ZEBRA TECHNOLOGIES CORP
Form 10-K
February 23, 2010
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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

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from ____________________ to ____________________

COMMISSION FILE NUMBER 000-19406

Zebra Technologies Corporation

(Exact name of registrant as specified in its charter)

Delaware	36-2675536
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices) (Zip Code)

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

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 X No ____

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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 X

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

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

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. [X]

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

Large accelerated filer X Accelerated filer ____

Non-accelerated filer ____ (Do not check if a smaller reporting company) Smaller reporting company ____
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Act). Yes ____ No X

As of July 3, 2009, the aggregate market value of each of the registrant s Class A Common held by non-affiliates was approximately $1,398,619,000. The closing price of the Class A Common Stock on July 3, 2009, as reported on the Nasdaq Stock Market, was $23.67 per share.

As of February 12, 2010, 57,878,289 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 20, 2010, are incorporated by reference into Part III of this report.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

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PART I

References in this document to Zebra, we, us, or our refer to Zebra Technologies Corporation and its subsidiaries, unless the context specificall 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,
- 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 th 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 is a Delaware corporation. Our principal offices are located at 475 Half Day Road, Suite 500, Lincolnshire, Illinois 60069. 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 put their critical assets to work smarter by identifying, tracking and managing assets, transactions and people.

Through the Specialty Printing Group (SPG), we design, manufacture and sell specialty printing devices that print variable information on demand at the point of issuance. These devices are used worldwide by manufacturers, service and retail organizations and governments for automatic identification, data collection and personal 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 and dye sublimation card 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 and 2008, we acquired WhereNet Corp., proveo AG, Navis Holdings, LLC and Multispectral Solutions, Inc. These companies comprise the Zebra Enterprise Solutions Group (ZES). The acquisitions of these companies has 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, global positioning systems (GPS), telematics and ultra wideband (UWB) technologies. ZES products consist of battery-powered wireless tags, fixed-position antennae, transponder modules and application software. ZES also provides consulting services, maintenance contracts and software licenses.

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Zebra Specialty Printing Group (SPG)

We design our printer products to operate at the point of issuance to produce high-quality labels, tickets, receipts, and plastic cards on demand. The exceptional diversity of applications using our printer products for barcoding and personal identification includes routing and tracking, transactions processing, and identification and authentication. These applications require high levels of data accuracy, where speed, reliability and durability are critical. They also include specialty printing for receipts and tickets where improved customer service and productivity gains may be the primary reason for using our on demand receipt printers. Plastic cards are used for secure, reliable personal identification or access control.

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, 2009, management estimates that Zebra has sold more than 8,400,000 printers to customers around the world.

We believe competitive forces on businesses worldwide to strengthen security, reduce costs, more effectively manage assets, 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. Many of Zebra s applications enhance the use of enterprise 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 are also increasing the 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 print bar code labels, receipts, plastic identification cards, wristbands, tags and encode passive RFID smart labels. We also sell related specialty labeling materials, thermal ink ribbons, and bar code label design and network management software. These products are used to support 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, value-added 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 offering is a unique and significant competitive strength, because it allows Zebra to satisfy the widest variety of thermal printing applications and leverage our brand and reputation as customers install new systems that require on demand printing.

Of the major printing technologies, which include ink jet, laser and impact dot matrix, we believe that direct thermal and thermal transfer technologies are best suited for most bar code labeling and other on-demand printing applications. Thermal transfer printing produces durable 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.

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As of December 31, 2009, we offered 58 thermal printer models with numerous variations, in eight categories as follows:

- Performance tabletop printers for applications requiring continuous operation in high output, mission-critical and industrial settings.
- 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.
- RFID printer/encoders for passive high frequency and ultra-high frequency radio frequency identification 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.

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, plastic cards, card laminates and thermal transfer ribbons. Zebra promotes the use of genuine Zebra brand supplies with its printing 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

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 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®. In 2009, the ZebraLink Multiplatform Software Development and Smart Phone utility was introduced to aid with printing from Smartphones to Zebra printers.

Zebra offers label design and integration software specifically designed to optimize the performance of Zebra bar code label printers. Zebra s suite of label design and printer configuration tools includes ZebraDesigner , ZebraDesigner Pro, ZebraDesigner for XML, and ZebraDesigner Label Design Software for use with mySAP Business Suite. In 2008, Zebra added the Enterprise Connector Solution for Oracle® Business Intelligence Publisher , which delivers seamless integration between Oracle and Zebra printers, creating a versatile, easily managed, cost-effective printing platform.

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Printer Maintenance and Services

Zebra provides depot maintenance and repair services at repair centers in Vernon Hills, Illinois; Camarillo, California; Etobicoke, Ontario, Canada; Mexico City, Mexico; Preston, U.K.; Singapore; Shanghai, China; and Heerenveen, 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 twelve 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 or replacement during the applicable warranty periods.

Zebra s Printer Technology

Our customers rely on Zebra to provide products and systems to help 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 incorporate thermal printing technology, 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 form of thermal printing technology benefits applications requiring simple and reliable operations 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 form of thermal printing technology allows a wider range of specialty label materials and associated inks to be used for applications such as circuit board labels, chemical identification and product labels that require resistance to chemicals, temperature extremes, abrasion, or labels requiring a long shelf life. Most of our printers in our high performance, midrange, print engine, desktop and mobile categories use thermal transfer printing but can also support direct thermal printing.

Dye-sublimation card printers apply heat to a ribbon to release a dye that is absorbed into a plastic card, retransfer film or treated paper. This process creates full-color, photographic quality images that are well-suited for driver s licenses, access and identification cards, transaction cards, and on-demand photographs.

Direct thermal and thermal transfer printers create crisp images at high speeds, 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.

Zebra s printers integrate company-designed mechanisms, electrical systems, and firmware. Enclosures of metal or high-impact plastic ensure the durability of our printers. 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. These features make our 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 customer 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 industry served.

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 specific industries. 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 and more effectively offer our solutions to a greater number of end users.

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 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 corporate marketing, marketing communications, product marketing, vertical marketing, solutions marketing, market research and channel marketing functions. Corporate marketing conducts activities to enhance the Zebra corporate brand, corporate public relations, internal corporate communications and our Web site. 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.

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 final printer assembly would be transferred to a third-party manufacturer, Jabil Circuit, Inc. We completed the transition of transferring substantially all printer lines to Jabil in 2009. This action is helping to reduce costs and optimize our global printer product supply chain by improving responsiveness to customer needs and increasing Zebra s flexibility to meet emerging business opportunities. See Note 22 to our Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion of the transfer and transition process.

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Jabil produces our printers to our design specifications in the quantities we order. We maintain control over the supply chain including supplier selection and price negotiations of key component parts. Jabil is responsible for the procurement of the component parts and subassemblies used in the Zebra printers it produces. Jabil owns the inventory associated with the product until the product is shipped to Zebra. Zebra has a subsidiary located in Guangzhou, China, and has an office located near the Jabil facility in China where our products are assembled. This office is staffed with Zebra sourcing, engineering and quality personnel to help ensure that we receive optimal pricing on raw materials and the final printers meet our quality standards. Zebra printers manufactured by Jabil are shipped to Zebra s regional distribution centers. The majority of the product passes through to Zebra s distribution centers. A small percentage of products are reconfigured at Zebra s distribution centers through firmware downloads, packaging and some other customization before they are shipped to customers. In addition, certain products are manufactured in accordance with federal procurement regulations and various international trade agreements, and remain eligible for sale to the United States government.

Printer Competition

Many companies are engaged in the design, manufacture and marketing of bar code label printers, RFID printer/encoder and card personalization solutions.

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, printer/encoders, mobile printers and supplies. We also compete, however, with companies engaged in the design, manufacture and marketing of printing systems that use alternative technologies, such as ink-jet and laser printing. Many of these companies are substantially larger than Zebra.

Dye sublimation, the technology used in our card printers, is only one of several commercially available types of processes 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.

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 from many competitors, including the following (listed in alphabetical order): Altech; Argox; Avery Dennison; Boca Systems; Brother International; Canon; CIM; Citizen; CognitiveTPG; ColorX; Copal; Custom; Danaher; Datacard; Datamax-O Neil, a unit of Dover Corporation; Dymo, a Newell Rubbermaid Company; Epson; Evolis; Fargo Electronics; Fuji; Godex; Hewlett-Packard; Hitachi; Intermec Technologies; Lexmark International; LogickaComp; MagiCard; Matica; Microcom; Mitsubishi; NBS; Nisca; Oki Data; Olmec; Olympus; Practical Automation; Printronix; Sato; Seiko Instruments; Shinko; Song Woo Electronics; Sony; Star Micronics; Taiwan Semiconductor; ToshibaTEC; Victor Data Systems; Woosim; and Xerox.

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 growth opportunities to Zebra as the technologies become more widely adopted.

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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 printing 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 Group (ZES)

Formed in 2008 principally from the acquired businesses of Navis Holdings, LLC, WhereNet Corp., proveo AG, and Multispectral Solutions Inc., Zebra Enterprise Solutions Group offers asset tracking and management solutions to optimize the flow of goods in complex logistical operations. Whether tracking containers and cargo through a major port, managing parts for lean manufacturing or managing ground support equipment at a major airport, the automated asset tracking and management solutions from ZES improve business processes. Utilizing the combined products offered by these businesses, ZES provides greater asset visibility and business efficiency for the aerospace and defense, aviation, automotive, industrial manufacturing, maritime, and transportation and logistics industries. Customers within these industries benefit by increasing productivity, lowering operational costs, and improving safety and security throughout their logistics operations.

A substantial majority of ZES s business consists of perpetual software licenses and related services including maintenance, support and consulting services. In addition, ZES sells hardware including our proprietary real time asset management hardware. These products and services may be bundled and sold together to customers or sold separately.

- Software Licenses. We sell perpetual software licenses on a fixed fee basis. The amounts of the license fees are based primarily on the scope and functionality of the licenses purchased by the customer. The solutions we provide may also include third-party software.
- Hardware. We sell both proprietary and third-party real time asset management hardware. Most of our hardware products provide electronic tagging of assets and real time information regarding the assets locations and telematics. We sell the hardware as part of an integrated solution and also replacement parts.
- Consulting Services. We provide consulting services for the planning and implementation of our solutions including initial installation and training. Zebra s professional services team works with customers who are implementing our applications for the first time, evaluating new technology automation solutions, integrating with third-party systems or upgrading to new platforms. Services are typically charged on a time and materials basis, although from time-to-time we may enter into fixed fee contracts.
- Maintenance and Support. We offer support to our customers 24 hours a day, 7 days a week, 365 days a year, usually for an annual fee, which entitles them to software upgrades and technical support.

We believe ZES is uniquely positioned with a broad range of asset tracking and optimization solutions to offer our customers. However, several competitors exist for each solution ZES provides. They include Aeroscout Inc., Ekahau Inc., I.D. Systems Inc., Identec Solutions, Intermec Inc., RF Code Inc., Lockheed Martin Corp., Roper Industries, Inc., Siemens AG, Motorola, Inc., Amicus, Pinnacle VTIS, IBM, Cosmos, Ubisense, Time Domain and Tideworks Technology.

The ZES products extend Zebra s reach beyond passive RFID by employing technologically advanced hardware and software solutions to locate, track, manage and optimize high-value assets, equipment and people. We offer a wide range of scalable real time locating systems (RTLS) technologies used to generate accurate, on-demand information about the physical location and status of high-valued assets. Customers benefit by utilizing the choice or combination of asset tracking products that can be application matched based on ISO/IEC 24730-2, Cisco CCX Wi-Fi, precision global positioning systems (GPS), and ultra wideband (UWB) technologies.

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Our selection of RTLS asset tracking product offerings includes battery-powered active RFID WhereTag tags, WhereCall button tags, and precision WhereTrack products. These asset tags enable organizations to access accurate, real-time information on the location and status of their assets both indoors and outdoors.

In addition, we offer a selection of RTLS infrastructure products. These products receive tag transmissions and forward the information to the Visibility Server Software (a middleware application) which provides location calculations, database and system management functions and asset visibility. The flexible infrastructure supports large tag populations and coverage areas that can range from small to large.

We offer a broad set of software development tools for integrating ZES hardware, middleware applications and software applications, with customer and third-party applications. Our middleware application, Visibility Server Software, provides software tools to design, configure, operate and troubleshoot our RTLS products. Visibility Server Software serves as the central repository for all of the real-time location and communication data captured by the ZES RTLS infrastructure.

ZES sells its products and services into the following major industries:

- Airport Operations. Our Airport Visualizer provides integrated aviation solutions and helps to optimize motorized ground support equipment on the pavement immediately adjacent to an airport terminal area or hangers (commonly referred to as the apron). This solution helps improve the operational efficiencies of mobile assets for the global aviation industry which is faced with high costs in maintaining ample amounts of equipment, high fuel consumption, equipment misuse, rising gas emission and high levels of equipment congestion. As of December 31, 2009, our Airport Visualizer solution helped to optimize the processes of approximately 1,500 airport ground service vehicles.
- Marine and Rail Terminal Operations. Installed and used at approximately 200 marine terminals around the world, our SPARCS (synchronous planning and real time control system) terminal operating system (TOS) helps terminal operators optimize the flow of containers through the facility by managing the processes of a terminal operation. Zebra s TOS provides users real-time visibility of containers for better scheduling and routing, among other benefits, to lower costs, manage growth and minimize capital investments in land and berth space. Customers operating rail and truck terminals have begun to use our TOS to improve their logistics operations as well. Our Navis Powerstow® solution helps terminal operators optimize ship stowage to minimize total voyage cost and maximize efficiency. Navis Powerstow® offers easy-to-use planning tools that provide real-time visibility of stowage operations. It uses graphic tools along with proprietary software to help operators configure the placement of cargo on a ship, taking into account several parameters such as weight and destination to improve safety and vessel utilization.
- Distribution Operations. Our Yard Management Solution Suite provides effective management over gate schedules and dock assignments by providing the ability to track, in real-time, the location and status of all vehicles and their associated inventory throughout the shipping yard or dock. Our Yard Management Suite includes modules for dock and yard management, gate automation and scheduling for enhanced security, enterprise asset visibility, and container tracking. These optimize dock and yard management solutions, improve customer support, lower operating costs and increase yard and dock capacity.
- Manufacturing Operations. We provide an integrated wireless infrastructure for real-time location, digital messaging, telemetry, and wireless networking applications to give manufacturers the ability to continuously manage the physical location and status of their critical assets for improving lean processes within the core manufacturing functions.

ZES products and services are primarily sold through ZES s global direct sales force which is organized around geographic and vertical markets. We complement our direct sales through the use of other channels including systems integrators with particular vertical market expertise.

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ZES s proprietary software and hardware are developed primarily by its internal team of engineers. Generally, our software is warranted for 90 days after going live to function consistently with its specifications, and our hardware is warranted to be free from material defects in materials and workmanship for up to one year after purchase.

Customers

Zebra has sold more than 8,400,000 thermal printers to customers as of December 31, 2009.

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

	Year Ended December 31,		
	2009	2008	2007
Percent of net sales	16.1	15.4	16.5

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

Sales

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

	Year Ended December 31,		
Product Category	**2009**	**2008**	**2007**
Hardware	$ 539,934	$ 692,638	$ 656,974
Supplies	155,847	172,106	161,678
Service and software	102,541	105,113	42,801
Shipping and handling	5,263	6,843	6,826
Total net sales	$ 803,585	$ 976,700	$ 868,279

The increase in service and software net sales in 2008 was primarily due to our ZES acquisitions.

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

	Year Ended December 31,		
	2009	2008	2007
Percent of net sales	54.9	54.5	52.1

We believe that international sales have the long-term potential to increase faster than domestic sales because of the lower penetration of automatic identification applications outside North America and Western Europe and generally higher economic growth rates in developing countries. 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 s research and development expenditures for the last three years were as follows (in thousands, except percentages):

	Year Ended December 31,		
	2009	2008	2007
Research and development expenses - SPG (excluding acquired in process technology)	$ 54,313	$ 61,791	$ 56,183
Percent of SPG net sales	7.5	7.0	6.7
Research and development expenses - ZES (excluding acquired in process technology)	$ 30,776	$ 32,658	$ 9,297
Percent of ZES net sales	37.9	34.7	26.4

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We devote significant resources to developing new printing solutions for our target markets and ensuring that our products maintain high levels of reliability. Research and development resources are also directed toward enhancing our ZES systems. The increase in research and development expenditures for ZES in 2008 was mainly attributed to the acquisition of Navis Holdings, LLC late in 2007.

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 347 United States and foreign patents and have 151 United States and foreign patent applications pending pertaining to products. The duration of these patents ranges from 1 to 23 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.

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

Employees

As of January 29, 2010, Zebra employed approximately 2,700 persons, of which 1,975 are a part of SPG, 527 are a part of ZES and the remaining 198 are corporate employees. 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 two reportable segments for our operations and products. Financial information about segments and geographic areas is found in Note 18 to the Consolidated Financial Statements.

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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, cash flows and growth prospects.

Zebra may be a party to fixed-price contracts particularly for its ZES business unit that could become unfavorable contracts. From time to time ZES may enter into contracts to provide services to customers for fixed fees. Such a contract could result in material loss to Zebra if the cost to perform such contract ultimately exceeds the fees earned on such contract.

Zebra transferred final assembly of its thermal printers to Jabil Circuit and is now dependent on Jabil for the manufacture of such printers. A 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. To improve responsiveness to customer needs and achieve cost savings and operational benefits, Zebra transferred final assembly of its thermal printers to Jabil Circuit s facility in Guangzhou, China, in 2009. To the extent Zebra relies on a third-party provider such as Jabil to manufacture its products, Zebra may incur increased business continuity risks.

Zebra is no longer able to exercise direct control over the assembly or related operations of its thermal printers Jabil produces. If Jabil experiences business difficulties or fails to meet Zebra s manufacturing needs, then Zebra may be unable to satisfy customer product demands, lose sales and be unable to maintain customer relationships. Longer production lead times may result in shortages of certain products and inadequate inventories during periods of unanticipated higher demand. Without Jabil s continuing manufacture of Zebra s products, 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. This transition could be costly and time consuming.

Although Zebra carries business interruption insurance to cover lost sales 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 our existing customers. A third-party provider such as Jabil will have access to Zebra s intellectual property, which increases the risk of infringement or misappropriation of this intellectual property.

Zebra has significant operations outside the United States and sells a significant portion of its products internationally and purchases important components from foreign suppliers. These circumstances create a number of risks. Zebra has significant operations overseas which present 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,
  - 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 exchange rate and limitations on the convertibility of the Chinese *Yuan,* and
- Transportation delays that may affect production and distribution of Zebra s products.

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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:

- 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 cost effectively adapt in this 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 competitive market, which may 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 cost effectively 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.

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:

- Compliance with evolving laws and regulations,
- 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.

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. Zebra may acquire or make investments in other businesses, technologies, services or products. 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.

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Acquisitions also may involve a number of risks:

- 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.

Future acquisitions could result in potentially dilutive issuances of equity securities or the incurrence of debt and contingent liabilities.

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 ability to meet customer demand and negatively affect our financial results.

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. 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.

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 enhance 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.

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, Zebra expects to incur additional selling, general and administrative expenses to implement and test 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.

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 ability to attract, retain and motivate highly skilled employees is important to Zebra s long-term success. Competition for skill sets in certain functions within our 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. The possibility of 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.

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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.

Economic conditions and financial market disruptions may adversely affect Zebra s business and results of operations. Adverse economic conditions, in the United States or internationally, or reduced information technology spending may adversely impact our business. As widely reported, financial markets throughout the world experienced extreme disruption in 2008 and 2009, including historically high volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others, failure and potential failures of major financial institutions and unprecedented government support of financial institutions and corporations. A recurrence of these developments and a related general economic downturn could adversely affect Zebra s business and financial condition through a reduction in demand for our products by our customers. If a slowdown were severe enough, it could require further impairment testing and write-downs of goodwill and other intangible assets. Cost reduction actions may be necessary and lead to restructuring charges. A tightening of financial credit could adversely affect our customers, suppliers, outsource manufacturer and channel partners (e.g., distributors and resellers) from obtaining adequate credit for the financing of significant purchases. Another economic downturn could also result in a decrease in or cancellation of orders for Zebra s products and services; negatively impact Zebra s ability to collect its accounts receivable on a timely basis; result in additional reserves for uncollectible accounts receivable; and require additional reserves for inventory obsolescence. Higher volatility and fluctuations in foreign exchange rates for the U.S. dollar against currencies such as the euro, the British pound and the Brazilian real could negatively impact product sales, margins and collections.

Item 1B. Unresolved Staff Comments

Not applicable.

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Item 2. Properties

Zebra s corporate headquarters are located in Lincolnshire, Illinois, a northern suburb of Chicago. Zebra also conducts its sales, marketing, engineering and operations activities from facilities in Vernon Hills, Illinois, and in Camarillo, California.

Zebra s principal facilities as of December 31, 2009, are listed below:

	Square Footage			
Location	Manufacturing, Production & Warehousing	Administrative, Research & Sales	Total	Lease Expires
Vernon Hills, Illinois, USA (S)	111,676	113,429	225,105	June 2014
Camarillo, California, USA (S)	97,921	72,156	170,077	March 2011
Heerenveen, The Netherlands (S)	48,427	46,145	94,572	January 2012
Greenville, Wisconsin, USA (S)	55,000	5,000	60,000	January 2018
Oakland, California, USA (Z)		47,210	47,210	July 2013
Lincolnshire, Illinois, USA (C)		43,400	43,400	June 2014
Lincoln, Rhode Island, USA (S)		40,116	40,116	April 2016
Preston, UK (S)	30,450	8,600	39,050	Owned by Zebra
Flowery Branch, Georgia, USA (S)	28,255	2,145	30,400	April 2012
Bourne End, UK (S)		27,251	27,251	June 2014
Germantown, Maryland, USA (Z)		26,826	26,826	April 2010
Otay Mesa, California, USA (S)	21,739	4,900	26,639	September 2011
San Jose, California, USA (Z)		24,630	24,630	July 2015
McAllen, Texas, USA (S)	15,500	2,500	18,000	September 2011
Chennai, India (Z)		15,095	15,095	November 2012
Warsaw, Poland (S)	7,750	3,875	11,625	June 2012
Guangzhou, China (S)		11,624	11,624	May 2011
Shanghai, China (S)		7,524	7,524	January 2014
Mexico City, Mexico (S)	3,488	3,400	6,888	September 2012
Singapore, Singapore (S)		5,360	5,360	February 2012
Total	420,206	511,186	931,392	

S Specialty Printing Group; Z Zebra Enterprise Solution Group; C - Corporate

Zebra leases various other facilities around the world, which are dedicated to administrative, research and sales functions. These other leases, solely or in aggregate, are not material to Zebra.

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Item 3. Legal Proceedings

See Note 17 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.

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PART II

Item 5. Market for Registrant s Common Equity, 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 2009 and 2008, as reported by the NASDAQ Stock Market.

2009	High	Low	2008	High	Low
First Quarter	$ 21.70	$ 16.00	First Quarter	$ 34.80	$ 27.50
Second Quarter	24.55	18.61	Second Quarter	38.47	32.66
Third Quarter	27.67	20.98	Third Quarter	34.13	28.25
Fourth Quarter	28.87	23.76	Fourth Quarter	28.99	16.18

Source: The NASDAQ Stock Market

At February 12, 2010, the last reported price for the Class A Common Stock was $29.33 per share, and there were 317 registered stockholders of record for Zebra s Class A Common Stock. In addition, we had approximately 42,000 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 does not anticipate paying any cash dividends in the foreseeable future.

Treasury Shares

During the fourth quarter of 2009, Zebra purchased 593,552 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 2009 (October 4 October 31)	25,000	$ 25.01	25,000	2,767,838
November 2009 (November 1 November 28)	462,666	$ 26.71	462,666	2,305,172
December 2009 (November 29 December 31)	105,886	$ 26.94	105,886	2,199,286

(1) On February 17, 2009, Zebra announced that the Board authorized the purchase of an additional 3,000,000 shares of Zebra common stock at prices to be determined at management s discretion. This authorization does not have an expiration date.

(2) During the fourth quarter, Zebra acquired 2,039 shares of Zebra Class A common stock through the withholding of shares necessary to satisfy tax withholding obligations upon the vesting of restricted stock awards. These shares were acquired at an average price of $26.98 per share.

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Item 6. Selected Financial Data

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) DATA

(In thousands, except per share amounts)

	Year Ended December 31, 2009		2008		2007		2006		2005
Net sales	$ 803,585		$ 976,700		$ 868,279		$ 759,524		$ 702,271
Cost of sales	442,864		497,395		451,161		401,104		348,851
Gross profit	360,721		479,305		417,118		358,420		353,420
Total operating expenses	291,919	(1)	494,651	(2)	273,933		277,991	(3)	207,392
Operating income (loss)	68,802		(15,346)		143,185		80,429		146,028
Income (loss) before income taxes and cumulative effect of accounting change	70,523		(11,913)		167,375		101,642		160,282
Income (loss) before cumulative effect of accounting change	47,104		(38,421)		110,113		69,627		106,184
Cumulative effect of accounting change							1,319	(4)	
Net income (loss)	$ 47,104		$ (38,421)		$ 110,113		$ 70,946		$ 106,184
Earnings (loss) per share before cumulative effect of accounting change									
Basic	$ 0.79		$ (0.60)		$ 1.61		$ 0.99		$ 1.49
Diluted	$ 0.79		$ (0.60)		$ 1.60		$ 0.98		$ 1.47
Earnings (loss) per share									
Basic	$ 0.79		$ (0.60)		$ 1.61		$ 1.01		$ 1.49
Diluted	$ 0.79		$ (0.60)		$ 1.60		$ 1.00		$ 1.47
Weighted average shares outstanding									
Basic	59,306		64,524		68,463		70,516		71,364
Diluted	59,425		64,524		68,908		70,956		72,000

CONSOLIDATED BALANCE SHEET DATA

(In thousands)

	December 31, 2009	2008	2007	2006	2005
Cash and cash equivalents, restricted cash, investments and marketable securities (current and long-term) (5)	$ 246,721	$ 224,886	$ 281,179	$ 559,189	$ 544,239
Working capital	306,127	271,831	298,660	404,836	680,554
Total assets	830,479	850,878	1,034,278	963,142	918,415
Long-term obligations (6)	9,432	10,250	8,452	9,969	7,709
Stockholders equity	712,129	710,738	902,693	877,681	857,972

(1) Includes asset impairment reversal of $1,058,000 and exit, restructuring and integration charges of $12,191,000.
(2) Includes asset impairment charges of $157,600,000 and exit, restructuring and integration charges of $20,009,000.
(3) Includes litigation settlement of $53,392,000 and insurance receivable reserve of $12,543,000.
(4) Relates to the estimation of forfeitures on prior year compensation expense outstanding at the adoption date of Accounting Standards Codification (ASC) 505 and ASC 718 (formerly SFAS No. 123(R), *Share Based Payment*). See Note 4 in the Notes to the Consolidated Financial Statements included in this Form 10-K.
(5) The decrease in cash and cash equivalents, restricted cash and investments and marketable securities in 2007 and 2008 was principally the result of (i) our acquisitions of WhereNet, proveo AG, and Navis during 2007 and our acquisition of Multispectral Solutions Inc., and (ii) purchase of our stock during 2008. See Note 5 in the Notes to the Consolidated Financial Statements included in this Form 10-K for

further discussion of the acquisitions.

(6) Long-term obligations include deferred compensation and unearned revenue. See Note 19 in the Notes to the Consolidated Financial Statements included in this Form 10-K for further discussion of the Deferred Compensation Plan.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations: Fourth Quarter of 2009 versus Fourth Quarter of 2008

Consolidated Results of Operations

(Amounts in thousands, except percentages)

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Percent Change	Percent of Net Sales - 2009	Percent of Net Sales - 2008
Net Sales					
Tangible products	$ 197,097	$ 206,410	(4.5)	88.6	88.8
Service & software	25,425	26,158	(2.8)	11.4	11.2
Total net sales	222,522	232,568	(4.3)	100.0	100.0
Cost of Sales					
Tangible products	110,611	109,734	0.8	49.7	47.2
Service & software	10,433	11,945	(12.7)	4.7	5.1
Total cost of sales	121,044	121,679	(0.5)	54.4	52.3
Gross profit	101,478	110,889	(8.5)	45.6	47.7
Operating expenses	75,240	243,238	(69.1)	33.8	104.6
Operating income (loss)	26,238	(132,349)	119.8	11.8	(56.9)
Other income	944	3,658	(74.2)	0.4	1.6
Income (loss) before income taxes	27,182	(128,691)	121.1	12.2	(55.3)
Income taxes	9,552	(11,330)	184.3	4.3	(4.9)
Net income (loss)	$ 17,630	$ (117,361)	115.0	7.9	(50.4)
Diluted earnings (loss) per share	$ 0.30	$ (1.88)			

Consolidated Results of Operations Fourth quarter

Sales

Net sales for the 2009 quarter compared with the 2008 quarter decreased 4.3% due primarily to lower global economic activity. The decrease in sales was largely attributable to a decline in hardware sales. Hardware sales declined proportionally more for our mobile and photo printers. The photo printer line was discontinued in 2009. Printer unit volume was down 2.3% for the fourth quarter of 2009 compared to levels in 2008.

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

Product Category	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Percent Change	Percent of Net Sales - 2009	Percent of Net Sales - 2008
Hardware	$ 156,706	$ 164,042	(4.5)	70.4	70.5
Supplies	39,011	40,870	(4.5)	17.5	17.6
Service and software	25,425	26,158	(2.8)	11.4	11.2

Shipping and handling	1,380	1,498	(7.9)	0.7	0.7
Total sales	$ 222,522	$ 232,568	(4.3)	100.0	100.0

Sales increased in all international territories. Late in 2008 a notable weakness in sales in Europe, Middle East and Africa (EMEA), Asia Pacific and Latin America from the economic downturn began and affected sales in the fourth quarter of 2008. These regions started to recover in the fourth quarter of 2009. Sales declined overall in 2009 due to the economic downturn. EMEA sales benefitted from a $7,000,000 increase due to a stronger euro in the fourth quarter of 2009. North American sales declined from the fourth quarter of 2008, as sales a year ago benefitted from shipments of certain larger orders and incremental sales from our ZES business unit.

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

Geographic Region	Three Months Ended December 31, 2009	December 31, 2008	Percent Change	Percent of Net Sales - 2009	Percent of Net Sales - 2008
Europe, Middle East and Africa	$ 82,377	$ 81,302	1.3	37.0	35.0
Latin America	20,196	17,871	13.0	9.1	7.7
Asia-Pacific	21,984	21,411	2.7	9.9	9.1
Total International	124,557	120,584	3.3	56.0	51.8
North America	97,965	111,984	(12.5)	44.0	48.2
Total sales	$ 222,522	$ 232,568	(4.3)	100.0	100.0

Gross Profit

Gross profit decreased due to reduced volumes and a less favorable product mix, partially offset by a more favorable foreign currency rate environment in 2009. In addition, higher freight costs were incurred in order to meet customer demand in the fourth quarter of 2009. These factors were partially offset by the benefit of outsourcing printer production to a third party.

Operating Expenses

Lower overall operating expenses for the three-month period resulted from decreases in several categories including compensation costs primarily from lower staffing levels, outside commissions, project costs, and travel and entertainment expenses. Amortization of intangibles decreased $2,063,000 and exit, restructuring and integration costs decreased $5,054,000 in the fourth quarter of 2009 as compared to 2008. Amortization decreases were due to intangible asset impairments recorded in the fourth quarter of 2008. During the fourth quarter of 2008, we took charges totaling $157,600,000 for the impairment of goodwill, intellectual property and other assets. The above reductions in 2009 were partially offset by increases in general and administrative expenses for consulting and healthcare costs.

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

Operating Expenses	Three Months Ended December 31, 2009	December 31, 2008	Percent Change	Percent of Net Sales 2009	Percent of Net Sales 2008
Selling and marketing	$ 28,006	$ 29,982	(6.6)	12.6	12.9
Research and development	21,516	23,104	(6.9)	9.6	9.9
General and administrative	20,373	20,090	1.4	9.2	8.6
Amortization of intangible assets	2,608	4,671	(44.2)	1.2	2.0
Asset impairment charges		157,600	(100.0)		67.8
Exit, restructuring and integration costs	2,737	7,791	(64.9)	1.2	3.3
Total operating expenses	$ 75,240	$ 243,238	(69.1)	33.8	104.5

Other Income

Investment income for 2009 declined primarily from lower short-term interest rates in the fourth quarter of 2009 compared with 2008. A lower foreign exchange gain in 2009 is due to a more stable foreign exchange rate environment in 2009 as compared with 2008.

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

	Three Months Ended	
	December 31, 2009	December 31, 2008
Investment income (loss)	$ 695	$ 1,295
Foreign exchange gain (loss)	795	2,640
Other, net	(546)	(277)
Total other income (loss)	$ 944	$ 3,658

Operating Income (Loss)

The operating loss for the fourth quarter of 2008 was the result of the non cash impairment charges which totaled $157,600,000. See Note 13 of the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the asset impairment charges.

Income Taxes

The effective income tax rate for the fourth quarter of 2009 was 35.1% compared with 8.8% for the same quarter last year. For 2008, the effective income tax rate was not meaningful because a substantial portion of the impairment charges recorded in the fourth quarter of 2008 was not deductible for income tax purposes.

Business Groups

Specialty Printing Group Fourth Quarter

(Amounts in thousands, except percentages):

	Three Months Ended				
	December 31, 2009	December 31, 2008	Percent Change	Percent of Net Sales - 2009	Percent of Net Sales - 2008
Net Sales					
Tangible products	$ 194,566	$ 202,477	(3.9)	95.8	96.2
Service & software	8,556	8,017	6.7	4.2	3.8
Total net sales	203,122	210,494	(3.5)	100.0	100.0
Cost of Sales					
Tangible products	108,521	108,459	0.1	53.5	51.6
Service & software	4,732	4,728	0.1	2.3	2.2
Total cost of sales	113,253	113,187	0.1	55.8	53.8
Gross profit	89,869	97,307	(7.6)	44.2	46.2
Operating expenses	42,519	66,781	(36.3)	20.9	31.7
Operating income	$ 47,350	$ 30,526	55.1	23.3	14.5

Specialty Printing Group Fourth quarter

Net sales in our Specialty Printing Group (SPG) decreased 3.5% reflecting a decline in North America offset by gains in all other regions. New printer products (defined as printers released within 18 months prior to the end of the applicable fiscal period) accounted for 13.2% of printer sales in the fourth quarter of 2009, compared with 18.6% of printer sales in 2008.

Our international SPG sales are denominated in multiple currencies, primarily the U.S. dollar, British pound and euro. This diversity causes our reported sales to be subject to fluctuations based on changes in currency rates. The weaker U.S. dollar to the euro and the pound had a positive impact of approximately $7,000,000, net of hedges, on sales during the fourth quarter of 2009 compared with 2008. We typically hedge a portion of anticipated euro-denominated sales to partially protect Zebra against exchange rate movements. For the fourth quarter, this program resulted in a loss on hedges of $122,000.

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Gross profit margin for SPG was affected by lower volumes and a less favorable product mix. Outsourcing of our manufacturing operations resulted in favorable improvement to gross margin in 2009 offset by higher freight costs. The effect of more favorable foreign currency rate environment also increased fourth quarter gross profit by $6,293,000, net of hedges.

Lower overall operating expenses resulted from decreases in payroll costs, business development costs, recruiting and relocation costs, outside commissions, project costs, travel and entertainment expenses, and offsite meetings. Much of the decreased payroll and benefit costs were a result of lower staffing levels and cost reduction initiatives. Amortization expense was reduced due to intangible asset write-downs in the fourth quarter of 2008.

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

	Three Months Ended December 31,		Percent
	2009	2008	Change
Total printers shipped	244,100	249,902	(2.3)
Average selling price of printers shipped	$531	$538	(1.3)

For 2009, unit volumes compared to 2008 declined most notably in mobile, desktop and photo printers partially offset by slightly higher unit sales of high end, mid-range and kiosk printers.

Operating expense changes for SPG in 2009, compared to the same periods in 2008, are due to the following (in thousands):

	Three Months Ended December 31,		
	2009	2008	Increase/(Decrease)
Payroll and benefit costs	$ 24,463	$ 27,968	$ (3,505)
Business development	4,094	5,398	(1,304)
Outside professional services	2,625	1,954	671
Travel and entertainment	1,698	1,819	(121)
Exit, restructuring and integration costs	1,817	6,005	(4,188)
Impairment charges		14,680	(14,680)
Gain on sale of assets and equipment	452	7	445
Amortization expense	692	1,445	(753)
Other changes	6,678	7,505	(827)
Total operating expenses	$ 42,519	$ 66,781	$ (24,262)

The 2009 payroll and benefit cost decrease relates to organization changes made in December 2008 which has resulted in lower staffing levels. Exit and restructuring charges have declined as the activities related to the outsourcing of our printer manufacturing began to ramp down in the fourth quarter of 2009. Impairment charges from 2008 relate to the write-down of intellectual property because of changes in valuations related to current economic conditions and the business outlook. Absent the exit and restructuring costs and impairment charges, the remaining reductions in expenses reflect the cost reduction program initiated during the fourth quarter of 2008 that have continued throughout 2009.

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Zebra Enterprise Solutions Fourth Quarter

(Amounts in thousands, except percentages)

	Three Months Ended December 31, 2009	December 31, 2008	Percent Change	Percent of Net Sales - 2009	Percent of Net Sales - 2008
Net Sales					
Tangible products	$ 2,531	$ 3,933	(35.6)	13.0	17.8
Service & software	16,869	18,141	(7.0)	87.0	82.2
Net sales	19,400	22,074	(12.1)	100.0	100.0
Cost of Sales					
Tangible products	2,090	1,275	63.9	10.8	5.8
Service & software	5,701	7,217	(21.0)	29.4	32.7
Cost of sales	7,791	8,492	(8.3)	40.2	38.5
Gross profit	11,609	13,582	(14.5)	59.8	61.5
Operating expenses	17,024	163,208	(89.6)	87.8	739.4
Operating loss	$ (5,415)	$ (149,626)	96.4	(28.0)	(677.9)

Zebra Enterprise Solutions Fourth quarter

ZES sales decreased 12.1% for the fourth quarter of 2009 compared to the fourth quarter of 2008 primarily due to the challenging economic conditions, especially those related to the automotive and maritime industries. Decreases to hardware, services and support were partially offset by increases in license fee revenue. Margins improved due to right sizing initiatives and expenditure monitoring.

ZES operating expenses for the fourth quarter of 2009 are lower than 2008 due to the writedown of assets in the amount of $142,920,000 related to our recent ZES acquisitions and intellectual property because of changes in valuations as a result of economic conditions and the business outlook late in 2008.

Other operating expense categories were lower in 2009 due to lower staffing levels, which were offset by increased benefit costs, commissions and contract employees. Other operating expense reductions resulted from cost containment efforts, collection of previously reserved accounts, reduced outside service costs and lower amortization expense.

ZES operating expenses in the fourth quarter of 2009 compared to 2008 are summarized below (in thousands):

	Three Months Ended December 31, 2009	2008	Increase/(Decrease)
Payroll and benefit costs	$ 9,951	$ 8,264	$ 1,687
Business development	276	481	(205)
Outside professional services	449	1,328	(879)
Travel and entertainment	822	932	(110)
Exit, restructuring and integration costs	866	1,624	(758)
Impairment charges		142,920	(142,920)
Bad debt expense	43	766	(723)
Amortization expense	1,917	3,225	(1,308)
Other changes	2,700	3,668	(968)

Total operating expenses	$ 17,024	$ 163,208	$ (146,184)

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Results of Operations: Year ended December 31, 2009 versus Year ended December 31, 2008

Consolidated Results of Operations

(Amounts in thousands, except percentages)

	Year Ended				
	December 31, 2009	December 31, 2008	Percent Change	Percent of Net Sales - 2009	Percent of Net Sales - 2008
Net Sales					
Tangible products	$ 701,044	$ 871,587	(19.6)	87.2	89.2
Service & software	102,541	105,113	(2.4)	12.8	10.8
Total net sales	803,585	976,700	(17.7)	100.0	100.0
Cost of Sales					
Tangible products	401,727	452,208	(11.2)	50.0	46.3
Service & software	41,137	45,187	(9.0)	5.1	4.6
Total cost of sales	442,864	497,395	(11.0)	55.1	50.9
Gross profit	360,721	479,305	(24.7)	44.9	49.1
Operating expenses	291,919	494,651	(41.0)	36.3	50.6
Operating income (loss)	68,802	(15,346)	548.3	8.6	(1.5)
Other income	1,721	3,433	(49.9)	0.2	(0.3)
Income (loss) before income taxes	70,523	(11,913)	692.0	8.8	1.2
Income taxes	23,419	26,508	(11.7)	2.9	2.7
Net income (loss)	$ 47,104	$ (38,421)	222.6	5.9	3.9
Diluted earnings (loss) per share	$ 0.79	$ (0.60)			

Consolidated Results of Operations Year to date

Sales

Net sales for the year ended December 31, 2009 compared with 2008 decreased 17.7%, due primarily to global economic conditions. Sales in each geographic region also were down by similar percentages. The decreases in sales were largely attributable to a decline in hardware sales volume. Hardware sales declined proportionally more for our high-performance, midrange table top and desk top printers, which carry a higher sales price and are more profitable. Notable weakness in sales from the economic downturn began in the third quarter of 2008 and continued throughout 2009.

Cash flow hedging activities in 2009 increased revenues by $603,000 compared with a decrease in revenues from cash flow hedging in 2008 of $12,354,000.

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

Year Ended

Product Category	December 31, 2009	December 31, 2008	Percent Change	Percent of Net Sales - 2009	Percent of Net Sales - 2008
Hardware	$ 539,934	$ 692,638	(22.0)	67.1	70.9
Supplies	155,847	172,106	(9.4)	19.4	17.6
Service and software	102,541	105,113	(2.4)	12.8	10.8
Shipping and handling	5,263	6,843	(23.1)	0.7	0.7
Total sales	$ 803,585	$ 976,700	(17.7)	100.0	100.0

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

	Year Ended				
Geographic Region	December 31, 2009	December 31, 2008	Percent Change	Percent of Net Sales - 2009	Percent of Net Sales - 2008
Europe, Middle East and Africa	$ 294,296	$ 353,273	(16.7)	36.6	36.2
Latin America	65,060	76,489	(14.9)	8.1	7.8
Asia-Pacific	82,120	102,672	(20.0)	10.2	10.5
Total International	441,476	532,434	(17.1)	54.9	54.5
North America	362,109	444,266	(18.5)	45.1	45.5
Total sales	$ 803,585	$ 976,700	(17.7)	100.0	100.0

Gross Profit

Gross profit in 2009 compared with 2008 decreased due to lower volumes and a less favorable product mix. Higher freight costs were incurred in order to meet customer demand in 2009, primarily in the fourth quarter. Unfavorable foreign exchange rates in 2009 decreased gross profit in 2009 by $16,745,000, net of hedges. These factors were partially offset by the benefit of outsourcing and the full year effect of continued cost containment efforts in 2009.

Operating Expenses

Lower overall operating expenses for 2009 compared to 2008 resulted from decreases in several categories including payroll costs primarily from lower staffing levels, outside commissions, project costs, and travel and entertainment expenses. Amortization of intangibles decreased due to impairments recorded in the fourth quarter of 2008 for the impairment of goodwill, intellectual property and other assets. Expenses in 2008 were reduced by the receipt of an escrow claim litigation settlement received in the third quarter of 2008. The above reductions were partially offset by increases in general and administrative expenses for consulting and benefit costs in 2009.

During the fourth quarter or 2008, we took charges totaling $157,600,000 for the impairment of goodwill, intellectual property and other assets. During the second quarter of 2009, $1,495,000 of the goodwill impairment charge was reversed and a $437,000 impairment charge was recorded related to an intangible asset in our ZES segment.

Exit, restructuring and integration costs decreased in 2009 as compared to 2008 as activities related to the ramp down of our production lines and the integration of our ZES businesses have substantially decreased.

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

	Year Ended				
Operating Expenses	December 31, 2009	December 31, 2008	Percent Change	Percent of Net Sales 2009	Percent of Net Sales 2008
Selling and marketing	$ 100,199	$ 121,435	(17.5)	12.5	12.4
Research and development	85,089	94,449	(9.9)	10.6	9.7
General and administrative	85,032	87,885	(3.2)	10.5	9.0
Amortization of intangible assets	10,466	18,575	(43.7)	1.3	1.9
Litigation settlement		(5,302)	100.0		0.5
Asset impairment charges	(1,058)	157,600	(100.7)	(0.1)	16.1
Exit, restructuring and integration costs	12,191	20,009	(39.1)	1.5	2.0
Total operating expenses	$ 291,919	$ 494,651	(41.0)	36.3	50.6

Selling and Marketing Expenses

Selling and marketing expenses decreased in 2009 due to a cost reduction program consisting primarily of headcount reductions implemented during the second half of 2008 in response to the current difficult business environment. Expenditures for all types of advertising and marketing costs were reduced in 2009 as part of our corporate wide cost control efforts in a challenging economy. Zebra s reduced sales volume also resulted in lower commissions.

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

	Year Ended December 31, 2009	December 31, 2008	Increase/(Decrease)
Payroll and benefit costs	$ 63,565	$ 74,322	$ (10,757)
Advertising and market development fund costs	17,677	22,733	(5,056)
Professional services expenses	2,680	3,337	(657)
Travel and entertainment expenses	5,428	7,900	(2,472)
Other changes	10,849	13,143	(2,294)
Total selling and marketing expenses	$ 100,199	$ 121,435	$ (21,236)

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 continue to make investments in research and development. In 2009 we introduced an updated two inch plus light duty printer and a new Xi4 high-performance printer. In the fourth quarter of 2009 we began shipping our first re-transfer card printer which has photo-quality imaging for security and government use. We also introduced innovative new IQ color labels which enables customers to print spot colors on predetermined areas of a label using any Zebra thermal label printer. This breakthrough product enhances readability, increases business efficiency and improves safety.

In 2009, Zebra Enterprise Solutions introduced new gate, vessel, billing, automation, analytics and monitoring capabilities in its TOS solution, support for rack tracking, RFID support, and goods return for our manufacturing solution along with a new tag form factor for parts replenishment and a new Ethernet enabled proximity exciter. ZES also released enhancements to its equipment fleet management solution to provide added visibility for operator safety and equipment maintenance.

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. Research and development costs are summarized below (in thousands):

	Year Ended December 31, 2009	December 31, 2008	Increase/(Decrease)
Payroll and benefit costs	$ 62,416	$ 65,598	$ (3,182)
Professional services expenses	5,143	7,109	(1,966)
Project expenses	4,762	8,340	(3,578)
Other changes	12,768	13,402	(634)
Total research and development costs	$ 85,089	$ 94,449	$ (9,360)

The decreases are primarily related to cost reductions taken in 2008 which decreased research and development costs for the full year of 2009. Expenditures in this area were reduced as part of our corporate wide cost control efforts in a challenging economy.

General and Administrative Expenses

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

	Year Ended		Increase/(Decrease)

	December 31, 2009	December 31, 2008	
Payroll and benefit costs	$ 40,869	$ 43,110	$ (2,241)
Professional services expenses	12,642	10,759	1,883
Recruiting fees	326	2,908	(2,582)
Offsite meetings	140	2,569	(2,429)
Depreciation expense	9,869	8,101	1,768
Other changes	21,186	20,438	748
Total general and administrative expenses	$ 85,032	$ 87,885	$ (2,853)

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General and administrative expenses decreased due to a cost reduction program consisting primarily of headcount reductions implemented during the second half of 2008 in response to the current difficult business environment. Offsetting the previously mentioned cost reduction were increases in consulting expenses related to business improvement initiatives and depreciation related to a worldwide enterprise resource planning system implementation.

Amortization of Intangible Assets

Amortization of intangible assets decreased $8,109,000 during 2009 due to intangible asset write-downs in the fourth quarter of 2008. See Asset impairment charges below for more details.

Litigation Settlement

In 2008 Zebra received a litigation claim settlement related to our recent acquisition of WhereNet. See Note 5 for further information related to the litigation/claim settlement.

Asset Impairment Charges

During the fourth quarter of 2008, we determined that certain impairment indicators existed related to identified intangible assets and conducted an additional impairment test of intangibles. Due to the deterioration of the economy and a significant reduction in the price of our stock, we determined that our goodwill and other intangible assets were impaired requiring total estimated impairment charges of $157,600,000 at December 31, 2008. Upon completion of a detailed second step impairment analysis we recorded a credit of $1,495,000 in the second quarter of 2009 to adjust a portion of our original goodwill impairment. In 2009, we also recorded an impairment charge for an intangible asset or $437,000. See Note 13 of the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the asset impairment charges.

Exit, Restructuring and Integration Charges

For 2009, exit and restructuring costs were $8,985,000 and integration costs were $3,206,000. For 2008, exit and restructuring costs were $16,650,000 and integration costs were $3,359,000. The reduction is due to the substantial completion of our production outsourcing. See Note 22 of the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the exit, restructuring and integration charges.

Other Income

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

	Year Ended December 31, 2009	Year Ended December 31, 2008
Investment income (loss)	$ 2,933	$ 1,281
Foreign exchange gain (loss)	(45)	3,518
Other, net	(1,167)	(1,366)
Total other income (loss)	$ 1,721	$ 3,433
Rate of Return Analysis:		
Average cash and marketable securities balances	$ 235,803	$ 253,033
Annualized rate of return	1.2%	0.5%

Investment income for 2009 would have been $958,000 higher due to write-downs recorded in 2009 related to losses on equity investments. Investment income for 2008 would have been $7,271,000 higher due to losses related to the write-down of an auction rate security of $4,374,000 and a long term equity investment in the amount of $2,897,000 in 2008. Excluding these write-downs, investment income for 2009 would have been $3,891,000 compared to $8,552,000 in 2008. Excluding the 2008 write-downs, Zebra s annualized rate of return would have been 3.4% for

2008, while the 2009 rate of return would have been 1.6%. The investment income for 2008 was higher due to interest rates being higher in 2008 and Zebra s cash balances also being higher throughout 2008. Cash and marketable securities balances for 2009 have decreased compared to 2008 as a result of payments for acquisitions and for the repurchase of Zebra Class A common stock.

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Operating Income (Loss)

The increase in operating income for 2009 over 2008 is the result of cost containment efforts, reduced exit, restructuring and integration costs and the impairment charge recorded in 2008. The operating loss for 2008 is the result of the impairment charges which totaled $157,600,000. See Note 13 of the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the asset impairment charges. Also significantly contributing to the operating loss in 2008 were exit, restructuring and integrations costs of $20,009,000, offset by the WhereNet litigation claim settlement of $5,302,000.

Income Taxes

The effective income tax rate for 2009 was 33.2%. The effective income tax rate for 2008 was not meaningful because a substantial portion of the impairment charges recorded in the fourth quarter of 2008 was not deductible for income tax purposes.

Business Groups

Specialty Printing Group - Year to date

(Amounts in thousands, except percentages)

	Year Ended				
	December 31, 2009	**December 31, 2008**	**Percent Change**	**Percent of Net Sales - 2009**	**Percent of Net Sales - 2008**
Net Sales					
Tangible products	$ 688,057	$ 851,561	(19.2)	95.2	96.5
Service & software	34,499	30,898	11.7	4.8	3.5
Net sales	722,556	882,459	(18.1)	100.0	100.0
Cost of Sales					
Tangible products	392,298	439,471	(10.7)	54.3	49.8
Service & software	18,013	14,866	21.2	2.5	1.7
Cost of sales	410,311	454,337	(9.7)	56.8	51.5