ZEBRA TECHNOLOGIES CORP
Form 10-K
February 23, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from ___________________ to ___________________

COMMISSION FILE NUMBER 000-19406

Zebra Technologies Corporation

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

Table of Contents

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

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

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

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

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

Large accelerated filer X Accelerated filer ____

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

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

As of February 12, 2010, 57,878,289 shares of Class A Common Stock, par value $.01 per share, were outstanding.

Documents Incorporated by Reference

Certain sections of the registrant s Notice of Annual Meeting of Stockholders and Proxy Statement for its Annual Meeting of Stockholders to be held on May 20, 2010, are incorporated by reference into Part III of this report.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INDEX

Table of Contents

PART I

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

Safe Harbor

Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors which could cause actual results to differ materially from those reflected in such forward looking statements. These factors include:

- Market acceptance of Zebra s printer and software products and competitors product offerings and the potential effects of technological changes,
- The effect of market conditions in North America and other geographic regions,
- Our ability to control manufacturing and operating costs,
- Success of integrating acquisitions,
- Interest rate and financial market conditions because of our large investment portfolio,
- Foreign exchange rates due to the large percentage of our international sales and operations, and
- The outcome of litigation in which Zebra is involved, particularly litigation or claims related to infringement of third-party intellectual property rights.

When used in this document and documents referenced, the words anticipate, believe, estimate, will and expect and similar expressions as th relate to Zebra or its management are intended to identify such forward-looking statements. We encourage readers of this report to review Item 1A, Risk Factors, in this report for further discussion of issues that could affect Zebra s future results. Zebra undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this annual report.

Item 1. Business

Zebra Technologies Corporation is a Delaware corporation. Our principal offices are located at 475 Half Day Road, Suite 500, Lincolnshire, Illinois 60069. Our main telephone number is (847) 634-6700 and our primary Internet Web site address is www.zebra.com. You can find all of Zebra s filings with the SEC free of charge through the investor page on this Web site, immediately upon filing.

The Company

Zebra delivers products and solutions that improve our customers ability to put their critical assets to work smarter by identifying, tracking and managing assets, transactions and people.

Through the Specialty Printing Group (SPG), we design, manufacture and sell specialty printing devices that print variable information on demand at the point of issuance. These devices are used worldwide by manufacturers, service and retail organizations and governments for automatic identification, data collection and personal identification in applications that improve productivity, deliver better customer service and provide more effective security. Our product range consists of direct thermal and thermal transfer label and receipt printers, passive radio frequency identification (RFID) printer/encoders and dye sublimation card printers. We also sell a comprehensive range of specialty supplies consisting of self-adhesive labels, thermal transfer ribbons, thermal printheads, batteries and other accessories, including software for label design and printer network management.

In 2007 and 2008, we acquired WhereNet Corp., proveo AG, Navis Holdings, LLC and Multispectral Solutions, Inc. These companies comprise the Zebra Enterprise Solutions Group (ZES). The acquisitions of these companies has expanded the range of identification and tracking solutions we deliver to our customers. In addition, they provided us with new technologies to offer our customers including active RFID, global positioning systems (GPS), telematics and ultra wideband (UWB) technologies. ZES products consist of battery-powered wireless tags, fixed-position antennae, transponder modules and application software. ZES also provides consulting services, maintenance contracts and software licenses.

Table of Contents

Zebra Specialty Printing Group (SPG)

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

Applications for our printing technology span most industries and geographies. They include inventory control, small package delivery, baggage handling, automated warehousing, JIT (Just-In-Time) manufacturing, employee time and attendance records, file management systems, hospital information systems, medical specimen labeling, shop floor control, in-store product labeling, employee ID cards, driver s licenses, and access control systems. As of December 31, 2009, management estimates that Zebra has sold more than 8,400,000 printers to customers around the world.

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

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

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

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

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

Table of Contents

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

- Performance tabletop printers for applications requiring continuous operation in high output, mission-critical and industrial settings.
- Mid-range tabletop printers, which are designed for demanding commercial applications.
- Desktop printers to deliver value and performance in applications with lower volume or space restrictions.
- Mobile printers to meet the printing needs of workers in the field.
- Print engines, which are sold to manufacturers and integrators of high-speed automatic label applicator systems and are available with or without RFID smart label capabilities.
- Kiosk and ticket printers for use in kiosks and other unattended printing applications.
- Card printers, which print national identity cards, driver s licenses, employee identification badges, gift cards and personalized cards.
- RFID printer/encoders for passive high frequency and ultra-high frequency radio frequency identification in the retail supply chain, for defense logistics, and other applications. These units are used to print and encode smart labels in a single pass. Smart labels are printable labels embedded with an ultra-thin radio frequency transponder. Information encoded in these transponders can then be read and modified by a radio frequency reader.

In addition to their use in on-demand automatic identification applications, our thermal printers can also be used for on-site batch production of custom bar code labels and other graphics. This capability results in shorter lead times, reduced inventory, and more flexibility than can be provided with traditional off-site printing.

Printer Supplies

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

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

Printer Related Software

Zebra has specialized printer management, label design and driver solutions to help unlock the full potential of Zebra printers. The ZebraLink Solutions suite of networking, software, firmware offerings, combined with the enhanced printer management capabilities of ZebraNet Bridge, makes Zebra s printers easy to use and integrate into small, medium and enterprise-wide environments. Our goal is to provide software that enables high levels of functionality to all major computer network and software systems. Network systems include Ethernet, 802.11b/g and Bluetooth®. In 2009, the ZebraLink Multiplatform Software Development and Smart Phone utility was introduced to aid with printing from Smartphones to Zebra printers.

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

Table of Contents

Printer Maintenance and Services

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

Printer Warranties

In general, Zebra provides warranty coverage of one year on printers against defects in material and workmanship. Printheads are warranted for nine months, and batteries are warranted for twelve months. Zebra supplies are warranted against defects in material and workmanship for their stated shelf life or twelve months, whichever ends first. Defective equipment and supplies may be returned for repair or replacement during the applicable warranty periods.

Zebra s Printer Technology

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

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

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

Thermal transfer printers apply heat to a ribbon to release ink onto labels or tags. This form of thermal printing technology allows a wider range of specialty label materials and associated inks to be used for applications such as circuit board labels, chemical identification and product labels that require resistance to chemicals, temperature extremes, abrasion, or labels requiring a long shelf life. Most of our printers in our high performance, midrange, print engine, desktop and mobile categories use thermal transfer printing but can also support direct thermal printing.

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

Direct thermal and thermal transfer printers create crisp images at high speeds, making them ideal for printing easily readable text and machine readable bar codes. Dye sublimation thermal printers quickly create full-color images with visual characteristics more similar to halide-based film than to pixel-based ink jet or laser printers, making them ideal for high quality photographs and personalized plastic cards. Some printers also include HF (13.56 MHz) or UHF (860-960 MHz) RFID technology that can encode data into passive RFID transponders embedded in a label, card, or wristband.

Zebra s printers integrate company-designed mechanisms, electrical systems, and firmware. Enclosures of metal or high-impact plastic ensure the durability of our printers. Special mechanisms optimize handling of labels, ribbons, and plastic cards. Fast, high-current electrical systems provide consistent image quality. Mobile printers use NiMH or LiIon batteries to optimize print quality over an extended operating shift. Firmware supports serial, parallel, Ethernet, USB, infrared, Bluetooth, or 802.11b/g wireless communications with appropriate security protocols. Printing instructions can be received as a proprietary language such as Zebra

Table of Contents

Programming Language II (ZPL II®), as a print driver-provided image, or as user-defined XML. These features make our printers easy to integrate into virtually all common computer systems including those operating on UNIX, Linux, MS/DOS®, or Microsoft® Windows® operating systems. Some independent software vendors, including Adobe, Oracle and SAP, have included Zebra printing support in applications for healthcare, warehouse management, manufacturing, passenger transportation, and retailing.

Printer Sales and Marketing

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

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

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

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

Marketing. Marketing operations encompass corporate marketing, marketing communications, product marketing, vertical marketing, solutions marketing, market research and channel marketing functions. Corporate marketing conducts activities to enhance the Zebra corporate brand, corporate public relations, internal corporate communications and our Web site. The product marketing group identifies, evaluates and recommends new product opportunities and manages product introductions, positioning and demand creation. Product marketing also focuses on strategic planning and market definition and analyzes Zebra s competitive strengths and weaknesses.

Printer Production and Manufacturing

We design our products to optimize product performance, quality, reliability, durability and versatility. These designs combine cost-efficient materials, sourcing and assembly methods with high standards of workmanship.

In February 2008, we announced that final printer assembly would be transferred to a third-party manufacturer, Jabil Circuit, Inc. We completed the transition of transferring substantially all printer lines to Jabil in 2009. This action is helping to reduce costs and optimize our global printer product supply chain by improving responsiveness to customer needs and increasing Zebra s flexibility to meet emerging business opportunities. See Note 22 to our Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion of the transfer and transition process.

Table of Contents

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

Printer Competition

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

We consider our direct competition in bar code label and receipt printing to be producers of on-demand thermal transfer and direct thermal label printing systems, printer/encoders, mobile printers and supplies. We also compete, however, with companies engaged in the design, manufacture and marketing of printing systems that use alternative technologies, such as ink-jet and laser printing. Many of these companies are substantially larger than Zebra.

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

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

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

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

Alternative Printer Technologies

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

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

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

Zebra Enterprise Solutions Group (ZES)

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

Customers

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

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

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

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

Sales

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

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

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

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

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

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

Research and Development

Zebra s research and development expenditures for the last three years were as follows (in thousands, except percentages):

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

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

Intellectual Property Rights

Zebra relies on a combination of trade secrets, patents, employee and third party nondisclosure agreements, copyright laws and contractual rights to establish and protect its proprietary rights in its products. We have and actively protect many domestic and international trademarks. We hold 347 United States and foreign patents and have 151 United States and foreign patent applications pending pertaining to products. The duration of these patents ranges from 1 to 23 years. The expiration of any individual patent would not have a significant negative impact on our business.

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

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

Employees

As of January 29, 2010, Zebra employed approximately 2,700 persons, of which 1,975 are a part of SPG, 527 are a part of ZES and the remaining 198 are corporate employees. None of these employees is a member of a union. We consider our employee relations to be very good.

Additional Information

For financial information regarding Zebra, see Zebra s Consolidated Financial Statements and the related Notes, which are included in this Annual Report on Form 10-K. Zebra has two reportable segments for our operations and products. Financial information about segments and geographic areas is found in Note 18 to the Consolidated Financial Statements.

Table of Contents

Item 1A. Risk Factors

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

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

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

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

Although Zebra carries business interruption insurance to cover lost sales and profits in an amount it considers adequate, this insurance does not cover all possible situations. In addition, the business interruption insurance would not compensate Zebra for the loss of opportunity and potential adverse impact, both short term and long term, on relations with our existing customers. A third-party provider such as Jabil will have access to Zebra s intellectual property, which increases the risk of infringement or misappropriation of this intellectual property.

Zebra has significant operations outside the United States and sells a significant portion of its products internationally and purchases important components from foreign suppliers. These circumstances create a number of risks. Zebra has significant operations overseas which present added risks. In addition, Zebra sells a significant amount of its products to customers outside the United States. Shipments to international customers are expected to continue to account for a material portion of net sales.

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

- Inadequately managing and overseeing operations that are distant and remote from corporate headquarters,
- Fluctuating foreign currency rates could restrict sales, or increase costs of purchasing, in foreign countries,
- Adverse changes in, or uncertainty of, local business laws or practices, including the following:
    - Foreign governments may impose burdensome tariffs, quotas, taxes, trade barriers or capital flow restrictions,
    - Restrictions on the export or import of technology may reduce or eliminate the ability to sell in or purchase from certain markets,
    - Political and economic instability may reduce demand for our products, or put our foreign assets at risk,
- Potentially limited intellectual property protection in certain countries may limit recourse against infringing products or cause Zebra to refrain from selling in certain geographic territories,
- Staffing and managing international operations may be unusually difficult,
- A government controlled exchange rate and limitations on the convertibility of the Chinese *Yuan,* and
- Transportation delays that may affect production and distribution of Zebra s products.

Table of Contents

Zebra may not be able to continue to develop products to address user needs effectively in an industry characterized by rapid technological change. To be successful, Zebra must adapt to rapidly changing technological and application needs by continually improving its products as well as introducing new products and services to address user demands.

Zebra s industry is characterized by:

- Evolving industry standards,
- Frequent new product and service introductions,
- Evolving distribution channels, and
- Changing customer demands.

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

Zebra competes in a competitive market, which may become more competitive. Competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements. Zebra faces significant competition in developing and selling its systems. Principal competitors have substantial marketing, financial, development and personnel resources. To remain competitive, Zebra believes it must continue to cost effectively provide:

- Technologically advanced systems that satisfy the user demands,
- Superior customer service,
- High levels of quality and reliability, and
- Dependable and efficient distribution networks.

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

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

- Compliance with evolving laws and regulations,
- Manufacturing an increased number of products,
- Increased administrative and operational burden,
- Maintaining and improving information technology infrastructure to support growth,
- Increased logistical problems common to complex, expansive operations, and
- Managing increasing international operations.

Zebra could encounter difficulties in any acquisition it undertakes, including unanticipated integration problems and business disruption. Acquisitions could also dilute stockholder value and adversely affect operating results. Zebra may acquire or make investments in other businesses, technologies, services or products. An acquisition may present business issues which are new to Zebra. The process of integrating any acquired business, technology, service or product into operations may result in unforeseen operating difficulties and expenditures. Integration of an acquired company also may consume considerable management time and attention, which could otherwise be available for ongoing operations and development of the business. The expected benefits of any acquisition may not be realized.

Acquisitions also may involve a number of risks:

- Difficulties and uncertainties in transitioning the customers or other business relationships from the acquired entities to Zebra,
- The loss of key employees of acquired entities,
- Ability of acquired entities to fulfill obligations to their customers,
- The discovery of unanticipated issues or liabilities,
- The failure of acquired entities to meet or exceed expected returns, and
- The acquired entities ability to improve internal controls and accounting systems to be compliant with requirements applicable to public companies subject to SEC reporting.

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

Zebra sources some of its component parts from sole source suppliers. A disruption in the supply of such component parts could have a material adverse effect on our ability to meet customer demand and negatively affect our financial results.

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

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

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

Table of Contents

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

Zebra is implementing a new company-wide enterprise resource planning (ERP) system. The implementation process is complex and involves a number of risks that may adversely affect Zebra s business and results of operations. Zebra is currently replacing its multiple legacy business systems at its different sites with a new company-wide, integrated enterprise resource planning (ERP) system to handle various business, operating and financial processes for Zebra and its subsidiaries. The new system will enhance a variety of important functions, such as order entry, invoicing, accounts receivable, accounts payable, financial consolidation, logistics, and internal and external financial and management reporting matters.

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

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

Zebra depends on the ongoing service of its senior management and ability to attract and retain other key personnel. The future success of Zebra is substantially dependent on the continued service and continuing contributions of senior management and other key personnel.

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

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

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

Table of Contents

Item 2. Properties

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

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

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

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

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

Table of Contents

Item 3. Legal Proceedings

See Note 17 in the Notes to the Consolidated Financial Statements included in this Form 10-K.

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

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Information: Price Range and Common Stock

Our Class A Common Stock is traded on the NASDAQ Stock Market under the symbol ZBRA. The following table shows the high and low trade prices for each fiscal quarter in 2009 and 2008, as reported by the NASDAQ Stock Market.

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

Source: The NASDAQ Stock Market

At February 12, 2010, the last reported price for the Class A Common Stock was $29.33 per share, and there were 317 registered stockholders of record for Zebra s Class A Common Stock. In addition, we had approximately 42,000 stockholders who owned Zebra stock in street name.

Dividend Policy

Since our initial public offering in 1991, we have not declared any cash dividends or distributions on our capital stock. Zebra currently does not anticipate paying any cash dividends in the foreseeable future.

Treasury Shares

During the fourth quarter of 2009, Zebra purchased 593,552 shares of Zebra s Class A common stock as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	**Total number of shares purchased**	**Average price paid per share**	**Total number of shares purchased as part of publicly announced program**	**Maximum number of shares that may yet be purchased under the program**
October 2009 (October 4 October 31)	25,000	$ 25.01	25,000	2,767,838
November 2009 (November 1 November 28)	462,666	$ 26.71	462,666	2,305,172
December 2009 (November 29 December 31)	105,886	$ 26.94	105,886	2,199,286

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

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

21

Table of Contents

Item 6. Selected Financial Data

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) DATA

(In thousands, except per share amounts)

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

CONSOLIDATED BALANCE SHEET DATA

(In thousands)

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

(1) Includes asset impairment reversal of $1,058,000 and exit, restructuring and integration charges of $12,191,000.

(2) Includes asset impairment charges of $157,600,000 and exit, restructuring and integration charges of $20,009,000.

(3) Includes litigation settlement of $53,392,000 and insurance receivable reserve of $12,543,000.

(4) Relates to the estimation of forfeitures on prior year compensation expense outstanding at the adoption date of Accounting Standards Codification (ASC) 505 and ASC 718 (formerly SFAS No. 123(R), *Share Based Payment*). See Note 4 in the Notes to the Consolidated Financial Statements included in this Form 10-K.

(5) The decrease in cash and cash equivalents, restricted cash and investments and marketable securities in 2007 and 2008 was principally the result of (i) our acquisitions of WhereNet, proveo AG, and Navis during 2007 and our acquisition of Multispectral Solutions Inc., and (ii) purchase of our stock during 2008. See Note 5 in the Notes to the Consolidated Financial Statements included in this Form 10-K for

further discussion of the acquisitions.

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

Table of Contents

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

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

Consolidated Results of Operations

(Amounts in thousands, except percentages)

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

Consolidated Results of Operations Fourth quarter

Sales

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

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

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

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

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

Table of Contents

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

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

Gross Profit

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

Operating Expenses

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

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

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

Other Income

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

Table of Contents

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

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

Operating Income (Loss)

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

Income Taxes

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

Business Groups

Specialty Printing Group Fourth Quarter

(Amounts in thousands, except percentages):

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

Specialty Printing Group Fourth quarter

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

Zebra Enterprise Solutions Fourth Quarter

(Amounts in thousands, except percentages)

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

Zebra Enterprise Solutions Fourth quarter

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

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

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

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

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

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

Table of Contents

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

Consolidated Results of Operations

(Amounts in thousands, except percentages)

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

Consolidated Results of Operations   Year to date

Sales

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

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

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

Year Ended

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

Table of Contents

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

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

Gross Profit

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

Operating Expenses

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

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

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

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

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

Selling and Marketing Expenses

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

Table of Contents

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

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

Research and Development Costs

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

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

Quarterly product development expenses fluctuate widely depending on the status of ongoing projects. We are committed to a long-term strategy of significant investment in product development. Research and development costs are summarized below (in thousands):

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

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

General and Administrative Expenses

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

	Year Ended	
		Increase/(Decrease)

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

Table of Contents

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

Amortization of Intangible Assets

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

Litigation Settlement

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

Asset Impairment Charges

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

Exit, Restructuring and Integration Charges

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

Other Income

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

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

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

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

Operating Income (Loss)

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

Income Taxes

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

Business Groups

Specialty Printing Group - Year to date

(Amounts in thousands, except percentages)

	Year Ended				
	December 31, 2009	December 31, 2008	Percent Change	Percent of Net Sales - 2009	Percent of Net Sales - 2008
Net Sales					
Tangible products	$ 688,057	$ 851,561	(19.2)	95.2	96.5
Service & software	34,499	30,898	11.7	4.8	3.5
Net sales	722,556	882,459	(18.1)	100.0	100.0
Cost of Sales					
Tangible products	392,298	439,471	(10.7)	54.3	49.8
Service & software	18,013	14,866	21.2	2.5	1.7
Cost of sales	410,311	454,337	(9.7)	56.8	51.5
Gross profit	312,245	428,122	(27.1)	43.2	48.5
Operating expenses	164,124	221,934	(26.0)	22.7	25.1
Operating income	$ 148,121	$ 206,188	(28.2)	20.5	23.4

Specialty Printing Group Year to date

Net sales for SPG decreased 18.1% for 2009 as compared to 2008, with comparable percentage declines in all regions, except for APAC which decreased modestly more than the other regions. New printer products (defined as printers released within 18 months prior to the end of the applicable fiscal period) accounted for 9.0% of printer sales during 2009, compared with 19.1% of printer sales for 2008.

Our international SPG sales are denominated in multiple currencies, primarily the U.S. dollar, British pound and euro. This diversity causes our reported sales to be subject to fluctuations based on changes in currency rates. The stronger U.S. dollar to the euro and the pound had a negative impact of approximately $21,890,000, net of hedges, on sales during 2009 compared with 2008. We typically hedge a portion of anticipated euro-denominated sales to partially protect Zebra against exchange rate movements. For the year, this program resulted in a gain on hedges of $603,000.

Gross profit margin for SPG was affected by unfavorable foreign currency rate movements, which decreased year to date gross profit versus 2008 gross profit by $16,745,000, net of hedges. Lower volume and a less favorable product mix reduced gross margins. Outsourcing of our manufacturing operations resulted in favorable improvement to gross margin in 2009.

Table of Contents

Lower overall operating expenses resulted from decreases in payroll costs, business development costs, recruiting and relocation costs, outside commissions, project costs, travel and entertainment expenses, and offsite meetings. Much of the decreased payroll and benefit costs were a result of lower staffing levels and cost reduction initiatives. Amortization of intangibles was reduced by $3,010,000 for 2009 as compared to 2008 due to asset write-downs taken in 2008.

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

	Year Ended December 31, 2009	2008	Percent Change
Total printers shipped	850,230	972,478	(12.6)
Average selling price of printers shipped	$ 527	$ 594	(11.3)

For 2009, unit volumes decreased in nearly all printer product lines compared to the same periods of 2008, with notable volume decreases in high-performance and midrange table top, partially offset by an increase in kiosk volumes.

Operating expenses for SPG are summarized below (in thousands):

	Year Ended December 31, 2009	Year Ended December 31, 2008	Increase/(Decrease)
Payroll and benefit costs	$ 97,010	$ 115,461	$ (18,451)
Business development	15,530	22,395	(6,865)
Project expenses	4,411	6,609	(2,198)
Travel & entertainment	5,416	7,198	(1,782)
Sales meeting expenses	441	3,109	(2,668)
Exit and restructuring costs	7,819	16,488	(8,669)
Impairment charges		14,680	(14,680)
Loss (gain) on sale of assets & equipment	802	(1,101)	1,903
Facility relocation costs	5	1,092	(1,087)
Amortization expense	2,754	5,764	(3,010)
Stock options	3,787	5,151	(1,364)
Other changes	26,149	25,088	1,061
Total operating expenses	$ 164,124	$ 221,934	$ (57,810)

Lower operating expenses for 2009 compared to 2008 resulted from decreases in payroll costs primarily from lower staffing levels and reduced spending as part of a corporate wide initiative to reduce costs in a challenging economy.

Exit and restructuring costs decreased in 2009 as compared to 2008 due to the reduction in activities associated with the transfer of our printer manufacturing to a third-party manufacturer and the closure in 2008 of our Warwick, Rhode Island, supplies manufacturing facility. Restructuring costs relate to organizational changes made in December 2008. Facility relocation costs relate to the move of our UK facility into a new location. Amortization of intangibles decreased due to impairments recorded in the fourth quarter of 2008. Impairment charges relate to the write-down of intellectual property from changes in valuations related to current economic conditions and the business outlook. The above reductions were partially offset by increases in general and administrative expenses for consulting and benefit costs in 2009.

Table of Contents

Zebra Enterprise Solutions - Year to date

(Amounts in thousands, except percentages)

	Year Ended				
	December 31, 2009	December 31, 2008	Percent Change	Percent of Net Sales - 2009	Percent of Net Sales - 2008
Net Sales					
Tangible products	$ 12,987	$ 20,025	(35.1)	16.0	21.2
Service & software	68,042	74,216	(8.3)	84.0	78.8
Net sales	81,029	94,241	(14.0)	100.0	100.0
Cost of Sales					
Tangible products	9,429	12,737	(26.0)	11.6	13.5
Service & software	23,124	30,322	(23.7)	28.5	32.2
Cost of sales	32,553	43,059	(24.4)	40.2	45.7
Gross profit	48,476	51,183	(5.3)	59.8	54.3
Operating expenses	63,730	217,149	(70.7)	78.7	230.4
Operating loss	$ (15,254)	$ (165,966)	(90.8)	(18.9)	(176.1)

Zebra Enterprise Solutions Year to date

ZES sales decreased 14.0% for 2009 as compared to 2008 primarily due to the severely challenging economic conditions of ZES key markets, namely maritime and automotive markets. Sales declined in hardware and services but remained steady in license fees and maintenance support. Margins improved in services provided to customers due to reduced service costs.

ZES operating expenses for 2009 were lower than the 2008 level due to lower staffing levels which were offset by increased benefit costs and contract employees. Other operating expenses reductions resulted from cost containment efforts, collection of previously reserved accounts, reduced outside service costs, and lower amortization of intangibles due to asset write-downs in the fourth quarter of 2008. Amortization of intangibles was reduced by $5,099,000 for 2009 as compared to 2008. Included in operating expenses for 2008 is a $5,302,000 expense reduction related to a payment received from an escrow claim settlement related to our prior acquisition of WhereNet. See Note 5 of the Notes to the Consolidated Financial Statements for further information related to the WhereNet escrow claim net settlement and Note 13 for further information related to the impairment charges.

ZES operating expenses are summarized below (in thousands):

	Year Ended		
	December 31, 2009	December 31, 2008	Increase/(Decrease)
Payroll and benefit costs	$ 37,576	$ 36,841	$ 735
Outside professional services	1,696	5,869	(4,173)
Research & development	149	1,827	(1,678)
Travel & entertainment	2,569	4,510	(1,941)
Office services and supplies	599	(1,052)	1,651
Offsite meetings	(16)	673	(689)
Building allocation	(1,696)	(572)	(1,124)
Bad debt expense	(74)	937	(1,011)
Exit and restructuring	1,004		1,004

ZES integration	3,206	3,359	(153)
Impairment charges	(1,059)	142,920	(143,979)
Amortization expense	7,712	12,811	(5,099)
WhereNet escrow claim net settlement		(5,302)	5,302
Other changes	12,064	14,328	(2,264)
Total increase (decrease)	$ 63,730	$ 217,149	$ (153,419)

34

Table of Contents

Comparison of Years Ended December 31, 2008 and 2007

Consolidated Results of Operations

(Amounts in thousands, except percentages):

	Year Ended				
	December 31, 2008	December 31, 2007	Percent Change	Percent of Net Sales - 2008	Percent of Net Sales - 2007
Net Sales					
Tangible products	$ 871,587	$ 825,479	5.6	89.2	95.1
Service & software	105,113	42,800	145.6	10.8	4.9
Total net sales	976,700	868,279	12.5	100.0	100.0
Cost of Sales					
Tangible products	452,208	429,113	5.4	46.3	49.5
Service & software	45,187	22,048	105.0	4.6	2.5
Total cost of sales	497,395	451,161	10.2	50.9	52.0
Gross profit	479,305	417,118	14.9	49.1	48.0
Operating expenses	494,651	273,933	80.6	50.6	31.5
Operating income (loss)	(15,346)	143,185	(110.7)	(1.5)	16.5
Other income	3,433	24,190	(85.8)	(0.3)	2.8
Income (loss) before income taxes	(11,913)	167,375	(107.1)	1.2	19.3
Income taxes	26,508	57,262	(53.7)	2.7	6.6
Net income (loss)	$ (38,421)	$ 110,113	(134.9)	3.9	12.7
Diluted earnings (loss) per share	$ (0.60)	$ 1.60			

Sales for all of 2008 increased by 12.5% compared to 2007. All geographic regions contributed to this growth, which was also aided by sales related to the acquisitions we made in 2007 to form our ZES business group. Gross profit margin also increased principally because of favorable foreign exchange rates and product mix due to the sale of higher margin ZES products. Increased operating expenses were due to our ZES acquisitions, increased amortization of intangibles and costs related to the integration and restructuring of our businesses.

Net Sales

Net sales by product category, percent change, and percent of total net sales for 2008 and 2007 were as follows (in thousands, except percentages):

Product Category	Year Ended December 31, 2008	2007	Percent Change	Percent of Net Sales - 2008	Percent of Net Sales - 2007

Hardware	$ 692,638	$ 656,974	5.4	70.9	75.7
Supplies	172,106	161,678	6.4	17.6	18.6
Service and software	105,113	42,801	145.6	10.8	4.9
Shipping and handling	6,843	6,826	0.2	0.7	0.8
Total net sales	$ 976,700	$ 868,279	12.5	100.0	100.0

The increase in service and software revenue in 2008 is primarily due to the acquisition of Navis. Navis sales have a high concentration of service and software. The Navis business, which constitutes a significant part of ZES, was not acquired until late in the fourth quarter of 2007.

Table of Contents

Net sales to customers by geographic region, percent changes and percent of total net sales for 2008 and 2007 were as follows (in thousands, except percentages):

	Year Ended December 31,		Percent	Percent of	Percent of
Geographic Region	**2008**	**2007**	**Change**	**Net Sales - 2008**	**Net Sales - 2007**
Europe, Middle East and Africa	$ 358,913	$ 320,225	12.1	36.8	36.9
Latin America	76,489	60,090	27.3	7.8	6.9
Asia-Pacific	97,032	71,871	35.0	9.9	8.3
Total International	532,434	452,186	17.1	54.5	52.1
North America	444,266	416,093	6.8	45.5	47.9
Total net sales	$ 976,700	$ 868,279	12.5	100.0	100.0

Printer unit volume increased 5.7%, with particular strength in mobile printers. Average unit prices declined principally because of a shift in product mix, with a decline in tabletop printers and relative strength of mobile and desktop printers. We also had ongoing strength in supplies, aftermarket and service revenues. Service and software increased 145.6% principally due to the acquisitions in ZES. Cash flow hedging activities decreased revenue in 2008 from 2007 by $12,354,000.

Gross Profit

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

	December 31,		Percent	Percent of	Percent of
	2008	**2007**	**Change**	**Net Sales - 2008**	**Net Sales - 2007**
Year ended	$ 479,305	$ 417,118	14.9	49.1	48.0

Foreign currency movements, net of hedging activities, for the full year decreased gross profit by $1,140,000.

Selling and Marketing Expenses

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

	December 31,		Percent	Percent of	Percent of
	2008	**2007**	**Change**	**Net Sales - 2008**	**Net Sales - 2007**
Year ended	$ 121,435	$ 114,116	6.4	12.4	13.1

Selling and marketing expenses changes, compared to the same periods in 2007, are due to the following (in thousands):

	Year Ended December 31, 2008
Payroll and benefit costs	$ 4,020
Advertising and market development fund costs	1,614
Professional services expenses	1,588
Travel and entertainment expenses	1,194
Other changes	(1,097)
Total (decreases) increases	$ 7,319

These increases were related, in part, to recent ZES acquisitions, which increased selling and marketing expenses by $12,528,000 during 2008.

Research and Development Costs

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

	December 31, 2008	December 31, 2007	Percent Change	Percent of Net Sales - 2008	Percent of Net Sales - 2007
Year ended	$ 94,449	$ 65,480	44.2	9.7	7.5

Quarterly product development expenses fluctuate widely depending on the status of ongoing projects. We are committed to a long-term strategy of significant investment in product development. Changes in research and development costs, compared to the same periods in 2007, are due to the following (in thousands):

	Year Ended December 31, 2008
Payroll and benefit costs	$ 20,270
Professional services expenses	2,594
Project expenses	2,197
Office services costs	2,265
Other changes	1,643
Total increases	$ 28,969

The majority of these increases were related to recent ZES acquisitions, which increased total research and development expenses by $18,833,000 for 2008.

General and Administrative Expenses

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

	December 31, 2008	December 31, 2007	Percent Change	Percent of Net Sales - 2008	Percent of Net Sales - 2007
Year ended	$ 87,885	$ 81,356	8.0	9.0	9.4

Changes in general and administrative expenses, compared to the same periods in 2007, are due to the following (in thousands):

	Year Ended December 31, 2008
Payroll and benefit costs	$ (375)
Information systems and communications costs	1,065
Sales meeting expenses	2,228
Depreciation expenses	2,343
Other changes	1,268
Total (decreases) increases	$ 6,529

General and administrative expenses decreased in the fourth quarter due to a cost reduction program consisting primarily of headcount reductions implemented during the second half of 2008 in response to the current difficult business environment. Offsetting that, in part, were changes related to the ZES acquisitions, which increased general and administrative expenses by $6,640,000 for 2008.

Amortization of Intangible Assets

Amortization of intangible assets increased $7,447,000 during 2008 due to our acquisitions of Navis, LLC in December 2007 and Multispectral Solutions, Inc., in April 2008. See Note 5 of the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the recent acquisitions.

Table of Contents

Asset Impairment Charges

During the fourth quarter, Zebra recorded asset impairment charges in the amount of $157,600,000. These charges related to the write-down of assets related to our recent ZES acquisitions and intellectual property because of changes in valuations as a result of the current economic conditions and the business outlook. See Note 13 of the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the asset impairment charges.

Exit, Restructuring and Integration Charges

For 2008, Zebra recorded exit costs in the amount of $13,997,000 related to the transfer of our printer manufacturing to a third-party manufacturer and the closure of our Warwick, Rhode Island, supplies manufacturing facility. We also recorded restructuring charges in the amount of $2,653,000 related to various organization changes we made in December 2008 in order to reduce costs. Integration costs related to the combination of our most recent acquisitions to form the Zebra Enterprise Solutions Group and were $3,359,000. See Note 22 of the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the exit, restructuring and integration charges.

Operating Income (Loss)

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

	December 31,		**Percent**	**Percent of**	**Percent of**
	2008	**2007**	**Change**	**Net Sales - 2008**	**Net Sales - 2007**
Year ended	$ (15,346)	$143,185	NM	(1.6)	16.5

The operating loss for 2008 is the result of the impairment charges we recorded in the fourth quarter, which totaled $157,600,000. See Note 13 of the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the asset impairment charges. Also significantly contributing to the operating loss in 2008 were exit, restructuring and integrations costs of $20,009,000, offset by the WhereNet litigation/claim settlement of $5,302,000. See Note 22 for further information related to the exit, restructuring and integration costs and Note 5 for further information related to the litigation/claim settlement.

Non-Operating Income and Expenses

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

	Year Ended December 31,	
	2008	**2007**
Investment income	$ 1,281	$ 23,966
Foreign exchange gains	3,518	523
Other, net	(1,366)	(299)
Total other income	$ 3,433	$ 24,190
Rate of Return Analysis:		
Average cash and marketable securities balances	$ 253,033	$ 420,184
Annualized rate of return	0.5%	5.7%

Cash and marketable securities balances and resulting investment income for 2008 have decreased substantially compared to 2007 as a result of payments for recent acquisitions and for the repurchase of Zebra Class A common stock. During the third quarter of 2008, Zebra recorded losses on an auction rate security in the amount of $4,374,000 and on a long-term equity investment which was included in other assets in the amount of $2,897,000. See Note 3 to the Consolidated Financial Statements for further discussion of the valuation of the auction rate securities. Excluding these writedowns, Zebra s annualized rate of return would have been 3.4% for 2008.

During 2007, we liquidated all of our interests in our partnership holdings. As a result of these liquidations, we recorded investment income of $9,246,000 related to gains on the liquidations of the partnerships during 2007, $4,369,000 of which was recognized in the fourth quarter. Excluding these gains, Zebra s 2007 annualized rate of return would have been 3.5% for the year.

Table of Contents

Income Taxes

For the full year of 2008, the effective income tax rate was not meaningful because a substantial portion of the impairment charges was not deductible for income tax purposes. For 2007, the effective income tax rate was 34.2%.

Net Income (Loss)

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

	Year Ended December 31, 2008	2007
Net income (loss)	$ (38,421)	$ 110,113
Diluted earnings (loss) per share	$ (0.60)	$ 1.60

The net loss for 2008 is the result of pre-tax impairment charges of $157,600,000 that we recorded in the fourth quarter. See Note 13 of the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the asset impairment charges. Also significantly contributing to the net loss in 2008 were exit, restructuring and integration costs of $20,009,000, offset by the WhereNet litigation/claim settlement of $5,302,000. See Note 22 for further information related to the exit, restructuring and integration costs and Note 5 for further information related to the litigation/claim settlement.

Business Groups

Specialty Printing Group

(Amounts in thousands, except percentages)

	Year Ended December 31, 2008	December 31, 2007	Percent Change	Percent of Net Sales - 2008	Percent of Net Sales - 2007
Net sales	$ 882,459	$ 833,034	5.9	100.0	100.0
Cost of sales	454,337	430,782	5.5	51.5	51.7
Gross profit	428,122	402,252	6.4	48.5	48.3
Operating expenses	221,934	188,661	17.6	25.1	22.6
Operating income	$ 206,188	$ 213,591	(3.5)	23.4	25.7

Year-over-year sales growth in our Latin America, Asia Pacific and North America regions offset sales weakness in EMEA related to more difficult general economic conditions in the region. New printer products (defined as printers released within 18 months prior to the end of the applicable fiscal period) as a percent of total printer product sales accounted for 19.1% of printer sales during 2008, compared with 11.1% of printer sales for 2007.

SPG had a strong year with its key accounts in 2008, which offset lower demand in the channel. In addition to shipments to retailers and small package delivery, we also experienced strong sales into healthcare, government and mobile workforce.

Our international sales are denominated in multiple currencies, primarily the dollar, pound and euro. This directly causes our reported sales to be subject to fluctuations based on changes in currency rates. To partially protect Zebra against these currency rate fluctuations, we hedge a portion of the anticipated euro-denominated sales. We estimate that foreign exchange movements of the euro and the pound versus the dollar had a negative impact of $1,945,000 on sales, net of the hedging activities. See Note 16 to the Consolidated Financial Statements included in this report for a more detailed discussion of our hedging program.

Table of Contents

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

	Year Ended December 31,		Percent
	2008	2007	Change
Total printers shipped	972,478	919,909	5.7
Average selling price of printers shipped	$594	$581	2.2

For 2008, unit volumes increased in our midrange and mobile printer lines while unit volumes decreased in the high-end tabletop and card printer lines compared to the comparable periods in 2007.

Gross profit margin for SPG was affected by unfavorable changes in product mix and foreign exchange rates. The impact of foreign currency rates in 2008 versus 2007, net of hedging activities, decreased gross profit by $1,140,000.

Operating expense changes for SPG in 2008 compared to 2007, are due to the following (in thousands):

	Year Ended December 31, 2008
Payroll and benefit costs	$ 3,530
Trade show expenses	(1,013)
Advertising and market development fund costs	1,637
Professional services costs	1,890
Information technology expenses	(1,794)
Sales meeting expenses	1,508
Equity-based compensation expenses	(2,770)
Exit and restructuring costs	16,489
Impairment charges	14,680
Gain on sale of assets	(1,347)
Facility relocation costs	1,092
Other changes	(629)
Total increases	$ 33,273

The 2008 payroll and benefit cost increase includes approximately $550,000 for severance not related to the exit activities. Exit costs relate to the transfer of our printer manufacturing to a third-party manufacturer and the closure of our Warwick, Rhode Island supplies manufacturing facility. Restructuring costs relate to organization changes made in December 2008. See Note 22 to the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the exit and restructuring costs. Facility relocation costs relate to the move of our High Wycombe, UK facility into a new location. Impairment charges relate to the writedown of intellectual property because of changes in valuations related to current economic conditions and the business outlook. See Note 13 of the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more detailed discussion of the asset impairment charges.

During 2008, we completed a sale and leaseback transaction for our manufacturing facility located in Camarillo, California. Zebra received net proceeds of $14,796,000 against a net book value of $10,669,000. Of the $4,127,000 gain, $3,006,000 was deferred and will be applied against future rental payments, and $1,121,000 was recognized in general and administrative expenses.

Table of Contents

Zebra Enterprise Solutions

(Amounts in thousands, except percentages)

	Year Ended				
	December 31, 2008	**December 31, 2007**	**Percent Change**	**Percent of Net Sales - 2008**	**Percent of Net Sales - 2007**
Net sales	$ 94,241	$ 35,245	167.4	100.0	100.0
Cost of sales	43,059	20,379	111.3	45.7	57.8
Gross profit	51,183	14,866	244.3	54.3	42.2
Operating expenses	217,149	26,121	NM	230.4	74.1
Operating loss	$ (165,966)	$ (11,255)	NM	(176.1)	(31.9)

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

Gross margin for ZES in 2008 were significantly higher than in 2007 due to the margins of the software business added in late 2007, as a result of the Navis acquisition, being significantly higher than the hardware business we had in 2007.

Increases in ZES operating expenses in 2008 compared to 2007, are due to the following (in thousands):

	Year Ended December 31, 2008
General operating expense increase related to businesses acquired	$ 41,459
Equity-based compensation expenses	3,152
Amortization expense	7,316
Acquired in process technology	(1,853)
Acquisition integration expenses	3,359
Impairment charges	142,920
WhereNet escrow claim net settlement	(5,302)
Other changes	(23)
Total increases	$ 191,028

The operating expenses for ZES for all of 2008 are not comparable to the operating expenses for 2007 because the operating expenses for 2007 do not include the financial results for all of those businesses. ZES s results also reflect a reduction in operating expenses during the second half of 2008. These cost reduction efforts reduced ZES s employee count by approximately 40. Operating expenses for 2008 reflect a writedown of assets in the amount of $142,920,000 related to our recent ZES acquisitions and intellectual property because of changes in valuations as a result of economic conditions and the business outlook late in 2008.

See Note 23 of the Notes to the Consolidated Financial Statements for further information related to acquisition integration expenses. See Note 13 for further information related to the impairment charges and Note 5 for further information related to the WhereNet escrow claim net settlement.

41

Table of Contents

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 exits; (2) delivery has occurred and title has passed to the customer, which happens at the point of shipment provided that no significant obligations remain; (3) the price is fixed and determinable; and (4) collectability is reasonably assured. Other items that affect our revenue recognition include:

Customer returns

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

Growth Rebates

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

Price Protection

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

Software Revenue

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

- ZES has *fixed fee software implementation projects*, for which we use the percentage of completion method for revenue recognition. Under this method of accounting, we recognize revenue based on the ratio of costs incurred to total estimated costs. If increases in projected costs-to-complete are sufficient to create a loss contract, the entire estimated loss is charged to operations in the period the loss first becomes known.
- Our printers contain *embedded firmware,* which is part of the hardware purchase. We consider the sale of this firmware to be incidental to the sale of the printer and do not attribute any revenue to it.
- We sell a limited amount of *prepackaged,* or *off-the-shelf, software* for the creation of bar code labels using our printers. There is no customization required to use this software, and we have no post-shipment obligations on the software. Revenue is recognized at the time this prepackaged software is shipped.
- We sometimes provide *custom software* as part of a printer installation project. We bill custom software development services separate from the related hardware. Revenue related to custom software is recognized once the custom software development services have been completed and accepted by the customer.

We recognize license revenue under Accounting Standards Codification (ASC) 985 (formerly Statement of Position No. 97-2, *Software Revenue Recognition* , as amended by Statement of Position No. 98-9, *Software Revenue Recognition, With Respect to Certain Transactions*), 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 December 31, 2009, consisted of the following:

U.S. Government and agency securities	6.2%
Obligations of government sponsored enterprises (1)	5.2%
State and municipal bonds	80.5%
Corporate securities	8.1%

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

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of discounts or premiums. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders equity until realized. As of December 31, 2009, Zebra s investments in marketable debt securities are classified as available-for-sale. In addition, as of December 31, 2009, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term investments on the balance sheet due to our ability to hold them until maturity.

See Note 3 in the Notes to the Consolidated Financial Statements included in this Form 10-K for the fair value discussion of auction rate security investment valuations.

Table of Contents

Accounts Receivable

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

- Credit reviews of all new customer accounts,
- Ongoing credit evaluations of current customers,
- Credit limits and payment terms based on available credit information,
- Adjustments to credit limits based upon payment history and the customer s current credit worthiness,
- An active collection effort by regional credit functions, reporting directly to the corporate financial officers, and
- Limited credit insurance on the majority of our international revenues.

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 1.4% to 3.8% of total accounts receivable. Accounts receivable reserves as of December 31, 2009, were $2,186,000, or 1.4% of the balance due. We believe this reserve level is appropriate considering the quality of the portfolio as of December 31, 2009. 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 inventory reserves have ranged from 6.8% to 12.4% of gross inventory. As of December 31, 2009, inventory reserves were $9,054,000, or 10.2% of gross inventory. We believe this reserve level is appropriate considering the quantities and quality of the inventories as of December 31, 2009.

Valuation of Goodwill

We test the impairment of goodwill each year or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our annual assessment during June 2009 and determined that our goodwill was not impaired as of the end of May 2009.

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

- Significant adverse change in legal factors or in the business climate,
- Adverse action or assessment by a regulator,
- Unanticipated competition,
- Loss of key personnel,
- More-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of,
- Testing for recoverability 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.

Due to the deterioration of the economy and a significant reduction in the price of our stock, we performed an interim test of our goodwill in the fourth quarter of 2008 and determined that the goodwill associated with our ZES segment was impaired. See Note 13 of the Consolidated Financial Statements for further discussion of this impairment charge.

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.

Under the Income Approach Discounted Cash Flow Analysis the key assumptions consider sales, cost of sales and operating expenses projected through the year 2015. These assumptions were determined by management utilizing our internal operating plan and assuming growth rates for revenues and operating expenses, and margin assumptions. The fourth key assumption under this approach is the discount rate which is determined by looking at current risk-free rates of capital, current market interest rates and the evaluation of risk premium relevant to the business segment. If our assumptions relative to growth rates were to change or were incorrect, our fair value calculation may change which could result in impairment. The company s risk factors are discussed under Item 1A of this Form 10-K.

Under the Market Approach Guideline Company Method we identified 12 publicly traded companies, including Zebra, which we believe have significant relevant similarities. For these 12 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 22 market based transactions for companies that have similarities to our business segment, including similarities to one or more of the business lines, markets, growth prospects, margins and size. We calculated mean revenue and EBITDA multiples for the selected transactions. These multiples were applied to forecasted Zebra results for that segment to estimate market value. The key assumptions and impact to changes to those assumptions would be similar to those assumptions under the Income Approach Discounted Cash Flow Analysis and the Market Approach Guideline Company Method .

The results of these three methods are weighted based upon managements 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.

Due to the deterioration of the economy and a significant reduction in the price of our stock, we determined that our goodwill from our recent ZES acquisitions was impaired requiring total estimated goodwill impairment charges of $113,679,000 at December 31, 2008. Upon completion of a detailed second step impairment analysis we recorded a credit of $1,495,000 in the second quarter of 2009 to adjust a portion of the original estimated goodwill impairment for ZES.

Valuation of Long-Lived and Other Intangible Assets

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

- Significant underperformance relative to expected historical or projected future operating results,
- Significant changes in the manner of use of the acquired assets or the strategy for the overall business,
- Significant negative industry or economic trends,
- Significant decline in Zebra s stock price for a sustained period, and
- Significant decline in market capitalization relative to net book value.

Table of Contents

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.

During the fourth quarter of 2008, we determined that certain impairment indicators related to identified intangible assets existed and conducted an additional impairment test of intangibles. Due to the deterioration of the economy and a significant reduction in the price of our stock, we determined that our other intangible assets consisting of our recent ZES acquisitions and intellectual property were impaired requiring total estimated impairment charges of $43,921,000 at December 31, 2008. The intangible asset impairment charges in our SPG segment were related primarily to radio frequency identification patents and patent rights. The intangible asset impairment charges in our ZES segment were related to customer relationships, technology, third party technology licenses and non-competition agreements. We recorded an impairment charge to a ZES intangible asset of $437,000 in 2009.

Net intangible assets, long-lived assets and goodwill amounted to $286,796,000 as of December 31, 2009.

Income Taxes

On January 1, 2007, we adopted ASC 740 (formerly FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*). According to ASC 740, we identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. During 2008, we recognized an increase of approximately $4,000,000 in the liability for unrecognized tax benefits related to an acquisition.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at January 1, 2008	$
Additions based on tax positions related to 2008	4,000
Additions based on tax positions related to 2009	
Balance at December 31, 2009	$ 4,000

Zebra s continuing practice is to recognize interest and penalties related to income tax matters as part of income tax expense. For the years ended December 31, 2009 and December 31, 2008, we did not accrue any interest or penalties into income tax expense.

Zebra has concluded all U.S. federal income tax audits for years through 2006. The tax years 2005 through 2008 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.

Included in deferred tax assets are amounts related to federal and state net operating losses that resulted from our acquisition of WhereNet Corp. As of December 31, 2009, we had approximately $35,003,000 of federal net operating loss carryforwards available to offset future taxable income which expire in 2012 through 2022. As of December 31, 2009, we also had approximately $19,283,000 of state net operating loss carryforwards which expire in 2012 through 2022. Zebra s intention is to utilize these net operating loss carryforwards to offset future income tax expense. Under the United States Tax Reform Act of 1986, the amounts of benefits from net operating loss carryforwards may be impaired or limited in certain circumstances, including significant changes in ownership interests. In addition, as of December 31, 2009 Zebra had approximately $8,326,000 of foreign net operating loss carryforwards which currently can be carried forward indefinitely.

The effective income tax rate for the year ended December 31, 2009 was 33.2%.

Contingencies

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

For further information regarding material pending legal proceedings, see Note 17 in the Notes to the Consolidated Financial Statements included in the Form 10-K.

Table of Contents

Equity-Based Compensation

As of December 31, 2009, Zebra had an active equity-based compensation plan and a stock purchase plan available for future grants. We accounted for these plans in accordance with ASC 505 and ASC 718 (formerly SFAS No. 123(R), *Share-Based Payments*). Zebra recognizes compensation costs using the straight-line method over the vesting period of 1 month to 5 years. See Notes 2 and 4 to the Consolidated Financial Statements included in the Form 10-K for further information.

Liquidity and Capital Resources

(Amounts in thousands, except percentages):

	Year Ended	
Rate of Return Analysis:	**December 31, 2009**	**December 31, 2008**
Average cash and marketable securities balances	$ 235,803	$ 253,033
Annualized rate of return	1.2%	0.5%

Average cash and marketable securities balances for the year of 2009 decreased compared to 2008 as a result of continuing stock repurchases since the second quarter of 2008 and decreased cash provided by operations in 2009 versus 2008.

As of December 31, 2009, Zebra had $246,721,000 in cash, restricted cash, investments and marketable securities, compared with $224,886,000 at December 31, 2008. Factors affecting cash and investment balances during 2009 include the following (changes below include the impact of foreign currency):

- Operations provided cash in the amount of $105,698,000, primarily from net income, collection of receivables and reduced inventory levels as a result of reduced demand and printer manufacturing outsourcing.
- Accounts receivable decreased $8,747,000 because of lower sales and successful collection efforts. Days sales outstanding improved from 66 days to 62 days.
- Inventories decreased $22,315,000 because of lower sales, consumption of raw materials and outsourcing of operations.
- Accounts payable decreased $16,105,000, due to the timing of vendor payments and decreased purchasing as a result of reduced demand.
- Accrued liabilities decreased $16,315,000, due to the payment of payroll-related expenses and reduced foreign exchange forward contract liabilities associated with hedges.
- Deferred revenue increased $4,966,000 as a result of acquiring more long-term contracts in our ZES business.
- Taxes payable decreased $2,008,000 due to the timing of tax payments made in 2009.
- Purchases of property and equipment totaled $24,890,000.
- Net sales of investments totaled $56,020,000.
- Purchases of treasury shares totaled $65,445,000. Zebra made open market repurchases of our shares under authorizations of the Board of Directors announced February 25, 2008 and October 27, 2008.
- Stock option exercises and purchases under the stock purchase plan contributed $4,972,000.

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

In February 2008, we announced that printer manufacturing is being transferred to a third-party manufacturer. This transition was substantially completed in 2009. See Note 22 to our Consolidated Financial Statements in this Annual Report on Form 10-K for further discussion.

Table of Contents

Contractual Obligations

Zebra s contractual obligations as of December 31, 2009 were (in thousands):

		Payments due by period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	$ 42,043	$ 12,008	$ 18,503	$ 9,236	$ 2,296
Deferred compensation liability	3,155				3,155
Deferred revenue	30,060	24,082	5,978		
Purchase obligations	47,336	47,336			
Total	$ 122,594	$ 83,426	$ 24,481	$ 9,236	$ 5,451

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

On August 14, 2008, Zebra entered into a revolving credit agreement for a five-year $100 million revolving credit facility. The loans under this credit agreement will be available for general corporate purposes of Zebra and its subsidiaries in the ordinary course of business and other purposes permitted by the agreement. As of December 31, 2009, we had established letters of credit amounting to $4,170,000, which reduce the funds available for borrowing under the agreement. No amounts were outstanding under the credit agreement as of December 31, 2009.

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

Recently Issued Accounting Pronouncements

In May 2008, the FASB issued ASC 105 (formerly SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*). This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. Any effect of applying the provisions of this Statement shall be reported as a change in accounting principle in accordance with ASC 250 (formerly SFAS No. 154, *Accounting for Changes and Error Corrections*). This standard did not have a significant effect upon our consolidated financial statements.

In October 2008, the FASB issued ASC 820 (formerly FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*). The position statement was effective upon issuance. The statement provides guidance for valuing assets that are no longer in active markets. This standard did not have a significant effect upon our consolidated financial statements.

In April 2009, the FASB issued ASC 825 (formerly FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*) a statement of position that will require companies to provide disclosures required by ASC 825 (formerly FASB No. 107, *Disclosures about Fair Value of Financial Instruments*). The position statement is effective for interim reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. This standard did not have a significant effect upon our consolidated financial statements.

In April 2009, the FASB issued ASC 320 (formerly FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-than-Temporary Impairments*) which amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This statement does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The position statement is effective for interim and annual reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009 is not permitted. This standard did not have a significant effect upon our consolidated financial statements.

Table of Contents

In April 2009, the FASB issued ASC 820 (formerly FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly*). ASC 820 provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This ASC also includes guidance on identifying circumstances that indicate a transaction is not orderly. ASC 820 becomes effective for interim and annual reporting periods after June 15, 2009 and shall be applied prospectively. This standard did not have a significant effect upon our consolidated financial statements.

In May 2009, the FASB issued ASC 855 (formerly SFAS 165, *Subsequent Events*) which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. In particular, the standard addresses: the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. The statement is effective for interim and annual reporting periods ending after June 15, 2009. This standard did not have a significant effect upon our consolidated financial statements.

In June 2009, the FASB issued ASC 105 (formerly SFAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB SFAS No. 162*) which would make the FASB Accounting Standards Codification (ASC) the single source of authoritative accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the SEC and its staff. The ASC does not change GAAP; instead, it introduces a new structure that is organized into user-friendly research system. The ASC reorganizes thousands of GAAP pronouncements into approximately 90 accounting topics using a consistent structure. The statement is effective for interim and annual reporting periods ending after September 15, 2009. This standard did not have a significant effect upon our consolidated financial statements.

In August 2009, the FASB issued update 2009-05, ASC 820, *Fair Value Measurements and Disclosures Measuring Liabilities at Fair Value* which provides additional guidance clarifying the measurement of financial liabilities at fair value. This standard is effective after issuance and did not have a significant effect upon our consolidated financial statements.

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. We have not yet determined the effect of this standard 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. We have not yet determined the effect of this standard upon our consolidated financial statements.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

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

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

Interest rate sensitive instruments	As of December 31, 2009	2008
+1 percentage point movement		
Effect on Pretax Income	$ (2,284)	$ (1,894)
Effect on Diluted EPS (after tax)	$ (0.04)	$ (0.02)
-1 percentage point movement		
Effect on Pretax Income	$ 2,284	$ 1,894
Effect on Diluted EPS (after tax)	$ 0.04	$ 0.02

Because these securities are classified as available-for-sale under ASC 320 (formerly SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), the impact of a one-percentage point movement in interest rates occurs over an extended period of time as investments are sold and the funds are subsequently reinvested.

Foreign Exchange Risk

We conduct business in over 100 countries throughout the world and, therefore, at times are exposed to risk based on movements in foreign exchange rates. On occasion, we invoice customers in their local currency and have a resulting foreign currency denominated revenue transaction and accounts receivable. We also purchase certain raw materials and other items in foreign currencies. We manage these risks using derivative financial instruments. See Note 16 of the Notes to the Consolidated Financial Statements included in this form 10-K for further discussions of hedging activities.

The following table sets forth the impact of a ten percent movement in the dollar/pound and dollar/euro rates measured as if Zebra did not engage in the selective hedging practices described above and in Note 16. It is based on the dollar/euro and dollar/pound exchange rates and euro and pound denominated assets and liabilities (in thousands, except per share data).

Foreign exchange	As of December 31, 2009	2008
Dollar/pound		
Effect on Pretax Income	$ 575	$ 579
Effect on Diluted EPS (after tax)	$ 0.01	$ 0.01
Dollar/euro		
Effect on Pretax Income	$ 2,805	$ 1,620
Effect on Diluted EPS (after tax)	$ 0.05	$ 0.02
Euro/pound		
Effect on Pretax Income	$ 1,971	$ 4,469
Effect on Diluted EPS (after tax)	$ 0.03	$ 0.05

50

Table of Contents

Equity Price Risk

Zebra s investment manager uses a variety of investment strategies, some of which involve the use of equity securities. Zebra utilizes a Value-at-Risk (VaR) model to determine the maximum potential one-day loss in the fair value of its interest rate, foreign exchange and equity price sensitive instruments.

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

	As of December 31,	
Equity price sensitive instruments	**2009**	**2008**
+10 percent movement		
Effect on Pretax Income	$ 0	$ 25
Effect on Diluted EPS (after tax)	$ 0.00	$ 0.00
-10 percent movement		
Effect on Pretax Income	$ (0)	$ (25)
Effect on Diluted EPS (after tax)	$ (0.00)	$ (0.00)

From time to time, Zebra has taken direct equity positions in companies. These investments relate to potential acquisitions and other strategic business opportunities. To the extent that it has a direct investment in the equity securities of another company, Zebra is exposed to the risks associated with such investments. However, at the end of 2009, Zebra held no equity positions.

Table of Contents

Item 8. Financial Statements and Supplementary Data

The financial statements and schedule of Zebra are annexed to this report as pages F-2 through F-38. An index to such materials appears on page F-1.

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

Not applicable.

Table of Contents

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this Form 10-K. 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 Form 10-K was recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and (ii) information required to be disclosed by us in our reports that we file or 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.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on this assessment and those criteria, our management believes that, as of December 31, 2009, our internal control over financial reporting is effective. Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on Zebra s internal control over financial reporting. Ernst & Young LLP s report is included on page 56 of this report on Form 10-K.

Changes in Internal Control over Financial Reporting

In January 2008, Zebra began a program to update substantially all of its key financial systems over a three year period. 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. During 2009, we implemented the following financial systems modules in our U.S. facilities: human resources, procurement and payables, payroll, and portions of our general ledger. In 2009, we made additional changes to our controls and procedures as part of our ongoing monitoring of our controls. However, none of these changes has materially affected, or is reasonably likely to materially affect, and there were no other changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Controls

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

Table of Contents

potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

of Zebra Technologies Corporation:

We have audited Zebra Technologies Corporation internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Zebra Technologies Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Zebra Technologies Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Zebra Technologies Corporation as of December 31, 2009 and 2008, and the related consolidated statements of earnings (loss), comprehensive income (loss), stockholders equity, and cash flows for each of the three years in the period ended December 31, 2009 and the schedule listed in the index at Item 15, our report dated February 23, 2010 expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Chicago, Illinois

February 23, 2010

Table of Contents

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

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

Item 11. Executive Compensation

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

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

The information in response to this item is incorporated by reference from the Proxy Statement sections entitled Ownership of our Common Stock and Equity Compensation Plan Information.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information in response to this item is incorporated by reference from the Proxy Statement section entitled Corporate Governance.

Item 14. Principal Accounting Fees and Services

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

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

58

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 19th day of February 2010.

ZEBRA TECHNOLOGIES CORPORATION
By: /s/ Anders Gustafsson
Anders Gustafsson
Chief Executive Officer

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

Signature	Title	Date
/s/Anders Gustafsson	Chief Executive Officer and Director	February 23, 2010
Anders Gustafsson	(Principal Executive Officer)	
/s/Gerhard Cless	Executive Vice President,	February 23, 2010
Gerhard Cless	Director	
/s/ Michael C. Smiley	Chief Financial Officer	February 23, 2010
Michael C. Smiley	(Principal Financial Officer)	
/s/Todd R. Naughton	Vice President, Finance	February 23, 2010
Todd R. Naughton	(Principal Accounting Officer)	
/s/Michael A. Smith	Director and Chairman of the Board of	February 23, 2010
Michael A. Smith	Directors	
/s/ Andrew Ludwick	Director	February 23, 2010
Andrew Ludwick		
/s/Ross W. Manire	Director	February 23, 2010
Ross W. Manire		
/s/Robert J. Potter	Director	February 23, 2010
Robert J. Potter		
/s/ Richard Keyser	Director	February 23, 2010
Richard Keyser		

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

All other financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or related notes.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

of Zebra Technologies Corporation:

We have audited the accompanying consolidated balance sheets of Zebra Technologies Corporation (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of earnings (loss), comprehensive income (loss), stockholders equity and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index referenced in Item 15. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Zebra Technologies Corporation at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Zebra Technologies Corporation s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2010 expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Chicago, Illinois

February 23, 2010

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,943	$ 33,267
Restricted cash	1,725	1,639
Investments and marketable securities	114,064	85,654
Accounts receivable, net of allowances of $2,186 in 2009 and $2,734 in 2008	150,992	152,679
Inventories, net	79,926	100,199
Deferred income taxes	10,792	11,679
Income taxes receivable	4,724	2,697
Prepaid expenses and other current assets	9,771	9,004
Total current assets	410,937	396,818
Property and equipment at cost, net of accumulated depreciation and amortization	77,589	75,363
Long term deferred income taxes	35,842	51,251
Goodwill	153,225	151,356
Other intangibles, net	55,982	66,359
Long term investments and marketable securities	91,989	104,326
Other assets	4,915	5,405
Total assets	$ 830,479	$ 850,878
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 28,137	$ 38,152
Accrued liabilities	52,591	67,911
Deferred revenue	24,082	18,366
Income taxes payable		558
Total current liabilities	104,810	124,987
Deferred rent	4,108	4,903
Other long-term liabilities	9,432	10,250
Total liabilities	118,350	140,140
Commitments and contingencies (Note 17)		
Stockholders equity:		
Preferred stock		
Class A Common Stock	722	722
Additional paid-in capital	136,104	144,861
Treasury stock	(385,831)	(344,147)
Retained earnings	969,195	922,091
Accumulated other comprehensive income (loss)	(8,061)	(12,789)

Total stockholders equity	712,129	710,738
Total liabilities and stockholders equity	$ 830,479	$ 850,878

See accompanying notes to consolidated financial statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(Amounts in thousands, except per share data)

	Year Ended December 31,		
	2009	**2008**	**2007**
Net sales			
Net sales of tangible products	$ 701,044	$ 871,587	$ 825,479
Revenue from services and software	102,541	105,113	42,800
Total net sales	803,585	976,700	868,279
Cost of sales			
Cost of sales of tangible products	401,727	452,208	429,113
Cost of services and software	41,137	45,187	22,048
Total cost of sales	442,864	497,395	451,161
Gross profit	360,721	479,305	417,118
Operating expenses:			
Selling and marketing	100,199	121,435	114,116
Research and development	85,089	94,449	65,480
General and administrative	85,032	87,885	81,356
Amortization of intangible assets	10,466	18,575	11,128
Litigation/claim settlement		(5,302)	
Acquired in-process technology			1,853
Exit, restructuring and integration costs	12,191	20,009	
Asset impairment charges	(1,058)	157,600	
Total operating expenses	291,919	494,651	273,933
Operating income (loss)	68,802	(15,346)	143,185
Other income (expense):			
Investment income	2,933	1,281	23,966
Foreign exchange gain (loss)	(45)	3,518	523
Other, net	(1,167)	(1,366)	(299)
Total other income	1,721	3,433	24,190
Income (loss) before income taxes	70,523	(11,913)	167,375
Income taxes	23,419	26,508	57,262
Net income (loss)	$ 47,104	$ (38,421)	$ 110,113

Basic earnings (loss) per share	$	0.79	$	(0.60)	$	1.61
Diluted earnings (loss) per share	$	0.79	$	(0.60)	$	1.60
Basic weighted average shares outstanding		59,306		64,524		68,463
Diluted weighted average and equivalent shares outstanding		59,425		64,524		68,908

See accompanying notes to consolidated financial statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Amounts in thousands)

	Year Ended December 31,		
	2009	**2008**	**2007**
Net income (loss)	$ 47,104	$ (38,421)	$ 110,113
Other comprehensive income (loss):			
Foreign currency translation adjustment	3,972	(22,991)	2,277
Unrealized gain/(loss) on hedging transactions, net of income taxes	19	5,750	(5,205)
Unrealized holding gains/(loss) on investments, net of income taxes	737	(543)	1,111
Comprehensive income (loss)	$ 51,832	$ (56,205)	$ 108,296

See accompanying notes to consolidated financial statements.

F-5

ZEBRA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars in thousands)

	Class A Common Stock	*Additional Paid-in Capital*	*Treasury Stock*	*Retained Earnings*	*Accumulated Other Comprehensive Income (Loss)*	*Total*
Balance at December 31, 2006	$ 722	$ 139,083	$ (119,335)	$ 850,399	$ 6,812	$ 877,681
Repurchase of 3,038,389 shares of Class A Common Stock			(107,390)			(107,390)
Issuance of 578,608 treasury shares upon exercise of stock options, purchases under stock purchase plan and grants of restricted stock awards		(13,292)	21,667			8,375
Additional tax benefit resulting from exercise of options		664				664
Equity-based compensation		15,067				15,067
Net income				110,113		110,113
Unrealized holding gain on investments (net of income taxes)					1,111	1,111
Unrealized holding loss on hedging transactions (net of income taxes)					(5,205)	(5,205)
Foreign currency translation adjustment					2,277	2,277
Balance at December 31, 2007	$ 722	$ 141,522	$ (205,058)	$ 960,512	$ 4,995	$ 902,693
Repurchase of 6,008,232 shares of Class A Common Stock			(157,582)			(157,582)
Issuance of 499,576 treasury shares upon exercise of stock options, purchases under stock purchase plan and grants of restricted stock awards		(11,348)	18,493			7,145
Additional tax benefit resulting from exercise of options		(275)				(275)
Equity-based compensation		14,962				14,962
Net loss				(38,421)		(38,421)
Unrealized holding loss on investments (net of income taxes)					(543)	(543)
Unrealized holding gain on hedging transactions (net of income taxes)					5,750	5,750
Foreign currency translation adjustment					(22,991)	(22,991)
Balance at December 31, 2008	$ 722	$ 144,861	$ (344,147)	$ 922,091	$ (12,789)	$ 710,738
Repurchase of 3,173,182 shares of Class A Common Stock			(65,445)			(65,445)
Issuance of 691,176 treasury shares upon exercise of stock options, purchases under stock purchase plan and grants of restricted stock awards		(18,789)	23,761			4,972
Additional tax benefit resulting from exercise of options		(1,435)				(1,435)
Equity-based compensation		11,467				11,467
Net income				47,104		47,104
Unrealized holding gain on investments (net of income taxes)					737	737
Unrealized holding gain on hedging transactions (net of income taxes)					19	19
Foreign currency translation adjustment					3,972	3,972
Balance at December 31, 2009	$ 722	$ 136,104	$ (385,831)	$ 969,195	$ (8,061)	$ 712,129

See accompanying notes to consolidated financial statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Year Ended December 31,		
	2009	**2008**	**2007**
Cash flows from operating activities:			
Net income (loss)	$ 47,104	$ (38,421)	$ 110,113
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	32,913	38,581	26,902
Equity-based compensation	11,467	14,962	15,067
Asset impairment charges	(1,058)	157,600	
Impairment of investments	958	7,271	
Excess tax benefit from share-based compensation	(13)	(192)	(921)
Loss (gain) on sale of assets	829	(1,121)	
Acquired in-process technology			1,853
Deferred income taxes	12,550	(23,138)	(5,477)
Changes in assets and liabilities, net of businesses acquired:			
Accounts receivable, net	8,747	(21,891)	4,453
Inventories, net	22,315	(26,222)	(134)
Other assets	(733)	(2,758)	(1,321)
Accounts payable	(16,105)	17,891	(3,418)
Accrued liabilities	(16,315)	1,429	16,804
Deferred revenue	4,966	11,281	(325)
Income taxes payable	(2,008)	(1,002)	(1,337)
Other operating activities	81	4,012	(4,139)
Net cash provided by operating activities	105,698	138,282	158,120
Cash flows from investing activities:			
Purchases of property and equipment	(24,890)	(40,889)	(22,070)
Proceeds from sale of asset		14,796	
Acquisition of businesses, net of cash acquired		(18,588)	(286,761)
Acquisition of intangible assets	(425)	(1,384)	(4,800)
Purchases of investments	(329,292)	(723,791)	(1,025,089)
Maturities of investments	257,936	592,749	915,015
Sales of investments	56,020	198,541	366,964
Net cash provided by (used in) investing activities	(40,651)	21,434	(56,741)
Cash flows from financing activities:			
Purchase of treasury shares	(65,445)	(157,582)	(112,094)
Proceeds from exercise of stock options and stock purchase plan purchases	4,972	7,145	8,375
Excess tax benefit from share-based compensation	13	192	921
Net cash used in financing activities	(60,460)	(150,245)	(102,798)
Effect of exchange rate changes on cash	1,089	(14,415)	(18)
Net increase (decrease) in cash and cash equivalents	5,676	(4,944)	(1,437)
Cash and cash equivalents at beginning of year	33,267	38,211	39,648
Cash and cash equivalents at end of year	$ 38,943	$ 33,267	$ 38,211
Supplemental disclosures of cash flow information:			
Income taxes paid	10,742	49,092	62,130

Supplemental disclosures of non-cash transaction:	
Sale of investments not received in 2007	21,925

See accompanying notes to consolidated financial statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of Business

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

In 2007 and 2008, we acquired WhereNet Corp., proveo AG, Navis Holdings, LLC and Multispectral Solutions Inc., which we refer to as Zebra Enterprise Solutions Group (ZES). In 2008 and 2009, we integrated these businesses into a single business group and are reporting their results separately from our specialty printing business. Together, these ZES companies give Zebra the ability to deliver more high-value applications that help our customers identify, track and manage assets, transactions and people. We consider these solutions natural adjacencies to our core specialty printing business. The solutions these companies provide are sold on a contract basis and are typically installed over several quarters. These contracts cover a range of services, including design, installation and ongoing maintenance services.

Note 2 Summary of Significant Accounting Policies

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

Fiscal Calendar. Zebra operates on a 4 week/4 week/5 week fiscal quarter, and each fiscal quarter ends on a Saturday. The fiscal year always begins on January 1 and ends on December 31. This fiscal calendar results in some fiscal quarters being either greater than or less than 13 weeks, depending on the days of the week those dates fall. During the 2009 fiscal year, our quarter end dates were as follows:

April 4,
July 4,
October 3, and
December 31.

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

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

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

Investments and Marketable Securities. Investments and marketable securities at December 31, 2009, consisted of U.S. government and agency securities, state and municipal bonds, corporate bonds, and other interests. Zebra classifies its debt and marketable equity securities in one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those debt securities that Zebra has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of discounts or premiums. Unrealized holding gains and losses on trading securities are included in earnings.

Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders equity until realized. As of December 31, 2009, all of our investments and marketable securities are classified as available-for-sale securities. In addition, all investments in marketable debt securities with maturities greater than one year are classified as long-term in the balance sheet due to our ability and intent to hold them until maturity.

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

Inventories. Inventories are stated at the lower of cost or market, and cost is determined by the first-in, first-out (FIFO) method. Manufactured inventories consist of the following costs: component, direct labor and manufacturing overhead. Purchased inventories consist of purchased costs and purchasing overhead.

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

Income Taxes. On January 1, 2007, we adopted ASC 740 (formerly FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*). According to ASC 740, we identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. During 2008, we recognized an increase of approximately $4,000,000 in the liability for unrecognized tax benefits related to an acquisition.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at January 1, 2008	$
Additions based on tax positions related to 2008	4,000
Additions based on tax positions related to 2009	
Balance at December 31, 2009	$ 4,000

Zebra s continuing practice is to recognize interest and penalties related to income tax matters as part of income tax expense. For the years ended December 31, 2009 and December 31, 2008, we did not accrue any interest or penalties into income tax expense.

Goodwill and Other Intangibles. Goodwill represents the unamortized excess of the cost of acquiring a business over the fair values of the net assets received at the date of acquisition. Goodwill is no longer being amortized, as required by ASC 350 (formerly Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*).

We test the impairment of goodwill each year or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last annual assessment during June 2009. At that time, no adjustment to goodwill was necessary due to impairment. Due to economic conditions in late 2008, we performed an additional assessment of our goodwill during December 2008 and found the goodwill of our Zebra Enterprise Solutions Group to be impaired. See Note 13 for further information related to goodwill impairment charges.

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

- Significant adverse change in legal factors or in the business climate,
- Adverse action or assessment by a regulator,
- Unanticipated competition,
- Loss of key personnel,

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

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

- Significant underperformance relative to expected historical or projected future operating results,
- Significant changes in the manner of use of the acquired assets or the strategy for the overall business,
- Significant negative industry or economic trends,
- 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 by comparing the carrying value of the asset group to its fair value, which is estimated by using projected discounted cash flows and using a discount rate that incorporates the risk inherent in the cash flows. Due to economic conditions in 2008, we performed an assessment of our identifiable intangibles during December 2008 and found that several of our identifiable intangible assets were impaired. See Note 13 for further information related to asset impairment charges.

Other intangible assets capitalized consist primarily of current technology, customer relationships and patents and patent rights. These assets are recorded at cost and amortized on a straight-line basis over a weighted-average life of 5.3 years, which approximates the estimated useful lives. Weighted average lives remaining by intangible asset class are as follows: Current technology 3.9 years; Patent and patent rights 3.0 years; Customer relationships 7.8 years. Accumulated amortization for these other intangible assets was $34,541,000 at December 31, 2009 and $23,394,000 at December 31, 2008.

Revenue Recognition. Revenue includes sales of hardware, supplies, software and services (including repair services, extended service contracts, and professional services). Product revenue is recognized once four criteria are met: (1) we have persuasive evidence that an arrangement exits; (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. We provide for an estimate of product returns based on historical experience. Revenue related to extended warranty and service contracts is recorded as deferred revenue and recognized over the life of the contract. Professional services revenue is recorded when performed. 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 earning process for that product is complete. 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.

Zebra records payments to resellers of its product as reductions to revenue unless these payments meet the requirements for operating expense treatment under ASC 605 (formerly EITF 01-09 *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products*). See the market development funds accounting policy for further details.

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

ZES has fixed fee software implementation projects, for which we use the percentage of completion method for revenue recognition. Under this method of accounting, we recognize revenue based on the ratio of costs incurred to total estimated costs. Contract terms generally provide for progress billings on advance terms or based on completion of certain phases of the work. At December 31, 2009, unbilled revenue was $8,480,000 and receivables for contracts in progress included in accounts receivable were $14,682,000. At December 31, 2008, unbilled revenue was $9,801,000 and receivables for contracts in progress included in accounts receivable were $11,260,000.

Table of Contents

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

- Salaries, benefits, and other R&D personnel related costs,
- Consulting and other outside services used in the R&D process,
- Engineering supplies,
- Engineering related information systems costs, and
- Allocation of building and related costs.

Advertising. Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2009, 2008 and 2007 totaled $6,118,000, $7,318,000 and $6,361,000, respectively.

Market Development Funds. Zebra makes market development funds available to its resellers to support demand generation activity by the resellers. These funds require the reseller to provide specific services or benefits to Zebra and substantiate the fair value of such. Zebra reimburses resellers for agreed activities up to the fair value of the benefit received by Zebra. These payments are treated as marketing costs consistent with the requirements of ASC 605 (formerly EITF 01-9*, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products*). Any payments to resellers that do not meet these requirements are recorded as reductions to revenue.

Warranty. In general, Zebra provides warranty coverage of one year on SPG printers against defects in material and workmanship. SPG printheads are warranted for nine months and batteries are warranted for twelve months. Warranty coverage for most ZES hardware products is similar, with coverage periods ranging from 90 days to one year depending on the nature of the product. Battery based products, such as location tags, are covered by a 30 day warranty. For ZES software products, the warranty period is generally 90 days and provides coverage against defects in material and workmanship as well as performance materially in compliance with the accompanying documentation. 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):

	Year Ended December 31,		
Warranty Reserve	**2009**	**2008**	**2007**
Balance at the beginning of the year	$ 2,814	$ 3,411	$ 2,250
Warranty expense	4,629	4,094	6,522
Warranty payments	(3,630)	(4,691)	(5,361)
Balance at the end of the period	$ 3,813	$ 2,814	$ 3,411

In the European Union, we have an obligation to recycle printers. We reserve for this obligation based on the number of new printers sold after August 13, 2005, and printers sold prior to that date that are returned to us upon our sale of a new printer to a customer. The following is a summary of Zebra s accrued recycling obligation (in thousands):

	Year Ended December 31,		
Recycling Reserve	**2009**	**2008**	**2007**
Balance at the beginning of the year	$ 1,207	$ 3,706	$ 2,115
Recycling expense	324	1,664	1,580
Reserve adjustment	(640)	(3,757)	
Recycling payments	(13)	(3)	
Exchange rate impact	123	(403)	11
Balance at the end of the period	$ 1,001	$ 1,207	$ 3,706

During the second quarter of 2009 and 2008 we reviewed the environmental recycling reserves based on our experience of providing for such reserves and decreased our estimates as noted in the above schedule.

F-11

Table of Contents

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

Instrument	Method for determining fair value
Cash, cash equivalents, restricted cash, accounts receivable and accounts payable	Cost, which approximates fair value due to the short-term nature of these instruments
Investments in marketable debt securities	Market quotes from independent pricing services
Investments in auction rate securities	Broker quotations, discounted cash flow analysis or other types of valuation adjustment methodologies
Foreign currency forward contracts	Estimated using market quoted rates for foreign currency at the balance sheet date
Foreign currency option contracts	Estimated using market quoted rates for foreign currency at the balance sheet date and application of such rates subject to the option terms

In accordance with ASC 815 (formerly SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*) we recognize derivative instruments and hedging activities as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. See Note 16 for additional information on our derivatives and hedging activities.

Equity-Based Compensation. At December 31, 2009, Zebra had a general equity-based compensation plan and a stock purchase plan under which shares of our common stock was available for future grants and sales, and which are described more fully in Note 4. We account for these plans in accordance with ASC 505 and ASC 718 (formerly SFAS No. 123(R), *Share-Based Payments*). Zebra recognizes compensation costs using the straight-line method over the vesting period of 1 month to 5 years.

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

	For the years ended December 31,		
Compensation costs and related income tax benefit:	**2009**	**2008**	**2007**
Cost of sales	$ 1,198	$ 1,206	$ 1,607
Selling and marketing	1,954	2,849	2,977
Research and development	1,709	2,426	2,316
General and administration	6,606	8,083	8,167
Acquisition integration expenses		398	
Total compensation expense	$ 11,467	$ 14,962	$ 15,067
Income tax benefit	$ 3,956	$ 5,162	$ 5,198

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

ASC 505 and ASC 718 requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized (excess tax benefits) to be classified as financing cash flows. Excess tax benefits classified as financing cash flows were as follows (in thousands):

For the years ended December 31,

	2009	2008	2007
Excess tax benefits classified as financing cash flows	$ 13	$ 192	$ 921

Deferred Compensation Plan. Zebra has a deferred compensation plan that permits directors, management and highly compensated employees to defer portions of their compensation. Zebra immediately pays deferred amounts into a Rabbi

F-12

Table of Contents

Trust, and plan participants select a method of investing these funds into hypothetical investments. Zebra tracks the performance of these hypothetical investments in order to determine the value of each participant s deferral. Zebra accrues the deferred compensation liability in other long-term liabilities as the amount that is actually owed to the participants. Our deferred compensation liability was $3,155,000 as of December 31, 2009, and $3,323,000 as of December 31, 2008.

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

Acquisition Costs. Zebra periodically has external expenditures related to potential acquisitions. During 2008 and previously, these expenditures were recorded as prepaid expenses until such time as Zebra either completed the transaction or abandoned the transaction. If the transaction completed, the costs were treated as part of the cost of the acquisition. If the transaction was abandoned, the costs were expensed during the period in which it was abandoned. In 2009, Zebra expensed these costs as incurred in accordance with the adoption of ASC 805 (formerly SFAS No. 141(R), *Business Combinations*).

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of. Zebra accounts for long-lived assets in accordance with the provisions of ASC 350 (formerly SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). The statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the sum of the undiscounted cash flows expected to result from the use and the eventual disposition of the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. See Note 13 for further information related to impairment charges.

Recently Issued Accounting Pronouncements. In May 2008, the FASB issued ASC 105 (formerly SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*). This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. Any effect of applying the provisions of this Statement shall be reported as a change in accounting principle in accordance with ASC 250 (formerly SFAS No. 154, *Accounting for Changes and Error Corrections*). This standard did not have a significant effect upon our consolidated financial statements.

In October 2008, the FASB issued ASC 820 (formerly FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*). The position statement was effective upon issuance. The statement provides guidance for valuing assets that are no longer in active markets. This standard did not have a significant effect upon our consolidated financial statements.

Table of Contents

In April 2009, the FASB issued ASC 825 (formerly FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*) a statement of position that will require companies to provide disclosures required by ASC 825 (formerly FASB No. 107, *Disclosures about Fair Value of Financial Instruments*). The position statement is effective for interim reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. This standard did not have a significant effect upon our consolidated financial statements.

In April 2009, the FASB issued ASC 320 (formerly FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-than-Temporary Impairments*) which amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This statement does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The position statement is effective for interim and annual reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009 is not permitted. This standard did not have a significant effect upon our consolidated financial statements.

In April 2009, the FASB issued ASC 820 (formerly FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly*). ASC 820 provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This ASC also includes guidance on identifying circumstances that indicate a transaction is not orderly. ASC 820 becomes effective for interim and annual reporting periods after June 15, 2009 and shall be applied prospectively. This standard did not have a significant effect upon our consolidated financial statements.

In May 2009, the FASB issued ASC 855 (formerly SFAS 165, *Subsequent Events*) which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. In particular, the standard addresses: the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. The statement is effective for interim and annual reporting periods ending after June 15, 2009. This standard did not have a significant effect upon our consolidated financial statements.

In June 2009, the FASB issued ASC 105 (formerly SFAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB SFAS No. 162*) which would make the FASB Accounting Standards Codification (ASC) the single source of authoritative accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the SEC and its staff. The ASC does not change GAAP; instead, it introduces a new structure that is organized into user-friendly research system. The ASC reorganizes thousands of GAAP pronouncements into approximately 90 accounting topics using a consistent structure. The statement is effective for interim and annual reporting periods ending after September 15, 2009. This standard did not have a significant effect upon our consolidated financial statements.

In August 2009, the FASB issued update 2009-05, ASC 820, *Fair Value Measurements and Disclosures Measuring Liabilities at Fair Value* which provides additional guidance clarifying the measurement of financial liabilities at fair value. This standard is effective after issuance and did not have a significant effect upon our consolidated financial statements.

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. We have not yet determined the effect of this standard 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. We have not yet determined the effect of this standard upon our consolidated financial statements.

Reclassifications. Certain amounts in the prior years financial statements have been reclassified to conform to the current year s presentation. Selling and marketing expenses of $9,329,000 for the year ended December 31, 2008, and $7,880,000 for the year ended December 31, 2007, have been reclassified to research and development expenses to realign Zebra s SPG product management group. Prior period amounts will differ in these categories from amounts previously reported.

Subsequent events. We have evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through February 23, 2010, the day the financial statements were issued.

Note 3 Fair Value Measurements

Financial assets and liabilities are to be measured using inputs from three levels of the fair value hierarchy. As defined in Accounting Standards Codification (ASC) 820 (formerly Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*) fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

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

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

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

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

Included in our investment portfolio are four 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 December 31, 2009, failed. Therefore, the fair values of these securities are estimated utilizing broker quotations, discounted cash flow analysis or other types of valuation adjustment methodologies. 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.

Of the four auction rate security instruments, Zebra deemed one item to be other than temporarily impaired and recorded the market value decline in the amount of $4,374,000 for that security in the third quarter of 2008. The decline in the market value of the other securities 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.

Table of Contents

Financial assets and liabilities carried at fair value as of December 31, 2009, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Government and agency securities	$ 12,811	$	$	$ 12,811
Obligations of government-sponsored enterprises (1)	10,666			10,666
State and municipal bonds	161,839		4,133	165,972
Corporate securities	13,654		2,914	16,568
Other investments	36			36
Forward contracts (2)	851			851
Money market investments related to the deferred compensation plan	3,155			3,155
Total assets at fair value	$ 203,012	$	$ 7,047	$ 210,059
Liabilities:				
Liabilities related to the deferred compensation plan	$ 3,155	$	$	$ 3,155
Total liabilities at fair value	$ 3,155	$	$	$ 3,155

Financial assets and liabilities carried at fair value as of December 31, 2008, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Government and agency securities	$ 37,361	$	$	$ 37,361
Obligations of government-sponsored enterprises (1)	4,846			4,846
State and municipal bonds	140,406		4,133	144,539
Corporate securities			2,914	2,914
Other investments	320			320
Money market investments related to the deferred compensation plan	3,426			3,426
Total assets at fair value	$ 186,359	$	$ 7,047	$ 193,406
Liabilities:				
Forward contracts (2)	$ 2,414	$ 8,015	$	$ 10,429
Liabilities related to the deferred compensation plan	3,323			3,323
Total liabilities at fair value	$ 5,737	$ 8,015	$	$ 13,752

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).
   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.

Table of Contents

The following table presents Zebra s activity for assets measured at fair value on a recurring basis using significant unobservable inputs, Level 3 as defined in ASC 820 for the years ended December 31 (in thousands):

	Year Ended December 31, 2009	Year Ended December 31, 2008
Balance at beginning of the year	$ 7,047	$
Transfers to Level 3		12,350
Total losses (realized or unrealized):		
Included in earnings		(4,374)
Included in other comprehensive income (loss)		(929)
Purchases and settlements (net)		
Balance at end of period	$ 7,047	$ 7,047
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	$	$

As of December 31, 2009 and December 31, 2008, there were no other Level 3 unrealized losses that Zebra believes to be other-than-temporary. No realized gains or losses were recorded for the years ended December 31, 2009, 2008 and 2007.

The following is a summary of short-term and long-term investments at December 31, 2009 and December 31, 2008 (in thousands):

	As of December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	$ 12,931	$ 45	$ (165)	$ 12,811
Obligations of government-sponsored enterprises	10,589	82	(5)	10,666
State and municipal bonds	165,366	1,177	(571)	165,972
Corporate securities	16,680	306	(418)	16,568
Other investments	36			36
Total investments	$ 205,602	$ 1,610	$ (1,159)	$ 206,053

	As of December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	$ 37,598	$ 9	$ (246)	$ 37,361
Obligations of government-sponsored enterprises	4,913	21	(88)	4,846

State and municipal bonds	144,528	1,366	(1,355)	144,539
Corporate securities	3,350		(436)	2,914
Other investments	320			320
Total investments	$ 190,709	$ 1,396	(2,125)	$ 189,980

The maturity dates of investments as of December 31, 2009 are as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Less than 1 year	$ 114,278	$ 114,064
1 to 5 years	79,931	81,039
6 to 10 years	2,991	3,042
Thereafter	8,402	7,908
Total	$ 205,602	$ 206,053

Table of Contents

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 4 Equity-Based Compensation

As of December 31, 2009, Zebra had a general equity-based compensation plan and a stock purchase plan under which shares of our common stock were available for future grants and sales, and which are described below.

On May 9, 2006, Zebra s stockholders approved the 2006 Zebra Technologies Corporation Incentive Compensation Plan (the 2006 Plan), which included authorization for issuance of awards of 5,500,000 shares under the 2006 Plan. The 2006 Plan became effective immediately and superseded the 1997 Stock Option Plan (the 1997 Plan) and the 2002 Non-Employee Director Stock Option Plan (the 2002 Director Plan), except that the prior plans will remain in effect with respect to stock options granted under the prior plans until such options have been exercised, forfeited, cancelled, expired or otherwise terminated in accordance with the terms of such grants. The types of awards available under the 2006 Plan are incentive stock options, nonqualified stock options, stock appreciation rights (SARs), restricted stock, performance shares and units and performance-based cash bonuses. Employees, directors and consultants of Zebra and its subsidiaries are eligible to participate in the 2006 Plan. As of December 31, 2009, 3,024,074 shares were available for grant under the plan, and options for 1,820,907 shares were outstanding under the 2006 Plan.

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

The following table shows the number of shares of restricted stock granted in 2009 and the vesting schedules of the restricted stock awards that were granted under the Plan to certain executive officers and other members of management.

Vesting period	Number of shares granted
After two years of service	500
After three years of service	298,203

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

The 1997 Plan was superseded by the 2006 Plan. As of December 31, 2009, options for 1,368,104 shares were outstanding and exercisable under the 1997 Plan. These options expire on the earlier of (a) ten years following the grant date, (b) immediately if the employee is terminated for cause, (c) ninety days if the employee is terminated involuntarily other than for cause, (d) thirty days if the employee voluntarily terminates his or her employment, or (e) one year if the employee s employment terminates due to death, disability, or retirement.

The 2002 Director Plan was superseded by the 2006 Plan. As of December 31, 2009, options for 159,068 shares were outstanding and exercisable under the 2002 Director Plan. Unless otherwise provided in an option agreement, options granted under the 2002 Director Plan become exercisable in five equal increments beginning on the date of the grant and continuing on each of the four anniversaries thereafter. All such options expire on the earlier of (a) ten years following the grant date, (b) the first anniversary of the termination date of the non-employee director s directorship for any reason other than the termination of the non-employee director s directorship by Zebra s stockholders for cause, or resignation for cause, in each case as defined in the option agreement.

In connection with Zebra s acquisitions of Navis and WhereNet, Zebra assumed existing unvested stock options exercisable for shares of Navis common stock and WhereNet s common stock, respectively, and made them options exercisable for Zebra common stock. These new options have exercise prices and vesting dates based on their previous terms. The vesting dates extend in some cases until

Table of Contents

April 30, 2011 for the Navis options and until October 23, 2010 for the WhereNet options. As of December 31, 2009, outstanding Navis options were exercisable into 65,985 shares of Zebra Class A Common Stock. As of December 31, 2009, outstanding WhereNet options were exercisable into 34,637 shares of Zebra Class A Common Stock.

The Board of Directors and stockholders adopted the 2001 Stock Purchase Plan under which employees who work a minimum of 20 hours per week may elect to withhold up to 10% of their cash compensation through regular payroll deductions to purchase shares of Class A Common Stock from Zebra over a period not to exceed 12 months at a purchase price per share which prior to April 1, 2009 was equal to the lesser of: (1) 85% of the fair market value of the shares as of the date of the grant, or (2) 85% of the fair market value of the shares as of the date of purchase. Effective April 1, 2009, the purchase price per share is now equal to the lesser of: (1) 95% of the fair market value of the shares as of the date of the grant, or (2) 95% of the fair market value of the shares as of the date of purchase. The effect of this change to Zebra was to reduce the general and administrative expense related to this portion of Zebra s stock purchase plan. Stock purchase plan expense for the year ended December 31, 2009 was $514,000. Stock purchase plan expense for the year ended December 31, 2008 was $1,517,000.

For purposes of calculating the compensation cost consistent with ASC 505 and ASC 718, the fair value is estimated on the date of grant using a binomial model. Volatility is based on an average of the implied volatility in the open market and the annualized volatility of Zebra s stock prices over our entire stock history. 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 (excluding the Navis and WhereNet options):

	2009	**2008**	**2007**
Expected dividend yield	0%	0%	0%
Forfeiture rate	9.92%	8.99%	7.69%
Volatility	43.08%	37.79%	34.73%
Risk free interest rate	2.23%	3.17%	4.55%
- Range of interest rates	0.15% - 3.29%	0.81% - 3.87%	4.55% - 5.03%
Expected weighted-average life	5.23 years	5.09 years	4.88 years
Fair value of options granted	$6,046,000	$7,566,000	$10,790,000
Weighted-average grant date fair value of options granted (per share underlying the options)	$8.06	$13.33	$13.72

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

Stock option and SAR activity for the years ended December 31, 2009, 2008, and 2007, was as follows:

	2009		**2008**		**2007**	
Options and SARs	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	3,139,174	$ 35.83	3,029,138	$ 34.68	2,460,367	$ 34.08
Granted	749,951	19.96	567,676	35.72	1,069,290	32.10
Exercised	(128,311)	17.53	(202,204)	16.77	(332,563)	18.66
Forfeited	(132,646)	37.28	(213,012)	36.11	(149,724)	40.18
Expired	(176,223)	39.88	(42,424)	41.38	(18,232)	48.71
Outstanding at end of year	3,451,945	$ 32.81	3,139,174	$ 35.83	3,029,138	$ 34.68

Exercisable at end of year	1,884,449	$ 35.23	1,719,434	$ 33.30	1,413,352	$ 30.52
Intrinsic value of exercised options and SARs	$ 738,000		$ 3,138,000		$ 6,723,000	

Table of Contents

For the year ended December 31, 2009, shares granted above include stock options to purchase 48,784 shares of Zebra Class A Common Stock (Zebra stock) and SARs with respect to 701,167 shares of Zebra stock. The terms of the SARs are established under 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 shares covered by the SAR. Exercised SARs will be settled in whole shares of Zebra stock, and any fraction of a share will be settled in cash. The SARs granted during 2009 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 stock options and SARs outstanding at December 31, 2009:

Range of Exercise Prices	Outstanding Number of Shares	Outstanding Weighted-Average Remaining Contractual Life	Outstanding Weighted-Average Exercise Price	Exercisable Number of Shares	Exercisable Weighted-Average Exercise Price
$ 1.29-$19.56	780,179	8.29 years	$ 18.52	131,618	$ 13.77
$ 19.57-$28.22	695,790	3.36 years	23.82	582,655	24.08
$ 28.23-$37.20	708,850	7.56 years	35.94	266,936	35.80
$ 37.21-$43.35	624,576	6.88 years	41.82	327,767	41.76
$ 43.36-$53.92	642,550	4.95 years	47.67	575,473	47.45
	3,451,945			1,884,449	

	Outstanding	Exercisable
Aggregate intrinsic value	$ 10,820,000	$ 4,409,000
Weighted-average remaining contractual term	6.3 years	4.5 years

Restricted stock award activity, granted under the 2006 Plan, for the years ended December 31, 2009, 2008 and 2007 was as follows:

Restricted Stock Awards	2009 Shares	2009 Weighted-Average Grant Date Fair Value	2008 Shares	2008 Weighted-Average Grant Date Fair Value	2007 Shares	2007 Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	283,567	$ 30.35	166,415	$ 31.05	51,042	$ 36.36
Granted	298,703	20.02	179,060	31.42	175,089	31.23
Released	(35,904)	32.97	(50,114)	35.46	(59,716)	36.10
Forfeited	(38,382)	32.34	(11,794)	34.89		0.00
Outstanding at end of year	507,984	$ 23.94	283,567	$ 30.35	166,415	$ 31.05

As of December 31, 2009, there was $18,646,000 of unearned compensation cost related to awards granted under Zebra s equity-based compensation plans, which is expected to be recognized over a weighted-average period of 2.5 years.

The fair value of the purchase rights issued to Zebra employees 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.

	2009	2008	2007
Fair market value	$ 21.41	$ 20.26	$ 34.70

Option price	$ 19.66	$ 17.22	$ 29.50
Expected dividend yield	0%	0%	0%
Expected volatility	34%	46%	29%
Risk free interest rate	0.18%	1.87%	4.57%

Table of Contents

Note 5 Business Combinations

Multispectral Solutions Inc. On April 1, 2008, Zebra acquired all of the outstanding stock of Multispectral Solutions Inc. (MSSI) for $18,366,000, which is net of cash acquired and includes transaction costs. Headquartered in Germantown, Maryland, MSSI is a global provider of ultra wideband (UWB) real-time locating systems and other UWB-based wireless technology. Zebra acquired this company to further extend our range of solutions. The Consolidated Statements of Earnings (Loss) reflect the results of operations of MSSI since the effective date of the purchase. The pro forma impact of this acquisition was not significant.

As part of the acquisition closing, an escrow was established, which, as of December 31, 2009 held $2,000,000. On September 17, 2009, Zebra filed a demand against the former shareholders of MSSI seeking recovery for damages resulting from the selling Shareholders breach of several representations and warranties contained in the acquisition agreement. Representatives of the selling shareholders of MSSI disputed the allegations contained in Zebra s demand and after settlement discussions were unsuccessful, on October 28, 2009, filed a Declaratory Action in the Circuit Court of Cook County seeking to obtain a portion of the escrowed funds. On December 9, 2009, Zebra filed its Answer to the Declaratory Action and its Counterclaim against the former shareholders of MSSI and others (the Defendants), alleging that Zebra is entitled to indemnification from the Defendants as a result of, among other things, fraud and breaches of the representations and warranties in the acquisition agreement. The dispute has not been settled as of December 31, 2009. The funds in escrow would represent a gain contingency to Zebra if the dispute is settled in Zebra s favor.

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

	At April 1, 2008
Current assets	$ 700
Property and equipment	70
Intangible assets	8,000
Goodwill	13,547
Total assets acquired	$ 22,317
Deferred tax liability	(3,011)
Current liabilities	(940)
Net assets acquired	$ 18,366

The purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of $13,547,000. The intangible assets of $8,000,000 consist of the following (in thousands):

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

The goodwill is not deductible for tax purposes.

Navis Holdings, LLC. On December 14, 2007, Zebra acquired all of the outstanding stock of Navis Holdings, LLC (Navis) for $144,066,000, which is net of cash acquired and transaction costs. Headquartered in Oakland, California, Navis provides solutions to optimize the flow of goods through marine terminals and other operations managing cargo in the supply chain. Zebra acquired this company to further extend our range of solutions to help our customers identify, track and manage a broader range of assets. The Consolidated Statements of Earnings (Loss) reflect the results of operations of Navis since the effective date of the purchase. The pro forma impact of this acquisition was not significant.

F-21

Table of Contents

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

	At December 14, 2007
Current assets	$ 25,707
Property and equipment	2,601
Intangible assets	58,400
Goodwill	76,693
Total assets acquired	$ 163,401
Current liabilities	(19,335)
Net assets acquired	$ 144,066

The purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of $76,693,000. The intangible assets of $58,400,000 consist of the following (in thousands):

	Amount	Useful life
Trade names	$ 2,300	2 years
Customer relationships	39,000	13 years
Developed technology	17,100	6 years

The goodwill is deductible for tax purposes.

proveo AG. On July 2, 2007, Zebra acquired all of the outstanding stock of proveo AG for $20,224,000 (14,866,000), which is net of cash acquired and transaction costs. Headquartered in Crailsheim, Germany, proveo AG provides integrated hardware and software systems that locate and track airport ground support equipment. Zebra acquired this company to further extend our range of solutions to help our customers identify, track and manage a broader range of assets. The Consolidated Statements of Earnings (Loss) reflect the results of operations of proveo AG since the effective date of the purchase. The pro forma impact of this acquisition was not significant.

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

	At July 2, 2007
Current assets	$ 2,062
Property and equipment	114
Intangible assets	4,176
Goodwill	16,331
Total assets acquired	$ 22,683
Deferred tax liability	(1,572)
Current liabilities	(887)
Net assets acquired	$ 20,224

The purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of $16,331,000. The intangible assets of $4,176,000 consist of the following (in thousands):

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

The goodwill is not deductible for tax purposes.

WhereNet Corp. On January 25, 2007, Zebra acquired all of the outstanding stock of WhereNet Corp., for $127,450,000, which is net of cash acquired and transaction costs. Headquartered in Santa Clara, California, WhereNet provides integrated wireless real time locating systems (RTLS) to companies primarily in the industrial manufacturing, transportation and logistics, and aerospace and defense sectors. Zebra acquired this company to add a range of solutions to help our customers identify, track and manage a broader range of assets. The Consolidated Statements of Earnings (Loss) reflect the results of operations of WhereNet since the effective date of the purchase. The pro forma impact of this acquisition was not significant.

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

	At January 25, 2007
Current assets	$ 9,254
Deferred tax assets, net	19,058
Property and equipment	360
Intangible assets	30,616
Goodwill	87,482
Total assets acquired	$ 146,770
Current liabilities	(19,320)
Net assets acquired	$ 127,450

The purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of $87,482,000. The future benefit of the acquired net operating loss of $28,815,000 is included in the net deferred tax assets. The intangible assets of $30,616,000 consist of the following (in thousands):

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

The acquired in-process research and development of $1,853,000 was written-off at the date of the acquisition in accordance with ASC 730 (formerly FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*). Acquired in-process technology is stated separately in the operating expense section of the Consolidated Statements of Earnings (Loss).

The goodwill is not deductible for tax purposes.

As part of the acquisition closing, an escrow balance of approximately $13,600,000 was established against the total purchase price. On January 24, 2008, Zebra filed an indemnification claim against the sellers of WhereNet for the entire escrow balance, alleging that Zebra was entitled to indemnification from the former shareholders of WhereNet as a result of, among other things, breaches of the representations and warranties in the acquisition agreement and potential third party claims. Representatives of the shareholders disputed the allegations and filed a declaratory action to obtain the escrowed funds. The dispute was settled and the complaint was dismissed in September 2008. In accordance with the settlement agreement, Zebra received $7,000,000 of the escrowed funds, and the remainder was distributed to the former shareholders and vested option holders of WhereNet pursuant to the terms of the acquisition agreement.

Zebra agreed to make payments to its current employees that had been shareholders and vested option holders of WhereNet to reimburse them for their pro rata portions of any share of the escrow funds that they did not receive due to Zebra s recoupment of amounts from the escrow funds. Accordingly, we recorded expense in the amount of $1,698,000 related to these payments. This expense was netted against the $7,000,000 received from the escrow settlement and is shown on the Consolidated Statements of Earnings (Loss) on a separate line titled litigation/claim settlement.

During the fourth quarter of 2008, we determined that certain impairment indicators existed related to identified intangible assets and conducted an additional impairment test of intangibles. We determined that our goodwill and other intangible assets related to ZES were impaired requiring the intangible assets and goodwill to be written off. See Note 13 for additional details.

Table of Contents

Note 6 Stockholders Equity

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

	December 31, 2009	December 31, 2008
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	58,318,983	60,861,592
Treasury stock		
Shares held	13,832,874	11,290,265

During the year ended December 31, 2009, Zebra purchased 3,173,182 shares of common stock for $65,445,000 under board authorized share repurchase plans compared to the year ended December 31, 2008, in which Zebra purchased 6,008,232 shares of common stock for $157,582,000. During the year ended December 31, 2007, Zebra purchased 3,038,389 shares of common stock for $107,390,000.

Zebra issued 281,975 treasury shares of common stock upon the exercise of stock options and purchases under the stock purchase plan during 2009. Zebra also issued from treasury shares 409,201 shares of common stock under restricted stock awards during 2009. During 2008, Zebra issued 373,793 treasury shares of common stock upon the exercise of stock options and purchases under the stock purchase plan and issued 125,783 shares of common stock from treasury shares under restricted stock awards. During 2007, Zebra issued 578,608 treasury shares of common stock upon the exercise of stock options, purchases under the stock purchase plan and for restricted stock awards.

Stockholder Rights Agreement. Zebra s Board of Directors adopted a Stockholder Rights Agreement under which stock purchase rights were paid by dividend to stockholders of record on March 15, 2002, at the rate of one Class A Right for each outstanding share of Class A Common Stock. Each Class A Right, other than those held by the acquiring person, entitles the registered holder to purchase one ten-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.01 per share, at a price of $300 per one ten-thousandth of Class A Preferred Share after the distribution date. The distribution date is 10 days after the date on which any person or group announces that it has acquired 15% or more of Zebra s outstanding common stock or 10 days (or a later date as determined by the Board of Directors) after the date on which any person or group announces or commences a tender offer that would result in the person or group becoming an owner of 15% or more of the outstanding common stock.

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

Table of Contents

Note 7 Earnings (Loss) Per Share

For the years ended December 31, 2009, 2008, and 2007, earnings (loss) per share were computed as follows (in thousands, except per-share amounts):

	Year Ended December 31,		
	2009	2008	2007
Basic earnings (loss) per share:			
Net income (loss)	$ 47,104	$ (38,421)	$ 110,113
Weighted average common shares outstanding	59,306	64,524	68,463
Per share amount	$ 0.79	$ (0.60)	$ 1.61
Diluted earnings (loss) per share:			
Net income (loss)	$ 47,104	$ (38,421)	$ 110,113
Weighted average common shares outstanding	59,306	64,524	68,463
Add: Effect of dilutive securities stock options	119		445
Diluted weighted average and equivalent shares outstanding	59,425	64,524	68,908
Per share amount	$ 0.79	$ (0.60)	$ 1.60

The potentially dilutive securities that were excluded from the earnings (loss) per share calculation consist of stock options with an exercise price greater than the average market price of the Class A Common Stock. These options were as follows:

	Year Ended December 31,		
	2009	2008	2007
Potentially dilutive shares	2,350,854	2,217,940	1,561,918

Note 8 Investments and Marketable Securities

We classify our investments in marketable debt securities as available-for-sale in accordance with the classifications defined in ASC 320 (formerly SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). As of December 31, 2009, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term in the balance sheet due to our ability to hold them until maturity.

ASC 320 requires that 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 included in purchases, sales and maturities of investments under investing activities.

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

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

Year Ended December 31,

	2009	2008	2007
Changes in unrealized gains and losses on available-for- sale securities, net of tax, recorded in accumulated other comprehensive income (loss)	$ 737	$ (543)	$ 1,111

Table of Contents

The following table shows the number, aggregate market value and unrealized losses (in thousands) of investments with market values that were less than amortized cost as of December 31, 2009. These lower market values are primarily caused by fluctuations in credit spreads. Market values are expected to recover to the amortized cost prior to maturity.

	Unrealized Loss < 12 months			Unrealized Loss > 12 months		
	Number of investments	**Aggregate Market Value**	**Unrealized Losses**	**Number of investments**	**Aggregate Market Value**	**Unrealized Losses**
Government securities	12	$ 5,511	$ (164)	2	$ 2,361	$ (7)
State and municipal bonds	3	5,580	(1)	15	19,145	(570)
Corporate Securities	2	4,187	(413)	2	1,391	(5)
Total	17	$ 15,278	$ (578)	19	$ 22,897	$ (582)

As of December 31, 2008, the number, aggregate market value and unrealized losses (in thousands) of investments with market values that were less than amortized cost were:

	Unrealized Loss < 12 months			Unrealized Loss > 12 months		
	Number of investments	**Aggregate Market Value**	**Unrealized Losses**	**Number of investments**	**Aggregate Market Value**	**Unrealized Losses**
Government securities	2	$ 590	$ (17)	16	$ 9,017	$ (321)
State and municipal bonds	1	2,900	(76)	30	24,376	(1,280)
Corporate Securities	1	2,587	(432)			
Total	4	$ 6,077	$ (525)	46	$ 33,393	$ (1,601)

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

	2009	**2008**	**2007**
Proceeds	$ 56,020	$ 165,177	$ 343,647
Realized gains	260	376	594
Realized losses	(219)	(901)	(781)
Net realized losses included in other comprehensive income (loss) as of the end of the prior year	(26)	(441)	(392)

Note 9 Related-Party Transactions

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

	2007
Unique Operating Lease	$ 1,358

Note 10 Inventories

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

	As of	
	December 31, 2009	December 31, 2008
Raw material	$ 27,953	$ 52,294
Work in process	162	1,154
Deferred costs of long-term contracts	1,937	628
Finished goods	58,928	55,787
Total inventories, gross	88,980	109,863
Inventory reserves	(9,054)	(9,664)
Total inventories, net	$ 79,926	$ 100,199

Table of Contents

Note 11 Property and Equipment

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

	December 31,	
	2009	2008
Buildings	$ 2,036	$ 1,844
Land	320	289
Machinery, equipment and tooling	74,311	76,742
Furniture and office equipment	11,191	9,062
Computers and software	81,096	63,638
Automobiles	20	20
Leasehold improvements	11,637	10,328
Projects in progress	14,869	22,509
	195,480	184,432
Less accumulated depreciation and amortization	(117,891)	(109,069)
Net property and equipment	$ 77,589	$ 75,363

Other items related to property and equipment are as follows:

	December 31,	
	2009	2008
Unamortized computer software costs	$ 21,545	$ 13,330

	Year Ended December 31,		
	2009	2008	2007
Amortization of capitalized software	$ 6,212	$ 5,058	$ 4,447
Total depreciation expense charged to income	22,447	20,006	15,774

Note 12 Income Taxes

The geographical sources of income (loss) before income taxes were as follows (in thousands):

	Year Ended December 31,		
	2009	2008	2007
United States	$ 49,514	$ (30,517)	$ 142,903
Outside United States	21,009	18,604	24,472

Total	$ 70,523	$ (11,913)	$ 167,375

Zebra s intention is to permanently reinvest the undistributed earnings of all of our foreign subsidiaries in accordance with ASC 740 (formerly APB Opinion No. 23, *Accounting for Income Taxes Special Areas*). Accordingly, we have not provided for deferred U.S. income taxes on undistributed earnings of foreign subsidiaries, which totaled approximately $38,000,000 at December 31, 2009. Should such earnings be remitted to Zebra, foreign tax credits would be available to substantially offset the U.S. income taxes due upon repatriation.

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

	Year Ended December 31,		
	2009	**2008**	**2007**
Current:			
Federal	$ 4,213	$ 38,149	$ 44,737
State	861	5,213	5,391
Foreign	5,556	7,494	8,399
Total current	10,630	50,856	58,527
Deferred:			
Federal	10,504	(22,309)	(1,458)
State	509	(2,039)	193
Foreign	1,776		
Total deferred	12,789	(24,348)	(1,265)
Total	$ 23,419	$ 26,508	$ 57,262

Table of Contents

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

	Year Ended December 31,		
	2009	2008	2007
Provision computed at statutory rate	$ 24,683	$ (4,170)	$ 58,582
State income tax, net of Federal tax benefit	566	1,127	3,636
Tax-exempt interest income	(1,047)	(1,997)	(4,173)
Acquired in-process technology			649
Acquisition related items		(2,450)	
Asset impairment charges		35,360	
Domestic manufacturing deduction	(700)	(1,715)	(1,470)
Research and experimental credit	(600)	(400)	(400)
Foreign rate differential	(1,263)	1,094	877
Other	1,780	(341)	(439)
Provision for income taxes	$ 23,419	$ 26,508	$ 57,262

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

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

	December 31,	
	2009	2008
Deferred tax assets:		
Deferred rent	$ 1,462	$ 1,817
Accrued vacation	1,227	1,717
Deferred compensation	1,525	1,576
Inventory items	4,131	4,358
Allowance for doubtful accounts and other receivables	410	272
Other accruals	3,488	3,749
Equity based compensation expense	16,132	18,545
Unrealized gain on securities		275
Unrealized loss on other investments	5,552	10,154
Unrealized loss on hedges		12
Net operating loss carryforwards	18,334	21,792
Total deferred tax assets	52,261	64,267
Deferred tax liabilities:		
Unrealized loss on securities	(169)	
Depreciation and amortization	(5,458)	(1,337)
Total deferred tax liabilities	(5,627)	(1,337)
Net deferred tax assets	$ 46,634	$ 62,930

On January 1, 2007, we adopted ASC 740 (formerly FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*). According to ASC 740, we identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. During 2008, we recognized an increase of approximately $4,000,000 in the liability for unrecognized tax benefits related to an acquisition. This benefit remained unchanged as of December 31, 2009.

Included in deferred tax assets are amounts related to federal and state net operating losses that resulted from our acquisition of WhereNet Corp. As of December 31, 2009, we had approximately $35,003,000 of federal net operating loss carryforwards available to offset future taxable income which expire in 2012 through 2022. As of December 31, 2009, we also had approximately $19,283,000 of state net operating loss carryforwards which expire in 2012 through 2022. Zebra s intention is to utilize these net operating loss carryforwards to offset future income tax expense. Under the United States Tax Reform Act of 1986, the amounts of benefits from net operating loss carryforwards may be impaired or limited in certain circumstances, including significant changes in ownership interests. In addition, as of December 31, 2009, Zebra had approximately $8,325,776 of foreign net operating loss carryforwards which currently can be carried forward indefinitely.

Table of Contents

Zebra has concluded all U.S. federal income tax audits for years through 2006. The tax years 2005 through 2008 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 years ended December 31, 2009, 2008 and 2007, we did not accrue any interest or penalties into income tax expense.

Note 13 Goodwill and Other Intangible Asset Data

Intangible asset data are as follows (in thousands):

	December 31, 2009		December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Current technology	$ 32,038	$ (17,071)	$ 33,157	$ (14,034)
Patent and patent rights	13,663	(6,774)	13,238	(4,448)
Customer relationships	44,822	(10,696)	43,358	(4,912)
Total	$ 90,523	$ (34,541)	$ 89,753	$ (23,394)
Aggregate amortization expense				
For the year ended December 31, 2008			$ 18,575	
For the year ended December 31, 2009	$ 10,466			
Estimated amortization expense				
For the year ended December 31, 2010	$ 9,289			
For the year ended December 31, 2011	8,867			
For the year ended December 31, 2012	8,212			
For the year ended December 31, 2013	6,863			
For the year ended December 31, 2014	3,883			
Thereafter	18,868			
Total	$ 55,982			

	December 31, 2009	December 31, 2008
Unamortized intangible assets		
Goodwill at gross cost	$ 265,799	$ 265,799
Impairment charges	(112,184)	(113,679)
Foreign exchange impact	(390)	(764)
Goodwill	$ 153,225	$ 151,356

Certain of our intangible assets including goodwill are denominated in foreign currency and, as such, include the effects of foreign currency translation.

In accordance with ASC 350 (formerly SFAS No. 142, *Goodwill and Other Intangible Assets*) 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. See detailed discussion on Valuation of Goodwill, Long-Lived and Other Intangible Assets in the Critical Accounting Policies and Estimates Section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

During the fourth quarter of 2008, we determined that certain impairment indicators existed related to identified intangible assets and conducted an additional impairment test of intangibles. Due to the deterioration of the economy and a significant reduction in the price of our stock, we determined that our goodwill and other intangible assets were impaired requiring total estimated impairment charges of $157,600,000 at December 31, 2008. (The portion of the goodwill associated with our ZES segment included in the estimated impairment charge was $113,679,000). Upon completion of a detailed second step impairment analysis we recorded a credit of $1,495,000 in the second quarter of 2009 to adjust a portion of our original goodwill impairment for ZES. In addition, we recorded an impairment charge for a ZES intangible asset or $437,000.

We performed our annual impairment test in June 2009 and determined that our goodwill was not impaired as of the end of May 2009.

Changes in the net carrying value amount of goodwill were as follows (in thousands):

	Zebra Enterprise Solutions Group	Specialty Printing Group	Total
Goodwill at December 31, 2007	$ 175,812	$ 70,698	$ 246,510
Acquisitions	19,289		19,289
Impairment charges	(113,679)		(113,679)
Foreign exchange impact	(585)	(179)	(764)
Goodwill at December 31, 2008	80,837	70,519	151,356
Impairment reversal	1,495		1,495
Foreign exchange impact	304	70	374
Goodwill at December 31, 2009	$ 82,636	$ 70,589	$ 153,225

During 2009, we acquired intangible assets in the amount of $425,000 for patent rights. During 2008, we acquired intangible assets in the amount of $1,384,000 for patents and other intellectual property. These intangible assets have an estimated useful life of 2 to 9 years. In conjunction with our goodwill impairment testing, we also tested our identifiable intangible assets and found several of them to be impaired resulting in an additional impairment charge of $28,937,000 to our ZES segment and $14,680,000 to our SPG segment. The intangible asset impairment charges in our SPG segment were related primarily to radio frequency identification patents and patent rights. The intangible asset impairment charges in our ZES segment were related to customer relationships, technology, third party technology licenses and non-competition agreements.

Note 14 Other Assets

Other assets consist of the following (in thousands):

	December 31,	
	2009	2008

Money market investments related to the deferred compensation plan (See Note 19)	$ 3,155	$ 3,426
Long-term equity securities	532	812
Deposits	1,120	957
Other long-term assets	108	210
Total	$ 4,915	$ 5,405

Table of Contents

Note 15 401(k) Savings and Profit Sharing Plans

Zebra has a Retirement Savings and Investment Plan (401(k) Plan), which is intended to qualify under Section 401(k) of the Internal Revenue Code. During the first quarter of 2009, Zebra announced changes to its 401(k) Plan, profit sharing plan and stock purchase plan. Qualified employees may participate in Zebra s 401(k) Plan by contributing up to 15% of their gross earnings to the plan subject to certain Internal Revenue Service restrictions. Effective March 1, 2009, Zebra reduced the company match to each participant s contribution from 6% of gross eligible earnings at the rate of 50%, to 3% of gross eligible earnings at the rate of 50%. Effective January 1, 2010, Zebra increased the company match to each participant s contribution to a total of 4%. Zebra will match 100% of the first 2% of gross eligible earnings, and also match the next 4% of gross eligible earnings at the rate of 50%. Zebra may contribute additional amounts to its 401(k) Plan at the discretion of the Board of Directors, subject to certain legal limits.

Zebra has a discretionary profit-sharing plan for qualified employees, to which it contributes a percentage of eligible payroll each year. Zebra announced that it will suspend any contributions to the profit sharing plan for the 2009 plan year. Participants are not permitted to make contributions under the profit-sharing plan.

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

	Year Ended December 31,		
	2009	**2008**	**2007**
401(k)	$ 2,210	$ 4,156	$ 4,203
Profit sharing	145	1,748	1,599
Total	$ 2,355	$ 5,904	$ 5,802
Percentage of eligible payroll contributed for profit sharing plan	0.0%	1.5%	1.8%

Note 16 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 counterparty credit risk for nonperformance and to market risk related to interest and currency exchange rates. We manage our exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. Our counterparties in derivative transactions are commercial banks with significant experience using derivative instruments. We monitor the impact of market risk on the fair value and cash flows of our derivative and other financial instruments considering reasonably possible changes in interest rates and currency exchange rates and restrict the use of derivative financial instruments to hedging activities.

We continually monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. The terms and conditions of our credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer.

Fair Value of Derivative Instruments

Zebra has determined that derivative instruments for hedges that have settled 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.

Table of Contents

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):

	Year Ended December 31,		
	2009	**2008**	**2007**
Change in losses from foreign exchange derivatives	$ (512)	$ (13,196)	$ (3,788)
Gain (loss) on net foreign currency assets	467	16,714	4,311
Net foreign exchange gain (loss)	$ (45)	$ 3,518	$ 523

	December 31, 2009	**December 31, 2008**	**December 31, 2007**
Notional balance of outstanding contracts:			
Euro	37,042	18,500	14,000
Pound	£ 7,476	£ 5,000	£ 3,000
Euro/Pound		17,000	20,500
Net fair value of outstanding contracts	$ (6)	$ (2,414)	$ (104)

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

	As of	
	December 31, 2009	**December 31, 2008**
Net unrealized gains (losses) deferred in other comprehensive income:		
Gross	$ 31	$ (32)
Income tax benefit	12	(12)
Net	$ 19	$ (20)

Hedging of Anticipated Sales

We manage the exchange rate risk of anticipated euro-denominated sales using forward contracts and option collars. We designate these contracts as cash flow hedges 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. We do not have any outstanding contracts or option collars as of December 31, 2009.

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

	As of	
	December 31, 2009	December 31, 2008
Notional balance of outstanding contracts versus the dollar		14,680
Hedge effectiveness		100%

	Year Ended December 31,		
	2009	2008	2007
Net gain and (losses) included in revenue	$ 603	$ (12,354)	$ (3,060)

Forward Contracts

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

	As of	
	December 31, 2009	**December 31, 2008**
Assets:		
Other assets	$ 851	$
Total	$ 851	$
Liabilities:		
Other long-term liabilities	$	$ 10,429
Total	$	$ 10,429

Note 17 Commitments and Contingencies

Leases. Minimum future obligations under all non-cancelable operating leases as of December 31, 2009 are as follows (in thousands):

	Operating Leases
2010	$ 12,008
2011	10,703
2012	7,800
2013	6,117
2014	3,119
Thereafter	2,296
Total minimum lease payments	$ 42,043

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

	Year Ended December 31,		
	2009	**2008**	**2007**
Rent expense	$ 13,312	$ 15,695	$ 10,675

The operating lease information includes a variety of properties around the world. These properties are used as manufacturing facilities, distribution centers and sales offices. Lease terms range from one year to 17 years with breaking periods specified in the lease agreements.

During 2008, Zebra entered into a sale and leaseback transaction for the building we owned in Camarillo, California. The resulting lease has a term of 30 months and the minimum monthly lease payments are $111,850 with no rent escalation clause. During March 2009, we moved our corporate headquarters from Vernon Hills, Illinois, to a new location in Lincolnshire, Illinois. The lease on this building has a term of 5 years and 4 months, with minimum monthly lease payments beginning at $53,644 and increasing approximately 2% per year through the end of the lease term.

Letters of Credit. In connection with various customer contracts, Zebra has entered into three letters of credit agreements with a bank. The contingent liability of Zebra under these agreements as of December 31, 2009, is $2,993,000. See below for letters of credit related to our revolving credit agreement.

Revolving Credit Agreement. On August 14, 2008, Zebra entered into a revolving credit agreement for a five-year $100 million revolving credit facility. The loans under this credit facility will be available for general corporate purposes of Zebra and its subsidiaries in the ordinary course of business and other purposes permitted by the agreement.

This credit agreement is guaranteed by certain of Zebra s domestic subsidiaries. Loans under the agreement shall bear interest at a rate equal to the prime rate or a spread over the applicable LIBOR rate, as selected by Zebra. This spread for LIBOR-based loans is dependent on our ratio of Total Debt to EBITDA, as defined in the agreement, and ranges from 0.50% to 1.25%. The spread in effect at closing for LIBOR-based loans was .50%.

The credit agreement includes customary representations, warranties, affirmative and negative covenants (including, among others, restrictions on the payment of cash dividends) and events of default (and related remedies, including acceleration and increased interest rates following an event of default). It also contains financial covenants tied to Zebra s leverage ratio and fixed charge coverage ratio. As of December 31, 2009, we had established letters of credit amounting to $4,170,000, which reduce the funds available for borrowing under the agreement. At that date, no amounts were outstanding under the credit agreement.

Legal Proceedings. On January 31, 2003, a Writ of Summons was filed in the Nantes Commercial Court, Nantes, France, by Printherm, a French corporation, and several of its shareholders (collectively, Printherm), against Zebra Technologies France (ZTF), a French corporation and wholly-owned subsidiary of Zebra. Printherm seeks damages in the amount of 15,304,000 and additional unspecified damages in connection with ZTF s termination of negotiations in December 2000 respecting the proposed acquisition by Zebra of the capital stock of Printherm. In December 2009, the parties resolved this matter with ZTF agreeing to pay 50,000 in full settlement of Printherm s claims.

On April 9, 2008, a complaint was filed in the U.S. District Court for the Northern District of Illinois by Barcode Informatica, Ltd. (Barcode), a former Brazilian reseller, against Zebra. The complaint alleges that Zebra wrongfully terminated Barcode s reseller status and tortiously interfered with Barcode s alleged bid for the sale of printers to a Brazilian customer. Barcode s claim seeks an unspecified amount of damages. Discovery in the case is on-going. Zebra is vigorously defending this action, believes that Barcode s claims are without merit and that the matter will not have a material adverse impact on our business.

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 18 Segment and Geographic Data

Zebra has two reportable segments: Specialty Printing Group (SPG) and Zebra Enterprise Solutions (ZES).

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

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

The accounting policies for reportable segments are the same as those described in the summary of significant accounting policies except that Zebra records its federal and state deferred tax assets and liabilities in corporate and other. Intersegment sales are not significant.

Table of Contents

Segment information is as follows (in thousands):

	Years Ended		
	December 31, 2009	December 31, 2008	December 31, 2007
Net sales:			
SPG Tangible products	$ 688,057	$ 851,561	$ 804,087
SPG Service & software	34,499	30,898	28,947
SPG Net Sales	722,556	882,459	833,034
ZES Tangible products	12,987	20,025	21,391
ZES Service & software	68,042	74,216	13,854
ZES Net Sales	81,029	94,241	35,245
Total	$ 803,585	$ 976,700	$ 868,279
Operating income (loss):			
SPG	$ 148,121	$ 206,188	$ 213,591
ZES	(15,254)	(165,966)	(11,255)
Corporate and other	(64,065)	(55,568)	(59,151)
Total	$ 68,802	$ (15,346)	$ 143,185
Depreciation and amortization:			
SPG	$ 15,565	$ 17,515	$ 15,542
ZES	9,518	14,885	5,850
Corporate and other	7,830	6,181	5,510
Total	$ 32,913	$ 38,581	$ 26,902

	December 31, 2009	December 31, 2008
Identifiable assets:		
SPG	$ 336,428	$ 376,515
ZES	185,495	190,572
Corporate and other	308,556	283,791
Total	$ 830,479	$ 850,878

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

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

	North America	Europe, Middle East & Africa	Latin America	Asia	Total
2009					
Net sales	$ 362,109	$ 294,296	$ 65,060	$ 82,120	$ 803,585
Long-lived assets	68,852	6,986	346	1,405	77,589
2008					
Net sales	$ 444,266	$ 353,273	$ 76,489	$ 102,672	$ 976,700
Long-lived assets	64,296	8,642	340	2,085	75,363
2007					
Net sales	$ 416,093	$ 314,314	$ 60,090	$ 77,782	$ 868,279
Long-lived assets	58,646	7,233	401	1,406	67,686

Table of Contents

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

	Hardware	Supplies	Service and Software	Shipping and Handling	Total
2009	$ 539,934	$ 155,847	$ 102,541	$ 5,263	$ 803,585
2008	692,638	172,106	105,113	6,843	976,700
2007	656,974	161,678	42,801	6,826	868,279

The increase in service and software revenue in 2008 is primarily due to the acquisition of Navis. Navis sales have a high concentration of service and software. The Navis business, which constitutes a significant part of ZES, was not acquired until late in the fourth quarter of 2007.

Note 19 Deferred Compensation Plan

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

	Year Ended December 31, 2009	2008	2007
Gain on cash surrender value of life insurance policies/money market interest included in investment income	$	$ 55	$ 516

	December 31, 2009	December 31, 2008
Money market investments included in other assets	$ 3,155	$ 3,426
Deferred compensation liability included in other long-term liabilities	3,155	3,323

Note 20 Other Comprehensive Income (Loss)

Stockholders equity contains certain items classified as other comprehensive income (loss), including:

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

Unrealized holding gains (losses) on foreign currency hedging activities relate to derivative instruments used to hedge the currency exchange rates for forecasted euro sales. These hedges are designated as cash flow hedges, and we have deferred income statement recognition of gains and losses until the hedged transaction occurs. See Note 16 for more details.

Unrealized gains (losses) on investments classified as available-for-sale are deferred from income statement recognition. See Note 8 for more details.

Table of Contents

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

	Year Ended December 31,		
	2009	2008	2007
Foreign currency translation adjustments	$ 3,972	$ (22,991)	$ 2,277
Changes in unrealized gains and (losses) on hedging transactions:			
Gross	$ 31	$ 9,220	$ (8,346)
Income tax (benefit)	12	3,470	(3,141)
Net	$ 19	$ 5,750	$ (5,205)
Changes in unrealized holding gains and (losses) on investments classified as available-for-sale:			
Gross	$ 1,182	$ (871)	$ 1,782
Income tax (benefit)	445	(328)	671
Net	$ 737	$ (543)	$ 1,111

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

	As of December 31,	
	2009	2008
Foreign currency translation adjustments	$ (8,342)	$ (12,314)
Unrealized losses on foreign currency hedging activities:		
Gross	$ (1)	$ (32)
Income tax benefit		(12)
Net	$ (1)	$ (20)
Unrealized gains and (losses) on investments classified as available-for-sale:		
Gross	$ 452	$ (730)
Income tax (benefit)	170	(275)
Net	$ 282	$ (455)

Note 21 Major Customers

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

	Year Ended December 31,		
	2009	2008	2007
ScanSource	16.1	15.4	16.5

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

Note 22 Costs Associated with Exit or Disposal Activities

During 2008, we initiated two different plans to close facilities. These plans are being accounted for under ASC 420 (formerly SFAS No. 146, *Accounting for Cost Associated with Exit or Disposal Activities*).

Table of Contents

In January 2008, we initiated a plan to close our supplies manufacturing plant in Warwick, Rhode Island. This plant s operations were transferred to a new facility in Flowery Branch, Georgia, which is now our East Coast supplies manufacturing facility. This transition was completed during the second quarter of 2008. We do not expect to incur any further costs associated with this plan. Costs incurred and included in the December 31, 2008 results were (in thousands):

Type of Cost	2008
Severance, stay bonuses, and other employee-related expenses	$ 341
Other exit costs	261
Total	$ 602

Also 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. These actions are intended to optimize our global printer product supply chain by improving responsiveness to customer needs and increasing Zebra s flexibility to meet emerging business opportunities. As a result, substantially all printer manufacturing in our Vernon Hills, Illinois, and Camarillo, California, facilities have been transferred to Jabil s facility in Guangzhou, China as of December 31, 2009.

As of December 31, 2009, we have incurred and expect to incur the following exit costs (in thousands):

Type of Cost	Cost incurred through December 31, 2008	Costs incurred for the year ended December 31, 2009	Total costs incurred as of December 31, 2009	Additional costs expected to be incurred	Total costs expected to be incurred
Severance, stay bonuses, and other employee-related expenses	$ 4,308	$ 3,325	$ 7,633	$ 1,561	$ 9,194
Professional services	5,425	490	5,915	292	6,207
Relocation and transition costs	3,662	5,140	8,802	1,668	10,470
Other exit costs		30	30	30	60
Total	$ 13,395	$ 8,985	$ 22,380	$ 3,551	$ 25,931

During December 2008, Zebra made various organization changes in order to reduce costs. Affected employees received both severance and outplacement services. The total cost of this action was $2,653,000 and was expensed in the fourth quarter of 2008. No future costs related to these organizational changes are expected to be incurred.

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

	Year Ended	
	December 31, 2009	December 31, 2008

Balance at beginning of period	$ 6,378	$
Charged to earnings	8,985	16,650
Cash paid	(12,325)	(10,272)
Balance at the end of period	$ 3,038	$ 6,378

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 for our SPG segment under the line item exit, restructuring and integration costs.

Also included in the line item exit, restructuring and integration costs are expenses related to an integration project to combine our acquisitions of WhereNet Corp., proveo AG, Navis Holdings, LLC, and Multispectral Solutions, Inc., to form our ZES segment. Expenses related to integrating these businesses totaled $3,206,000 for the year ended December 31, 2009, and $3,359,000 for the year ended December 31, 2008.

Table of Contents

Note 23 Quarterly Results of Operations (unaudited)

(Amounts in thousands, except per share data)

2009	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 192,609	$ 187,676	$ 200,778	$ 222,522
Cost of sales	106,800	105,940	109,080	121,044
Gross profit	85,809	81,736	91,698	101,478
Selling and marketing	22,676	23,724	25,793	28,006
Research and engineering	21,804	20,614	21,155	21,516
General and administrative	22,225	19,086	23,348	20,373
Amortization of intangibles	2,634	2,575	2,649	2,608
Exit, restructuring and integration costs	2,296	3,643	3,515	2,737
Asset impairment charges (reversal)		(1,058)		
Total operating expenses	71,635	68,584	76,460	75,240
Operating income (loss)	14,174	13,152	15,238	26,238
Investment income (loss)	1,178	247	813	695
Foreign exchange gain (loss)	(1,284)	(131)	575	795
Other, net	(317)	(19)	(286)	(546)
Total other income (loss)	(413)	97	1,102	944
Income (loss) before taxes	13,751	13,249	16,340	27,182
Income taxes	4,399	4,238	5,229	9,552
Net income (loss)	$ 9,352	$ 9,011	$ 11,111	$ 17,630
Basic earnings (loss) per share	$ 0.16	$ 0.15	$ 0.19	$ 0.30
Diluted earnings (loss) per share	$ 0.16	$ 0.15	$ 0.19	$ 0.30

Table of Contents

2008	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 246,277	$ 253,782	$ 244,073	$ 232,568
Cost of sales	123,362	126,067	126,287	121,679
Gross profit	122,915	127,715	117,786	110,889
Selling and marketing	28,553	31,920	30,980	29,982
Research and engineering	22,215	25,251	23,879	23,104
General and administrative	25,045	24,216	18,534	20,090
Amortization of intangibles	4,514	4,679	4,711	4,671
Claim settlement			(5,302)	
Exit, restructuring and integration costs	3,234	4,680	4,304	7,791
Asset impairment charges				157,600
Total operating expenses	83,561	90,746	77,106	243,238
Operating income (loss)	39,354	36,969	40,680	(132,349)
Investment income (loss)	2,405	2,722	(5,141)	1,295
Foreign exchange gain (loss)	700	(69)	247	2,640
Other, net	(254)	(651)	(184)	(277)
Total other income (loss)	2,851	2,002	(5,078)	3,658
Income (loss) before taxes	42,205	38,971	35,602	(128,691)
Income taxes	14,561	13,445	9,832	(11,330)
Net income (loss)	$ 27,644	$ 25,526	$ 25,770	$ (117,361)
Basic earnings (loss) per share	$ 0.42	$ 0.39	$ 0.40	$ (1.88)
Diluted earnings (loss) per share	$ 0.42	$ 0.39	$ 0.40	$ (1.88)

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION

Schedule II

Valuation and Qualifying Accounts

(Amounts in thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions / (Recoveries)	Balance at End of Period
Valuation account for accounts receivable:				
Year ended December 31, 2009	$ 2,734	$ 329	$ 877	$ 2,186
Year ended December 31, 2008	5,075	1,061	3,402	2,734
Year ended December 31, 2007	3,549	330	(1,196)	5,075
Valuation accounts for inventories:				
Year ended December 31, 2009	$ 9,664	$ 6,661	$ 7,271	$ 9,054
Year ended December 31, 2008	10,004	8,394	8,734	9,664
Year ended December 31, 2007	9,935	9,736	9,667	10,004

See accompanying report of independent registered public accounting firm.

F-41

Index to Exhibits

2.1	(1)	Agreement and Plan of Merger between the Company, Waldo Acquisition Corp., WhereNet Corp. and Crosspoint Venture Partners 1996, LLP, dated as of January 11, 2007.
2.2	(2)	Agreement and Plan of Merger between the Company, Nero Acquisition LLC, Navis Holdings, LLC and Navis Corporation, dated October 15, 2007.
3.1(i)	(3)	Certificate of Incorporation of the Company, as amended.
3.1(ii)	(4)	Amended and Restated By-laws of Zebra Technologies Corporation.
4.0	(5)	Specimen stock certificate representing Class A Common Stock.
4.1	(6)	Rights Agreement between the Company and Mellon Investor Services, as Rights Agent.
10.1	(7)	1997 Stock Option Plan. +
10.2	(8)	First Amendment to 1997 Stock Option Plan. +
10.3	(8)	Second Amendment to 1997 Stock Option Plan. +
10.4	(9)	Third Amendment to 1997 Stock Option Plan. +
10.5	(10)	Amendment No. Four to 1997 Stock Option Plan. +
10.6	(7)	Directors 1997 Stock Option Plan. +
10.7	(5)	Lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois.
10.8	(3)	Amendment to the lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois, dated April 1, 1993.
10.9	(3)	Amendment to the lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois, dated December 1, 1994.
10.10	(11)	Amendment to the lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois, dated June 1, 1996.
10.11	(11)	Amendment to the lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois, dated June 2, 1996.
10.12	(12)	Amendment to the lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois, dated as of July 1, 1999.
10.13	(13)	2002 Non-Employee Director Stock Option Plan. +
10.14	(13)	Amendment No. 1 to 2002 Non-Employee Director Stock Option Plan. +
10.15	(16)	Employment Agreement between the Company and Anders Gustafsson dated August 23, 2007. +
10.16	(17)	First Amendment to Employment Agreement between the Company and Anders Gustafsson dated November 16, 2007. +
10.17	(14)	Second Amendment to Employment Agreement between the Company and Anders Gustafsson dated December 30, 2008. +
10.18	(16)	Non-Qualified Stock Option Agreement between the Company and Anders Gustafsson dated September 4, 2007. +
10.19	(16)	LTI Restricted Stock Agreement between the Company and Anders Gustafsson dated September 4, 2007. +
10.20	(16)	LTI Non-Qualified Stock Option Agreement between the Company and Anders Gustafsson dated September 4, 2007. +
10.21	(18)	Employment Agreement between the Company and Hugh Gagnier dated December 12, 2007. +
10.22	(14)	Amendment No. 1 to Employment Agreement between the Company and Hugh Gagnier dated December 30, 2008. +
10.23	(32)	Employment Agreement between the Company and Michael H. Terzich dated November 16, 2007. +
10.24	(32)	Employment Agreement between the Company and Todd Naughton dated November 16, 2007. +
10.25	(17)	Employment Agreement between the Company and Phil Gerskovich dated November 16, 2007. +
10.26	(27)	Employment Agreement between the Company and Joanne Townsend dated March 17, 2008. +
10.27	(28)	Employment Agreement between Michael C. Smiley and the Company dated May 1, 2008. +
10.28	(14)	Form of Amendment No. 1 to Employment Agreement by and between the Company and each executive officer other than Messrs. Gustafsson and Gagnier, each dated December 30, 2008. +
10.29	(8)	Form of Stock Option Agreement under the 1997 Stock Option Plan for awards granted prior to February 6, 2006. +
10.30	(13)	Form of Stock Option Agreement under the 2002 Non-Employee Director Stock Option Plan for awards granted prior to February 8, 2006. +
10.31	(31)	Form of Amendment to outstanding Stock Option Agreements under the 2002 Non-Employee Director Stock Option Plan. +
10.32	(19)	Form of Stock Option Agreement under the 1997 Stock Option Plan for awards granted on or after February 6, 2006. +
10.33	(19)	Form of Stock Option Agreement under the 2002 Non-Employee Director Stock Option Plan for awards granted on or after February 8, 2006. +

Table of Contents

10.34	(20)	Form of Stock Option Agreement under the 2006 Incentive Compensation Plan for awards granted prior to April 25, 2007. +
10.35	(21)	Form of Stock Option Agreement under the 2006 Incentive Compensation Plan for awards granted to executive officers on or after April 25, 2007 and prior to December 2, 2008. +
10.36	(26)	Form of Restricted Stock Agreement under the 2006 Incentive Compensation Plan for awards granted on or after April 24, 2008 and prior to December 2, 2008. +
10.37	(29)	Form of Director 1-Year Vesting Stock Option Agreement under the 2006 Incentive Compensation Plan for awards granted to directors on or after May 22, 2008 and prior to December 2, 2008. +
10.38	(29)	Form of Director 4-Year Vesting Stock Option Agreement under the 2006 Incentive Compensation Plan for awards granted to directors on or after May 22, 2008 and prior to December 2, 2008. +
10.39	(31)	Amendment to outstanding Stock Option Agreements under the 2006 Incentive Compensation Plan, dated December 2, 2008. +
10.40	(31)	Form of Stock Option Agreement under the 2006 Incentive Compensation Plan for awards granted to executive officers on or after December 2, 2008. +
10.41	(31)	Form of Director Stock Option Agreement (1-Year Vesting) under the 2006 Incentive Compensation Plan for awards granted to directors on or after December 2, 2008. +
10.42	(31)	Form of Director Stock Option Agreement (4-Year Vesting) under the 2006 Incentive Compensation Plan for awards granted to directors on or after December 2, 2008. +
10.43	(31)	Form of Restricted Stock Agreement (time-vesting) under the 2006 Incentive Compensation Plan for awards granted on or after December 2, 2008. +
10.44	(31)	Form of Restricted Stock Agreement (performance-vesting) under the 2006 Incentive Compensation Plan for awards granted on or after December 2, 2008. +
10.45	(27)	Manufacturing Services Agreement between Jabil Circuit, Inc. and the Company dated May 30, 2007 (portions of this exhibit have been omitted and have been filed separately with the Commission pursuant to a request for confidential treatment.)
10.46	(30)	Credit Agreement between Zebra Technologies Corporation and Northern Trust Company, as Syndication Agent, Bank of America, N.A., as Documentation Agent, and JPMorgan Chase Bank, N.A., as Administrative Agent, dated as of August 14, 2008.
10.47	(4)	Amendment No. 1 and Waiver to Credit Agreement dated as of August 25, 2009 among the Company, Lenders, and JPMorgan Chase Bank.
10.48	(22)	Settlement Agreement with Paxar Americas, Inc., dated September 14, 2006.
10.49	(23)	2006 Incentive Compensation Plan. +
10.50	(31)	Amendment to the 2006 Incentive Compensation Plan dated December 2, 2008. +
10.51	(24)	WhereNet Corp. 1997 Stock Option Plan. +
10.52	(24)	First Amendment to the WhereNet Corp. 1997 Stock Option Plan. +
10.53	(25)	Amended and Restated Navis Holdings, LLC 2000 Option Plan. +
10.54	(15)	Zebra Incentive Plan for first half of 2009. +
10.55	(27)	2005 Executive Deferred Compensation Plan, as amended. +
10.56	(33)	Zebra Incentive Plan for second half of 2009. +
10.57	(34)	Zebra Incentive Plan for 2010. +
10.58	(4)	Employment agreement between the Company and Jim Kaput dated August 31, 2009. +
10.59	(4)	Employment agreement between the Company and William Walsh dated January 5, 2009.
21.1		Subsidiaries of the Company.
23.1		Consent of Ernst & Young LLP, independent registered public accounting firm.
31.1		Certification pursuant to Rule 13a-14(a)/15d-14(a).
31.2		Certification pursuant to Rule 13a-14(a)/15d-14(a).
32.1		Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2		Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference from Quarterly Report on Form 10-Q filed on May 4, 2007.
(2) Incorporated by reference from Current Report on Form 8-K filed on December 17, 2007.
(3) Incorporated by reference from Form 10-K for fiscal year ended December 31. 2006.
(4) Incorporated by reference from Quarterly Report on Form 10-Q filed on November 6, 2009.
(5) Incorporated by reference from Registration Statement on Form S-1, File No. 33-41576.
(6) Incorporated by reference from Form 10-Q for the quarterly period ended March 30, 2002.
(7) Incorporated by reference from Form 10-K for the fiscal year ended December 31, 1997.
(8) Incorporated by reference from Registration Statement on Form S-8, File No. 333-63009.
(9) Incorporated by reference from Registration Statement on Form S-8, File No. 333-84512.
(10) Incorporated by reference from Form 10-Q for the quarterly period ended September 28, 2002.
(11) Incorporated by reference from Form 10-K for the fiscal year ended December 31, 1996.
(12) Incorporated by reference from Form 10-Q for the quarterly period ended April 1, 2000.
(13) Incorporated by reference from Form 10-Q for the quarterly period ended June 29, 2002.
(14) Incorporated by reference from Current Report on Form 8-K filed on January 5, 2009.
(15) Incorporated by reference from Current Report on Form 8-K filed on February 5, 2009.
(16) Incorporated by reference from Current Report on Form 8-K filed on September 4, 2007.
(17) Incorporated by reference from Current Report on Form 8-K filed on November 21, 2007.
(18) Incorporated by reference from Current Report on Form 8-K filed on December 17, 2007.
(19) Incorporated by reference from Current Report on Form 8-K filed on February 10, 2006.
(20) Incorporated by reference from Current Report on Form 8-K filed on October 26, 2006.
(21) Incorporated by reference from Current Report on Form 8-K filed on May 1, 2007.
(22) Incorporated by reference from Current Report on Form 8-K filed on September 19, 2006.
(23) Incorporated by reference from Current Report on Form 8-K filed on May 15, 2006.
(24) Incorporated by reference from Registration Statement on Form S-8 filed on January 25, 2007, File No. 333-140207.
(25) Incorporated by reference from Registration Statement on Form S-8 filed on December 19, 2007, File No. 333-148183.
(26) Incorporated by reference from Current Report on Form 8-K filed on April 30, 2008.
(27) Incorporated by reference from Form 10-Q for the quarterly period ended March 29, 2008.
(28) Incorporated by reference from Current Report on Form 8-K filed on May 7, 2008.
(29) Incorporated by reference from Current Report on Form 8-K filed on May 29, 2008.
(30) Incorporated by reference from Form 10-Q for the quarterly period ended September 27, 2008.
(31) Incorporated by reference from Current Report on Form 8-K filed on December 8, 2008.

(32) Incorporated by reference from Form 10-K for fiscal year ended December 31, 2008.

(33) Incorporated by reference from Current Report on Form 8-K filed on August 12, 2009.

(34) Incorporated by reference from Current Report on Form 8-K filed on February 10, 2010.

\+ Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K.