows:

Restricted Stock Awards	Three Months Ended March 30, 2013	
	Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	444,362	\$ 35.43
Granted	3,459	45.45
Released	(16,093)	34.34
Forfeited	(708)	37.83
Outstanding at end of period	431,020	\$ 35.54

The terms of Zebra's time vested restricted stock grants are defined in the Plans noted above. Time vested restricted stock grants consist of restricted stock awards (RSA's) and performance share awards (PSA's). Zebra's restricted stock awards are expensed over the vesting period of the related award, typically three to five years. Compensation cost is calculated as the market date fair value on the grant date multiplied by the number of shares granted.

Performance share award activity granted under the Plans, are as follows:

Performance Share Awards	Three Months Ended March 30, 2013	
	Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	265,829	\$ 33.55
Granted	1,669	44.95
Released	(848)	41.57
Forfeited	0	0.00
Outstanding at end of period	266,650	\$ 33.60

	As of March 30, 2013
Awards granted under Zebra's equity based compensation plans:	
Unearned compensation costs related to awards granted	\$ 14,556,000
Period expected to be recognized over	2.1 years

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.

Three Months Ended	
March 30, 2013	March 31, 2012

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Fair market value	\$ 39.31	\$ 35.78
Option price	\$ 37.34	\$ 33.99
Expected dividend yield	0%	0%
Expected volatility	17%	20%
Risk free interest rate	0.05%	0.02%

**Table of Contents****Note 14 Income Taxes**

Zebra has identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. Included in deferred tax assets are amounts related to federal and state net operating losses that resulted from our acquisition of WhereNet Corp in 2007. We intend to utilize these net operating loss carryforwards to offset future income taxes.

Zebra earns a significant amount of our operating income outside of the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. Zebra does not intend to repatriate funds, however, should Zebra require more capital in the U.S. than is generated by our operations locally, Zebra could elect to repatriate funds held in foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. Repatriation would result in higher effective tax rates. Borrowing in the U.S. would result in increased interest expense.

An audit of U.S. federal tax returns for years 2008 through 2010 was completed in 2012. The tax years 2009 through 2011 remain open to examination by multiple state taxing jurisdictions. Tax authorities in the United Kingdom have completed income tax audits for tax years through 2011.

Zebra's continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense. For the three months ended March 30, 2013 and March 31, 2012, we did not accrue any interest or penalties into income tax expense.

	Three Months Ended	
	March 30, 2013	March 31, 2012
Effective tax rate	18.2%	28.0%

The 2013 effective rate reflects higher profits in lower rate international jurisdictions, a rate decrease related to the 2012 second quarter implementation of a new structure for Zebra's international subsidiaries, and reinstatement of the US R&D tax credit during the quarter retroactive to January 2012 which resulted in a one-time credit of approximately \$400,000 or a reduction to the effective tax rate of 1.3%.

**Note 15 Other Comprehensive Income**

Stockholders' equity includes certain items classified as accumulated other comprehensive income (AOCI), including:

**Unrealized gains (losses) on hedging transactions** 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 8 for more details.

**Unrealized gains (losses) on investments** are deferred from income statement recognition until the gains or losses are realized.

**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, period-end, and average foreign exchange rates. This combination of rates creates the foreign currency translation adjustment component of other comprehensive income.



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The components of other comprehensive income are as follows (in thousands):

	As of December 31, 2012	Gain (Loss) recognized in OCI	Gain (Loss) reclassified from AOCI to income	Subtotal	As of March 30, 2013
<b>Unrealized gains (losses) on hedging transactions:</b>					
Gross	\$ (2,581)	\$ 3,292	\$ (1,022) (1)	\$ 2,270	\$ (311)
Income tax (benefit)	(599)	782	(255)	527	(72)
Net	(1,982)	2,510	(767)	1,743	(239)
<b>Unrealized gains (losses) on investments:</b>					
Gross	540	(287)	179 (2)	(108)	432
Income tax (benefit)	162	(94)	58	(36)	126
Net	378	(193)	121	(72)	306
Foreign currency translation adjustments	(8,721)	94	0 (3)	94	(8,627)
Total accumulated other comprehensive loss	\$ (10,325)	\$ 2,411	\$ (646)	\$ 1,765	\$ (8,560)

	As of December 31, 2011	Gain (Loss) recognized in OCI	Gain (Loss) reclassified from AOCI to income	Subtotal	As of March 30, 2012
<b>Unrealized gains (losses) on hedging transactions:</b>					
Gross	\$ 7,355	\$ (7,695)	\$ 1,157 (1)	\$ (6,538)	\$ 817
Income tax (benefit)	2,096	(2,181)	289	(1,892)	204
Net	5,259	(5,514)	868	(4,646)	613
<b>Unrealized gains (losses) on investments:</b>					
Gross	(797)	884	(16) (2)	868	71
Income tax (benefit)	(288)	299	(1)	298	10
Net	(509)	585	(15)	570	61
Foreign currency translation adjustments	(8,963)	83	0 (3)	83	(8,880)
Total accumulated other comprehensive loss	\$ (4,213)	\$ (4,846)	\$ 853	\$ (3,993)	\$ (8,206)

- (1) Transfer of unrealized gains and (losses) from AOCI to income on hedging transactions are included in net sales of tangible products.
- (2) Transfer of unrealized gains and (losses) from AOCI to income on investments are included in investment income.
- (3) Transfer of foreign currency translation gains and (losses) from AOCI to income, are included in foreign exchange.

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**Note 16 New Accounting Pronouncements**

In July 2012, the FASB issued update 2012-03, ASC 350, *Intangibles Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment*. This updated guidance provides entities with the option to make qualitative assessments about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. This standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this standard did not have any effect upon our consolidated financial statements.

In February 2013, the FASB issued update 2013-02, ASC 220, *Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This updated guidance sets requirements for presentation for significant items reclassified to net income in their entirety during the period and for items not reclassified to net income in their entirety during period. This standard is effective for annual and interim periods beginning after December 15, 2012. The adoption of this standard includes additional disclosures in the notes to the consolidated financial statements

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Results of Operations: First Quarter of 2013 versus First Quarter of 2012****Consolidated Results of Operations**

(Amounts in thousands, except percentages):

	Three Months Ended		Percent Change	Percent of Net Sales - 2013	Percent of Net Sales - 2012
	March 30, 2013	March 31, 2012			
<b>Net Sales</b>					
Net sales of tangible products	\$ 225,121	\$ 232,476	(3.2)	95.0	95.3
Revenue from services & software	11,816	11,399	3.7	5.0	4.7
<b>Total net sales</b>	<b>236,937</b>	<b>243,875</b>	<b>(2.8)</b>	<b>100.0</b>	<b>100.0</b>
<b>Cost of Sales</b>					
Cost of sales of tangible products	117,111	119,033	(1.6)	49.4	48.8
Cost of services & software	6,761	4,959	36.3	2.9	2.0
<b>Total cost of sales</b>	<b>123,872</b>	<b>123,992</b>	<b>(0.1)</b>	<b>52.3</b>	<b>50.8</b>
<b>Gross profit</b>	<b>113,065</b>	<b>119,883</b>	<b>(5.7)</b>	<b>47.7</b>	<b>49.2</b>
Operating expenses	84,889	77,874	9.0	35.8	31.9
<b>Operating income</b>	<b>28,176</b>	<b>42,009</b>	<b>(32.9)</b>	<b>11.9</b>	<b>17.3</b>
Other income (expense)	588	(114)	N/M	0.2	0.0
<b>Income before income taxes</b>	<b>28,764</b>	<b>41,895</b>	<b>(31.3)</b>	<b>12.1</b>	<b>17.3</b>
Income taxes	5,222	11,731	(55.5)	2.2	4.9
<b>Net income</b>	<b>\$ 23,542</b>	<b>\$ 30,164</b>	<b>(22.0)</b>	<b>9.9</b>	<b>12.4</b>
Diluted earnings per share	\$ 0.46	\$ 0.58	(20.7)		

**Consolidated Results of Operations - First quarter****Sales**

Net sales for the first quarter of 2013, compared with the corresponding 2012 quarter, declined 2.8% primarily due to a struggling European economy. Zebra experienced reduced sales to its significant customers in the first quarter of 2013 versus the first quarter of 2012. The decrease in sales was attributable to 8.0% decline in hardware sales offset by a 14.3% growth in supplies including labels, card printer supplies and aftermarket parts. Printer unit volume increased 0.7% from the first quarter of 2012 primarily due to volume increases in desktop, kiosk, and card printers.

Sales by product category were as follows (amounts in thousands, except percentages):

Product Category	Three Months Ended		Percent Change	Percent of Net Sales - 2013	Percent of Net Sales - 2012
	March 30, 2013	March 31, 2012			

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Hardware	\$ 166,692	\$ 181,196	(8.0)	70.3	74.3
Supplies	57,123	49,962	14.3	24.1	20.5
Service and software	11,816	11,399	3.7	5.0	4.7
Subtotal products	235,631	242,557	(2.9)	99.4	99.5
Shipping and handling	1,306	1,318	(0.9)	0.6	0.5
Total net sales	\$ 236,937	\$ 243,875	(2.8)	100.0	100.0

Sales declines in Europe, Middle East and Africa (EMEA) and Asia Pacific were primarily from challenged business environments which were slightly offset by increased sales in North America and Latin America. Sales increased in Latin America in part from expanded geographic coverage, with notable increases in desktop, kiosk, and mobile printers. Sales in North America increased due to increased sales in supplies, desktop and kiosk printers.

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Sales to customers by geographic region were as follows (in thousands, except percentages):

Geographic Region	Three Months Ended		Percent Change	Percent of Net Sales - 2013	Percent of Net Sales - 2012
	March 30, 2013	March 31, 2012			
Europe, Middle East and Africa	\$ 77,673	\$ 86,121	(9.8)	32.8	35.3
Latin America	23,131	22,287	3.8	9.8	9.1
Asia-Pacific	32,909	33,148	(0.7)	13.9	13.6
Total International	133,713	141,556	(5.5)	56.5	58.0
North America	103,224	102,319	0.9	43.5	42.0
Total net sales	\$ 236,937	\$ 243,875	(2.8)	100.0	100.0

*Gross Profit*

Gross profit of 47.7%, versus 49.2% in 2012, reflects lower sales across EMEA and Asia Pacific regions in addition to changes in product mix.

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

	Three Months Ended		Percent Change
	March 30, 2013	March 31, 2012	
Total printers shipped	299,633	297,669	0.7
Average selling price of printers shipped	\$ 469	\$ 503	(6.7)

For the first quarter of 2013, unit volumes increased compared to the first quarter of 2012, with notable volume increases in desktop and card printers. The decrease in average selling price is a result of a change in product mix toward lower priced products in the 2013 quarter compared to the 2012 quarter. However, within product category, pricing remains stable.

*Operating Expenses*

Operating expenses for the quarter increased 9.0% due mainly to greater costs in all operating expense categories. Several expense types accounted for these increases, including compensation costs, outside professional services, project expenses, and travel and entertainment. These increases are principally related to activities supporting Zebra's geographic expansion and market development activities. Amortization increases relate to intangible asset increases as a result of acquisitions in the second half of 2012. Acquisition costs relate to investigated and completed acquisitions. Exit and restructuring costs in 2013 relate to the relocation and consolidation of our supply chain operations to APAC, sales operations restructuring and corporate restructuring.

Operating expenses are summarized below (in thousands, except percentages):

Operating Expenses	Three Months Ended		Percent Change	Percent of Net Sales 2013	Percent of Net Sales 2012
	March 30, 2013	March 31, 2012			
Selling and marketing	\$ 33,515	\$ 32,114	4.4	14.1	13.2
Research and development	21,858	20,416	7.1	9.2	8.4
General and administrative	25,276	24,320	3.9	10.7	10.0
Amortization of intangible assets	1,863	770	141.9	0.8	0.3
Acquisition costs	482	254	89.8	0.2	0.1
Exit and restructuring	1,895	0	N/M	0.8	0.0

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Total operating expenses	\$ 84,889	\$ 77,874	9.0	35.8	31.9
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*Operating Income*

The operating income decreased for the first quarter of 2013 versus 2012 as a result of decreased sales and higher operating expenses.

*Other Income (Expense)*

Investment income increased slightly from higher cash and investment amounts in 2013 compared with 2012 as a result of increased cash provided by operating activities.

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

	Three Months Ended	
	March 30, 2013	March 31, 2012
Investment income	\$ 677	\$ 592
Foreign exchange loss	(98)	(342)
Other, net	9	(364)
 Total other income (expense)	 \$ 588	 \$ (114)

*Income Taxes*

The effective income tax rate for the first quarter of 2013 was 18.2% compared with 28.0% for the first quarter of 2012. The 2013 effective rate reflects higher profits in lower rate international jurisdictions and reinstatement of the US R&D tax credit during the quarter retroactive to January 2012 which resulted in a one-time credit of approximately \$400,000 or a reduction to the effective tax rate of 1.3%.

**Liquidity and Capital Resources**

(Amounts in thousands, except percentages):

<b>Rate of Return Analysis:</b>	Three Months Ended	
	March 30, 2013	March 31, 2012
Average cash and marketable securities balances	\$ 405,820	\$ 344,470
Annualized rate of return	0.7%	0.7%

Average cash and marketable securities balances for the first three months of 2013 increased compared to 2012 as a result of increased cash and marketable securities in 2013 versus comparable levels in 2012.

As of March 30, 2013, Zebra had \$417,564,000 in cash and investments and marketable securities, compared with \$394,075,000 at December 31, 2012. Factors affecting cash and investment balances during the first three months of 2013 include the following (changes below include the impact of foreign currency):

Inventories decreased \$6,943,000 due to decreases in raw materials and finished goods.

Accounts payable decreased \$7,119,000 due to the timing of payments at period end.

Accrued liabilities decreased \$12,787,000 due to the timing of annual bonus payments and regular payroll.

Purchases of treasury shares totaled \$3,888,000.

Stock option exercises and purchases under the stock purchase plan contributed \$5,913,000. Management believes that existing capital resources and funds generated from operations are sufficient to finance anticipated capital requirements.

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Zebra earns a significant amount of our operating income outside of the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. Zebra does not intend to repatriate funds, however, should Zebra require more capital in the U.S. than is generated by our operations locally, Zebra could elect to repatriate funds held in foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. Repatriation would result in higher effective tax rates. Borrowing in the U.S. would result in increased interest expense.

### **Critical Accounting Policies and Estimates**

Management prepared the consolidated financial statements of Zebra 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.

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.



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### 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 generally 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 rebates and establish a reserve for them based on shipment history. Historically, actual rebates have been in line with our estimates.

### Pass Through Rebate Program

Some of our distributors are offered monthly rebates based on distribution of products to our program partners. These rebates are recorded as a reduction to revenue. Each month we estimate the amount of rebate earned and establish a reserve for them based on recent trends of actual activity. The actual distributor rebates paid have historically been in line with our estimates.

### 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 three types of software and record revenue as follows:

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.

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We recognize license revenue when (1) a signed contract is obtained; (2) delivery of the product has occurred; (3) the license fee is fixed or determinable; and (4) collection is probable.

### Maintenance and Support Agreements

We enter into post-contract maintenance and support agreements. Revenues are recognized ratably over the service period and the cost of providing these services is expensed as incurred.

### 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.

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Zebra enters 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 determined by vendor specific objective evidence. 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 March 30, 2013, consisted of the following:

U.S. government and agency securities	28.5%
Obligations of government-sponsored enterprises (1)	3.0%
State and municipal bonds	30.3%
Corporate securities	38.2%

(1) Includes investments in notes issued by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Federal Farm Credit Banks and the Federal Home Loan Bank.

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. Securities not included in trading or held-to-maturity are classified as available-for-sale.

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.

Zebra's investments in marketable debt securities are classified as available-for-sale except for securities held in Zebra's deferred compensation plan, which are considered to be trading securities. Investments in marketable debt securities are classified based on intent and ability to sell investment securities. Zebra's available-for-sale securities are used to fund further acquisitions and other operating needs and therefore can be sold prior to maturity. Investments in marketable debt securities for which Zebra intends to sell within the next year are classified as current and those that we intend to hold in excess of one-year are classified as non-current.

*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,

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

Limited credit insurance on the majority of our international receivables.

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 0.4% to 1.2% of total accounts receivable. Accounts receivable reserves as of March 30, 2013, were \$795,000, or 0.5% of the balance due. Accounts receivable reserves as of December 31, 2012, were \$669,000, or 0.4% of the balance due. We believe our reserve level is appropriate considering the quality of the portfolio as of March 30, 2013. 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 8.0% to 11.9% of gross inventory. As of March 30, 2013, inventory reserves were \$13,819,000, or 10.6% of gross inventory compared to inventory reserves of \$13,655,000, or 10.0% of gross inventory as of December 31, 2012. We believe our reserve level is appropriate considering the quantities and quality of the inventories as of March 30, 2013.

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### *Valuation of Goodwill*

Goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Examples of such events or circumstances include:

Significant adverse change in legal factors or in the business climate,

Adverse action or assessment by a regulator,

Unanticipated competition,

Loss of key personnel,

More-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of,

Testing for recoverability of a significant asset group within a reporting unit,

Allocation of a portion of goodwill to a business to be disposed of.

If Zebra believes that one or more of the above indicators of impairment have occurred, we perform an impairment test. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. We generally determine the fair value of our reporting units using three valuation methods: Income Approach Discounted Cash Flow Analysis, Market Approach Guideline Public Company Method, and Market Approach Comparative Transactions Method. The approach defined below is based upon our last impairment test conducted in June 2012 as of the end of May 2012. Zebra performed an interim impairment test in October 2012 for its smaller reporting unit as of the end of September 2012. The October 2012 test only utilized the income approach as discussed below.

Under the Income Approach Discounted Cash Flow Analysis the key assumptions consider sales, cost of sales and operating expenses projected through the year 2021. These assumptions were determined by management utilizing our internal operating plan and assuming growth rates for revenues and operating expenses, and margin assumptions. The fourth key assumption under this approach is the discount rate which is determined by looking at current risk-free rates of capital, current market interest rates and the evaluation of risk premium relevant to the business segment. If our assumptions relative to growth rates were to change or were incorrect, our fair value calculation may change which could result in impairment.

Under the Market Approach Guideline Company Method we identified 20 publicly traded companies, including Zebra, which we believe have significant relevant similarities. For these 20 companies we calculated the mean ratio of invested capital to revenues and invested capital to EBITDA. Similar to the Income approach discussed above, sales, cost of sales, operating expenses and their respective growth rates were the key assumptions utilized. The market prices of Zebra and other guideline company shares are key assumptions. If these market prices increase, the estimated market value would increase. If the market prices decrease, the estimated market value would decrease.

Under the Market Approach Comparative Transactions Method we looked at 19 market based transactions for companies that have similarities to our business segment, including similarities to one or more of the business lines, markets, growth prospects, margins and size. We calculated mean revenue and EBITDA multiples for the selected transactions. These multiples were applied to forecasted Zebra results for that segment to estimate market value. The key assumptions and impact to changes to those assumptions would be similar to those assumptions under the Income Approach Discounted Cash Flow Analysis and the Market Approach Guideline Company Method .

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The results of these three methods are weighted based upon managements' determination with more weight attached to the Income approach because it considers anticipated future financial performance. The Market approaches are based upon historical and current economic conditions which might not reflect the long term prospects or opportunities for our business segment being evaluated.

If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

There have not been any significant changes to our impairment testing methodology other than updating the assumptions to reflect the current market environment. As discussed above, key assumptions used in the first step of the goodwill

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impairment test were determined by management utilizing the internal operating plan. The key assumptions utilized include forecasted growth rates for revenues and operating expenses as well as a discount rate which is determined by looking at current risk-free rates of capital, current market interest rates and the evaluation of a risk premium relevant to the business segment. Zebra will monitor future results and will perform a test if indicators trigger an impairment review.

We test the impairment of goodwill each year as of the end of May or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Zebra has two reporting units required for its annual goodwill impairment test. We completed our annual assessment during June 2012 and determined that our goodwill was not impaired as of the end of May 2012. As part of Zebra's annual impairment test in the second quarter of 2012, Management determined that the larger of the two reporting units' fair value exceeded its carrying value by a significant amount. The second smaller reporting unit's amount by which the fair value exceeded the carrying value ranged from approximately 8% under the Income Approach to 31% under the Market Approach.

Due to the deterioration in the smaller reporting unit's operating results during the third quarter of 2012, failing to meet our forecasted revenues and operating expenses, and a decline in expected growth rates, our fair value calculation for the smaller reporting unit changed and we determined our goodwill associated with the smaller reporting unit was impaired. The above impairment indicators led us to conclude an interim goodwill test was necessary. Zebra performed the first step of the impairment test which failed. As a result, Zebra also performed a second step analysis and recorded a goodwill impairment charge of \$9,114,000 as of September 29, 2012. After this impairment charge, there is no remaining goodwill in the smaller reporting unit.

### *Valuation of Long-Lived and Other Intangible Assets*

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 Zebra believes that one or more of the above indicators of impairment have occurred and the undiscounted cash flow test has 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 \$233,284,000 as of March 30, 2013.

### *Income Taxes*

Zebra has identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. Included in deferred tax assets are amounts related to federal and state net operating losses that resulted from our acquisition of WhereNet Corp. Zebra's intention is to utilize these net operating loss carryforwards to offset future income taxes.

Zebra earns a significant amount of our operating income outside of the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. Zebra does not intend to repatriate funds, however, should Zebra require more capital in the U.S. than is generated by our operations locally, Zebra could elect to repatriate funds held in foreign jurisdictions or raise capital in the U.S. through debt or equity issuances.

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Repatriation would result in higher effective tax rates. Borrowing in the U.S. would result in increased interest expense.

An audit of U.S. federal tax returns for years 2008 through 2010 was completed in 2012. The tax years 2009 through 2011 remain open to examination by multiple state taxing jurisdictions. Tax authorities in the United Kingdom have completed income tax audits for tax years through 2011.

Zebra's continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense. For the three month ended March 30, 2013 and March 31, 2012, we did not accrue any interest or penalties into income tax expense.



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Zebra's estimates of taxes for interim periods are based upon the annual effective tax rate for the full-year, adjusted for any discrete items that relate to an interim period. The estimated annual effective tax rate is determined using projections of full-year taxable income by each Zebra legal entity with the appropriate statutory tax rate for that subsidiary applied. The effective rate may change during the year, typically due to the change in our estimated taxable income by jurisdiction as each year progresses.

	Three Months Ended	
	March 30, 2013	March 31, 2012
Effective tax rate	18.2%	28.0%

The 2013 effective rate reflects higher profits in lower rate international jurisdictions, a rate decrease related to the 2012 second quarter implementation of a new structure for Zebra's international subsidiaries, and reinstatement of the US R&D tax credit during the quarter retroactive to January 2012 which resulted in a one-time credit of approximately \$400,000 or a reduction to the effective tax rate of 1.3%.

**Significant Customer**

Our net sales to significant customers as a percentage of total net sales were as follows:

	Three Months Ended	
	March 30, 2013	March 31, 2012
Customer A	16.6%	21.5%
Customer B	12.0%	11.0%
Customer C	11.9%	9.7%

No other customer accounted for 10% or more of total net sales during these periods. The customers disclosed above are distributors (i.e. not end users) of Zebra's products.

**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 expressed or implied in such forward looking statements. These forward-looking statements are based on current expectations, forecasts and assumptions and are subject to the risks and uncertainties inherent in Zebra's industry, market conditions, general domestic and international economic conditions, and other factors. 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 global market conditions, including North America, Latin America, Asia Pacific, Europe, Middle East and Africa and other regions in which we do business,

Our ability to control manufacturing and operating costs,

The availability of credit and the volatility of capital markets, which may affect our suppliers and customers,

Success of acquisitions and their integration,

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

The effect of natural disaster on our business,

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, 2012, for a further discussion of issues that could affect Zebra's future results. Zebra undertakes no obligation, other than as may be required by law, 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.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There were no material changes in Zebra's market risk during the quarter ended March 30, 2013. 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, 2012.

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. See Note 8 to the Consolidated Financial Statements included in this report for further discussion of derivative instruments.

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### **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 (the Exchange Act )) as of the end of the period covered by this Form 10-Q. The 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 Officer 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 furnish 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**

During the quarter covered by this report, there have been no changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

#### **Inherent Limitations on the Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting 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**

See Note 10 to the Consolidated Financial Statements included in this report.

**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, 2012, 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, cash flows or results of operations. 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, cash flows and/or results of operations.

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

During the first quarter of 2013, Zebra purchased 87,254 shares of Zebra's Class A Common Stock at a weighted average share price of \$44.56 per share, as follows:

**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly announced programs</b>	<b>Maximum number of shares that may yet be purchased under the program</b>
January 2013 (January 1 - January 26)	0	\$ 0.00	0	2,022,336
February 2013 (January 27 - February 23)	0	\$ 0.00	0	2,022,336
March 2013 (February 24 - March 30)	87,254	\$ 44.56	87,254	1,935,082

- (1) On November 4, 2011, Zebra's Board authorized the purchase of up to an additional 3,000,000 shares under our stock repurchase program. This authorization does not have an expiration date.
- (2) During the first quarter, Zebra acquired 5,851 shares of Zebra Class A Common Stock through the withholding of shares necessary to satisfy tax withholding obligations upon the vesting of restricted stock awards. These shares were acquired at an average price of \$42.69 per share.

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**Item 6. Exhibits**

- 10.1 Form of 2013 time-vested stock appreciation rights agreement for employees other than CEO. +
- 10.2 Form of 2013 time-vested restricted stock agreement for employees other than CEO. +
- 10.3 Form of 2013 performance-based restricted stock agreement for employees other than CEO. +
- 10.4 Form of 2013 time-vested stock appreciation rights agreement for CEO. +
- 10.5 Form of 2013 time-vested restricted stock agreement for CEO. +
- 10.6 Form of 2013 performance-based restricted stock agreement for CEO. +
- 10.7 Amendment to the lease between the Company and BLDG Vernon LLC and Bacael Vernon LLC for the Company's facility in Vernon Hills, Illinois, dated as of November 26, 2012.
- 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
- 101 The following financial information from Zebra Technologies Corporation Quarterly Report on Form 10-Q, for the quarter ended March 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the consolidated balance sheets; (ii) the consolidated statements of earnings; (iii) the consolidated statements of comprehensive income; (iv) the consolidated statements of cash Flows; and (v) notes to consolidated financial statements.

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**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: May 2, 2013

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

Date: May 2, 2013

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