ZEBRA TECHNOLOGIES CORP
Form 10-Q
November 15, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 1, 2016
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.)

3 Overlook Point, Lincolnshire, IL 60069
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (847) 634-6700
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of November 8, 2016, there were 52,785,730 shares of Class A Common Stock, $.01 par value, outstanding.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
QUARTER ENDED OCTOBER 1, 2016
INDEX

		PAGE
PART I - FINANCIAL INFORMATION		
Item 1.	Consolidated Financial Statements	
	Consolidated Balance Sheets as of October 1, 2016 (unaudited) and December 31, 2015	3
	Consolidated Statements of Operations (unaudited) for the three and nine months ended October 1, 2016 and October 3, 2015	4
	Consolidated Statements of Comprehensive Loss (unaudited) for the three and nine months ended October 1, 2016 and October 3, 2015	5
	Consolidated Statements of Cash Flows (unaudited) for the nine months ended October 1, 2016 and October 3, 2015	6
	Notes to Consolidated Financial Statements (unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	31
Item 4.	Controls and Procedures	31
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	33
Item 1A.	Risk Factors	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 6.	Exhibits	34
SIGNATURES		35

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	October 1, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 163	$ 192
Accounts receivable, net of allowances for doubtful accounts of $6	599	671
Inventories, net	345	397
Prepaid expenses and other current assets	90	74
Assets held for sale	68	—
Total Current assets	1,265	1,334
Property and equipment, net	292	298
Goodwill	2,460	2,490
Other intangibles, net of accumulated amortization of $500 and $342, respectively	533	757
Long-term deferred income taxes	83	70
Other long-term assets	65	91
Total Assets	$ 4,698	$ 5,040
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 360	$ 289
Accrued liabilities	347	367
Deferred revenue	204	197
Income taxes payable	—	42
Liabilities held for sale	21	—
Total Current liabilities	932	895
Long-term debt	2,788	3,012
Long-term deferred revenue	101	125
Other long-term liabilities	129	115
Total Liabilities	3,950	4,147
Stockholders' Equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares; none issued	—	—
Class A common stock, $.01 par value; authorized 150,000,000 shares; issued 72,151,857 shares	1	1
Additional paid-in capital	199	194
Treasury stock at cost, 19,335,780 and 19,990,006 shares at October 1, 2016 and December 31, 2015, respectively	(614)	(631)
Retained earnings	1,223	1,377
Accumulated other comprehensive loss	(61)	(48)
Total Stockholders' Equity	748	893
Total Liabilities and Stockholders' Equity	$ 4,698	$ 5,040

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net sales:				
Net sales of tangible products	$772	$ 788	$2,241	$ 2,305
Revenue from services and software	132	128	391	394
Total Net sales	904	916	2,632	2,699
Cost of sales:				
Cost of sales of tangible products	402	403	1,164	1,196
Cost of services and software	88	99	258	287
Total Cost of sales	490	502	1,422	1,483
Gross profit	414	414	1,210	1,216
Operating expenses:				
Selling and marketing	112	120	337	367
Research and development	96	100	284	296
General and administrative	74	67	225	203
Amortization of intangible assets	59	59	178	190
Acquisition and integration costs	28	37	98	94
Impairment of goodwill and other intangibles	62	—	62	—
Exit and restructuring costs	7	6	17	35
Total Operating expenses	438	389	1,201	1,185
Operating (loss) income	(24)	25	9	31
Other (expense) income:				
Foreign exchange loss	(1)	(5)	(4)	(21)
Interest expense, net	(46)	(46)	(145)	(145)
Other, net	(6)	1	(9)	(1)
Total Other expenses	(53)	(50)	(158)	(167)
Loss before income taxes	(77)	(25)	(149)	(136)
Income tax expense (benefit)	6	4	5	(5)
Net loss	$(83)	$ (29)	$(154)	$ (131)
Basic loss per share	$(1.61)	$ (0.57)	$(2.99)	$ (2.56)
Diluted loss per share	$(1.61)	$ (0.57)	$(2.99)	$ (2.56)
Basic weighted average shares outstanding	51,690,264	51,151,541	51,499,447	50,925,976
Diluted weighted average and equivalent shares outstanding	51,690,264	51,151,541	51,499,447	50,925,976

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net loss	$(83)	$ (29)	$(154)	$ (131)
Other comprehensive income (loss), net of tax:				
Unrealized loss on anticipated sales hedging transactions	(1)	(2)	(5)	(5)
Unrealized gain (loss) on forward interest rate swaps hedging transactions	3	(6)	(7)	(10)
Foreign currency translation adjustment	—	(12)	(1)	(22)
Comprehensive loss	$(81)	$ (49)	$(167)	$ (168)

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended	
	October 1, 2016	October 3, 2015
Cash flows from operating activities:		
Net loss	$(154)	$ (131)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	234	240
Impairment of goodwill, intangibles and other assets	67	—
Amortization of debt issuance costs and discount	16	13
Share-based compensation	20	25
Excess tax benefit from equity-based compensation	(2)	(11)
Deferred income taxes	(4)	(38)
Unrealized gain on forward interest rate swaps	(2)	(3)
All other, net	5	12
Changes in assets and liabilities, net of businesses acquired:		
Accounts receivable	46	41
Inventories	38	(26)
Other assets	20	(33)
Accounts payable	63	8
Accrued liabilities	(23)	2
Deferred revenue	(2)	8
Income taxes	(69)	13
Other operating activities	(8)	(4)
Net cash provided by operating activities	245	116
Cash flows from investing activities:		
Purchases of property and equipment	(49)	(87)
Acquisition of businesses, net of cash acquired	—	(52)
Proceeds from sale of long-term investments	—	3
Purchases of long-term investments	(1)	—
Purchases of investments and marketable securities	—	(1)
Proceeds from sales of investments and marketable securities	—	25
Net cash used in investing activities	(50)	(112)
Cash flows from financing activities:		
Payment of long-term debt	(303)	(130)
Proceeds from issuance of long-term debt	68	—
Proceeds from exercise of stock options and stock purchase plan purchases	8	14
Taxes paid related to net share settlement of equity awards	(6)	(13)
Excess tax benefit from share-based compensation	2	11
Net cash used in financing activities	(231)	(118)
Effect of exchange rate changes on cash	7	(22)
Net decrease in cash and cash equivalents	(29)	(136)
Cash and cash equivalents at beginning of period	192	394
Cash and cash equivalents at end of period	$163	$ 258
Supplemental disclosures of cash flow information:		

Income taxes paid, net	$70	$ 32
Interest paid	121	118

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Description of Business and Basis of Presentation

Zebra Technologies Corporation and its subsidiaries ("Zebra" or "Company") is a global leader respected for innovative solutions in the automatic information and data capture industry. We design, manufacture, and sell a broad range of products that capture and move data, including: mobile computers; barcode scanners and imagers; radio frequency identification device ("RFID") readers; wireless LAN (“WLAN”) solutions and software; specialty printers for barcode labeling and personal identification; real-time location systems (“RTLS”); related accessories and supplies such as self-adhesive labels and other consumables; and software and services that are associated with these products. End-users of our products include those in the retail, transportation and logistics, manufacturing, healthcare, hospitality, warehouse and distribution, energy and utilities, and education industries around the world.

Our customers have traditionally benefited from proven solutions that increase productivity and improve efficiency and asset utilization. The Company is poised to drive and capitalize on the evolution of the data capture industry into the broader Enterprise Asset Intelligence ("EAI") industry, based on important technology trends like the Internet of Things ("IoT"), ubiquitous mobility, and cloud computing. EAI solutions offer additional benefits to our customers including real-time, data-driven insights that improve operational visibility and drive workflow optimization.

Management prepared these unaudited interim consolidated financial statements according to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information and notes. These consolidated financial statements do not include all of the information and notes required by United States generally accepted accounting principles (“GAAP”) for complete financial statements, although management believes that the disclosures are adequate to make the information presented not misleading. Therefore, these consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Annual Report on Form 10-K/A for the fiscal year ended December 31, 2015.

In the opinion of the Company, these interim financial statements include all adjustments (of a normal, recurring nature) necessary to present fairly its consolidated balance sheet as of October 1, 2016 and the consolidated statements of operations and comprehensive loss for the three and nine months ended October 1, 2016 and October 3, 2015 and the consolidated statements of cash flows for the nine months ended October 1, 2016 and October 3, 2015. These results, however, are not necessarily indicative of the results expected for the full year.

Note 2 Significant Accounting Policies

Income Taxes

The Company’s interim period tax provision is determined as follows:

- At the end of each fiscal quarter, the Company estimates the income tax provision that will be provided for the fiscal year.
- The forecasted annual effective tax rate is applied to the year-to-date ordinary income (loss) at the end of each quarter to compute the year-to-date tax applicable to ordinary income (loss). The term ordinary income (loss) refers to income (loss) from continuing operations, before income taxes, excluding significant, unusual or infrequently occurring items. The tax effects of significant, unusual or infrequently occurring items are recognized as discrete items in the interim periods in which the events occur. The impact of changes in tax laws or rates on deferred tax amounts, the effects of changes in judgment about valuation allowances established in prior years, and changes in tax reserves resulting from the finalization of tax audits or reviews are examples of significant, unusual or infrequently occurring items.

The determination of the forecasted annual effective tax rate is based upon a number of significant estimates and judgments, including the forecasted annual income (loss) before income taxes of the Company in each tax jurisdiction in which it operates, the development of tax planning strategies during the year, and the need for a valuation allowance. In addition, the Company's tax expense can be impacted by changes in tax rates or laws, the finalization of tax audits and reviews, as well as other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

Table of Contents

Recently Adopted Accounting Pronouncement

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-05, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” This update provides guidance to customers about whether a cloud computing arrangement includes a software license or should be accounted for differently. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance does not change generally accepted accounting principles for a customer’s accounting for service contracts. This update is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The Company has prospectively adopted this new standard as of January 1, 2016 and concluded that it does not have a material impact on its consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” The core principle is that a company should recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-08, “Principal versus Agent Considerations (Reporting revenue gross versus net),” which clarifies gross versus net revenue reporting when another party is involved in the transaction. In April 2016, the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing,” which amends the revenue guidance on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU 2016-11, “Rescission of SEC Guidance Because of ASU 2014-09 Pursuant to Staff Announcement at March 3, 2016 EITF Meeting,” which rescinds certain SEC Staff Observer comments upon adoption of Topic 606. In May 2016, the FASB also issued ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients,” which provides certain improvements and practical expedients in the interpretation and application of this topic. There are two transition methods available under the new standard, either cumulative effect or retrospective. These standards will be effective for the Company in the first quarter of 2018. Earlier adoption is permitted only for annual periods after December 15, 2016. Management is still assessing the impact of adoption on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory,” which changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value for entities that measure inventory using first-in, first-out (FIFO) or average cost. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for the Company in the first quarter of 2017. Earlier adoption is permitted and the guidance must be applied prospectively after the date of adoption. Management is still assessing the impact of adoption on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09,“Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which provides for simplification of certain aspects of employee share-based payment accounting including income taxes, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard will be effective for the Company in the first quarter of 2017 and will be applied either prospectively, retrospectively or using a modified retrospective transition approach depending on the area covered in this update. Earlier adoption is permitted. Management is still assessing the impact of adoption on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. With respect to the Company's consolidated financial statements, the most significant impact relates to the accounting for equity investments. This standard will be effective for the Company in the first quarter of 2018. Early adoption is prohibited for those provisions that apply to the Company. Amendments should be applied by means of cumulative effect adjustment to the consolidated balance

sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values including disclosure requirements should be applied prospectively to equity investments that exist as of the date of adoption of the ASU. Management is still assessing the impact of adoption on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments.” This pronouncement provides clarification guidance on eight specific cash flow presentation issues that have developed due to diversity in practice. The issues include, but are not limited to, debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of

Table of Contents

insurance claims, and cash receipts from payments on beneficial interests in securitization transactions. The amendments in this ASU where practicable will be applied retrospectively. The standard will be effective for the Company in the first quarter of 2018. Earlier adoption is permitted. Management does not believe this pronouncement will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Subtopic 842)." This ASU increases the transparency and comparability of organizations by recognizing lease assets and liabilities on the consolidated balance sheet and disclosing key quantitative and qualitative information about leasing arrangements. The principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases were not previously recognized in the consolidated balance sheet. The recognition, measurement, presentation and cash flows arising from a lease by a lessee have not significantly changed. This standard will be effective for the Company in the first quarter of 2019, with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. Management is currently assessing the impact of adoption on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326) -Measurement of Credit Losses on Financial Instruments." The new standard requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. It replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. There are two transition methods available under the new standard dependent upon the type of financial instrument, either cumulative effect or prospective. The standard will be effective for the Company in the first quarter of 2020. Earlier adoption is permitted only for annual periods after December 15, 2018. Management is currently assessing the impact of adoption on its consolidated financial statements.

Note 3 Business Divestiture

On September 13, 2016, the Company entered into an Asset Purchase Agreement with Extreme Networks, Inc. to dispose of its wireless LAN ("WLAN") business ("disposal group") for $55 million in cash, subject to working capital and other adjustments.

Management has determined that the disposal group does not qualify to be reported as discontinued operations and will therefore continue to be reported as part of continuing operations in its consolidated statements of operations. The assets and liabilities of the disposal group do qualify for assets held for sale accounting treatment and have been reclassified as assets and liabilities held for sale within the consolidated balance sheet at fair value less cost to sell.

As reported on Form 8-K filed on September 20, 2016, the Company incurred a non-cash pre-tax charge related to the disposal group during the third quarter of 2016. This charge, which totaled $62 million, consists of impairments of goodwill for $32 million and other intangibles for $30 million and is shown separately on the consolidated statements of operations for the three and nine months ended October 1, 2016. The sale price of the disposal group was used as fair value in determining the impairment of the assets held for sale. Since the sales price of the disposal group was less than its carrying value, the resulting loss was recorded as an impairment.

WLAN operating results are reported in the Enterprise segment. For the nine months ended October 1, 2016, the Company generated revenue and gross profit from these assets of $76 million and $37 million, respectively.

The assets and liabilities classified as held for sale reflected in the consolidated balance sheets related to the WLAN business are as follows (in millions):

Table of Contents

	October 1, 2016
Accounts receivable, net	$ 27
Inventories, net	14
Prepaid expenses and other current assets	2
Current assets held for sale	43
Property and equipment, net	3
Goodwill	—
Other intangibles, net	18
Other long-term assets	4
Total assets held for sale	$ 68
Accrued liabilities	$ 5
Current liabilities held for sale	5
Deferred revenue	15
Other long-term liabilities	1
Total liabilities held for sale	$ 21

On October 28, 2016, the Company completed the disposition of the disposal group. The finalization of the closing balance sheet is expected to be completed no later than the first quarter of 2017.

Note 4 Fair Value Measurements

Financial assets and liabilities are to be measured using inputs from 3 levels of the fair value hierarchy in accordance with ASC Topic 820, “Fair Value Measurements.” Fair value is defined as 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. It establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into the following 3 broad levels:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical 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, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. In addition, the Company considers counterparty credit risk in the assessment of fair value.

Financial assets and liabilities carried at fair value as of October 1, 2016, are classified below (in millions):

	Level 1	Level 2	Level 3	Total
Assets:				
Investments related to the deferred compensation plan	$ 11	$ —	$ —	$ 11
Total Assets at fair value	$ 11	$ —	$ —	$ 11
Liabilities:				
Forward interest rate swap contracts (2)	$ —	$ 37	$ —	$ 37
Derivative contracts-foreign currency (1)	3	5	—	8
Liabilities related to the deferred compensation plan	11	—	—	11
Total Liabilities at fair value	$ 14	$ 42	$ —	$ 56

10

Table of Contents

Financial assets and liabilities carried at fair value as of December 31, 2015, are classified below (in millions):

	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts-foreign currency (1)	$ 6	$ 1	$ —	$ 7
Investments related to the deferred compensation plan	9	—	—	9
Total Assets at fair value	$ 15	$ 1	$ —	$ 16
Liabilities:				
Forward interest rate swap contracts (2)	$ —	$ 26	$ —	$ 26
Liabilities related to the deferred compensation plan	9	—	—	9
Total Liabilities at fair value	$ 9	$ 26	$ —	$ 35

(1) The fair value of the derivative contracts is calculated as follows:

a. Fair value of a put option contract associated with forecasted sales hedges is calculated using bid and ask rates for similar contracts.

b. Fair value of regular forward contracts associated with forecasted sales hedges is calculated using the period-end exchange rate adjusted for current forward points.

c. Fair value of hedges against net assets is calculated at the period-end exchange rate adjusted for current forward points (Level 2). If the hedge has been traded but not settled at period-end, the fair value is calculated at the rate at which the hedge is being settled (Level 1). As a result, transfers from Level 2 to Level 1 of the fair value hierarchy totaled $3 million and $6 million as of October 1, 2016 and December 31, 2015, respectively.

(2) The fair value of forward interest rate swaps is based upon a valuation model that uses relevant observable market inputs at the quoted intervals, such as forward yield curves, and is adjusted for the Company’s credit risk and the interest rate swap terms. See gross balance reporting in Note 9 Derivative Instruments.

The estimated fair value of the Company’s long-term debt approximated $3.0 billion and $3.1 billion at October 1, 2016 and December 31, 2015, respectively. These fair value amounts represent the estimated value at which the Company’s lenders could trade its debt within the financial markets and do not represent the settlement value of these long-term debt liabilities to the Company. The fair value of the long-term debt will continue to vary each period based on fluctuations in market interest rates, as well as changes to the Company’s credit ratings. This methodology resulted in a Level 2 classification in the fair value hierarchy.

Note 5 Inventories

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

	October 1, 2016	December 31, 2015
Raw material	$ 164	$ 178
Finished goods	249	274
Inventories, gross	413	452
Inventory reserves	(68)	(55)
Inventories, net	$ 345	$ 397

Table of Contents

Note 6 Other Long-Term Assets

Other long-term assets consist of the following (in millions):

	October 1, 2016	December 31, 2015
Long-term investments	$ 26	$ 31
Long-term notes receivable	14	14
Other long-term assets	11	24
Investments related to the deferred compensation plan	11	9
Long-term trade receivables	—	11
Deposits	3	2
Total other long-term assets	$ 65	$ 91

The long-term investments, which are accounted for using the cost method of accounting, are primarily in venture-capital backed technology companies, and the Company's ownership interest is between 0.4% to 10.3%. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, certain distributions and additional investments.

For the three and nine month periods ended October 1, 2016, the Company determined there was an other-than-temporary impairment on one of its cost method investments and wrote down the investment by $5 million to its fair value of approximately $1 million. This charge is included in other, net on the consolidated statements of operations.

Note 7 Accrued Liabilities

The components of accrued liabilities are as follows (in millions):

	October 1, 2016	December 31, 2015
Accrued other expenses	$ 110	$ 131
Accrued compensation and related benefits	63	49
Accrued incentive compensation	42	68
Interest payable	42	36
Customer reserves	41	38
Accrued warranty	20	22
Restructuring liability	10	10
Foreign exchange contracts	8	—
Interest rate swap liability	7	3
Accrued other taxes	4	10
Total accrued liabilities	$ 347	$ 367

Note 8 Costs Associated with Exit and Restructuring Activities

Total exit and restructuring charges relate to the Company's acquisition of the Enterprise business from Motorola Solutions, Inc. ("Acquisition") in October 2014, which includes organizational design changes and operating efficiencies, and the sale of the Company's WLAN business.

Total life-to-date costs for these projects of $63 million have been recorded through October 1, 2016: $13 million in the Legacy Zebra segment and $50 million in the Enterprise segment.

During the first nine months of 2016, the Company incurred exit and restructuring costs for these projects as follows (in millions):

Table of Contents

	Cumulative costs incurred through December 31, 2015	Costs incurred for the nine months ended October 1, 2016	Cumulative costs incurred through October 1, 2016
Severance, stay bonus, and other employee-related expenses	$ 37	$ 14	$ 51
Obligations for future non-cancellable lease payments	9	3	12
Total	$ 46	$ 17	$ 63

Exit and restructuring charges were $1 million and $6 million for the Legacy Zebra and Enterprise segments, respectively, for the three month period ended October 1, 2016 and $4 million and $13 million, respectively, for the nine month period ended October 1, 2016. Included in the charges for the three and nine month periods ended October 1, 2016 was $4 million specific to the sale of the WLAN business. The Company expects total charges for the year ended December 31, 2016 to be in the range of $20 million to $30 million.

A rollforward of the exit and restructuring accruals is as follows (in millions):

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Balance at the beginning of the period	$13	$ 18	$15	$ 7
Charged to earnings	7	6	17	35
Cash paid	(4)	(8)	(16)	(26)
Reclassification to held for sale liabilities	(2)	—	(2)	—
Balance at the end of the period	$14	$ 16	$14	$ 16

Liabilities related to exit and restructuring activities are included in the following accounts in the consolidated balance sheets (in millions):

	October 1, 2016	December 31, 2015
Accrued liabilities	$ 10	$ 10
Other long-term liabilities	4	5
Total liabilities related to exit and restructuring activities	$ 14	$ 15

Payments of the related long-term liabilities will be completed by October 2024.

Note 9 Derivative Instruments

In the normal course of business, the Company is exposed to global market risks, including the effects of changes in foreign currency exchange rates and interest rates. The Company uses derivative instruments to manage its exposure to such risks and may elect to designate certain derivatives as hedging instruments under ASC 815, “Derivatives and Hedging.” The Company formally documents all relationships between designated hedging instruments and hedged items as well as its risk management objectives and strategies for undertaking hedge transactions. The Company does not hold or issue derivatives for trading or speculative purposes.

In accordance with ASC 815, “Derivative and Hedging,” the Company recognizes derivative instruments as either assets or liabilities on the consolidated balance sheet and measures them at fair value. The following table presents the fair value of its derivative instruments (in millions):

Table of Contents

	Asset (Liability) Derivatives Balance Sheet Classification	Fair Value October 1, 2016	December 31, 2015
Derivative instruments designated as hedges:			
Foreign exchange contracts	Prepaid expenses and other current assets	$—	$ 2
Foreign exchange contracts	Accrued liabilities	(5)	—
Forward interest rate swaps	Accrued liabilities	(4)	(1)
Forward interest rate swaps	Other long-term liabilities	(23)	(14)
Total derivative instruments designated as hedges		$(32)	$ (13)
Derivative instruments not designated as hedges:			
Foreign exchange contracts	Prepaid expenses and other current assets	$—	$ 5
Foreign exchange contracts	Accrued liabilities	(3)	—
Forward interest rate swaps	Accrued liabilities	(3)	(2)
Forward interest rate swaps	Other long-term liabilities	(7)	(9)
Total derivative instruments not designated as hedges		(13)	(6)
Total Net Derivative Liability		$(45)	$ (19)

See also Note 4 - Fair Value Measurements.

The following table presents the gains (losses) from changes in fair values of derivatives that are not designated as hedges (in millions):

	Gain (Loss) Recognized in Income				
		Three Months Ended		Nine Months Ended	
	Statement of Operations Classification	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Derivative instruments not designated as hedges:					
Foreign exchange contracts	Foreign exchange (loss) gain	$(3)	$ 3	$(6)	$ 6
Forward interest rate swaps	Interest expense, net	—	3	2	3
Total (loss) gain recognized in income		$(3)	$ 6	$(4)	$ 9

Credit and Market Risk Management

Financial instruments, including derivatives, expose the Company to counterparty credit risk of nonperformance and to market risk related to currency exchange rate and interest rate fluctuations. The Company manages its exposure to counterparty credit risk by establishing minimum credit standards, diversifying its counterparties, and monitoring its concentrations of credit. The Company’s credit risk counterparties are commercial banks with expertise in derivative financial instruments. The Company evaluates the impact of market risk on the fair value and cash flows of its derivative and other financial instruments by considering reasonably possible changes in interest rates and currency exchange rates. The Company continually monitors the creditworthiness of the customers to which it grants credit terms in the normal course of business. The terms and conditions of the Company’s credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer.

Table of Contents

Foreign Currency Exchange Risk Management

The Company conducts business on a multinational basis in a wide variety of foreign currencies. Exposure to market risk for changes in foreign currency exchange rates arises from euro denominated external revenues, cross-border financing activities between subsidiaries, and foreign currency denominated monetary assets and liabilities. The Company realizes its objective of preserving the economic value of non-functional currency denominated cash flows by initially hedging transaction exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign exchange forward and option contracts.

The Company manages the exchange rate risk of anticipated euro denominated sales using put options, forward contracts, and participating forwards, all of which typically mature within twelve months of execution. The Company designates these derivative contracts as cash flow hedges. Gains and losses on these contracts are deferred in accumulated other comprehensive loss until the contract is settled and the hedged sale is realized. The deferred gain or loss is then reported as an increase or decrease to net sales. As of October 1, 2016 and December 31, 2015, the notional amounts of the Company's foreign exchange cash flow hedges were €409 million and €193 million, respectively. At the end of the fourth quarter of 2015, the Company expanded its hedging activities to manage the exposure from the Enterprise segment related to fluctuations of foreign currency exchange rates. The impact is reflected in the consolidated statements of comprehensive loss.

The Company uses forward contracts, which are not designated as hedging instruments, to manage its exposures related to its Brazilian Real, British Pound, Canadian Dollar, Czech Koruna, Euro, Malaysian Ringgit, Australian Dollar and Swedish Krona denominated net assets. These forward contracts typically mature within three months after execution. Monetary gains and losses on these forward contracts are recorded in income each quarter and are generally offset by the transaction gains and losses related to their net asset positions. The notional values of these outstanding contracts are as follow:

	October 1, 2016		December 31, 2015	
Notional balance of outstanding contracts (in millions):				
British Pound/US dollar	£	4	£	5
Euro/US dollar	€	128	€	133
British Pound/Euro	£	7	£	7
Canadian Dollar/US dollar	$	7	$	5
Czech Koruna/US dollar	Kč	181	Kč	140
Brazilian Real/US dollar	R$	39	R$	28
Malaysian Ringgit/US dollar	RM	110	RM	13
Australian Dollar/US dollar	$	25	$	—
Swedish Krona/US dollar	kr	16	kr	—
Net fair value of outstanding contracts (in millions)	$	—	$	1

Interest Rate Risk Management

In October 2014, the Company entered into a credit agreement, which provides for a term loan ("Term Loan") of $2.2 billion and a revolving credit facility ("Revolving Credit Facility") of $250.0 million. See Note 11 Long-Term Debt. Borrowings under the Term Loan bear interest at a variable rate plus an applicable margin. As a result, the Company is exposed to market risk associated with the variable interest rate payments on the Term Loan. The Company has entered into forward interest rate swaps to hedge a portion of this interest rate risk.

Certain of the forward interest rate swaps, each with a term of 1 year, are designated as cash flow hedges. The notional amount of these designated swaps effective in each year of the cash flow hedge does not exceed the principal amount of the Term Loan which is hedged. The changes in fair value of the swaps designated as cash flow hedges are recognized in accumulated other comprehensive loss, with any ineffectiveness immediately recognized in earnings. At October 1, 2016, the Company estimated that approximately $16 million in losses on the forward interest rate swaps designated as cash flow hedges will be reclassified from accumulated other comprehensive loss into earnings during the next 4 quarters.

Table of Contents

The Company's master netting and other similar arrangements with the respective counterparties allow for net settlement under certain conditions, which are designed to reduce credit risk by permitting net settlement with the same counterparty. The following table presents the gross fair values and related offsetting counterparty fair values as well as the net fair value amounts at October 1, 2016 (in millions):

	Gross Fair Value	Counterparty Offsetting	Net Fair Value in the Consolidated Balance Sheets
Counterparty A	$ 18	$ 11	$ 7
Counterparty B	7	3	4
Counterparty C	7	3	4
Counterparty D	13	6	7
Counterparty E	6	2	4
Counterparty F	7	3	4
Counterparty G	7	—	7
Total	$ 65	$ 28	$ 37

Note 10 Warranty

In general, the Company provides warranty coverage of 1 year on mobile computers and WLAN products. Advanced data capture products are warrantied from 1 to 5 years, depending on the product. Printers are warrantied for 1 year against defects in material and workmanship. Thermal printheads are warrantied for 6 months and batteries are warrantied for 1 year. Battery-based products, such as location tags, are covered by a 90-day warranty. The provision for warranty expense is adjusted quarterly based on historical warranty experience.

The following table is a summary of the Company's accrued warranty obligation (in millions):

	Nine Months Ended	
	October 1, 2016	October 3, 2015
Balance at the beginning of the period	$ 22	$ 25
Warranty expense	20	23
Warranty payments	(22)	(24)
Balance at the end of the period	$ 20	$ 24

Note 11 Long-Term Debt

The following table summarizes the carrying value of the Company's long-term debt (in millions):

	October 1, 2016	December 31, 2015
7.25% Senior Notes due 2022	$ 1,050	$ 1,050
4.00% Term Loan due 2021	1,800	2,035
3.25% Revolving Credit Facility	—	—
Less: debt issuance costs	(23)	(26)
Less: unamortized discounts	(39)	(47)
Long-term debt	$ 2,788	$ 3,012

During 2014, the Company entered into a credit agreement which provides for a term loan of $2.2 billion and a revolving credit facility of $250.0 million. Borrowings under this agreement bear interest at a variable rate subject to a floor of 4.00%. As of October 1, 2016, the Term Loan interest rate was 4.09%. Interest payments are payable quarterly. The Company has also entered into interest rate swaps to manage interest rate risk on its long-term debt. The Company is required to make a final

16

Table of Contents

scheduled principal payment of $1.8 billion due on October 27, 2021. Additionally, the Company may make optional prepayments of the Term Loan, in whole or in part, without premium or penalty. The Company made optional principal prepayments of $235 million during the nine months ended October 1, 2016. On November 4, 2016, the Company made an additional principal prepayment of $42 million.

Borrowings under the Revolving Credit Facility bear interest at a variable rate plus an applicable margin. As of October 1, 2016, the Revolving Credit Facility interest rate was 3.25%. Interest payments are payable quarterly. As of October 1, 2016, the Company had established letters of credit amounting to $4 million, which reduced funds available for other borrowings under the agreement to $246 million.

On June 2, 2016 (the "Closing Date"), the Company entered into the first amendment to our existing Term Loan credit agreement dated as of October 27, 2014 (the "Refinancing Amendment"). The Refinancing Amendment lowered the index rate spread for LIBOR loans from LIBOR + 400 bp to LIBOR + 325 bp. In accounting for the Refinancing Amendment, the Company applied the provisions of ASC Subtopic 470-50, Modifications and Extinguishments (“ASC 470-50”). The evaluation of the accounting under ASC 470-50 was done on a creditor by creditor basis in order to determine if the terms of the debt were substantially different and, as a result, whether to apply modification or extinguishment accounting. It was determined that the terms of the debt were not substantially different for approximately 96.6% of the lenders, and applied modification accounting. For the remaining 3.4% of the lenders, extinguishment accounting was applied. During the second quarter of 2016, the Company recorded a $2.7 million charge to other expense, primarily related to costs incurred with third parties for arranger, legal and other services and the unamortized fees related to the extinguished debt. Additionally, the Company paid $4.9 million to the creditors in exchange for the modification and reported it as a debt discount which is being amortized over the life of the modified debt using the interest method.

Note 12 Contingencies

The Company is 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. The Company currently believes that the outcomes of such proceedings, individually and in the aggregate, will not have a material adverse impact on its business, cash flows, financial position, or results of operations. Any legal proceedings are subject to inherent uncertainties, and the Company's view of these matters and its potential effects may change in the future.

In connection with the acquisition of the Enterprise business from Motorola Solutions, Inc., the Company acquired Symbol Technologies, Inc., a subsidiary of Motorola Solutions (“Symbol”). A putative federal class action lawsuit, Waring v. Symbol Technologies, Inc., et al., was filed on August 16, 2005 against Symbol Technologies, Inc. and two of its former officers in the United States District Court for the Eastern District of New York by Robert Waring. After the filing of the Waring action, several additional purported class actions were filed against Symbol and the same former officers making substantially similar allegations (collectively, the New Class Actions”). The Waring action and the New Class Actions were consolidated for all purposes and on April 26, 2006, the Court appointed the Iron Workers Local # 580 Pension Fund as lead plaintiff and approved its retention of lead counsel on behalf of the putative class. On August 30, 2006, the lead plaintiff filed a Consolidated Amended Class Action Complaint (the “Amended Complaint”), and named additional former officers and directors of Symbol as defendants. The lead plaintiff alleges that the defendants misrepresented the effectiveness of Symbol’s internal controls and forecasting processes, and that, as a result, all of the defendants violated Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and the individual defendants violated Section 20(a) of the Exchange Act. The lead plaintiff alleges that it was damaged by the decline in the price of Symbol’s stock following certain purported corrective disclosures and seeks unspecified damages. The court has certified a class of investors that includes those that purchased Symbol common stock between March 12, 2004 and August 1, 2005. The parties have substantially completed fact and expert discovery. However, there are certain discovery motions pending that could, if granted, reopen fact discovery. The court has held in abeyance all other deadlines, including the deadline for the filing of dispositive motions, and has not set a date for trial. The current lead Directors and Officers insurer continues to maintain its position of not agreeing to

reimburse defense costs incurred by the Company in connection with this matter.

The Company establishes an accrued liability for loss contingencies related to legal matters when the loss is both probable and estimable. In addition, for some matters for which a loss is probable or reasonably possible, an estimate of the amount of loss or range of loss is not possible, and we may be unable to estimate the possible loss or range of losses that could potentially result from the application of non-monetary remedies. Currently, the Company is unable to reasonably estimate the amount of reasonably possible losses for the above mentioned matter.

Table of Contents

Note 13 Loss per Share

Loss per share were computed as follows (in millions, except share data):

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Weighted average shares:				
Basic weighted average shares outstanding	51,690,264	54,151,541	51,499,450	50,925,976
Effect of dilutive securities outstanding	—	—	—	—
Diluted weighted average and equivalent shares outstanding	51,690,264	54,151,541	51,499,450	50,925,976
Net loss	$(83)	$ (29)	$(154)	$ (131)
Basic per share amounts:				
Basic weighted average shares outstanding	51,690,264	54,151,541	51,499,450	50,925,976
Per share amount	$(1.61)	$ (0.57)	$(2.99)	$ (2.56)
Diluted per share amounts:				
Diluted weighted average shares outstanding	51,690,264	54,151,541	51,499,450	50,925,976
Per share amount	$(1.61)	$ (0.57)	$(2.99)	$ (2.56)

Anti-dilutive securities consist primarily of stock appreciation rights (SARs) with an exercise price greater than the average market closing price of the Class A common stock.

Due to net losses in both the third quarter and first nine months of 2016 and 2015, options, awards and warrants were anti-dilutive and therefore excluded from the earnings per share calculation. These excluded outstanding options, awards and warrants are as follows:

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Potentially dilutive shares	1,340,123	1,435,155	1,366,130	1,492,882

Note 14 Share-Based Compensation

The Company has share-based compensation and employee stock purchase plans under which shares of the Company’s Class A common stock are available for future grants and sales.

Pre-tax share-based compensation expense recognized in the statements of operations was $21 million and $26 million for the nine month periods ended October 1, 2016 and October 3, 2015, respectively. Tax related benefits of $7 million and $9 million were also recognized for the nine month periods ended October 1, 2016 and October 3, 2015, respectively.

The fair value of share-based compensation is estimated on the date of grant using a binomial model. Volatility is based on an average of the implied volatility in the open market and the annualized volatility of the Company’s stock price over its entire stock history. Stock option grants in the table below include both stock options, all of which were non-qualified, and stock appreciation rights ("SARs") that will be settled in the Class A common stock or cash. Restricted stock grants are valued at the market closing price on the grant date.

The following table shows the weighted-average assumptions used for grants of SARs as well as the fair value based on those assumptions:

Table of Contents

	Nine Months Ended	
	October 1, 2016	October 3, 2015
Expected dividend yield	0%	0%
Forfeiture rate	9.01%	10.24%
Volatility	43.14%	33.98%
Risk free interest rate	1.29%	1.53%
Range of interest rates	0.25% - 1.73%	1.07% - 2.14%
Expected weighted-average life	5.33 years	5.32 years
Fair value of SARs granted (in millions)	$12	$ 12
Weighted-average grant date fair value of SARs granted (per underlying share)	$20.06	$ 35.25

The following table summarizes the stock awards activity:

	Nine Months Ended October 1, 2016	
Stock Awards	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	1,397,651	$ 56.68
Granted	618,856	80.83
Exercised	(58,338)	39.71
Forfeited	(52,865)	68.26
Expired	(5,577)	71.27
Outstanding at end of period	1,899,727	65.22
Exercisable at end of period	933,345	58.92
Intrinsic value of exercised SARs (in millions)	$2	

The following table summarizes information about stock awards outstanding at October 1, 2016:

	Outstanding	Exercisable
Aggregate intrinsic value (in millions)	$ 26	$ 20
Weighted-average remaining contractual term	7.1 years	5.2 years

There were no stock options issued during the nine months ended October 1, 2016.

A summary of the status of the Company's restricted stock awards, restricted stock units, performance stock awards and performance stock units activity was as follows:

Table of Contents

	Nine Months Ended October 1, 2016	
Restricted Stock Awards and Units	Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of period	605,193	$ 77.82
Granted		
Restricted Stock Awards	381,278	51.60
Restricted Stock Units	31,194	51.42
Total shares granted	412,472	
Released	(234,402)	56.46
Forfeited	(28,112)	79.34
Outstanding at end of period	755,151	70.25

	Nine Months Ended October 1, 2016	
Performance Stock Awards and Units	Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of period	341,703	$ 73.30
Granted		
Performance Stock Awards	178,378	50.34
Performance Stock Units	—	
Total shares granted	178,378	
Released	(111,325)	46.58
Forfeited	(6,819)	74.22
Outstanding at end of period	401,937	70.44

As of October 1, 2016, total unearned compensation costs related to the Company's share-based compensation plans was $54 million which will be amortized over the weighted average remaining service period of 2.6 years.

Note 15 Income Taxes

The Company's effective tax rates for the nine month periods ended October 1, 2016 and October 3, 2015 were (3.4)% and 3.7%, respectively. The Company's effective tax rates differed from the U.S. federal income tax rate of 35% primarily due to the taxation of foreign earnings at lower rates and increases to valuation allowances in certain foreign jurisdictions that the Company was not able to benefit from due to uncertainty as to the realization of those losses, which accounted for approximately a 32% reduction in the rate in 2016. Additionally, the effective tax rate in 2016 was impacted by discrete items including the impact of the impairment of goodwill and intangible assets from the WLAN disposition.

The Company expects that its consolidated effective tax rate in future periods will continue to differ significantly from the U.S. federal income tax rate as a result of the foreign earnings rate differential and valuation allowances in jurisdictions with losses.

Note 16 Accumulated Other Comprehensive Loss

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

- Unrealized (loss) gain on anticipated sales hedging transactions relates to derivative instruments used to hedge the exposure related to currency exchange rates for forecasted Euro sales. These hedges are designated as cash flow hedges, and the Company defers income statement recognition of gains and losses until the hedged transaction occurs. See Note 9 Derivative Instruments for more details.

20

Table of Contents

- Unrealized (loss) gain on forward interest rate swaps hedging transactions refers to the hedging of the interest rate risk exposure associated with the variable rate commitment entered into for the Acquisition. See Note 9 Derivative Instruments for more details.
- Foreign currency translation adjustment relates to the Company's non-U.S. subsidiary companies that have designated a functional currency other than the U.S. dollar. The Company is required to translate the subsidiary functional currency financial statements to dollars using a combination of historical, period-end, and average foreign exchange rates. This combination of rates creates the foreign currency translation adjustment component of accumulated other comprehensive income.

The components of accumulated other comprehensive loss ("AOCI") for the nine months ended October 1, 2016 and October 3, 2015 are as follows (in millions):

	Unrealized (loss) gain on sales hedging	Unrealized (loss)/ gain on forward interest rate swaps (1)	Currency translation adjustments	Total
Balance at December 31, 2014	$ 5	$ (8)	$ (6)	$(9)
Other comprehensive income (loss) before reclassifications	6	(18)	(15)	(27)
Amounts reclassified from AOCI to income	(12)	1	(7)	(18)
Tax benefit	1	7	—	8
Other comprehensive loss	(5)	(10)	(22)	(37)
Balance at October 3, 2015	$ —	$ (18)	$ (28)	$(46)
Balance at December 31, 2015	$ (1)	$ (15)	$ (32)	$(48)
Other comprehensive loss before reclassifications	(16)	(12)	(1)	(29)
Amounts reclassified from AOCI to income	10	2	—	12
Tax benefit	1	3	—	4
Other comprehensive loss	(5)	(7)	(1)	(13)
Balance at October 1, 2016	$ (6)	$ (22)	$ (33)	$(61)

(1) See Note 9 Derivative Instruments regarding timing of reclassifications.

Reclassifications out of AOCI to earnings during the three and nine months ended October 1, 2016 and October 3, 2015 were as follows (in millions):

Table of Contents

		Three Months Ended		Nine Months Ended	
		October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Comprehensive Income Components	Financial Statement Line Item				
Unrealized losses (gains) on sales hedging:					
Total before tax	Net sales of tangible products	$4	$ (1)	$10	$ (12)
Tax (benefit) expense		(1)	1	(2)	3
Net of taxes		3	—	8	(9)
Unrealized losses (gains) on forward interest rate swaps:					
Total before tax	Interest expense, net	1	1	2	1
Tax benefit		(1)	—	(1)	—
Net of taxes		—	1	1	1
Currency translation adjustments	Foreign exchange loss	—	—	—	(7)
Total amounts reclassified from AOCI		$3	$ 1	$9	$ (15)

Note 17 Segment Information

The Company has 2 reportable segments: Legacy Zebra and Enterprise. The operating segments have been identified based on the financial data utilized by the Company's Chief Executive Officer (the chief operating decision maker) to assess segment performance and allocate resources among the Company's segments. The chief operating decision maker uses adjusted operating income to assess segment profitability. Adjusted operating income excludes purchase accounting adjustments, amortization, acquisition, integration and exit and restructuring costs. Segment assets are not reviewed by the Company's chief operating decision maker and therefore are not disclosed below.

Financial information by segment is presented as follows (in millions):

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net sales:				
Legacy Zebra	$301	$ 314	$920	$966
Enterprise	605	605	1,720	1,746
Total segment	906	919	2,640	2,712
Corporate, eliminations (1)	(2)	(3)	(8)	(13)
Total	$904	$ 916	$2,632	$2,699
Operating (loss) income:				
Legacy Zebra	$50	$ 67	$178	$206
Enterprise	89	64	200	161
Total segment	139	131	378	367
Corporate, eliminations (2)	(163)	(106)	(369)	(336)
Total	$(24)	$ 25	$9	$31

(1) Amounts included in Corporate, eliminations consist of purchase accounting adjustments not reported in segments related to the Acquisition.

Table of Contents

(2) Amounts included in Corporate, eliminations consist of purchase accounting adjustments not reported in segments; amortization expense, acquisition and integration expenses, impairment of goodwill and other intangibles and exit and restructuring costs.

Note 18 Subsequent Event

On November 4, 2016, the Company made a principal payment of $42 million under its term loan. See Note 11 Long-Term Debt.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Zebra Technologies Corporation and its subsidiaries ("Zebra" or "Company") is a global leader respected for innovative solutions in the automatic information and data capture industry. We design, manufacture, and sell a broad range of products that capture and move data, including: mobile computers; barcode scanners and imagers; radio frequency identification device ("RFID") readers; wireless LAN (“WLAN”) solutions and software; specialty printers for barcode labeling and personal identification; real-time location systems (“RTLS”); related accessories and supplies such as self-adhesive labels and other consumables; and software and services that are associated with these products. End-users of our products include those in the retail, transportation and logistics, manufacturing, healthcare, hospitality, warehouse and distribution, energy and utilities, and education industries around the world.

Our customers have traditionally benefited from proven solutions that increase productivity and improve efficiency and asset utilization. The Company is poised to drive and capitalize on the evolution of the data capture industry into the broader Enterprise Asset Intelligence ("EAI") industry, based on important technology trends like the Internet of Things ("IoT"), ubiquitous mobility and cloud computing. EAI solutions offer additional benefits to our customers including real-time, data-driven insights that improve operational visibility and drive workflow optimization.

Segments

The Company’s operations consist of 2 reportable segments: Legacy Zebra and Enterprise.

Legacy Zebra

The Legacy Zebra segment is an industry leader in barcode printing and asset tracking technologies. Its major product lines include barcode and card printers, location solutions, supplies, and services. Industries served include retail, transportation and logistics, manufacturing, healthcare, and other end markets within the following regions: North America; Latin America; Asia-Pacific; and Europe, Middle East, and Africa.

Enterprise

The Enterprise segment is an industry leader in automatic information and data capture solutions. Its major product lines include mobile computing, data capture, RFID, WLAN, and services. Industries served include retail, transportation and logistics, manufacturing, healthcare, and other end markets within the following regions: North America; Latin America; Asia-Pacific; and Europe, Middle East, and Africa.

Geographic Information. For the nine months ended October 1, 2016, the Company recorded $2,632 million of net sales in its consolidated statements of operations, of which approximately 48.4% were attributable to North America; approximately 31.9% were attributable to Europe, Middle East, and Africa ("EMEA"); and other foreign locations accounted for the remaining 19.7%.

Results of Operations

Consolidated Results of Operations (in millions, except percentages):

The following tables present key statistics for the Company's operations for the three and nine months ended October 1, 2016 and October 3, 2015, respectively:

23

Table of Contents

	Three Months Ended				Nine Months Ended			
	October 1, 2016	October 3, 2015	$ Change	% Change	October 1, 2016	October 3, 2015	$ Change	% Change
Net sales	$904	$916	$ (12)	(1.3)%	$2,632	$2,699	$ (67)	(2.5)%
Gross profit	414	414	—	—%	1,210	1,216	(6)	(0.5)%
Operating expenses	438	389	49	12.6%	1,201	1,185	16	1.4%
Operating (loss) income	$(24)	$25	(49)	NM	$9	$31	(22)	NM
Gross margin	45.8%	45.2%			46.0%	45.1%		

Net sales by product category were as follows (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	October 1, 2016	October 3, 2015	$ Change	% Change	October 1, 2016	October 3, 2015	$ Change	% Change
Hardware	$700	$718	$ (18)	(2.5)%	$2,031	$2,101	$ (70)	(3.3)%
Supplies	72	69	3	4.3%	210	203	7	3.4%
Service and software	132	129	3	2.3%	391	395	(4)	(1.0)%
Total Net sales	$904	$916	$ (12)	(1.3)%	$2,632	$2,699	$ (67)	(2.5)%

Net sales to customers by geographic region were as follows (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	October 1, 2016	October 3, 2015	$ Change	% Change	October 1, 2016	October 3, 2015	$ Change	% Change
Geographic Region								
Europe, Middle East and Africa	$282	$276	$ 6	2.2%	$839	$870	$ (31)	(3.6)%
Latin America	54	56	(2)	(3.6)%	153	164	(11)	(6.7)%
Asia-Pacific	122	121	1	0.8%	365	345	20	5.8%
Total International	458	453	5	1.1%	1,357	1,379	(22)	(1.6)%
North America	446	463	(17)	(3.7)%	1,275	1,320	(45)	(3.4)%
Total Net sales	$904	$916	$ (12)	(1.3)%	$2,632	$2,699	$ (67)	(2.5)%

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

	Three Months Ended				Nine Months Ended			
	October 1, 2016	October 3, 2015	$ Change	% Change	October 1, 2016	October 3, 2015	$ Change	% Change
Selling and marketing	$112	$120	$ (8)	(6.7)%	$337	$367	$ (30)	(8.2)%
Research and development	96	100	(4)	(4.0)%	284	296	(12)	(4.1)%
General and administrative	74	67	7	10.4%	225	203	22	10.8%
Amortization of intangible assets	59	59	—	—%	178	190	(12)	(6.3)%
Acquisition and integration costs	28	37	(9)	(24.3)%	98	94	4	4.3%
Impairment of goodwill and other intangibles	62	—	62	NA	62	—	62	NA
Exit and restructuring costs	7	6	1	16.7%	17	35	(18)	(51.4)%
Total Operating expenses	$438	$389	$ 49	12.6%	$1,201	$1,185	$ 16	1.4%

Table of Contents

The Company's non-operating income and expense items are summarized in the following table (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	October 1, 2016	October 3, 2015	$ Change	% Change	October 1, 2016	October 3, 2015	$ Change	% Change
Foreign exchange (loss) gain	$(1)	$ (5)	$ 4	(80.0)%	$(4)	$(21)	$ 17	(81.0)%
Interest expense, net	(46)	(46)	—	— %	(145)	(145)	—	— %
Other, net	(6)	1	(7)	NM	(9)	(1)	(8)	NM
Total other expenses	$(53)	$ (50)	$ (3)	6.0 %	$(158)	$(167)	$ 9	(5.4)%

The Company's income taxes are summarized in the following table (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	October 1, 2016	October 3, 2015	$ Change	% Change	October 1, 2016	October 3, 2015	$ Change	% Change
Income tax (benefit) expense	$6	$ 4	$ 2	NM	$5	$ (5)	$ 10	NM
Effective tax rate	(7.8)%	(16.0)%			(3.4)%	3.7 %		

Third quarter 2016 compared to third quarter 2015

The decline in sales in the third quarter compared to the prior year third quarter was primarily a result of lower sales of barcode printers and locations solutions in North America. This was partially offset by growth in Enterprise hardware sales in EMEA, net of the adverse impact of currency changes. Sales in Asia-Pacific were essentially flat, reflecting growth in Enterprise and a decline in Legacy Zebra due to a one-time price concession to distributors of printer products imported into China. On a constant currency basis, and excluding purchase accounting adjustments, overall net sales were comparable to the prior year quarter, reflecting growth of approximately 4% in EMEA, offset by declines of 3%, 2%, and 1% in Latin America, North America, and Asia-Pacific, respectively.

The improvement in gross margin in the third quarter compared to the year ago period reflects an increase in the Enterprise segment gross margin due primarily to lower product and services costs. The Legacy Zebra segment gross margin decreased due primarily to a one-time price concession to distributors of printer products imported into China, lower sales and mix.

Operating expenses for the quarter ended October 1, 2016 were $438 million, or 48.5% of net sales, compared to $389 million, or 42.5% of net sales, in the prior year. Selling and marketing expenses were lower in the current quarter as compared to the prior year due to lower discretionary expenses and promotional costs. The decrease in research and development costs is primarily due to a reduction in headcount and other third-party resources and shifting headcounts to lower cost engineering locations. The increase in general and administrative costs is primarily attributable to higher professional fees, legal expenses and IT expenses. The Company made continued progress on its integration activities associated with the Acquisition, including progress toward winding down the transition services agreement with Motorola Solutions. This resulted in a decline in acquisition and integration costs compared to the prior year quarter. Impairment of goodwill and other intangibles of $62 million was recorded during the third quarter related to the WLAN business divestiture. Exit and restructuring costs were higher compared to the prior year reflecting lower expense associated with the Acquisition, offset by expenses associated with the Company's plan to divest its WLAN business.

Operating income for the quarter ended October 1, 2016 decreased $49 million as compared to the prior year, driven primarily by the $62 million charge for the impairment of goodwill and other intangibles. Excluding this charge, operating income would have increased $13 million driven by lower operating expenses.

25

Table of Contents

Since the end of the first quarter of 2015, the Company has expanded its balance sheet hedging program to incorporate non-US dollar assets and liabilities associated with the Enterprise segment.

The current year Other, net non-operating expense includes approximately $5.5 million charge related to the impairment of one of the Company's long-term investments.

The change in the Company’s effective tax rate is due to the reduction of U.S. sourced income and the reduction of discrete expense items.

Year to date 2016 compared to year to date 2015

The decline in sales as compared to the prior year period was primarily a result of lower hardware sales in the North America, EMEA and Latin America and the unfavorable impact of foreign currency changes in EMEA, partially offset by higher hardware sales in Asia-Pacific. The overall decline in hardware sales was primarily due to lower sales volume of barcode printer, data capture, and wireless LAN products and location solutions. On a constant currency basis, and excluding purchase accounting adjustments, overall net sales declined approximately 1% compared to the prior year, reflecting growth of approximately 6% in net sales in Asia-Pacific, flat sales in EMEA, and a decline of approximately 3%, and 7% in North America and Latin America, respectively.

The improvement in gross margin compared to the year ago period reflects an increase in the Enterprise segment gross margin, due primarily to lower product and services costs and changes in product mix. Legacy Zebra segment gross margin decreased primarily due to lower sales and mix.

Operating expenses for the nine months ended October 1, 2016 were $1,201 million, or 45.6% of net sales, compared to $1,185 million, or 43.9% of net sales, in the prior year. Selling and marketing expenses were lower for the nine months ended October 1, 2016 as compared to the prior year. This was due to the effects of staff reductions implemented in 2015 and lower discretionary expenses and promotional costs partially offset by incremental expense related to the 2015 sales commission plan being recorded in the first quarter 2016. The decrease in research and development costs is primarily due to a reduction in headcount and other third-party resources and shifting headcount to lower cost engineering locations. The increase in general and administrative costs is primarily due to higher legal expenses, professional fees and IT expenses offset in part by lower employee compensation costs. Amortization of intangibles declined due to the final adjustments made in 2015 to the fair value of intangibles related to the Acquisition. The Company has made significant progress on its integration activities associated with the Acquisition, including progress toward winding down the transition services agreements with Motorola Solutions. This has resulted in a decline in acquisition and integration costs compared to the prior year period. Impairment of goodwill and other intangibles of $62 million was recorded during the third quarter related to the WLAN business divestiture. Exit and restructuring costs were lower due to a reduced level of restructuring activity as the company progresses with its restructuring plan related to the Acquisition, offset in part by expenses associated with the Company's plan to divest its WLAN business.

Operating income for the nine months ended October 1, 2016 decreased $22 million as compared to the prior year, driven primarily by the $62 million charge for the impairment of goodwill and other intangibles. Excluding this charge, operating income would have increased $40 million as compared to the prior year driven by lower operating expenses.

Since the end of the first quarter of 2015, the Company has expanded its balance sheet hedging program to incorporate non-US dollar assets and liabilities associated with the Enterprise segment.

The current year Other, net non-operating expense includes a $5.5 million charge related to the impairment of one of the Company's long-term cost investments and approximately $2.7 million of expense related to the loss incurred on the extinguishment of debt resulting from the Company’s refinancing of its Term Loan.

The change in the Company’s effective tax rate is due to the reduction of U.S. sourced income and the reduction of discrete expense items.

Results of Operations by Segment (in millions, except percentages)
The following commentary should be read in conjunction with the financial results of each operating business segment as detailed in Note 17 Segment Information in the Notes to the Consolidated Financial Statements.

Table of Contents

Legacy Zebra

	Three Months Ended				Nine Months Ended			
	October 1, 2016	October 3, 2015	$ Change	% Change	October 1, 2016	October 3, 2015	$ Change	% Change
Net sales	$301	$ 314	$ (13)	(4.1)%	$920	$ 966	$ (46)	(4.8)%
Gross profit	145	161	(16)	(9.9)%	463	492	(29)	(5.9)%
Operating expenses	95	94	1	1.1 %	285	286	(1)	(0.3)%
Operating income	$50	$ 67	(17)	(25.4)%	$178	$ 206	(28)	(13.6)%
Gross margin	48.2 %	51.3 %			50.3 %	50.9 %		

Third quarter 2016 compared to third quarter 2015

The overall sales decline was primarily due to lower net sales of barcode printers and location solutions as well as the unfavorable impact of foreign currency changes, most notably in EMEA. This was partially offset by higher sales of supplies. Barcode printer net sales declined primarily in North America, EMEA and Asia-Pacific. The sales decline in Asia-Pacific was all due to a one-time price concession to distributors of printer products imported into China. The net sales decline compared to the prior year quarter on a constant currency basis was approximately 3%. This reflects a decline in net sales for the North America, EMEA and Asia-Pacific regions partially offset by growth in net sales in Latin America.

The decrease in gross margin was due primarily to the one-time price concession to distributors of printer products imported into China, lower sales and mix. The impact of the price concession on gross margin in the quarter was approximately 1 percentage point. These impacts were offset partially by manufacturing cost improvements in supplies and lower printer product costs, including material and warranty expenses.

Operating income for the quarter ended October 1, 2016 decreased 25.4% due to lower sales and gross margin.

Year to date 2016 compared to year to date 2015

The overall sales decline was primarily due to lower net sales of barcode printers and location solutions as well as the unfavorable impact of foreign currency changes, most notably in EMEA. This was partially offset by a higher sales of supplies. The barcode printer sales decline is primarily due to lower sales in North America and EMEA. The sales decline compared to the prior year nine months on a constant currency basis was approximately 3%. This reflects a decline in net sales for the North America, EMEA and Latin America regions partially offset by growth in net sales in Asia-Pacific.

The decrease in gross margin was due primarily to lower sales and mix. This was offset partially by manufacturing cost improvements in supplies and lower printer product costs, including material, overhead and warranty.

Operating income for the nine months ended October 1, 2016 decreased 13.6% primarily as a result of lower sales partially offset by lower operating expenses.

Enterprise

	Three Months Ended				Nine Months Ended			
	October 1, 2016	October 3, 2015	$ Change	% Change	October 1, 2016	October 3, 2015	$ Change	% Change
Net sales	$605	$ 605	$ —	— %	$1,720	$ 1,746	$ (26)	(1.5)%
Gross profit	271	256	15	5.9 %	756	739	17	2.3 %
Operating expenses	182	192	(10)	(5.2)%	556	578	(22)	(3.8)%

Operating income	$89	$ 64	25	39.1 %	$200	$ 161	39	24.2 %		
Gross margin	44.8 %	42.3 %			44.0 %	42.3 %				

Third quarter 2016 compared to third quarter 2015

Sales were the same as the prior year due to higher sales of data capturing products offset by lower sales volume of mobile computing and the unfavorable impact of foreign currency changes, most notably in EMEA. On a constant currency basis, the

Table of Contents

net sales growth compared to the prior year quarter was approximately 1%. This reflects growth in net sales in the North America and Asia-Pacific regions partially offset by a decline in net sales in EMEA and Latin America.

The increase in gross margin was due primarily to lower product costs, primarily in mobile computing, cost reductions in services, including lower excess and obsolescence expense and lower product rebranding expenses, partially offset by the impact of foreign currency changes.

Operating income for the quarter ended October 1, 2016, increased 39.1% primarily as a result of an improvement in gross margin and lower operating expenses.

Year to date 2016 compared to year to date 2015

The overall sales decline was primarily driven by lower sales of data capture and WLAN products and the unfavorable impact of foreign currency changes, most notably in EMEA, partially offset by higher sales of mobile computing products. On a constant currency basis, net sales were comparable to the prior year. This reflects a decline in net sales in North America and Latin America regions offset by growth in net sales in EMEA and Asia-Pacific.

The increase in gross margin was due primarily to cost reductions in hardware and services, including lower excess and obsolescence expense; changes in product sales mix; and reductions in other non-recurring prior year costs, including product rebranding expenses, partially offset by the unfavorable impact of foreign currency changes.

Operating income for the nine months ended October 1, 2016, increased 24.2% primarily as a result of as a result of an improvement in gross margin and lower operating expenses, partially offset by lower sales.

Liquidity and Capital Resources

As of October 1, 2016, the Company had cash of $163 million and long-term debt totaling $2.8 billion and did not have any borrowings against its revolving credit facility with $246 million available ($250 million less $4 million of letters of credit). See Note 11 Long-Term Debt in the Notes to the Consolidated Financial Statements for further details. The primary factors that influence liquidity include, but are not limited to, the amount and timing of revenues, cash collections from customers, cash payments to vendors and capital expenditures. The Company believes that existing capital resources and funds generated from operations are sufficient to meet anticipated capital requirements and to service its indebtedness. The following table summarizes the Company's cash flow activities for the periods indicated (in millions, except percentages):

	Nine Months Ended			
	October 1, 2016	October 3, 2015	$ Change	% Change
Operating activities	$245	$ 116	$ 129	111.2 %
Investing activities	(50)	(112)	62	(55.4)%
Financing activities	(231)	(118)	(113)	95.8 %
Effect of exchange rates on cash	7	(22)	29	(131.8)%
Net decrease in cash	$(29)	$ (136)	$ 107	(78.7)%

The change in the Company's cash and cash equivalents balance as of October 1, 2016 is reflective of the following:

- The increase in cash flows from operations as compared to the prior year was driven by improved inventory management, the extension of payment terms with vendors, and improved financial results (after excluding non-cash charges such as depreciation, amortization and impairment), partially offset by increased interest expense payments and creditor fees as part of the Refinancing Agreement, income tax payments, and employee incentive payments.

The decrease in cash used in investing activities is primarily due to the $52 million paid in 2015 to Motorola as part of the Acquisition, offset by $25 million in proceeds received from sales of investments and marketable securities during 2015, and the $38 million reduction in capital expenditures during 2016. This reduction is primarily due to investments made in IT infrastructure and software applications during 2016 versus the investments made in the Company's corporate office reported in 2015.

Table of Contents

- The increase in net cash used in financing activities over the prior year consisted primarily of the increase in Term Loan repayments of $105 million as well as $8 million related to the Company's share-based compensation program.

The following table shows the Company’s level of long-term debt and other information as of October 1, 2016 (in millions):

Senior Notes	$1,050
Term Loan	1,800
Revolving Credit Facility	—
Less: Debt Issuance Costs	(23)
Less: Unamortized Discounts	(39)
Total Long-Term Debt	$2,788

Private Offering

On October 15, 2014, the Company completed a private offering of $1.05 billion in aggregate principal of 7.25% Senior Notes due October 15, 2022 (the “Senior Notes”). The Senior Notes yielded an effective interest rate of 7.61% at issuance. The Senior Notes are governed by the terms of an indenture, dated October 15, 2014, by and among the Company and U.S. Bank National Association, as Trustee. Interest on the Senior Notes is payable in cash on April 15 and October 15 of each year.

The Indenture covering the Senior Notes contains certain restrictive and affirmative covenants. In addition, the Senior Notes are guaranteed jointly and severally, on a senior and unsecured basis, by the Company’s direct and indirect wholly-owned existing and future domestic restricted subsidiaries, subject to certain exceptions.

Credit Facilities

On October 27, 2014, the Company entered into a new credit agreement which provides for a term loan of $2.2 billion (“Term Loan”) and a revolving credit facility of $250.0 million (“Revolving Credit Facility”). On June 2, 2016 (the "Closing Date"), the Company entered into the first amendment to the credit agreement (the "Refinancing Amendment"). The Refinancing Amendment lowered the index rate spread for LIBOR loans from LIBOR + 400 bp to LIBOR + 325 bp. In accounting for the Refinancing Amendment, the Company applied the provisions of ASC Subtopic 470-50, Modifications and Extinguishments (“ASC 470-50”). The evaluation of the accounting under ASC 470-50 was done on a creditor by creditor basis in order to determine if the terms of the debt were substantially different and, as a result, whether to apply modification or extinguishment accounting. It was determined that the terms of the debt were not substantially different for approximately 96.6% of the lenders, and applied modification accounting. For the remaining 3.4% of the lenders, extinguishment accounting was applied. During the second quarter of 2016, the Company recorded a one-time $2.7 million loss to Other Expense, primarily related to costs incurred with third parties for arranger, legal and other services and the loss incurred on the extinguished debt. Additionally, the Company paid $4.9 million to the creditors in exchange for the modification and reported it as debt discount which is being amortizing over the life of the modified debt using the interest method. Borrowings under the modified Term Loan bear interest at a variable rate subject to a floor of 4.00%. As of October 1, 2016, the Term Loan interest rate was 4.09%. Interest payments are payable quarterly. The Company has entered into interest rate swaps to manage interest rate risk on its long-term debt.

The credit agreement requires the Company to prepay the Term Loan and Revolving Credit Facility, under certain circumstances or transactions defined in the credit agreement. Also, the Company may make optional prepayments of the Term Loan, in whole or in part, without premium or penalty. The Company made such optional principal prepayments of $235 million during the nine months ended October 1, 2016. On November 4, 2016, the Company made an additional principal prepayment of $42 million. Unless satisfied by further optional prepayments, the Company is required to make a final scheduled principal payment of $1.8 billion due on October 27, 2021.

Borrowings under the Revolving Credit Facility bear interest at a variable rate plus an applicable margin. As of October 1, 2016, the Revolving Credit Facility interest rate was 3.25%. Interest payments are payable quarterly. As of October 1, 2016 and December 31, 2015, the Company did not have any borrowings against the Revolving Credit Facility however, the Company had established letters of credit amounting to $4 million and $3 million, respectively, which reduced funds available for other borrowings under the agreement to $246 million and $247 million,

respectively.

The Revolving Credit Facility contains various restrictive and affirmative covenants and is collateralized by a security interest in substantially all of the Company’s assets as defined in the security agreement and guaranteed by its direct and indirect wholly-owned existing and future domestic restricted subsidiaries, subject to certain exceptions. The Company is in compliance with the covenants as of October 1, 2016.

Table of Contents

The Company had $104 million as of October 1, 2016, and $183 million as of October 3, 2015 of foreign cash and investments.

Significant Customers

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

	Nine Months Ended					
	October 1, 2016			October 3, 2015		
	Zebra	Enterprise	Total	Zebra	Enterprise	Total
Customer A	6.0%	14.3 %	20.3%	5.6%	13.8 %	19.4%
Customer B	5.4%	7.2 %	12.6%	4.8%	6.2 %	11.0%
Customer C	4.0%	8.1 %	12.1%	4.7%	8.3 %	13.0%

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

There are three customers at October 1, 2016 that each accounted for more than 10% of outstanding accounts receivable. The largest customers accounted for 20.2%, 14.7%, and 11.2% of outstanding accounts receivable.

Safe Harbor

Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors, which could cause actual results to differ materially from those expressed or implied in such forward-looking statements. When used in this document and documents referenced, the words "anticipate," "believe," "intend," "estimate," "will" and "expect" and similar expressions as they relate to Zebra or its management are intended to identify such forward-looking statements, but are not the exclusive means of identifying these statements. The forward-looking statements include, but are not limited to, Zebra's financial outlook for the full year of 2016. These forward-looking statements are based on current expectations, forecasts and assumptions and are subject to the risks and uncertainties inherent in Zebra's industry, market conditions, general domestic and international economic conditions, and other factors. These factors include:

- Market acceptance of Zebra's products and solution offerings and competitors' offerings and the potential effects of technological changes,
- The effect of global market conditions, including North America, Latin America, Asia-Pacific, Europe, Middle East, and Africa regions in which we do business,
- Our ability to control manufacturing and operating costs,
- Risks related to the manufacturing of Zebra's products and conducting business operations in countries outside the U.S., including the risk of depending on key suppliers who are also in countries outside the U.S.,
- Zebra's ability to purchase sufficient materials, parts and components to meet customer demand, particularly in light of global economic conditions,
- The availability of credit and the volatility of capital markets, which may affect our suppliers, customers and ourselves,
- Success of integrating acquisitions, including the Enterprise business we acquired in October 2014 from Motorola Solutions, Inc.,
- Interest rate and financial market conditions,
- Access to cash and cash equivalents held outside the United States,
- The effect of natural disasters on our business,
- The impact of changes in foreign and domestic governmental policies, laws or regulations,
- The impact of foreign exchange rates due to the large percentage of our sales and operations being in countries outside the U.S.,
- The outcome of litigation in which Zebra may be involved, particularly litigation or claims related to infringement of third-party intellectual property rights, and

- The outcome of any future tax matters or tax law changes.

We encourage readers of this report to review Item 1A, “Risk Factors,” in the Annual Report on Form 10-K/A for the year ended December 31, 2015, for further discussion of issues that could affect Zebra’s future results. Zebra undertakes no obligation, other than as may be required by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances, or any other reason after the date of this report.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in the Company's market risk during the quarter ended October 1, 2016. For additional information on market risk, refer to the "Quantitative and Qualitative Disclosures About Market Risk" section of the Form 10-K/A for the year ended December 31, 2015.

In the normal course of business, portions of the Company's operations are subject to fluctuations in currency values. The Company manages these risks using derivative financial instruments. See Note 9 Derivative Instruments to the Consolidated Financial Statements included in this report for further discussion of derivative instruments.

Zebra could be adversely impacted by the United Kingdom's referendum on withdrawal from the European Union. Zebra maintains its European regional headquarters and a label converting facility in the U.K. and has significant operations and sales throughout Europe. Because the terms of the U.K.'s withdrawal are uncertain, we are unable at this time to determine the impact on Zebra's operations and business in the U.K. and Europe. The U.K.'s referendum has resulted, and is expected to continue to result, in market volatility, including fluctuations in the British Pound, that could adversely impact Zebra's operating costs in the U.K. Such market volatility could also cause customers to alter or delay buying decisions that would adversely impact Zebra's sales in the U.K. and throughout Europe. A significant portion of our business involves cross border transactions throughout the region. Future trade agreements between the U.K. and the European Union could adversely impact Zebra's operations in the region by increasing costs on or importation requirements on shipments between our distribution center in the Netherlands and customers in the U.K. or between our facility in the U.K. and customers in the European Union.

Item 4. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls 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 controls over financial reporting as of October 1, 2016. Based on this assessment, our management believes that, as of October 1, 2016, our internal controls over financial reporting were not effective, due to the identification of a material weakness.

A material weakness is a deficiency, or combination of deficiencies, in the internal controls over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

During 2015, the Company identified a material weakness related to the process to prepare and review its quarterly and annual income tax provision. The material weakness relates to deficiencies in the design and operation of controls in response to the increased complexity in the legal entity structure of the business following the Enterprise acquisition. These deficiencies impacted our ability to accurately forecast pretax income and deferred taxes, by legal entity, in a timely manner.

As previously disclosed, on November 14, 2016 the Company filed restated financial statements with the SEC for the year ended December 31, 2015 and quarters ended April 2, 2016 and July 2, 2016, in part due to the material weakness discussed above.

Remediation Plan

Management and the Board of Directors are committed to the continued improvement of the Company's overall system of internal controls over financial reporting. With the identification of the material weakness associated with financial reporting relating to the preparation and review process of our quarterly and annual tax provision in 2015, we began implementing a remediation plan to address these issues. This plan includes the implementation of improved and documented processes and procedures, as well as hiring additional accounting and tax professionals. We believe our actions will be effective in remediating the material weakness, but only after the applicable processes and procedures have been in place for a sufficient period of time is management able to conclude through testing that these annual controls are effective. Because some of the controls are executed only at year-end, we cannot evaluate them for

effectiveness of the remediation until the related processes and procedures are completed and tested.

Table of Contents

Changes in Internal Controls over Financial Reporting

As of May 1, 2016, we completed the first of two phases of integration of our Enterprise Resource Planning systems for the Asia and Pacific region ("APAC"), migrating many of the region’s Enterprise processes and controls onto the Legacy Zebra instance of Oracle. This systems integration focused on our hardware business and included customer order entry and invoicing, inventory procurement and management, accounts payable activity, fixed assets and accounting processes, among other operational processes and related systems. In addition, we have completed the integration of our APAC warehousing, migrating inventory from Penang into our Singapore facility and have moved our North America Legacy Zebra inventory from a self-managed distribution center to a new third-party logistics facility. As part of the systems and warehousing integration in APAC and our movement of inventory in North America, we changed many of the related internal controls primarily by migrating the Enterprise internal controls into the Legacy Zebra internal control structure in APAC and by onboarding a new set of inventory controls in North America.

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

Inherent Limitations on the Effectiveness of Controls

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

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 12 Contingencies to the Consolidated Financial Statements included in this report.

Item 1A. Risk Factors

In addition to the other information included in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Annual Report on Form 10-K/A for the year ended December 31, 2015 and the factors identified under "Safe Harbor" at the end of Item 2 of Part I of the Quarterly Report on Form 10-Q, which could materially affect our business, financial condition, cash flows or results of operations. The risks described in the Annual Report are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently considers immaterial also may materially adversely affect its business, financial condition, and/or operating results. There have been no material changes to the risk factors included in our Annual Report for the year ended December 31, 2015, other than the risk entitled “Zebra could be adversely impacted by the United Kingdom’s referendum on withdrawal from the European Union” which is described below.

Zebra could be adversely impacted by the United Kingdom’s referendum on withdrawal from the European Union. Zebra maintains its European regional headquarters and a label converting facility in the U.K. and has significant operations and sales throughout Europe. Because the terms of the U.K.’s withdrawal are uncertain, we are unable at this time to determine the impact on Zebra’s operations and business in the U.K. and Europe. The U.K.’s referendum has resulted, and is expected to continue to result, in market volatility, including fluctuations in the British Pound, that could adversely impact Zebra’s operating costs in the U.K. Such market volatility could also cause customers to alter or delay buying decisions that would adversely impact Zebra’s sales in the U.K. and throughout Europe. A significant portion of our business involves cross border transactions throughout the region. Future trade agreements between the U.K. and the European Union could adversely impact Zebra’s operations in the region by increasing costs on or importation requirements on shipments between our distribution center in the Netherlands and customers in the U.K. or between our facility in the U.K. and customers in the European Union.

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

Treasury Shares

The Company did not purchase shares of its Class A Common Stock during the third quarter of 2016.

In November 2011, the Company’s Board authorized the purchase of up to an additional 3,000,000 shares under the purchase plan program and the maximum number of shares that may yet be purchased under the program is 665,475. The November 2011 authorization does not have an expiration date.

During the third quarter of 2016, the Company acquired 1,571 shares of its 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 $67.03 per share.

Table of Contents

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from Zebra Technologies Corporation Quarterly Report on Form 10-Q, for the quarter ended October 1, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the consolidated balance sheets; (ii) the consolidated statements of operations; (iii) the consolidated statements of comprehensive (loss) income; (iv) the consolidated statements of cash flows; and (v) notes to consolidated financial statements.

Table of Contents

SIGNATURES

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

ZEBRA TECHNOLOGIES CORPORATION

Date: November 15, 2016 By: /s/ Anders Gustafsson
Anders Gustafsson
Chief Executive Officer

Date: November 15, 2016 By: /s/ Michael C. Smiley
Michael C. Smiley
Chief Financial Officer