ZEBRA TECHNOLOGIES CORP/DE
Form 10-Q
May 04, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from ______ to ______

Commission File Number: 000-19406

Zebra Technologies Corporation

(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.)**

333 Corporate Woods Parkway, Vernon Hills, IL 60061

(Address of principal executive offices) (Zip Code)

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

As of April 30, 2007, there were the following shares outstanding:

Class A Common Stock, $.01 par value 69,075,356

ZEBRA TECHNOLOGIES CORPORATION

QUARTER ENDED MARCH 31, 2007

INDEX

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,330	$ 41,014
Investments and marketable securities	143,906	219,930
Accounts receivable, net	136,867	122,540
Inventories, net	79,560	81,190
Deferred income taxes	14,177	9,464
Prepaid expenses	5,973	5,552
Total current assets	421,813	479,690
Property and equipment at cost, less accumulated depreciation and amortization	59,596	57,431
Long-term deferred income taxes	28,983	11,917
Goodwill	151,147	70,714
Other intangibles, net	60,841	34,025
Long-term investments and marketable securities	267,249	298,245
Other assets	11,425	11,120
Total assets	$ 1,001,054	$ 963,142
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 25,975	$ 28,980
Accrued liabilities	39,122	43,191
Income taxes payable	13,032	2,683
Total current liabilities	78,129	74,854
Deferred rent	687	638
Other long-term liabilities	11,110	9,969
Total liabilities	89,926	85,461
Stockholders equity:		
Preferred Stock		
Class A Common Stock	722	722
Additional paid-in capital	137,421	139,083
Treasury stock	(110,870)	(119,335)
Retained earnings	877,115	850,399
Accumulated other comprehensive income	6,740	6,812

Total stockholders equity	911,128	877,681
Total liabilities and stockholders equity	$ 1,001,054	$ 963,142

See accompanying notes to consolidated financial statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended	
	March 31, 2007	**April 1, 2006**
Net sales	$ 208,576	$ 175,814
Cost of sales	108,786	93,116
Gross profit	99,790	82,698
Operating expenses:		
Selling and marketing	28,164	22,109
Research and development	14,185	12,035
General and administrative	17,932	14,649
Amortization of intangible assets	2,323	747
Acquired in-process research and development	1,853	
Total operating expenses	64,457	49,540
Operating income	35,333	33,158
Other income (expense):		
Investment income	5,304	5,207
Interest expense	(10)	(218)
Foreign exchange gains	175	110
Other, net	86	(448)
Total other income	5,555	4,651
Income before income taxes and cumulative effect of accounting change	40,888	37,809
Income taxes	14,172	13,037
Income before cumulative effect of accounting change	26,716	24,772
Cumulative effect of accounting change (net of tax effect of $694)		1,319
Net income	$ 26,716	$ 26,091
Basic earnings per share before cumulative effect of accounting change	$ 0.39	$ 0.35
Diluted earnings per share before cumulative effect of accounting change	$ 0.39	$ 0.35
Basic earnings per share	$ 0.39	$ 0.37
Diluted earnings per share	$ 0.39	$ 0.37
Basic weighted average shares outstanding	68,908	70,566
Diluted weighted average and equivalent shares outstanding	69,367	71,119

See accompanying notes to consolidated financial statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended	
	March 31, 2007	April 1, 2006
Net income	$ 26,716	$ 26,091
Other comprehensive income (loss):		
Foreign currency translation adjustment	(179)	385
Changes in unrealized losses on hedging transactions, net of tax benefit	(81)	(527)
Changes in unrealized gains and (losses) on investments, net of tax (benefit)	188	(3,571)
Comprehensive income	$ 26,644	$ 22,378

See accompanying notes to consolidated financial statements.

Table of Contents

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended April 1, 2006
Cash flows from operating activities:		
Net income	$ 26,716	$ 26,091
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,853	3,669
Stock-based compensation	3,338	1,511
Excess tax benefit from share-based compensation	(479)	(1,285)
Cumulative effect of accounting change (net of tax)		(1,319)
Acquired in-process research and development	1,853	
Deferred income taxes	(1,097)	94
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(7,065)	(4,298)
Inventories	2,779	(2,817)
Other assets	(99)	963
Accounts payable	(12,275)	(2,225)
Accrued liabilities	(4,318)	(875)
Income taxes payable	10,815	7,034
Other operating activities	834	(920)
Net cash provided by operating activities	26,855	25,623
Cash flows from investing activities:		
Purchases of property and equipment	(5,333)	(4,836)
Acquisition of businesses acquired, net of cash acquired	(127,200)	
Purchases of investments and marketable securities	(166,285)	(275,517)
Maturities of investments and marketable securities	195,424	183,300
Sales of investments and marketable securities	78,069	55,284
Net cash used in investing activities	(25,325)	(41,769)
Cash flows from financing activities:		
Purchase of treasury stock	(6,048)	
Proceeds from exercise of stock options and stock purchase plan purchases	4,337	6,893
Excess tax benefit from share-based compensation	479	1,285
Net cash provided by (used in) financing activities	(1,232)	8,178
Effect of exchange rate changes on cash	18	(110)
Net increase (decrease) in cash and cash equivalents	316	(8,078)
Cash and cash equivalents at beginning of period	41,014	25,621
Cash and cash equivalents at end of period	$ 41,330	$ 17,543

Supplemental disclosures of cash flow information:		
Interest paid	$ 10	$ 218
Income taxes paid	4,357	3,442

See accompanying notes to consolidated financial statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation

Management prepared these unaudited interim consolidated financial statements for Zebra Technologies Corporation and subsidiaries (Zebra) according to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles (GAAP) for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in Zebra s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

The consolidated balance sheet as of December 31, 2006, in this Form 10-Q is taken from the audited consolidated balance sheet in our Form 10-K. These interim financial statements include all adjustments necessary to present fairly Zebra s consolidated financial position as of March 31, 2007, the consolidated results of operations for the three months ended March 31, 2007 and April 1, 2006, and cash flows for the three months ended March 31, 2007 and April 1, 2006. These results, however, are not necessarily indicative of results for the full year.

Note 2 Stock-Based Compensation

As of March 31, 2007, Zebra has two stock option and stock purchase plans available for future grants. Prior to January 1, 2006, we accounted for option grants using the intrinsic value method in accordance with the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock Based Compensation*. Accordingly, we recognized no compensation cost as all options granted under these plans had grant prices equal to the market value of the underlying common stock on the date of grant and the number of shares was fixed.

Effective January 1, 2006, Zebra adopted SFAS No. 123(R), *Share-Based Payments,* utilizing the modified retrospective approach, which requires the prior period financial statements to be restated to recognize compensation costs in the amounts previously reported in the pro forma footnote disclosures. Zebra recognizes compensation costs using the straight-line method over the vesting period of 2 to 5 years. Compensation costs were as follows:

For the three months ended March 31, 2007	$ 3,338
For the three months ended April 1, 2006	1,511

SFAS No. 123(R) requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized (excess tax benefits) to be classified as financing cash flows in the statement of cash flows. As a result, $479,000 of excess tax benefits for the three months ended March 31, 2007, have been classified as financing cash flows. The excess tax benefits for the three months ended April 1, 2006 was $1,285,000.

Table of Contents

For purposes of calculating the compensation cost consistent with SFAS No. 123(R), the fair value is estimated on the date of grant using a binomial model. Volatility is based on an average of the implied volatility in the open market and the annualized volatility of Zebra s stock prices over our entire stock history. The following table shows the weighted-average assumptions used for stock option grants as well as the fair value of the options granted based on those assumptions:

	Three months ended	
	March 31, 2007	**April 1, 2006**
Expected dividend yield	0%	0%
Forfeiture rate	7.43%	7.43%
Volatility	38.30%	38.30%
Risk free interest rate	4.58%	4.58%
- Range of interest rates	4.38% - 4.73%	4.38% - 4.73%
Expected weighted-average life	4.58 years	4.58 years
Fair value of options granted	$985,000	$5,424,000
Weighted-average grant date fair value of options granted	$11.63	$14.47

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

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

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

	Three months ended	
	March 31, 2007	**April 1, 2006**
Fair market value	$ 38.61	$ 42.85
Option price	$ 29.57	$ 36.42
Expected dividend yield	0%	0%
Expected volatility	23%	22%
Risk free interest rate	4.89%	3.99%

Stock option activity for the period ended March 31, 2007, was as follows:

	2007	
Fixed Options	**Shares**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	2,460,367	$ 34.08
Granted	84,677	34.84
Transferred in from WhereNet	132,592	2.27
Exercised	(186,938)	20.04
Forfeited	(60,847)	40.06
Outstanding at end of period	2,429,851	$ 33.30

Options exercisable at end of period	1,329,057	$ 29.15

Table of Contents

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

Range of Exercise Prices	Number of Shares (Options Outstanding)	Weighted-Average Remaining Contractual Life (Options Outstanding)	Weighted-Average Exercise Price (Options Outstanding)	Number of Shares (Options Exercisable)	Weighted-Average Exercise Price (Options Exercisable)
$ 1.29-$18.17	306,031	4.82 years	$ 10.06	193,277	$ 14.60
$ 18.17-$25.23	667,672	5.28 years	23.19	561,505	22.81
$ 25.23-$42.50	399,520	5.93 years	31.97	232,642	29.62
$ 42.50-$46.18	555,675	8.51 years	44.65	126,386	44.99
$ 46.18-$53.92	500,953	7.38 years	49.42	215,247	48.94
	2,429,851			1,329,057	

	Options Outstanding	Options Exercisable
Aggregate intrinsic value	$ 21,761,717	$ 15,621,891
Weighted-average remaining contractual term	6.5 years	5.3 years

As of March 31, 2007, there was $17,140,000 of unearned compensation cost related to stock options granted under the plans. That cost is expected to be recognized over a weighted-average period of 1.9 years.

Note 3 Inventories

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

	March 31, 2007	December 31, 2006
Raw materials	$ 46,053	$ 49,172
Work in process	1,102	1,014
Finished goods	32,405	31,004
Total inventories	$ 79,560	$ 81,190

Note 4 Business Combinations

WhereNet Corp. On January 25, 2007, Zebra acquired all of the outstanding stock of WhereNet Corp. for $127,200,000, which is net of cash acquired and transaction costs. Headquartered in Santa Clara, CA, WhereNet provides integrated wireless Real Time Locating Systems (RTLS) to companies primarily in the industrial manufacturing, transportation and logistics, and aerospace and defense sectors. The consolidated statements of earnings reflect the results of operations of WhereNet since the effective date of the purchase. The pro forma impact of this acquisition was not significant.

The following table (in thousands) summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition based on preliminary third party valuations. Therefore, the allocation of the purchase price is subject to refinement.

	At January 25, 2007
Current assets	$ 9,254
Deferred tax assets	20,686
Property and equipment	360

Intangible assets		30,616
Goodwill		80,530
Total assets acquired	$	141,446
Current liabilities		(14,246)
Net assets acquired	$	127,200

Table of Contents

The purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of $80,530,000. A net operating loss of $30,513,000 is included in the deferred tax assets. The intangible assets of $30,616,000 consist mainly of the following:

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

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

The goodwill is not deductible for tax purposes.

Note 5 Investments and Marketable Securities

We classify the majority of our investments in marketable debt securities as available-for-sale in accordance with the classifications defined in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* As of March 31, 2007, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term in the balance sheet due to our ability and intent to hold them until maturity.

SFAS No. 115 requires that changes in the market value of available-for-sale securities are reflected in the accumulated other comprehensive income caption of stockholders equity in the balance sheet, until we dispose of the securities. Once these securities are disposed of, either by sale or maturity, the accumulated changes in market value are transferred to investment income. On the cash flow statements, changes in the balances of *available-for-sale* securities are shown as purchases, sales and maturities of investments and marketable securities under investing activities.

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

All investments are either marketable debt securities or partnership interests We account for marketable debt securities as available-for-sale securities. We account for the partnership interests using the cost method until our ownership percentage reaches 5% of the total partnership portfolio value, because at that point we begin using the equity method to account for them. During 2006, we reached the 5% threshold on one of our partnership interests. For the three months ended March 31, 2007, we recorded $372,000 in equity in earnings related to this partnership interest, which is included in investment income. No other gains or losses on trading securities were recorded in investment income.

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
Changes in unrealized gains and losses on available- for-sale securities, net of tax, recorded in accumulated other comprehensive income	$ 188	$ (3,571)

Table of Contents

Note 6 Stockholders Equity

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

	March 31, 2007	December 31, 2006
Preferred Stock		
Par value per share	$ 0.01	$ 0.01
Shares authorized	10,000,000	10,000,000
Shares outstanding		
Common Stock - Class A		
Par value per share	$ 0.01	$ 0.01
Shares authorized	150,000,000	150,000,000
Shares issued	72,151,857	72,151,857
Shares outstanding	69,052,489	68,830,029
Treasury stock		
Shares held	3,099,368	3,321,828

Note 7 Other Comprehensive Income (Loss)

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

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

Unrealized gains (losses) on foreign currency hedging activities relate to derivative instruments used to hedge the currency exchange rates for forecasted euro sales. These hedges are designated as cash flow hedges, and we have deferred income statement recognition of gains and losses until the hedged transaction occurs. See Note 10 for more details.

Unrealized gains (losses) on investments classified as available-for-sale are deferred from income statement recognition until the gains or losses are realized. See Note 5 above for more details.

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

	Three Months Ended March 31, 2007	Three Months Ended April 1, 2006
Foreign currency translation adjustments	$ (179)	$ 385
Changes in unrealized losses on foreign currency hedging activities:		
Gross	$ (130)	$ (845)
Income tax benefit	(49)	(318)
Net	$ (81)	$ (527)

Changes in unrealized gains and (losses) on investments classified as available-for-sale:		
Gross	$ 302	$ (5,726)
Income tax (benefit)	114	(2,155)
Net	$ 188	$ (3,571)

Table of Contents

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

		As of
	March 31, 2007	**December 31, 2006**
Foreign currency translation adjustments	$ 8,221	$ 8,400
Unrealized losses on foreign currency hedging activities:		
Gross	$ (1,036)	$ (906)
Income tax benefit	(390)	(341)
Net	$ (646)	$ (565)
Unrealized gains and (losses) on investments classified as available-for-sale:		
Gross	$ (1,339)	$ (1,641)
Income tax (benefit)	(504)	(618)
Net	$ (835)	$ (1,023)

Note 8 Earnings Per Share

Earnings per share before cumulative effect of accounting change were computed as follows (in thousands, except per share amounts):

	Three Months Ended	
	March 31, 2007	**April 1, 2006**
Basic earnings per share:		
Net income before cumulative effect of accounting change	$ 26,716	$ 24,772
Weighted average common shares outstanding	68,908	70,566
Per share amount	$ 0.39	$ 0.35
Diluted earnings per share:		
Net income before cumulative effect of accounting change	$ 26,716	$ 24,722
Weighted average common shares outstanding	68,908	70,566
Add: Effect of dilutive securities stock options	459	553
Diluted weighted average and equivalent shares outstanding	69,367	71,119
Per share amount	$ 0.39	$ 0.35

-12-

Table of Contents

Earnings per share after the cumulative effect of the accounting change were computed as follows (in thousands, except per share amounts):

	Three Months Ended March 31, 2007	Three Months Ended April 1, 2006
Basic earnings per share:		
Net income	$ 26,716	$ 26,091
Weighted average common shares outstanding	68,908	70,566
Per share amount	$ 0.39	$ 0.37
Diluted earnings per share:		
Net income	$ 26,716	$ 26,091
Weighted average common shares outstanding	68,908	70,566
Add: Effect of dilutive securities stock options	459	553
Diluted weighted average and equivalent shares outstanding	69,367	71,119
Per share amount	$ 0.39	$ 0.37

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

	Three Months Ended March 31, 2007	Three Months Ended April 1, 2006
Potentially dilutive shares	1,107,000	878,000

Note 9 Goodwill and Other Intangible Asset Data

Intangible asset data are as follows (in thousands):

	March 31, 2007 Gross Carrying Amount	March 31, 2007 Accumulated Amortization	December 31, 2006 Gross Carrying Amount	December 31, 2006 Accumulated Amortization
Amortized intangible assets				
Current technology	$ 30,441	$ (10,360)	$ 15,481	$ (9,566)
Patent and patent rights	28,647	(3,579)	28,247	(2,645)
Customer relationships	17,575	(1,883)	3,798	(1,290)
Total	$ 76,663	$ (15,822)	$ 47,526	$ (13,501)
Unamortized intangible assets				
Goodwill	$ 151,147		$ 70,714	
Aggregate amortization expense				
For the year ended December 31, 2006			$ 3,653	
For the three months ended March 31, 2007	$ 2,323			
Estimated amortization expense				

For the year ended December 31, 2007	10,299
For the year ended December 31, 2008	9,390
For the year ended December 31, 2009	9,153
For the year ended December 31, 2010	8,387
For the year ended December 31, 2011	8,043
Thereafter	17,892

We test the impairment of goodwill each year or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last assessment during June 2006. At that time, no adjustment to goodwill was necessary due to impairment.

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

Factors considered that may trigger an impairment review consist of:

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

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

Note 10 Derivative Instruments

In the normal course of business, portions of Zebra s operations are subject to fluctuations in currency values. We manage these risks using derivative financial instruments.

Hedging of Net Assets

We use forward contracts and options to manage exposure related to our pound and euro denominated net assets. We record gains and losses on these contracts and options in income each quarter along with the transaction gains and losses related to our net euro asset position, which would ordinarily offset each other. Summary financial information related to these activities follows (in thousands):

	Three Months Ended	
	March 31, 2007	April 1, 2006
Change in gains and (losses) from foreign exchange derivatives	$ (223)	$ (676)
Gain (loss) on net foreign currency assets	398	786
Net foreign exchange gain	$ 175	$ 110

	As of	
	March 31, 2007	December 31, 2006

Notional balance of outstanding contracts:		
Pound/US dollar	£ 2,500	£ 2,660
Euro/US dollar	20,000	17,000
Euro/Pound	13,000	22,000
Net fair value of outstanding contracts	$ 1,134	$ (172)

Table of Contents

Hedging of Anticipated Sales

We manage the exchange rate risk of anticipated euro denominated sales using forward contracts and option collars. We designate these contracts as cash flow hedges. Gains and losses on these contracts are deferred in other comprehensive income until the contracts are settled and the hedged sales are realized, at which time the deferred gains or losses will be reported as an increase or decrease to sales. Summary financial information related to the cash flow hedges of future revenues follows (in thousands, except percentages):

	As of	
	March 31, 2007	**December 31, 2006**
Net unrealized losses deferred in other comprehensive income:		
Gross	$ (1,036)	$ (906)
Income tax benefit	(390)	(341)
Net	$ (646)	$ (565)
Notional balance of outstanding contracts	45,500	44,075
Hedge effectiveness	100%	100%
	2007	**2006**
Net gains and (losses) included in revenue for the:		
Three months ended March 31, 2007	$ (135)	
Three months ended April 1, 2006		$ 372

Note 11 Contingencies

On January 31, 2003, a Writ of Summons was filed in the Nantes Commercial Court, Nantes, France, by Printherm, a French corporation, and several of its shareholders (collectively, Printherm), against Zebra Technologies France (ZTF), a French corporation and wholly-owned subsidiary of Zebra. Printherm seeks damages in the amount of 15,304,000 and additional unspecified damages in connection with ZTF s termination of negotiations in December 2000 respecting the proposed acquisition by Zebra of the capital stock of Printherm. The negotiation was terminated based on unsatisfactory results of the ongoing due diligence. We believe that Printherm s claims are without merit and that a loss is not likely to occur. We will vigorously defend the action.

Printherm filed bankruptcy proceedings on August 30, 2004, and the Commercial Court ordered its liquidation on November 30, 2004. The case was put on hold until the Court appointed liquidator filed a submission in August 2005, which started the proceedings again. ZTF filed its answer on November 19, 2005, in anticipation of a Court-ordered December 19, 2005, hearing date. In response to a request by Printherm s liquidator, the Court postponed the hearing date so as to provide time for Printherm to respond to ZTF s answer. The hearing has not been scheduled and we are unsure when it will be scheduled

On July 3, 2006, a Zebra reseller filed for bankruptcy protection. At the time of the filing, the reseller owed various Zebra subsidiaries a total of $12,065,000. The entire balance due to Zebra is guaranteed by Condor Insurance, a Nevis insurance company, through a United Kingdom insurance broker. During June 2006, Zebra initiated a suit in the U.K. courts to enforce the guarantee. On January 18, 2007, a summary judgment hearing was held in the case. At the conclusion of that hearing, Zebra s petition for summary judgment was granted, and we were awarded damages of 11,119,000 (approximately $14,650,000). However, we have become aware that Condor s financial position has deteriorated such that Condor may not be able to pay the judgment awarded to us. Management has reviewed the situation and determined that a loss is probable as defined in SFAS No. 5, *Loss Contingencies.* Our range of estimated losses ranges from insignificant up to 100%. Our best estimate is that the loss will be at the high end of the range, and we have, therefore, reserved 100% of the balance due. However, we are continuing to take legal action to collect the judgment against the insurance company and reduce Zebra s loss. If Zebra is able to recover some or all of the loss, we will reverse our reserve and record a gain at that time.

Table of Contents

Note 12 Warranty. Zebra provides warranty coverage of generally of up to one year on printers against defects in material and workmanship. Printheads are warranted for six months and batteries are warranted for three months. A provision for warranty expense is recorded at the time of shipment and adjusted quarterly based on historical warranty experience. The following is a summary of Zebra s accrued warranty obligation.

	Three Months Ended March 31, 2007		Three Months Ended April 1, 2006	
Balance at the beginning of the year	$	2,250	$	1,922
Warranty expense year-to-date		1,661		1,402
Warranty payments made year-to-date		(879)		(1,262)
Balance at the end of the period	$	3,032	$	2,062

During 2005, Zebra began providing for environmental recycling reserves similar to warranty reserves. In the European Union, we have an obligation in the future to recycle printers. This reserve is based on all new printers sold after August 13, 2005, and printers sold prior to that date that are returned to us upon our sale of a new printer to a customer. The following is a summary of Zebra s accrued recycling obligation.

	Three Months Ended March 31, 2007		Three Months Ended April 1, 2006	
Balance at the beginning of the year	$	2,115	$	632
Recycling expense year-to-date		437		365
Recycling payments made year-to-date				
Exchange rate impact		(6)		(50)
Balance at the end of the period	$	2,546	$	947

Note 13 Income Taxes

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 . According to FIN No. 48, we identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. The net income tax assets recognized under FIN No. 48 did not differ from the net assets recognized before adoption, and, therefore, we did not record an adjustment related to the adoption of FIN No. 48. Zebra did not have any unrecognized tax benefits as of March 31, 2007 and do not expect any significant changes in unrecognized tax benefits during the next 12 months.

Zebra has concluded all U.S. federal income tax audits for years through 2003. The tax years 2002 through 2006 remain open to examination by multiple state taxing jurisdictions. Foreign tax audits have been completed for year through 2003.

Zebra s continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense. For the quarter ended March 31, 2007, we did not accrue any interest or penalties into income tax expense.

Note 14 New Accounting Pronouncements

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

Table of Contents

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

Net sales for the first quarter of 2007, compared with the first quarter of 2006, advanced 18.6% on the strength of sales in North America and our Europe, Middle East and Africa region, our two largest geographic territories. Continued robust sales growth of our established printer and supplies lines were supplemented by sales from WhereNet, which we acquired in January 2007, and Swecoin, which we acquired in October 2006. Gross profit margin increased, as we benefited from favorable exchange rate movements, favorable changes in product mix and lower manufacturing variances. Higher operating expenses resulted from the addition of personnel related to the WhereNet and Swecoin acquisitions, in addition to increased expenditures on advertising, market development funding and information technology. We also incurred a one-time write-off for acquired in-process technology associated with the WhereNet acquisition, as well as higher expenses related to stock options expensing.

Results of Operations: First Quarter of 2007 versus first Quarter of 2006

Sales

Sales by product category, percent change, and percent of total sales for the three months ended March 31, 2007, and April 1, 2006, were (in thousands, except percentages):

	Three Months Ended				
Product Category	March 31, 2007	April 1, 2006	Percent Change	Percent of Total Sales - 2007	Percent of Total Sales - 2006
Hardware	$ 159,588	$ 133,468	19.6	76.5	75.9
Supplies	38,081	34,326	10.9	18.3	19.5
Service and software	9,394	6,231	50.8	4.5	3.5
Shipping and handling	1,648	1,417	16.3	0.8	0.9
Cash flow hedging activities	(135)	372	NM	(0.1)	0.2
Total sales	$ 208,576	$ 175,814	18.6	100.0	100.0

Sales to customers by geographic region, percent changes and percent of total sales for the three months ended March 31, 2007, and April 1, 2006, were (in thousands, except percentages):

	Three Months Ended				Percent of
Geographic Region	March 31, 2007	April 1, 2006	Percent Change	Percent of Total Sales - 2007	Total Sales - 2006
Europe, Middle East and Africa	$ 74,575	$ 60,681	22.9	35.8	34.5
Latin America	12,523	12,919	(3.1)	6.0	7.3
Asia-Pacific	16,972	15,227	11.5	8.1	8.7
Total International	104,070	88,827	17.2	49.9	50.5
North America	104,506	86,987	20.1	50.1	49.5
Total sales	$ 208,576	$ 175,814	18.6	100.0	100.0

Favorable business trends in North America and international regions overall contributed to the quarterly sales growth. Strength within our historical printer and supplies product lines was supplemented by product and service revenue from WhereNet and Swecoin, which were acquired in January 2007 and October 2006. North American sales in particular benefited from the acquisition of WhereNet, which currently generates its sales predominantly in the United States. These business trends are also reflected in hardware sales, which increased 19.6% for the quarter on record printer unit volume shipments.

New printer products (defined as printers released within 18 months prior to the end of the applicable fiscal period) accounted for 11.5% of printer sales in the first quarter of 2007, compared with 14.4% of printer sales in the first quarter of 2006 and 12.2% for the fourth quarter of 2006.

Our international sales are denominated in multiple currencies, primarily the dollar, pound and euro. This directly causes our reported sales to be subject to fluctuations based on changes in currency rates. We estimate that favorable foreign exchange movements of the euro and the pound versus the dollar had a positive impact of $5,684,000 on sales during the first quarter.

Table of Contents

We currently hedge a portion of anticipated euro-denominated sales to partially protect Zebra against exchange rate movements. For the first quarter, this program resulted in a loss of $135,000. See Note 10 to the Consolidated Financial Statements included in this Report for a more detailed discussion of this hedging program.

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

	Three Months Ended		
	March 31, 2007	April 1, 2006	Percent Change
Total printers shipped	229,031	191,949	19.3
Average selling price of printers shipped	$ 568	$ 591	(3.9)

For the first quarter of 2007, unit volumes increased in nearly all product lines compared to the first quarter of 2006 with notable volume increases in the desktop and mobile printers. The average selling price decline is primarily related to higher sales growth of these lower-priced printers compared with the product mix for the first quarter of 2006.

Gross Profit

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

	Three Months Ended		
	March 31, 2007	April 1, 2006	Percent Change
Gross Profit	$ 99,790	$ 82,698	20.7
Gross Margin	47.8	47.0	

Gross profit margin was affected by favorable foreign currency movements, which increased first quarter gross profit by $4,606,000. Gross profit margin improvements were also a result of manufacturing variances and product mix.

Selling and Marketing Expenses

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

	Three Months Ended		
	March 31, 2007	April 1, 2006	Percent Change
Selling and marketing expenses	$ 28,164	$ 22,109	27.4
Percent of sales	13.5	12.6	

We continue to invest heavily in demand-generating activities to build brand equity in our core product lines as well as in the emerging area of radio frequency identification (RFID). During the first quarter of 2007, selling and marketing expenses increased due to higher payroll costs of $2,912,000, which was predominantly related to our acquisitions of Swecoin and WhereNet. In addition, advertising expenses and market development funding increased $1,843,000 and travel costs increased $323,000.

Research and Development Costs

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

Three Months Ended

	March 31, 2007	April 1, 2006	Percent Change
Research and development costs	$ 14,185	$ 12,035	17.9
Percent of sales	6.8	6.8	

Table of Contents

Quarterly product development expenses fluctuate widely depending on the status of on-going projects. We are committed to a long-term strategy of significant investment in product development. For the first quarter of 2007, payroll and benefits increased by $1,417,000 and professional services costs increased by $669,000 in relation to the first quarter of 2006.

General and Administrative Expenses

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

	Three Months Ended		
	March 31, 2007	April 1, 2006	Percent Change
General and administrative expenses	$ 17,932	$ 14,649	22.4
Percent of sales	8.6	8.3	

For the first quarter of 2007, the increase in general and administrative expenses compared to the first quarter of 2006 is related to higher payroll and benefits of $2,718,000, which includes increased SFAS No. 123(R) compensation expense of $965,000. Information system costs also increased $1,017,000 and legal expenses decreased $907,000.

Operating Income

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

	Three Months Ended		
	March 31, 2007	April 1, 2006	Percent Change
Operating income	$ 35,333	$ 33,158	6.6
Percent of sales	16.9	18.9	

Non-operating Income and Expenses

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
Investment income	$ 5,304	$ 5,207
Interest expense	(10)	(218)
Foreign exchange gain	175	110
Other, net	86	(448)
Total other income	$ 5,555	$ 4,651
Rate of Return Analysis:		
Average cash and marketable securities balances	$ 506,326	$ 556,881
Annualized rate of return	4.2%	3.7%

Income Taxes

The effective income tax rate for the first quarter of 2007 increased to 34.7% compared to 34.5% for the same period last year.

Table of Contents

Net Income before Cumulative Effect of Accounting Change

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
Net income before cumulative effect of accounting change	$ 26,716	$ 24,772
Diluted earnings per share	$ 0.39	$ 0.35

Cumulative Effect of Accounting Change

During the first quarter of 2006, Zebra adopted SFAS No. 123(R), *Share-Based Payments,* utilizing the modified retrospective approach. SFAS No. 123(R) requires entities to estimate the number of forfeitures expected to occur and record expense based upon the number of awards expected to vest. Prior to the adoption of SFAS No. 123(R), Zebra accounted for forfeitures as they occurred as permitted under previous accounting standards. The requirement to estimate forfeitures is classified as an accounting change under APB Opinion No. 20, *Accounting Changes*, which requires a one-time adjustment in the period of adoption. The one-time adjustment (cumulative effect of accounting change) related to the change in estimating forfeitures increased income by $1,319,000, net of applicable taxes.

Net Income

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
Net income	$ 26,716	$ 26,091
Diluted earnings per share	$ 0.39	$ 0.37

Liquidity and Capital Resources

During the first quarter of 2007, Zebra purchased WhereNet Corp. for $127,200,000. As a result, Zebra s cash and investment balances have decreased during the quarter. As of March 31, 2007, Zebra had $452,485,000 in cash, cash equivalents, investments and marketable securities, compared with $559,189,000 at December 31, 2006. Factors affecting cash and investment balances during the first three months of 2007 include (note that changes discussed below include the impact of foreign currency):

Operations provided cash in the amount of $26,855,000, primarily from net income.

Accounts receivable increased $7,065,000 year-to-date because of higher sales. Days sales outstanding increased to 60 days in the first quarter of 2007 compared to 53 days at the end of 2006.

Inventories decreased $2,779,000. Inventory turns decreased during the first quarter of 2007 to 5.3 from 5.5 at the end of 2006.

Accounts payable decreased $12,275,000, due to timing of vendor payments.

Taxes payable increased $10,815,000 because of the timing of tax payments.

Purchases of property and equipment totaled $5,333,000.

Purchase of WhereNet Corp., totaled $127,200,000.

Net sales of investments totaled $107,208,000.

Purchases of treasury shares totaled $6,048,000. Zebra made open market repurchases of our shares under an authorization of the Board of Directors dated October 4, 2005.

Stock option exercises and purchases under the stock purchase plan contributed $4,337,000.

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

Critical Accounting Policies and Estimates

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

Table of Contents

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

Revenue Recognition

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

Customer returns

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

Growth Rebates

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

Price Protection

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

Software Revenue

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

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

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

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

Shipping and Handling

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

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

Table of Contents

Investments and Marketable Securities

Investments and marketable securities at March 31, 2007, consisted of U.S. government securities (8.9%), state and municipal bonds (79.4%), corporate bonds (2.0%) and partnership interests (9.7%). We classify our debt and marketable equity securities in one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those debt securities that Zebra has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale except for partnership interests described below.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of discounts or premiums. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders equity until realized. As of March 31, 2007, Zebra s investments in marketable debt securities are classified as available-for-sale. In addition, as of March 31, 2007, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term in the balance sheet due to our ability and intent to hold them until maturity.

All investments in marketable securities except the partnership interests are classified as available-for-sale securities. We account for the partnership interests using the costs method until our ownership percentage reaches 5% of the total partnership portfolio value. At that time, we begin using the equity method until to account for the partnership. During 2006, we reached the 5% threshold on one of our partnership interests.

Accounts Receivable

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

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

We reserve for estimated credit losses based upon historical experience and specific customer collection issues. Over the last three years, accounts receivable reserves varied from 1.0% to 2.9% of total accounts receivable. Accounts receivable reserves as of March 31, 2007, were $4,085,000, or 2.9% of the balance due. Included in the accounts receivable reserve is $2,302,000 related to the reseller noted in the following paragraph. In addition, other assets include an additional reserve of $10,236,000 related to this reseller. We feel this reserve level is appropriate considering the quality of the portfolio as of March 31, 2007. While credit losses have historically been within expectations and the provisions established, we cannot guarantee that our credit loss experience will continue to be consistent with historical experience.

During 2006, a Zebra reseller filed for bankruptcy protection in Austria. At the time of the filing, the reseller owed various Zebra subsidiaries a total of $12,065,000. The entire balance due to Zebra is guaranteed by Condor Insurance, a Nevis insurance company through a United Kingdom insurance broker. During June 2006, Zebra initiated a suit in the U.K. courts to enforce the guarantee. However, during the fourth quarter of 2006, we discovered that the insurance company s financial position was such that it may not be able to pay the judgment awarded to us. We reviewed the situation and determined that a loss is probable, and, therefore, reserved 100% of the balance due, which is now $12,538,000. However, we are continuing to take legal action to collect the judgment against the insurance company and reduce Zebra s loss. If Zebra is able to recover some or all of the loss, we will reverse the reserve and record a gain at that time.

Inventories

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

Over the last three years, our reserves for excess and obsolete inventories have ranged from 10.0% to 12.8% of gross inventory. As of March 31, 2007, reserves for excess and obsolete inventories were $10,852,000, or 11.8% of gross inventory. We feel this reserve level is appropriate considering the quantities and quality of the inventories as of March 31, 2007.

Valuation of Long-Lived and Intangible Assets and Goodwill.

We test the impairment of goodwill each year or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last assessment during June 2006. At that time, no adjustment to goodwill was necessary due to impairment.

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

Factors considered that may trigger an impairment review consist of:

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

If we believe that one or more of the above indicators of impairment have occurred and the undiscounted cash flow test is failed in the case of amortizable assets, we measure impairment based on projected discounted cash flows using a discount rate that incorporates the risk inherent in the cash flows. Net intangible assets, long-lived assets and goodwill amounted to $271,584,000 as of March 31, 2007.

Income Taxes

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 . According to FIN No. 48, we identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. The net income tax assets recognized under FIN No. 48 did not differ from the net assets recognized before adoption, and, therefore, we did not record an adjustment related to the adoption of FIN No. 48. Zebra did not have any unrecognized tax benefits as of March 31, 2007 and do not expect any significant changes in unrecognized tax benefits during the next 12 months.

Zebra has concluded all U.S. federal income tax audits for years through 2003. The tax years 2002 through 2006 remain open to examination by multiple state taxing jurisdictions. Foreign tax audits have been completed for year through 2003.

Zebra s continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense. For the quarter ended March 31, 2007, we did not accrue any interest or penalties into income tax expense.

Contingencies

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

For a discussion of the Printherm litigation matters, see Note 11 to the Consolidated Financial Statements.

Stock-based Compensation

As of March 31, 2007, Zebra has two stock option and stock purchase plans available for future grants. As of January 1, 2006, Zebra adopted SFAS No. 123(R), *Share-Based Payments,* utilizing the modified retrospective approach, which requires the prior period financial statements to be restated to recognize compensation costs in the amounts previously reported in the pro forma footnote disclosures. See Note 2 to the Consolidated Financial Statements for further information on the adoption and impact of SFAS No. 123(R).

Table of Contents

Significant Customer

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

	March 31, 2007	April 1, 2006
For the three months ended	16.0%	16.5%

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

Expectations

As stated on our quarterly conference call on April 30, 2007, we estimate net sales, gross profit margins, operating expenses, and earnings for the second quarter of 2007 as follows (in thousands, except per share amounts and percentages):

	Second Quarter 2007
Net sales	$208,000 to $220,000
Gross profit margins	47.0% to 48.0%
Operating expenses	$66,000 to $68,000
Diluted earnings per share	$0.34 to $0.40

The effective tax rate is expected to be 34.5% of income before income taxes for the second quarter of 2007.

Safe Harbor

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

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

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

Our ability to control manufacturing and operating costs,

Success of integrating acquisitions,

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

Foreign exchange rates due to the large percentage of our international sales, The outcome of litigation in which Zebra is involved, particularly litigation or claims related to infringement of third-party intellectual property rights, and

New regulations in the European Union that restrict the use of certain hazardous substances in electrical and electronic equipment.

When used in this document and documents referenced, the words anticipate, believe, estimate, will and expect and similar expressions as th relate to Zebra or its management are intended to identify such forward-looking statements. We encourage readers of this report to review Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006, for a further discussion of issues that could affect Zebra s future results. Zebra undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this report.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in Zebra s market risk during the quarter ended March 31, 2007. For additional information on market risk, refer to the Quantitative and Qualitative Disclosures About Market Risk section of our Form 10-K for the year ended December 31, 2006.

In the normal course of business, portions of Zebra s operations are subject to fluctuations in currency values. We manage these risks using derivative financial instruments.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting during the quarter ended March 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Inherent Limitations on the Effectiveness of Controls

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

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 11 to the Consolidated Financial Statements included in this Form 10-Q.

Item 1A. Risk Factors

In addition to the other information include in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006, and the factors identified under Safe Harbor at the end of Item 2 of Part I of this Quarterly Report on Form 10-Q, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Zebra. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results.

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

Treasury Shares

During the first quarter of 2007, Zebra purchased 38,389 shares of Zebra common stock. The repurchase was under a purchase authorization approved by the Board of Directors. In September 2005, the Board authorized the purchase of up to 2,500,000 shares of Zebra common stock. The purchase price is at management s discretion, and there is no expiration on the authorization. During the first quarter of 2007, Zebra purchased shares as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program	Maximum number of shares that may yet be purchased under the program
January 2007 (January 1 January 27)	38,389	$ 35.00	38,389	380,700

-27-

Item 6. Exhibits and Reports on Form 8-K

2.1	Agreement and Plan of Merger between Zebra Technologies Corporation, Waldo Acquisition Corp., WhereNet Corp. and Crosspoint Venture Partners 1996, LLP, dated as of January 11, 2007.
10.1	WhereNet 1997 Stock Option Plan.(1)
10.2	First Amendment to the WhereNet Corp. 1997 Stock Option Plan.(1)
10.3	First Amendment to the Zebra Technologies Corporation 2005 Executive Deferred Compensation Plan, dated as of March 19, 2007.(2)
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.

1) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company s Registration Statement on Form S-8 filed on January 25, 2007 (file no. 333-140207), and incorporated herein by reference.
2) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company s Current Report on Form 8-K filed on April 23, 2007, and incorporated herein by reference.

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: May 3, 2007	By: /s/ Edward L. Kaplan Edward L. Kaplan Chief Executive Officer
Date: May 3, 2007	By: /s/ Charles R. Whitchurch Charles R. Whitchurch Chief Financial Officer

-29-