

ZEBRA TECHNOLOGIES CORP/DE
Form 10-K
March 01, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2006

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

(Address of principal executive offices)

60061

(Zip Code)

(847) 634-6700

(Registrant's telephone number, including area code)

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

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-K

Title of Each Class
Class A Common Stock, par value \$.01 per share

Name of Exchange on which Registered
The NASDAQ Stock Market, LLC

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

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

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

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

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 Securities 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 Securities Act). Yes No

As of June 30, 2006, the aggregate market value of each of the registrant's Class A Common held by non-affiliates was approximately \$3,192,500,000. The closing price of the Class A Common Stock on June 30, 2006, as reported on the Nasdaq Stock Market, was \$44.28 per share.

As of February 26, 2007, 68,940,433 shares of Class A Common Stock, par value \$.01 per share, were outstanding.

Documents Incorporated by Reference

Certain sections of the registrant's Notice of Annual Meeting of Stockholders and Proxy Statement for its Annual Meeting of Stockholders to be held on May 24, 2007 are incorporated by reference into Part III of this report.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INDEX

PART I

<u>Item 1.</u>	<u>Business</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>
<u>Item 2.</u>	<u>Properties</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>

PART II

<u>Item 5.</u>	<u>Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>
<u>Item 6.</u>	<u>Selected Consolidated Financial Data</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>
<u>Item 9B.</u>	<u>Other Information</u>

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers, and Corporate Governance</u>
<u>Item 11.</u>	<u>Executive Compensation</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions</u>
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>

PART IV

<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>
-----------------	---

SIGNATURES

Signatures

CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

Index to Consolidated Financial Statements and Schedule

EXHIBITS

Index to Exhibits

PART I

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

Safe Harbor

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

- Market acceptance of Zebra's printer and software products and competitors' product offerings and the potential effects of technological changes,
- The effect of market conditions in North America and other geographic regions,
- Our ability to control manufacturing and operating costs,
- Success of integrating acquisitions,
- Interest rate and financial market conditions because of our large investment portfolio,
- Foreign exchange rates due to the large percentage of our international sales,
- 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 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 this report for further discussion of issues that could affect Zebra's future results. Zebra undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this annual report.

Item 1. Business

The Company

Zebra designs, manufactures and distributes specialty printing devices that print variable information on demand at the point of issuance. These devices are used worldwide by manufacturers, service organizations and governments for automatic identification, data collection and personal identification in applications that improve productivity, deliver better customer service and provide more effective security. Our product range consists of direct thermal and thermal transfer label and receipt printers, passive radio frequency identification (RFID) printer/encoders, dye sublimation card printers and digital photo printers. We also sell a comprehensive range of specialty supplies consisting of self-adhesive labels, thermal transfer ribbons, thermal printheads, batteries and other accessories, including software for label design and printer network management. On January 25, 2007, we acquired WhereNet Corp., which added active RFID systems to our product portfolio, and which is discussed separately at the end of this Item 1, Business.

We design our products to operate at the point of issuance to produce and dispense high-quality labels, plastic cards, and photographs on demand. The exceptional diversity of applications using our printer products for barcoding and personal identification is comprised of routing and tracking, transactions processing, and identification and authentication. They include applications that require high levels of data accuracy and where speed and reliability are critical. They also include specialty printing for receipts and tickets where improved customer service and productivity gains may be the primary reason for printing, rather than a barcoding application. Plastic cards are used for secure, reliable personal identification or access control. Digital photo printers are sold on an OEM basis to professional photographers and for use in kiosks at retail and

other locations.

Applications for our printing technology span most industries and geographies. They include inventory control, small package delivery, baggage handling, automated warehousing, JIT (Just-In-Time) manufacturing, employee time and attendance records, file management systems, hospital information systems, medical specimen labeling, shop floor control, in-store product labeling, employee ID cards, driver's licenses, and access control systems. As of December 31, 2006, management estimates that Zebra has sold over 5,700,000 printers to users in approximately 100 countries.

Our active RFID solutions are designed to locate, track and manage enterprise assets. We provide integrated wireless Real Time Locating Systems (RTLS) to companies primarily in the industrial manufacturing, transportation and logistics, and aerospace and defense sectors. These systems encompass wireless tags, fixed-position antennas in addition to middleware, application software, and services for project management, maintenance and support.

We believe competitive forces on businesses worldwide to strengthen security, reduce costs, improve quality, deliver better customer service, and increase productivity, support the adoption of bar code, passive and active RFID and specialty printing applications because these technologies deliver significant and predictable economic benefits. Industry-mandated compliance requirements for bar code labeling and RFID tagging are also important catalysts in the deployment of these systems. We also believe that companies are adopting automatic identification systems that incorporate barcoding and RFID for business improvement applications. Many of these applications make increasing use of enterprise-wide resource planning (ERP) and other process improvement systems in manufacturing and service organizations. Greater emphasis on supply chain management, the drive to reduce errors in healthcare, and heightened concern over safety and security will lead to increased use of automatic identification systems. Still other applications are taking advantage of recent advances in wireless and hand-held computing technologies.

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

Zebra Technologies Corporation was incorporated as an Illinois Corporation in 1969. We became a Delaware corporation in 1991 in connection with its initial public offering, which we completed in August 1991. We currently remain organized under the laws of the State of Delaware, and our principal offices are located at 333 Corporate Woods Parkway, Vernon Hills, Illinois 60061. Our main telephone number is (847) 634-6700 and our primary Internet Web site address is www.zebra.com. You can find all of Zebra's filings with the SEC free of charge through the investor page on this Web site, immediately upon filing.

Products

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

Sales of hardware (printers and replacement parts) and supplies were as follows (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Hardware	\$ 578,002	\$ 540,679	\$ 518,556
Percent of sales	76.1	77.0	78.2
Supplies	\$ 150,709	\$ 129,183	\$ 116,877
Percent of sales	19.8	18.4	17.6

Label and Receipt Printers

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

Of the major printing technologies, which include ink jet, laser and impact dot matrix, management believes that direct thermal and thermal transfer technologies are best suited for most bar code labeling applications. Thermal transfer printing produces dark, solid blacks and sharply defined lines that are important for printing readily scannable bar codes. These

images can be printed on a wide variety of labeling materials, which enable users to affix bar code labels to virtually any object. This capability is very important in the industrial and service sectors Zebra serves. Direct thermal printing is best suited where ease of use, smaller size and cost are important factors in the application. Accordingly, this technology is found principally in Zebra's mobile and desktop units.

As of December 31, 2006, we offered 42 bar code printer models with numerous variations, including:

Performance Tabletop Printers. Zebra produces high-end printers targeted at applications requiring continuous operation in high output, mission-critical and industrial settings. These units provide a wide variety of optional configurations, features, print widths, speeds and dot densities. We offer four models under the XiIII Plus Series line. List prices range from \$2,995 to \$7,495.

RFID Printer/Encoders. Zebra manufactures and markets a growing line of printer/encoders used for high frequency (HF) and ultra-high frequency (UHF) radio frequency identification (RFID) in the retail supply chain, for defense logistics, and other applications. These units are used to print and encode smart labels in a single pass. Smart labels are printable labels embedded with an ultra-thin radio frequency transponder. Information encoded in these transponders can then be read and modified by a radio frequency reader. Zebra offers five RFID and two RFID-ready printer/encoders, which have list prices from \$1,695 to \$6,995.

Mid-Range Tabletop Printers. We offer five printer models designed for demanding commercial applications. These units offer a range of configurations and features designed to optimize price and performance. Products in this category include the Zebra Stripe®, S4M, 105SI and the popular Z Series printers. List prices range from \$1,145 to \$3,490.

Desktop Printers. Applications with lower volume or space restrictions suit Zebra's desktop printers. We currently offer 10 desktop models consisting of direct thermal and thermal printers in two- and four-inch widths. List prices range from \$395 to \$895.

Mobile Printers. Zebra makes nine mobile printer models, which offer durability, light weight and the industry's highest levels of secure wireless connectivity. These printer models come in two-, three- and four-inch widths and are marketed under the Cameo, QL, MZ and RW lines. List prices range from \$450 to \$1,095.

Print Engines. Zebra's PAX print engines are sold to manufacturers and integrators of high-speed automatic label applicator systems and are available with or without RFID smart label capabilities.

Kiosk and Ticket Printers. Zebra also supplies seven thermal receipt, ticket and document printers for use in kiosks and other unattended printing applications. Zebra's Swecoin print engines are sold to systems integrators to incorporate into kiosks and other unattended printing applications. They are available in a variety of models with widths from two to eight inches.

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

Card Printers

Zebra makes 10 card printer models for printing national identity cards, driver's licenses, employee identification badges, smart cards, on-demand access control cards, gift cards and customer loyalty cards. These cards can typically be printed in seconds for less than one dollar each. Users can select from a number of printer options, including monochrome and color printing, single- and two-sided printing, lamination, and magnetic stripe and smart card encoding. Bar codes, smart chips and magnetic stripe encoding can be used to record such personal data as health records, financial transactions, security access codes and vital statistics. From the middle of 2006, all Zebra color card printers are i-Series card printers, which incorporate features that automatically optimize printer settings for a given ribbon. The list prices for all of Zebra's card printers range from \$1,995 to \$7,995.

Photo Printers

Digital photo printing is an extension of our core thermal printing technology. With the November 2003 acquisition of Atlantek we began producing digital photo printers; we currently manufacture two printers jointly developed with and marketed by Eastman Kodak. Our high-speed thermal photo printer is designed to work as part of a photo kiosk or a standalone in professional photography applications. We currently sell this printer on an OEM basis to Eastman Kodak,

which incorporates the printer into Kodak photo kiosks and markets the standalone version as the Kodak Professional 9810 Digital Photo Printer.

Supplies

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

Zebra fully supports its printers, resellers and end users with an extensive line of superior quality, high performance supplies optimized to a particular user's needs. Supplies are chosen in consultation with the reseller and end user based on the specific application, printer and environment in which the labeling system must perform. In the case of bar code labeling solutions, supplies also include proprietary ribbon and label formulations that are designed to maximize bar code decoding and printer performance while meeting the most demanding end user application performance criteria. Factors such as adhesion, resistance to scratches, smudges and abrasion, and chemical and environmental exposures are all taken into account when selecting the type of ribbon and labeling materials. The use of supplies that are not carefully matched to specific printers can degrade bar code decoding rates, print speed and print quality.

Software

Zebra has specialized printer management, label design and driver solutions to help unlock the full potential of Zebra printers. The ZebraLink Solutions suite of networking, software, firmware, and printer management products is designed for ease of integration and use, from small business to enterprise supply chain applications. Our goal is to provide software that enables high levels of functionality to all major computer network and software systems. Network systems include Ethernet, 802.11b/g with advanced securities and Bluetooth wireless systems. Operating systems include Windows, UNIX, Linux and various IBM systems

The ZebraNet Bridge Enterprise printer management application enables organizations to efficiently deploy, manage and monitor Zebra printers from a single location. Leveraging the powerful printer management features built into many Zebra printers and Zebra print servers, ZebraNet Bridge Enterprise delivers real-time printer error and status notifications for maximum up-time performance. Easy to use and flexible tools within the program allow system administrators to create highly manageable printer groups for real-time control and monitoring of Zebra printers on their network.

Label design and integration software is specifically designed to optimize the performance of Zebra bar code label printers. Since introducing the label design and printer configuration tools ZebraDesigner and ZebraDesigner Pro in 2005, the product line has been enhanced with the release of ZebraDesigner for XML, offering integration capabilities with XML based enterprise applications. Zebra also continues to offer BAR-ONE for mySAP® Business Suite for users of the SAP® ERP system. To facilitate using Zebra printers with a broad range of software applications, Zebra offers Windows printer drivers designed to optimize the printer experience.

In 2006, Zebra began offering a Unicode based Global Printing Solution for the industrial and high performance Xi Series, 105SL, Z4mplus/Z6mplus and PAX print engines. The Zebra Global Printing Solution lets the printer automatically output any language, with no need for the operator to select the language, font, codepage or otherwise adjust the printer.

Also released in 2006 were additions to Zebra's family of XML enabled printing solutions. Zebra's award winning QL Plus and RW Series mobile printers now offer XML direct connect printing capabilities as a standard feature.

Maintenance Services

For bar code label and receipt printers, we currently provide service at depot repair centers at our Vernon Hills, Illinois, Preston, U.K. and the Netherlands facilities. We also provide service at a depot repair center in Toronto, Canada through a partnership with Getronics. Zebra Authorized Service Providers (ZASP) also provide repair services for most Zebra products at their locations. In addition, IBM and National Service Center (NSC) provide on-site repair services in the United States. We share the revenue for on-site service contracts sold by IBM and NSC for Zebra printing systems installed in the United States, and with IBM in Europe. Outside of the United States, Zebra's resellers in each country may provide maintenance service, either directly as ZASPs or through independent service agents. Zebra also provides service and technical support assistance from in-house support personnel located in the United States, the United Kingdom and Singapore, who are available by telephone hotline five days a week during regular local business hours. Also, for most Zebra products, Zebra provides interactive technical support via the Internet, which can be accessed through Zebra's Web site, www.zebra.com, 24 hours a day, seven days a week.

The card printer depot repair facilities are located in Camarillo, California and Preston, U.K. Card printer resellers can receive technical support assistance from in-house support personnel located in the United States, the United Kingdom and Singapore, who are available by telephone during regular business hours. In addition, on-line support for card printers can be accessed through the Web site, www.zebracard.com, 24 hours a day, seven days a week.

Warranties

All Zebra printing equipment is warranted against defects in material and workmanship for up to one year. Printheads are warranted for six months, and batteries are warranted for three months. Zebra supplies are warranted against defects in material and workmanship for their stated shelf life or twelve months, whichever ends first. Defective equipment and supplies may be returned for repair, replacement or refund during the applicable warranty periods.

Zebra's Technology

Our products use thermal transfer, direct thermal and thermal dye sublimation technologies. Each technology has characteristics that provide specific benefits to the end user.

Thermal transfer printing is used in all performance and some mid-range, desktop and mobile bar code label printers, as well as high-speed print engines. This technology creates an image by applying an electrically heated printhead to a ribbon that releases ink onto labeling/ticketing media. The benefits of thermal transfer printing include superior image quality, the ability to print on a wide variety of smooth-surfaced materials, no requirement for specially coated or formulated labeling/ticketing media and the ability to use inks that are not viable with alternative printing technologies.

Direct thermal printing is used in some mid-range, desktop and mobile printer products. Direct thermal printing creates an image by applying the heated printhead directly to specially treated paper, which changes color when heated. Direct thermal technology is preferable where image durability is less critical and where the application does not require specialty-labeling materials such as plastics or metal foils.

Our card printers and digital photo printers incorporate thermal dye sublimation for color printing. This capability allows for the creation of personalized full color, photographic quality plastic cards and high-quality photographs. Traditional photographic processes are both more expensive and time consuming. We believe that personalized card applications such as driver's licenses, loyalty cards, school and work identification cards, security access cards and financial transaction cards are well suited to this technology. The growing acceptance of digital photography, over traditional halide-based technology, offers growth opportunities for Zebra in certain areas of photo printing.

Zebra's printing systems incorporate Company-designed computer hardware, electrical mechanisms and software, which operate the printing functions of the system and communicate with the host computer. Zebra's bar code label printers operate using Zebra Programming Language (ZPL®), Zebra Programming Language II (ZPL II®), Eltron Programming Language (EPL) or Comtec Printer Control Language (CPCL), each of which is a proprietary printer driver language. These languages are compatible with virtually all computer operating systems, including UNIX, MS/DOS® and Windows.

Zebra guarantees backward compatibility in ZPL and ZPL II to allow users to replace older Zebra printers with newer equipment without costly reprogramming of label design programs. This compatibility also allows users to operate multiple Zebra printers in different applications using standardized programs and to integrate these printers into a local area network. We believe that ZPL and ZPL II give us a competitive advantage by ensuring compatibility across a broad range of present and future printer products and by facilitating system upgrades and customer loyalty to Zebra products. Some independent software vendors have written label preparation programs with ZPL and ZPL II drivers specifically for Zebra printers. ZPL and ZPL II label format programs can be run on a personal computer with ordinary word processing programs, making ZPL and ZPL II particularly adaptable to PC-based systems.

Zebra also sells radio frequency identification (RFID) printer/encoders that can encode data into passive RFID transponders embedded in direct thermal or thermal transfer printable labels. These smart labels are finding growing acceptance in commercial and military supply chain management, as well as many closed-loop proprietary tracking applications. Zebra-manufactured printer/encoders and smart labels support both HF (13.56 MHz) and UHF (860-960 MHz) applications for RFID.

Sales and Marketing

Sales. We sell our products primarily through distributors, value-added resellers (VARs), and original equipment manufacturers (OEMs). We also sell our products directly to a select number of named accounts. For media and

consumables, we also sell directly to end users through the Internet and telesales operations. Distributors and VARs purchase, stock and sell

a variety of automatic identification components from different manufacturers and customize systems for end-user applications using their systems and application integration expertise. Because these sales channels provide specific software, configuration, installation, integration and support services required by end users within various market segments, these relationships allow Zebra to reach end users throughout the world in a wide variety of industries. Zebra experiences a minor amount of seasonality in sales, depending on the geographic region and/or vertical market.

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

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

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

Sales to international customers as a percent of net sales were as follows:

	Year Ended December 31,		
	2006	2005	2004
Percent of sales	50.0	48.5	45.8

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

Marketing. Marketing operations encompass marketing communications, product marketing, vertical marketing, solutions marketing, market research and channel marketing functions. The product marketing group identifies, evaluates and recommends new product opportunities and manages product introductions, positioning and demand creation. Product marketing also focuses on strategic planning and market definition and analyzes Zebra's competitive strengths and weaknesses.

Customers

Zebra has sold over 5,700,000 bar code label and card printers to customers in about 100 countries as of December 31, 2006.

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

	Year Ended December 31,		
	2006	2005	2004
Percent of sales	16.7	15.6	14.1

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

Production and Manufacturing

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-K

We design our products to optimize product performance, quality, reliability, durability and versatility. These designs combine cost-efficient materials, sourcing and assembly methods with high standards of workmanship. We assemble our products in-house largely on a configure-to-order basis using components that have been sourced from around the world. We

have the in-house capability to produce mechanical assemblies and design many of our own tools, fixtures and test equipment. Often, our manufacturing and test engineers coordinate the development of new products with our new product engineers and vendors. This collaboration increases manufacturing efficiency by specifying and designing manufacturing processes and facilities simultaneously with product design.

We buy prefabricated component parts and subassemblies for use in the manufacture of our products. Critical subassemblies include printheads, printed circuit board assemblies, power supplies, integrated circuits, and stepper motors, which are obtained from domestic and foreign suppliers at competitive prices. Purchase contracts provide for price increases only in the event of certain increases in the costs of raw materials. Zebra typically experiences significant variance in demand thus carries inventory and partners with key suppliers to deal with the variation.

Research and Development

Zebra had research and development expenditures as follows (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Research and development expenditures	\$ 48,959	\$ 47,359	\$ 38,609
Percent of sales	6.4	6.7	5.8

We devote significant resources to developing new printing solutions for our target markets and ensuring that our efficiently manufactured products maintain high levels of reliability.

Competition

Many companies are engaged in the design, manufacture and marketing of bar code label printers, card personalization solutions and dye sublimation photo printers. We consider our direct competition in bar code label and receipt printing to be producers of on-demand thermal transfer and direct thermal label printing systems and supplies. We also compete, however, with companies engaged in the design, manufacture and marketing of printing systems that use alternative technologies, such as impact dot matrix, ink-jet and laser printing. Similarly, we consider manufacturers of card personalization systems that are based on a broad range of alternative technologies as competition.

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

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

We face competition in one or more of our product lines from many competitors, including the following (listed in alphabetical order): Altech; Argox; Canon; CIM; Cognitive Solutions, a subsidiary of Axiohm Transaction Solutions; ColorX; Copal; Datacard; Datamax, a unit of Dover Corporation; Evolis; Fargo Electronics; Fujitsu; Godex; Hewlett-Packard; Hitachi; Intermec Technologies; Lexmark International; LogickaComp; MagiCard; Matica; Microcom; Mitsubishi; NBS; Nisca; Olmec; O Neil Product Development; Olympus; Paxar; Polaroid; Printronix; Sato; Shinko; Song Woo Electronics; Sony; Taiwan Semiconductor; Tokyo Electric Company; Victor Data Systems; Woosim; and Xerox. Competition in the kiosk arena is vast. A few of the competitors we face include Custom Engineering, Star Micronics, Epson, Citizen, Boca Systems and Practical Automation.

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

Alternative Technologies

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

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

Therefore, we continually assess competitive and complementary methods of bar code printer and other means of automatic identification. Alternative print technologies assessed include ink jet, laser, impact dot matrix and laser etching. While we cannot be sure that new technology will not supplant direct thermal and thermal transfer printing for bar code labels and receipts, we are not aware of any developing technology that offers the advantages of direct thermal and thermal transfer printing for our targeted label and receipt printer applications. We are continually monitoring and evaluating new HF and UHF RFID technologies, supporting their standards development, and rapidly adopting RFID into new Zebra products as new markets and applications emerge.

Intellectual Property Rights

Zebra relies on a combination of trade secrets, patents, employee and third party nondisclosure agreements, copyright laws and contractual rights to establish and protect its proprietary rights in its products. We have and actively protect several domestic and international trademarks. We hold 252 United States and foreign patents and have 225 United States and foreign patent applications pending pertaining to products. The duration of these patents ranges from 14 to 20 years. The expiration of any individual patent would not have a significant negative impact on our business.

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

Patents have become increasingly used by businesses generally as a strategic business tool and in recent years the number of patent applications and grants has risen dramatically. As a result, it is increasingly important that Zebra takes appropriate steps to maintain and develop its own patent portfolio and reduce the risk of disputes involving third party intellectual property rights.

During 2006, we acquired patents as a result of a payment for the settlement of a lawsuit with Paxar Americas, Inc. A portion of this settlement was applied to future use of patents. This portion of the settlement has been recorded as intangibles and will be amortized over the estimated useful lives of the patents, which range from 4 to 7 years. In some cases, the useful lives may be less than the patent lives. See Note 16 to the Notes to the Consolidated Financial Statements included in this Form 10-K for further discussion of the settlement.

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

WhereNet Acquisition

On January 25, 2007, we extended our automatic identification technology portfolio by acquiring WhereNet Corp., a provider of active radio frequency identification (RFID) based wireless solutions to track and manage enterprise assets, for \$126 million in cash. 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. These systems help companies locate and track high-value assets using battery-powered wireless tags, fixed-position

antennas and Web-enabled software. They are employed in parts replenishment, vehicle inventory tracking, truck yard management, marine cargo tracking, and work-in-process tracking, among many other applications.

WhereNet's solutions encompass hardware, middleware, application software, and services for project management, maintenance and support. Hardware consists primarily of proprietary battery-powered RFID transponders and various reading devices. Manufacturing of these products are accomplished by third-party contract manufacturers. Middleware, application software and services are designed and delivered by WhereNet personnel. Sales and service are made on a direct basis through contracts with end-user customers, in addition to follow-on sales of transponders and support services

Active RFID technology is the basis on which WhereNet solutions are designed and built. Several companies compete with WhereNet employing multiple technologies aimed at optimizing the performance of supply chain, asset tracking and logistics networks. These technologies include passive RFID, other active RFID platforms, GPS-based technologies, WiFi-based technologies, and software platforms. Competing wireless location and RFID-focused companies include Aer Scout Inc., Ekahau Inc., I.D. Systems Inc., Identec Solutions, Intermec Inc., and RF Code Inc. Larger, diversified companies competing with WhereNet include Cisco Systems Inc., Lockheed Martin Corp., Roper Industries Inc., Siemens AG, and Motorola Inc.

Employees

As of February 23, 2007, Zebra employed approximately 2,800 persons. None of these employees is a member of a union. We consider our employee relations to be very good.

Additional Information

For financial information regarding Zebra, see Zebra's Consolidated Financial Statements and the related Notes, which are included in this Annual Report on Form 10-K. Zebra has a single reportable segment for all of our operations and products. Financial information about geographic areas is found in Note 17 to the Consolidated Financial Statements.

Item 1A. Risk Factors

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

Zebra could encounter difficulties in any acquisition it undertakes, including unanticipated integration problems and business disruption. Acquisitions could also dilute stockholder value and adversely affect operating results. Proposed acquisitions that are not consummated may result in the write-off of certain acquisition costs.

Zebra may acquire or make investments in other businesses, technologies, services or products. For example, it acquired WhereNet Corp. (WhereNet), in January 2007. The process of integrating any acquired business, technology, service or product into operations may result in unforeseen operating difficulties and expenditures. An acquisition may present business issues which are new to Zebra. Integration of an acquired company also may consume considerable management time and attention, which could otherwise be available for ongoing development of the business. The expected benefits of any acquisition may not be realized. Moreover, Zebra may be unable to identify, negotiate or finance future acquisitions successfully. Future acquisitions could result in potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities or amortization expenses. To the extent that a proposed acquisition is not consummated, Zebra may be required to write off certain costs associated with the acquisition, which could be significant.

Zebra may not be able to continue to develop products to address user needs effectively in an industry characterized by rapid technological change.

To be successful, Zebra must adapt to rapidly changing technological and application needs by continually improving its products as well as introducing new products and services to address user demands.

Zebra's industry is characterized by:

- Rapidly changing technology
- Evolving industry standards
- Frequent new product and service introductions
- Evolving distribution channels
- Changing customer demands

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

Zebra competes in a highly competitive market, which is likely to become more competitive. Competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements.

Zebra faces significant competition in developing and selling its systems. Principal competitors have substantial marketing, financial, development and personnel resources. To remain competitive, Zebra believes it must continue to provide:

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

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-K

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

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

- Manufacturing an increased number of products;
- Increased administrative and operational burden;
- Maintaining and improving information technology infrastructure to support growth;

- Increased logistical problems common to complex, expansive operations; and
- Managing increasing international operations.

If we do not manage these potential difficulties successfully, our operating results could be adversely affected. In addition, we may have difficulties managing associated increased costs, which could adversely affect our operating margins.

Zebra sources some of its component parts from sole source suppliers.

A disruption in the supply of such component parts could have a material adverse effect on our operations and financial results. In particular, a key microprocessor used in Zebra products has been the subject of patent litigation against the manufacturer. While Zebra expects the manufacturer to prevail, an adverse result in such proceedings could have a material adverse effect on Zebra's financial results.

Infringement by Zebra or Zebra suppliers on the proprietary rights of others could put Zebra at a competitive disadvantage, and any related litigation could be time consuming and costly.

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

The inability to protect intellectual property could harm Zebra's reputation, and its competitive position may be materially damaged.

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

Zebra may incur liabilities as a result of product failures due to actual or apparent design or manufacturing defects.

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

The planned retirement of Zebra's chief executive officer could cause dislocations in management and changes in strategic direction. During the third quarter of 2006, we announced that Edward L. Kaplan, Zebra's co-founder, chairman and chief executive officer, plans to retire as CEO following the recruitment of a successor CEO. This current period of transition and future change in leadership could result in changes in other senior and mid-level management personnel. Such changes could have an adverse affect on Zebra's business. In addition, no assurances can be provided as to whether the successor CEO, who has yet to be named, will seek to change Zebra's strategies.

Zebra's equipment is subject to U.S. and foreign regulations that pertain to electrical and electronic equipment, which may materially adversely affect Zebra's business.

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

In January 2003, the European Union, (EU), issued two directives relating to chemical substances in electronic products. The Waste Electrical and Electronic Equipment Directive requires producers of electrical goods to pay for specified collection, recycling, treatment and disposal of past and future covered products. EU governments were required to enact and implement legislation that complies with this directive (such legislation together with the directive, the WEEE Legislation), and certain producers are to be financially responsible under the WEEE Legislation. The EU issued another directive that requires electrical and electronic equipment placed on the EU market after July 1, 2006, to be free of lead, mercury, cadmium, hexavalent chromium (above a threshold limit) and brominated flame retardants. EU governments were required to enact and implement legislation that complies with this directive (such legislation together with this directive, the RoHS Legislation). We are currently in compliance; however, if we do not comply with these directives, we may suffer a loss of revenue, be unable to sell in certain markets and/or countries, be subject to penalties and enforced fees, and/or suffer a competitive disadvantage. Also, complying with these directives has presented additional complexities to manufacturing and operations which could result in adverse results. We cannot assure you that the costs to comply with these new laws, or with current and future environmental laws, will not have a material adverse effect on our results of operations, expenses and financial condition.

Added risks are associated with our international operations which may have a material adverse effect on Zebra's business.

Zebra has significant overseas operations, notably in the U.K., Middle East and Africa, Latin America and Asia-Pacific, including, in particular, an increasing presence in China, which present added risks that may materially adversely affect the financial results and condition of Zebra. These risks include the following:

- Adverse changes in, or uncertainty of, local business laws or practices;
- Inadequately managing and overseeing operations that are distant and remote from corporate headquarters;
- The inability to hire and retain appropriate employees in highly competitive job markets; and
- The failure to implement and maintain adequate internal controls relating to these operations.

If we are not able to effectively manage these risks, they may harm our business and the trading price of our common stock.

Zebra sells a significant portion of its products internationally and purchases important components from foreign suppliers. These circumstances create a number of risks.

Zebra sells a significant amount of its products to customers outside the United States. Shipments to international customers are expected to continue to account for a material portion of net sales. Risks associated with sales and purchases outside the United States include:

- Fluctuating foreign currency rates could restrict sales, or increase costs of purchasing, in foreign countries.

Zebra's equipment is subject to U.S. and foreign regulations that pertain to electrical and electronic equipment, which may materially adversely affect Zebra's business.

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-K

- Foreign governments may impose burdensome tariffs, quotas, taxes, trade barriers or capital flow restrictions.
- Political and economic instability may reduce demand for our products, or put our foreign assets at risk.
- Restrictions on the export or import of technology may reduce or eliminate the ability to sell in or purchase from certain markets.
- Potentially limited intellectual property protection in certain countries may limit recourse against infringing products or cause Zebra to refrain from selling in certain geographic territories.
- Staffing and managing international operations may be unusually difficult.

Economic factors, which are outside Zebra's control, could lead to deterioration in the quality of Zebra's accounts receivables.

Zebra sells its products to customers in the United States and several other countries around the world. Sales are typically made on unsecured credit terms, which are generally consistent with the prevailing business practices in a given country. A deterioration of economic or political conditions in a country could impair Zebra's ability to collect on receivables in the affected country.

Zebra depends on the ongoing service of its senior management and ability to attract and retain other key personnel.

Future success of Zebra is substantially dependent on the continued service and continuing contributions of senior management and other key personnel. The loss of the service of any executive officer or other key employees could adversely affect business. Zebra maintains minimal key man life insurance policies on its co-founders.

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

Terrorist attacks or war could lead to further economic instability and adversely affect Zebra's stock price, operations, and profitability.

The terrorist attacks that occurred in the United States on September 11, 2001 caused major instability in the U.S. and other financial markets. Possible further acts of terrorism and current and future war risks could have a similar impact. The United States continues to take military action against terrorism and is currently engaged in a costly occupation of Iraq. These events may lead to additional armed hostilities or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may further contribute to economic instability. Any such attacks could, among other things, cause further instability in financial markets and could directly, or indirectly through reduced demand, negatively affect Zebra's facilities and operations or those of its customers or suppliers.

Taxing authority challenges may lead to tax payments exceeding current reserves.

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Zebra's corporate headquarters are located in Vernon Hills, Illinois, a northern suburb of Chicago. Zebra conducts its operations from a custom-designed facility at this location, which provides approximately 225,000 square feet of space. Approximately 113,000 square feet have been allocated to office and laboratory functions and 112,000 square feet to manufacturing and warehousing. This facility was constructed in 1989 and expanded in 1993, 1995, 1996 and 1999. It is owned and leased to Zebra under a lease terminating on June 30, 2014, by Unique Building Corporation, a corporation owned by Edward Kaplan and Gerhard Cless, both executive officers and directors of Zebra.

Zebra's principal facilities as of December 31, 2006, are listed below:

Location	Square Footage Manufacturing, Production & Warehousing	Administrative, Research & Sales	Total	Lease Expires
Vernon Hills, Illinois, USA	111,676	113,429	225,105	June 2014
Vernon Hills, Illinois, USA	—	34,000	34,000	February 2008
Camarillo, California, USA	97,921	72,156	170,077	Owned by Zebra
Warwick, Rhode Island, USA	24,516	75,324	99,840	April 2009
Greenville, Wisconsin, USA	45,000	5,000	50,000	February 2018
Otay Mesa, California, USA	25,100	4,900	30,000	February 2008
McAllen, Texas, USA	15,500	2,500	18,000	September 2011
Heerenveen, The Netherlands	48,427	46,145	94,572	March 2025
High Wycombe, UK	—	24,700	24,700	October 2018
Preston, UK	30,450	8,600	39,050	Owned by Zebra
Total	398,590	386,754	785,344	

Zebra leases various other facilities around the world, which are dedicated to administrative, research and sales functions. The amounts related to these leases, solely or in aggregate, are not material to the consolidated financial statements.

Item 3. Legal Proceedings

See Note 16 in the Notes to the Consolidated Financial Statements included in this Form 10-K.

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

Not applicable.

PART II**Item 5. Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities****Stock Information: Price Range and Common Stock**

Our Class A Common Stock is traded on the NASDAQ Stock Market under the symbol ZBRA. The following table shows the high and low trade prices for each fiscal quarter in 2006 and 2005, as reported by the NASDAQ Stock Market.

2006	High	Low	2005	High	Low
First Quarter	\$ 47.97	\$ 42.16	First Quarter	\$ 56.90	\$ 44.53
Second Quarter	45.39	32.41	Second Quarter	48.67	39.60
Third Quarter	36.60	29.23	Third Quarter	47.58	34.88
Fourth Quarter	37.74	33.98	Fourth Quarter	46.66	36.65

Source: The NASDAQ Stock Market

At February 26, 2007, the last reported price for the Class A Common Stock was \$41.79 per share, and there were 372 registered stockholders of record for the Company's Class A Common Stock. In addition, we had approximately 17,000 stockholders who owned Zebra stock in street name.

Dividend Policy

Since our initial public offering in 1991, we have not declared any cash dividends or distributions on our capital stock. Zebra currently intends to retain its earnings to finance future growth and therefore does not anticipate paying any cash dividends in the foreseeable future.

Treasury Shares

During 2006, Zebra purchased 2,080,911 shares of 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 common stock. The purchase price is at management's discretion, and there is no expiration on the authorization. During 2006, 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
September 2006 (August 27 - September 30)	116,800	\$ 34.83	116,800	
October 2006 (October 1 - October 28)	329,111	36.09	329,111	
November 2006 (October 29 - November 25)	—	—	—	
December 2006 (November 26 - December 31)	1,635,000	34.85	1,635,000	
Total	2,080,911	\$ 35.04	2,080,911	419,089

See Item 12 for information related to Zebra's equity compensation plans.

STOCK PERFORMANCE GRAPH

The graph depicted below compares the cumulative annual change since December 31, 2001, of the total stockholder return on Zebra Technologies Corporation Class A Common Stock with the cumulative total return on the following published indices: (i) the Hemscoff Industry Group 815 (Computer Peripherals) Index(1) and (ii) the NASDAQ Composite Market Index, during the same period. This comparison assumes that \$100 was invested in each of the Company's Class A Common Stock, the stocks comprising the Hemscoff Industry Group 815 Index, and the stocks comprising the NASDAQ Composite Market Index, on December 31, 2001, and assumes that all dividends were reinvested at the end of the month in which they were paid.

(1) Hemscoff, Inc. (formerly CoreData LLC and Media General Financial Services) publishes the Hemscoff Industry Group 815 (Computer Peripherals) Index. The index is comprised of the following companies: Acme Packet Inc., Astro-Med Inc., AU Optronics Corp. ADS, Avocent Corp., Creative Technology Ltd., Electronics For Imaging, Emulex Corp., Evand & Sutherland Computer Corp., Foundry Networks Inc., Global Imaging Systems Inc., Hauppauge Digital Inc., iCAD Inc., Immersion Corp., InFocus Corp., Intermec Inc., Interphase Corp., Key Tronic Corp., Lantronix Inc., Lexmark International Inc., Logitech International SA ADR, Media Sciences International Inc., Mercury Computer Systems Inc., MTS Medication Technologies Inc., Nice Systems Ltd. ADR, O2Micro International Ltd., Opnet Technologies Inc., Planar Systems Inc., Printronix Inc., Radcom Ltd., RadiSys Corp., Rimage Corp., SBE Inc., SCM Microsystems Inc., Secure Computing Corp., Stratasys Inc., Symbol Technologies Inc., Top Image Systems Ltd., Transact Technologies Inc., Universal Display Corp., Video Display Corp., Wave Systems Corp. Cl. A, and Zebra Technologies Corporation.

**Comparison of Five-Year Cumulative Total Return
of Zebra Technologies Corporation, the Hemscoff Industry Group Index
and the NASDAQ Composite Market Index**

	2001	2002	2003	2004	2005	2006
Zebra Technologies Corporation	\$ 100.00	\$ 103.22	\$ 179.26	\$ 227.89	\$ 173.51	\$ 140.87
Hemscoff Industry Group Index	100.00	74.88	128.77	131.65	113.78	124.42
NASDAQ Composite Market Index	100.00	69.75	104.88	113.70	116.19	128.12

Item 6. Selected Consolidated Financial Data**CONSOLIDATED STATEMENTS OF EARNINGS DATA**
(In thousands, except per share amounts)

	Year Ended December 31,				
	2006	(1) 2005	(1) 2004	(1) 2003	(1) 2002
Net sales	\$ 759,524	\$ 702,271	\$ 663,054	\$ 536,397	\$ 475,611
Cost of sales	401,104	348,851	320,951	264,564	245,929
Gross profit	358,420	353,420	342,103	271,833	229,682
Total operating expenses	277,991 (2)	207,392	175,494	150,882	135,806
Operating income	80,429	146,028	166,609	120,951	93,876
Income before income taxes and cumulative effect of accounting change	101,642	160,282	176,084	127,725	102,981
Income before cumulative effect of accounting change	69,627	106,184	115,141	86,357	66,464
Cumulative effect of accounting change	1,319 (3)	—	—	—	—
Net income	\$ 70,946	\$ 106,184	\$ 115,141	\$ 86,357	\$ 66,464
Earnings per share before cumulative effect of accounting change					
Basic	\$ 0.99	\$ 1.49	\$ 1.61	\$ 1.22 (4)	\$ 0.95 (4)
Diluted	\$ 0.98	\$ 1.47	\$ 1.59	\$ 1.21 (4)	\$ 0.95 (4)
Earnings per share					
Basic	\$ 1.01	\$ 1.49	\$ 1.61	\$ 1.22 (4)	\$ 0.95 (4)
Diluted	\$ 1.00	\$ 1.47	\$ 1.59	\$ 1.21 (4)	\$ 0.95 (4)
Weighted average shares outstanding					
Basic	70,516	71,364	71,556	70,647 (4)	69,678 (4)
Diluted	70,956	72,000	72,398	71,495 (4)	70,305 (4)

CONSOLIDATED BALANCE SHEET DATA
(In thousands)

	December 31,				
	2006	2005	2004	2003	2002
Cash and cash equivalents and investments and marketable securities (current and long-term)	\$ 559,189	\$ 544,239	\$ 557,993	\$ 447,848	\$ 348,577
Working capital	404,836	680,554	665,062	535,816	427,676
Total assets	963,142	918,415	868,044	706,530	578,701
Long-term obligations (5)	9,969	7,709	4,011	2,853	1,613
Stockholders' equity	877,681	857,972	803,893	657,557	539,768

(1) Amounts have been restated to reflect the adoption of SFAS No. 123(R), *Share-Based Payment*, using the modified retrospective approach. See Note 2 in the Notes to the Consolidated Financial Statements included in this Form 10-K.

(2) Includes litigation settlement of \$53,392,000 and insurance receivable reserve of \$12,543,000. See Note 16 in the Notes to the Consolidated Financial Statements included in this Form 10-K for further discussion of the settlement.

(3) Relates to the estimation of forfeitures on prior year compensation expense outstanding at the adoption date of SFAS No. 123(R), *Share-Based Payment*. See Note 3 in the Notes to the Consolidated Financial Statements included in this Form 10-K.

In January 2003, the European Union, (EU), issued two directives relating to chemical substances in electronic p

- (4) Restated for 3-for-2 stock splits in 2003 and 2004 that were paid in the form of 50% stock dividends.
- (5) Long-term obligations include deferred compensation and unearned revenue. See Note 18 in the Notes to the Consolidated Financial Statements included in this Form 10-K for further discussion of the Deferred Compensation Plan.

21

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

Sales for the fourth quarter of 2006 were up a strong 17.1% from the prior year, reaching a record of \$209,903,000. Particularly encouraging was the strong growth in North America, which had its best performance in two years, up 15.8% from the prior year comparable period. Lower gross margins were the result of manufacturing variances caused partially by the lingering effects the RoHS Legislation, which mandated that we convert our products to comply with the RoHS Legislation by its mid-2006 deadline (the RoHS Conversion). Variances also resulted from three facility moves during the quarter, as we opened a new supplies converting operation in Texas and moved into larger converting facilities in Wisconsin and California; all of which increased manufacturing capacity. Higher operating expenses resulting from the Swecoin acquisition, consulting expenses, the costs of radio certifications, advertising costs, and increases to bad debt reserves reduced operating margins. Fourth quarter operating expenses also include a 100% reserve for an insurance receivable.

Sales for the full year increased by 8.2% over 2005, with North American growth holding in the mid single digits until the fourth quarter. International sales, particularly in Europe, were stronger and generally more consistent throughout most of the year. Gross margin was down from 2005 by 3.1 points with first half results being affected by mix and pricing and second half by manufacturing variances which were, in part, the result of the RoHS Conversion previously mentioned. The company continued to add sales and marketing staff to support its sales growth with a resulting increase in operating expenses. In addition, we settled a large patent litigation in the third quarter and reserved for an insurance receivable in the fourth quarter. The combined impact of these two events was approximately \$65,935,000 of expense.

Results of Operations: Fourth Quarter of 2006 versus Fourth Quarter of 2005, Year ended December 31, 2006 versus Year ended December 31, 2005*Sales*

Sales by product category, percent change, and percent of total sales for the three months and year ended December 31, 2006, and December 31, 2005, were (in thousands, except percentages):

Product Category	Three Months Ended December 31,		Percent Change	Percent of Total Sales - 2006	Percent of Total Sales - 2005
	2006	2005			
Hardware	\$ 163,081	\$ 137,803	18.3	77.7	76.9
Supplies	38,578	33,581	14.9	18.4	18.7
Service and software	6,954	6,202	12.1	3.3	3.5
Shipping and handling	1,610	833	93.3	0.8	0.4
Cash flow hedging activities	(320)	875	NM	(0.2)	0.5
Total sales	\$ 209,903	\$ 179,294	17.1	100.0	100.0

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-K

Product Category	Year Ended December 31,		Percent Change	Percent of Total Sales - 2006	Percent of Total Sales - 2005
	2006	2005			
Hardware	\$ 578,002	\$ 540,679	6.9	76.1	77.0
Supplies	150,709	129,183	16.7	19.8	18.4
Service and software	25,664	25,217	1.8	3.4	3.6
Shipping and handling	6,022	5,575	8.0	0.8	0.8
Cash flow hedging activities	(873)	1,617	NM	(0.1)	0.2
Total sales	\$ 759,524	\$ 702,271	8.2	100.0	100.0

22

Edgar Filing: ZEBRA TECHNOLOGIES CORP/DE - Form 10-K

Sales to customers by geographic region, percent changes and percent of total sales for the three months and year ended December 31, 2006, and December 31, 2005, were (in thousands, except percentages):

Geographic Region	Three Months Ended December 31,		Percent Change	Percent of Total Sales - 2006	Percent of Total Sales - 2005
	2006	2005			
Europe, Middle East and Africa	\$ 73,109	\$ 59,942	22.0	34.8	33.4
Latin America	13,854	12,923	7.2	6.6	7.2
Asia-Pacific	18,054	15,867	13.8	8.6	8.8
Total International	105,017	88,732	18.4	50.0	49.4
North America	104,886	90,562	15.8	50.0	50.6
Total sales	\$ 209,903	\$ 179,294	17.1	100.0	100.0

Geographic Region	Year Ended December 31,		Percent Change	Percent of Total Sales - 2006	Percent of Total Sales - 2005
	2006	2005			
Europe, Middle East and Africa	\$ 260,125	\$ 230,365	12.9	34.2	32.8
Latin America	53,619	46,878	14.4	7.1	6.7
Asia-Pacific	65,960	62,974	4.7	8.7	9.0
Total International	379,704	340,217	11.6	50.0	48.5
North America	379,820	362,054	4.9	50.0	51.5
Total sales	\$ 759,524	\$ 702,271	8.2	100.0	100.0

Ongoing strength in international territories, with notable growth in Latin America of 14.4% for 2006 and Europe, Middle East and Africa (EMEA) of 12.9% for the full year and 22% for the fourth quarter, and a material improvement in North American sales in the fourth quarter helped drive overall sales growth in 2006. For 2006, sales growth benefited from a 13.6% unit volume increase spread broadly across our printer product lines, offset by a decline in average unit prices. Sales growth also benefited from strong growth in supplies sales, resulting from recently implemented sales and marketing programs and additional label manufacturing capacity. Favorable foreign exchange movements added 3.1 percentage points to consolidated growth and 9.3 percentage points to growth in EMEA for the fourth quarter.

Zebra is required to comply with two new European Union (EU) directives that pertain to electrical and electronic equipment. The Waste Electrical and Electronic Equipment Directive requires producers of electrical goods to pay for specified collection, recycling, treatment and disposal of past and future covered products. Another directive (i.e., the RoHS Legislation) requires electrical and electronic equipment placed in the EU market after July 1, 2006, to be free of lead, mercury, cadmium, hexavalent chromium (above a threshold limit) and brominated flame retardants. Costs to comply with these new laws affected results during 2006 and may continue to impact future periods.

New printer products (defined as printers released within 18 months prior to the end of the applicable fiscal period) as a percent of total printer product sales were as follows:

	December 31,	
	2006	2005
Three months ended	12.1	7.2
Year ended	12.5	10.7

New product releases planned for upcoming quarters is expected by management to increase these percentages in future periods.

Zebra's international sales are denominated in multiple currencies, primarily the dollar, pound and euro, which subjects our reported sales to fluctuations based on changes in currency rates. We hedge a portion of anticipated euro-denominated sales to protect Zebra against exchange rate movements. Inclusive of all hedging activities, the impact of foreign exchange movements on reported sales during the fourth quarter was a gain of \$5,556,000. The full year impact was a gain of \$3,606,000. See Note 15 to the Consolidated Financial Statements included in this report for a more detailed discussion of the above hedging program.

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

	Three Months Ended December 31,		Percent Change	Year Ended December 31,		Percent Change
	2006	2005		2006	2005	
Total printers shipped	226,625	192,583	17.7	818,413	720,306	13.6
Average selling price of printers shipped	\$ 596	\$ 605	(1.5)	\$ 598	\$ 633	(5.5)

For 2006, with the exception of card printers, unit volumes increased in all printer product lines, with notable strength in mobile, desktop and high-end printers. For the full year, lower average selling prices across the full line of printers in addition to a mix shift toward lower priced products resulted in a 5.5% decrease in the average selling price of printers shipped.

Gross Profit

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

	December 31,	2005	Percent Change	Percent of	Percent of
	2006			Total Sales 2006	Total Sales 2005
Three months ended	\$ 98,410	\$ 89,612	9.8	46.9	50.0
Year ended	358,420	353,420	1.4		