

ZEBRA TECHNOLOGIES CORP/DE
Form 10-Q
August 03, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 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
(State or other jurisdiction of
incorporation or organization)

36-2675536
(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

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

Indicate by check mark whether the registrant 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 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

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

Class A Common Stock, \$.01 par value 69,210,425

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ZEBRA TECHNOLOGIES CORPORATION

QUARTER ENDED JUNE 30, 2007

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(Amounts in thousands)

| | June 30, 2007 (Unaudited) | December 31, 2006 |
|--|---------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 63,210 | \$ 41,014 |
| Investments and marketable securities | 146,096 | 219,930 |
| Accounts receivable, net | 124,584 | 122,540 |
| Inventories, net | 79,478 | 81,190 |
| Deferred income taxes | 14,617 | 9,464 |
| Prepaid expenses | 6,242 | 5,552 |
| Total current assets | 434,227 | 479,690 |
| Property and equipment at cost, less accumulated depreciation and amortization | 61,559 | 57,431 |
| Long-term deferred income taxes | 29,388 | 11,917 |
| Goodwill | 151,394 | 70,714 |
| Other intangibles, net | 58,493 | 34,025 |
| Long-term investments and marketable securities | 285,769 | 298,245 |
| Other assets | 11,793 | 11,120 |
| Total assets | \$ 1,032,623 | \$ 963,142 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 32,443 | \$ 28,980 |
| Accrued liabilities | 43,535 | 43,191 |
| Income taxes payable | 1,012 | 2,683 |
| Total current liabilities | 76,990 | 74,854 |
| Deferred rent | 735 | 638 |
| Other long-term liabilities | 11,527 | 9,969 |
| Total liabilities | 89,252 | 85,461 |
| Stockholders' equity: | | |
| Preferred Stock | | |
| Class A Common Stock | 722 | 722 |
| Additional paid-in capital | 139,261 | 139,083 |
| Treasury stock | (107,318) | (119,335) |
| Retained earnings | 902,748 | 850,399 |
| Accumulated other comprehensive income | 7,958 | 6,812 |

| | | |
|---|--------------|------------|
| Total stockholders' equity | 943,371 | 877,681 |
| Total liabilities and stockholders' equity | \$ 1,032,623 | \$ 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 | | Six Months Ended | |
|--|---------------------------|-------------------------|--------------------------|-------------------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Net sales | \$ 208,912 | \$ 187,421 | \$ 417,488 | \$ 363,235 |
| Cost of sales | 109,510 | 97,895 | 218,296 | 191,011 |
| Gross profit | 99,402 | 89,526 | 199,192 | 172,224 |
| Operating expenses: | | | | |
| Selling and marketing | 29,069 | 23,510 | 57,233 | 45,619 |
| Research and development | 13,869 | 12,382 | 28,054 | 24,417 |
| General and administrative | 19,875 | 15,081 | 37,808 | 29,730 |
| Amortization of intangible assets | 2,620 | 723 | 4,943 | 1,470 |
| Acquired in-process research and development | | | 1,853 | |
| Total operating expenses | 65,433 | 51,696 | 129,891 | 101,236 |
| Operating income | 33,969 | 37,830 | 69,301 | 70,988 |
| Other income (expense): | | | | |
| Investment income | 5,724 | 4,987 | 11,028 | 10,194 |
| Interest expense | (10) | (13) | (20) | (231) |
| Foreign exchange gains | (182) | (380) | (7) | (269) |
| Other, net | (366) | (177) | (280) | (626) |
| Total other income | 5,166 | 4,417 | 10,721 | 9,068 |
| Income before income taxes and cumulative effect of accounting change | 39,135 | 42,247 | 80,022 | 80,056 |
| Income taxes | 13,502 | 14,575 | 27,673 | 27,612 |
| Income before cumulative effect of accounting change | 25,633 | 27,672 | 52,349 | 52,444 |
| Cumulative effect of accounting change (net of tax effect of \$694) | | | | 1,319 |
| Net income | \$ 25,633 | \$ 27,672 | \$ 52,349 | \$ 53,763 |
| Basic earnings per share before cumulative effect of accounting change | \$ 0.37 | \$ 0.39 | \$ 0.76 | \$ 0.74 |
| Diluted earnings per share before cumulative effect of accounting change | \$ 0.37 | \$ 0.39 | \$ 0.75 | \$ 0.74 |
| Basic earnings per share | \$ 0.37 | \$ 0.39 | \$ 0.76 | \$ 0.76 |
| Diluted earnings per share | \$ 0.37 | \$ 0.39 | \$ 0.75 | \$ 0.76 |
| Basic weighted average shares outstanding | 69,098 | 70,781 | 68,996 | 70,661 |
| Diluted weighted average and equivalent shares outstanding | 69,559 | 71,229 | 69,453 | 71,154 |
| See accompanying notes to consolidated financial statements. | | | | |

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|----------------|-------------------------|----------------|
| | June 30, | July 1, | June 30, | July 1, |
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 25,633 | \$ 27,672 | \$ 52,349 | \$ 53,763 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | 1,625 | 3,054 | 1,446 | 3,439 |
| Changes in unrealized gains and (losses) on hedging transactions, net of tax (benefit) | 196 | (863) | 115 | (1,390) |
| Changes in unrealized losses on investments, net of tax benefit | (604) | (11) | (415) | (3,582) |
| Comprehensive income | \$ 26,850 | \$ 29,852 | \$ 53,495 | \$ 52,230 |

See accompanying notes to consolidated financial statements.

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

(Amounts in thousands)

(Unaudited)

| | Six Months Ended | |
|--|-------------------------|-----------------|
| | July 1, | |
| | June 30, | 2006 |
| | 2007 | |
| Cash flows from operating activities: | | |
| Net income | \$ 52,349 | \$ 53,763 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 12,243 | 7,300 |
| Stock-based compensation | 6,557 | 3,485 |
| Excess tax benefit from share-based compensation | (690) | (1,362) |
| Cumulative effect of accounting change (net of tax) | | (1,319) |
| Acquired in-process research and development | 1,853 | |
| Deferred income taxes | (1,893) | (2,419) |
| Changes in assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable, net | 6,676 | (479) |
| Inventories | 3,515 | (12,729) |
| Other assets | (492) | 2,387 |
| Accounts payable | (7,022) | (2,358) |
| Accrued liabilities | (213) | 3,261 |
| Income taxes payable | (1,114) | 1,107 |
| Other operating activities | 1,002 | (2,259) |
| Net cash provided by operating activities | 72,771 | 48,378 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (10,903) | (10,446) |
| Acquisition of businesses acquired, net of cash acquired | (127,426) | |
| Acquisition of intangible assets | | (3,898) |
| Purchases of investments and marketable securities | (360,792) | (543,095) |
| Maturities of investments and marketable securities | 332,542 | 345,300 |
| Sales of investments and marketable securities | 114,145 | 155,611 |
| Net cash used in investing activities | (52,434) | (56,528) |
| Cash flows from financing activities: | | |
| Purchase of treasury stock | (6,048) | |
| Proceeds from exercise of stock options and stock purchase plan purchases | 6,382 | 8,126 |
| Excess tax benefit from share-based compensation | 690 | 1,362 |
| Net cash provided by financing activities | 1,024 | 9,488 |
| Effect of exchange rate changes on cash | 835 | 668 |
| Net increase in cash and cash equivalents | 22,196 | 2,006 |
| Cash and cash equivalents at beginning of period | 41,014 | 25,621 |

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| | | |
|--|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 63,210 | \$ 27,627 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | \$ 20 | \$ 231 |
| Income taxes paid | 30,101 | 27,196 |
| See accompanying notes to consolidated financial statements. | | |

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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 (of a normal, recurring nature) necessary to present fairly Zebra's consolidated financial position as of June 30, 2007, the consolidated results of operations for the three and six months ended June 30, 2007 and July 1, 2006, and cash flows for the six months ended June 30, 2007 and July 1, 2006. These results, however, are not necessarily indicative of results for the full year.

Note 2 Stock-Based Compensation

As of June 30, 2007, Zebra has two stock option and stock purchase plans available for future grants. Prior to January 1, 2006, we accounted for these plans 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 4 to 5 years. Compensation costs were as follows:

| | 2007 | 2006 |
|----------------------------------|----------|----------|
| Three months ended June 30, 2007 | \$ 3,219 | |
| Three months ended July 1, 2006 | | \$ 1,974 |
| Six months ended June 30, 2007 | 6,557 | |
| Six months ended July 1, 2006 | | 3,485 |

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, \$690,000 of excess tax benefits for the six months ended June 30, 2007, have been classified as financing cash flows. The excess tax benefits for the six months ended July 1, 2006 was \$1,362,000.

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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:

| | Six months ended | |
|---|------------------|---------------|
| | June 30, 2007 | July 1, 2006 |
| Expected dividend yield | 0% | 0% |
| Forfeiture rate | 7.69% | 7.43% |
| Volatility | 34.73% | 38.30% |
| Risk free interest rate | 4.55% | 4.58% |
| - Range of interest rates | 4.55% - 5.03% | 4.38% - 4.73% |
| Expected weighted-average life | 4.88 years | 4.58 years |
| Fair value of options granted | \$6,753,000 | \$5,735,000 |
| Weighted-average grant date fair value of options granted | \$13.79 | \$14.27 |

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 ranged 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 |

In conjunction with the WhereNet acquisition, on January 25, 2007, 41,924 shares of restricted stock were granted under the 2006 Zebra Technologies Corporation Incentive Compensation Plan (the 2006 Plan) to certain of WhereNet's executive officers. These restricted stock awards will vest over the next three years (one-third each year) after the grant date if the executive remains employed by Zebra throughout the specified time period, but will vest before the end of the specified time period in the event of death, disability, resignation for good reason, a change in control (as defined in the 2006 Plan), or termination by Zebra other than for Cause, as defined in the restricted stock agreement entered into by Zebra with each executive officer who was granted restricted stock (the Restricted Stock Agreement). The restricted stock is forfeited in certain situations specified in the Restricted Stock Agreement, including, if before the restricted stock vests, the executive's employment is terminated by Zebra for Cause (as defined in the Restricted Stock Agreement) or if the executive resigns for other than good reason.

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

| | Six months ended | |
|-------------------------|------------------|--------------|
| | June 30, 2007 | July 1, 2006 |
| Fair market value | \$ 36.42 | \$ 37.84 |
| Option price | \$ 30.95 | \$ 32.16 |
| Expected dividend yield | 0% | 0% |
| Expected volatility | 21% | 29% |
| Risk free interest rate | 4.89% | 4.26% |

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Stock option activity for the period ended June 30, 2007, was as follows:

| | | 2007 | |
|--------------------------------------|-----------|---------------------------------|-------|
| | Shares | Weighted-Average Exercise Price | |
| Fixed Options | | | |
| Outstanding at beginning of year | 2,460,367 | \$ | 34.08 |
| Granted | 622,299 | | 32.07 |
| Exercised | (266,084) | | 19.83 |
| Forfeited | (85,744) | | 40.24 |
| Expired | (9,255) | | 49.17 |
| Outstanding at end of period | 2,721,583 | \$ | 34.76 |
| Options exercisable at end of period | 1,278,304 | \$ | 29.11 |

The following table summarizes information about fixed stock options outstanding at June 30, 2007:

| Range of Exercise Prices | Number of Shares | Options Outstanding | | Options Exercisable | |
|--------------------------|------------------|---|---------------------------------|---------------------|---------------------------------|
| | | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number of Shares | Weighted-Average Exercise Price |
| \$ 1.29-\$21.31 | 290,162 | 4.54 years | \$ 10.44 | 204,686 | \$ 13.76 |
| \$ 21.31-\$26.94 | 753,558 | 4.59 years | 23.98 | 649,369 | 23.79 |
| \$ 26.94-\$41.25 | 630,725 | 9.00 years | 38.81 | 86,159 | 34.15 |
| \$ 41.25-\$46.18 | 564,413 | 8.24 years | 44.61 | 130,832 | 44.90 |
| \$ 46.18-\$53.92 | 482,725 | 7.13 years | 49.42 | 207,258 | 48.91 |
| | 2,721,583 | | | 1,278,304 | |

| | Options Outstanding | Options Exercisable |
|---|---------------------|---------------------|
| Aggregate intrinsic value | \$ 20,302,000 | \$ 15,223,000 |
| Weighted-average remaining contractual term | 6.8 years | 5.1 years |

As of June 30, 2007, there was \$19,128,000 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):

| | June 30, 2007 | December 31, 2006 |
|-------------------|---------------|-------------------|
| Raw materials | \$ 44,032 | \$ 49,172 |
| Work in process | 1,066 | 1,014 |
| Finished goods | 34,380 | 31,004 |
| Total inventories | \$ 79,478 | \$ 81,190 |

Note 4 Business Combinations

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WhereNet Corp. On January 25, 2007, Zebra acquired all of the outstanding stock of WhereNet Corp. for \$127,426,000, 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.

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

| | At January 25, 2007 |
|------------------------|---------------------|
| Current assets | \$ 9,254 |
| Deferred tax assets | 20,686 |
| Property and equipment | 360 |
| Intangible assets | 30,616 |
| Goodwill | 80,756 |
| | |
| Total assets acquired | \$ 141,672 |
| | |
| Current liabilities | (14,246) |
| | |
| Net assets acquired | \$ 127,426 |

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 \$80,756,000. The future benefit of the acquired 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 June 30, 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.

Our investments include marketable debt securities, marketable equity securities and partnership interests. We account for marketable debt securities as available-for-sale securities. We account for the marketable equity securities as trading 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 six months ended June 30, 2007, we recorded \$931,000 in equity in earnings related to this partnership interest, which is included in investment income. We

recorded a gain of \$126,000 on trading securities in investment income during the six months ended June 30, 2007.

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Changes in unrealized losses on available-for-sale securities, net of tax, recorded in accumulated other comprehensive income | \$ (604) | \$ (11) | \$ (415) | \$ (3,582) |

Note 6 Stockholders Equity

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

| | June 30, 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 | 69,147,297 | 68,830,029 |
| Treasury stock | | |
| Shares held | 3,004,560 | 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.

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Foreign currency translation adjustments | \$ 1,625 | \$ 3,054 | \$ 1,446 | \$ 3,439 |
| Changes in unrealized gains and losses on foreign currency hedging activities: | | | | |
| Gross | \$ 314 | \$ (1,384) | \$ 184 | \$ (2,229) |
| Income tax (benefit) | 118 | (521) | 69 | (839) |
| Net | \$ 196 | \$ (863) | \$ 115 | \$ (1,390) |
| Changes in unrealized gains and losses on investments classified as available-for-sale: | | | | |
| Gross | \$ (968) | \$ (17) | \$ (665) | \$ (5,744) |
| Income tax (benefit) | (364) | (6) | (250) | (2,162) |
| Net | \$ (604) | \$ (11) | \$ (415) | \$ (3,582) |

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

| | June 30, 2007 | As of December 31, 2006 |
|--|------------------|-------------------------------|
| Foreign currency translation adjustments | \$ 9,846 | \$ 8,400 |
| Unrealized losses on foreign currency hedging activities: | | |
| Gross | \$ (722) | \$ (906) |
| Income tax (benefit) | (272) | (341) |
| Net | \$ (450) | \$ (565) |
| Unrealized losses on investments classified as available-for-sale: | | |
| Gross | \$ (2,306) | \$ (1,641) |
| Income tax (benefit) | (868) | (618) |
| Net | \$ (1,438) | \$ (1,023) |

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------------|------------------|--------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Basic earnings per share: | | | | |
| Net income before cumulative effect of accounting change | \$ 25,633 | \$ 27,672 | \$ 52,349 | \$ 52,444 |
| Weighted average common shares outstanding | 69,098 | 70,781 | 68,996 | 70,661 |
| Per share amount | \$ 0.37 | \$ 0.39 | \$ 0.76 | \$ 0.74 |
| Diluted earnings per share: | | | | |
| Net income before cumulative effect of accounting change | \$ 25,633 | \$ 27,672 | \$ 52,349 | \$ 52,444 |
| Weighted average common shares outstanding | 69,098 | 70,781 | 68,996 | 70,661 |
| Add: Effect of dilutive securities stock options | 461 | 448 | 457 | 493 |
| Diluted weighted average and equivalent shares outstanding | 69,559 | 71,229 | 69,453 | 71,154 |
| Per share amount | \$ 0.37 | \$ 0.39 | \$ 0.75 | \$ 0.74 |

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------------|------------------|--------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Basic earnings per share: | | | | |
| Net income | \$ 25,633 | \$ 27,672 | \$ 52,349 | \$ 53,763 |
| Weighted average common shares outstanding | 69,098 | 70,781 | 68,996 | 70,661 |
| Per share amount | \$ 0.37 | \$ 0.39 | \$ 0.76 | \$ 0.76 |
| Diluted earnings per share: | | | | |
| Net income | \$ 25,633 | \$ 27,672 | \$ 52,349 | \$ 53,763 |
| Weighted average common shares outstanding | 69,098 | 70,781 | 68,996 | 70,661 |
| Add: Effect of dilutive securities stock options | 461 | 448 | 457 | 493 |
| Diluted weighted average and equivalent shares outstanding | 69,559 | 71,229 | 69,453 | 71,154 |
| Per share amount | \$ 0.37 | \$ 0.39 | \$ 0.75 | \$ 0.76 |

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 Six Months Ended

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| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
|-----------------------------|--------------------------|-------------------------|--------------------------|-------------------------|
| Potentially dilutive shares | 1,448,000 | 1,367,000 | 1,467,000 | 1,409,000 |

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Table of Contents**Note 9 Goodwill and Other Intangible Asset Data**

Intangible asset data are as follows (in thousands):

| | June 30, 2007 | | December 31, 2006 | |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets | | | | |
| Current technology | \$ 30,460 | \$ (11,209) | \$ 15,481 | \$ (9,566) |
| Patent and patent rights | 28,897 | (4,531) | 28,247 | (2,645) |
| Customer relationships | 17,583 | (2,707) | 3,798 | (1,290) |
| Total | \$ 76,940 | \$ (18,447) | \$ 47,526 | \$ (13,501) |
| Unamortized intangible assets | | | | |
| Goodwill | \$ 151,394 | | \$ 70,714 | |
| Aggregate amortization expense | | | | |
| For the year ended December 31, 2006 | | | \$ 3,653 | |
| For the three months ended June 30, 2007 | \$ 2,620 | | | |
| For the six months ended June 30, 2007 | 4,943 | | | |
| Estimated amortization expense | | | | |
| For the year ended December 31, 2007 | \$ 10,334 | | | |
| For the year ended December 31, 2008 | 9,431 | | | |
| For the year ended December 31, 2009 | 9,194 | | | |
| For the year ended December 31, 2010 | 8,428 | | | |
| For the year ended December 31, 2011 | 8,082 | | | |
| Thereafter | 17,967 | | | |

During 2007, in addition to the intangible assets we acquired in conjunction with our acquisition of WhereNet, we acquired intangible assets in the amount of \$650,000 for software licenses and patents with estimated useful lives of 7 to 9 years.

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 2007. 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.

Table of Contents*Hedging of Net Assets*

We use forward contracts and options to manage exposure related to our pound and euro denominated net assets. 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 | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Change in gains and (losses) from foreign exchange derivatives | \$ 115 | \$ (502) | \$ (108) | \$ (1,178) |
| Gain (loss) on net foreign currency assets | (297) | 122 | 101 | 909 |
| Net foreign exchange loss | \$ (182) | \$ (380) | \$ (7) | \$ (269) |

| | June 30, 2007 | As of December 31, 2006 |
|--|------------------|-------------------------------|
| Notional balance of outstanding contracts: | | |
| Pound/US dollar | £ 3,000 | £ 2,660 |
| Euro/US dollar | 22,500 | 17,000 |
| Euro/Pound | 11,000 | 22,000 |
| Net fair value of outstanding contracts | \$ 167 | \$ (172) |

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):

| | June 30, 2007 | As of December 31, 2006 |
|---|-----------------|----------------------------|
| Net unrealized losses deferred in other comprehensive income: | | |
| Gross | \$ (722) | \$ (906) |
| Income tax benefit | (272) | (341) |
| Net | \$ (450) | \$ (565) |
| Notional balance of outstanding contracts | 95,550 | 44,075 |
| Hedge effectiveness | 100% | 100% |

| | 2007 | 2006 |
|---|----------|----------|
| Net gains and (losses) included in revenue for the: | | |
| Three months ended June 30, 2007 | \$ (955) | |
| Three months ended July 1, 2006 | | \$ (204) |
| Six months ended June 30, 2007 | (1,090) | |
| Six months ended July 1, 2006 | | 168 |

The duration of our forecasted sales hedge contracts ranges from six to twelve months.

Note 11 Contingencies

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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

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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.

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.

| | Six Months Ended June 30, 2007 | Six Months Ended July 1, 2006 |
|--------------------------------------|-----------------------------------|----------------------------------|
| Balance at the beginning of the year | \$ 2,250 | \$ 1,922 |
| Warranty expense year-to-date | 3,448 | 2,453 |
| Warranty payments made year-to-date | (2,203) | (2,379) |
| Balance at the end of the period | \$ 3,495 | \$ 1,996 |

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.

| | Six Months Ended June 30, 2007 | Six Months Ended July 1, 2006 |
|--------------------------------------|-----------------------------------|----------------------------------|
| Balance at the beginning of the year | \$ 2,115 | \$ 632 |
| Recycling expense year-to-date | 842 | 727 |
| Recycling payments made year-to-date | | |
| Exchange rate impact | 51 | 9 |
| Balance at the end of the period | \$ 3,008 | \$ 1,368 |

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 June 30, 2007 or December 31, 2006.

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.

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 June 30, 2007, we did not accrue any interest or penalties into income tax expense.

Note 14 New Accounting Pronouncements

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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement will be effective for Zebra beginning in fiscal 2008, and we are in the process of determining any potential impact to the financial statements.

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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 second quarter of 2007, compared with the second quarter of 2006, advanced 11.5% on the strength of international sales regions. Continued robust sales growth of our established printer and service lines were supplemented by sales from WhereNet, which we acquired in January 2007, and Swecoin, which we acquired in October 2006. Gross profit margin benefited from favorable exchange rate movements. Lower manufacturing variances were offset by increased warranty charges and declines in standard margin driven principally by a change in product mix. Higher operating expenses resulted from increases in expenditures for information systems, professional engineering fees related to new product development work, and the acquisition of WhereNet and Swecoin.

Results of Operations: Second Quarter of 2007 versus second Quarter of 2006*Sales*

Sales by product category, percent change, and percent of total sales for the three and six months ended June 30, 2007, and July 1, 2006, were (in thousands, except percentages):

| Product Category | Three Months Ended | | Percent Change | Percent of Total Sales - 2007 | Percent of Total Sales - 2006 |
|------------------------------|--------------------|--------------|----------------|-------------------------------|-------------------------------|
| | June 30, 2007 | July 1, 2006 | | | |
| Hardware | \$ 158,297 | \$ 140,553 | 12.6 | 75.8 | 75.0 |
| Supplies | 40,285 | 39,404 | 2.2 | 19.3 | 21.0 |
| Service and software | 9,559 | 6,199 | 54.2 | 4.6 | 3.3 |
| Shipping and handling | 1,726 | 1,469 | 17.5 | 0.8 | 0.8 |
| Cash flow hedging activities | (955) | (204) | NM | (0.5) | (0.1) |
| Total sales | \$ 208,912 | \$ 187,421 | 11.5 | 100.0 | 100.0 |

| Product Category | Six Months Ended | | Percent Change | Percent of Total Sales - 2007 | Percent of Total Sales - 2006 |
|------------------------------|------------------|--------------|----------------|-------------------------------|-------------------------------|
| | June 30, 2007 | July 1, 2006 | | | |
| Hardware | \$ 317,885 | \$ 274,029 | 16.0 | 76.2 | 75.5 |
| Supplies | 78,367 | 73,722 | 6.3 | 18.8 | 20.3 |
| Service and software | 18,952 | 12,430 | 52.5 | 4.5 | 3.4 |
| Shipping and handling | 3,374 | 2,886 | 16.9 | 0.8 | 0.8 |
| Cash flow hedging activities | (1,090) | 168 | NM | (0.3) | |
| Total sales | \$ 417,488 | \$ 363,235 | 14.9 | 100.0 | 100.0 |

Sales to customers by geographic region, percent changes and percent of total sales for the three and six months ended June 30, 2007, and July 1, 2006, were (in thousands, except percentages):

| Geographic Region | Three Months Ended | | Percent Change | Percent of Total Sales - 2007 | Percent of Total Sales - 2006 |
|--------------------------------|--------------------|--------------|----------------|-------------------------------|-------------------------------|
| | June 30, 2007 | July 1, 2006 | | | |
| Europe, Middle East and Africa | \$ 76,146 | \$ 69,304 | 9.9 | 36.4 | 37.0 |
| Latin America | 15,412 | 13,257 | 16.3 | 7.4 | 7.1 |
| Asia-Pacific | 18,986 | 13,687 | 38.7 | 9.1 | 7.3 |
| Total International | 110,544 | 96,248 | 14.9 | 52.9 | 51.4 |

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| | | | | | |
|---------------|------------|------------|------|-------|-------|
| North America | 98,368 | 91,173 | 7.9 | 47.1 | 48.6 |
| Total sales | \$ 208,912 | \$ 187,421 | 11.5 | 100.0 | 100.0 |

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| Geographic Region | Six Months Ended | | | Percent Change | Percent of Total Sales - 2007 | Percent of Total Sales - 2006 |
|--------------------------------|------------------|--------------|--|----------------|-------------------------------|-------------------------------|
| | June 30, 2007 | July 1, 2006 | | | | |
| Europe, Middle East and Africa | \$ 152,130 | \$ 131,023 | | 16.1 | 36.4 | 36.0 |
| Latin America | 27,935 | 26,176 | | 6.7 | 6.7 | 7.2 |
| Asia-Pacific | 34,549 | 27,875 | | 23.9 | 8.3 | 7.7 |
| Total International | 214,614 | 185,074 | | 16.0 | 51.4 | 50.9 |
| North America | 202,874 | 178,161 | | 13.9 | 48.6 | 49.1 |
| Total sales | \$ 417,488 | \$ 363,235 | | 14.9 | 100.0 | 100.0 |

All international regions achieved record sales, with growth accelerating in Latin America and Asia Pacific. Overall sales growth for Zebra was affected by moderate sales growth in North America from some project delays, and in the Europe, Middle East and Africa region from the timing of business. Sales were supplemented by revenue from Swecoin, acquired in October 2006, and WhereNet, acquired in January 2007.

New printer products (defined as printers released within 18 months prior to the end of the applicable fiscal period) accounted for 7.8% of printer sales in the second quarter of 2007, compared with 12.7% of printer sales in the second quarter of 2006 and 11.3% for the first quarter of 2007. Year to-date new printer products accounted for 9.5% in 2007, compared with 13.6% for the corresponding period in 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 \$4,638,000 on sales during the second quarter of 2007 and \$10,322,000 during the year to-date.

We currently hedge a portion of anticipated euro-denominated sales to partially protect Zebra against exchange rate movements. This program resulted in a loss of \$955,000 during the second quarter of 2007 and a loss of \$1,090,000 for the year to-date. 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 | | | Six Months Ended | | |
|---|--------------------|--------------|----------------|------------------|--------------|----------------|
| | June 30, 2007 | July 1, 2006 | Percent Change | June 30, 2007 | July 1, 2006 | Percent Change |
| Total printers shipped | 226,542 | 207,129 | 9.4 | 456,329 | 399,078 | 14.3 |
| Average selling price of printers shipped | \$ 616 | \$ 585 | 5.3 | \$ 612 | \$ 588 | 4.1 |

For the second quarter of 2007, unit volumes increased significantly in our mid-range and mobile product lines compared to the second quarter of 2006. The increase in average selling price is primarily related to higher sales growth of these mid range printers compared with the product mix for the second quarter of 2006. For the year to-date, the unit volumes of desktop printers also increased, which, in turn, increased the average selling price from the prior year but at a lesser rate.

Gross Profit

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

| | Three Months Ended | | | Six Months Ended | | |
|--------------|--------------------|--------------|----------------|------------------|--------------|----------------|
| | June 30, 2007 | July 1, 2006 | Percent Change | June 30, 2007 | July 1, 2006 | Percent Change |
| Gross Profit | \$ 99,402 | \$ 89,526 | 11.0 | \$ 199,192 | \$ 172,224 | 15.7 |
| Gross Margin | | 47.6 | 47.8 | | 47.7 | 47.4 |

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Gross profit margin was affected by favorable foreign currency movements, which increased second quarter gross profit by \$3,823,000 and \$8,429,000 for the year to-date. The quarterly gross profit margin decreased as a result of higher warranty costs, higher distribution costs and product mix.

Selling and Marketing Expenses

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

| | Three Months Ended | | | Six Months Ended | | |
|--------------------------------|--------------------|-----------------|-------------------|------------------|-----------------|-------------------|
| | June 30, 2007 | July 1, 2006 | Percent Change | June 30, 2007 | July 1, 2006 | Percent Change |
| Selling and marketing expenses | \$ 29,069 | \$ 23,510 | 23.6 | \$ 57,233 | \$ 45,619 | 25.5 |
| Percent of sales | 13.9 | 12.5 | | 13.7 | 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 second quarter of 2007, selling and marketing expenses increased due to higher payroll costs of \$4,347,000, which was, in part, related to our acquisitions of Swecoin and WhereNet. In addition, outside commissions increased \$518,000 and travel costs increased \$361,000. For the year to-date, advertising and market development costs also increased.

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 | | | Six Months Ended | | |
|--------------------------------|--------------------|-----------------|-------------------|------------------|-----------------|-------------------|
| | June 30, 2007 | July 1, 2006 | Percent Change | June 30, 2007 | July 1, 2006 | Percent Change |
| Research and development costs | \$ 13,869 | \$ 12,382 | 12.0 | \$ 28,054 | \$ 24,417 | 14.9 |
| Percent of sales | 6.6 | 6.6 | | 6.7 | 6.7 | |

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 second quarter of 2007, payroll and benefits increased by \$1,540,000 in relation to the second quarter of 2006. Consulting and other professional services also increased \$633,000 and project expenses decreased \$955,000. The year-to-date increases were also a result of these costs.

General and Administrative Expenses

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

| | Three Months Ended | | | Six Months Ended | | |
|-------------------------------------|--------------------|-----------------|-------------------|------------------|-----------------|-------------------|
| | June 30, 2007 | July 1, 2006 | Percent Change | June 30, 2007 | July 1, 2006 | Percent Change |
| General and administrative expenses | \$ 19,875 | \$ 15,081 | 31.8 | \$ 37,808 | \$ 29,730 | 27.2 |
| Percent of sales | 9.5 | 8.0 | | 9.1 | 8.2 | |

For the second quarter of 2007, the increase in general and administrative expenses compared to the second quarter of 2006 is related to higher payroll and benefits of \$3,197,000, which includes increased SFAS No. 123(R) compensation expense of \$673,000. Information system costs also increased \$1,153,000. The year-to-date increases were also a result of these costs.

Table of Contents*Operating Income*

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

| | Three Months Ended | | | Six Months Ended | | |
|------------------|--------------------|-----------------|-------------------|------------------|-----------------|-------------------|
| | June 30, 2007 | July 1, 2006 | Percent Change | June 30, 2007 | July 1, 2006 | Percent Change |
| Operating income | \$ 33,969 | \$ 37,830 | (10.2) | \$ 69,301 | \$ 70,988 | (2.4) |
| Percent of sales | 16.3 | 20.2 | | 16.6 | 19.5 | |

Non-operating Income and Expenses

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

| | Three Months Ended | | Six Months Ended | |
|-----------------------|--------------------|-----------------|------------------|-----------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Investment income | \$ 5,724 | \$ 4,987 | \$ 11,028 | \$ 10,194 |
| Interest expense | (10) | (13) | (20) | (231) |
| Foreign exchange gain | (182) | (380) | (7) | (269) |
| Other, net | (366) | (177) | (280) | (626) |
| Total other income | \$ 5,166 | \$ 4,417 | \$ 10,721 | \$ 9,068 |

Rate of Return Analysis:

| | | | | |
|---|------------|------------|------------|------------|
| Average cash and marketable securities balances | \$ 473,717 | \$ 577,185 | \$ 527,069 | \$ 564,543 |
| Annualized rate of return | 4.8% | 3.5% | 4.2% | 3.6% |

Income Taxes

The effective income tax rate for the second quarter of 2007 was unchanged at 34.5% from the same period last year. For the year to-date, the effective income tax rate increased slightly to 34.6% from 34.5% in 2006.

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 | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Net income before cumulative effect of accounting change | \$ 25,633 | \$ 27,672 | \$ 52,349 | \$ 52,444 |
| Diluted earnings per share | \$ 0.37 | \$ 0.39 | \$ 0.75 | \$ 0.74 |

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 2006 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 | | Six Months Ended | |
|----------------------------|---------------------------|---------------------|-------------------------|---------------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Net income | \$ 25,633 | \$ 27,672 | \$ 52,349 | \$ 53,763 |
| Diluted earnings per share | \$ 0.37 | \$ 0.39 | \$ 0.75 | \$ 0.76 |

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Liquidity and Capital Resources

During the first half of 2007, Zebra purchased WhereNet Corp. for \$127,426,000. As a result, Zebra's cash and investment balances decreased for the year to-date. As of June 30, 2007, Zebra had \$495,075,000 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 six months of 2007 include (note that changes discussed below include the impact of foreign currency):

Operations provided cash in the amount of \$72,771,000, primarily from net income.

The accounts receivable includes \$7,403,000 of acquired accounts receivable resulting in a decrease in the overall cash flow amount of \$6,676,000. Days sales outstanding increased to 54 days in the second quarter of 2007 compared to 53 days at the end of 2006.

Inventories decreased \$3,515,000. Inventory turns remained constant during the second quarter of 2007 at 5.5 compared to the end of 2006.

Accounts payable increased \$7,022,000, due to timing of vendor payments.

Purchases of property and equipment totaled \$10,903,000.

Purchase of WhereNet Corp., totaled \$127,426,000.

Net sales of investments totaled \$85,895,000.

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 \$6,382,000.

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.

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.

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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.

Investments and Marketable Securities

Investments and marketable securities at June 30, 2007, consisted of U.S. government securities (5.6%), state and municipal bonds (83.3%), corporate bonds (0.9%), and equity securities (0.8%) and partnership interests (9.4%). 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 June 30, 2007, Zebra's investments in marketable debt securities are classified as available-for-sale. In addition, 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.

We account for the partnership interests using the cost method until our ownership percentage reaches 5% of the total partnership portfolio value. At that time, we begin using the equity method 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,

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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 0.6% to 3.3% of total accounts receivable. Accounts receivable reserves as of June 30, 2007, were \$4,213,000, or 3.3% of the balance due. We feel this reserve level is appropriate considering the quality of the portfolio as of June 30, 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.

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 June 30, 2007, reserves for excess and obsolete inventories were \$11,263,000, or 12.2% of gross inventory. We feel this reserve level is appropriate considering the quantities and quality of the inventories as of June 30, 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 2007. 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 \$271,446,000 as of June 30, 2007.

Income Taxes

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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 June 30, 2007.

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.

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 June 30, 2007, we did not accrue any interest or penalties into income tax expense.

Table of Contents*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 June 30, 2007, we had two stock-based compensation 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).

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:

| | June 30, 2007 | July 1, 2006 |
|----------------------------|------------------|-----------------|
| For the three months ended | 17.9% | 17.5% |
| For the six months ended | 16.9% | 17.0% |

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 July 25, 2007, we estimate net sales, gross profit margins, operating expenses, and earnings for the third quarter of 2007 as follows (in thousands, except per share amounts and percentages):

| | Third 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 third 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

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 they relate to Zebra or its management are intended to identify such forward-looking statements. We encourage readers of this report to review Item 1A, Risk Factors in Part I of our Annual Report on Form 10-K for the year ended December 31, 2006 and Part II of this Form 10-Q, 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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in Zebra's market risk during the quarter ended June 30, 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.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, 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 June 30, 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.

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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 included in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 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.

In addition, the following updates the Risk Factors in our Form 10-K and should be read in conjunction with those Risk Factors:

Larger orders may take longer to close and may not be completely fulfilled during a particular quarter.

Zebra has been pursuing larger customer orders which typically involve a longer sales cycle. Such orders are more difficult to forecast, and whether a larger order is received by Zebra in a particular quarter or deferred to a later quarter could have a material effect on the financial results of Zebra from quarter to quarter.

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

(a) The Company held its Annual Meeting of Stockholders on May 24, 2007.

(b) The Company's stockholders voted on the following proposals:

1. Proposal 1. Election of Directors

For the election of the following named persons as directors of Zebra Technologies Corporation to hold office for a three-year term expiring at the 2010 Annual Meeting or until their respective successors are duly elected and qualified:

| Directors | For | Authority Withheld |
|------------------|------------|---------------------------|
| Gerhard Cless | 62,442,045 | 2,128,887 |
| Michael A. Smith | 62,652,721 | 1,918,211 |

2. Proposal 2. To ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as the independent auditors of the Company's financial statements for the year ending December 31, 2007.

| For | Against | Abstain |
|------------|----------------|----------------|
| 64,461,942 | 47,171 | 81,819 |

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Item 6. Exhibits and Reports on Form 8-K

- 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.

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SIGNATURES

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

ZEBRA TECHNOLOGIES CORPORATION

Date: August 2, 2007

By: /s/ Edward L. Kaplan
Edward L. Kaplan
Chief Executive Officer

Date: August 2, 2007

By: /s/ Charles R. Whitchurch
Charles R. Whitchurch
Chief Financial Officer