

ZEBRA TECHNOLOGIES CORP/DE

Form 10-K

February 29, 2008

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

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

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(Exact name of registrant as specified in its charter)

Delaware **36-2675536**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **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

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Exchange on which Registered |
|---|--------------------------------------|
| Class A Common Stock, par value \$.01 per share | The NASDAQ Stock Market, LLC |

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

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes No

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of June 30, 2007, the aggregate market value of each of the registrant's Class A Common held by non-affiliates was approximately \$2,678,766,000. The closing price of the Class A Common Stock on June 30, 2007, as reported on the Nasdaq Stock Market, was \$38.74 per

share.

As of February 22, 2008, 66,393,048 shares of Class A Common Stock, par value \$.01 per share, were outstanding.

Documents Incorporated by Reference

Certain sections of the registrant's Notice of Annual Meeting of Stockholders and Proxy Statement for its Annual Meeting of Stockholders to be held on May 22, 2008 are incorporated by reference into Part III of this report.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INDEX

| | PAGE |
|--|-------------|
| <u>PART I</u> | |
| Item 1. <u>Business</u> | 3 |
| Item 1A. <u>Risk Factors</u> | 13 |
| Item 1B. <u>Unresolved Staff Comments</u> | 17 |
| Item 2. <u>Properties</u> | 18 |
| Item 3. <u>Legal Proceedings</u> | 19 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u> | 19 |
| <u>PART II</u> | |
| Item 5. <u>Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 20 |
| Item 6. <u>Selected Consolidated Financial Data</u> | 21 |
| Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 22 |
| Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 37 |
| Item 8. <u>Financial Statements and Supplementary Data</u> | 39 |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</u> | 39 |
| Item 9A. <u>Controls and Procedures</u> | 40 |
| Item 9B. <u>Other Information</u> | 44 |
| <u>PART III</u> | |
| Item 10. <u>Directors, Executive Officers, and Corporate Governance</u> | 45 |
| Item 11. <u>Executive Compensation</u> | 45 |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 45 |
| Item 13. <u>Certain Relationships and Related Transactions</u> | 45 |
| Item 14. <u>Principal Accounting Fees and Services</u> | 45 |
| <u>PART IV</u> | |
| Item 15. <u>Exhibits and Financial Statement Schedules</u> | 46 |
| <u>SIGNATURES</u> | |
| Signatures | 47 |
| CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE | |
| <u>Index to Consolidated Financial Statements and Schedule</u> | F-1 |
| EXHIBITS | |
| <u>Index to Exhibits</u> | |

Table of Contents

PART I

References in this document to Zebra, we, us, or our refer to Zebra Technologies Corporation and its subsidiaries, unless the context specifically indicates otherwise.

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 integrating acquisitions,

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 this report for 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 annual report.

Item 1. Business

Zebra Technologies Corporation was incorporated as an Illinois Corporation in 1969. We became a Delaware corporation in 1991 in connection with our initial public offering, which we completed in August 1991. We remain organized under the laws of the State of Delaware, and our principal offices are located at 333 Corporate Woods Parkway, Vernon Hills, Illinois 60061. Our main telephone number is (847) 634-6700 and our primary Internet Web site address is www.zebra.com. You can find all of Zebra's filings with the SEC free of charge through the investor page on this Web site, immediately upon filing.

The Company

Zebra delivers products and solutions that improve our customers' ability to identify, track and manage assets, transactions and people. We design, manufacture and distribute specialty printing devices that print variable information on demand at the point of issuance. These devices are used worldwide by manufacturers, service organizations and governments for automatic identification, data collection and personal

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identification in applications that improve productivity, deliver better customer service and provide more effective security. Our product range consists of direct thermal and thermal transfer label and receipt printers, passive radio frequency identification (RFID) printer/encoders, dye sublimation card printers and digital photo printers. We also sell 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.

In 2007, we acquired WhereNet Corp., proveo AG and Navis Holdings, LLC. The acquisitions of these companies expanded the range of identification and tracking solutions we deliver to our customers. In addition, they provided us with new technologies to offer our customers including active RFID and global positioning systems (GPS). The products of these companies consist of battery-powered wireless tags, fixed-position antennae, transponder modules and various application software. These companies also sell consulting services, maintenance contracts and software licenses. These companies are discussed separately at the end of this Item 1, Business.

Table of Contents

Specialty Printer Products

We design our printer products to operate at the point of issuance to produce and dispense high-quality labels, plastic cards, and photographs on demand. The exceptional diversity of applications using our printer products for bar coding and personal identification is comprised of routing and tracking, transactions processing, and identification and authentication. These applications require high levels of data accuracy and where speed and reliability are critical. They also include specialty printing for receipts and tickets where improved customer service and productivity gains may be the primary reason for printing, rather than a barcoding application. Plastic cards are used for secure, reliable personal identification or access control. Digital photo printers are sold on an OEM basis to professional photographers and for use in kiosks at retail and other locations.

Applications for our printing technology span most industries and geographies. They include inventory control, small package delivery, baggage handling, automated warehousing, JIT (Just-In-Time) manufacturing, employee time and attendance records, file management systems, hospital information systems, medical specimen labeling, shop floor control, in-store product labeling, employee ID cards, driver's licenses, and access control systems. As of December 31, 2007, management estimates that Zebra has sold over 6,000,000 printers to users in approximately 100 countries.

We believe competitive forces on businesses worldwide to strengthen security, reduce costs, improve quality, deliver better customer service, and increase productivity, support the adoption of the printing and automatic identification applications Zebra provides, because these solutions deliver significant and predictable economic benefits. Industry-mandated compliance requirements for bar code labeling and RFID tagging are also important catalysts in the deployment of these systems. We also believe that companies are adopting automatic identification systems that incorporate barcoding and RFID for business improvement applications. Many of these applications make increasing use of enterprise-wide resource planning (ERP) and other process improvement systems in manufacturing and service organizations. Greater emphasis on supply chain management, the drive to reduce errors in healthcare, and heightened concern over safety and security will lead to increased use of automatic identification systems. Still other applications are taking advantage of recent advances in wireless and hand-held computing technologies.

Concern for safety and security and personal identification contribute to demand for our card printer products. This concern has heightened interest in systems that provide personal identification and access control, including secure ID systems for driver's licenses, employee and visitor badges, national identification cards, event passes, club membership cards and keyless entry systems.

Our printers are used to produce bar code labels, passive RFID smart labels, receipts, wristbands and tags, plastic cards, and photographs. We also sell related specialty labeling materials, thermal ink ribbons, and bar code label design and network management software. These products are used to provide bar code labeling, personal identification, and specialty printing solutions principally in the manufacturing supply chain, retail, healthcare and government sectors of the economy. We work closely with distributors, resellers, kiosk manufacturers and end users of our products to design and implement printing solutions that meet their technical demands. To achieve this flexibility, we provide our customers with a broad selection of printer models, each of which can be configured for a specific application. Additionally, we will select and, if necessary, create appropriate labeling stock, ink ribbons and adhesives to suit a particular application. In-house engineering personnel in software, mechanical, electronic and chemical engineering participate in the creation and development of printing solutions for particular applications.

We produce the industry's broadest range of rugged, on-demand thermal transfer and direct thermal printers. Our printing systems include hundreds of optional configurations that can be selected to meet particular customer needs. We believe this breadth of product is a unique and significant competitive strength, because it allows Zebra to satisfy the widest variety of thermal printing applications.

Of the major printing technologies, which include ink jet, laser and impact dot matrix, management believes that direct thermal and thermal transfer technologies are best suited for most bar code labeling applications. Thermal transfer printing produces dark, solid blacks and sharply defined lines that are important for printing readily scannable bar codes. These images can be printed on a wide variety of labeling materials, which enable users to affix bar code labels to virtually any object. This capability is very important in the industrial and service sectors Zebra serves. Direct thermal printing is best suited where ease of use, smaller size and cost are important factors in the application. Accordingly, this technology is found principally in Zebra's mobile and desktop units.

Table of Contents

As of December 31, 2007, we offered 56 thermal printer models with numerous variations, in nine categories as follows:

Performance tabletop printers for applications requiring continuous operation in high output, mission-critical and industrial settings.

RFID printer/encoders for passive high frequency (HF) and ultra-high frequency (UHF) radio frequency identification (RFID) in the retail supply chain, for defense logistics, and other applications. These units are used to print and encode smart labels in a single pass. Smart labels are printable labels embedded with an ultra-thin radio frequency transponder. Information encoded in these transponders can then be read and modified by a radio frequency reader.

Mid-range tabletop printers, which are designed for demanding commercial applications.

Desktop printers to deliver value and performance in applications with lower volume or space restrictions.

Mobile printers to meet the printing needs of workers in the field.

Print engines, which are sold to manufacturers and integrators of high-speed automatic label applicator systems and are available with or without RFID smart label capabilities.

Kiosk and ticket printers for use in kiosks and other unattended printing applications.

Card printers, which print national identity cards, driver's licenses, employee identification badges, gift cards and personalized cards.

Photo printers to produce digital photographs, either as part of a photo kiosk or standalone in professional photography applications. In addition to their use in on-demand automatic identification applications, our thermal printers can also be used for on-site batch production of custom bar code labels and other graphics. This capability results in shorter lead times, reduced inventory, and more flexibility than can be provided with traditional off-site printing.

Printer Supplies

Supplies products consist of stock and customized thermal labels, wristbands, smart labels and tags, plastic cards, card laminates and thermal transfer ribbons. Zebra promotes the use of genuine Zebra brand supplies with its equipment.

Zebra fully supports its printers, resellers and end users with an extensive line of superior quality, high-performance supplies optimized to a particular user's needs. Supplies are chosen in consultation with the reseller and end user based on the specific application, printer and environment in which the labeling system must perform. These printing solutions frequently include proprietary ribbon and label formulations that are designed to optimize image resolution and printer performance while meeting the most demanding end user application performance criteria. Factors such as adhesion, resistance to scratches, smudges and abrasion, and chemical and environmental exposures are all taken into account when selecting the type of ribbon and labeling materials. The use of supplies that are not carefully matched to specific printers can degrade image quality, and decrease the part life of key printer components such as printheads.

Printer Related Software

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Zebra has specialized printer management, label design and driver solutions to help unlock the full potential of Zebra printers. The ZebraLink Solutions suite of networking, software, firmware offerings, combined with the enhanced

Table of Contents

printer management capabilities of ZebraNet Bridge, makes Zebra's printers easy to use and integrate into small, medium and enterprise-wide environments. Our goal is to provide software that enables high levels of functionality to all major computer network and software systems. Network systems include Ethernet, 802.11b/g and Bluetooth wireless systems. In 2007, Zebra added support for enhanced 802.11b/g wireless securities, including WPA and WPA2.

Zebra offers label design and integration software specifically designed to optimize the performance of Zebra bar code label printers. In addition to Zebra's existing label design and printer configuration tools, ZebraDesigner, ZebraDesigner Pro and ZebraDesigner for XML, we added ZebraDesigner Label Design Software for use with mySAP Business Suite in 2007, making it possible to design labels and print to Zebra printers from SAP without the need for middleware or additional programming.

Printer Maintenance and Services

Zebra provides depot maintenance and repair services at repair centers in Vernon Hills, Illinois; Camarillo, California; Canada; Preston, U.K.; China; and the Netherlands. Zebra Authorized Service Providers (ZASP) also provide repair services for most Zebra products at their locations. In addition, Zebra offers on-site repair services for tabletop printers in the United States. Outside of the United States, Zebra's resellers may provide maintenance service, either directly as ZASPs or through independent service agents. Zebra also provides technical support from in-house support personnel located in the United States, the United Kingdom and Singapore. For most Zebra products, Zebra provides interactive technical support via the Internet at www.zebra.com, 24 hours per day, seven days per week.

Printer Warranties

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. Zebra supplies are warranted against defects in material and workmanship for their stated shelf life or twelve months, whichever ends first. Defective equipment and supplies may be returned for repair, replacement or refund during the applicable warranty periods.

Zebra's Printer Technology

Our customers rely on Zebra to provide products and systems to identify, authenticate, track or route both items and people, and then process the related transactions. These products and systems use technologies that provide specific benefits in each application.

All Zebra printers and print engines use thermal printing, either direct thermal printing, thermal transfer printing or dye-sublimation printing. This technology creates an image by heating certain pixels of an electrical printhead to selectively image a ribbon or heat-sensitive substrate.

Direct thermal printers apply the heat directly to a thermally-sensitive label, wristband, or receipt to create an image. This benefits applications needing simple, reliable operation such as shelf labeling, patient identification, and kiosk receipts. Some desktop label printers, mobile printers and kiosk printers support only direct thermal printing.

Thermal transfer printers apply heat to a ribbon to release ink onto labels or tags. This allows a wider range of specialty label materials and associated inks to be used for applications like circuit board labels, chemical identification and product labels requiring resistance to chemicals, temperature extremes, abrasion, or long life. Performance, mid-range, print-engines and some desktop printers use thermal transfer printing but can also support direct thermal printing.

Dye-sublimation printers apply heat to a ribbon to release a dye into a plastic card or treated paper. This creates full color, photographic quality images well-suited to driver licenses, access and identification cards, transaction cards, and on-demand photographs. Our card printers and digital photo printers use dye-sublimation printing.

Table of Contents

Direct thermal and thermal transfer printers create crisp images at high speed, making them ideal for printing easily readable text and machine readable bar codes. Dye sublimation thermal printers quickly create full-color images with visual characteristics more similar to halide-based film than to pixel-based ink jet or laser printers, making them ideal for high quality photographs and personalized plastic cards. Some printers also include HF (13.56 MHz) or UHF (860-960 MHz) RFID technology that can encode data into passive RFID transponders embedded in a label, card, or wristband. These smart labels are finding growing acceptance in commercial and military supply chain management, as well as many closed-loop tracking applications.

Zebra's printers integrate company-designed mechanisms, electrical systems, and firmware. Enclosures of metal or high-impact plastic ensure durability. Special mechanisms optimize handling of labels, ribbons, and plastic cards. Fast, high-current electrical systems provide consistent image quality. Mobile printers use NiMH or LiIon batteries to optimize print quality over an extended operating shift. Firmware supports serial, parallel, Ethernet, USB, infrared, Bluetooth, or 802.11b/g wireless communications with appropriate security protocols. Printing instructions can be received as a proprietary language such as Zebra Programming Language II (ZPL II®), as a print driver-provided image, or as user-defined XML. This makes the printers easy to integrate into virtually all common computer systems including those operating on UNIX, Linux, MS/DOS®, or Microsoft® Windows® operating systems. Some independent software vendors, including Adobe, Oracle and SAP, have included Zebra printing support in applications for healthcare, warehouse management, manufacturing, passenger transportation, and retailing.

Printer Sales and Marketing

Sales. We sell our printer products primarily through distributors, value-added resellers (VARs), and original equipment manufacturers (OEMs). We also sell our printer products directly to a select number of named accounts. For media and consumables, we also sell directly to end users through the Internet and telesales operations. Distributors and VARs purchase, stock and sell a variety of automatic identification components from different manufacturers and customize systems for end-user applications using their systems and application integration expertise. Because these sales channels provide specific software, configuration, installation, integration and support services required by end users within various market segments, these relationships allow Zebra to reach end users throughout the world in a wide variety of industries. Zebra experiences a minor amount of seasonality in sales, depending on the geographic region and/or vertical market.

We functionally classify our direct VARs as Premier Partners, Advanced Partners, or Associate Partners, depending on their business competencies, depth and breadth of their sales teams, customer support capabilities, contributions to Zebra's strategic goals and sales commitment to Zebra. In addition, we offer VARs the opportunity to earn certifications for mobile/wireless printers, supplies, services and RFID products in vertical markets. We also sell through distributors, which in turn sell to an extended VAR community. All VARs, as well as OEMs and systems integrators, provide customers with a variety of automatic identification components including scanners, accessories, applications software and systems integration expertise, and, in the case of some OEMs, resell the Zebra-manufactured products under their own brands as part of their own product offering. We believe that the breadth of this indirect channel network, both in terms of variety and geographic scope, enhances our ability to compete.

In some instances, we have designated a customer as a Strategic Account when purchases of Zebra products reach specified levels and support requirements for the account become highly customized. Zebra sales personnel, either alone or together with our partners, manage these Strategic Accounts to ensure their needs, including consistent support for projects and applications, are being met.

The sales function also encompasses a group that manages a small number of Global Alliances. They direct the business development strategies for a limited number of third-party relationships that are strategic to new demand creation for specific vertical markets and/or specific applications.

Marketing. Marketing operations encompass marketing communications, product marketing, vertical marketing, solutions marketing, market research and channel marketing functions. The product marketing group identifies, evaluates and recommends new product opportunities and manages product introductions, positioning and demand creation. Product marketing also focuses on strategic planning and market definition and analyzes Zebra's competitive strengths and weaknesses.

Table of Contents

Printer Production and Manufacturing

We design our products to optimize product performance, quality, reliability, durability and versatility. These designs combine cost-efficient materials, sourcing and assembly methods with high standards of workmanship. In February 2008, we announced that printer manufacturing will be transferred to a third-party manufacturer. This transition is expected to occur over the next 18 to 24 months. See Note 21 to our Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion of the transfer and transition process. Prior to the recently announced transfer to a third-party manufacturer, we assembled our products in-house largely on a configure-to-order basis using components that have been sourced from around the world. We have the in-house capability to produce mechanical assemblies and design many of our own tools, fixtures and test equipment. Often, our manufacturing and test engineers coordinate the development of new products with our new product engineers and vendors. This collaboration increases manufacturing efficiency by specifying and designing manufacturing processes and facilities simultaneously with product design.

We buy prefabricated component parts and subassemblies for use in the manufacture of our products. Critical subassemblies include printheads, printed circuit board assemblies, power supplies, integrated circuits, and stepper motors, which are obtained from domestic and foreign suppliers at competitive prices. Purchase contracts provide for price increases only in the event of certain increases in the costs of raw materials. Zebra typically experiences significant variance in demand and, thus, carries inventory and partners with key suppliers to deal with the variation.

Printer Competition

Many companies are engaged in the design, manufacture and marketing of bar code label printers, card personalization solutions and dye sublimation photo printers. We consider our direct competition in bar code label and receipt printing to be producers of on-demand thermal transfer and direct thermal label printing systems and supplies. We also compete, however, with companies engaged in the design, manufacture and marketing of printing systems that use alternative technologies, such as impact dot matrix, ink-jet and laser printing. Similarly, we consider manufacturers of card personalization systems that are based on a broad range of alternative technologies as competition.

Dye sublimation, the technology incorporated in our card printer, is only one of several commercially available types of equipment used to personalize cards. We also compete with companies that produce identification cards using alternative technologies, which include ink-jet, thermal transfer, embossing, film-based systems, encoders, laser engraving and large-scale dye sublimation printers. These card personalization technologies offer viable alternatives to Zebra's card printers and provide effective competition from a variety of companies, many of which are substantially larger than Zebra. In addition, service bureaus compete for end user business and provide an alternative to the purchase of our card printing equipment and supplies. Manufacturers also use dye sublimation technology in their digital photo printers.

Our ability to compete effectively depends on a number of factors. These factors include the reliability, quality and reputation of the manufacturer and its products; hardware and software innovations and specifications; breadth of product offerings; information systems connectivity; price; level of technical support; supplies and applications support offered by the manufacturer; available distribution channels; and financial resources to support new product design and innovation. We believe that Zebra presently competes favorably with respect to these factors.

We face competition in one or more of our product lines from many competitors, including the following (listed in alphabetical order): Altech; Argox; Canon; CIM; Cognitive Solutions, a subsidiary of Axiohm Transaction Solutions; ColorX; Copal; Datacard; Datamax, a unit of Dover Corporation; Evolis; Fargo Electronics; Fujii; Godex; Hewlett-Packard; Hitachi; Intermec Technologies; Lexmark International; LogickaComp; MagiCard; Matica; Microcom; Mitsubishi; NBS; Nisca; Olmec; O Neil Product Development; Olympus; Paxar; Polaroid; Printronix; Sato; Shinko; Song Woo Electronics; Sony; Taiwan Semiconductor; Tokyo Electric Company; Victor Data Systems; Woosim; and Xerox. Competition in the kiosk arena is vast. A few of the competitors we face include Custom Engineering, Star Micronics, Epson, Citizen, Boca Systems and Practical Automation.

Table of Contents

The supplies business is highly fragmented and competition is comprised of numerous competitors of various sizes depending on the geographic area.

Alternative Printer Technologies

We believe thermal printing will be the label, card and receipt printer technology of choice in Zebra's target applications for the foreseeable future. Among the many advantages of direct thermal and thermal transfer printing is the ability to print high-resolution, durable images on a wide variety of label materials at relatively low costs and high speeds compared with alternative printing technologies. We view passive RFID smart label encoding and active RFID location systems as complementary technologies to bar coded printing, offering significant growth opportunities to Zebra as the technologies become more widely adopted.

If other technologies were to evolve or become available to Zebra, it is possible that those technologies would be incorporated into our products. Alternatively, if such technologies were to evolve or become available to our competitors, Zebra's products may become obsolete. This obsolescence would have a significant negative effect on Zebra's business, financial position, results of operations and cash flows.

Therefore, we continually assess competitive and complementary methods of bar code printer and other means of automatic identification. Alternative print technologies assessed include ink jet, laser and direct marking. While we cannot be sure that new technology will not supplant thermal printing for labels, cards and receipts, we are not aware of any developing technology that offers the advantages of thermal printing for our targeted applications. We continually monitor and evaluate new RFID technologies, support their standards development, and rapidly adopt RFID into new Zebra products and systems as new markets and applications emerge.

Zebra Enterprise Solutions

In 2007, we acquired WhereNet Corp., proveo AG and Navis Holdings, LLC, which we refer to as Zebra Enterprise Solutions. In 2008, we will be integrating these businesses into a single business unit, and intend to report their results separately from our specialty printing business. 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. We consider these solutions natural adjacencies to our core specialty printing business.

The solutions 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.

WhereNet Corp.

On January 25, 2007, we acquired WhereNet Corp., a provider of active RFID based wireless solutions to track and manage enterprise assets, for \$127 million in cash. Headquartered in Santa Clara, California, WhereNet provides integrated wireless real-time locating systems (RTLS) to companies primarily in the industrial manufacturing, transportation and logistics, and aerospace and defense sectors. These systems help companies locate and track high-value assets using battery-powered wireless tags, fixed-position antennae and Web-enabled software. They are employed in parts replenishment, vehicle inventory tracking, truck yard management, marine cargo tracking, and work-in-process tracking, among many other applications.

WhereNet's solutions encompass hardware, middleware, application software, and services for project management, maintenance and support. Hardware consists primarily of proprietary battery-powered RFID transponders and various RFID reading devices. Manufacture of these products is accomplished by third-party contract manufacturers. Middleware, application software and services are designed and delivered by WhereNet personnel. Sales and service are made on a direct basis through contracts with end-user customers, in addition to follow-on sales of transponders and support services.

Active RFID technology is the basis on which WhereNet solutions are designed and built. Several companies compete with WhereNet employing multiple technologies aimed at optimizing the performance of supply chain, asset tracking and logistics networks. These technologies include passive RFID, other active RFID platforms, GPS-based

Table of Contents

technologies, Wi-Fi-based technologies, and software platforms. Competing wireless location and RFID-focused companies include Aer Scout Inc., Ekahau Inc., I.D. Systems Inc., Identec Solutions, Intermec Inc., and RF Code Inc. Larger, diversified companies competing with WhereNet include Cisco Systems Inc., Lockheed Martin Corp., Roper Industries, Inc., Siemens AG, and Motorola, Inc.

proveo AG

On July 2, 2007, we acquired proveo AG, for approximately \$15 million in cash. Headquartered in Crailsheim, Germany, proveo provides a complete hardware and software system for tracking motorized vehicles utilizing GPS technology. Currently deployed on airport ground support equipment (GSE), proveo solutions help ground handlers manage GSE more effectively, increase safety and security, enhance quality and reduce environmental impact. The proveo system helps reduce GSE investment and operating costs by enabling improved vehicle management.

The proveo solution consists of a transponder module that is wired into the vehicle to monitor the vehicle's operation and receive power. The module transmits vehicle location and operating information. Application software enables visibility and management of the GSE. Hardware manufacturing is performed by third-party contract manufacturers. Sales and service are made on a direct basis through contracts with customers, as are follow-on hardware sales and maintenance services.

The proveo solution uses primarily GPS location and general packet radio service (GPRS) and Wi-Fi communication technologies. Competing technologies would include proprietary communicating and locating systems. Several companies compete with proveo in vehicle tracking and management, including I.D. Systems, Siemens, Amicus and Pinnacle VTIS.

Navis Holdings, LLC

On December 14, 2007, we acquired Navis Holdings, LLC, for approximately \$144 million in cash. Headquartered in Oakland, CA, Navis provides software solutions to optimize the flow of goods through marine terminals and other operations managing cargo in the supply chain. Navis' automated container terminal operating systems improve velocity and visibility of cargo movement through ports and intermodal facilities. The Navis suite of products helps companies enhance productivity, efficiency and profitability by automating and integrating data input functions for real-time analysis and planning. These products unite various functions to streamline workflow and reduce overhead, administration and maintenance costs. Related services consist of product customization, installation, training, maintenance and global support.

Marine terminals currently operate on systems from many systems providers, including custom systems developed in-house. Of the larger companies, Navis competes with IBM, Cosmos, Embarcadero Systems, and Tideworks Technology.

Enterprise Solutions Technology

RTLS combines advanced tracking software systems with active RFID technology. RTLS asset tags enclose a company-designed 2.4GHz radio transmitter and battery inside a rugged enclosure resistant to harsh fluids and outdoor conditions. The tags are easily attached to vehicles, test equipment, containers, or other valuable mobile assets. The tag uses spread-spectrum radio technology to regularly transmit a short message at pre-programmed rates ranging from 1 second to multiple hours. Our radio and electronics technology ensures reliable transmission and tag lives of up to 7 years. The transmitted message is received by one or more company-designed location sensors which forward the information to software that determines the tag's current location and performs other database functions and system management tasks. High-precision algorithms use Time Difference of Arrival technology to determine a tag's location within 1.5 meters, and thus identify the location of the tracked asset.

Advanced algorithms within Zebra's enterprise software use this real-time location information to manage and plan the movement of people, equipment, and cargo. This software runs on a variety of system platforms including UNIX, Linux, Microsoft® Windows®, and the Mac OS®. Specialized software for marine terminals, yard management, airports, and mobile asset management ensure data is provided in easily understood, actionable form and is localizable into any language.

Table of Contents**Customers**

Zebra has sold over 6,000,000 thermal printers to customers in about 100 countries as of December 31, 2007.

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

| | Year Ended December 31, | | |
|------------------|-------------------------|------|------|
| | 2007 | 2006 | 2005 |
| Percent of sales | 16.5 | 17.1 | 15.6 |

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

Sales

Sales by product category for the last three years were (in thousands):

| Product Category | Year Ended December 31, | | |
|------------------------------|-------------------------|------------|------------|
| | 2007 | 2006 | 2005 |
| Hardware | \$ 660,034 | \$ 578,002 | \$ 540,679 |
| Supplies | 161,678 | 150,709 | 129,183 |
| Service and software | 42,801 | 25,664 | 25,217 |
| Shipping and handling | 6,826 | 6,022 | 5,575 |
| Cash flow hedging activities | (3,060) | (873) | 1,617 |
| Total sales | \$ 868,279 | \$ 759,524 | \$ 702,271 |

Sales to international customers, as a percent of net sales, were as follows:

| | Year Ended December 31, | | |
|------------------|-------------------------|------|------|
| | 2007 | 2006 | 2005 |
| Percent of sales | 52.1 | 50.0 | 48.5 |

We believe that international sales have the long-term potential to grow faster than domestic sales because of the lower penetration of automatic identification applications outside North America. As a result, Zebra has invested resources to support our international growth and currently operates facilities and sales offices, or has representation, in 26 different countries.

Research and Development

Zebra had research and development expenditures as follows (in thousands, except percentages):

| | Year Ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 2007 | 2006 | 2005 |
| Research and development expenses (excluding acquired in process research and development) | \$ 57,600 | \$ 48,959 | \$ 47,359 |
| Percent of sales | 6.6 | 6.4 | 6.7 |

We devote significant resources to developing new printing solutions for our target markets and ensuring that our efficiently manufactured products maintain high levels of reliability. Research and development resources are also directed toward enhancing our enterprise solutions systems.

Table of Contents

Intellectual Property Rights

Zebra relies on a combination of trade secrets, patents, employee and third party nondisclosure agreements, copyright laws and contractual rights to establish and protect its proprietary rights in its products. We have and actively protect many domestic and international trademarks. We hold 292 United States and foreign patents and have 225 United States and foreign patent applications pending pertaining to products. The duration of these patents ranges from 5 months to 18 years. The expiration of any individual patent would not have a significant negative impact on our business.

Despite our efforts to protect our intellectual property rights, it may be possible for unauthorized third parties to copy portions of our products or to reverse engineer or otherwise obtain and use some technology and information that we regard as proprietary. Moreover, the laws of some countries do not afford Zebra the same protection to proprietary rights, as do United States laws. There can be no assurance that legal protections relied upon by Zebra to protect its proprietary position will be adequate. While Zebra's intellectual property is valuable and provides certain competitive advantages, we do not believe that the legal protections afforded to our intellectual property are fundamental to our success.

Patents have become increasingly used by businesses generally as a strategic business tool and in recent years the number of patent applications and grants has risen dramatically. As a result, it is increasingly important that Zebra takes appropriate steps to maintain and develop its own patent portfolio and reduce the risk of disputes involving third party intellectual property rights.

Other trademarks mentioned in this report are the property of their respective holders and include IBM, a registered trademark of International Business Machines; Kodak, a registered trademark of Eastman Kodak; UNIX, a registered trademark of UNIX Systems Laboratories; MS/DOS and Windows, registered trademarks of Microsoft; SAP, a registered trademark of SAP AG; Linux, a registered trademark of Linus Torvalds; and Accelio Present Central, a registered trademark of Accelio. Bluetooth is a trademark owned by Bluetooth SIG and used by Zebra under license.

Employees

As of January 25, 2008, Zebra employed approximately 3,200 persons. None of these employees is a member of a union. We consider our employee relations to be very good.

Additional Information

For financial information regarding Zebra, see Zebra's Consolidated Financial Statements and the related Notes, which are included in this Annual Report on Form 10-K. Zebra has a single reportable segment for all of our operations and products. Financial information about geographic areas is found in Note 17 to the Consolidated Financial Statements.

Table of Contents

Item 1A. Risk Factors

Investors should carefully consider the risks, uncertainties and other factors described below, as well as other disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations, because they could have a material adverse effect on Zebra's business, financial condition, operating results, and growth prospects.

Zebra could encounter difficulties in any acquisition it undertakes, including unanticipated integration problems and business disruption. Acquisitions could also dilute stockholder value and adversely affect operating results. Proposed acquisitions that are not consummated may result in the write-off of certain acquisition costs.

Zebra may acquire or make investments in other businesses, technologies, services or products. For example, in 2007 Zebra acquired WhereNet Corp., proveo AG, and Navis Holdings, LLC, which together comprise what we refer to as the Zebra Enterprise Solutions business. An acquisition may present business issues which are new to Zebra. The process of integrating any acquired business, technology, service or product into operations may result in unforeseen operating difficulties and expenditures. Integration of an acquired company also may consume considerable management time and attention, which could otherwise be available for ongoing operations and development of the business. The expected benefits of any acquisition may not be realized. Acquisitions also may involve a number of risks, including risks with respect to:

Difficulties and uncertainties in transitioning the customers or other business relationships from the acquired entities to Zebra,

The loss of key employees of acquired entities,

Ability of acquired entities to fulfill obligations to their customers,

The discovery of unanticipated issues or liabilities,

The failure of acquired entities to meet or exceed expected returns, and

The acquired entities' ability to improve internal controls and accounting systems to be compliant with requirements applicable to public companies subject to SEC reporting.

Moreover, Zebra may be unable to identify, negotiate or finance future acquisitions successfully. Future acquisitions could result in potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities or amortization expenses. To the extent that a proposed acquisition is not consummated, Zebra may be required to write off certain costs associated with the acquisition, which could be significant.

Zebra Enterprise Solutions is a new business. Zebra has no prior experience operating businesses which are in the business conducted by Zebra Enterprise Solutions. The Zebra Enterprise Solutions business provides enterprise software solutions to customers which require implementation in complex environments over extended periods of time and use percentage-of-completion accounting, which has not been Zebra's historic business. In addition, these companies were privately-held and, therefore, not subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Many steps must be taken for them to become compliant during 2008, which will result in significant cost. Until they are in compliance, their non-compliance could result in risks to our business.

Zebra is transferring final assembly of its thermal printers to Jabil Circuit and will be totally dependent on Jabil for the manufacturing of such printers. Any failure by Jabil to provide manufacturing services to Zebra as Zebra requires, or any disruption in such manufacturing services, may adversely affect Zebra's business results. Zebra expects this transfer to be complete in the next 18-24 months.

In an effort to achieve additional cost savings and operational benefits, Zebra has expanded its outsourcing activities to include the transfer of the final assembly of its thermal printers to Jabil Circuit's facility in HuangPu, China.

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However, to the extent Zebra relies on a third party service provider such as Jabil for manufacturing services, Zebra may incur increased business continuity risks. Zebra will no longer be able to exercise control over the assembly of its thermal printers or any related operations or processes, including the internal controls associated with operations and processes conducted by Jabil and the quality of Zebra's products assembled by Jabil. If Zebra is unable to effectively develop and implement its outsourcing strategy, it may not realize cost structure efficiencies and its operating and its financial results could be materially adversely affected.

-13-

Table of Contents

In addition, if for any reason Jabil experiences business difficulties or fails to meet Zebra's manufacturing needs, then Zebra may be unable to meet production requirements, may lose revenue and may not be able to maintain its relationships with its customers. Without Jabil's continuing manufacture of Zebra's products and the continuing operation of Jabil's facility, Zebra will have no other means of final assembly of its thermal printers until Zebra is able to secure the manufacturing capability at another facility or develop an alternative manufacturing facility, which could be costly and time consuming and have a material adverse effect on Zebra's operating and financial results.

The increased elements of risk that arise from conducting certain operating processes in foreign jurisdictions may lead to an increase in reputational risk. During periods of transition, greater operational risk and customer concern may exist regarding the continuity of a high level of service delivery. The extent and pace at which Zebra is able to move manufacturing functions to Jabil's facility and the extent to which its customers are affected by the transfer may be impacted by regulatory and customer acceptance issues.

Although Zebra carries business interruption insurance to cover lost revenue and profits in an amount it considers adequate, this insurance does not cover all possible situations. In addition, the business interruption insurance would not compensate Zebra for the loss of opportunity and potential adverse impact, both short-term and long-term, on relations with Zebra's existing customers resulting from Zebra's inability to produce products for them.

A third party service provider such as Jabil will have access to Zebra's intellectual property, which increases the risk of infringement or misappropriation of this intellectual property.

Adverse economic conditions, in the United States or internationally, or reduced information technology spending may adversely impact our business.

A substantial portion of our business depends on our customers' demand for our products and services, the overall economic health of our current and prospective customers and general economic conditions. These risks become more acute in periods of a slowing economy or recession. The purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. Weak or unfavorable economic conditions in the United States or internationally or within our customers' respective industries, or a reduction in information technology spending even if economic conditions improve, would likely adversely impact our business, operating results and financial condition in a number of ways, including longer sales cycles, lower prices for our products and services and reduced unit sales.

Zebra has significant operations outside the United States and sells a significant portion of its products internationally and purchases important components from foreign suppliers. In addition, the final assembly of its thermal printers is being transferred to a Chinese facility. These circumstances create a number of risks.

Zebra has significant overseas operations, notably in the United Kingdom, Europe, Middle East and Africa, Latin America and Asia Pacific, including, in particular, an increasing presence in China, which presents added risks. In addition, Zebra sells a significant amount of its products to customers outside the United States. Shipments to international customers are expected to continue to account for a material portion of net sales.

Risks associated with operations, sales and purchases outside the United States include:

Inadequately managing and overseeing operations that are distant and remote from corporate headquarters,

Fluctuating foreign currency rates could restrict sales, or increase costs of purchasing, in foreign countries,

Adverse changes in, or uncertainty of, local business laws or practices, including the following:

Foreign governments may impose burdensome tariffs, quotas, taxes, trade barriers or capital flow restrictions,

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Restrictions on the export or import of technology may reduce or eliminate the ability to sell in or purchase from certain markets,

Political and economic instability may reduce demand for our products, or put our foreign assets at risk,

Potentially limited intellectual property protection in certain countries may limit recourse against infringing products or cause Zebra to refrain from selling in certain geographic territories,

Staffing and managing international operations may be unusually difficult,

A government controlled foreign exchange rate and limitations on the convertibility of the Chinese *Renminbi Yuan*,

The failure to implement and maintain adequate internal controls relating to these operations,

Table of Contents

Transportation delays that may affect production and distribution of Zebra's products, and

A limited telecommunications infrastructure.

Zebra may not be able to continue to develop products to address user needs effectively in an industry characterized by rapid technological change.

To be successful, Zebra must adapt to rapidly changing technological and application needs by continually improving its products as well as introducing new products and services to address user demands.

Zebra's industry is characterized by:

Rapidly changing technology,

Evolving industry standards,

Frequent new product and service introductions,

Evolving distribution channels, and

Changing customer demands.

Future success will depend on Zebra's ability to adapt in this rapidly evolving environment. Zebra could incur substantial costs if it has to modify its business to adapt to these changes, and may even be unable to adapt to these changes.

Zebra competes in a highly competitive market, which is likely to become more competitive. Competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements.

Zebra faces significant competition in developing and selling its systems. Principal competitors have substantial marketing, financial, development and personnel resources. To remain competitive, Zebra believes it must continue to provide:

Technologically advanced systems that satisfy the user demands,

Superior customer service,

High levels of quality and reliability, and

Dependable and efficient distribution networks.

Zebra cannot assure it will be able to compete successfully against current or future competitors. Increased competition in printers or supplies may result in price reductions, lower gross profit margins and loss of market share, and could require increased spending on research and development, sales and marketing and customer support. Some competitors may make strategic acquisitions or establish cooperative relationships with suppliers or companies that produce complementary products. Any of these factors could reduce Zebra's earnings.

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Zebra is vulnerable to the potential difficulties associated with the rapid increase in the complexity of its business.

Zebra has grown rapidly over the last several years through domestic and international growth and acquisitions. This growth has caused increased complexities in the business. We believe our future success depends in part on our ability to manage our rapid growth and increased complexities of our business and the demands from increased responsibility on our management personnel. The following factors could present difficulties to us:

Manufacturing an increased number of products,

Increased administrative and operational burden,

Maintaining and improving information technology infrastructure to support growth,

Increased logistical problems common to complex, expansive operations, and

Managing increasing international operations.

If we do not manage these potential difficulties successfully, our operating results could be adversely affected. In addition, we may have difficulties managing associated increased costs, which could adversely affect our operating margins.

Zebra sources some of its component parts from sole source suppliers.

A disruption in the supply of such component parts could have a material adverse effect on our operations and financial results.

Table of Contents

Infringement by Zebra or Zebra suppliers on the proprietary rights of others could put Zebra at a competitive disadvantage, and any related litigation could be time consuming and costly.

Third parties may claim that Zebra or Zebra suppliers violated their intellectual property rights. To the extent of a violation of a third party's patent or other intellectual property right, Zebra may be prevented from operating its business as planned, and may be required to pay damages, to obtain a license, if available, or to use a non-infringing method, if possible, to accomplish its objectives. Any of these claims, with or without merit, could result in costly litigation and divert the attention of key personnel. If such claims are successful, they could result in costly judgments or settlements. Also, as new technologies emerge, such as RFID, the intellectual property rights of parties in such technologies can be uncertain. As a result, products involving such technologies may have higher risk of claims of infringement of the intellectual proprietary rights of third parties.

The inability to protect intellectual property could harm Zebra's reputation, and its competitive position may be materially damaged.

Zebra's intellectual property is valuable and provides Zebra with certain competitive advantages. Copyrights, patents, trade secrets and contracts are used to protect these proprietary rights. Despite these precautions, it may be possible for third parties to copy aspects of Zebra's products or, without authorization, to obtain and use information which Zebra regards as trade secrets.

Zebra may incur liabilities as a result of product failures due to actual or apparent design or manufacturing defects.

Zebra may be subject to product liability claims, which could include claims for property or economic damage or personal injury, in the event our products present actual or apparent design or manufacturing defects. Such design or manufacturing defects may occur not only in Zebra's own designed products but also in components provided by third party suppliers. A Zebra supplier has in the past provided us with defective lithium-ion battery packs which were subject to a product recall. Zebra generally has insurance protection against property damage and personal injury liabilities and also seeks to limit such risk through product design, manufacturing quality control processes, product testing and contractual indemnification from suppliers. However, due to the large and growing size of Zebra's installed printer base, a design or manufacturing defect involving this large installed printer base could result in product recalls or customer service costs that could have material adverse effects on Zebra's financial results.

Larger orders may take longer to close and may not be completely fulfilled during a particular quarter.

Zebra has been pursuing larger customer orders which typically involve a longer sales cycle. Such orders are more difficult to forecast, and whether a larger order is received by Zebra in a particular quarter or deferred to a later quarter could have a material effect on the financial results of Zebra from quarter to quarter.

Zebra's equipment is subject to U.S. and foreign regulations that pertain to electrical and electronic equipment, which may materially adversely affect Zebra's business.

These regulations influence the design, components or operation of such products. New regulations and changes to current regulations are always possible and, in some jurisdictions, regulations may be introduced with little or no time to bring related products into compliance with these regulations. Zebra's failure to comply with these regulations may prevent Zebra from selling our products in a certain country. In addition, these regulations may increase our cost of supplying the products by forcing us to redesign existing products or to use more expensive designs or components. In these cases, Zebra may experience unexpected disruptions in our ability to supply customers with products, or we may incur unexpected costs or operational complexities to bring products into compliance. This could have an adverse effect on Zebra's revenues, gross profit margins and results of operations and increase the volatility of our financial results.

Zebra is implementing a new company-wide enterprise resource planning (ERP) system. The implementation process is complex and involves a number of risks that may adversely affect Zebra's business and results of operations.

Zebra is currently replacing its multiple legacy business systems at its different sites with a new company-wide, integrated enterprise resource planning (ERP) system to handle various business, operating and financial processes for Zebra and its subsidiaries. The new system will provide a variety of important functions, such as order entry, invoicing, accounts receivable, accounts payable, financial consolidation, logistics, and internal and external financial and management reporting matters.

Table of Contents

ERP implementations are complex and time-consuming projects that involve substantial expenditures on system hardware and software and implementation activities that can continue for several years. Such an integrated, wide-scale implementation is extremely complex and requires transformation of business and financial processes in order to reap the benefits of the ERP system. Significant efforts are required for requirements identification, functional design, process documentation, data conversion, user training and post implementation support. Problems in any of these areas could result in operational issues including delayed shipments or production, missed sales, billing and accounting errors and other operational issues. System delays or malfunctioning could also disrupt Zebra's ability to timely and accurately process and report key components of the results of its consolidated operations, its financial position and cash flows, which could impact Zebra's ability to timely complete important business processes such as the evaluation of its internal controls and attestation activities pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

Until the new ERP system is fully implemented and stabilized, Zebra expects to incur additional selling, general and administrative expenses to stabilize the system, and there can be no assurance that other issues relating to the ERP system will not occur or be identified. Zebra's business and results of operations may be adversely affected if it experiences operating problems and/or cost overruns during the ERP implementation process or if the ERP system and the associated process changes, do not function as expected or give rise to the expected benefits

Economic factors that are outside Zebra's control could lead to deterioration in the quality of Zebra's accounts receivables.

Zebra sells its products to customers in the United States and several other countries around the world. Sales are typically made on unsecured credit terms, which are generally consistent with the prevailing business practices in a given country. A deterioration of economic or political conditions in a country could impair Zebra's ability to collect on receivables in the affected country.

Zebra depends on the ongoing service of its senior management and ability to attract and retain other key personnel.

The future success of Zebra is substantially dependent on the continued service and continuing contributions of senior management and other key personnel. The loss of the service of any executive officer or other key employees could adversely affect business.

The ability to attract, retain and motivate highly skilled employees is important to Zebra's long-term success. Competition for personnel in Zebra's industry is intense, and Zebra may be unable to retain key employees or attract, assimilate or retain other highly qualified employees in the future.

Terrorist attacks or war could lead to further economic instability and adversely affect Zebra's stock price, operations, and profitability.

The terrorist attacks that occurred in the United States on September 11, 2001, caused major instability in the U.S. and other financial markets. Possible further acts of terrorism and current and future war risks could have a similar impact. Any such attacks could, among other things, cause further instability in financial markets and could directly, or indirectly through reduced demand, negatively affect Zebra's facilities and operations or those of its customers or suppliers.

Taxing authority challenges may lead to tax payments exceeding current reserves.

Zebra is subject to ongoing tax examinations in various jurisdictions. As a result, we may record incremental tax expense based on expected outcomes of such matters. In addition, we may adjust previously reported tax reserves based on expected results of these examinations. Such adjustments could result in an increase or decrease to Zebra's effective tax rate.

Item 1B. Unresolved Staff Comments

Not applicable.

Table of Contents**Item 2. Properties**

Zebra's corporate headquarters are located in Vernon Hills, Illinois, a northern suburb of Chicago. Zebra conducts its operations from a custom-designed facility at this location, which provides approximately 225,000 square feet of space. Approximately 113,000 square feet have been allocated to office and laboratory functions and 112,000 square feet to manufacturing and warehousing. This facility was constructed in 1989 and expanded in 1993, 1995, 1996 and 1999. It is leased to Zebra under a lease terminating on June 30, 2014.

Zebra's principal facilities as of December 31, 2007, are listed below:

| Location | Square Footage | | | Lease Expires |
|------------------------------|---|-------------------------------------|---------|----------------|
| | Manufacturing, Production & Warehousing | Administrative, Research & Sales | Total | |
| Vernon Hills, Illinois, USA | 111,676 | 113,429 | 225,105 | June 2014 |
| Vernon Hills, Illinois, USA | | 34,000 | 34,000 | February 2009 |
| Camarillo, California, USA | 97,921 | 72,156 | 170,077 | Owned by Zebra |
| Warwick, Rhode Island, USA | 24,516 | 75,324 | 99,840 | April 2009 |
| Santa Clara, California, USA | | 20,757 | 20,757 | December 2009 |
| Oakland, California, USA | | 36,553 | 36,553 | October 2009 |
| Greenville, Wisconsin, USA | 45,000 | 5,000 | 50,000 | March 2018 |
| Otay Mesa, California, USA | 25,100 | 4,900 | 30,000 | September 2011 |
| McAllen, Texas, USA | 15,500 | 2,500 | 18,000 | September 2011 |
| Flowery Branch, Georgia, USA | 18,115 | 2,145 | 20,260 | April 2012 |
| Heerenveen, The Netherlands | 48,427 | 46,145 | 94,572 | January 2010 |
| High Wycombe, UK | | 24,700 | 24,700 | October 2018 |
| Preston, UK | 30,450 | 8,600 | 39,050 | Owned by Zebra |
| Total | 416,705 | 446,209 | 862,914 | |

Zebra leases various other facilities around the world, which are dedicated to administrative, research and sales functions. The amounts related to these leases, solely or in aggregate, are not material to the consolidated financial statements.

Table of Contents

Item 3. Legal Proceedings

See Note 16 in the Notes to the Consolidated Financial Statements included in this Form 10-K.

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

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities****Stock Information: Price Range and Common Stock**

Our Class A Common Stock is traded on the NASDAQ Stock Market under the symbol ZBRA. The following table shows the high and low trade prices for each fiscal quarter in 2007 and 2006, as reported by the NASDAQ Stock Market.

| 2007 | High | Low | 2006 | High | Low |
|----------------|----------|----------|----------------|----------|----------|
| First Quarter | \$ 42.38 | \$ 33.70 | First Quarter | \$ 47.97 | \$ 42.16 |
| Second Quarter | 41.49 | 37.98 | Second Quarter | 45.39 | 32.41 |
| Third Quarter | 42.50 | 32.93 | Third Quarter | 36.60 | 29.23 |
| Fourth Quarter | 39.09 | 32.93 | Fourth Quarter | 37.74 | 33.98 |

Source: The NASDAQ Stock Market

At February 22, 2008, the last reported price for the Class A Common Stock was \$29.38 per share, and there were 380 registered stockholders of record for Zebra's Class A Common Stock. In addition, we had approximately 16,500 stockholders who owned Zebra stock in street name.

Dividend Policy

Since our initial public offering in 1991, we have not declared any cash dividends or distributions on our capital stock. Zebra currently intends to retain its earnings to finance future growth and therefore does not anticipate paying any cash dividends in the foreseeable future.

Treasury Shares

During the fourth quarter of 2007, Zebra purchased 1,768,359 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 |
|---|----------------------------------|------------------------------|--|--|
| October 2007 (September 30 - October 27) | | | | 2,149,059 |
| November 2007 (October 28 - November 24) | 540,204 | \$ 36.70 | 540,204 | 1,608,855 |
| December 2007 (November 25 - December 31) | 1,228,155 | \$ 35.30 | 1,228,155 | 380,700 |
| Total | 1,768,359 | \$ 35.73 | 1,768,359 | 380,700 |

- (1) On October 4, 2005, Zebra announced that the Board authorized the purchase of up to 2,500,000 shares of Zebra common stock at prices to be determined at management's discretion. There was no expiration on the authorization. On August 1, 2007, Zebra announced that the Board authorized the purchase of an additional 3,000,000 shares under the same terms. All shares authorized by the Board in 2005 have been purchased and all remaining shares authorized for purchase were authorized under the Board's 2007 authorization.

Table of Contents**Item 6. Selected Consolidated Financial Data****CONSOLIDATED STATEMENTS OF EARNINGS DATA**

(In thousands, except per share amounts)

| | Year Ended December 31, | | | | |
|---|-------------------------|------------|------------|------------|------------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| Net sales | \$ 868,279 | \$ 759,524 | \$ 702,271 | \$ 663,054 | \$ 536,397 |
| Cost of sales | 451,161 | 401,104 | 348,851 | 320,951 | 264,564 |
| Gross profit | 417,118 | 358,420 | 353,420 | 342,103 | 271,833 |
| Total operating expenses | 273,933 | 277,991(1) | 207,392 | 175,494 | 150,882 |
| Operating income | 143,185 | 80,429 | 146,028 | 166,609 | 120,951 |
| Income before income taxes and cumulative effect of accounting change | 167,375 | 101,642 | 160,282 | 176,084 | 127,725 |
| Income before cumulative effect of accounting change | 110,113 | 69,627 | 106,184 | 115,141 | 86,357 |
| Cumulative effect of accounting change | | 1,319(2) | | | |
| Net income | \$ 110,113 | \$ 70,946 | \$ 106,184 | \$ 115,141 | \$ 86,357 |
| Earnings per share before cumulative effect of accounting change | | | | | |
| Basic | \$ 1.61 | \$ 0.99 | \$ 1.49 | \$ 1.61 | \$ 1.22 |
| Diluted | \$ 1.60 | \$ 0.98 | \$ 1.47 | \$ 1.59 | \$ 1.21 |
| Earnings per share | | | | | |
| Basic | \$ 1.61 | \$ 1.01 | \$ 1.49 | \$ 1.61 | \$ 1.22 |
| Diluted | \$ 1.60 | \$ 1.00 | \$ 1.47 | \$ 1.59 | \$ 1.21 |
| Weighted average shares outstanding | | | | | |
| Basic | 68,463 | 70,516 | 71,364 | 71,556 | 70,647 |
| Diluted | 68,908 | 70,956 | 72,000 | 72,398 | 71,495 |

CONSOLIDATED BALANCE SHEET DATA

(In thousands)

| | December 31, | | | | |
|--|--------------|------------|------------|------------|------------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| Cash and cash equivalents, restricted cash and investments and marketable securities (current and long-term) (4) | \$ 281,179 | \$ 559,189 | \$ 544,239 | \$ 557,993 | \$ 447,848 |
| Working capital | 298,660 | 404,836 | 680,554 | 665,062 | 535,816 |
| Total assets | 1,034,278 | 963,142 | 918,415 | 868,044 | 706,530 |
| Long-term obligations (3) | 8,452 | 9,969 | 7,709 | 4,011 | 2,853 |
| Stockholders' equity | 902,693 | 877,681 | 857,972 | 803,893 | 657,557 |

- (1) Includes litigation settlement of \$53,392,000 and insurance receivable reserve of \$12,543,000.
- (2) Relates to the estimation of forfeitures on prior year compensation expense outstanding at the adoption date of SFAS No. 123(R), *Share-Based Payment*. See Note 3 in the Notes to the Consolidated Financial Statements included in this Form 10-K.
- (3) Long-term obligations include deferred compensation and unearned revenue. See Note 18 in the Notes to the Consolidated Financial Statements included in this Form 10-K for further discussion of the Deferred Compensation Plan.
- (4) The decrease in cash and cash equivalents, restricted cash and investments and marketable securities was principally the result of our acquisitions of WhereNet, proveo AG, and Navis during 2007. See Note 4 in the Notes to the Consolidated Financial Statements included in this Form 10-K for further discussion of these acquisitions.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Net sales for the fourth quarter of 2007, compared with the fourth quarter of 2006, increased 11.3%, principally on the strength of sales in our Europe/Middle East and Africa and Latin American sales regions. Continued robust sales growth of our established printer and service lines were supplemented by sales from recently acquired businesses. Gross margin expanded due to improved manufacturing variances and favorable exchange rate movements, offset by an unfavorable change in product mix. Higher operating expenses resulted from increases in payroll costs and recent acquisitions. In addition, operating expenses include \$632,000 in charges related to the retirement of former CEO Ed Kaplan and Board of Director project activities related to the search and hiring of a new chief executive officer.

Sales for the full year increased by 14.3% over 2006, with North American growth holding near 10%. International sales were strong and were fueled by favorable foreign exchange movements. Gross margin increased 0.8 points from 2006 with decreases to manufacturing variances. Operating expenses were adversely affected during 2007 by the acquisitions during the year as well as other payroll increases. Year-to-date operating expenses also include \$3,233,000 in charges related to the retirement of former CEO Ed Kaplan and Board of Director project activities related to the search and hiring of a new chief executive officer.

Results of Operations: Fourth Quarter of 2007 versus Fourth Quarter of 2006, Year ended December 31, 2007 versus Year ended December 31, 2006*Sales*

Sales by product category, percent change, and percent of total sales for the three months and year ended December 31, 2007, and December 31, 2006, were (in thousands, except percentages):

| Product Category | Three Months Ended December 31, | | Percent Change | Percent of Total Sales - 2007 | Percent of Total Sales - 2006 |
|------------------------------|---------------------------------|------------|----------------|-------------------------------|-------------------------------|
| | 2007 | 2006 | | | |
| Hardware | \$ 177,394 | \$ 163,081 | 8.8 | 75.9 | 77.7 |
| Supplies | 41,580 | 38,578 | 7.8 | 17.8 | 18.4 |
| Service and software | 14,120 | 6,954 | 103.0 | 6.0 | 3.3 |
| Shipping and handling | 1,744 | 1,610 | 8.3 | 0.8 | 0.8 |
| Cash flow hedging activities | (1,265) | (320) | NM | (0.5) | (0.2) |
| Total sales | \$ 233,573 | \$ 209,903 | 11.3 | 100.0 | 100.0 |

| Product Category | Year Ended December 31, | | Percent Change | Percent of Total Sales - 2007 | Percent of Total Sales - 2006 |
|------------------------------|-------------------------|------------|----------------|-------------------------------|-------------------------------|
| | 2007 | 2006 | | | |
| Hardware | \$ 660,034 | \$ 578,002 | 14.2 | 76.1 | 76.1 |
| Supplies | 161,678 | 150,709 | 7.3 | 18.6 | 19.8 |
| Service and software | 42,801 | 25,664 | 66.8 | 4.9 | 3.4 |
| Shipping and handling | 6,826 | 6,022 | 13.4 | 0.8 | 0.8 |
| Cash flow hedging activities | (3,060) | (873) | NM | (0.4) | (0.1) |
| Total sales | \$ 868,279 | \$ 759,524 | 14.3 | 100.0 | 100.0 |

Table of Contents

Sales to customers by geographic region, percent changes and percent of total sales for the three months and year ended December 31, 2007, and December 31, 2006, were (in thousands, except percentages):

| Geographic Region | Three Months Ended December 31, | | Percent Change | Percent of Total Sales - 2007 | Percent of Total Sales - 2006 |
|--------------------------------|---------------------------------|------------|----------------|-------------------------------|-------------------------------|
| | 2007 | 2006 | | | |
| Europe, Middle East and Africa | \$ 93,895 | \$ 74,440 | 26.1 | 40.2 | 35.5 |
| Latin America | 15,452 | 13,854 | 11.5 | 6.6 | 6.6 |
| Asia-Pacific | 16,100 | 16,723 | (3.7) | 6.9 | 7.9 |
| Total International | 125,447 | 105,017 | 19.5 | 53.7 | 50.0 |
| North America | 108,126 | 104,886 | 3.1 | 46.3 | 50.0 |
| Total sales | \$ 233,573 | \$ 209,903 | 11.3 | 100.0 | 100.0 |

| Geographic Region | Year Ended December 31, | | Percent Change | Percent of Total Sales - 2007 | Percent of Total Sales - 2006 |
|--------------------------------|-------------------------|------------|----------------|-------------------------------|-------------------------------|
| | 2007 | 2006 | | | |
| Europe, Middle East and Africa | \$ 320,225 | \$ 264,711 | 21.0 | 36.9 | 34.8 |
| Latin America | 60,090 | 53,619 | 12.1 | 6.9 | 7.1 |
| Asia-Pacific | 71,871 | 61,374 | 17.1 | 8.3 | 8.1 |
| Total International | 452,186 | 379,704 | 19.1 | 52.1 | 50.0 |
| North America | 416,093 | 379,820 | 9.6 | 47.9 | 50.0 |
| Total sales | \$ 868,279 | \$ 759,524 | 14.3 | 100.0 | 100.0 |

Ongoing strength in international territories, with notable growth in Europe, Middle East and Africa (EMEA) of 21.0% for the full year and 26.1% for the fourth quarter, over comparable 2006 periods, helped drive overall sales growth in 2007. For 2007, sales growth benefited from a 12.4% unit volume increase spread broadly across our printer product lines, offset by a decline in average unit prices. Sales growth also benefited from strong growth in service and software sales, which is a result of our recent acquisitions. Favorable foreign exchange movements added 3.9 percentage points to consolidated growth and 11.0 percentage points to growth in EMEA for the fourth quarter.

New printer products (defined as printers released within 18 months prior to the end of the applicable fiscal period) as a percent of total printer product sales were as follows:

| | December 31, | |
|--------------------|--------------|------|
| | 2007 | 2006 |
| Three months ended | 16.5 | 12.8 |
| Year ended | 11.0 | 13.0 |

Zebra's international sales are denominated in multiple currencies, primarily the dollar, pound and euro, which subjects our reported sales to fluctuations based on changes in currency rates. We hedge a portion of anticipated euro-denominated sales to protect Zebra against exchange rate movements. Inclusive of all hedging activities, the impact of foreign exchange movements on reported sales during the fourth quarter was a gain of \$8,187,000. The full year impact was a gain of \$23,331,000. See Note 15 to the Consolidated Financial Statements included in this report for a more detailed discussion of the above hedging program.

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

Three Months Ended December 31, Year Ended December 31,

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| | 2007 | 2006 | Percent Change | 2007 | 2006 | Percent Change |
|---|---------|---------|-------------------|---------|---------|-------------------|
| Total printers shipped | 235,267 | 226,625 | 3.8 | 919,909 | 818,413 | 12.4 |
| Average selling price of printers shipped | \$ 600 | \$ 596 | 0.7 | \$ 581 | \$ 598 | (2.8) |

-23-

Table of Contents

For 2007, printer unit volumes for nearly all printer categories increased, with notable strength in mid-range, mobile and desktop printers. For the full year, lower average selling prices across the full line of printers in addition to a mix shift toward lower priced products resulted in a 2.8% decrease in the average selling price of printers shipped.

Gross Profit

Gross profit information is summarized below (in thousands, except percentages):

| | December 31, | | Percent | Percent of | Percent of |
|--------------------|--------------|-----------|---------|--------------------|--------------------|
| | 2007 | 2006 | Change | Total Sales - 2007 | Total Sales - 2006 |
| Three months ended | \$ 113,298 | \$ 98,410 | 15.1 | 48.5 | 46.9 |
| Year ended | 417,118 | 358,420 | 16.4 | 48.0 | 47.2 |

The improvement in gross profit margin for the fourth quarter was due to favorable foreign exchange movements and lower variances offset by an unfavorable product mix change.

Selling and Marketing Expenses

Selling and marketing expenses are summarized below (in thousands, except percentages):

| | December 31, | | Percent | Percent of | Percent of |
|--------------------|--------------|-----------|---------|--------------------|--------------------|
| | 2007 | 2006 | Change | Total Sales - 2007 | Total Sales - 2006 |
| Three months ended | \$ 35,683 | \$ 27,702 | 28.8 | 15.3 | 13.2 |
| Year ended | 121,996 | 96,788 | 26.0 | 14.1 | 12.7 |

During the fourth quarter of 2007, selling and marketing expenses increased due to higher payroll costs of \$6,326,000. For the full year, the payroll costs increased \$17,691,000, advertising and market development funding increased \$1,131,000, professional services increased \$472,000 and travel and entertainment expenses increased \$1,518,000. These increases are related, in part, to recent acquisitions, which increased selling and marketing expenses by \$3,726,000 during the fourth quarter and \$9,255,000 for the full year of 2007.

Research and Development Costs

The development of new products and enhancement of existing products are important to Zebra's business and growth prospects. To maintain and build our product pipeline, we made investments in research and development, summarized below (in thousands, except percentages):

| | December 31, | | Percent | Percent of | Percent of |
|--------------------|--------------|-----------|---------|--------------------|--------------------|
| | 2007 | 2006 | Change | Total Sales - 2007 | Total Sales - 2006 |
| Three months ended | \$ 15,642 | \$ 12,768 | 22.5 | 6.7 | 6.1 |
| Year ended | 57,600 | 48,959 | 17.6 | 6.6 | 6.4 |

Quarterly product development expenses fluctuate widely depending on the status of ongoing projects. We are committed to a long-term strategy of significant investment in product development. For the fourth quarter of 2007, research and development costs increased due to higher payroll costs of \$2,346,000. For the full year, research and development costs increased as a result of increased payroll costs of \$6,950,000 and higher professional services costs of \$1,543,000. These increases are related, in part, to recent acquisitions, which increased research and development expenses by \$2,336,000 during the fourth quarter and \$7,387,000 for the full year of 2007.

Table of Contents*General and Administrative Expenses*

General and administrative expenses are summarized in the table below (in thousands, except percentages):

| | December 31, | | Percent | Percent of | Percent of |
|--------------------|--------------|-----------|---------|--------------------|--------------------|
| | 2007 | 2006 | Change | Total Sales - 2007 | Total Sales - 2006 |
| Three months ended | \$ 21,854 | \$ 18,284 | 19.5 | 9.4 | 8.7 |
| Year ended | 81,356 | 62,656 | 29.8 | 9.4 | 8.2 |

For the fourth quarter of 2007, general and administrative expenses increased due primarily to higher payroll costs of \$2,926,000. For the full year, general and administrative expenses increased due to higher payroll costs of \$12,911,000, and information systems expense increased \$1,546,000 for the full year of 2007. These increases are related, in part, to recent acquisitions, which increased general and administrative expenses by \$1,088,000 during the fourth quarter and \$2,138,000 for the full year of 2007.

Amortization of Intangible Assets

Amortization of intangible assets increased during 2007 due to our recent acquisitions of WhereNet, proveo and Navis. See Note 4 of the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the recent acquisitions.

Settlement and Licensing Agreement with Paxar Americas, Inc.

During the third quarter of 2006, Zebra paid \$63,750,000 to settle all issues surrounding the litigation with Paxar Americas, Inc. Of this amount, \$53,392,000 was included as operating expense. The remaining \$10,358,000 was capitalized as an intangible asset related to future use of patents and other licenses and are being amortized over 4 to 7 years resulting in an incremental charge of \$456,000 per quarter.

Insurance receivable reserve

During 2006, a Zebra reseller filed for bankruptcy protection in Austria. At the time of the filing, the reseller owed various Zebra subsidiaries a total of \$12,065,000. The entire balance due to Zebra was guaranteed by Condor Insurance, a Nevis-based insurance company through a United Kingdom insurance broker. During June 2006, Zebra initiated a suit in the U.K. courts to enforce the guarantee. However, during the fourth quarter of 2006, we discovered that the insurance company's financial position was such that it may not be able to pay the judgment awarded to us. We reviewed the situation and determined that a loss was probable and as of December 31, 2006 reserved 100% of the balance due, which was \$12,543,000.

Operating Income

Operating income is summarized in the following table (in thousands, except percentages):

| | December 31, | | Percent | Percent of | Percent of |
|--------------------|--------------|-----------|---------|--------------------|--------------------|
| | 2007 | 2006 | Change | Total Sales - 2007 | Total Sales - 2006 |
| Three months ended | \$ 36,862 | \$ 25,719 | 43.3 | 15.8 | 12.3 |
| Year ended | 143,185 | 80,429 | 78.0 | 16.5 | 10.6 |

Table of Contents*Non-operating Income and Expenses*

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

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---------------------------------|------------------------------------|-----------------|----------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Investment income | \$ 8,545 | \$ 6,980 | \$ 23,966 | \$ 23,182 |
| Interest expense | 49 | (16) | (44) | (252) |
| Foreign exchange gains (losses) | 553 | (822) | 523 | (635) |
| Other, net | 182 | (170) | (255) | (1,082) |
| Total other income | \$ 9,329 | \$ 5,972 | \$ 24,190 | \$ 21,213 |

Rate of Return Analysis:

| | | | | |
|---|------------|------------|------------|------------|
| Average cash and marketable securities balances | \$ 375,269 | \$ 553,406 | \$ 420,184 | \$ 551,714 |
| Annualized rate of return | 9.1% | 5.0% | 5.7% | 4.2% |

During 2007, we began liquidating all of our interests in our partnership holdings. As a result of these liquidations, we recorded investment income of \$9,246,000 related to gains on the liquidations of the partnerships during 2007, \$4,369,000 of which was recognized in the fourth quarter.

Income Taxes

The effective income tax rate for the fourth quarter was 33.3% compared with 32.3% for the same quarter last year. For the full year of 2007, the effective income tax rate was 34.2% versus 31.5% for 2006. The increase in the effective tax rate is a result of the increased impact in 2006 of permanent tax differences, including tax-exempt interest income, on the effective income tax rate due to lower taxable income as a result of the Paxar settlement. In addition, we reduced tax reserves in 2006 totaling \$1,189,000 related to the completion of various state tax audits and 2005 state income tax returns.

Income before Cumulative Effect of Accounting Change

Zebra's income before cumulative effect of accounting change is summarized below (in thousands, except per share amounts):

| | Three Months Ended December 31, | | Year Ended December 31, | |
|--|------------------------------------|-----------|----------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Income before cumulative effect of accounting change | \$ 30,803 | \$ 21,446 | \$ 110,113 | \$ 69,627 |
| Diluted earnings per share before cumulative effect of accounting change | \$ 0.45 | \$ 0.30 | \$ 1.60 | \$ 0.98 |
| <i>Cumulative Effect of Accounting Change</i> | | | | |

During the first quarter of 2006, Zebra adopted SFAS No. 123(R), *Share-Based Payment*, using the modified retrospective approach. SFAS No. 123(R) requires entities to estimate the number of forfeitures expected to occur and record expense based upon the number of awards expected to vest. Prior to the adoption of SFAS No. 123(R), Zebra accounted for forfeitures as they occurred as permitted under previous accounting standards. The requirement to estimate forfeitures is classified as an accounting change, and SFAS No. 123(R) required a one-time adjustment in the period of adoption. The one-time adjustment (cumulative effect of accounting change) related to the change in estimating forfeitures increased income by \$1,319,000, net of applicable taxes.

Table of Contents

Net Income

Zebra's net income is summarized below (in thousands, except per share amounts):

| | Three Months Ended December 31, | | Year Ended December 31, | |
|----------------------------|--|-------------|------------------------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 30,803 | \$ 21,446 | \$ 110,113 | \$ 70,946 |
| Diluted earnings per share | \$ 0.45 | \$ 0.30 | \$ 1.60 | \$ 1.00 |

Table of Contents**Comparison of Years Ended December 31, 2006 and 2005***Sales*

Sales by product category, related percent changes and percent of total sales for 2006 and 2005 were as follows:

| Product Category | Year Ended December 31, | | Percent Change | Percent of Total Sales - 2006 | Percent of Total Sales - 2005 |
|------------------------------|-------------------------|------------|----------------|-------------------------------|-------------------------------|
| | 2006 | 2005 | | | |
| Hardware | \$ 578,002 | \$ 540,679 | 6.9 | 76.1 | 77.0 |
| Supplies | 150,709 | 129,183 | 16.7 | 19.8 | 18.4 |
| Service and software | 25,664 | 25,217 | 1.8 | 3.4 | 3.6 |
| Shipping and handling | 6,022 | 5,575 | 8.0 | 0.8 | 0.8 |
| Cash flow hedging activities | (873) | 1,617 | NM | (0.1) | 0.2 |
| Total sales | \$ 759,524 | \$ 702,271 | 8.2 | 100.0 | 100.0 |

Sales to customers by geographic region, related percent changes, and percent of total sales for 2005 and 2004 were as follows:

| Geographic Region | Year Ended December 31, | | Percent Change | Percent of Total Sales - 2006 | Percent of Total Sales - 2005 |
|--------------------------------|-------------------------|------------|----------------|-------------------------------|-------------------------------|
| | 2006 | 2005 | | | |
| Europe, Middle East and Africa | \$ 264,711 | \$ 233,306 | 13.5 | 34.8 | 33.3 |
| Latin America | 53,619 | 46,878 | 14.4 | 7.1 | 6.7 |
| Asia-Pacific | 61,374 | 60,033 | 2.2 | 8.1 | 8.5 |
| Total International | 379,704 | 340,217 | 11.6 | 50.0 | 48.5 |
| North America | 379,820 | 362,054 | 4.9 | 50.0 | 51.5 |
| Total sales | \$ 759,524 | \$ 702,271 | 8.2 | 100.0 | 100.0 |

Sales growth for 2006 was a result of strength in international territories, most notably, Latin America (14.4%) and Europe, Middle East and Africa (EMEA) (13.5%). Sales growth also benefited from strong growth in supplies sales and an increase in North American sales. Favorable foreign exchange movements added \$3,606,000 to consolidated growth during 2006. New printer products as a percent of total printer product sales was 13.0% for 2006, compared to 10.7% for 2005.

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

| | Year Ended December 31, | | Percent Change |
|---|-------------------------|---------|----------------|
| | 2006 | 2005 | |
| Total printers shipped | 818,413 | 720,306 | 13.6 |
| Average selling price of printers shipped | \$ 598 | \$ 633 | (5.5) |

For all of 2006, with the exception of card printers, unit volumes increased in all product lines, with notable strength in mobile, desktop and high-end printers. In addition, lower average selling prices and a mix toward lower priced products resulted in a 5.5% decrease in the average selling price of printers shipped.

Table of Contents*Gross Profit*

Gross profit information is summarized below (in thousands except percentages)

| For the Year Ended | Gross Profit | Percent of Total Sales |
|---------------------------|---------------------|-----------------------------------|
| December 31, 2006 | \$ 358,420 | 47.2 |
| December 31, 2005 | 353,420 | 50.3 |
| Percent Change | 1.4 | |

Gross margin decreased largely because of:

Increases to excess inventory and cost change reserves

Less favorable purchase price variances,

Cycle count adjustments,

Overhead spending and labor variances related to facility expansion in the supplies organization,

Higher cost components required for RoHS Legislation compliance,

Pricing and negative product mix in the first and second quarters, and

Negative foreign exchange comparisons in the first quarter.

Selling and Marketing Expenses

Selling and marketing expenses are summarized below (in thousands, except percentages):

| For the Year Ended | Selling and Marketing Expenses | Percent of Total Sales |
|---------------------------|---|-----------------------------------|
| December 31, 2006 | \$ 96,788 | 12.7 |
| December 31, 2005 | 91,630 | 13.0 |
| Percent Change | 5.6 | |

Higher selling and marketing expenses were a result of increased payroll costs of \$4,587,000 and trade show expenses of \$690,000. In addition to increases in the items mentioned above, outside commissions, advertising and building expenses increased during 2006. The increased staffing was primarily focused on increasing our presence in targeted geographical territories to support growth in those regions, building sales and marketing teams to deliver vertical market applications, and strengthening strategic alliances with complementary companies.

Research and Development Costs

Research and development costs are summarized below (in thousands, except percentages):

| For the Year Ended | Research and Development Costs | Percent of Total Sales |
|--------------------------|-----------------------------------|---------------------------|
| December 31, 2006 | \$ 48,959 | 6.4 |
| December 31, 2005 | 47,359 | 6.7 |
| Percent Change | 3.4 | |

For 2006, research and development expenses increased primarily due to increases in payroll costs of \$4,533,000 and professional services of \$230,000, offset by a decrease in project expenses of \$3,179,000. Included in the 2005 project expenses are write-offs of tooling and other materials related to product development in the amount of \$2,726,000. Also during 2005, we incurred research and development costs, which totaled \$2,882,000, to re-engineer our products to make them compliant with new environmental laws that went into effect in 2006.

Table of Contents*General and Administrative Expenses*

General and administrative expenses are summarized below (in thousands, except percentages):

| For the Year Ended | General and Administrative Expenses | Percent of Total Sales |
|--------------------------|-------------------------------------|------------------------|
| December 31, 2006 | \$ 62,656 | 8.2 |
| December 31, 2005 | 64,050 | 9.1 |
| Percent Change | (2.2) | |

For 2006, general and administrative expenses were affected by:

Higher payroll costs of \$2,350,000,

Higher information systems expenses of \$1,718,000,

Increased bad debt expenses of \$944,000, and

Higher professional services and recruiting of \$725,000.

These increases were more than offset by lower legal expenses of \$7,373,000, which was related to the resolution of the litigation with Paxar Americas, Inc., as described below.

Settlement and Licensing Agreement with Paxar Americas, Inc.

During the third quarter of 2006, Zebra paid \$63,750,000 to settle all issues surrounding the litigation with Paxar Americas, Inc. Of this amount, \$53,392,000 was included as operating expense. The remaining \$10,358,000 was capitalized as an intangible asset related to future use of patents and other licenses and are being amortized over 4 to 7 years resulting in an incremental charge of \$456,000 per quarter.

Insurance receivable reserve

During 2006, a Zebra reseller filed for bankruptcy protection in Austria. At the time of the filing, the reseller owed various Zebra subsidiaries a total of \$12,065,000. The entire balance due to Zebra is guaranteed by Condor Insurance, a Nevis-based insurance company through a United Kingdom insurance broker. During June 2006, Zebra initiated a suit in the U.K. courts to enforce the guarantee. However, during the fourth quarter, we discovered that the insurance company's financial position was such that it may not be able to pay the judgment awarded to us. We reviewed the situation and determined that a loss is probable, and, therefore, reserved 100% of the balance due, which was \$12,543,000 at December 31, 2006.

Operating Income

Operating income is summarized in the following table (in thousands, except percentages):

| For the Year Ended | Operating Income | Percent of Total Sales |
|--------------------------|------------------|------------------------|
| December 31, 2006 | \$ 80,429 | 10.6 |
| December 31, 2005 | 146,028 | 20.8 |
| Percent Change | (44.9) | |

Table of Contents*Non-operating Income and Expenses*

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

| | Year Ended December 31, | |
|-------------------------------------|-------------------------|------------------|
| | 2006 | 2005 |
| Investment income | \$ 23,182 | \$ 13,417 |
| Interest expense | (252) | (79) |
| Foreign exchange gains (losses) | (635) | 1,286 |
| Other, net | (1,082) | (370) |
| Total other income (expense) | \$ 21,213 | \$ 14,254 |

Rate of Return Analysis:

| | | |
|--|------------|------------|
| Average cash and marketable securities balance | \$ 551,714 | \$ 551,116 |
| Annualized rate of return | 4.2% | 2.4% |

Income Taxes

The effective income tax rate for 2006 was 31.5% versus 33.8% in 2005. During 2005, we reduced tax reserves as a result of favorable resolution of certain tax audits. In addition, we took advantage of the deduction for qualified domestic production activities included in the American Jobs Creation Act of 2004. The decrease in the effective tax rate is a result of the increased impact of permanent tax differences, including tax-exempt interest income, on the effective income tax rate due to lower taxable income as a result of the Paxar settlement. In addition, we reduced tax reserves in 2006 totaling \$1,189,000 related to the completion of various state tax audits and 2005 state income tax returns.

Income before Cumulative Effect of Accounting Change

Zebra's income before cumulative effect of accounting change is summarized below (in thousands, except per share amounts):

| | Year Ended December 31, | |
|--|-------------------------|------------|
| | 2006 | 2005 |
| Income before cumulative effect of accounting change | \$ 69,627 | \$ 106,184 |
| Diluted earnings per share before cumulative effect of accounting change | \$ 0.98 | \$ 1.47 |

Cumulative Effect of Accounting Change

During the first quarter of 2006, Zebra adopted SFAS No. 123(R), *Share-Based Payment*, using the modified retrospective approach. SFAS No. 123(R) requires entities to estimate the number of forfeitures expected to occur and record expense based upon the number of awards expected to vest. Prior to the adoption of SFAS No. 123(R), Zebra accounted for forfeitures as they occurred as permitted under previous accounting standards. The requirement to estimate forfeitures is classified as an accounting change, and SFAS No. 123(R) required a one-time adjustment in the period of adoption. The one-time adjustment (cumulative effect of accounting change) related to the change in estimating forfeitures increased income by \$1,319,000, net of applicable taxes.

Net Income

Zebra's net income is summarized below (in thousands, except per share amounts):

| | Year Ended December 31, | |
|------------|-------------------------|------------|
| | 2006 | 2005 |
| Net income | \$ 70,946 | \$ 106,184 |

| | | | | |
|----------------------------|----|------|----|------|
| Diluted earnings per share | \$ | 1.00 | \$ | 1.47 |
|----------------------------|----|------|----|------|

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.

Table of Contents

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) collectibility 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.

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.

Table of Contents**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 earning process for that product is fully met.

Investments and Marketable Securities

Investments and marketable securities at December 31, 2007, consisted of the following:

| | |
|----------------------------|-------|
| U.S. government securities | 13.1% |
| State and municipal bonds | 81.1% |
| Corporate bonds | 1.3% |
| Partnership interests | 4.5% |

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 December 31, 2007, Zebra's investments in marketable debt securities are classified as available-for-sale. In addition, as of December 31, 2007, 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 to hold them until maturity.

We account for the 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 that particular partnership. During 2006, we reached the 5% threshold on one of our partnership interests. During 2007, we liquidated this partnership interest. During the fourth quarter of 2007, we also liquidated 95% of two other partnership interests, with the balances in all remaining partnership interests to be liquidated in 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

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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 and notes receivable reserves varied from 0.6% to 3.3% of total accounts receivable. Accounts receivable reserves as of December 31, 2007, were \$5,075,000, or 3.3% of the balance due. We feel this reserve level is appropriate considering the quality of the portfolio as of December 31, 2007. 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.

-33-

Table of Contents

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 inventory reserves have ranged from 9.6% to 14.2% of gross inventory. As of December 31, 2007, inventory reserves were \$8,999,000, or 9.6% of gross inventory. We feel this reserve level is appropriate considering the quantities and quality of the inventories as of December 31, 2007.

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 2007. 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 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 \$433,620,000 as of December 31, 2007.

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 December 31, 2007.

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 penalties related to income tax matters as part of income tax expense. For the year ended December 31, 2007, we did not accrue any interest or penalties into income tax expense.

Contingencies

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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 all current litigation matters, see Note 16 in the Notes to the Consolidated Financial Statements included in the Form 10-K.

Table of Contents

Stock-Based Compensation

As of December 31, 2007, Zebra had two stock-based compensation plans available for future grants. As of January 1, 2006, Zebra adopted SFAS No. 123(R), *Share-Based Payment*, utilizing the modified retrospective approach, which requires the prior period financial statements to be restated to recognize compensation costs in the amounts previously reporting in the pro forma footnote disclosures. See Notes 2 and 3 to the Consolidated Financial Statements included in the Form 10-K for further information on the adoption and impact of SFAS No. 123(R).

Liquidity and Capital Resources

During 2007, Zebra purchased WhereNet Corp. for \$127,450,000, proveo AG for \$15,467,000, and Navis, LLC for \$143,844,000. As a result, Zebra's cash and investment balances decreased to \$281,179,000 at December 31, 2007, compared with \$559,189,000 at December 31, 2006. Other factors affecting cash and investment balances during 2007 include (note that changes discussed below include the impact of foreign currency):

Operations provided a net cash increase of \$158,120,000 primarily from net income.

Deferred tax assets increased \$5,477,000, primarily due to deferred taxes on compensation costs.

Accounts receivable decreased \$4,453,000 because of higher sales. Days sales outstanding increased to 58.9 at the end of 2007 from 53.3 at the end of 2006.

Accrued expenses increased by \$16,804,000 for payroll, bonus, warranty, deferred revenue and sales tax liabilities.

Taxes payable decreased \$1,337,000 due to the timing of tax payments made in 2007.

Purchases of property and equipment totaled \$22,070,000.

Intangibles increased \$4,800,000 due to payments for licenses to use patents.

Net sales of investments totaled \$278,815,000.

Purchases of treasury shares totaled \$112,094,000. Zebra made open market repurchases of our shares under an authorization of the Board of Directors dated October 4, 2005 and August 1, 2007. Cash of \$4,704,000 was paid during 2007 for 135,000 shares that were repurchased as of December 31, 2006.

Stock option exercises and purchases under the stock purchase plan contributed \$8,375,000.

In February 2008, we announced that printer manufacturing will be transferred to a third-party manufacturer. This transition is expected to occur over the next 18 to 24 months. See Note 21 to our Consolidated Financial Statements in this Annual Report on Form 10-K for further discussion.

Contractual Obligations

Zebra's contractual obligations as of December 31, 2007 were:

| | Payments due by period | | | | |
|-----------------------------|------------------------|------------------|------------------|-----------------|-------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Operating lease obligations | \$ 38,944 | \$ 9,360 | \$ 12,820 | \$ 8,473 | \$ 8,291 |
| Purchase obligations | 51,634 | 51,634 | | | |
| Total | \$ 90,578 | \$ 60,994 | \$ 12,820 | \$ 8,473 | \$ 8,291 |

Purchase obligations are for purchases made in the normal course of business to meet operational requirements, primarily raw materials.

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

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement will be effective for Zebra beginning in fiscal 2008, and we are in the process of determining any potential impact to the financial statements.

Table of Contents

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities (as well as certain non-financial instruments) at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, the Statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. This Statement is effective for Zebra for the fiscal year ending December 31, 2008. We have not yet determined the effect this Statement will have on our operations or financial position.

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 acquisitions going forward.

Table of Contents**Item 7A. Quantitative and Qualitative Disclosures About Market Risk****Interest Rate Risk**

Zebra is exposed to the impact of changes in interest rates because of our large investment portfolio. As stated in our written investment policy, the investment portfolio is viewed as a strategic resource that will be managed to achieve above market rates of return in exchange for accepting a prudent amount of incremental risk, which includes the risk of interest rate movements. Risk tolerance is constrained by an overriding objective to preserve capital across each quarterly reporting cycle.

Zebra mitigates interest rate risk with an investment policy that requires the use of outside professional investment managers, investment liquidity, and broad diversification across investment strategies, and which limits the types of investments that may be made. Moreover, the policy requires due diligence of each investment manager both before employment and on an ongoing basis.

The following table sets forth the impact of a one-percentage point movement in interest rates on the value of Zebra's investment portfolio (in thousands, except per share data).

| Interest rate sensitive instruments | As of December 31, | |
|-------------------------------------|--------------------|------------|
| | 2007 | 2006 |
| +1 percentage point movement | | |
| Effect on Pretax Income | \$ (3,206) | \$ (7,140) |
| Effect on Diluted EPS (after tax) | \$ (0.03) | \$ (0.07) |
| -1 percentage point movement | | |
| Effect on Pretax Income | \$ 3,206 | \$ 7,140 |
| Effect on Diluted EPS (after tax) | \$ 0.03 | \$ 0.07 |

Because these securities are classified as available-for-sale under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, the impact of a one-percentage point movement in interest rates occurs over an extended period of time as investments are sold and the funds are subsequently reinvested.

Foreign Exchange Risk

We conduct business in approximately 100 countries throughout the world and, therefore, are exposed to risk based on movements in foreign exchange rates. We generally invoice customers in their local currency and have a resulting foreign currency denominated revenue transaction and accounts receivable. We also purchase certain raw materials and other items in foreign currencies. We manage these risks using derivative financial instruments. See Note 15 of the Notes to the Consolidated Financial Statements included in this form 10-K for further discussions of hedging activities.

The following table sets forth the impact of a ten percent movement in the dollar/pound and dollar/euro rates measured as if Zebra did not engage in the selective hedging practices described above and in Note 15. It is based on the dollar/euro and dollar/pound exchange rates and euro and pound denominated assets and liabilities (in thousands, except per share data).

| Foreign exchange | As of December 31, | |
|-----------------------------------|--------------------|----------|
| | 2007 | 2006 |
| Dollar/pound | | |
| Effect on Pretax Income | \$ 599 | \$ 490 |
| Effect on Diluted EPS (after tax) | \$ 0.01 | \$ 0.00 |
| Dollar/euro | | |
| Effect on Pretax Income | \$ 2,195 | \$ 2,240 |
| Effect on Diluted EPS (after tax) | \$ 0.02 | \$ 0.02 |
| Euro/pound | | |
| Effect on Pretax Income | \$ 3,073 | \$ 2,775 |
| Effect on Diluted EPS (after tax) | \$ 0.03 | \$ 0.03 |

Table of Contents**Equity Price Risk**

Zebra currently employs five investment managers, three of which manage portfolios of investment funds (i.e., fund of funds). These investment funds use a variety of investment strategies, some of which involve the use of equity securities. By policy, management limits the amount of Zebra's investments in alternative investment strategies to a maximum of 15% of the total investment portfolio, with no single investment exceeding \$15,000,000. Zebra is currently in the process of liquidating all of our partnership interests.

Zebra utilizes a Value-at-Risk (VaR) model to determine the maximum potential one-day loss in the fair value of its interest rate, foreign exchange and equity price sensitive instruments.

The following table sets forth the impact of a ten percent change in the value of all equity positions held by Zebra's investment managers (in thousands, except per share data).

| Equity price sensitive instruments | As of December 31, | |
|------------------------------------|--------------------|------------|
| | 2007 | 2006 |
| +10 percent movement | | |
| Effect on Pretax Income | \$ 1,170 | \$ 4,333 |
| Effect on Diluted EPS (after tax) | \$ 0.01 | \$ 0.04 |
| -10 percent movement | | |
| Effect on Pretax Income | \$ (1,170) | \$ (4,333) |
| Effect on Diluted EPS (after tax) | \$ (0.01) | \$ (0.04) |

From time to time, Zebra has taken direct equity positions in companies. These investments relate to potential acquisitions and other strategic business opportunities. To the extent that it has a direct investment in the equity securities of another company, Zebra is exposed to the risks associated with such investments.

Table of Contents

Item 8. Financial Statements and Supplementary Data

The financial statements and schedule of Zebra are annexed to this report as pages F-2 through F-36. An index to such materials appears on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

Not applicable.

Table of Contents**Item 9A. 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-K. 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 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 Annual Report on Form 10-K 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.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. We completed our acquisitions of WhereNet, LLC and Navis Holdings, LLC on January 25, 2007 and December 14, 2007, respectively. As permitted by the U.S. Securities and Exchange Commission, management's assessment as of December 31, 2007 did not include the internal control of WhereNet, LLC and Navis Holdings, LLC, which are included in our consolidated financial statements as of December 31, 2007. WhereNet, LLC constituted \$139,958 and \$118,242 of total and net assets, respectively, as of December 31, 2007 and \$27,308 and \$(10,856) of revenues and net income (loss), respectively, for the year then ended. Navis Holdings, LLC constituted \$174,542 and \$156,887 of total and net assets, respectively, as of December 31, 2007 and \$3,129 and \$190 of revenues and net income, respectively, for the year then ended. (All numbers referenced above for WhereNet, LLC and Navis Holdings, LLC are state in thousands.)

Based on management's assessment, which excluded an assessment of internal control over financial reporting of the acquired operations of WhereNet, LLC and Navis Holdings, LLC, and those criteria, our management believes that, as of December 31, 2007, our internal control over financial reporting is effective. Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on Zebra's internal control over financial reporting. That report is included on page 41 of this report on Form 10-K.

Changes in Internal Control over Financial Reporting

During 2007, we made changes to our controls and procedures as part of our ongoing monitoring of our controls. However, none of these changes has 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 Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent or detect 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 misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within Zebra have been detected.

Table of Contents

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

Report of Independent Registered Public Accounting Firm

On Internal Control over Financial Reporting

The Board of Directors and Stockholders

of Zebra Technologies Corporation:

We have audited Zebra Technologies Corporation and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Zebra Technologies Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of WhereNet, LLC and Navis Holdings, LLC, which are included in the 2007 consolidated financial statements of Zebra Technologies Corporation. WhereNet, LLC constituted \$139,958 and \$118,242 of total and net assets, respectively, as of December 31, 2007 and \$27,308 and \$(10,856) of revenues and net income (loss), respectively, for the year then ended. Navis Holdings, LLC constituted \$174,542 and \$156,887 of total and net assets, respectively, as of December 31, 2007 and \$3,129 and \$190 of revenues and net income, respectively, for the year then ended. Zebra Technologies Corporation completed its acquisitions of WhereNet, LLC and Navis Holdings, LLC on January 25, 2007 and December 14, 2007, respectively, and as permitted by the U.S. Securities and Exchange Commission's guidance, management did not assess the effectiveness of internal control over financial reporting of WhereNet, LLC and Navis Holdings, LLC. Our audit of internal control over financial reporting of Zebra Technologies Corporation also did not include an evaluation of the internal control over financial reporting of WhereNet, LLC and Navis Holdings, LLC.

In our opinion, Zebra Technologies Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

Table of Contents

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Zebra Technologies Corporation and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007, and our report dated February 28, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
February 28, 2008

Table of Contents

Item 9B. Other Information

Not applicable.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We have adopted a Code of Ethics that applies to Zebra's Chief Executive Officer, Chief Financial Officer and the Vice President and Controller. The Code of Ethics is posted on the Investor Relations Corporate Governance page of Zebra's Internet Web site, www.zebra.com, and is available for download. Any waiver from the Code of Ethics and any amendment to the Code of Ethics will be disclosed on such page of Zebra's Web site.

All other information in response to this item is incorporated by reference from the Proxy Statement sections entitled Election of Directors, Executive Officers and Corporate Governance.

Item 11. Executive Compensation

The information in response to this item is incorporated by reference from the Proxy Statement sections entitled Executive Compensation and Certain Transactions, Compensation Discussion and Analysis, Director Compensation, Compensation Committee Interlocks and Insider Participation and Compensation Committee Report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information in response to this item is incorporated by reference from the Proxy Statement sections entitled Security Ownership of Management and Certain Beneficial Owners and Equity Compensation Plan Information.

Item 13. Certain Relationships, Related Transactions and Director Independence

The information in response to this item is incorporated by reference from the Proxy Statement sections entitled Certain Relationships and Related Transactions and Corporate Governance.

Item 14. Principal Accounting Fees and Services

The information in response to this item is incorporated by reference from the Proxy Statement section entitled Fees of Independent Auditors.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

The financial statements and schedule filed as part of this report are listed in the accompanying Index to Financial Statements and Schedule. The exhibits filed as a part of this report are listed in the accompanying Index to Exhibits.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, on the 28th day of February 2008.

ZEBRA TECHNOLOGIES CORPORATION

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

Pursuant to the requirements of the Securities and Exchange Act of 1934, the report has been signed below by the following persons in the capacities and on the dates indicated.

| Signature | Title | Date |
|----------------------------|--|-------------------|
| /s/ Anders Gustafsson | Chief Executive Officer | February 28, 2008 |
| Anders Gustafsson | (Principal Executive Officer), Director | |
| /s/ Gerhard Cless | Executive Vice President, Director | February 28, 2008 |
| Gerhard Cless | | |
| /s/ Charles R. Whitchurch | Chief Financial Officer and Treasurer (Principal Financial Officer) | February 28, 2008 |
| Charles R. Whitchurch | | |
| /s/ Todd R. Naughton | Vice President and Controller | February 28, 2008 |
| Todd R. Naughton | (Principal Accounting Officer) | |
| /s/ Michael A. Smith | Director and Chairman of the Board of Directors | February 28, 2008 |
| Michael A. Smith | | |
| /s/ Christopher G. Knowles | Director | February 28, 2008 |
| Christopher G. Knowles | | |
| /s/ Ross W. Manire | Director | February 28, 2008 |
| Ross W. Manire | | |
| /s/ Robert J. Potter | Director | February 28, 2008 |
| Robert J. Potter | | |
| /s/ Edward L. Kaplan | Director | February 28, 2008 |
| Edward L. Kaplan | | |

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

| | Page |
|--|-------------|
| Financial Statements | |
| <u>Report of Independent Registered Public Accounting Firm</u> | F-2 |
| <u>Consolidated Balance Sheets as of December 31, 2007 and 2006</u> | F-3 |
| <u>Consolidated Statements of Earnings for the years ended December 31, 2007, 2006, and 2005</u> | F-4 |
| <u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2007, 2006, and 2005</u> | F-5 |
| <u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2007, 2006, and 2005</u> | F-6 |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006, and 2005</u> | F-7 |
| <u>Notes to Consolidated Financial Statements</u> | F-8 |
| Financial Statement Schedule | |
| The following financial statement schedule is included herein: | |
| <u>Schedule II - Valuation and Qualifying Accounts</u> | F-36 |
| <i>All other financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.</i> | |

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

of Zebra Technologies Corporation:

We have audited the accompanying consolidated balance sheets of Zebra Technologies Corporation and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Zebra Technologies Corporation and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R) Share Based Payment effective January 1, 2006 using the modified retrospective transition method.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Zebra Technologies Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois

February 28, 2008

Table of Contents**ZEBRA TECHNOLOGIES CORPORATION****CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands)

| | December 31, 2007 | December 31, 2006 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 38,211 | \$ 39,648 |
| Restricted cash | 2,497 | 1,366 |
| Investments and marketable securities | 98,438 | 219,930 |
| Accounts receivable, net of allowances of \$5,075 in 2007 and \$3,549 in 2006 | 150,775 | 122,540 |
| Inventories, net | 85,038 | 81,190 |
| Deferred income taxes | 14,772 | 9,464 |
| Prepaid expenses and other current assets | 31,101 | 5,552 |
| Total current assets | 420,832 | 479,690 |
| Property and equipment at cost, net of accumulated depreciation and amortization | 67,686 | 57,431 |
| Long term deferred income taxes | 28,407 | 11,917 |
| Goodwill | 246,510 | 70,714 |
| Other intangibles, net | 119,424 | 34,025 |
| Long term investments and marketable securities | 142,033 | 298,245 |
| Other assets | 9,386 | 11,120 |
| Total assets | \$ 1,034,278 | \$ 963,142 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 42,351 | \$ 28,980 |
| Accrued liabilities | 69,437 | 40,880 |
| Deferred revenue | 9,633 | 2,311 |
| Income taxes payable | 751 | 2,683 |
| Total current liabilities | 122,172 | 74,854 |
| Deferred rent | 961 | 638 |
| Other long-term liability | 8,452 | 9,969 |
| Total liabilities | 131,585 | 85,461 |
| Commitments and contingencies (Note 16) | | |
| Stockholders' equity: | | |
| Preferred stock | | |
| Class A Common Stock | 722 | 722 |
| Additional paid-in capital | 141,522 | 139,083 |
| Treasury stock | (205,058) | (119,335) |
| Retained earnings | 960,512 | 850,399 |
| Accumulated other comprehensive income | 4,995 | 6,812 |
| Total stockholders' equity | 902,693 | 877,681 |
| Total liabilities and stockholders' equity | \$ 1,034,278 | \$ 963,142 |

See accompanying notes to consolidated financial statements.

F-3

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

(Amounts in thousands, except per share data)

| | Year Ended December 31, | | |
|---|-------------------------|------------|------------|
| | 2007 | 2006 | 2005 |
| Net sales | \$ 868,279 | \$ 759,524 | \$ 702,271 |
| Cost of sales | 451,161 | 401,104 | 348,851 |
| Gross profit | 417,118 | 358,420 | 353,420 |
| Operating expenses: | | | |
| Selling and marketing | 121,996 | 96,788 | 91,630 |
| Research and development | 57,600 | 48,959 | 47,359 |
| General and administrative | 81,356 | 62,656 | 64,050 |
| Amortization of intangible assets | 11,128 | 3,653 | 2,341 |
| Litigation settlement | | 53,392 | |
| Insurance receivable reserve | | 12,543 | |
| Acquired in-process technology | 1,853 | | |
| Exit costs | | | 2,012 |
| Total operating expenses | 273,933 | 277,991 | 207,392 |
| Operating income | 143,185 | 80,429 | 146,028 |
| Other income (expense): | | | |
| Investment income | 23,966 | 23,182 | 13,417 |
| Interest expense | (44) | (252) | (79) |
| Foreign exchange gain (loss) | 523 | (635) | 1,286 |
| Other, net | (255) | (1,082) | (370) |
| Total other income | 24,190 | 21,213 | 14,254 |
| Income before income taxes and cumulative effect of accounting change | 167,375 | 101,642 | 160,282 |
| Income taxes | 57,262 | 32,015 | 54,098 |
| Income before cumulative effect of accounting change | 110,113 | 69,627 | 106,184 |
| Cumulative effect of accounting change, net of income taxes of \$694 (See Note 2) | | 1,319 | |
| Net income | \$ 110,113 | \$ 70,946 | \$ 106,184 |
| Basic earnings per share before cumulative effect of accounting change | \$ 1.61 | \$ 0.99 | \$ 1.49 |
| Diluted earnings per share before cumulative effect of accounting change | \$ 1.60 | \$ 0.98 | \$ 1.47 |
| Basic earnings per share | \$ 1.61 | \$ 1.01 | \$ 1.49 |
| Diluted earnings per share | \$ 1.60 | \$ 1.00 | \$ 1.47 |
| Basic weighted average shares outstanding | 68,463 | 70,516 | 71,364 |
| Diluted weighted average and equivalent shares outstanding | 68,908 | 70,956 | 72,000 |

See accompanying notes to consolidated financial statements.

Table of Contents**ZEBRA TECHNOLOGIES CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in thousands)

| | Year Ended December 31, | | |
|--|--------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Net income | \$ 110,113 | \$ 70,946 | \$ 106,184 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustment | 2,277 | 7,295 | (6,407) |
| Changes in unrealized gain/(loss) on hedging transactions, net of income taxes | (5,205) | (1,188) | 2,073 |
| Changes in unrealized holding gains/(loss) on investments, net of income taxes | 1,111 | (1,672) | 444 |
| Comprehensive income | \$ 108,296 | \$ 75,381 | \$ 102,294 |

See accompanying notes to consolidated financial statements.

Table of Contents**ZEBRA TECHNOLOGIES CORPORATION****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(Dollars in thousands)

| | <i>Class A Common Stock</i> | <i>Additional Paid-in Capital</i> | <i>Treasury Stock</i> | <i>Retained Earnings</i> | <i>Accumulated Other Comprehensive Income (Loss)</i> | <i>Total</i> |
|--|-------------------------------------|---|---------------------------|------------------------------|--|--------------|
| Balance at December 31, 2004 | \$ 718 | \$ 123,639 | \$ | \$ 673,269 | \$ 6,267 | \$ 803,893 |
| Issuance of 332,051 common shares upon exercise of stock options and purchases under stock purchase plan | 4 | 7,604 | | | | 7,608 |
| Repurchase of 1,866,375 shares of Class A Common Stock | | | (70,421) | | | (70,421) |
| Issuance of 165,642 treasury shares upon exercise of stock options and purchases under stock purchase plan | | (2,263) | 6,408 | | | 4,145 |
| Additional tax benefit resulting from exercise of options | | 2,270 | | | | 2,270 |
| Stock-based compensation | | 8,183 | | | | 8,183 |
| Net income | | | | 106,184 | | 106,184 |
| Unrealized holding gain on investments (net of income taxes) | | | | | 444 | 444 |
| Unrealized holding gain on hedging transactions (net of income taxes) | | | | | 2,073 | 2,073 |
| Foreign currency translation adjustment | | | | | (6,407) | (6,407) |
| Balance at December 31, 2005 | 722 | 139,433 | (64,013) | 779,453 | 2,377 | 857,972 |
| Repurchase of 2,080,911 shares of Class A Common Stock | | | (72,925) | | | (72,925) |
| Issuance of 459,816 treasury shares upon exercise of stock options and purchases under stock purchase plan | | (7,201) | 17,603 | | | 10,402 |
| Additional tax benefit resulting from exercise of options | | 1,324 | | | | 1,324 |
| Stock-based compensation | | 7,540 | | | | 7,540 |
| Cumulative effect of accounting change | | (2,013) | | 1,319 | | (694) |
| Income before cumulative effect of accounting change | | | | 69,627 | | 69,627 |
| Unrealized holding loss on investments (net of income taxes) | | | | | (1,672) | (1,672) |
| Unrealized holding loss on hedging transactions (net of income taxes) | | | | | (1,188) | (1,188) |
| Foreign currency translation adjustment | | | | | 7,295 | 7,295 |
| Balance at December 31, 2006 | \$ 722 | \$ 139,083 | \$ (119,335) | \$ 850,399 | \$ 6,812 | \$ 877,681 |
| Repurchase of 3,038,389 shares of Class A Common Stock | | | (107,390) | | | (107,390) |
| Issuance of 578,608 treasury shares upon exercise of stock options and purchases under stock purchase plan | | (13,292) | 21,667 | | | 8,375 |
| Additional tax benefit resulting from exercise of options | | 664 | | | | 664 |
| Stock-based compensation | | 15,067 | | | | 15,067 |
| Net income | | | | 110,113 | | 110,113 |
| Unrealized holding gain on investments (net of income taxes) | | | | | 1,111 | 1,111 |
| Unrealized holding loss on hedging transactions (net of income taxes) | | | | | (5,205) | (5,205) |
| Foreign currency translation adjustment | | | | | 2,277 | 2,277 |
| Balance at December 31, 2007 | \$ 722 | \$ 141,522 | \$ (205,058) | \$ 960,512 | \$ 4,995 | \$ 902,693 |

See accompanying notes to consolidated financial statements.

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

(Amounts in thousands)

| | Year Ended December 31, | | |
|--|-------------------------|------------------|------------------|
| | 2007 | 2006 | 2005 |
| Cash flows from operating activities: | | | |
| Net income | \$ 110,113 | \$ 70,946 | \$ 106,184 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 26,902 | 16,087 | 13,104 |
| Share-based compensation | 15,067 | 7,540 | 8,183 |
| Excess tax benefit from share-based compensation | (921) | (1,514) | (2,258) |
| Cumulative effect of accounting change (net of tax) | | (1,319) | |
| Acquired in-process technology | 1,853 | | |
| Insurance receivable reserve | | 12,543 | |
| Deferred income taxes | (5,477) | (6,737) | (2,053) |
| Changes in assets and liabilities, net of businesses acquired: | | | |
| Accounts receivable, net | 4,453 | (4,292) | (20,422) |
| Inventories | (134) | (13,430) | (6,204) |
| Other assets | (1,321) | (483) | (9,562) |
| Accounts payable | (3,418) | (1,869) | 3,792 |
| Accrued liabilities | 16,804 | 9,486 | (3,423) |
| Deferred revenue | (325) | (927) | 1,431 |
| Income taxes payable | (1,337) | 2,586 | (2,900) |
| Other operating activities | (4,139) | (552) | 3,421 |
| Net cash provided by operating activities | 158,120 | 88,065 | 89,293 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (22,070) | (19,197) | (14,286) |
| Acquisition of businesses, net of cash acquired | (286,761) | (2,681) | (7,797) |
| Acquisition of intangible assets | (4,800) | (18,091) | (13,754) |
| Purchases of investments | (1,025,089) | (1,110,472) | (1,021,813) |
| Maturities of investments | 915,015 | 757,249 | 673,466 |
| Sales of investments | 366,964 | 374,666 | 359,711 |
| Net cash used in investing activities | (56,741) | (18,526) | (24,473) |
| Cash flows from financing activities: | | | |
| Purchase of treasury shares | (112,094) | (68,221) | (70,421) |
| Proceeds from exercise of stock options and stock purchase plan purchases | 8,375 | 10,402 | 11,753 |
| Excess tax benefit from share-based compensation | 921 | 1,514 | 2,258 |
| Payments for obligation under capital lease | | | (171) |
| Net cash used in financing activities | (102,798) | (56,305) | (56,581) |
| Effect of exchange rate changes on cash | (18) | 1,972 | (1,780) |
| Net increase (decrease) in cash and cash equivalents | (1,437) | 15,206 | 6,459 |
| Cash and cash equivalents at beginning of year | 39,648 | 24,442 | 17,983 |
| Cash and cash equivalents at end of year | \$ 38,211 | \$ 39,648 | \$ 24,442 |

| | | | |
|--|----|--------|---------------|
| Supplemental disclosures of cash flow information: | | | |
| Interest paid | \$ | 44 | \$ 252 \$ 79 |
| Income taxes paid | | 62,130 | 33,070 61,453 |
| Supplemental disclosures of non-cash transaction: | | | |
| Purchase of treasury shares not paid in 2006 | \$ | | \$ 4,704 |
| Sale of investments not received in 2007 | | 21,925 | |
| See accompanying notes to consolidated financial statements. | | | |

F-7

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of Business

Zebra Technologies Corporation and its wholly-owned subsidiaries (Zebra) design, manufacture, sell and support a broad range of direct thermal and thermal transfer label printers, radio frequency identification printer/encoders, dye sublimation card printers, digital photo printers and related accessories and support software. These products are used principally in automatic identification (auto ID), data collection and personal identification applications and are distributed world-wide through a network of resellers, distributors and end users representing a wide cross-section of industrial, service and government organizations.

In 2007, we acquired WhereNet Corp., proveo AG and Navis Holdings, LLC, which we refer to as Zebra Enterprise Solutions. In 2008, we will be integrating these businesses into a single business unit, and intend to report their results separately from our specialty printing business. 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. We consider these solutions natural adjacencies to our core specialty printing business. The solutions 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.

Note 2 Summary of Significant Accounting Policies

Principles of Consolidation. These consolidated financial statements were prepared on a consolidated basis to include the accounts of Zebra and its wholly owned subsidiaries. All significant intercompany accounts, transactions and unrealized profit were eliminated in consolidation.

Fiscal Calendar. Zebra operates on a 4 week/4 week/5 week fiscal quarter, and each fiscal quarter ends on a Saturday. The fiscal year always begins on January 1 and ends on December 31. This results in some fiscal quarters being either greater than or less than 13 weeks depending on the days of the week those dates fall. During the 2007 fiscal year, our quarter end dates were as follows:

March 31,

June 30,

September 29, and

December 31.

Use of Estimates. These consolidated financial statements were prepared using estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents. Cash consists primarily of deposits with banks. In addition, Zebra considers highly liquid short-term investments with original maturities of less than seven days to be cash equivalents.

Restricted Cash. Zebra has two types of restricted cash agreements. In the Netherlands, we have an agreement with the import authorities to place 1,000,000 in a bank deposit account, which acts as security for the VAT payable. This deferment agreement allows Zebra to simply quote our deferment number at import and quickly clear customs without the need to pay VAT. The bank deposit account cannot be accessed or used without cancelling the deferment agreement. The second type of restricted cash agreement primarily collateralizes the issuance of letters of credit.

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Investments and Marketable Securities. Investments and marketable securities at December 31, 2007, consisted of U.S. government and agency securities, state and municipal bonds, corporate bonds, and partnership interests, which are held indirectly in diversified funds actively managed by investment professionals. Zebra classifies its 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.

F-8

Table of Contents

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.

All investments in marketable debt securities except the partnership interests are classified as available-for-sale securities. We account for the partnership interests using the cost method until our ownership percentage reaches 5% of the total partnership portfolio value. At that time, we begin using the equity method to account for the partnership. As of December 31, 2007, we are in the process of liquidating all of our interests in these partnerships. This liquidation is expected to be completed by June 2008. We recorded investment income of \$9,246,000 related to gains on the liquidations of the partnerships during 2007.

Accounts Receivable and Allowance for Doubtful Accounts. Accounts receivable consist primarily of amounts due to us from our normal business activities. Collateral on trade accounts receivable is generally not required. Zebra maintains an allowance for doubtful accounts for estimated uncollectible accounts receivable. The allowance is based on our assessment of known delinquent accounts. Accounts are written off against the allowance account when they are determined to be no longer collectible.

Inventories. Inventories are stated at the lower of cost or market, and cost is determined by the first-in, first-out (FIFO) method.

Property and Equipment. Property and equipment is stated at cost. Depreciation and amortization is computed primarily using the straight-line method over the estimated useful lives of the various classes of property and equipment, which are 30 years for buildings and range from 3 to 10 years for other property. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

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 balances recognized under FIN No. 48 did not differ from the net balances 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 December 31, 2007 or December 31, 2006.

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 year ended December 31, 2007, we did not accrue any interest or penalties into income tax expense.

Intangible Assets. Goodwill represents the unamortized excess of the cost of acquiring a business over the fair values of the net assets received at the date of acquisition. Goodwill is no longer being amortized, as required by SFAS No. 142, *Goodwill and Other Intangible Assets*.

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 annual assessment during June 2007. 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 might 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,

F-9

Table of Contents

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 future 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.

Other intangible assets consist primarily of customer relationships, current technology and patents and patent licenses. These assets are recorded at cost and amortized on a straight-line basis over a weighted-average life of 9 years, which approximates the estimated useful lives.

Accumulated amortization for these other intangible assets was \$24,658,000 and \$13,501,000 at December 31, 2007 and 2006, respectively.

Revenue Recognition. Revenue includes sales of hardware, supplies, software and services (including repair services, extended service contracts, and professional services). 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) collectibility is reasonably assured. We provide for an estimate of product returns based on historical experience. Revenue related to extended warranty and service contracts is recorded as deferred income and recognized over the life of the contract. Professional services revenue is recorded when performed. 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 earning process for that product is complete.

Zebra records payments to resellers of its product as reductions to revenue unless these payments meet the requirements for operating expense treatment under EITF 01-09 *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*. See the market development funds accounting policy for further details.

Revenue includes all customer billings for shipping and handling charges. The related costs of shipping and handling revenue are recorded as cost of goods sold.

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. Contract terms generally provide for progress billings on advance terms or based on completion of certain phases of the work. At December 31, 2007, unbilled revenue was \$8,013,000 and receivables for contracts in progress included in accounts receivable were \$10,748,000.

Research and Development Costs. Research and development costs are expensed as incurred. These costs include:

Salaries, benefits, and other R&D personnel related costs,

Consulting and other outside services used in the R&D process,

Engineering supplies.

Engineering related information systems costs, and
Allocation of building and related costs.

From time to time, Zebra will provide engineering and development services to third parties on a contract basis. Zebra does not guarantee the outcome of this research and does not retain any obligation to repay third party funding received for these contract services. Since these services are not part of our standard product offering, we treat payments received under these arrangements as reductions to research and development costs.

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Advertising. Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2007, 2006 and 2005 totaled \$6,361,000, \$5,857,000 and \$5,524,000, respectively.

Market Development Funds. Zebra makes market development funds available to its resellers to support demand generation activity by the resellers. These funds require the reseller to provide specific services or benefits to Zebra and substantiate the fair value of such. Zebra reimburses resellers for agreed activities up to the fair value of the

F-10

Table of Contents

benefit received by Zebra. These payments are treated as marketing costs consistent with the requirements of EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*. Any payments to resellers that do not meet these requirements are recorded as reductions to revenue.

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 table is a summary of Zebra's accrued warranty obligation.

| Warranty Reserve (in thousands) | Year Ended December 31, | | |
|--|--------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Balance at the beginning of the period | \$ 2,250 | \$ 1,922 | \$ 1,691 |
| Warranty expense during the period | 6,522 | 5,792 | 6,394 |
| Warranty payments made during the period | (5,361) | (5,464) | (6,163) |
| Balance at the end of the period | \$ 3,411 | \$ 2,250 | \$ 1,922 |

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.

| Recycling Reserve (in thousands) | Year Ended December 31, | | |
|---|--------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Balance at the beginning of the period | \$ 2,115 | \$ 632 | \$ |
| Recycling expense during the period | 1,580 | 1,373 | 632 |
| Recycling payments made during the period | | | |
| Exchange rate impact | | 11 | 110 |
| Balance at the end of the period | \$ 3,706 | \$ 2,115 | \$ 632 |

Fair Value of Financial Instruments. Zebra estimates the fair value of its financial instruments as follows:

| Instrument | Method for determining fair value |
|---|--|
| Cash, cash equivalents, restricted cash, accounts receivable and accounts payable | Cost, which approximates fair value due to the short-term nature of these instruments |
| Investments in marketable debt securities | Market quotes from independent pricing services |
| Partnership interests | Cost method, unless Zebra's ownership interest is greater than 5% of the total portfolio value, then equity method |
| Foreign currency forward contracts | Estimated using market quoted rates for foreign currency at the balance sheet date |
| Foreign currency option contracts | Estimated using market quoted rates for foreign currency at the balance sheet date and application of such rates subject to the option terms |
| Life insurance policies | Cash surrender value |

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, we recognize derivative instruments and hedging activities as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in

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fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. See Note 15 for additional information on our derivatives and hedging activities.

Stock-based Compensation. At December 31, 2007, we had two stock-based compensation plans available for future grants, which are described more fully in Note 3. Prior to January 1, 2006, we accounted for these plans using the intrinsic value method in accordance with the recognition and measurement principles of Accounting Principles

F-11

Table of Contents

Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by SFAS No. 123, *Accounting for Stock Based Compensation*. Accordingly, we recognized no compensation cost as all options granted under these plans had grant prices equal to the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, Zebra adopted SFAS No. 123(R), *Share-Based Payment*, utilizing the modified retrospective approach, which required the prior period financial statements to be restated to recognize compensation costs in the amounts previously reported in the pro forma footnote disclosures. Zebra recognizes compensation costs using the straight-line method over the vesting period of 1 month to 5 years.

The compensation expense and the related income tax benefit for share-based payments was included in the Consolidated Statement of Earnings as follows:

| Compensation costs and related income tax benefit: | For the years ended December 31, | | |
|--|----------------------------------|--------------|--------------|
| | 2007 | 2006 | 2005 |
| Cost of sales | \$ 1,607 | \$ 673 | \$ 761 |
| Selling and marketing | 2,977 | 1,720 | 1,923 |
| Research and development | 2,316 | 1,111 | 1,359 |
| General and administration | 8,167 | 4,036 | 4,140 |
| Total compensation expense | 15,067 | 7,540 | 8,183 |
| Income tax benefit | \$ 5,198 | \$ 2,556 | \$ 2,764 |

On August 31, 2007, Zebra announced the resignation of our Chief Executive Officer (CEO) and Chairman of the Board in conjunction with our announcement of his successor as CEO. Zebra entered into an executive transition agreement with the former CEO as of that date. The agreement specifies that his outstanding unvested options vested on that date and the option exercise period will continue for the full original maximum term unaffected by his retirement. As a result, we recorded a modification charge of approximately \$1,702,000 in 2007, representing the difference in fair value of the options before and after modification.

Prior to adopting SFAS No. 123(R), Zebra presented all tax benefits of deductions resulting from the exercise of stock grants as operating cash flows in the consolidated statements of cash flows. 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. As a result, \$921,000 of excess tax benefits for the year ended December 31, 2007, was classified as financing cash flows. The excess tax benefits of \$1,514,000 for the year ended December 31, 2006 and \$2,258,000 for the year ended December 31, 2005, were classified as financing cash flows.

SFAS No. 123(R) requires entities to estimate the number of forfeitures expected to occur and record expense based upon the number of awards expected to vest. Prior to the adoption of SFAS No. 123(R), Zebra accounted for forfeitures as they occurred as permitted under previous accounting standards. The requirement to estimate forfeitures is classified as an accounting change, and SFAS No. 123(R) required a one-time adjustment in the period of adoption. The one-time adjustment (cumulative effect of accounting change) related to the change in estimating forfeitures increased income by \$1,319,000, net of applicable taxes, for the year ended December 31, 2006.

Deferred Compensation Plan. Zebra has a deferred compensation plan that permits directors, management and highly compensated employees to defer portions of their compensation. Zebra immediately pays deferred amounts into a Rabbi Trust, and plan participants select a method of investing these funds into hypothetical investments. Zebra tracks the performance of these hypothetical investments in order to determine the value of each participant's deferral. Zebra accrues the deferred compensation liability in other long-term liabilities as the amount that is actually owed to the participants. Our deferred compensation liability was \$3,950,000 as of December 31, 2007, and \$6,803,000 as of December 31, 2006. Previously, Zebra purchased corporate-owned whole-life insurance contracts on the related employees, of which Zebra is the beneficiary. During 2007, the whole-life insurance policies were liquidated and money market investments were purchased.

Foreign Currency Translations. The consolidated balance sheets of Zebra's foreign subsidiaries are translated into U.S. dollars using the year-end exchange rate, and statement of earnings items are translated using the average exchange rate for the year. The resulting translation gains or losses are recorded in stockholders' equity as a cumulative translation adjustment, which is a component of accumulated other comprehensive income.

Table of Contents

Acquisition Costs. Zebra periodically has external expenditures related to potential acquisitions. These expenditures are recorded as prepaid expenses until such time as Zebra either completes the transaction or abandons the transaction. If the transaction is completed, the costs are treated as part of the cost of the acquisition. If the transaction is abandoned, the costs are expensed during the period in which it is abandoned.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of. Zebra accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the sum of the undiscounted cash flows expected to result from the use and the eventual disposition of the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Recently Issued Accounting Pronouncements. In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement will be effective for Zebra beginning in fiscal 2008, and we are in the process of determining any potential impact to the financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities (as well as certain non-financial instruments) at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, the Statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. This Statement is effective for Zebra for the fiscal year ending December 31, 2008. We have not yet determined the effect this Statement will have on our operations or financial position.

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 acquisitions going forward.

Reclassifications. Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

Note 3 Stock Based Compensation

As of December 31, 2007, Zebra has two active stock option and stock purchase plans, which are described below.

On May 9, 2006, the stockholders of Zebra approved the 2006 Zebra Technologies Corporation Incentive Compensation Plan (the 2006 Plan), which included authorization for issuance of awards of 5,500,000 shares under the 2006 Plan. The 2006 Plan became effective immediately and superseded the 1997 Stock Option Plan (the 1997 Plan) and the 2002 Non-Employee Director Stock Option Plan (the 2002 Director Plan), except that the prior plans will remain in effect with respect to stock options granted under the prior plans until such options have been exercised, forfeited, cancelled, expired or otherwise terminated in accordance with the terms of such grants. The types of awards available under the 2006 Plan are incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, performance shares and units and performance-based cash bonuses. Employees, directors and consultants of Zebra and its subsidiaries are eligible to participate in the 2006 Plan. As of December 31, 2007, 4,388,371 shares were available for grant under the plan, and options for 941,748 shares were outstanding under the 2006 Plan.

Table of Contents

The options granted under the 2006 Plan have an exercise price equal to the closing market price of Zebra's stock on the date of grant. The options granted to employees generally vest over a four or five-year period. These options expire on the earlier of (a) ten years following the grant date, (b) immediately if the employee is terminated for cause, (c) ninety days if the employee is terminated involuntarily other than for cause, (d) thirty days if the employee voluntarily terminates his or her employment, or (e) one year if the employee's employment terminates due to death, disability, or retirement. The Compensation Committee of the Board of Directors administers the plan.

During 2007, the following table shows the number of shares granted and the vesting schedules of the restricted stock awards that were granted under the Plan to certain executive officers, and to other managers in conjunction with recent acquisitions.

| Number of shares granted | Vesting period |
|--------------------------|--|
| 41,924 | One third after each year of service |
| 51,826 | One half after each year of service |
| 25,089 | One third after the one year of service; remaining after two years of service. |

These restricted stock awards will vest at each vesting date if the executive remains employed by Zebra throughout the applicable time period, but will vest before the end of the each vesting period in the event of death, disability, resignation for good reason, a change in control (as defined in the 2006 Plan), or termination by Zebra other than for Cause, as defined in the restricted stock agreement entered into by Zebra with each executive officer who was granted restricted stock (the Restricted Stock Agreement). The restricted stock is forfeited in certain situations specified in the Restricted Stock Agreement, including, if before the restricted stock vests, the executive's employment is terminated by Zebra for Cause (as defined in the Restricted Stock Agreement) or if the executive resigns for other than good reason.

The 1997 Plan was superseded by the 2006 Plan. As of December 31, 2007, options for 1,901,322 shares were outstanding and exercisable under the 1997 Plan. These options expire on the earlier of (a) ten years following the grant date, (b) immediately if the employee is terminated for cause, (c) ninety days if the employee is terminated involuntarily other than for cause, (d) thirty days if the employee voluntarily terminates his or her employment, or (e) one year if the employee's employment terminates due to death, disability, or retirement.

The 2002 Director Plan was superseded by the 2006 Plan. As of December 31, 2007, options for 186,068 shares were outstanding and exercisable under the 2002 Director Plan. Unless otherwise provided in an option agreement, options granted under the 2002 Director Plan become exercisable in five equal increments beginning on the date of the grant and continuing on each of the four anniversaries thereafter. All such options expire on the earlier of (a) ten years following the grant date, (b) the first anniversary of the termination date of the non-employee director's directorship for any reason other than those listed in clause (c) below, or (c) the termination of the non-employee director's directorship by Zebra's stockholders for cause, or resignation for cause, in each case as defined in the option agreement.

The Board of Directors and stockholders adopted the 2001 Stock Purchase Plan and reserved 1,125,000 shares of Class A Common Stock for issuance under the plan. Under this plan, employees who work a minimum of 20 hours per week may elect to withhold up to 10% of their cash compensation through regular payroll deductions to purchase shares of Class A Common Stock from Zebra over a period not to exceed 12 months at a purchase price per share equal to the lesser of: (1) 85% of the fair market value of the shares as of the date of the grant, or (2) 85% of the fair market value of the shares as of the date of purchase. As of December 31, 2007, 547,044 shares have been purchased under the plan.

Table of Contents

For purposes of calculating the compensation cost consistent with SFAS No. 123(R), the fair value of each stock option granted prior to January 1, 2005, is estimated on the date of grant using the Black-Scholes option-pricing model. For stock options granted on or after January 1, 2005, fair value is estimated on the date of grant using a binomial model. 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:

| | 2007 | 2006 | 2005 |
|---|---------------|---------------|---------------|
| Expected dividend yield | 0% | 0% | 0% |
| Forfeiture rate | 7.69% | 7.43% | 0% |
| Volatility | 34.73% | 38.30% | 38.44% |
| Risk free interest rate | 4.55% | 4.58% | 3.74% |
| - Range of interest rates | 4.55% - 5.03% | 4.38% - 4.73% | 2.36% - 4.50% |
| Expected weighted-average life | 4.88 years | 4.58 years | 4.83 years |
| Fair value of options granted | \$ 10,790,000 | \$ 5,802,000 | \$ 9,701,000 |
| Weighted-average grant date fair value of options granted (per share underlying the options) | \$ 13.72 | \$ 14.22 | \$ 17.16 |

The forfeiture rate is based on the historical annualized forfeiture rate, which is consistent with prior year rates. This rate includes only pre-vesting forfeitures. 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 risk free interest rate used is the implied yield currently available from the U.S. Treasury zero-coupon yield curve over the contractual term of the options. The expected weighted-average life is based on the exercise price at the midpoint, which combines the average life of the options that have already been exercised or cancelled with the exercise life of all unexercised options. The exercise life of unexercised options assumes that the option will be exercised at the midpoint of the vesting date and the full contractual term. These assumptions are consistent with the assumptions used in prior years.

In accordance with the WhereNet acquisition agreement, we assumed the existing unvested stock options exercisable for shares of WhereNet's common stock and made them exercisable for Zebra common stock. These new options have vesting dates that ranged from February 6, 2007 through October 23, 2010. The following table shows the weighted-average assumptions used for these grants as well as the fair value of these grants based on those assumptions:

| | |
|---|--------------|
| Expected dividend yield | 0% |
| Forfeiture rate | 0% |
| Volatility | 35.23% |
| Risk free interest rate | 4.85% |
| Expected weighted-average life | 4.08 years |
| Fair value of options granted | \$ 4,345,000 |
| Weighted-average grant date fair value of options granted | \$ 32.77 |

In accordance with the Navis acquisition agreement, we assumed the existing unvested stock options exercisable for shares of Navis' common stock and made them exercisable for Zebra common stock. These new options have vesting dates that ranged from February 1, 2008 through April 30, 2011. The following table shows the weighted-average assumptions used for these grants as well as the fair value of these grants based on those assumptions:

| | |
|---|--------------|
| Expected dividend yield | 0% |
| Forfeiture rate | 0% |
| Volatility | 39.52% |
| Risk free interest rate | 3.58% |
| Expected weighted-average life | 4.63 years |
| Fair value of options granted | \$ 3,294,000 |
| Weighted-average grant date fair value of options granted | \$ 21.92 |

Table of Contents

On August 31, 2007, Zebra announced the resignation of our Chief Executive Officer (CEO) and Chairman of the Board in conjunction with our announcement of his successor as CEO. Zebra entered into an executive transition agreement with the former CEO as of that date. The agreement specifies that his outstanding unvested options vested on that date and the option exercise period will continue for the full original maximum term unaffected by his retirement. As a result, we recorded a modification charge of approximately \$1,702,000 in 2007, representing the difference in fair value of the options before and after modification.

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

| | 2007 | 2006 | 2005 |
|-------------------------|----------|----------|----------|
| Fair market value | \$ 34.70 | \$ 34.79 | \$ 42.46 |
| Option price | \$ 29.50 | \$ 29.57 | \$ 36.09 |
| Expected dividend yield | 0% | 0% | 0% |
| Expected volatility | 29% | 25% | 32% |
| Risk free interest rate | 4.57% | 4.54% | 2.86% |

Stock option activity for the years ended December 31, 2007, 2006, and 2005, was as follows:

| Fixed Options | 2007 | | 2006 | | 2005 | |
|--------------------------------------|--------------|---------------------------------|--------------|---------------------------------|---------------|---------------------------------|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 2,460,367 | \$ 34.08 | 2,548,484 | \$ 31.04 | 2,593,982 | \$ 25.37 |
| Granted | 1,069,290 | 32.10 | 408,046 | 43.15 | 565,200 | 48.62 |
| Exercised | (332,563) | 18.66 | (375,222) | 20.85 | (422,586) | 20.26 |
| Forfeited | (149,724) | 40.18 | (103,551) | 41.12 | (184,087) | 29.70 |
| Canceled | (18,232) | 48.71 | (17,390) | 46.09 | (4,025) | 34.51 |
| Outstanding at end of year | 3,029,138 | \$ 34.68 | 2,460,367 | \$ 34.08 | 2,548,484 | \$ 31.04 |
| Options exercisable at end of year | 1,413,352 | \$ 30.52 | 1,035,278 | \$ 26.49 | 877,068 | \$ 23.11 |
| Intrinsic value of options exercised | \$ 6,723,000 | | \$ 8,209,000 | | \$ 10,587,000 | |

The following table summarizes information about fixed stock options outstanding at December 31, 2007:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|--|
| | Number of Shares | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number of Shares | Weighted-Average Exercise Price | |
| \$ 1.29-\$17.36 | 229,067 | 5.42 years | \$ 9.49 | 124,228 | \$ 7.05 | |
| \$ 17.36-\$25.23 | 743,383 | 4.73 years | 22.38 | 567,504 | 22.15 | |
| \$ 25.23-\$38.26 | 508,770 | 6.34 years | 32.64 | 227,694 | 29.27 | |
| \$ 38.26-\$43.35 | 780,597 | 8.75 years | 42.02 | 57,436 | 42.25 | |
| \$ 43.35-\$53.92 | 767,321 | 6.93 years | 48.00 | 436,490 | 47.19 | |
| | 3,029,138 | | | 1,413,352 | | |

| | Options Outstanding | Options Exercisable |
|---|---------------------|---------------------|
| Aggregate intrinsic value | \$ 16,297,000 | \$ 11,822,000 |
| Weighted-average remaining contractual term | 6.6 years | 4.9 years |

Table of Contents

As of December 31, 2007, there was \$21,509,000 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 2.8 years.

Note 4 Business Combinations

Navis, LLC. On December 14, 2007, Zebra acquired all of the outstanding stock of Navis Holdings, LLC (Navis) for \$143,844,000, which is net of cash acquired and 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 | \$ 26,658 |
| Property and equipment | 2,807 |
| Intangible assets | 58,400 |
| Goodwill | 74,809 |
| Total assets acquired | \$ 162,674 |
| Current liabilities | (18,830) |
| Net assets acquired | \$ 143,844 |

On a preliminary basis, 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 \$74,809,000. 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.

proveo AG. On July 2, 2007, Zebra acquired all of the outstanding stock of proveo AG for \$15,467,000 (11,426,000), which is net of cash acquired and transaction costs. Headquartered in Crailsheim, Germany, proveo AG provides integrated hardware and software systems that locate and track airport ground support equipment. The consolidated statements of earnings reflect the results of operations of proveo AG 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 July 2, 2007 |
|------------------------|------------------------|
| Current assets | \$ 2,062 |
| Property and equipment | 114 |
| Intangible assets | 4,176 |
| Goodwill | 11,574 |

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| | | |
|------------------------|----|---------|
| Total assets acquired | \$ | 17,926 |
| Deferred tax liability | | (1,572) |
| Current liabilities | | (887) |
| Net assets acquired | \$ | 15,467 |

F-17

Table of Contents

On a preliminary basis, 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 \$11,574,000. The intangible assets of \$4,176,000 consist of the following (in thousands):

| | Amount | Useful life |
|-------------------------------|--------|-------------|
| Trade names | \$ 130 | 1.5 years |
| Customer relationships | 1,523 | 8 years |
| Developed technology hardware | 1,504 | 8 years |
| Developed technology software | 1,019 | 5 years |

The transaction calls for potential payments of \$5,100,000 in addition to the original payment. These payments are contingent upon revenue related to specific products for the first eighteen months after the acquisition.

The goodwill is not deductible for tax purposes.

WhereNet Corp. On January 25, 2007, Zebra acquired all of the outstanding stock of WhereNet Corp., for \$127,450,000, which is net of cash acquired and transaction costs. Headquartered in Santa Clara, California, WhereNet provides integrated wireless real time locating systems (RTLS) to companies primarily in the industrial manufacturing, transportation and logistics, and aerospace and defense sectors. The consolidated statements of earnings reflect the results of operations of WhereNet since the effective date of the purchase. The pro forma impact of this acquisition was not significant.

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

| | At January 25, 2007 |
|--------------------------|---------------------|
| Current assets | \$ 9,254 |
| Deferred tax assets, net | 17,988 |
| Property and equipment | 360 |
| Intangible assets | 30,616 |
| Goodwill | 88,552 |
| | |
| Total assets acquired | \$ 146,770 |
| | |
| Current liabilities | (19,320) |
| | |
| Net assets acquired | \$ 127,450 |

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 \$88,552,000. The future benefit of the acquired net operating loss of \$28,815,000 is included in the net deferred tax assets. The intangible assets of \$30,616,000 consist of the following (in thousands):

| | Amount | Useful life |
|--|-----------|-------------|
| Developed technology | \$ 14,978 | 6 years |
| Customer relationships | 12,324 | 10 years |
| Backlog | 1,461 | 1 year |
| Acquired in-process research and development | 1,853 | N/A |

The acquired in-process research and development of \$1,853,000 was written-off at the date of the acquisition in accordance with FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*. Acquired in-process technology is stated separately in the operating expense section of the consolidated statements of earnings.

The goodwill is not deductible for tax purposes.

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As part of the acquisition closing, an escrow balance of approximately \$13,600,000 was established against the total purchase price of \$127,450,000. On January 24, 2008, Zebra filed a claim against the sellers of WhereNet for the entire escrow balance. If Zebra is successful in recovering some or all of the escrow balance, the amount recovered will be recorded as an adjustment to goodwill. In addition, during the fourth quarter of 2007, we recorded a reserve of \$5,074,000 for the estimated additional liability as of the acquisition date. This reserve was treated as an adjustment to purchase price and resulted in an increase to goodwill.

F-18

Table of Contents

Swecoin AB. On October 4, 2006, Zebra acquired all of the outstanding stock of Swecoin AB for \$2,681,000. Based in Stockholm, Sweden, with a U.S. office in Rhode Island, Swecoin AB is a leading supplier of thermal receipt, ticket and document printers for use in kiosks and other unattended printing applications. The consolidated statements of earnings reflect the results of operations of Swecoin AB since the effective date of the purchase. The pro forma effect of this acquisition was not significant.

The following table (in thousands) summarized the adjusted fair values of the assets acquired and the liabilities assumed at the date of acquisition:

| | At October 4, 2006 |
|------------------------------|---------------------------|
| Current assets | \$ 3,948 |
| Property and equipment | 235 |
| Intangible assets | 1,242 |
| Goodwill | 1,557 |
| Total assets acquired | 6,982 |
| Current liabilities | (4,301) |
| Net assets acquired | \$ 2,681 |

The purchase price was allocated to identifiable tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of \$1,557,000. The intangible assets of \$1,242,000 consist of the following (in thousands):

| | Amount | Useful life |
|------------------------|---------------|--------------------|
| Developed technology | \$ 830 | 5 years |
| Backlog | 42 | 4 months |
| Customer relationships | 310 | 6 years |
| Trade name | 60 | 2.5 years |

The goodwill is not deductible for tax purposes.

Note 5 Stockholders Equity

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

| | December 31, 2007 | December 31, 2006 |
|-----------------------------|------------------------------|------------------------------|
| 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 | 66,370,248 | 68,830,029 |
| Treasury stock | | |
| Shares held | 5,781,609 | 3,321,828 |

Stockholder Rights Agreement. Zebra's Board of Directors adopted a Stockholder Rights Agreement under which stock purchase rights were paid by dividend to stockholders of record on March 15, 2002 at the rate of one Class A Right for each outstanding share of Class A Common Stock.

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Each Class A Right, other than those held by the acquiring person, entitles the registered holder to purchase one ten-thousandth of a share of Series A Junior Participating Preferred Stock, par value \$0.01 per share, at a price of \$300 per one ten-thousandth of Class A Preferred Share after the distribution date. The distribution date is 10 days after the date on which any person or group announces that it has acquired 15% or more of Zebra's outstanding common stock or 10 days (or a later date as determined by the Board of Directors) after the date on which any person or group announces or commences a tender offer that would result in the person or group becoming an owner of 15% or more of the outstanding common stock.

F-19

Table of Contents

The Rights will expire on March 14, 2012 unless that date has been extended by the Board of Directors or unless the Rights are redeemed or terminated earlier. A committee of Zebra's independent directors will review the Rights Plan at least every three years and decide whether it should continue or be revoked. Zebra generally may amend the Rights Plan or redeem the Rights at \$0.001 per Right at any time prior to the time a person or group has acquired at least 15% of the outstanding common stock.

Note 6 Earnings Per Share

For the years ended December 31, 2007, 2006, and 2005, earnings per share before cumulative effect of the accounting change were computed as follows (in thousands, except per-share amounts):

| | Year Ended December 31, | | |
|--|-------------------------|-----------|------------|
| | 2007 | 2006 | 2005 |
| Basic earnings per share: | | | |
| Income before cumulative effect of accounting change | \$ 110,113 | \$ 69,627 | \$ 106,184 |
| Weighted average common shares outstanding | 68,463 | 70,516 | 71,364 |
| Per share amount | \$ 1.61 | \$ 0.99 | \$ 1.49 |
| Diluted earnings per share: | | | |
| Income before cumulative effect of accounting change | \$ 110,113 | \$ 69,627 | \$ 106,184 |
| Weighted average common shares outstanding | 68,463 | 70,516 | 71,364 |
| Add: Effect of dilutive securities - stock options | 445 | 440 | 636 |
| Diluted weighted average and equivalent shares outstanding | 68,908 | 70,956 | 72,000 |
| Per share amount | \$ 1.60 | \$ 0.98 | \$ 1.47 |

For the years ended December 31, 2007, 2006, and 2005, earnings per share after the cumulative effect of the accounting change were computed as follows (in thousands, except per-share amounts):

| | Year Ended December 31, | | |
|--|-------------------------|-----------|------------|
| | 2007 | 2006 | 2005 |
| Basic earnings per share: | | | |
| Net income | \$ 110,113 | \$ 70,946 | \$ 106,184 |
| Weighted average common shares outstanding | 68,463 | 70,516 | 71,364 |
| Per share amount | \$ 1.61 | \$ 1.01 | \$ 1.49 |
| Diluted earnings per share: | | | |
| Net income | \$ 110,113 | \$ 70,946 | \$ 106,184 |
| Weighted average common shares outstanding | 68,463 | 70,516 | 71,364 |
| Add: Effect of dilutive securities - stock options | 445 | 440 | 636 |
| Diluted weighted average and equivalent shares outstanding | 68,908 | 70,956 | 72,000 |
| Per share amount | \$ 1.60 | \$ 1.00 | \$ 1.47 |

The 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 price of the Class A Common Stock. These options were as follows:

| | Year Ended December 31, | | |
|-----------------------------|-------------------------|-----------|---------|
| | 2007 | 2006 | 2005 |
| Potentially dilutive shares | 1,561,918 | 1,140,689 | 804,490 |

Note 7 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 December 31, 2007, 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 to hold them until maturity.

Table of Contents

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 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 included in purchases, sales and maturities of investments 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 includes changes in the balances of trading securities as operating cash flows.

All investments in marketable debt securities except the partnership interests are classified as available-for-sale securities. We account for the 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 December 31, 2007, we are in the process of liquidating all of our interests in these partnerships. This liquidation will be complete by June 2008. As a result of these liquidations, we recorded investment income of \$9,246,000 related to gains on the liquidations of the partnerships during 2007. No other gains or losses on trading securities were recorded in investment income.

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and aggregate fair value of investment securities at December 31, 2007, were as follows (in thousands):

| | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
|---|-------------------|--------------------------------------|---------------------------------------|---------------|
| Available-for-sale: | | | | |
| U.S. government and agency securities | \$ 31,989 | \$ 56 | \$ (505) | \$ 31,540 |
| State and municipal bonds | 194,350 | 899 | (289) | 194,960 |
| Corporate bonds | 3,020 | | (20) | 3,000 |
| Other | 38 | | | 38 |
| | 229,397 | \$ 955 | \$ (814) | \$ 229,538 |
| Partnership interests using cost method * | 10,933 | | | 10,933 |
| | \$ 240,330 | \$ 955 | \$ (814) | \$ 240,471 |

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and aggregate fair value of investment securities at December 31, 2006, were as follows (in thousands):

| | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
|---|-------------------|--------------------------------------|---------------------------------------|---------------|
| Available-for-sale: | | | | |
| U.S. government and agency securities | \$ 96,885 | \$ 2 | \$ (730) | \$ 96,157 |
| State and municipal bonds | 373,998 | 364 | (1,193) | 373,169 |
| Corporate bonds | 8,199 | | (84) | 8,115 |
| Other | 1,017 | | | 1,017 |
| | 480,099 | \$ 366 | \$ (2,007) | \$ 478,458 |
| Partnership interests using cost method * | 28,653 | | | 28,653 |
| Partnership interests using equity method | 10,000 | 1,064 | | 11,064 |
| | \$ 518,752 | \$ 1,430 | \$ (2,007) | \$ 518,175 |

* Amounts are at original cost rather than fair value due to the use of the cost method of accounting.

F-21

Table of Contents

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

| | Year Ended December 31, | | |
|---|-------------------------|------------|--------|
| | 2007 | 2006 | 2005 |
| Changes in unrealized gains and losses on available-for-sale securities, net of tax, recorded in accumulated other comprehensive income | \$ 1,111 | \$ (1,672) | \$ 444 |

The following table shows the number, aggregate market value and unrealized losses (in thousands) of investments with market values that were less than amortized cost as of December 31, 2007. These lower market values are caused by short-term fluctuations in interest rates and are not a reflection of the credit worthiness of the issuer. Market values are expected to recover to the amortized cost prior to maturity.

| | Unrealized Loss < 12 months | | | Unrealized Loss > 12 months | | |
|---------------------------|-----------------------------|------------------------|-------------------|-----------------------------|------------------------|-------------------|
| | Number of investments | Aggregate Market Value | Unrealized Losses | Number of investments | Aggregate Market Value | Unrealized Losses |
| Government securities | 3 | \$ 7,561 | \$ (102) | 21 | \$ 13,599 | \$ (403) |
| State and municipal bonds | 5 | 8,406 | (3) | 27 | 30,986 | (286) |
| Corporate bonds | 1 | 3,000 | (20) | | | |
| Total | 9 | \$ 18,967 | \$ (125) | 48 | \$ 44,585 | \$ (689) |

As of December 31, 2006, the number, aggregate market value and unrealized losses (in thousands) of investments with market values that were less than amortized cost were:

| | Unrealized Loss < 12 months | | | Unrealized Loss > 12 months | | |
|---------------------------|-----------------------------|------------------------|-------------------|-----------------------------|------------------------|-------------------|
| | Number of investments | Aggregate Market Value | Unrealized Losses | Number of investments | Aggregate Market Value | Unrealized Losses |
| Government securities | 1 | \$ 5,954 | \$ (4) | 25 | \$ 24,111 | \$ (726) |
| State and municipal bonds | 50 | 101,851 | (396) | 84 | 136,752 | (797) |
| Corporate bonds | 2 | 6,034 | (61) | 1 | 1,977 | (23) |
| Total | 53 | \$ 113,839 | \$ (461) | 110 | \$ 162,840 | \$ (1,546) |

Zebra is a limited partner in three non-registered partnerships. The partnerships seek to provide returns to its partners by making strategic investments in a diversified portfolio of investment funds. Zebra's investment as a limited partner allows it to have liability protection limited to the amount of its investments in the funds. During 2007, we began liquidating all of our interests in these partnerships. This liquidation is expected to be completed by June 2008. At December 31, 2007, we had requested the liquidation of \$21,925,000 of these funds. The funds had not been received at year end and are, therefore, included in prepaid expenses and other current assets on the consolidated balance sheet.

Table of Contents

The contractual maturities of debt securities at December 31, 2007, were as follows (in thousands):

| | Fair Value |
|---------------------------------------|-----------------------|
| Due within one year | \$ 87,505 |
| Due after one year through five years | 108,228 |
| Due after five year through ten years | 8,000 |
| Due after ten years | 25,805 |
| | \$ 229,538 |

Using the specific identification method, the proceeds and realized gains on the sales of available-for-sale securities were as follows (in thousands):

| | 2007 | 2006 | 2005 |
|--|-------------|-------------|-------------|
| Proceeds | \$ 343,647 | \$ 337,671 | \$ 359,711 |
| Realized gains | 594 | 215 | 364 |
| Realized losses | (781) | (1,385) | (2,060) |
| Net realized gains/(losses) included in other comprehensive income as of the end of the prior year | (392) | (1,041) | (1,544) |

Note 8 Related - Party Transactions

Prior to August 2007, Zebra leased a building from Unique Building Corporation (Unique), an entity controlled by certain officers and stockholders of Zebra. On August 1, 2007, the building was sold to an unrelated party. Lease payments made to Unique under the lease were recorded as a component of all functional areas and were included in the consolidated financial statements as follows (in thousands):

| | Unique Operating Lease |
|------|-----------------------------------|
| 2007 | \$ 1,358 |
| 2006 | 2,336 |
| 2005 | 2,336 |

Note 9 Inventories

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

| | December 31, | |
|--|---------------------|-------------|
| | 2007 | 2006 |
| Raw material | \$ 46,572 | \$ 49,172 |
| Work in process | 2,124 | 1,014 |
| Finished goods | 36,342 | 31,004 |
| Total inventories | \$ 85,038 | \$ 81,190 |
| Inventory reserves (included in above numbers) | \$ 8,999 | \$ 9,866 |

Table of Contents**Note 10 Property and Equipment**

Property and equipment, which includes assets under capital leases, is comprised of the following (in thousands):

| | December 31, | |
|--|------------------|------------------|
| | 2007 | 2006 |
| Buildings | \$ 15,336 | \$ 14,760 |
| Land | 1,910 | 1,910 |
| Machinery, equipment and tooling | 68,571 | 59,915 |
| Furniture and office equipment | 8,519 | 7,669 |
| Computers and software | 56,453 | 51,650 |
| Automobiles | 50 | 14 |
| Leasehold improvements | 10,220 | 8,345 |
| Projects in progress | 11,729 | 6,659 |
| | 172,788 | 150,922 |
| Less accumulated depreciation and amortization | (105,102) | (93,491) |
| Net property and equipment | \$ 67,686 | \$ 57,431 |

Other items related to property and equipment are as follows:

| | December 31, | |
|-------------------------------------|--------------|-----------|
| | 2007 | 2006 |
| Unamortized computer software costs | \$ 10,402 | \$ 11,755 |

| | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2007 | 2006 | 2005 |
| Amortization of capitalized software | \$ 4,447 | \$ 3,600 | \$ 2,938 |
| Total depreciation expense charged to income | 15,774 | 12,434 | 10,763 |

Note 11 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 balances recognized under FIN No. 48 did not differ from the net balances 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 December 31, 2007 or December 31, 2006.

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 year ended December 31, 2007, we did not accrue any interest or penalties into income tax expense.

The resulting effective income tax rate for the full year was 34.2% for 2007, compared with 31.5% for 2006.

The geographical sources of income before income taxes and cumulative effect of accounting change were as follows (in thousands):

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| | Year Ended December 31, | | |
|-----------------------|-------------------------|-------------------|-------------------|
| | 2007 | 2006 | 2005 |
| United States | \$ 142,903 | \$ 86,609 | \$ 133,922 |
| Outside United States | 24,472 | 15,033 | 26,360 |
| Total | \$ 167,375 | \$ 101,642 | \$ 160,282 |

Zebra's intention is to permanently reinvest the undistributed earnings of all of our foreign subsidiaries in accordance with APB Opinion No. 23, *Accounting for Income Taxes - Special Areas*. Accordingly, we have not provided for

Table of Contents

deferred U.S. income taxes on undistributed earnings of foreign subsidiaries, which totaled approximately \$49,200,000 at December 31, 2007 and \$37,400,000 at December 31, 2006. Should such earnings be remitted to Zebra, foreign tax credits would be available to substantially offset the U.S. income taxes due upon repatriation.

The provision for income taxes consists of the following (in thousands):

| | Year Ended December 31, | | |
|------------------|-------------------------|------------------|------------------|
| | 2007 | 2006 | 2005 |
| Current: | | | |
| Federal | \$ 44,737 | \$ 29,376 | \$ 42,146 |
| State | 5,391 | 2,804 | 4,706 |
| Foreign | 8,399 | 4,560 | 8,070 |
| Deferred: | | | |
| Federal | (1,458) | (3,748) | (766) |
| State | 193 | (283) | (58) |
| Total | \$ 57,262 | \$ 32,709 | \$ 54,098 |

The provision for income taxes differs from the amount computed by applying the U.S. statutory Federal income tax rate of 35% to income before income taxes. The reconciliation of statutory and effective income taxes is presented below (in thousands):

| | Year Ended December 31, | | |
|---|-------------------------|------------------|------------------|
| | 2007 | 2006 | 2005 |
| Provision computed at statutory rate | \$ 58,582 | \$ 36,279 | \$ 56,099 |
| State income tax (net of Federal tax benefit) | 3,636 | 1,412 | 2,816 |
| Tax-exempt interest income | (4,173) | (4,378) | (3,301) |
| Acquired in-process technology | 649 | | |
| Tax benefit of exempt foreign trade income | | (1,365) | (1,575) |
| Domestic manufacturing deduction | (1,470) | (665) | (735) |
| Research and experimental credit | (400) | (350) | (350) |
| Other | 438 | 1,776 | 1,144 |
| Provision for income taxes | \$ 57,262 | \$ 32,709 | \$ 54,098 |

The amounts in the previous two tables include the tax on the cumulative effect of accounting principle of \$694,000 for 2006.

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. Based on management's assessment, it is more likely than not that the deferred tax assets will be realized through future taxable earnings.

Table of Contents

Tax effects of temporary differences that give rise to deferred tax assets and liabilities are as follows (in thousands):

| | December 31, | |
|---|---------------------|------------------|
| | 2007 | 2006 |
| Deferred tax assets: | | |
| Deferred rent-building | \$ 311 | \$ 240 |
| Accrued vacation | 1,541 | 1,369 |
| Deferred compensation | 2,879 | 2,503 |
| Inventory items | 4,249 | 4,636 |
| Allowance for doubtful accounts and other receivables | 4,053 | 4,057 |
| Other accruals | 5,255 | 5,217 |
| FAS 123(R) stock option expense | 10,111 | 6,675 |
| Unrealized loss on securities FAS 115 | | 617 |
| Recognized tax gain on partnership interests | 4,188 | 3,863 |
| Unrealized loss on hedges | 3,275 | 341 |
| Net operating carryforward acquired | 25,093 | |
| Total deferred tax assets | 60,955 | 29,518 |
| Deferred tax liabilities: | | |
| Unrealized gain on hedges | (53) | |
| Acquisition related items | | (182) |
| Depreciation and amortization | (17,723) | (7,955) |
| Total deferred tax liabilities | (17,776) | (8,137) |
| Net deferred tax assets | \$ 43,179 | \$ 21,381 |

Included in the deferred tax assets that resulted from the WhereNet acquisition were federal and state net operating losses. As of December 31, 2007, we had approximately \$63,100,000 of federal net operating loss carryforwards available to offset future taxable income which begin to expire in the year 2012. As of December 31, 2007, we also had approximately \$24,500,000 of state net operating loss carryforwards which begin to expire in the year 2012. Under the United States Tax Reform Act of 1986, the amounts of and benefits from net operating loss carryforwards may be impaired or limited in certain circumstances, including significant changes in ownership interests.

Table of Contents**Note 12 Goodwill and Other Intangible Asset Data**

Intangible asset data are as follows (in thousands):

| | December 31, 2007 | | December 31, 2006 | |
|--------------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets | | | | |
| Current technology | \$ 51,700 | \$ (13,526) | \$ 15,481 | \$ (9,566) |
| Patent and patent rights | 31,697 | (6,468) | 28,247 | (2,645) |
| Customer relationships | 60,685 | (4,664) | 3,798 | (1,290) |
| Total | \$ 144,082 | \$ (24,658) | \$ 47,526 | \$ (13,501) |
| Unamortized intangible assets | | | | |
| Goodwill | \$ 246,510 | | \$ 70,714 | |
| Aggregate amortization expense | | | | |
| For the year ended December 31, 2006 | | | \$ 3,653 | |
| For the year ended December 31, 2007 | \$ 11,128 | | | |
| Estimated amortization expense | | | | |
| For the year ended December 31, 2008 | 17,248 | | | |
| For the year ended December 31, 2009 | 16,868 | | | |
| For the year ended December 31, 2010 | 15,000 | | | |
| For the year ended December 31, 2011 | 14,652 | | | |
| For the year ended December 31, 2012 | 13,758 | | | |
| Thereafter | 41,898 | | | |

During 2007, we acquired intangible assets in the amount of \$4,800,000 for customer relationships, current technology, patents and patent rights. These intangible assets have an estimated useful life of 7 to 10 years.

During 2007, goodwill increased by \$175,796,000 due primarily to the acquisitions of WhereNet Corp., proveo AG and Navis Holdings, LLC. See Note 4 for further information. The remaining difference is due to foreign currency translations of the Swecoin and proveo AG goodwill.

Note 13 Other Assets

Other assets consist of the following (in thousands):

| | December 31, | |
|--|-----------------|------------------|
| | 2007 | 2006 |
| Money market investments/cash value of life insurance policies related to the deferred compensation plan (See Note 18) | \$ 2,795 | \$ 5,888 |
| Long-term equity securities | 270 | 100 |
| Deposits | 1,549 | 507 |
| Other long-term assets | 4,772 | 4,625 |
| Total | \$ 9,386 | \$ 11,120 |

Note 14 401(k) Savings and Profit Sharing Plans

Zebra has a Retirement Savings and Investment Plan (the 401(k) Plan), which is intended to qualify under Section 401(k) of the Internal Revenue Code. Qualified employees may participate in Zebra's 401(k) Plan by contributing up to 15% of their gross earnings to the plan subject to certain Internal Revenue Service restrictions. Zebra matches each participant's contribution of up to 6% of gross eligible earnings at the rate of

50%. Zebra may contribute additional amounts to the 401(k) Plan at the discretion of the Board of Directors, subject to certain legal limits.

F-27

Table of Contents

Zebra has a discretionary profit-sharing plan for qualified employees, to which it contributes a percentage of eligible payroll each year. Participants are not permitted to make contributions under the profit-sharing plan.

Company contributions to these plans, which were charged to operations, approximated the following (in thousands):

| | Year Ended December 31, | | |
|--|-------------------------|-----------------|-----------------|
| | 2007 | 2006 | 2005 |
| 401(k) | \$ 2,672 | \$ 2,030 | \$ 1,874 |
| Profit sharing | 1,599 | 1,628 | 1,775 |
| Total | \$ 4,271 | \$ 3,658 | \$ 3,649 |
| Percentage of eligible payroll contributed for profit sharing plan | 1.8% | 1.8% | 2.4% |

Note 15 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. Summary financial information related to these activities follows (in thousands):

| | Year ended December 31, | | |
|--|-------------------------|-----------------|-----------------|
| | 2007 | 2006 | 2005 |
| Change in gains and losses from foreign exchange derivatives | \$ (3,788) | \$ (73) | \$ 883 |
| Gain on net foreign currency assets | 4,311 | (562) | 403 |
| Net foreign exchange gain/(loss) | \$ 523 | \$ (635) | \$ 1,286 |

| | December 31, 2007 | December 31, 2006 | December 31, 2005 |
|--|----------------------|----------------------|----------------------|
| Notional balance of outstanding contracts: | | | |
| Pound | £ 3,000 | £ 2,660 | £ 3,289 |
| Euro | 14,000 | 17,000 | 25,000 |
| Euro/Pound | 20,500 | 22,000 | 16,000 |
| Net fair value of outstanding contracts | \$ (104) | \$ (172) | \$ 553 |

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):

| | December 31, 2007 | December 31, 2006 |
|---|----------------------|----------------------|
| Net unrealized losses deferred in accumulated other comprehensive income: | | |
| Gross | \$ (9,252) | \$ (906) |
| Income tax benefit | (3,482) | (341) |
| Net | \$ (5,770) | \$ (565) |
| Notional balance of outstanding contracts | 108,500 | 44,075 |
| Hedge effectiveness | 100% | 100% |

| | Year ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2007 | 2006 | 2005 |
| Net gain and (losses) included in revenue | \$ (3,060) | \$ (873) | \$ 1,617 |

The above year-to-date gains and losses are the net pretax gains and losses released from other comprehensive income into earnings during these years. We expect to release pretax losses in the amount of \$9,252,000 from other comprehensive income into earnings during 2008 along with gains and losses on similar contracts entered into early in 2008. Currently, the initial duration of our forecasted sales hedge contracts is twelve months. Effectiveness testing is performed on each contract monthly. We have not experienced any gains or losses due to ineffectiveness. If we were to experience such gains or losses, we would record them as a foreign exchange gain or loss. If we were to cancel or net settle a hedge designated as a cash flow hedge prior to the scheduled settlement date, we would recognize the gain or loss on that settlement immediately as a foreign exchange gain or loss.

Note 16 Commitments and Contingencies

Leases. Minimum future obligations under all non-cancelable operating leases as of December 31, 2007 are as follows (in thousands):

| | Operating Leases |
|------------------------------|---------------------|
| 2008 | 9,360 |
| 2009 | 7,821 |
| 2010 | 4,999 |
| 2011 | 4,568 |
| 2012 | 3,905 |
| Thereafter | 8,291 |
| Total minimum lease payments | \$ 38,944 |

Rent expense for operating leases charged to operations was as follows (in thousands):

| | Year Ended December 31, | | |
|--------------|-------------------------|----------|----------|
| | 2007 | 2006 | 2005 |
| Rent expense | \$ 10,675 | \$ 9,011 | \$ 7,822 |

The operating lease information includes a variety of properties around the world. These properties are used as manufacturing facilities, distribution centers and sales offices. Lease terms range from three months to 25 years with breaking periods specified in the lease agreements.

Table of Contents

Letters of credit. In connection with various customer contracts, Zebra has entered into two letter of credit agreements with a bank. The contingent liability of Zebra under these agreements as of December 31, 2007 is \$652,000.

Legal proceedings. 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 so as to provide time for Printherm to respond to ZTF s answer. The hearing has not been scheduled. We have applied to the Court for dismissal of the case. The Court has not yet ruled on our application for dismissal.

As discussed in Note 4, as part of the closing of the WhereNet acquisition, an escrow balance of approximately \$13,600,000 was established against the total purchase price of \$127,450,000. On January 24, 2008, Zebra filed a claim against the sellers of WhereNet for the entire escrow balance. If Zebra is successful in recovering some or all of the escrow balance, the amount recovered will be recorded as an adjustment to goodwill. In addition, during the fourth quarter of 2007, we recorded a reserve of \$5,074,000 for the estimated additional liability as of the acquisition date. This reserve was treated as an adjustment to purchase price and resulted in an increase to goodwill.

Note 17 Segment Data and Export Sales

Zebra is organized with three internal business units, bar code printers, card printers and enterprise solutions. The bar code and card printer business units have similar economic characteristics, products and services, production processes, types of customers, distribution methods, and regulatory environments. Additionally, there are significant shared services supporting these two business units. During 2007, the enterprise solutions business unit has not been separately disclosed due to materiality. Accordingly, we have aggregated our internal business units and have treated them as one reportable segment as permitted by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

Information regarding Zebra s operations by geographic area is contained in the following table. These amounts (in thousands) are reported in the geographic area of the destination of the final sale. We manage our business based on these regions rather than by individual countries.

| | North America | Europe, Middle East & Africa | Latin America | Asia | Total |
|-------------------|------------------|---------------------------------|------------------|-----------|------------|
| 2007 | | | | | |
| Net sales | \$ 416,093 | \$ 320,225 | \$ 60,090 | \$ 71,871 | \$ 868,279 |
| Long-lived assets | 58,646 | 7,699 | 401 | 940 | 67,686 |
| 2006 | | | | | |
| Net sales | \$ 379,820 | \$ 264,711 | \$ 53,619 | \$ 61,374 | \$ 759,524 |
| Long-lived assets | 50,077 | 6,637 | 22 | 695 | 57,431 |
| 2005 | | | | | |
| Net sales | \$ 362,054 | \$ 233,306 | \$ 46,878 | \$ 60,033 | \$ 702,271 |
| Long-lived assets | 43,448 | 5,917 | 7 | 271 | 49,643 |

Table of Contents

Net sales by major product category are as follows (in thousands):

| | Hardware | Supplies | Service and Software | Shipping and Handling | Cash Flow Hedging Activities | Total |
|------|------------|------------|----------------------|-----------------------|------------------------------|------------|
| 2007 | \$ 660,034 | \$ 161,678 | \$ 42,801 | \$ 6,826 | \$ (3,060) | \$ 868,279 |
| 2006 | 578,002 | 150,709 | 25,664 | 6,022 | (873) | 759,524 |
| 2005 | 540,679 | 129,183 | 25,217 | 5,575 | 1,617 | 702,271 |

Note 18 Deferred Compensation Plan

Zebra offers a deferred compensation plan that permits directors and executive management employees to defer portions of their compensation and to select a method of investing these funds. The salaries that have been deferred since the plan's inception have been accrued and the only expense, other than salaries, related to this plan is the gain or loss from the changes to the deferred compensation liability, which is charged to compensation expense. To fund this plan, Zebra purchases money market investments. Previously, Zebra purchased corporate-owned whole-life insurance contracts on the related employees, of which Zebra is the beneficiary. During 2007, the whole-life insurance policies were liquidated and money market investments were purchased. The following table shows the income, asset and liability amounts related to this plan (in thousands):

| | Year ended December 31, | | |
|---|----------------------------|--------|--------|
| | 2007 | 2006 | 2005 |
| Gain on cash surrender value of life insurance policies/money market interest included in investment income | \$ 516 | \$ 584 | \$ 263 |

| | December 31, 2007 | December 31, 2006 |
|--|----------------------|----------------------|
| Deferred compensation liability included in other long-term liability | \$ 3,950 | \$ 6,803 |
| Money market investments/cash surrender value included in other assets | 2,795 | 5,888 |

Note 19 Other Comprehensive Income (Loss)

Stockholders' equity contains certain items classified as other comprehensive income, including:

Foreign currency translation adjustments related to our non-U.S. subsidiary companies that have designated a functional currency other than the 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 adjustments component of other comprehensive income.

Unrealized holding 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 15 for more details.

Unrealized gains (losses) on investments classified as available-for-sale are deferred from income statement recognition. See Note 7 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):

| | Year ended December 31, | | |
|---|-------------------------|------------|------------|
| | 2007 | 2006 | 2005 |
| Foreign currency translation adjustments | \$ 2,277 | \$ 7,295 | \$ (6,407) |
| Changes in unrealized gains and (losses) on hedging transactions: | | | |
| Gross | \$ (8,346) | \$ (1,905) | \$ 3,230 |
| Income tax (benefit) | (3,141) | (717) | 1,157 |
| Net | \$ (5,205) | \$ (1,188) | \$ 2,073 |
| Changes in unrealized holding gains and (losses) on investments classified as available-for-sale: | | | |
| Gross | \$ 1,782 | \$ (2,682) | \$ 726 |
| Income tax (benefit) | 671 | (1,010) | 282 |
| Net | \$ 1,111 | \$ (1,672) | \$ 444 |

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

| | As of | |
|--|----------------------|----------------------|
| | December 31, 2007 | December 31, 2006 |
| Foreign currency translation adjustments | \$ 10,677 | \$ 8,400 |
| Unrealized gains and (losses) on foreign currency hedging activities: | | |
| Gross | \$ (9,252) | \$ (906) |
| Income tax (benefit) | (3,482) | (341) |
| Net | \$ (5,770) | \$ (565) |
| Unrealized gains and (losses) on investments classified as available-for-sale: | | |
| Gross | \$ 141 | \$ (1,641) |
| Income tax (benefit) | 53 | (618) |
| Net | \$ 88 | \$ (1,023) |

Note 20 Major Customers

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

| | Year ended December 31, | | |
|------------|----------------------------|------|------|
| | 2007 | 2006 | 2005 |
| ScanSource | 16.5 | 17.1 | 15.6 |

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

Table of Contents

Note 21 Subsequent Event

On February 6, 2008, Zebra announced plans to establish regional distribution and configuration centers, consolidate our supplier base, and transfer final assembly of thermal printers to Jabil Circuit, 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.

The transfer of final printer assembly operations from Zebra's plants in California and Illinois to Jabil's facility in HuangPu, China, will occur during the next 18 to 24 months. During this period, we estimate that 650 production-related positions will be eliminated. We will continue to maintain operations in California and Illinois, including engineering design centers, product management, sales, marketing and administration.

This supply chain optimization plan will result in estimated total costs and charges of \$24-\$26 million for severance, professional services and other associated non-recurring costs. Of these charges, Zebra expects to incur approximately \$18 million in 2008, with the remaining amount occurring in 2009. The recovery of these costs and expected financial benefits are expected to begin to accrue in 2009.

F-33

Table of Contents**Note 22 Quarterly Results of Operations (unaudited)**

(Amounts in thousands, except per share data)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| 2007 | | | | |
| Net sales | \$ 208,576 | \$ 208,912 | \$ 217,218 | \$ 233,573 |
| Cost of sales | 108,786 | 109,510 | 112,590 | 120,275 |
| Gross profit | 99,790 | 99,402 | 104,628 | 113,298 |
| Selling and marketing | 28,164 | 29,069 | 29,080 | 35,683 |
| Research and engineering | 14,185 | 13,869 | 13,904 | 15,642 |
| General and administrative | 17,933 | 19,875 | 21,694 | 21,854 |
| Amortization of intangibles | 2,323 | 2,620 | 2,928 | 3,257 |
| Acquired in-process technology | 1,853 | | | |
| Total operating expenses | 64,458 | 65,433 | 67,606 | 76,436 |
| Operating income | 35,332 | 33,969 | 37,022 | 36,862 |
| Investment income | 5,304 | 5,724 | 4,393 | 8,545 |
| Interest expense | (10) | (10) | (73) | 49 |
| Foreign exchange gain (loss) | 175 | (182) | (23) | 553 |
| Other, net | 86 | (366) | (157) | 182 |
| Total other income | 5,555 | 5,166 | 4,140 | 9,329 |
| Income before taxes | 40,887 | 39,135 | 41,162 | 46,191 |
| Income taxes | 14,171 | 13,502 | 14,201 | 15,388 |
| Net income | \$ 26,716 | \$ 25,633 | \$ 26,961 | \$ 30,803 |
| Basic earnings per share | \$ 0.39 | \$ 0.37 | \$ 0.39 | \$ 0.46 |
| Diluted earnings per share | \$ 0.39 | \$ 0.37 | \$ 0.39 | \$ 0.45 |

Table of Contents

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|--------------------------|---------------------------|--------------------------|---------------------------|
| 2006 | | | | |
| Net sales | \$ 175,814 | \$ 187,421 | \$ 186,386 | \$ 209,903 |
| Cost of sales | 93,116 | 97,895 | 98,600 | 111,493 |
| Gross profit | 82,698 | 89,526 | 87,786 | 98,410 |
| Selling and marketing | 22,109 | 23,510 | 23,467 | 27,702 |
| Research and engineering | 12,035 | 12,382 | 11,774 | 12,768 |
| General and administrative | 14,649 | 15,081 | 14,642 | 18,284 |
| Amortization of intangibles | 747 | 723 | 789 | 1,394 |
| Litigation settlement | | | 53,392 | |
| Insurance receivable write-off | | | | 12,543 |
| Total operating expenses | 49,540 | 51,696 | 104,064 | 72,691 |
| Operating income (loss) | 33,158 | 37,830 | (16,278) | 25,719 |
| Investment income | 5,207 | 4,987 | 6,008 | 6,980 |
| Interest expense | (218) | (13) | (5) | (16) |
| Foreign exchange gain (loss) | 110 | (380) | 457 | (822) |
| Other, net | (448) | (177) | (287) | (170) |
| Total other income | 4,651 | 4,417 | 6,173 | 5,972 |
| Income (loss) before taxes and cumulative effect of accounting change | 37,809 | 42,247 | (10,105) | 31,691 |
| Income taxes | 13,037 | 14,575 | (5,842) | 10,245 |
| Income (loss) before cumulative effect of accounting change | 24,772 | 27,672 | (4,263) | 21,446 |
| Cumulative effect of accounting change (net of tax of \$694) | 1,319 | | | |
| Net income (loss) | \$ 26,091 | \$ 27,672 | \$ (4,263) | \$ 21,446 |
| Basic earnings (loss) per share before cumulative effect of accounting change | \$ 0.35 | \$ 0.39 | \$ (0.06) | \$ 0.31 |
| Diluted earnings (loss) per share before cumulative effect of accounting change | \$ 0.35 | \$ 0.39 | \$ (0.06) | \$ 0.30 |
| Basic earnings (loss) per share | \$ 0.37 | \$ 0.39 | \$ (0.06) | \$ 0.31 |
| Diluted earnings (loss) per share | \$ 0.37 | \$ 0.39 | \$ (0.06) | \$ 0.30 |

Table of Contents**ZEBRA TECHNOLOGIES CORPORATION****Schedule II****Valuation and Qualifying Accounts**

(Amounts in thousands)

| Description | Balance at Beginning of Period | Charged to Costs and Expenses | Deductions / (Recoveries) | Balance at End of Period |
|---|---|--|--------------------------------------|---|
| Valuation account for accounts receivable: | | | | |
| Year ended December 31, 2007 | \$ 3,549 | \$ 330 | \$ (1,196) | \$ 5,075 |
| Year ended December 31, 2006 | 1,116 | 2,856 | 423 | 3,549 |
| Year ended December 31, 2005 | 1,561 | (396) | 49 | 1,116 |
| Valuation accounts for inventories: | | | | |
| Year ended December 31, 2007 | \$ 9,866 | \$ 8,800 | \$ 9,667 | \$ 8,999 |
| Year ended December 31, 2006 | 7,598 | 8,951 | 6,683 | 9,866 |
| Year ended December 31, 2005 | 8,037 | 4,064 | 4,503 | 7,598 |
| See accompanying report of independent registered public accounting firm. | | | | |

F-36

Table of Contents**Index to Exhibits**

- 2.1 (1) Agreement and Plan of Merger between the Company, Waldo Acquisition Corp., WhereNet Corp. and Crosspoint Venture Partners 1996, LLP, dated as of January 11, 2007.
- 2.2 (2) Agreement and Plan of Merger between the Company, Nero Acquisition LLC, Navis Holdings, LLC and Navis Corporation, dated October 15, 2007.
- 3.1(i) (3) Certificate of Incorporation of the Company, as amended.
- 3.1(ii) (4) Amended and Restated By-laws of Zebra Technologies Corporation, as amended.
- 4.0 (5) Specimen stock certificate representing Class A Common Stock.
- 4.1 (6) Rights Agreement between the Company and Mellon Investor Services, as Rights Agent.
- 10.1 (7) 1997 Stock Option Plan. +
- 10.2 (8) First Amendment to the 1997 Stock Option Plan. +
- 10.3 (8) Second Amendment to the 1997 Stock Option Plan. +
- 10.4 (9) Third Amendment to the 1997 Stock Option Plan. +
- 10.5 (10) Amendment No. Four to the 1997 Stock Option Plan. +
- 10.6 (5) Form of Indemnification Agreement between the Company and each of its directors.
- 10.7 (5) Lease between the Company and Unique Building Corporation for the Company's facility in Vernon Hills, Illinois, as amended.
- 10.8 (7) Directors' 1997 Stock Option Plan.+
- 10.9 (3) Amendment to the lease between the Company and Unique Building Corporation for the Company's facility in Vernon Hills, Illinois, dated April 1, 1993.
- 10.10 (3) Amendment to the lease between the Company and Unique Building Corporation for the Company's facility in Vernon Hills, Illinois, dated December 1, 1994.
- 10.11 (11) Amendment to the lease between the Company and Unique Building Corporation for the Company's facility in Vernon Hills, Illinois, dated June 1, 1996.
- 10.12 (11) Amendment to the lease between the Company and Unique Building Corporation for the Company's facility in Vernon Hills, Illinois, dated June 2, 1996.
- 10.13 (12) Amendment to the lease between the Company and Unique Building Corporation for the Company's facility in Vernon Hills, Illinois, dated as of July 1, 1999.
- 10.14 (13) 2002 Non-Employee Director Stock Option Plan. +
- 10.15 (13) Amendment No. 1 to the 2002 Non-Employee Director Stock Option Plan. +
- 10.16 (14) 2005 Executive Deferred Compensation Plan. +
- 10.17 (15) First Amendment to the Zebra Technologies Corporation 2005 Executive Deferred Compensation Plan, dated as of March 19, 2007. +
- 10.18 (16) Employment Agreement between the Company and Anders Gustafsson dated August 23, 2007. +
- 10.19 (16) Non-Qualified Stock Option Agreement between the Company and Anders Gustafsson, dated September 4, 2007. +
- 10.20 (16) LTI Restricted Stock Agreement between the Company and Anders Gustafsson, dated September 4, 2007. +
- 10.21 (16) LTI Non-Qualified Stock Option Agreement between the Company and Anders Gustafsson, dated September 4, 2007. +
- 10.22 (16) Letter agreement by and between the Company and Edward L. Kaplan dated August 31, 2007. +
- 10.23 (17) Employment Agreement between the Company and Charles R. Whitchurch, dated November 16, 2007. +
- 10.24 (17) Employment Agreement between the Company and Veraje Anjargolian, dated November 16, 2007. +
- 10.25 (17) Employment Agreement between the Company and Phil Gerskovich, dated November 16, 2007. +
- 10.26 (17) First Amendment to Employment Agreement, between the Company and Anders Gustafsson, dated November 16, 2007. +
- 10.27 (18) Employment Agreement between the Company and Hugh K. Gagnier dated December 12, 2007. +
- 10.28 (8) Form of Stock Option Agreement under the Zebra Technologies Corporation 1997 Stock Option Plan with respect to awards granted prior to February 6, 2006. +
- 10.29 (13) Form of Non-Qualified Stock Option Agreement under the Zebra Technologies Corporation 2002 Non-Employee Director Stock Option Plan, with respect to awards granted prior to February 8, 2006. +
- 10.30 (19) Form of Stock Option Agreement under the Company's 1997 Stock Option Plan, with respect to awards granted on or after February 6, 2006. +
- 10.31 (19) Form of Non-Qualified Stock Option Agreement under the Company's 2002 Non-Employee Director Stock Option Plan, with respect to awards granted on or after February 8, 2006. +

Table of Contents

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|-------|------|---|
| 10.32 | (20) | Form of Non-Qualified Stock Option Agreement under the Company's 2006 Incentive Compensation Plan, with respect to awards granted prior to February 8, 2006. + |
| 10.33 | (21) | Form of Non-Qualified Stock Option Agreement under the Company's 2006 Incentive Compensation Plan, with respect to awards granted on or after April 25, 2007. + |
| 10.34 | (20) | Form of Restricted Stock Agreement under the Company's 2006 Incentive Compensation Plan for retention grants to executive officers other than Messrs. Kaplan and Cless. + |
| 10.35 | (22) | Settlement Agreement with Paxar Americas, Inc., dated September 14, 2006. |
| 10.36 | (23) | 2006 Incentive Compensation Plan. + |
| 10.37 | (24) | WhereNet Corp. 1997 Stock Option Plan. + |
| 10.38 | (24) | First Amendment to the WhereNet Corp. 1997 Stock Option Plan. + |
| 10.39 | (25) | Amended and Restated Navis Holdings, LLC 2000 Option Plan. + |
| 10.40 | (21) | 2007 Management Bonus Plan. + |
| 21.1 | | Subsidiaries of the Company. |
| 23.1 | | Consent of Ernst & Young LLP, independent registered public accounting firm. |
| 31.1 | | Certification pursuant to Rule 13a-14(a)/15d-14(a). |
| 31.2 | | Certification pursuant to Rule 13a-14(a)/15d-14(a). |
| 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 Quarterly Report on Form 10-Q filed on May 4, 2007, 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 December 17, 2007, and incorporated herein by reference. |
| (3) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Annual Report on Form 10-K filed on March 1, 2007, and incorporated herein by reference. |
| (4) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on February 7, 2008, and incorporated herein by reference. |
| (5) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form S-1, as amended, File No. 33-41576, and incorporated herein by reference. |
| (6) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Form 10-Q for the quarterly period ended March 30, 2002, and incorporated herein by reference. |
| (7) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, and incorporated herein by reference. |
| (8) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form S-8, File No. 333-63009, and incorporated herein by reference. |
| (9) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form S-8, File No. 333-84512, and incorporated herein by reference. |
| (10) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Form 10-Q for the quarterly period ended September 28, 2002, and incorporated herein by reference. |
| (11) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, and incorporated herein by reference. |
| (12) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Form 10-Q for the quarterly period ended April 1, 2000, and incorporated herein by reference. |
| (13) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Form 10-Q for the quarterly period ended June 29, 2002, and incorporated herein by reference. |
| (14) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on February 9, 2005, and incorporated herein by reference. |
| (15) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on April 23, 2007, and incorporated herein by reference. |
| (16) | | Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on September 4, 2007, and incorporated herein by reference. |

Table of Contents

- (17) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on November 21, 2007, and incorporated herein by reference.
- (18) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on December 17, 2007, and incorporated herein by reference.
- (19) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on February 10, 2006, and incorporated herein by reference.
- (20) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on October 26, 2006, and incorporated herein by reference.
- (21) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on May 1, 2007, and incorporated herein by reference.
- (22) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on September 19, 2006, and incorporated herein by reference.
- (23) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on May 15, 2006, and incorporated herein by reference.
- (24) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form S-8 filed on January 25, 2007, File No. 333-140207, and incorporated herein by reference.
- (25) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form S-8 filed on December 19, 2007, File No. 333-148183, and incorporated herein by reference.
- + Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K.