

ZEBRA TECHNOLOGIES CORP

Form 10-Q

August 05, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended July 2, 2011

OR

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

For the transition period from _____ to _____

Commission File Number: 000-19406

Zebra Technologies Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

36-2675536
(I.R.S. Employer

incorporation or organization)

Identification No.)

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

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

As of July 29, 2011, there were 53,857,740 shares of Class A Common Stock, \$.01 par value, outstanding.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

QUARTER ENDED JULY 2, 2011

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(Amounts in thousands)

	July 2, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 92,956	\$ 46,175
Restricted cash	65	1,378
Investments and marketable securities	163,509	125,567
Accounts receivable, net	145,991	130,143
Receivable from buyer	13,790	0
Inventories, net	118,109	112,970
Deferred income taxes	18,593	15,670
Prepaid expenses and other current assets	13,675	11,505
Assets of discontinued operations	1,157	148,169
Total current assets	567,845	591,577
Property and equipment at cost, less accumulated depreciation and amortization	93,462	87,093
Long-term deferred income taxes	17,926	21,254
Goodwill	79,703	79,703
Other intangibles, net	8,084	9,755
Long-term investments and marketable securities	86,348	85,478
Long-term receivable from buyer	13,790	0
Other assets	4,211	4,004
Total assets	\$ 871,369	\$ 878,864
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 35,728	\$ 34,578
Accrued liabilities	54,368	65,163
Deferred revenue	11,928	8,966
Income taxes payable	990	5,900
Liabilities of discontinued operations	801	21,827
Total current liabilities	103,815	136,434
Deferred rent	1,810	2,207
Other long-term liabilities	10,044	10,191
Total liabilities	115,669	148,832

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Stockholders' equity:

Preferred Stock		
Class A Common Stock	722	722
Additional paid-in capital	127,004	129,715
Treasury stock	(525,002)	(462,029)
Retained earnings	1,165,571	1,070,973
Accumulated other comprehensive income (loss)	(12,595)	(9,349)
Total stockholders' equity	755,700	730,032
Total liabilities and stockholders' equity	\$ 871,369	\$ 878,864

See accompanying notes to consolidated financial statements.

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(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net sales				
Net sales of tangible products	\$ 232,762	\$ 207,748	\$ 458,882	\$ 409,211
Revenue from services and software	12,779	10,810	23,960	21,322
Total net sales	245,541	218,558	482,842	430,533
Cost of sales				
Cost of sales of tangible products	117,732	114,081	228,513	223,156
Cost of services and software	6,111	5,068	12,633	10,205
Total cost of sales	123,843	119,149	241,146	233,361
Gross profit	121,698	99,409	241,696	197,172
Operating expenses:				
Selling and marketing	30,950	27,682	59,478	52,355
Research and development	22,487	20,653	44,168	38,977
General and administrative	20,688	17,955	43,394	37,273
Amortization of intangible assets	836	740	1,671	1,481
Exit and restructuring costs	66	466	1,952	2,232
Total operating expenses	75,027	67,496	150,663	132,318
Operating income	46,671	31,913	91,033	64,854
Other income (expense):				
Investment income	656	634	1,216	1,476
Foreign exchange gain (loss)	(833)	424	(1,127)	592
Other, net	(243)	(455)	(497)	(725)
Total other income (expense)	(420)	603	(408)	1,343
Income before income taxes	46,251	32,516	90,625	66,197
Income taxes	13,082	10,331	27,328	18,465
Income from continuing operations	33,169	22,185	63,297	47,732
Income (loss) from discontinued operations, net of tax	(205)	492	31,301	(322)

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Net income	\$ 32,964	\$ 22,677	\$ 94,598	\$ 47,410
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Basic earnings per share:

Income from continuing operations	\$ 0.60	\$ 0.38	\$ 1.15	\$ 0.83
Income (loss) from discontinued operations	0.00	0.01	0.57	(0.01)

Net income	\$ 0.60	\$ 0.39	\$ 1.72	\$ 0.82
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Diluted earnings per share:

Income from continuing operations	\$ 0.60	\$ 0.38	\$ 1.14	\$ 0.83
Income (loss) from discontinued operations	0.00	0.01	0.57	(0.01)

Net income	\$ 0.60	\$ 0.39	\$ 1.71	\$ 0.82
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Basic weighted average shares outstanding	54,546	57,489	54,981	57,756
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Diluted weighted average and equivalent shares outstanding	54,958	57,737	55,395	58,003
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See accompanying notes to consolidated financial statements.

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

(Amounts in thousands)

(Unaudited)

	Six Months Ended	
	July 2, 2011	July 3, 2010
Cash flows from operating activities:		
Net income	\$ 94,598	\$ 47,410
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,151	16,021
Equity-based compensation	8,013	5,155
Excess tax benefit from equity-based compensation	(1,234)	(16)
Loss (gain) on sale of fixed assets	5	(58)
Gain on sale of business	(68,001)	0
Deferred income taxes	3,899	2,961
Changes in assets and liabilities:		
Accounts receivable, net	5,862	(1,956)
Inventories, net	(4,704)	(5,383)
Other assets	(2,319)	(8,664)
Accounts payable	(4,695)	6,672
Accrued liabilities	(13,614)	779
Deferred revenue	(14,738)	(337)
Income taxes	(4,333)	5,429
Other operating activities	(3,402)	(683)
Net cash provided by operating activities	7,488	67,330
Cash flows from investing activities:		
Purchases of property and equipment	(11,232)	(15,053)
Payments for patents and licensing arrangements	0	(1,634)
Proceeds from the sale of business	161,008	0
Purchases of investments and marketable securities	(573,686)	(200,939)
Maturities of investments and marketable securities	351,722	149,929
Sales of investments and marketable securities	183,485	44,567
Net cash provided (used) by investing activities	111,297	(23,130)
Cash flows from financing activities:		
Purchase of treasury stock	(82,388)	(46,767)
Proceeds from exercise of stock options and stock purchase plan purchases	8,096	5,033
Excess tax benefit from equity-based compensation	1,234	16
Net cash (used) in financing activities	(73,058)	(41,718)
Effect of exchange rate changes on cash	239	(143)
Net increase in cash and cash equivalents	45,966	2,339

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Cash balance of discontinued operations at beginning of period	1,301	1,693
Cash balance of discontinued operations at end of period	(486)	(412)
Cash and cash equivalents at beginning of period	46,175	37,250
Cash and cash equivalents at end of period	\$ 92,956	\$ 40,870
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 52,819	\$ 9,472
See accompanying notes to consolidated financial statements.		

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation

Management prepared these unaudited interim consolidated financial statements for Zebra Technologies Corporation and subsidiaries (Zebra) according to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles (GAAP) for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in Zebra s Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

The consolidated balance sheet as of December 31, 2010, in this Form 10-Q is taken from the audited consolidated balance sheet in our Form 10-K. These interim financial statements include all adjustments (of a normal, recurring nature) necessary to present fairly Zebra s consolidated financial position as of July 2, 2011, the consolidated statement of earnings for the three and six months ended July 2, 2011 and July 3, 2010, and consolidated statement of cash flows for the six months ended July 2, 2011 and July 3, 2010. These results, however, are not necessarily indicative of results for the full year.

Reclassifications. Prior-period financial results have been reclassified to account for the impact of the disposition of Navis Holdings LLC (Navis) and other immaterial Zebra operations. In January 2011, Zebra announced its entry into an agreement to sell Navis to Cargotec Corporation. Our audited balance sheet at December 31, 2010, has been adjusted to reflect this announcement by separately classifying assets and liabilities of discontinued operations. On March 18, 2011, Zebra completed the sale of Navis. As a result, the statements of earnings for the Navis business and other immaterial Zebra operations as of and for all periods presented are reported as discontinued operations. See Note 17 Discontinued Operations to the consolidated financial statements for further information. Prior-period amounts will differ from amounts previously reported because of the classification of Navis and these operations as discontinued.

Note 2 Fair Value Measurements

Financial assets and liabilities are to be measured using inputs from three levels of the fair value hierarchy. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Zebra uses a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

Included in our investment portfolio are two auction rate security instruments. These instruments are classified as available-for-sale securities and are reflected at fair value. Due to events in credit markets, however, the auction events for the instruments held by Zebra as of July 2, 2011, are failed. Therefore, the fair values of these securities are estimated utilizing broker quotations, discounted cash flow analysis or other types of valuation adjustment methodologies at July 2, 2011. These analyses consider, among other items, the collateral underlying the security instruments, the creditworthiness of the counterparty, the timing of expected future cash flows, estimates of the next time the security is expected to have a successful auction, and Zebra s intent and ability to hold such securities until credit markets improve. These securities were also compared, when possible, to other securities with similar characteristics. In June 2010, one of the four auction rate securities held at the end of the first quarter of 2010 was called by the issuer and redeemed at par value. In May 2011, one of the three auction rate securities held at the end of the first quarter of 2011 was converted to actively traded securities in the amount of \$2,550,000. The remaining \$450,000 was sold during the quarter at a loss of \$36,000.

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Of the two auction rate security instruments still owned as of July 2, 2011, Zebra deemed one to be other than temporarily impaired and recorded the estimated value decline in 2008. The decline in the market value of the other security is considered temporary and has been recorded in accumulated other comprehensive income (loss) on Zebra's balance sheet. Since Zebra has the intent and ability to hold these securities until they are sold at auction, redeemed at carrying value or reach maturity, we have classified them as long-term investments on the balance sheet.

Financial assets and liabilities carried at fair value as of July 2, 2011, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. government and agency securities	\$ 27,651	\$	\$	\$ 27,651
Obligations of government-sponsored enterprises (1)	3,836			3,836
State and municipal bonds	151,873			151,873
Corporate securities	63,547		2,914	66,461
Other investments	36			36
Investments subtotal	246,943		2,914	249,857
Money market investments related to the deferred compensation plan	3,487			3,487
Total assets at fair value	\$ 250,430	\$	\$ 2,914	\$ 253,344
Liabilities:				
Forward contracts (2)	1,833	1,769		3,602
Liabilities related to the deferred compensation plan	\$ 3,487	\$	\$	\$ 3,487
Total liabilities at fair value	\$ 5,320	\$ 1,769	\$	\$ 7,089

Financial assets and liabilities carried at fair value as of December 31, 2010, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. government and agency securities	\$ 21,318	\$	\$	\$ 21,318
Obligations of government-sponsored enterprises (1)	5,785			5,785
State and municipal bonds	131,626		2,683	134,309
Corporate securities	46,683		2,914	49,597
Other investments	36			36
Investments subtotal	205,448		5,597	211,045
Forward contracts (2)	1,569	1,706		3,275
Money market investments related to the deferred compensation plan	3,427			3,427
Total assets at fair value	\$ 210,444	\$ 1,706	\$ 5,597	\$ 217,747
Liabilities:				
Liabilities related to the deferred compensation plan	\$ 3,427	\$	\$	\$ 3,427
Total liabilities at fair value	\$ 3,427	\$	\$	\$ 3,427

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- (1) Includes investments in notes issued by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and the Federal Home Loan Bank.
- (2) The fair value of forward contracts are calculated as follows:
 - a. Fair value of forward collar contract associated with forecasted sales hedges are calculated using the midpoint of ask and bid rates for similar contracts.
 - b. Fair value of regular forward contracts associated with forecasted sales hedges are calculated using the period-end exchange rate adjusted for the discount rate (3 month LIBOR rate).

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- c. Fair value of balance sheet hedges are calculated at the period end exchange rate adjusted for current forward points unless the hedge has been traded but not settled at period end. If this is the case, the fair value is calculated at the rate at which the hedge is being settled.

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

	Six Months Ended	
	July 2, 2011	July 3, 2010
Balance at beginning of the year	\$ 5,597	\$ 7,047
Transfers to Level 3		
Total losses (realized or unrealized):		
Included in earnings	(36)	
Included in other comprehensive income (loss)	317	200
Purchases and settlements (net)	(2,964)	(1,650)
Balance at end of period	\$ 2,914	\$ 5,597
Total gains and (losses) for the period included in earnings attributable to the change in unrealized losses relating to assets still held at end of period	\$	\$

The following is a summary of short-term and long-term investments at July 2, 2011 and December 31, 2010 (in thousands):

	Amortized Cost	As of July 2, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government and agency securities	\$ 27,556	\$ 95	\$	\$ 27,651
Obligations of government-sponsored enterprises	3,805	31		3,836
State and municipal bonds	151,459	422	(8)	151,873
Corporate securities	66,668	369	(576)	66,461
Other investments	36			36
Total investments	\$ 249,524	\$ 917	\$ (584)	\$ 249,857

	Amortized Cost	As of December 31, 2010		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government and agency securities	\$ 21,226	\$ 98	\$ (6)	\$ 21,318
Obligations of government-sponsored enterprises	5,731	54		5,785
State and municipal bonds	134,370	402	(463)	134,309
Corporate securities	49,884	199	(486)	49,597
Other investments	36			36
Total investments	\$ 211,247	\$ 753	\$ (955)	\$ 211,045

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

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As of July 2, 2011		
	Amortized Cost	Estimated Fair Value
Less than 1 year	\$ 163,366	\$ 163,509
1 to 5 years	86,158	86,348
6 to 10 years		
Thereafter		
Total	\$ 249,524	\$ 249,857

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

Note 3 Investments and Marketable Securities

We classify our investments in marketable debt securities as available-for-sale. As of July 2, 2011, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term investments on the balance sheet due to our ability and intent to hold them until maturity.

Changes in the market value of available-for-sale securities are reflected in the accumulated other comprehensive income (loss) caption of stockholders' equity in the balance sheet, until we dispose of the securities. Once these securities are disposed of, either by sale or maturity, the accumulated changes in market value are transferred to investment income. On the cash flow statements, changes in the balances of *available-for-sale* securities are shown as purchases, sales and maturities of investments and marketable securities under investing activities.

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

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

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Changes in unrealized gains and (losses) on available-for-sale securities, net of tax, recorded in accumulated other comprehensive income	\$ 347	\$ 205	\$ 333	\$ (42)

Note 4 Accounts Receivable Reserves

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

	As of	
	July 2, 2011	December 31, 2010
Gross accounts receivable	\$ 147,392	\$ 131,602
Accounts receivable reserves	(1,401)	(1,459)
Accounts receivable, net	\$ 145,991	\$ 130,143

Note 5 Inventories

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

	As of	
	July 2, 2011	December 31, 2010
Raw material	\$ 42,592	\$ 33,441
Work in process	626	171
Deferred costs of long-term contracts	723	482
Finished goods	86,567	88,713

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Total inventories, gross	130,508	122,807
Inventory reserves	(12,399)	(9,837)
Total inventories, net	\$ 118,109	\$ 112,970

Table of Contents**Note 6 Goodwill and Other Intangible Assets**

Intangible asset data are as follows (in thousands):

	Gross Amount	As of July 2, 2011 Accumulated Amortization	Net Amount
Current technology	\$ 12,718	\$ (11,154)	\$ 1,564
Patent and patent rights	17,160	(10,705)	6,455
Customer relationships	1,773	(1,708)	65
Total	\$ 31,651	\$ (23,567)	\$ 8,084

Amortization expense for the six months ended July 2, 2011	\$ 1,671
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	Gross Amount	As of December 31, 2010 Accumulated Amortization	Net Amount
Current technology	\$ 12,718	\$ (10,863)	\$ 1,855
Patent and patent rights	17,160	(9,351)	7,809
Customer relationships	1,773	(1,682)	91
Total	\$ 31,651	\$ (21,896)	\$ 9,755

Amortization expense for the six months ended July 3, 2010	\$ 1,481
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We test goodwill for impairment on an annual basis or more frequently if we believe indicators of impairment exist. Factors considered that may trigger an impairment review consist of:

Significant underperformance relative to historical or projected future operating results,

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

Significant negative industry or economic trends,

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

Significant decline in market capitalization relative to net book value.

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

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

During the first quarter of 2011, we announced an agreement to sell Navis and our decision to divest certain other operations. As a result, goodwill attributable to the former Zebra Enterprise Solutions (ZES) segment was allocated at the reporting unit level between continuing operations (\$9,114,000) and discontinued operations (\$72,795,000) based on the relative fair value of each reporting unit. The goodwill allocated above to continuing operations was tested for impairment, and we determined that our goodwill related to this reporting unit was not impaired.

Beginning with the first quarter of 2011, the continuing operations of the former ZES reporting unit have been combined with the former Specialty Printing Group (SPG) operating segment to form one Zebra operating segment. These operations were combined because the size of the remaining component is not material. Future goodwill impairment tests will be conducted at the consolidated Zebra level.

We performed our annual impairment test in June 2011 and determined that our goodwill was not impaired as of the end of May 2011.

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In January 2011, we announced an agreement to sell a portion of ZES, which primarily consists of Navis, to Cargotec Corporation. Following the transaction which was completed on March 18, 2011, we retained the Location Solutions products from the former ZES, which includes active RFID real-time location solutions and associated tags and readers. In the first quarter of 2011, we also announced a plan to consolidate any remaining administrative and accounting functions from the former ZES into our corporate facilities in Illinois. The costs below for the three and six months ended July 2, 2011, represent the costs related to the consolidation and relocation of the administrative and accounting functions.

In 2008, we announced plans to establish regional distribution and configuration centers, consolidate our supplier base, and transfer final assembly of thermal printers to Jabil Circuit, Inc., a global third-party electronics manufacturer. We substantially completed these actions in 2010, and the costs noted below for the three and six months ended July 3, 2010, relate to the completion of this transfer.

The following is a summary of exit and restructuring costs incurred (in thousands):

Type of Cost:	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Severance, stay bonuses, and other employee-related expenses	\$ (208)	\$ (327)	\$ 1,071	\$ 100
Professional services	295	77	847	110
Relocation and transition costs	5	653	34	1,959
Other exit costs	(26)	63		63
Total	\$ 66	\$ 466	\$ 1,952	\$ 2,232

Liabilities and expenses related to exit activities were as follows (in thousands):

	Six Months Ended	
	July 2, 2011	July 3, 2010
Balance at beginning of period	\$ 1,301	\$ 3,038
Charged to earnings	1,952	2,232
Cash paid	(1,696)	(3,032)
Balance at the end of period	\$ 1,557	\$ 2,238

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

Note 8 Derivative Instruments

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

Credit and market risk

Financial instruments, including derivatives, expose us to counter party credit risk for nonperformance and to market risk related to interest and currency exchange rates. We manage our exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. Our counterparties in derivative transactions are commercial banks with significant experience using derivative instruments. We monitor the impact of market risk on the fair value and cash flows of our derivative and

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other financial instruments considering reasonably possible changes in interest rates and currency exchange rates and restrict the use of derivative financial instruments to hedging activities.

We continually monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. The terms and conditions of our credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer. Our sales are not materially dependent on a single customer or a small group of customers.

Table of Contents*Fair Value of Derivative Instruments*

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

Hedging of Net Assets

We use forward contracts and options to manage exposure related to our pound and euro-denominated net assets. Forward contracts typically mature within three months after execution of the contracts. We record gains and losses on these contracts and options in income each quarter along with the transaction gains and losses related to our net asset positions, which would ordinarily offset each other. Summary financial information related to these activities included in our consolidated statement of earnings as other income (expense) is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Change in gains (losses) from foreign exchange derivatives	\$ (1,442)	\$ 5,159	\$ (6,263)	\$ 9,072
Gain (loss) on net foreign currency assets	609	(4,735)	5,136	(8,480)
Foreign exchange gain (loss)	\$ (833)	\$ 424	\$ (1,127)	\$ 592

	July 2, 2011	As of December 31, 2010
Notional balance of outstanding contracts:		
Pound/US dollar	£ 4,285	£ 6,162
Euro/US dollar	50,791	46,307
Net fair value of outstanding contracts	\$ 745	\$ 667

Hedging of Anticipated Sales

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

	July 2, 2011	As of December 31, 2010
Net unrealized gains (losses) deferred in other comprehensive income:		
Gross	\$ (4,453)	\$ (1,522)
Income tax benefit	(1,676)	(573)
Net	\$ (2,777)	\$ (949)

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

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	July 2, 2011	As of December 31, 2010
Notional balance of outstanding contracts versus the dollar	84,585	73,800
Hedge effectiveness	100%	100%

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	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net gains and (losses) included in revenue	\$ 1,819	\$	\$ 2,785	\$

Forward contracts

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

	July 2, 2011	As of December 31, 2010
Assets:		
Prepaid expenses and other current assets	\$	\$ 3,275
Total	\$	\$ 3,275
Liabilities:		
Accrued liabilities	\$ 3,602	\$
Total	\$ 3,602	\$

Note 9 Warranty

In general, Zebra provides warranty coverage of one year on printers against defects in material and workmanship. Printheads are warranted for nine months and batteries are warranted for twelve months. Battery based products, such as location tags, are covered by a 30-day warranty. A provision for warranty expense is recorded at the time of shipment and adjusted quarterly based on historical warranty experience.

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

	Six Months Ended	
	July 2, 2011	July 3, 2010
Balance at the beginning of the year	\$ 4,554	\$ 3,813
Warranty expense	2,167	2,594
Warranty payments	(2,461)	(2,667)
Balance at the end of the period	\$ 4,260	\$ 3,740

Note 10 Contingencies

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

Note 11 Stockholders' Equity

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

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	July 2, 2011	December 31, 2010
Preferred Stock		
Par value per share	\$ 0.01	\$ 0.01
Shares authorized	10,000,000	10,000,000
Shares outstanding		
Common Stock Class A		
Par value per share	\$ 0.01	\$ 0.01
Shares authorized	150,000,000	150,000,000
Shares issued	72,151,857	72,151,857
Shares outstanding	54,170,138	55,711,325
Treasury Stock		
Shares held	17,981,719	16,440,532

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During the six-month period ended July 2, 2011, Zebra purchased 2,100,000 shares of common stock for \$82,388,000 under board authorized share repurchase plans compared to the six-month period ended July 3, 2010, in which Zebra purchased 1,684,537 shares of common stock for \$46,676,000.

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

	Six Months Ended	
	July 2, 2011	July 3, 2010
Balance at the beginning of the year	55,711,325	58,318,983
Repurchases	(2,100,000)	(1,684,537)
Stock option, rights and ESPP issuances	409,550	205,961
Restricted share issuances	209,168	375,279
Restricted share forfeitures	(8,445)	(14,627)
Shares withheld for tax obligations	(51,460)	(5,129)
Balance at the end of the period	54,170,138	57,195,930

Note 12 Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Weighted average shares:				
Weighted average common shares outstanding	54,546	57,489	54,981	57,756
Effect of dilutive securities outstanding	412	248	414	247
Diluted weighted average shares outstanding	54,958	57,737	55,395	58,003
Earnings (loss):				
Income from continuing operations	\$ 33,169	\$ 22,185	\$ 63,297	\$ 47,732
Income (loss) from discontinued operations	(205)	492	31,301	(322)
Net income	\$ 32,964	\$ 22,677	\$ 94,598	\$ 47,410
Basic per share amounts:				
Income from continuing operations	\$ 0.60	\$ 0.38	\$ 1.15	\$ 0.83
Income (loss) from discontinued operations	\$ (0.00)	\$ 0.01	\$ 0.57	\$ (0.01)
Net income	\$ 0.60	\$ 0.39	\$ 1.72	\$ 0.82
Diluted per share amounts:				
Income from continuing operations	\$ 0.60	\$ 0.38	\$ 1.14	\$ 0.83
Income (loss) from discontinued operations	\$ (0.00)	\$ 0.01	\$ 0.57	\$ (0.01)
Net income	\$ 0.60	\$ 0.39	\$ 1.71	\$ 0.82

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

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Potentially dilutive shares	1,436,000	1,928,000	1,437,000	1,908,000

Table of Contents**Note 13 Equity-Based Compensation**

Zebra has an equity-based compensation plan and a stock purchase plan available for future grants. Zebra recognizes compensation costs using the straight-line method over the vesting period of up to 5 years.

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

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Cost of sales	\$ 299	\$ 233	\$ 537	\$ 420
Selling and marketing	264	355	774	546
Research and development	347	345	694	661
General and administrative	2,570	1,452	4,945	2,712
Total compensation	3,480	2,385	6,950	4,339
Income tax benefit	\$ 1,201	\$ 823	\$ 2,398	\$ 1,497

Cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized (excess tax benefits) are classified as financing cash flows in the statement of cash flows. The tax benefits classified as financing cash flows for the six months ended July 2, 2011 was \$1,234,000, and for the six months ended July 3, 2010 was \$16,000.

The fair value of equity-based compensation is estimated on the date of grant using a binomial model. Volatility is based on an average of the implied volatility in the open market and the annualized volatility of Zebra stock prices over our entire stock history. Stock option grants in the table below include both stock options, all of which were non-qualified, and stock appreciation rights (SAR) that will be settled in Zebra stock. The following table shows the weighted-average assumptions used for grants of stock options and SARs as well as the fair value of the grants based on those assumptions:

	Six Months Ended	
	July 2, 2011	July 3, 2010
Expected dividend yield	0%	0%
Forfeiture rate	11.50%	9.78%
Volatility	35.33%	39.50%
Risk free interest rate	2.01%	2.26%
Range of interest rates	0.01% - 3.18%	0.06% - 3.41%
Expected weighted-average life	5.42 years	5.36 years
Fair value of options and SARs granted	\$ 5,347,000	\$ 6,527,000
Weighted-average grant date fair value of options and SARs granted	\$ 14.39	\$ 10.65

SAR activity was as follows:

SARs	Six Months Ended July 2, 2011	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	1,234,787	\$ 23.82
Granted	371,551	41.51
Exercised	(74,117)	22.01
Forfeited	(210,841)	24.36
Expired	(273)	19.56

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Outstanding at end of period	1,321,107	\$	28.81
Exercisable at end of period	318,637	\$	23.19
Intrinsic value of exercised SARs	\$ 1,411,000		

For the six months ended July 2, 2011, equity granted above includes SARs with respect to 371,551 shares of Zebra common stock.

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The terms of the SARs are established under the 2006 Zebra Technologies Corporation Incentive Compensation Plan (the 2006 Plan) and the applicable SAR agreement. Once vested, a SAR entitles the holder to receive a payment equal to the difference between the per-share base price of the SAR and the fair market value of a share of Zebra stock on the date the SAR is exercised, multiplied by the number of SARs exercised. Exercised SARs are settled in whole shares of Zebra stock, and any fraction of a share is settled in cash. Except for SARs granted to Zebra's five independent directors, which were vested in full at the May 19, 2011 grant date, the SARs granted above vest annually in four equal amounts on each of the first four anniversaries of the grant date and expire 10 years after the grant date.

The following table summarizes information about SARs outstanding at July 2, 2011:

Range of Exercise Prices	Number of Shares	Outstanding	Weighted-Average Exercise Price	Number of Shares	Exercisable
		Weighted-Average Remaining Contractual Life			Weighted-Average Exercise Price
\$ 19.56-\$19.56	430,997	7.79 years	\$ 19.56	191,840	\$ 19.56
\$ 19.57-\$27.50	63,389	8.33 years	24.84	37,432	24.42
\$ 27.51-\$27.82	442,705	8.77 years	27.82	70,409	27.82
\$ 27.83-\$39.19	24,925	9.06 years	32.16	2,911	28.57
\$ 39.20-\$42.36	359,091	9.80 years	41.61	16,045	42.36
	1,321,107			318,637	

	Outstanding	Exercisable
Aggregate intrinsic value	\$ 14,761,000	\$ 5,208,000
Weighted-average remaining contractual term	8.7 years	8.2 years

Stock option activity was as follows:

Options	Six Months Ended July 2, 2011	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	2,340,959	\$ 37.36
Granted	0	0.00
Exercised	(348,332)	25.87
Forfeited	(53,802)	32.36
Expired	(45,009)	39.51
Outstanding at end of period	1,893,816	\$ 39.55
Exercisable at end of period	1,734,673	\$ 39.94
Intrinsic value of exercised options	\$ 5,192,000	

The following table summarizes information about stock options outstanding at July 2, 2011:

Range of Exercise Prices	Number of Shares	Outstanding	Weighted-Average Exercise Price	Number of Shares	Exercisable
		Weighted-Average Remaining Contractual Life			Weighted-Average Exercise Price
\$ 1.29-\$35.75	378,715	2.82 years	\$ 26.81	338,734	\$ 26.55

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\$ 35.76-\$37.20	399,652	6.61 years	36.60	300,114	36.60
\$ 37.21-\$43.35	512,947	5.34 years	41.82	493,323	41.83
\$ 43.36-\$47.12	444,629	3.50 years	46.21	444,629	46.21
\$ 47.13-\$53.92	157,873	3.61 years	51.41	157,873	51.41
	1,893,816			1,734,673	

	Outstanding	Exercisable
Aggregate intrinsic value	\$ 5,903,000	\$ 5,204,000
Weighted-average remaining contractual term	4.5 years	4.3 years

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Restricted stock award activity, granted under the 2006 Plan, was as follows:

Restricted Stock Awards	Six Months Ended July 2, 2011	
	Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	844,686	\$ 25.46
Granted	209,465	41.53
Vested	(195,071)	30.24
Forfeited	(10,212)	28.83
Outstanding at end of period	848,868	\$ 28.29

For the six months ended July 2, 2011, shares of restricted stock awards granted totaled 209,465.

	As of July 2, 2011
Awards granted under Zebra's equity based compensation plans:	
Unearned compensation costs related to awards granted	\$ 23,329,000
Period expected to be recognized over	2.7 years

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

	Six Months Ended	
	July 2, 2011	July 3, 2010
Fair market value	\$ 38.52	\$ 26.79
Option price	\$ 36.60	\$ 25.45
Expected dividend yield	0%	0%
Expected volatility	26%	26%
Risk free interest rate	0.11%	0.11%

Note 14 Income Taxes

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

Zebra is currently under U.S. federal income tax audits for years of 2008 and 2009. The tax years 2006 through 2010 remain open to examination by multiple state taxing jurisdictions. Tax authorities in the United Kingdom have completed income tax audits for tax years through 2006.

Zebra's continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense. For the six months ended July 2, 2011 and July 3, 2010, we made no accruals into income tax expense for any interest or penalties.

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Effective tax rate	28.3%	31.8%	30.2%	27.9%

Zebra's effective tax rate for the first quarter of 2010 included a \$2,764,000 reduction of federal taxes related to prior years' adjustments for intercompany profit in ending inventory which reduced our effective rate for the first six months of 2010 by approximately 4.2%. Zebra's

effective rate has decreased slightly in 2011 due to higher profits in lower rate international jurisdictions.

Table of Contents**Note 15 Other Comprehensive Income (Loss)**

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

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

Unrealized gains (losses) on foreign currency hedging activities relate to derivative instruments used to hedge the currency exchange rates for forecasted euro sales. These hedges are designated as cash flow hedges, and we have deferred income statement recognition of gains and losses until the hedged transaction occurs. See Note 8 for more details.

Unrealized gains (losses) on investments classified as available-for-sale are deferred from income statement recognition until the gains or losses are realized. See Note 3 for more details.

The Consolidated Statements of Comprehensive Income are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net income	\$ 32,964	\$ 22,677	\$ 94,598	\$ 47,410
Other comprehensive income (loss):				
Foreign currency translation adjustment	(247)	(967)	(802)	(1,410)
Changes in unrealized gains (losses) on hedging transactions, net of tax	(21)	129	(2,777)	129
Changes in unrealized gains (losses) on investments, net of tax	347	205	333	(42)
Comprehensive income	\$ 33,043	\$ 22,044	\$ 91,352	\$ 46,087

The components of other comprehensive income gross and net of income tax are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Changes in unrealized gains and (losses) on foreign currency hedging activities:				
Gross	\$ (34)	\$ 207	\$ (4,453)	\$ 207
Income tax (benefit)	(13)	78	(1,676)	78
Net	\$ (21)	\$ 129	\$ (2,777)	\$ 129
Changes in unrealized gains and (losses) on investments classified as available-for-sale:				
Gross	\$ 556	\$ 328	\$ 534	\$ (68)
Income tax (benefit)	209	123	201	(26)
Net	\$ 347	\$ 205	\$ 333	\$ (42)

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

	July 2, 2011	As of December 31, 2010
Foreign currency translation adjustments	\$ (9,077)	\$ (8,275)
Unrealized gains and (losses) on hedging transactions:		
Gross	\$ (5,976)	\$ (1,523)
Income tax (benefit)	(2,249)	(573)
Net	\$ (3,727)	\$ (950)
Unrealized gains and (losses) on investments classified as available-for-sale:		
Gross	\$ 334	\$ (200)
Income tax (benefit)	125	(76)
Net	\$ 209	\$ (124)

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Note 16 New Accounting Pronouncements

In October 2009, the FASB issued update 2009-13, ASC 605, *Revenue Recognition: Multiple Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force*. The revised guidance provides for two significant changes to existing multiple-element arrangement guidance. The first relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. This change is significant as it will likely result in the requirement to separate more deliverables within an arrangement, ultimately leading to less revenue deferral. The second change modifies the manner in which the transaction consideration is allocated across the separately identifiable deliverables. These changes are likely to result in earlier recognition of revenue for multiple-element arrangements than under previous guidance. This standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. This standard did not have a material effect upon our consolidated financial statements.

In October 2009, the FASB issued update 2009-14, ASC 985, *Software: Certain Revenue Arrangements that include Software Elements—a consensus of the FASB Emerging Issues Task Force*. This updated guidance is expected to significantly affect how entities account for revenue arrangements that contain both hardware and software elements. This standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. This standard did not have a material effect upon our consolidated financial statements.

In December 2010, the FASB issued update 2010-28, ASC 350, *Intangibles—Goodwill and Other: When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (a consensus of the FASB Emerging Issues Task Force). This updated guidance requires entities with reporting units with zero or negative carrying amounts to perform an additional test to determine if goodwill has been impaired and to calculate the amount of impairment (Step 2). This standard is effective for interim and annual periods beginning after December 15, 2010. This standard did not have a material effect upon our consolidated financial statements.

In June 2011, the FASB issued update 2011-05, ASC 220, *Comprehensive Income: Presentation of Comprehensive Income*. This updated guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. This update also provides guidance on reporting items of other comprehensive income in which an entity has the option to present comprehensive income in either one or two consecutive financial statements. This standard is effective for interim and annual periods beginning after December 15, 2011. This standard will not have a material effect upon our consolidated financial statements.

Note 17 Discontinued Operations

Sale of Navis, LLC

On March 18, 2011, we sold our Navis marine terminal solutions business and the related WhereNet marine terminal solutions product line of our Zebra Enterprise Solutions (ZES) business segment for approximately \$188,588,000 in cash to Cargotec Corporation. Zebra recorded a short-term receivable from buyer in the amount of \$13,790,000, which is due 12 months from the sale date. Zebra also recorded a long-term receivable from the buyer in the amount of \$13,790,000, which is due 18 months from the transaction date. These receivables represent funds held in escrow that are subject to adjustment according to terms of the sales agreement.

Sale of proveo AG

On August 3, 2011, we entered into a Share Purchase Agreement with F Two NV (a Belgium company) to sell all of our interest in Zebra Enterprise Solutions GmbH (formerly proveo AG) business. The proceeds received from the buyer were immaterial. The accounting for the proveo transaction will be included in the 2011 third quarter results.

Beginning in the first quarter of 2011, Zebra is required to report the results of these businesses as discontinued operations. The amounts presented below for discontinued operations include Navis and proveo operations assets and liabilities, and the operating results of these businesses for both 2011 and 2010 periods. With the Navis sale, Zebra consolidated the former ZES Location Solutions product line. The reporting of separate business segments will no longer be required.

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The components of assets and liabilities of discontinued operations in our unaudited consolidated balance sheet are as follows (in thousands):

	July 2, 2011	As of December 31, 2010
Assets:		
Cash and cash equivalents	\$ 486	\$ 1,301
Accounts receivable, net	299	24,003
Inventories	372	772
Deferred income taxes	0	3,492
Prepaid expenses and other current assets	0	3,328
Property and equipment, net	0	1,890
Goodwill	0	72,230
Other intangibles, net	0	39,951
Other assets	0	1,202
Assets of discontinued operations	\$ 1,157	\$ 148,169
Liabilities:		
Accounts payable	\$ 291	\$ 726
Accrued liabilities	238	2,927
Deferred revenue	272	17,791
Deferred rent	0	199
Other long-term liabilities	0	184
Liabilities of discontinued operations	\$ 801	\$ 21,827

Summary results for discontinued operations in our unaudited consolidated statement of earnings are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net sales	\$ 1,079	\$ 17,176	\$ 13,712	\$ 31,632
Loss from discontinued operations	(1,097)	833	(12,724)	(436)
Income tax benefit	104	(341)	1,105	114
Gain on sale of discontinued operations	788	0	68,001	0
Income tax (expense) on sale	0	0	(25,081)	0
Income (loss) from discontinued operations	\$ (205)	\$ 492	\$ 31,301	\$ (322)

The components of cash flows of discontinued operations in our unaudited consolidated statement of cash flows are as follows (in thousands):

	Six Months Ended	
	July 2, 2011	July 3, 2010
Cash flows from discontinued operations:		
Net cash provided (used) by operating activities	\$ (827)	\$ (4,260)
Net cash provided (used) by investing activities	0	0
Net cash provided (used) by financing activities	0	0
Effect of exchange rate changes on cash	12	2,979

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Net decrease in cash and cash equivalents	\$ (815)	\$ (1,281)
Cash and cash equivalents at beginning of period	\$ 1,301	\$ 1,693
Cash and cash equivalents at end of period	\$ 486	\$ 412

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Results of Operations: Second Quarter of 2011 versus Second Quarter of 2010***Consolidated Results of Operations*

(Amounts in thousands, except percentages):

	Three Months Ended		Percent	Percent of	Percent of
	July 2, 2011	July 3, 2010	Change	Net Sales - 2011	Net Sales - 2010
Net Sales					
Tangible products	\$ 232,762	\$ 207,748	12.0	94.8	95.1
Service & software	12,779	10,810	18.2	5.2	4.9
Total net sales	245,541	218,558	12.3	100.0	100.0
Cost of Sales					
Tangible products	117,732	114,081	3.2	47.9	52.2
Service & software	6,111	5,068	20.6	2.5	2.3
Total cost of sales	123,843	119,149	3.9	50.4	54.5
Gross profit	121,698	99,409	22.4	49.6	45.5
Operating expenses	75,027	67,496	11.2	30.6	30.9
Operating income	46,671	31,913	46.2	19.0	14.6
Other income (expense)	(420)	603	(169.7)	(0.2)	0.3
Income from continuing operations before income taxes	46,251	32,516	NM	18.8	14.9
Income taxes	13,082	10,331	26.6	5.3	4.7
Income from continuing operations	33,169	22,185	49.5	13.5	10.2
Income (loss) discontinued operations, net of tax	(205)	492	NM	(0.1)	0.2
Net Income	\$ 32,964	\$ 22,677	45.4	13.4	10.4
Diluted earnings per share					
Income from continuing operations	\$ 0.60	\$ 0.38	57.9		
Income (loss) from discontinued operations	(0.00)	0.01	NM		
Net income	\$ 0.60	\$ 0.39	53.8		

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

Net sales for the second quarter of 2011, compared with the corresponding 2010 quarter, increased 12.3% primarily due to a broad-based increase in demand, complemented by a focused business strategy of geographic expansion, new product introductions and expansion of go-to-market channels. New products introduced over the past year helped us meet more of our customers' needs for improving asset visibility in complex supply chain environments. The second quarter of 2011 was the sixth consecutive quarter of year-over-year growth. The increase in sales was largely attributable to 11.6% growth in hardware sales (mainly tabletop printers and aftermarket parts). Supplies sales increased from greater shipments of labels and thermal ribbons. Printer unit volume increased 2.1% from the second quarter of 2010.

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

Product Category	Three Months Ended		Percent Change	Percent of Net Sales - 2011	Percent of Net Sales - 2010
	July 2, 2011	July 3, 2010			
Hardware	\$ 181,758	\$ 162,908	11.6	74.0	74.6
Supplies	49,578	43,573	13.8	20.2	19.9
Service and software	12,779	10,810	18.2	5.2	4.9
Subtotal products	244,115	217,291	12.3	99.4	99.4
Shipping and handling	1,426	1,267	12.5	0.6	0.6
Total net sales	\$ 245,541	\$ 218,558	12.3	100.0	100.0

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Sales increased in all international geographic regions, in part from the impact of our investments in sales and sales-related personnel to expand Zebra's presence in high-growth regions including China, Brazil and Eastern Europe. Sales have increased by 25% in the second quarter of 2011 over comparable 2010 sales in the regions targeted by Zebra for geographic expansion. Movements in foreign exchange rates increased sales by \$9,518,000 in the Europe, Middle East and Africa region due principally to a stronger euro against the U.S. dollar.

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

Geographic Region	Three Months Ended		Percent Change	Percent of Net Sales - 2011	Percent of Net Sales - 2010
	July 2, 2011	July 3, 2010			
Europe	\$ 85,391	\$ 71,238	19.9	34.8	32.6
Latin America	24,065	19,224	25.2	9.8	8.8
Asia-Pacific	38,299	25,614	49.5	15.6	11.7
Total International	147,755	116,076	27.3	60.2	53.1
North America	97,786	102,482	(4.6)	39.8	46.9
Total net sales	\$ 245,541	\$ 218,558	12.3	100.0	100.0

Gross Profit

Gross profit increased 22.4% due to higher volumes and lower material and freight costs in 2011. Gross profit was affected by favorable foreign currency movements which increased second quarter gross profit by \$8,316,000. The above factors contributed to the increase in gross margin from 45.5% to 49.6%.

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

	Three Months Ended		Percent Change
	July 2, 2011	July 3, 2010	
Total printers shipped	276,563	270,799	2.1
Average selling price of printers shipped	\$ 558	\$ 506	10.4

The increase in selling price above is a result of a change in product mix from one quarter compared to the other.

Operating Expenses

Operating expenses for the quarter increased 11.2% across all expense categories. Several categories accounted for these increases, including compensation costs, which include salaries, benefits, stock option expense, and commissions. These increases are primarily related to more employees in 2011 versus 2010. Outside professional services and travel and entertainment expenses also increased over 2010 levels. Restructuring costs in 2011 relate to the consolidation of our Location Solutions product line following the divestiture of Navis in the first quarter of 2011 while costs in 2010 relate to the completion of the production transfer to Jabil.

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

Operating Expenses	Three Months Ended		Percent Change	Percent of Net Sales 2011	Percent of Net Sales 2010
	July 2, 2011	July 3, 2010			
Selling and marketing	\$ 30,950	\$ 27,682	11.8	12.6	12.7
Research and development	22,487	20,653	8.9	9.2	9.5
General and administrative	20,688	17,955	15.2	8.4	8.2

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Amortization of intangible assets	836	740	13.0	0.3	0.3
Exit, restructuring and integration costs	66	466	(85.8)	0.1	0.2
Total operating expenses	\$ 75,027	\$ 67,496	11.2	30.6	30.9

Table of Contents*Operating Income*

The operating income increase for the second quarter of 2011 was the result of increased sales and gross profit as noted above.

Other Income

Investment income declined overall from lower short-term interest rates in 2011 compared with 2010 even though cash and investment balances were higher in 2011 versus 2010. Zebra recorded a foreign exchange gain in 2010 as the U.S. dollar strengthened against the euro during the second quarter of 2010 versus a loss in 2011.

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

	Three Months Ended	
	July 2, 2011	July 3, 2010
Investment income	\$ 656	\$ 634
Foreign exchange gain (loss)	(833)	424
Other, net	(243)	(455)
 Total other income (expense)	 \$ (420)	 \$ 603

Income Taxes

The effective income tax rate for the second quarter of 2011 was 28.3% compared with 31.8% for the second quarter of 2010. Zebra's effective rate has decreased slightly in 2011 due to higher profits in lower rate international jurisdictions.

Results of Operations: Six months ended July 2, 2011 versus six months ended July 3, 2010*Consolidated Results of Operations*

(Amounts in thousands, except percentages):

	Six Months Ended		Percent Change	Percent of Net Sales - 2011	Percent of Net Sales - 2010
	July 2, 2011	July 3, 2010			
Net Sales					
Tangible products	\$ 458,882	\$ 409,211	12.1	95.0	95.0
Service & software	23,960	21,322	12.4	5.0	5.0
Total net sales	482,842	430,533	12.1	100.0	100.0
Cost of Sales					
Tangible products	228,513	223,156	2.4	47.3	51.8
Service & software	12,633	10,205	23.8	2.6	2.4
Total cost of sales	241,146	233,361	3.3	49.9	54.2
Gross profit	241,696	197,172	22.6	50.1	45.8
Operating expenses	150,663	132,318	13.9	31.2	30.7
Operating income	91,033	64,854	40.4	18.9	15.1

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Other income (expense)	(408)	1,343	NM	(0.1)	0.3
Income from continuing operations before income taxes	90,625	66,197	36.9	18.8	15.4
Income taxes	27,328	18,465	48.0	5.7	4.3
Income from continuing operations	63,297	47,732	32.6	13.1	11.1
Income (loss) discontinued operations, net of tax	\$ 31,301	\$ (322)	NM	6.5	(0.1)
Net Income	\$ 94,598	\$ 47,410	99.5	19.6	11.0
Diluted earnings per share					
Income from continuing operations	\$ 1.14	\$ 0.83	37.3		
Income (loss) from discontinued operations	0.57	(0.01)	NM		
Net income	\$ 1.71	\$ 0.82	108.5		

Table of Contents**Consolidated Results of Operations Year to date***Sales*

Net sales for the first six months of 2011 compared with the same 2010 period increased 12.1% due to a broad-based increase in demand for Zebra products and global economic recovery. The increase in sales was largely attributable to increased hardware sales with notable volume increases in high-performance tabletop, desktop, mobile printers and aftermarket parts. Supplies sales increased from greater shipments of labels and thermal ribbons. New products introduced over the past year are helping Zebra to meet more of customers' asset tagging needs in complex supply chain environments. Printer unit volume increased 8.8% for the first six months of 2011 compared to levels in 2010.

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

Product Category	Six Months Ended		Percent Change	Percent of Net Sales - 2011	Percent of Net Sales - 2010
	July 2, 2011	July 3, 2010			
Hardware	\$ 361,895	\$ 322,317	12.3	75.0	74.8
Supplies	94,213	84,270	11.8	19.5	19.6
Service and software	23,960	21,322	12.4	4.9	5.0
Subtotal products	480,068	427,909	12.2	99.4	99.4
Shipping and handling	2,774	2,624	5.7	0.6	0.6
Total net sales	\$ 482,842	\$ 430,533	12.1	100.0	100.0

Sales increased in all geographic territories due in part to the impact of more Zebra sales and sales-related personnel in high-growth geographic territories. Movements in foreign exchange rates increased sales by \$9,132,000 in the Europe, Middle East and Africa region due principally to a stronger euro against the dollar.

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

Geographic Region	Six Months Ended		Percent Change	Percent of Net Sales - 2011	Percent of Net Sales - 2010
	July 2, 2011	July 3, 2010			
Europe, Middle East and Africa	\$ 169,621	\$ 147,555	15.0	35.1	34.3
Latin America	44,169	38,706	14.1	9.1	9.0
Asia-Pacific	70,794	48,734	45.3	14.7	11.3
Total International	284,584	234,995	21.1	58.9	54.6
North America	198,258	195,538	1.4	41.1	45.4
Total net sales	\$ 482,842	\$ 430,533	12.1	100.0	100.0

Gross Profit

Gross profit increased 22.6% due to higher volumes and lower material and freight costs in 2011. Gross profit was affected by favorable foreign currency movements which increased gross profit by \$8,022,000. The above factors contributed to the increase in gross margin from 45.8% to 50.1%.

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

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	July 2, 2011	Six Months Ended July 3, 2010	Percent Change
Total printers shipped	560,740	515,185	8.8
Average selling price of printers shipped	\$ 541	\$ 525	3.0
<i>Operating Expenses</i>			

Operating expenses for the six-month period increased 13.9% due to greater selling and marketing, research and development, and general and administrative expenses. Several categories accounted for these increases, including compensation costs, project expenses, outside professional services, travel and entertainment, information systems expenses and rent expense. Exit costs decreased \$280,000 for the first six months of 2011 as compared to 2010. Restructuring costs in 2011 relate to the consolidation of our Location Solutions product line and remaining administrative and accounting operations following the Navis divestiture in March 2011.

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

	Six Months Ended			Percent of	Percent of
	July 2, 2011	July 3, 2010	Percent Change	Net Sales 2011	Net Sales 2010
Operating Expenses					
Selling and marketing	\$ 59,478	\$ 52,355	13.6	12.3	12.2
Research and development	44,168	38,977	13.3	9.1	9.0
General and administrative	43,394	37,273	16.4	9.0	8.7
Amortization of intangible assets	1,671	1,481	12.8	0.4	0.3
Exit, restructuring, and integration costs	1,952	2,232	(12.5)	0.4	0.5
Total operating expenses	\$ 150,663	\$ 132,318	13.9	31.2	30.7
<i>Other Income</i>					

Investment income declined from lower short-term interest rates in 2011 compared with 2010. Zebra recorded a foreign exchange gain in 2010.

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

	Six Months Ended	
	July 2, 2011	July 3, 2010
Investment income	\$ 1,216	\$ 1,476
Foreign exchange gain (loss)	(1,127)	592
Other, net	(497)	(725)
Total other income (loss)	\$ (408)	\$ 1,343

Operating Income (Loss)

The operating income increase for the first six months of 2010 was the result of increased sales and gross profit as noted above.

Income Taxes

The effective income tax rate for the first six months of 2011 was 30.2% compared with an income tax rate of 27.9% for the first six months of 2010. Zebra's effective tax rate for the six months ended July 3, 2010 included a \$2,764,000 reduction of federal taxes related to prior years adjustments for intercompany profit in ending inventory which reduced our effective rate by 4.2%. Zebra's effective rate has actually decreased slightly in 2011 due to higher profits in lower rate international jurisdictions.

Liquidity and Capital Resources

(Amounts in thousands, except percentages):

	Six Months Ended	
	July 2, 2011	July 3, 2010
Rate of Return Analysis:		
Average cash and marketable securities balances	\$ 300,738	\$ 249,905
Annualized rate of return	0.8%	1.2%

Average cash and marketable securities balances for the first six months of 2011 increased compared to 2010 as a result of increased cash provided by the divestiture of Navis.

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As of July 2, 2011, Zebra had \$342,878,000 in cash, restricted cash, investments and marketable securities, compared with \$258,598,000 at December 31, 2010. Factors affecting cash and investment balances during the first six months of 2011 include the following (changes below include the impact of foreign currency):

Accounts receivable decreased \$5,862,000 due to the sale of Navis.

Inventories increased \$4,704,000 due to an increase in raw materials.

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Accounts payable decreased \$4,695,000 due to the timing of payments at period end.

Accrued liabilities decreased \$13,614,000 due to the payout of benefit accruals.

Deferred revenue decreased \$14,738,000 due to the divestiture of Navis.

Income taxes payable decreased \$4,333,000 due to the timing of tax payments.

Purchases of property and equipment totaled \$11,232,000.

Proceeds from the sale of Navis provided \$161,008,000.

Net sales of investments totaled \$183,485,000.

Purchases of treasury shares totaled \$82,388,000.

Stock option exercises and purchases under the stock purchase plan contributed \$8,096,000.

Management believes that existing capital resources and funds generated from operations are sufficient to finance anticipated capital requirements.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

Customer Returns

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

Growth Rebates

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

Pass Through Rebate Program

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

Price Protection

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

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Software Revenue

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

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

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

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

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

Maintenance and Support Agreements

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

Shipping and Handling

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

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

Investments and Marketable Securities

Investments and marketable securities at July 2, 2011, consisted of the following:

U.S. government and agency securities	11.1%
Obligations of government sponsored enterprises (1)	1.5%
State and municipal bonds	60.8%
Corporate securities	26.6%

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

We classify our debt and marketable equity securities in one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those debt securities that Zebra has the ability and intent to hold until maturity. All investments in marketable securities are classified as available-for-sale securities.

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Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of discounts or premiums. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized. As of July 2, 2011, Zebra's investments in marketable debt securities are classified as available-for-sale. In addition, as of July 2, 2011, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term in the consolidated balance sheet due to our ability and intent to hold them until maturity.

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Accounts Receivable

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

Credit reviews of all new customer accounts,

Ongoing credit evaluations of current customers,

Credit limits and payment terms based on available credit information,

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

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

Limited credit insurance on the majority of our international receivables.

We reserve for estimated credit losses based upon historical experience and specific customer collection issues. Over the last three years, accounts receivable reserves varied from 0.9% to 2.4% of total accounts receivable. Accounts receivable reserves as of July 2, 2011, were \$1,401,000, or 0.9% of the balance due. Accounts receivable reserves as of December 31, 2010, were \$1,459,000, or 1.1% of the balance due. We believe our reserve level is appropriate considering the quality of the portfolio as of July 2, 2011. While credit losses have historically been within expectations and the provisions established, we cannot guarantee that our credit loss experience will continue to be consistent with historical experience.

Inventories

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

Over the last three years, our reserves for excess and obsolete inventories have ranged from 7.0% to 11.4% of gross inventory. As of July 2, 2011, inventory reserves were \$12,399,000, or 9.5% of gross inventory compared to inventory reserves of \$9,837,000, or 8.0% of gross inventory as of December 31, 2010. We believe our reserve level is appropriate considering the quantities and quality of the inventories as of July 2, 2011.

Valuation of Goodwill

We test the impairment of goodwill each year at the end of May or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our annual assessment during June 2011 and determined that our goodwill was not impaired as of the end of May 2011.

During the first quarter of 2011, Zebra announced its entry into an agreement to sell Navis and its decision to divest certain other operations. As a result, goodwill attributable to the former Zebra Enterprise Solutions (ZES) segment was allocated at the reporting unit level between continuing operations (\$9,114,000) and discontinued operations (\$72,795,000) based on the relative fair value of each reporting unit. The goodwill allocated above to continuing operations was tested for impairment and we determined that our goodwill related to this reporting unit was not impaired.

Beginning with the first quarter of 2011, the continuing operations of the former ZES reporting unit have been combined with the former Specialty Printing Group (SPG) operating segment to form one Zebra operating segment. Future goodwill impairment tests will be conducted at

the consolidated Zebra level.

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

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

Adverse action or assessment by a regulator,

Unanticipated competition,

Loss of key personnel,

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

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Testing for recoverability under ASC 360 (formerly SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) of a significant asset group within a reporting unit,

Recognition of a goodwill impairment loss in the financial statement of a subsidiary that is a component of a reporting unit, or

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

If we believe that one or more of the above indicators of impairment have occurred, we perform an impairment test. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. We generally determine the fair value of our reporting units using three valuation methods: Income Approach Discounted Cash Flow Analysis, Market Approach Guideline Public Company Method and Market Approach Comparative Transactions Method. The approach defined below is based upon our last impairment test conducted in June 2011 as of the end of May 2011.

Under the Income Approach Discounted Cash Flow Analysis the key assumptions consider sales, cost of sales and operating expenses projected through the year 2018. These assumptions were determined by management utilizing our internal operating plan and assuming growth rates for revenues and operating expenses, and margin assumptions. The fourth key assumption under this approach is the discount rate which is determined by looking at current risk-free rates of capital, current market interest rates and the evaluation of risk premia relevant to the business segment. If our assumptions relative to growth rates were to change or were incorrect, our fair value calculation may change which could result in impairment.

Under the Market Approach Guideline Company Method we identified 5 publicly traded companies, including Zebra, which we believe have significant relevant similarities. For these 5 companies we calculated the mean ratio of invested capital to revenues and invested capital to EBITDA. Similar to the Income approach discussed above, sales, cost of sales, operating expenses and their respective growth rates were the key assumptions utilized. The market prices of Zebra and other guideline company shares are key assumptions. If these market prices increase, the estimated market value would increase. If the market prices decrease, the estimated market value would decrease.

Under the Market Approach Comparative Transactions Method we looked at 8 market based transactions for companies that have similarities to our business, including similarities to one or more of the business lines, markets, growth prospects, margins and size. We calculated mean revenue and EBITDA multiples for the selected transactions. These multiples were applied to forecasted Zebra results for that segment to estimate market value. The key assumptions and impact to changes to those assumptions would be similar to those assumptions under the Income Approach Discounted Cash Flow Analysis and the Market Approach Guideline Company Method .

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

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

Valuation of Long-Lived and Other Intangible Assets

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

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

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

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Significant negative industry or economic trends,

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

Significant decline in market capitalization relative to net book value.

If we believe that one or more of the above indicators of impairment have occurred and the undiscounted cash flow test has failed in the case of amortizable assets, we measure impairment based on projected discounted cash flows using a discount rate that incorporates the risk inherent in the cash flows.

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Net intangible assets, long-lived assets and goodwill amounted to \$181,249,000 as of July 2, 2011.

Income Taxes

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

Zebra is currently under U.S. federal income tax audits for years of 2008 and 2009. The tax years 2006 through 2010 remain open to examination by multiple state taxing jurisdictions. Tax authorities in the United Kingdom have completed income tax audits for tax years through 2006.

Zebra's continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense. For the six month periods ended July 2, 2011 and July 3, 2010, we did not accrue any interest or penalties into income tax expense.

	Six Months Ended	
	July 2, 2011	July 3, 2010
Effective tax rate	30.2%	27.9%

Zebra's effective tax rate for the six months ended July 3, 2010 included a \$2,764,000 reduction of federal taxes related to prior years adjustments for intercompany profit in ending inventory which reduced our effective rate by 4.2%. Zebra's effective rate has actually decreased slightly in 2011 due to higher profits in lower rate international jurisdictions.

Significant Customers

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

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Customer A	18.9%	19.8%	19.2%	19.1%
Customer B	10.4%	10.0%	10.7%	9.1%

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

Market Risks

As widely reported, a powerful earthquake centered off the northeastern coast of Japan on March 11, 2011, resulted in the loss of many lives, wide-spread damage to and destruction of property, disruption of electric power, and the release of radiation from a crippled nuclear power plant. This devastation has disrupted the operations to varying degrees of companies with business activity in the affected region. The consequences of this unfortunate natural disaster may adversely affect Zebra's business and results of operations. We currently expect the crisis to have a minimal effect upon sales, but do expect to incur additional engineering costs and shipping expenses in future quarters as supplies are restored to more normalized levels. We cannot give any assurance that the supply chain disruption will not have a material adverse effect upon Zebra's business, results of operations, financial condition or cash flows.

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 or implied in such forward looking statements. These factors include:

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

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

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

Success of acquisitions and their integration,

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

The effect of the earthquake, tsunami and radiation leak in Japan on our business,

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

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

When used in this document and documents referenced, the words anticipate, believe, estimate, will and expect and similar expressions as they relate to Zebra or its management are intended to identify such forward-looking statements. We encourage readers of this report to review Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, for a further discussion of issues that could affect Zebra's future results. Zebra undertakes no obligation, other than as may be required by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this report.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in Zebra's market risk during the quarter ended July 2, 2011. For additional information on market risk, refer to the Quantitative and Qualitative Disclosures About Market Risk section of our Form 10-K for the year ended December 31, 2010. See Note 3 to the Consolidated Financial Statements included in this report for further discussion of investments and marketable securities.

In the normal course of business, portions of Zebra's operations are subject to fluctuations in currency values. We manage these risks using derivative financial instruments. See Note 8 to the Consolidated Financial Statements included in this report for further discussion of derivative instruments.

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Item 4. Controls and Procedures Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

In January 2008, Zebra began a program to update substantially all of its key financial systems. As pieces of these systems are completed, they will be subject to the requirements related to internal control over financial reporting. The requirements for internal control over financial reporting will be a fundamental element of the design and implementation of these systems.

As of January 31, 2011, we completed the implementation of the new systems for our EMEA region. This implementation included customer order entry and invoicing, inventory procurement and management, certain accounts payable activity, and other related operational systems. As part of the implementation, we changed many of the related internal controls, primarily by replacing manual controls with system controls and streamlining Zebra's internal operations. These new controls will subject to testing throughout 2011. The effectiveness of these new controls will be disclosed in our December 31, 2011 internal control report.

During the first six months of 2011, we made additional changes to our controls and procedures as part of our ongoing monitoring of our controls. None of these changes has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In addition, there were no other changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Zebra have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

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

Item 1A. Risk Factors

In addition to the other information included in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, and the factors identified under Safe Harbor at the end of Item 2 of Part I of this Quarterly Report on Form 10-Q, which could materially affect our business, financial condition, cash flows or results of operations. The risks described in our Annual Report on Form 10-K are not the only risks facing Zebra. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, cash flows and/or results of operations.

The recent natural disaster in Japan may cause supply disruptions that could adversely affect Zebra's business and results of operations.

As widely reported, a powerful earthquake centered off the northeastern coast of Japan on March 11, 2011, resulted in the loss of many lives, wide-spread damage to and destruction of property, disruption of electric power, and the release of radiation from a crippled nuclear power plant. This devastation has disrupted the operations to varying degrees of companies with business activity in the affected region. We are unable to predict at this time whether, to what extent, or the duration any of these disruptions will have on our ability to maintain adequate supplies of components used in the manufacture of our products to meet customer demand. The consequences of this unfortunate natural disaster, however, may have a material adverse effect on Zebra's business and results of operations.

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

During the second quarter of 2011, Zebra purchased 1,000,000 shares of Zebra's Class A Common Stock at a weighted average share price of \$40.82 per share, 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 programs	Maximum number of shares that may yet be purchased under the program
April 2011 (April 3 - April 30)	103,905	\$ 36.96	103,905	646,095
May 2011 (May 1 - May 28)	377,436	\$ 41.56	377,436	3,268,659
June 2011 (May 29 - July 2)	518,659	\$ 41.06	518,659	2,750,000

- (1) On August 3, 2010, Zebra's Board authorized the purchase of up to an additional 3,000,000 shares under our stock repurchase program. This authorization does not have an expiration date.
- (2) In June 2011 the remaining shares yet to be purchased under the program were depleted. On May 19, 2011, Zebra's Board authorized the purchase of up to an additional 3,000,000 shares under the same terms. The May 2011 authorization does not have an expiration date.

- (3) During the second quarter, Zebra acquired 16,303 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 \$38.27 per share.

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Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from Zebra Technologies Corporation Quarterly Report on Form 10-Q, for the quarter ended April 2, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the consolidated balance sheets; (ii) the consolidated statements of earnings; (iii) the consolidated statements of cash flows; and (iv) notes to consolidated financial statements.

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SIGNATURES

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

ZEBRA TECHNOLOGIES CORPORATION

Date: August 5, 2011

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

Date: August 5, 2011

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