

ZEBRA TECHNOLOGIES CORP
Form 10-Q
August 05, 2014

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 28, 2014

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)

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

36-2675536
(I.R.S. Employer
Identification No.)

(Address of principal executive offices) (Zip Code)

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

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

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

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

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

As of July 25, 2014, there were 50,769,890 shares of Class A Common Stock, \$.01 par value, outstanding.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

QUARTER ENDED JUNE 28, 2014

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PART I - FINANCIAL INFORMATION**Item 1. Consolidated Financial Statements****ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands)

	June 28, 2014	December 31, 2013
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 70,349	\$ 62,827
Investments and marketable securities	455,644	350,380
Accounts receivable, net	165,426	176,917
Inventories, net	126,103	121,023
Deferred income taxes	19,810	19,810
Income tax receivable	8,860	7,622
Prepaid expenses and other current assets	13,055	15,524
Total current assets	859,247	754,103
Property and equipment at cost, less accumulated depreciation and amortization	107,115	109,588
Goodwill	155,800	155,800
Other intangibles, net	63,629	68,968
Other assets	33,178	31,353
Total assets	\$ 1,218,969	\$ 1,119,812
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 31,752	\$ 34,688
Accrued liabilities	65,518	61,962
Deferred revenue	16,896	15,506
Income taxes payable	9,112	6,898
Total current liabilities	123,278	119,054
Long-term deferred tax liability	28,471	25,492
Deferred rent	1,484	1,131
Other long-term liabilities	17,674	15,477
Total liabilities	170,907	161,154
Stockholders' equity:		
Class A Common Stock	722	722
Additional paid-in capital	149,475	143,295
Treasury stock	(666,084)	(678,456)
Retained earnings	1,572,041	1,502,878
Accumulated other comprehensive loss	(8,092)	(9,781)
Total stockholders' equity	1,048,062	958,658

Total liabilities and stockholders equity	\$ 1,218,969	\$ 1,119,812
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See accompanying notes to consolidated financial statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net sales:				
Net sales of tangible products	\$ 270,049	\$ 239,909	\$ 531,941	\$ 465,030
Revenue from services and software	18,372	13,251	44,748	25,067
Total net sales	288,421	253,160	576,689	490,097
Cost of sales:				
Cost of sales of tangible products	136,962	125,664	267,411	242,775
Cost of services and software	9,290	6,589	19,171	13,350
Total cost of sales	146,252	132,253	286,582	256,125
Gross profit	142,169	120,907	290,107	233,972
Operating expenses:				
Selling and marketing	35,755	33,830	71,171	67,345
Research and development	23,710	23,201	46,567	45,059
General and administrative	26,321	24,053	54,712	49,329
Amortization of intangible assets	2,667	1,863	5,339	3,726
Acquisition and integration costs	20,364	618	25,291	1,100
Exit and restructuring costs	287	1,101	554	2,996
Total operating expenses	109,104	84,666	203,634	169,555
Operating income	33,065	36,241	86,473	64,417
Other income (expense):				
Investment income	379	473	800	1,150
Foreign exchange income (loss)	43	(462)	(249)	(560)
Loss on forward interest rate swap	(2,433)	0	(2,433)	0
Other, net	(57)	1,464	(49)	1,473
Total other income (loss)	(2,068)	1,475	(1,931)	2,063
Income from continuing operations before income taxes	30,997	37,716	84,542	66,480
Income taxes	3,440	7,158	15,379	12,380
Income from continuing operations	27,557	30,558	69,163	54,100
Income from discontinued operations, net of tax	0	8	0	8
Net income	\$ 27,557	\$ 30,566	\$ 69,163	\$ 54,108
Basic earnings per share:				
Income from continuing operations	\$ 0.54	\$ 0.60	\$ 1.37	\$ 1.06

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Income from discontinued operations	0.00	0.00	0.00	0.00
Net income	\$ 0.54	\$ 0.60	\$ 1.37	\$ 1.06
Diluted earnings per share:				
Income from continuing operations	\$ 0.54	\$ 0.60	\$ 1.35	\$ 1.05
Income from discontinued operations	0.00	0.00	0.00	0.00
Net income	\$ 0.54	\$ 0.60	\$ 1.35	\$ 1.05
Basic weighted average shares outstanding	50,606	50,900	50,509	50,929
Diluted weighted average and equivalent shares outstanding	51,278	51,283	51,129	51,310
See accompanying notes to consolidated financial statements.				

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 28,	June 29,	June 28,	June 29,
	2014	2013	2014	2013
Net income	\$ 27,557	\$ 30,566	\$ 69,163	\$ 54,108
Other comprehensive income (loss):				
Unrealized gains (losses) on hedging transactions, net of income taxes	776	(391)	1,389	1,352
Unrealized holding gains (losses) on investments, net of income taxes	348	(867)	496	(939)
Foreign currency translation adjustment	(29)	223	(196)	317
Comprehensive income	\$ 28,652	\$ 29,531	\$ 70,852	\$ 54,838

See accompanying notes to consolidated financial statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended	
	June 28, 2014	June 29, 2013
Cash flows from operating activities:		
Net income	\$ 69,163	\$ 54,108
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	18,096	15,412
Share-based compensation	7,110	6,504
Excess tax benefit from share-based compensation	(3,947)	(3,727)
Loss on sale of property and equipment	49	182
Deferred income taxes	2,979	4,439
Loss of forward interest rate swaps	2,433	0
Changes in assets and liabilities:		
Accounts receivable, net	11,359	(1,976)
Inventories, net	(5,061)	14,190
Other assets	2,583	1,313
Accounts payable	(5,336)	3,263
Accrued liabilities	3,535	(6,094)
Deferred revenue	502	1,585
Income taxes	4,706	476
Other operating activities	1,742	1,381
Net cash provided by operating activities	109,913	91,056
Cash flows from investing activities:		
Purchases of property and equipment	(7,962)	(8,547)
Acquisition of intangible assets	0	(500)
Purchase of long-term investments	(1,213)	(604)
Purchase of investments and marketable securities	(276,400)	(231,174)
Maturities of investments and marketable securities	20,852	19,188
Proceeds from sales of investments and marketable securities	150,781	142,230
Net cash used in investing activities	(113,942)	(79,407)
Cash flows from financing activities:		
Purchase of treasury stock	0	(28,563)
Proceeds from exercise of stock options and stock purchase plan purchases	7,711	4,104
Excess tax benefit from share-based compensation	3,947	3,727
Net cash provided by (used in) financing activities	11,658	(20,732)
Effect of exchange rate changes on cash	(107)	229
Net increase (decrease) in cash and cash equivalents	7,522	(8,854)
Cash and cash equivalents at beginning of period	62,827	64,740
Cash and cash equivalents at end of period	\$ 70,349	\$ 55,886

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Supplemental disclosures of cash flow information:

Income taxes paid, net	\$ 7,627	\$ 5,346
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See accompanying notes to consolidated financial statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation

Management prepared these unaudited interim consolidated financial statements for Zebra Technologies Corporation and subsidiaries (Zebra) according to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. These financial statements 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, 2013.

The consolidated balance sheet as of December 31, 2013 included 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 28, 2014, the consolidated statement of earnings and consolidated statement of comprehensive income for the three and six months ended June 28, 2014 and June 29, 2013, and the consolidated statement of cash flows for the six months ended June 28, 2014 and June 29, 2013. These results, however, are not necessarily indicative of results for the full year.

On April 14, 2014, Zebra entered into a definitive agreement under which Zebra will acquire a portion of the Enterprise business of Motorola Solutions, Inc. for \$3.45 billion in an all-cash transaction. Zebra intends to fund the acquisition with a combination of approximately \$200 million of available cash on hand and the issuance of \$3.25 billion in new debt. The transaction is subject to customary closing conditions including regulatory approvals. The transaction is expected to be completed by the end of 2014.

Note 2 Fair Value Measurements

Financial assets and liabilities are to be measured using inputs from three levels of the fair value hierarchy. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Zebra uses a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels:

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

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

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

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in the assessment of fair value. Included in our investment portfolio at June 28, 2014, is an auction rate security which is classified as available for sale and is reflected at fair value. Due to events in credit markets, however, the auction event for the instrument held by Zebra is failed. Therefore, the fair value of this security is estimated utilizing broker quotations, discounted cash flow analysis and other types of valuation adjustment methodologies at June 28, 2014. These analyses consider, among other items, the collateral underlying the security instruments, the creditworthiness of the counterparty, the timing of expected future cash flows, estimates of the next time the security is expected to have a successful auction, and Zebra s intent and ability to hold such securities until credit markets improve. The security was also compared, when possible, to other securities with similar characteristics.

The decline in the market value of our auction rate security discussed above is considered temporary and has been recorded in accumulated other comprehensive income loss on Zebra s balance sheet. Since Zebra has the intent and ability to hold this auction rate security until it is sold at auction, redeemed at carrying value or reaches maturity, we have classified it as a long-term investment on the balance sheet.

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Financial assets and liabilities carried at fair value as of June 28, 2014, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. government and agency securities	\$ 161,471	\$ 0	\$ 0	\$ 161,471
Obligations of government-sponsored enterprises (1)	0	27,298	0	27,298
State and municipal bonds	0	53,858	0	53,858
Corporate securities	0	191,771	2,588	194,359
Other investments	0	21,246	0	21,246
Investments subtotal	161,471	294,173	2,588	458,232
Forward contracts (2)	\$ 507	\$ (106)	\$ 0	\$ 401
Money market investments related to the deferred compensation plan	5,484	0	0	5,484
Total assets at fair value	\$ 167,462	\$ 294,067	\$ 2,588	\$ 464,117
Liabilities:				
Forward interest rate swap contracts (3)	\$ 0	\$ (2,433)	\$ 0	\$ (2,433)
Liabilities related to the deferred compensation plan	5,484	0	0	5,484
Total liabilities at fair value	\$ 5,484	\$ (2,433)	\$ 0	\$ 3,051

Financial assets and liabilities carried at fair value as of December 31, 2013, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. government and agency securities	\$ 89,626	\$ 0	\$ 0	\$ 89,626
Obligations of government-sponsored enterprises (1)	0	33,510	0	33,510
State and municipal bonds	0	51,627	0	51,627
Corporate securities	0	163,832	2,588	166,420
Other investments	0	11,785	0	11,785
Investments subtotal	89,626	260,754	2,588	352,968
Money market investments related to the deferred compensation plan	4,827	0	0	4,827
Total assets at fair value	\$ 94,453	\$ 260,754	\$ 2,588	\$ 357,795
Liabilities:				
Forward contracts (2)	\$ 1,165	\$ 1,578	\$ 0	\$ 2,743
Liabilities related to the deferred compensation plan	4,827	0	0	4,827
Total liabilities at fair value	\$ 5,992	\$ 1,578	\$ 0	\$ 7,570

1) Includes investments in notes issued by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Federal Farm Credit Banks and the Federal Home Loan Bank.

2) The fair value of forward contracts are calculated as follows:

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- a. Fair value of a collar or put option contract associated with forecasted sales hedges are calculated using bid and ask rates for similar contracts.
 - b. Fair value of regular forward contracts associated with forecasted sales hedges are calculated using the period-end exchange rate adjusted for current forward points.
 - c. Fair value of balance sheet hedges are calculated at the period end exchange rate adjusted for current forward points unless the hedge has been traded but not settled at period end. If this is the case, the fair value is calculated at the rate at which the hedge is being settled.
- 3) The fair value of forward interest rate swap contracts are based upon a valuation model that uses relevant observable market inputs at quoted intervals, such as forward yield curves, and is adjusted for Zebra's own credit risk and the interest rate swap terms.

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The following table presents Zebra's activity for assets measured at fair value on a recurring basis using significant unobservable inputs, Level 3, for the following periods (in thousands):

	Six Months Ended	
	June 28, 2014	June 29, 2013
Balance at beginning of the year	\$ 2,588	\$ 2,588
Transfers to Level 3	0	0
Total losses (realized or unrealized):		
Included in earnings	0	0
Included in other comprehensive income (loss)	0	0
Purchases and settlements (net)	0	0
Balance at end of period	\$ 2,588	\$ 2,588

Total gains and (losses) for the period included in earnings attributable to the change in unrealized losses relating to assets still held at end of period	\$ 0	\$ 0
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The following is a summary of short-term and long-term investments (in thousands):

	Amortized Cost	As of June 28, 2014		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government and agency securities	\$ 161,385	\$ 86	\$ 0	\$ 161,471
Obligations of government-sponsored enterprises	27,294	4	0	27,298
State and municipal bonds	53,736	124	(2)	53,858
Corporate securities	194,064	734	(439)	194,359
Other investments	21,219	29	(2)	21,246
Total investments	\$ 457,698	\$ 977	\$ (443)	\$ 458,232

	Amortized Cost	As of December 31, 2013		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government and agency securities	\$ 89,617	\$ 27	\$ (18)	\$ 89,626
Obligations of government-sponsored enterprises	33,506	5	(1)	33,510
State and municipal bonds	51,573	82	(28)	51,627
Corporate securities	166,642	453	(675)	166,420
Other investments	11,771	15	(1)	11,785
Total investments	\$ 353,109	\$ 582	\$ (723)	\$ 352,968

The maturity dates of investments are as follows (in thousands):

	As of June 28, 2014	
	Amortized Cost	Estimated Fair Value
Less than 1 year	\$ 108,570	\$ 108,664

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1 to 5 years	346,128	346,980
6 to 10 years	3,000	2,588
Thereafter	0	0
Total	\$ 457,698	\$ 458,232

The carrying value for Zebra's financial instruments classified as current assets (other than short-term investments) and current liabilities approximate fair value due to their short maturities.

Note 3 Investments and Marketable Securities

Investments in marketable debt securities are classified based on intent and ability to sell the investment securities. We intend to use Zebra's available-for-sale securities to fund future acquisitions and other operating needs and therefore may be sold prior to maturity. Investments in marketable debt securities for which Zebra intends to sell within the next year are classified as current and those that we intend to hold in excess of one-year are classified as non-current.

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 statement of cash flows, 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 statement of cash flows would include changes in the balances of trading securities as operating cash flows.

Included in Zebra's cash and investments and marketable securities are amounts held by foreign subsidiaries which are generally invested in U.S. dollar-denominated holdings. Zebra had foreign cash and investments of \$301,330,000 as of June 28, 2014, and \$251,658,000 as of December 31, 2013. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation upon repatriation. Zebra does not currently see a need to repatriate these funds.

Note 4 Accounts Receivable

The components of accounts receivable are as follows (in thousands):

	June 28, 2014	As of December 31, 2013
Accounts receivable, gross	\$ 166,009	\$ 177,370
Accounts receivable reserves	(583)	(453)
Accounts receivable, net	\$ 165,426	\$ 176,917

Note 5 Inventories

Inventory reserves decreased due to the disposal of \$1.98M of excess and obsolete inventory which was previously reserved for. The components of inventories are as follows (in thousands):

	June 28, 2014	As of December 31, 2013
Raw material	\$ 28,639	\$ 31,335
Work in process	749	415
Deferred costs of long-term contracts	212	294
Finished goods	107,270	101,540
Inventories, gross	136,870	133,584
Inventory reserves	(10,767)	(12,561)
Inventories, net	\$ 126,103	\$ 121,023

Note 6 Goodwill and Other Intangible Assets

Intangible assets are as follows (in thousands):

	Gross Amount	As of June 28, 2014 Accumulated Amortization	Net Amount
Current technology	\$ 23,778	\$ (15,373)	\$ 8,405
Patent and patent rights	29,569	(19,518)	10,051
Customer relationships	52,893	(7,720)	45,173
Other intangibles, net	\$ 106,240	\$ (42,611)	\$ 63,629
Amortization expense for the six months ended June 28, 2014		\$ 5,339	

	Gross Amount	As of December 31, 2013 Accumulated Amortization	Net Amount
Current technology	\$ 23,778	\$ (14,060)	\$ 9,718
Patent and patent rights	29,569	(17,919)	11,650
Customer relationships	52,893	(5,293)	47,600
Other intangibles, net	\$ 106,240	\$ (37,272)	\$ 68,968
Amortization expense for the six months ended June 29, 2013		\$ 3,726	

Zebra had \$155,800,000 of goodwill recorded as of June 28, 2014 and December 31, 2013.

In the fourth quarter 2013, Zebra acquired all of the outstanding membership interests in Hart Systems, LLC (a New York limited liability company) with \$60,858,000 of the purchase price allocated to goodwill. This acquisition is considered a separate reporting unit for purposes of Zebra's goodwill impairment test.

We test goodwill for impairment on an annual basis or more frequently if we believe indicators of impairment exist. We performed our assessment in accordance with Accounting Standards update (ASU) 2011-08, which allows for the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether the fair value needs to be reassessed. We performed our qualitative assessment, which excluded Hart Systems, LLC, in June 2014 and determined that our goodwill was not impaired as of the end of May 2014. Impairment testing for Hart Systems, LLC will occur in Q4 of this year.

Note 7 Other Assets

Other assets consist of the following (in thousands):

	June 28, 2014	As of December 31, 2013
Money market investments related to the deferred compensation plan	\$ 5,484	\$ 4,827
Long-term equity investments	22,874	21,242
Other long-term assets	1,148	1,522
Long-term investments and marketable securities	2,588	2,588
Deposits	1,084	1,174
Total	\$ 33,178	\$ 31,353

Note 8 Costs Associated with Exit and Restructuring Activities

Costs incurred through December 31, 2013 and costs expected to be incurred relate to the following: restructuring of Zebra's manufacturing operations; relocation of a significant portion of Zebra's supply chain operations from the U.S. to China; consolidating activities domestically; restructuring of our sales operations; restructuring certain corporate functions; and amending the Location Solutions' 2012 restructuring plan by adding additional restructuring charges to be incurred.

For the first six months of 2014, we have incurred the following exit and restructuring costs related to the Location Solutions business management structure and manufacturing operations relocation and restructuring (in thousands):

Type of Cost	Costs incurred for				
	Cost incurred through December 31, 2013	the six months ended June 28, 2014	Total costs incurred as of June 28, 2014	Additional costs expected to be incurred	Total costs expected to be incurred
Severance, stay bonuses, and other employee-related expenses	\$ 6,650	\$ 554	\$ 7,204	\$ 0	\$ 7,204
Professional services	180	0	180	0	180
Relocation and transition costs	20	0	20	0	20
Total	\$ 6,850	\$ 554	\$ 7,404	\$ 0	\$ 7,404

Exit and restructuring costs for 2013 and 2014 are as follows:

	Three Months Ended June 28, 2014	Three Months Ended June 29, 2013	Six Months Ended June 28, 2014	Six Months Ended June 29, 2013
	Severance, stay bonuses, and other employee-related expenses	\$ 287	\$ 1,036	\$ 554
Professional services	0	54	0	66
Relocation and transition costs	0	11	0	32
Total	\$ 287	\$ 1,101	\$ 554	\$ 2,996

Liabilities and expenses below relate to the 2012 exit and restructuring plan (in thousands):

	Six Months Ended	
	June 28, 2014	June 29, 2013
Balance at beginning of period	\$ 1,252	\$ 967
Charged to earnings	554	2,996
Cash paid	(1,304)	(3,175)
Balance at the end of period	\$ 502	\$ 788

Liabilities related to exit and restructuring activities are included in the accrued liabilities line item on the balance sheet. All exit costs are included in operating expenses under the line item exit and restructuring costs.

Note 9 Derivative Instruments

Portions of our operations are subject to fluctuations in currency values. We manage these risks using derivative financial instruments. We conduct business on a multinational basis in a wide variety of foreign currencies. Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries, foreign currency denominated monetary assets and liabilities and transactions arising from international trade. Our objective is to preserve the economic value of non-functional currency denominated cash flows. We attempt to hedge transaction exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign exchange forward and option contracts with third parties.

In addition, we have exposure to market risk for changes in interest rates resulting from the announced acquisition of the Enterprise business of Motorola Solutions, Inc. During the three months ended June 28, 2014, we entered into a commitment letter for a new variable rate credit facility to fund the announced acquisition and we also entered into two tranches of floating-to-fixed forward interest rate swaps to economically hedge the interest rate risk.

The fair value of the forward interest rate swap contracts are estimated using market quoted forward interest rates for the London Interbank Offered Rate LIBOR at the balance sheet date and the application of such rates subject to the interest rate swap terms. In accordance with ASC 815 we recognize derivative instruments and hedging activities as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting.

Credit and market risk

Financial instruments, including derivatives, expose us to counter party credit risk for nonperformance and to market risk related to interest and currency exchange rates. We manage our exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. Our counterparties in derivative transactions are commercial banks with significant experience using derivative instruments. We monitor the impact of market risk on the fair value and cash flows of our derivative and other financial instruments considering reasonably possible changes in interest rates and currency exchange rates and restrict the use of derivative financial instruments to hedging activities. We continually monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. The terms and conditions of our credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer.

Fair Value of Derivative Instruments

Zebra has determined that derivative instruments for hedges that have traded but have not settled are considered Level 1 in the fair value hierarchy, and hedges that have not traded are considered Level 2 in the fair value hierarchy. Derivative instruments are used to manage risk and are not used for trading or other speculative purposes, nor do we use leveraged derivative financial instruments. Our foreign currency exchange and forward interest-rate swap contracts are valued using broker quotations or market transactions, in either the listed or over-the-counter markets.

Hedging of Net Assets

We use forward contracts to manage exposure related to our pound and euro denominated net assets. Forward contracts typically mature within three months after execution of the contracts. We record gains and losses on these contracts and options in income each quarter along with the transaction gains and losses related to our net asset positions, which would ordinarily offset each other.

Summary financial information related to these activities included in our consolidated statement of earnings as other income (expense) is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Change in gains (losses) from foreign exchange derivatives	\$ 516	\$ (862)	\$ 541	\$ 719
Gain (loss) on net foreign currency assets	(473)	400	(790)	(1,279)
Foreign exchange gain (loss)	\$ 43	\$ (462)	\$ (249)	\$ (560)

	June 28, 2014	As of December 31, 2013
Notional balance of outstanding contracts:		
Pound/US dollar	£ 835	£ 0
Euro/US dollar	36,600	41,021
Net fair value of outstanding contracts	\$ 70	\$ 33

Hedging of Anticipated Sales

We manage the exchange rate risk of anticipated euro-denominated sales using purchased options, forward contracts, and participating forwards. We designate these contracts as cash flow hedges which mature within twelve months after the execution of the contracts. Gains and losses on these contracts are deferred in other comprehensive income until the contracts are settled and the hedged sales are realized. The deferred gains or losses will then be reported as an increase or decrease to sales.

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

	June 28, 2014	As of June 29, 2013
Unrealized gains on hedging transactions:		
Gross	\$ 1,779	\$ 1,760
Income tax expense	390	408
Net	\$ 1,389	\$ 1,352

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

	June 28, 2014	As of December 31, 2013
Notional balance of outstanding contracts versus the dollar	91,463	85,627
Hedge effectiveness	100%	100%

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net losses included in net sales	\$ (957)	\$ (900)	\$ (1,928)	\$ (1,947)

Forward Contracts

We record our forward contracts at fair value on our consolidated balance sheet as a current asset or current liability, depending upon the fair value calculation as detailed in Note 2 of Zebra's financial statements. The amounts recorded on our consolidated balance sheet are as follows (in thousands):

	June 28, 2014	As of December 31, 2013
Assets:		
Prepaid expenses and other current assets	\$ 401	\$ 0
Total	\$ 401	\$ 0
Liabilities:		
Accrued liabilities	\$ 0	\$ 2,743
Total	\$ 0	\$ 2,743

Forward Interest Rate Swaps

The forward interest rate swap contracts economically hedge the interest rate risk associated with the variable rate commitment entered into for the announced acquisition of the Enterprise business of Motorola Solutions, Inc.

These forward interest rate swaps did not qualify for hedge accounting as of June 28, 2014, and as such, were recognized at their fair value through the Statement of earnings in other income (expense).

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Loss on forward interest-rate swaps	\$ (2,433)	\$ 0	\$ (2,433)	\$ 0

	As of	
	June 28, 2014	December 31, 2013
Liabilities:		
Other long-term liabilities	\$ 2,433	\$ 0
Total	\$ 2,433	\$ 0

Note 10 Warranty

In general, Zebra provides warranty coverage of one year on printers against defects in material and workmanship. Thermal printheads are warranted for six months and batteries are warranted for one year. Battery-based products, such as location transmitters, are covered by a 90-day warranty. A provision for warranty expense is recorded at the time of sale and is adjusted quarterly based on historical warranty experience.

The following table is a summary of Zebra's accrued warranty obligation (in thousands), which is included in accrued liabilities:

	Six Months Ended	
	June 28, 2014	June 29, 2013
Balance at the beginning of the year	\$ 4,125	\$ 4,252
Warranty expense	3,648	3,615
Warranty payments	(3,587)	(3,564)
Balance at the end of the period	\$ 4,186	\$ 4,303

Note 11 Contingencies

We are subject to a variety of investigations, claims, suits and other legal proceedings that arise from time to time in the ordinary course of business, including but not limited to, intellectual property, employment, tort and breach of contract matters. We currently believe that the outcomes of such proceedings, individually and in the aggregate, will not have a material adverse impact on our business, cash flows, financial position, or results of operations. Any legal proceedings are subject to inherent uncertainties, and management's view of these matters and their potential effects may change in the future.

Note 12 Stockholders Equity

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

	As of	
	June 28, 2014	December 31, 2013
Preferred Stock		
Par value per share	\$ 0.01	\$ 0.01
Shares authorized	10,000,000	10,000,000
Shares outstanding	0	0
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	50,750,084	50,349,546
Treasury stock		
Shares held	21,401,773	21,802,311

During the six months period ended June 29, 2013, Zebra purchased 627,042 shares of common stock for \$28,563,000 under a board authorized share repurchase plan. Zebra did not purchase shares of its common stock for the six months ended June 28, 2014.

A roll forward of Class A common shares outstanding is as follows:

	Six Months Ended	
	June 28, 2014	June 29, 2013
Balance at the beginning of the year	50,349,546	50,908,267
Repurchases	0	(627,042)
Stock option and ESPP issuances	351,711	431,973
Restricted share issuances	117,140	238,325
Restricted share forfeitures	(5,258)	(5,008)
Shares withheld for tax obligations	(63,055)	(164,515)
Balance at the end of the period	50,750,084	50,782,000

Note 13 Earnings Per Share

Earnings per share were computed as follows (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Weighted average shares:				
Weighted average common shares outstanding	50,606	50,900	50,509	50,929
Effect of dilutive securities outstanding	672	383	620	381
Diluted weighted average shares outstanding	51,278	51,283	51,129	51,310
Earnings (loss):				
Income from continuing operations	\$ 27,557	\$ 30,558	\$ 69,163	\$ 54,100
Income from discontinued operations	0	8	0	8
Net income	\$ 27,557	\$ 30,566	\$ 69,163	\$ 54,108
Basic per share amounts:				
Income from continuing operations	\$ 0.54	\$ 0.60	\$ 1.37	\$ 1.06
Income from discontinued operations	0.00	0.00	0.00	0.00
Net income	\$ 0.54	\$ 0.60	\$ 1.37	\$ 1.06
Diluted per share amounts:				
Income from continuing operations	\$ 0.54	\$ 0.60	\$ 1.35	\$ 1.05
Income from discontinued operations	0.00	0.00	0.00	0.00
Net income	\$ 0.54	\$ 0.60	\$ 1.35	\$ 1.05

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Potentially dilutive shares	166,000	899,000	166,000	905,000

Note 14 Share-Based Compensation

Zebra has a share-based compensation plan and a stock purchase plan available for future grants. Zebra recognizes compensation costs using the straight-line method over the vesting period of up to 5 years.

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Cost of sales	\$ 241	\$ 276	\$ 483	\$ 460
Selling and marketing	516	541	1,069	1,006
Research and development	374	459	740	784
General and administrative	3,013	3,082	4,818	4,254

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Total compensation	\$ 4,144	\$ 4,358	\$ 7,110	\$ 6,504
Income tax benefit	\$ 1,442	\$ 1,523	\$ 2,435	\$ 2,253

Cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized (excess tax benefits) are classified as financing cash flows in the statement of cash flows. The tax benefits classified as financing cash flows for the six months ended June 28, 2014 was \$3,947,000 and for the six months ended June 29, 2013 was \$3,727,000.

The fair value of share-based compensation is estimated on the date of grant using a binomial model. Volatility is based on an average of the implied volatility in the open market and the annualized volatility of Zebra stock prices over our entire stock history. Stock option grants in the table below include both stock options, all of which were non-qualified and stock appreciation rights (SAR) that will be settled in Zebra stock. Restricted stock grants are valued at the market closing price on the date of the grant. The following table shows the weighted-average assumptions used for grants of SARs as well as the fair value of the grants based on those assumptions:

	Six Months Ended	
	June 28, 2014	June 29, 2013
Expected dividend yield	0%	0%
Forfeiture rate	10.32%	10.31%
Volatility	34.92%	32.00%
Risk free interest rate	1.73%	.82%
Range of interest rates	0.02% - 2.61%	0.02% - 1.78%
Expected weighted-average life	5.36 years	5.42 years
Fair value of stock appreciation rights (SARs) granted	\$ 4,211,000	\$ 4,443,000
Weighted-average grant date fair value of SARs granted	\$ 25.02	\$ 13.83

Stock option activity was as follows:

	Six Months Ended June 28, 2014	
	Shares	Weighted-Average Exercise Price
Options		
Outstanding at beginning of year	955,777	\$ 42.78
Exercised	(263,659)	45.38
Outstanding at end of period	692,118	\$ 41.79
Exercisable at end of period	692,118	\$ 41.79
Intrinsic value of exercised options	\$ 6,308,000	

The following table summarizes information about stock options outstanding at June 28, 2014:

Aggregate intrinsic value	Outstanding \$ 17,480,000	Exercisable \$ 17,480,000
Weighted-average remaining contractual term	2.2 years	2.2 years

SAR activity was as follows:

	Six Months Ended June 28, 2014	
	Shares	Weighted-Average Exercise Price
SARs		
Outstanding at beginning of year	1,402,784	\$ 36.36
Granted	168,314	74.72
Exercised	(145,077)	35.21
Forfeited	(14,936)	48.62
Outstanding at end of period	1,411,085	\$ 40.92
Exercisable at end of period	705,246	\$ 32.96

Intrinsic value of exercised SARs	\$ 5,510,000
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The terms of the SARs are established under either the 2006 Incentive Compensation Plan or the 2011 Long-term Incentive Plan (the Plans) and the applicable SAR agreement. Once vested, a SAR entitles the holder to receive a payment equal to the difference between the per-share grant price of the SAR and the fair market value of a share of Zebra stock on the date the SAR is exercised, multiplied by the number of SARs exercised. Exercised SARs are settled in whole shares of Zebra stock, and any fraction of a share is settled in cash. The SARs granted typically vest annually in four equal amounts on each of the first four anniversaries of the grant date, with some SARs vesting over a period of five years. All SARs expire 10 years after the grant date.

The following table summarizes information about SARs outstanding at June 28, 2014:

	Outstanding	Exercisable
Aggregate intrinsic value	\$ 38,132,000	\$ 24,039,000
Weighted-average remaining contractual term	7.4 years	6.5 years

Restricted stock award activity granted under the Plans, are as follows:

	Six Months Ended June 28, 2014	
	Shares	Weighted-Average Grant Date Fair Value
Restricted Stock Awards		
Outstanding at beginning of year	435,377	\$ 40.92
Granted	110,097	74.26
Released	(144,602)	43.50
Forfeited	(6,669)	51.18
Outstanding at end of period	394,203	\$ 49.12

The terms of Zebra's restricted stock grants are defined in the Plans and the applicable award agreements. Restricted grants consist of time vested restricted stock awards (RSA's), restricted stock units (RSU's) and performance share awards (PSA's). Zebra's restricted stock awards and units are expensed over the vesting period of the related award, typically three to five years. Compensation cost is calculated as the market date fair value on the grant date multiplied by the number of shares granted. Restricted stock units of 8,992 were granted in the second quarter of 2014.

Performance share award activity granted under the Plans, are as follows:

	Six Months Ended June 28, 2014	
	Shares	Weighted-Average Grant Date Fair Value
Performance Share Awards		
Outstanding at beginning of year	195,159	\$ 42.25
Granted	4,323	69.41
Released	(33,535)	41.45
Forfeited	(20,555)	41.45
Outstanding at end of period	145,392	\$ 43.36

	As of June 28, 2014
Awards granted under Zebra's equity-based compensation plans:	
Unearned compensation costs related to awards granted	\$ 20,875,000
Period expected to be recognized over	2.5 years

The fair value of the 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 28, 2014	June 29, 2013
Fair market value	\$ 60.06	\$ 40.94
Option price	\$ 57.06	\$ 38.89
Expected dividend yield	0%	0%
Expected volatility	34%	18%
Risk free interest rate	0.06%	0.06%

Note 15 Income Taxes

Zebra has identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. Included in deferred tax assets are amounts related to federal and state net operating losses that resulted from our acquisition of WhereNet Corp in 2007. We intend to utilize these net operating loss carryforwards to offset future income taxes prior to expiration. Under the United States Tax Reform Act of 1986, the amount of benefits from net operating loss carryforwards may be impaired or limited in certain circumstances, including significant changes in ownership interests. The company has reviewed the impact of ownership changes and believes that this will not have an impact on the realizability on the related Deferred Tax Asset recorded as of June 28, 2014.

Zebra earns a significant amount of our operating income outside of the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. We do not intend to repatriate funds. Repatriation would result in higher effective tax rates. Borrowing in the U.S. would result in increased interest expense.

In 2014, we completed an audit of the 2011 and 2012 US federal income tax returns with no material impact on the financial statements. Various tax years remain open to examination by multiple state taxing jurisdictions. Tax authorities in the United Kingdom have completed income tax audits for tax years through 2011 with no material impact on the financial statements.

At June 28, 2014 Zebra's unrealized tax benefit was \$4,000. Zebra's continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense. For the six months ended June 28, 2014 and June 29, 2013, we did not accrue any interest or penalties into income tax expense.

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Effective tax rate	11.1%	19.0%	18.2%	18.6%

The effective income tax rate for the first six months of 2014 was 18.2% compared with 18.6% for 2013. In order to streamline the management, financing and capital structure of its foreign affiliates, in 2012, Zebra established a foreign holding company and restructured the ownership of its foreign affiliates. This new holding company structure allows Zebra to consolidate the ownership of its significant foreign affiliates under a single holding company. In addition, the structure introduced leverage which gives Zebra the ability to facilitate cash pooling and improve the capital structure of its non-US operations. The new capital structure and global financing favorably impacts the Zebra's effective tax rate, and facilitates the tax efficient movement of Zebra's foreign cash to finance the ongoing operating and investment needs of the foreign subsidiaries. The restructuring was completed in the second quarter of 2012 and was in place for the full year in 2013. Income tax expense for the second quarter of 2014 includes a discrete charge of \$2.55 million related to the acquisition expenses incurred for which no tax benefit was recorded. These acquisition expenses relate to the recent announcement that Zebra entered into a definitive agreement to acquire substantially all of the Enterprise business of Motorola Solutions, Inc.

Note 16 Other Comprehensive Income

Stockholders' equity includes certain items classified as accumulated other comprehensive income (AOCI), including:

Unrealized gains (losses) on hedging transactions 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 9 for more details.

Unrealized gains (losses) on investments are deferred from income statement recognition until the gains or losses are realized.

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, period-end, and average foreign exchange rates. This combination of rates creates the foreign currency translation adjustment component of other comprehensive income.

The components of other comprehensive income for the three months ended June 28, 2014 are as follows (in thousands):

	As of March 29, 2014	Gain (Loss) recognized in OCI	Gain (Loss) reclassified from AOCI to income	Three months ended June 28, 2014	As of June 28, 2014
Unrealized gains (losses) on hedging transactions:					
Gross	\$ (1,593)	\$ 1,816	\$ (817)(1)	\$ 999	\$ (594)
Income tax (benefit)	(342)	398	(175)	223	(119)
Net	(1,251)	1,418	(642)	776	(475)
Unrealized gains (losses) on investments:					
Gross	51	482	(7)(2)	475	526
Income tax (benefit)	(19)	132	(5)	127	108
Net	70	350	(2)	348	418
Foreign currency translation adjustments	(8,006)	(29)	0(3)	(29)	(8,035)
Total accumulated other comprehensive loss	\$ (9,187)	\$ 1,739	\$ (644)	\$ 1,095	\$ (8,092)
	As of March 30, 2013	Gain (Loss) recognized in OCI	Gain (Loss) reclassified from AOCI to income	Three months ended June 29, 2013	As of June 29, 2013
Unrealized gains (losses) on hedging transactions:					
Gross	\$ (311)	\$ 366	\$ (876)(1)	\$ (510)	\$ (821)
Income tax (benefit)	(72)	100	(219)	(119)	(191)
Net	(239)	266	(657)	(391)	(630)
Unrealized gains (losses) on investments:					
Gross	432	(1,371)	95(2)	(1,276)	(844)
Income tax (benefit)	126	(436)	27	(409)	(283)
Net	306	(935)	68	(867)	(561)
Foreign currency translation adjustments	(8,627)	114	109(3)	223	(8,404)

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Total accumulated other comprehensive loss	\$ (8,560)	\$ (555)	\$ (480)	\$ (1,035)	\$ (9,595)
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- (1) Transfer of unrealized gains and (losses) from AOCI to income on hedging transactions are included in net sales of tangible products.
- (2) Transfer of unrealized gains and (losses) from AOCI to income on investments are included in investment income.
- (3) Transfer of foreign currency translation gains and (losses) from AOCI to income, are included in foreign exchange.

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The components of other comprehensive income for the six months ended June 28, 2014 are as follows (in thousands):

	As of December 31, 2013	Gain (Loss) recognized in OCI	Gain (Loss) reclassified from AOCI to income	Six months ended June 28, 2014	As of June 28, 2014
Unrealized gains (losses) on hedging transactions:					
Gross	\$ (2,373)	\$ 3,588	\$ (1,809)(1)	\$ 1,779	\$ (594)
Income tax (benefit)	(509)	779	(389)	390	(119)
Net	(1,864)	2,809	(1,420)	1,389	(475)
Unrealized gains (losses) on investments:					
Gross	(151)	603	74(2)	677	526
Income tax (benefit)	(73)	161	20	181	108
Net	(78)	442	54	496	418
Foreign currency translation adjustments	(7,839)	(189)	(7)(3)	(196)	(8,035)
Total accumulated other comprehensive loss	\$ (9,781)	\$ 3,062	\$ (1,373)	\$ 1,689	\$ (8,092)

	As of December 31, 2012	Gain (Loss) recognized in OCI	Gain (Loss) reclassified from AOCI to income	Six months ended June 29, 2013	As of June 29, 2013
Unrealized gains (losses) on hedging transactions:					
Gross	\$ (2,581)	\$ 3,658	\$ (1,898)(1)	\$ 1,760	\$ (821)
Income tax (benefit)	(599)	882	(474)	408	(191)
Net	(1,982)	2,776	(1,424)	1,352	(630)
Unrealized gains (losses) on investments:					
Gross	540	(1,658)	274(2)	(1,384)	(844)
Income tax (benefit)	162	(530)	85	(445)	(283)
Net	378	(1,128)	189	(939)	(561)
Foreign currency translation adjustments	(8,721)	208	109(3)	317	(8,404)
Total accumulated other comprehensive loss	\$ (10,325)	\$ 1,856	\$ (1,126)	\$ 730	\$ (9,595)

- (1) Transfer of unrealized gains and (losses) from AOCI to income on hedging transactions are included in net sales of tangible products.
- (2) Transfer of unrealized gains and (losses) from AOCI to income on investments are included in investment income.
- (3) Transfer of foreign currency translation gains and (losses) from AOCI to income, are included in foreign exchange.

Note 17 New Accounting Pronouncements

In May 2014, the FASB issued update 2014-09, ASC 606, *Revenue from Contracts with Customers*. This guidance is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This standard is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Management is still assessing the impact of adoption on its consolidated financial statements.

Note 18 Subsequent Event

During 2012, Zebra established a foreign holding company and restructured the ownership structure of its foreign affiliates. The new structure introduced leverage which favorably impacted Zebra's effective tax rate and the Company recorded a benefit of \$6.1 million during the first two quarters of 2014. However, the change in UK tax code, signed into law on July 17, 2014, will impact the tax position of the Company due to limitations on interest deductions and the Company expects to record a discrete charge of \$6.1 million in the third quarter of 2014. This discrete charge is expected to be fully offset in the fourth quarter of 2014, if the Company is able to close the recently announced acquisition transaction of the Enterprise business of Motorola Solutions, Inc. in 2014. In addition, if this is the case, the interest deduction currently disallowed in Q3 will be taken as a benefit in Q4. At this time, the Company expects the acquisition transaction to close in 2014 and will record the full year tax benefit in the fourth quarter of 2014.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations: Second Quarter of 2014 versus Second Quarter of 2013

Consolidated Results of Operations

(Amounts in thousands, except percentages):

	Three Months Ended			Percent of Net Sales - 2014	Percent of Net Sales - 2013
	June 28, 2014	June 29, 2013	Percent Change		
Net Sales					
Net sales of tangible products	\$ 270,049	\$ 239,909	12.6	93.6	94.8
Revenue from services & software	18,372	13,251	38.6	6.4	5.2
Total net sales	288,421	253,160	13.9	100.0	100.0
Cost of Sales					
Cost of sales of tangible products	136,962	125,664	9.0	47.5	49.6
Cost of services & software	9,290	6,589	41.0	3.2	2.6
Total cost of sales	146,252	132,253	10.6	50.7	52.2
Gross profit	142,169	120,907	17.6	49.3	47.8
Operating expenses	109,104	84,666	28.9	37.8	33.5
Operating income	33,065	36,241	(8.8)	11.5	14.3
Other income (loss)	(2,068)	1,475	N/M	(0.8)	0.6
Income from continuing operations before income taxes	30,997	37,716	(17.8)	10.7	14.9
Income taxes	3,440	7,158	(51.9)	1.1	2.8
Income from continuing operations	27,557	30,558	(9.8)	9.6	12.1
Income from discontinued operations, net of tax	0	8	N/M	0.0	0.0
Net income	\$ 27,557	\$ 30,566	(9.8)	9.6	12.1
Diluted earnings per share:					
Income from continuing operations	\$ 0.54	\$ 0.60	(10.0)		
Income from discontinued operations	0.00	0.00	N/M		
Net income	\$ 0.54	\$ 0.60	(10.0)		

Consolidated Results of Operations - Second Quarter

Sales

Net sales for the second quarter of 2014, compared with the corresponding 2013 quarter, increased 13.9% as a result of growth across all product categories with notable increases in supplies, services, and tabletop, desktop and mobile printers. The increase in service revenue was favorably affected by the December 2013 acquisition of Hart Systems LLC. The increase in North American sales was favorably affected by higher shipments of large enterprise deals, as well as, modest revenues from Hart Systems. The Europe, Middle East and Africa region benefited from improved business activity, with notable sales to retail customers. Movement in foreign currency, net of hedges, increased sales by \$3,523,000.

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

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Three Months Ended

Product			Percent	Percent	Percent of
Category	June 28, 2014	June 29, 2013	Change	of	Percent of
				Net Sales 2014	Net Sales 2013
Hardware	\$ 203,215	\$ 178,938	13.6	70.5	70.8
Supplies	65,279	59,618	9.5	22.6	23.5
Service and software	18,372	13,251	38.6	6.4	5.2
Subtotal products	286,866	251,807	13.9	99.5	99.5
Shipping and handling	1,555	1,353	14.9	0.5	0.5
Total net sales	\$ 288,421	\$ 253,160	13.9	100.0	100.0

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

Geographic Region	Three Months Ended			Percent of Net Sales 2014	Percent of Net Sales 2013
	June 28, 2014	June 29, 2013	Percent Change		
Europe, Middle East and Africa	\$ 94,200	\$ 80,913	16.4	32.7	32.0
Latin America	25,204	24,322	3.6	8.7	9.6
Asia-Pacific	40,334	36,973	9.1	14.0	14.6
Total International	159,738	142,208	12.3	55.4	56.2
North America	128,683	110,952	16.0	44.6	43.8
Total net sales	\$ 288,421	\$ 253,160	13.9	100.0	100.0

Gross Profit

Gross margin of 49.3%, versus 47.8% for 2013, reflects the favorable impact of lower product costs, improved absorption of fixed costs from higher sales across all regions and across all product categories, and a reduction in freight costs. Favorable movements in foreign currency, net of hedges, increased second quarter gross profit by \$1,867,000.

Operating Expenses

Operating expenses for the second quarter increased 28.9%, primarily due to increased compensation and amortization costs as a result of the December 2013 acquisition of Hart Systems LLC, as well as acquisition costs related to the pending acquisition of substantially all of the Enterprise business of Motorola Solutions announced in April 2014. Acquisition and integration costs consist of transactions costs and integration costs.

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

Operating Expenses	Three Months Ended			Percent of Net Sales 2014	Percent of Net Sales 2013
	June 28, 2014	June 29, 2013	Percent Change		
Selling and marketing	\$ 35,755	\$ 33,830	5.7	12.4	13.5
Research and development	23,710	23,201	2.2	8.2	9.2
General and administrative	26,321	24,053	9.4	9.1	9.5
Amortization of intangible assets	2,667	1,863	4.2	0.9	0.7
Acquisition and integration costs	20,364	618	N/M	7.1	0.2
Exit and restructuring costs	287	1,101	(73.9)	0.1	0.4
Total operating expenses	\$ 109,104	\$ 84,666	28.9	37.8	33.5

Income Taxes

Effective income tax rate of 11.1% reflects the effect of acquisition and integration costs on income primarily in the U.S. These higher costs are resulting in a higher than normal percentage of income jurisdictions that have lower effective income tax rates.

Loss on Forward Rate Swaps

We entered into two tranches of forward interest rate swaps that will economically hedge the planned indebtedness related to the pending acquisition of the Enterprise business of Motorola Solutions announced in April 2014. The forward interest rate yield curve decreased between the time we traded the interest rate swaps and the second quarter close. Other expense for the second quarter increased principally due to the

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Loss on forward interest rate swap contracts. Accordingly, a loss of \$2,433,000 was recognized in the Statement of Earnings as the swaps did not qualify for hedge accounting as of the second quarter close.

Results of Operations: Six months ended June 28, 2014 versus six months ended June 29, 2013**Consolidated Results of Operations**

(Amounts in thousands, except percentages):

	Six Months Ended		Percent Change	Percent of Net Sales - 2014	Percent of Net Sales - 2013
	June 28, 2014	June 29, 2013			
Net sales					
Net sales of tangible products	\$ 531,941	\$ 465,030	14.4	92.2	94.9
Revenue from services & software	44,748	25,067	78.5	7.8	5.1
Total net sales	576,689	490,097	17.7	100.0	100.0
Cost of Sales					
Cost of sales of tangible products	267,411	242,775	10.1	46.4	49.6
Cost of services & software	19,171	13,350	43.6	3.3	2.7
Total cost of sales	286,582	256,125	11.9	49.7	52.3
Gross profit	290,107	233,972	24.0	50.3	47.7
Operating expenses	203,634	169,555	20.1	35.3	34.6
Operating income	86,473	64,417	34.2	15.0	13.1
Other income (loss)	(1,931)	2,063	N/M	(0.3)	0.4
Income from continuing operations before income taxes	84,542	66,480	27.2	14.7	13.5
Income taxes	15,379	12,380	24.2	2.7	2.5
Income from continuing operations	69,163	54,100	27.8	12.0	11.0
Income from discontinued operations, net of tax	0	8	N/M	0.0	0.0
Net Income	\$ 69,163	\$ 54,108	27.8	12.0	11.0
Diluted earnings per share					
Income from continuing operations	\$ 1.35	\$ 1.05	28.6		
Income from discontinued operations	0.00	0.00	N/M		
Net income	\$ 1.35	\$ 1.05	28.6		

Consolidated Results of Operations Year to date**Sales**

Net sales for the first six months of 2014, compared with the corresponding 2013 period, increased 17.7% as a result of growth across all region and across all product categories, with notable increases in supplies, service contracts, and tabletop, desktop and mobile printers. Increased services and software revenue is primarily due to growth in services revenue attributable to both organic growth and the December 2013 acquisition of Hart Systems. The Europe, Middle East and Africa region benefited from improved business activity, with notable sales to retail customers. Movement in foreign currency, net of hedges, increased sales growth by \$6,691,000.

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

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Six Months Ended

Product			Percent	Percent	Percent of
Category	June 28, 2014	June 29, 2013	Change	of	2014 Net Sales
				Net Sales	2013
Hardware	\$ 399,432	\$ 345,630	15.6	69.3	70.6
Supplies	128,783	116,741	10.3	22.3	23.8
Service and software	44,748	25,067	78.5	7.8	5.1
Subtotal products	572,963	487,438	17.5	99.4	99.5
Shipping and handling	3,726	2,659	40.1	0.6	0.5
Total net sales	\$ 576,689	\$ 490,097	17.7	100.0	100.0

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

Geographic Region	Six Months Ended		Percent Change	Percent of Net Sales	Percent of 2014 Net Sales	Percent of 2013 Net Sales
	June 28, 2014	June 29, 2013				
Europe, Middle East and Africa	\$ 185,639	\$ 158,586	17.1	32.2	32.4	32.4
Latin America	50,844	47,454	7.1	8.8	9.7	9.7
Asia-Pacific	78,301	69,882	12.0	13.6	14.3	14.3
Total International	314,784	275,922	14.1	54.6	56.4	56.4
North America	261,905	214,175	22.3	45.4	43.6	43.6
Total net sales	\$ 576,689	\$ 490,097	17.7	100.0	100.0	100.0

Gross Profit

Gross margin of 50.3%, versus 47.7% for 2013, reflects the favorable impact of lower product costs, improved absorption of fixed costs, lower freight costs, and revenue related to the December 2013 acquisition of Hart Systems LLC. Favorable movements in foreign currency, net of hedges, increased sales for the first half of 2014 by \$4,121,000.

Operating Expenses

Operating expenses for the first six months of 2014 increased 20.1% primarily as a result of increased compensation and amortization costs from the December 2013 acquisition of Hart Systems LLC, as well as acquisition costs related to the pending acquisition of substantially all of the Enterprise business of Motorola Solutions announced in April 2014. Acquisition and integration costs consist of transaction costs and integration costs.

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

Operating Expenses	Six Months Ended		Percent Change	Percent of Net Sales 2014	Percent of Net Sales 2013
	June 28, 2014	June 29, 2013			
Selling and marketing	\$ 71,171	\$ 67,345	5.7	12.3	13.7
Research and development	46,567	45,059	3.3	8.1	9.2
General and administrative	54,712	49,329	10.9	9.5	10.1
Amortization of intangible assets	5,339	3,726	43.3	0.9	0.8
Acquisition and integration costs	25,291	1,100	N/M	4.4	0.2
Exit and restructuring costs	554	2,996	(81.5)	0.1	0.6
Total operating expenses	\$ 203,634	\$ 169,555	20.1	35.3	34.6

Income Taxes

The effective income tax rate for the first six months of 2014 was 18.2% compared with 18.6% for the first six months of 2013.

Loss on Forward Rate Swaps

Other expense for the first six months of 2014 increased principally due to the Loss on forward interest rate swap contracts of \$2,433,000 that was recognized in the second quarter close. Refer to the discussion above under the results of operations for the three months ended June 28, 2014.

Liquidity and Capital Resources

(Amounts in thousands, except percentages):

Rate of Return Analysis:	Six Months Ended	
	June 28, 2014	June 29, 2013
Average cash and marketable securities balances	\$ 472,188	\$ 424,057
Annualized rate of return	0.3%	0.5%

As of June 28, 2014, Zebra had \$528,581,000 in cash and investments and marketable securities, compared with \$415,795,000 at December 31, 2013. Factors affecting cash and investment balances during the first six months of 2014 include the following (changes below include the impact of foreign currency):

Accounts receivable decreased \$11,359,000 due to timing of receipts.

Stock option exercises and purchases under the stock purchase plan contributed \$7,711,000.

Zebra earns a significant amount of our operating income outside of the U.S., which is deemed to be permanently reinvested in foreign jurisdictions.

On April 14, 2014, Zebra entered into a definitive agreement under which Zebra will acquire substantially all of the Enterprise business of Motorola Solutions, Inc. for \$3.45 billion in an all-cash transaction. Zebra intends to fund the acquisition with a combination of approximately \$200 million of available cash on hand and the issuance of \$3.25 billion in new debt, a portion of which will be subject to variable interest rates. To mitigate our exposure to these variable interest rates, we entered into forward interest rate swap contracts that exchange variable-for-fixed cash flows with a single counterparty. The transaction is subject to customary closing conditions including regulatory approvals. The transaction is expected to be completed by the end of 2014.

Significant Customer

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Customer A	15.5%	15.7%	15.4%	16.1%
Customer B	12.4%	14.2%	12.5%	13.1%
Customer C	11.3%	12.2%	11.8%	12.0%

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

Safe Harbor

Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors which could cause actual results to differ materially from those expressed or implied in such forward looking statements. These forward-looking statements are based on current expectations, forecasts and assumptions and are subject to the risks and uncertainties inherent in Zebra's industry, market conditions, general domestic and international economic conditions and other factors. These factors include:

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

The effect of global market conditions, including North America, Latin America, Asia Pacific, Europe, Middle East and Africa and other regions in which we do business,

Our ability to control manufacturing and operating costs,

Risks related to the manufacturing of Zebra's products in foreign countries as well as business operations in foreign countries including the risk of depending on key suppliers who are also in foreign countries,

Zebra's ability to purchase sufficient materials, parts and components to meet customer demand, particularly in light of global economic conditions,

The availability of credit and the volatility of capital markets, which may affect our suppliers and customers,

Success of integrating acquisitions, including the Hart Systems business we acquired in December 2013,

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

The impact of the percentage of cash and cash equivalents held outside the United States,

The effect of natural disasters on our business,

The impact of changes in foreign and domestic governmental policies, laws or regulations

Foreign exchange rates due to the large percentage of our international sales and operations,

The outcome of litigation in which Zebra may become involved, particularly litigation or claims related to infringement of third-party intellectual property rights and,

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The outcome of any future tax matters.

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 our Annual Report on Form 10-K for the year ended December 31, 2013, for a further discussion of issues that could affect Zebra's future results. Zebra undertakes no obligation, other than as may be required by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in Zebra's market risk during the quarter ended June 28, 2014. 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, 2013.

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. See Note 9 to the Consolidated Financial Statements included in this report for further discussion of derivative instruments.

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 (the Exchange Act)) as of the end of the period covered by this Form 10-Q. The evaluation was conducted under the supervision of our Disclosure Committee, and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by us in this 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 furnish under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 11 to the Consolidated Financial Statements included in this report.

Item 1A. Risk Factors

Recent Developments

On April 14, 2014, Zebra Technologies Corporation, a Delaware corporation, (Zebra or Company) and Motorola Solutions, Inc., a Delaware corporation (Motorola Solutions), entered into a Master Acquisition Agreement (the Master Acquisition Agreement), an Intellectual Property Agreement and an Employee Matters Agreement (the IP Agreement , Employee Matters Agreement and collectively, the Principal Agreements). Upon the terms and subject to the conditions set forth in the Principal Agreements, which have been approved by our board of directors, we have agreed to acquire (the Acquisition) Motorola Solution s Enterprise business (the Enterprise business). Certain assets of Motorola Solutions relating to the Enterprise business will be excluded from the transaction and retained by it, including Motorola Solution s iDEN infrastructure business and other assets and certain liabilities as specified in the Principal Agreements. The Acquisition is structured as a combination of stock and asset sales and a merger of certain U.S. entities. Upon the closing of the Acquisition, we will pay to Motorola Solutions \$3.45 billion in cash, subject to a working capital adjustment. In addition, we will assume certain liabilities related to the Enterprise business under the terms of the Principal Agreements.

Completion of the Acquisition is subject to various conditions, including, among others, (i) no order or other legal restraint or prohibition being in effect that would prohibit or prevent the transactions from being consummated; (ii) no legal proceeding having been commenced by any governmental entity that seeks to prevent, prohibit or make illegal the transactions to be consummated; (iii) certain specified filings with governmental entities having been made; (iv) all consents and approvals of certain specified governmental entities having been obtained; and (v) the applicable waiting period (and any extensions thereof) under the Hart-Scott-Rodino Antitrust Improvements Act having expired or otherwise having been terminated. Each party s obligation to consummate the Acquisition is also subject to certain additional conditions, including performance in all material respects by the other party of its obligations under the Principal Agreements. The Master Acquisition Agreement contains certain termination rights for both us and Motorola Solutions, including if the initial closing of the Acquisition has not occurred by April 13, 2015.

We intend to fund the Acquisition and the related fees, commissions and expenses with a combination of cash on hand and new financing. Concurrently with the signing of the Master Acquisition Agreement, we entered into a financing commitment letter (the Commitment Letter) with Morgan Stanley Senior Funding, Inc. (the Lender) whereby the Lender committed to fund \$2.0 billion under a new senior secured term loan facility, provide a \$250 million new senior secured revolving credit facility, and up to \$1.25 billion under a bridge facility (less the aggregate proceeds of new unsecured senior notes that would be issued in a Rule 144A offering) (together, the Financing). We expect the Financing, together with cash balances, to be sufficient to provide the financing necessary to consummate the Acquisition. The financing commitment of the Lender is subject to certain conditions set forth in the Commitment Letter.

We have agreed to use reasonable best efforts to obtain the Financing and Motorola Solutions agreed to reasonably cooperate in our efforts to obtain the Financing. There is no financing condition to the Acquisition. However, in the event of a Financing Failure (as defined in the Master Acquisition Agreement) and subsequent termination of the Master Acquisition Agreement, Motorola Solutions may be entitled to a termination fee in the amount of \$250 million as Motorola Solution s sole and exclusive remedy. In circumstances where the fee is not the sole and exclusive remedy, Motorola Solutions will have available to it all other remedies as permitted by the Master Acquisition Agreement.

The foregoing description of the Principal Agreements and Commitment Letter does not purport to be a complete description and is qualified in its entirety by reference to the full text of the Master Acquisition Agreement, the IP Agreement, the Employee Matters Agreement and the Commitment Letter, which were filed as Exhibits 2.1, 10.1, 10.2 and 10.3 to our Form 8-K filed April 16, 2014 and incorporated herein by reference. The Principal Agreements and the Commitment Letter are filed to provide security holders with information regarding their terms. They are not intended to provide any other factual information about us, Motorola Solutions or their respective subsidiaries and affiliates, or the Enterprise business. These agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to each such agreement and (a) are not intended to be treated as categorical statements of fact, but rather as a way of allocating risk to one of the parties if those statements prove to be inaccurate, (b) may have been qualified in the applicable agreement by

confidential disclosure schedules that were delivered to the other party in connection with the signing of the agreements, which disclosure schedules contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in such agreements, (c) may be subject to standards of materiality applicable to the parties that differ from what might be viewed as material to stockholders and (d) were made only as of the date of the agreement or such other date or dates as may be specified in the agreement. Accordingly, investors should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of us, our subsidiaries and affiliates, Motorola Solutions, their subsidiaries and affiliates or the Enterprise business.

Risks Related to the Acquisition

There can be no assurance that the Acquisition will be consummated on the terms or timetable currently anticipated or at all.

Although we expect to close the Acquisition prior to December 31, 2014, there can be no assurance that the acquisition will be consummated on the terms or timetable currently anticipated or at all. In order to consummate the acquisition, we must obtain certain regulatory and other approvals and consents in a timely manner. If these approvals or consents are not received, or they are not received on terms that satisfy the conditions set forth in the Master Acquisition Agreement, then we and/or Motorola Solutions will not be obligated to complete the acquisition. The Master Acquisition Agreement also contains other closing conditions, which may not be satisfied or waived. In addition, under circumstances specified in the Master Acquisition Agreement, we or Motorola Solutions may terminate the Master Acquisition Agreement. There is no financing condition to the Acquisition. However, in the event of a Financing Failure (as defined in the Master Acquisition Agreement) and subsequent termination of the Master Acquisition Agreement, Motorola Solutions may be entitled to a termination fee in the amount of \$250 million as its sole and exclusive remedy. In circumstances where the fee is not the sole and exclusive remedy, Motorola Solutions will have available to it all other remedies as permitted by the Master Acquisition Agreement. Additionally, we will be required to pay significant costs incurred in connection with the Acquisition, including legal, accounting, financial advisory and other costs, whether or not the Acquisition is completed. The occurrence of any of these events individually or in combination could have a material adverse effect on our business, financial condition, operating results, cash flows and growth prospects.

If we do not obtain financing, we will be unable to consummate the Acquisition.

We intend to fund the Acquisition and the related fees, commissions and expenses with a combination of cash on hand and new financing. Concurrently with the signing of the Master Acquisition Agreement, we entered into the Commitment Letter with the Lender to provide Financing for the Acquisition. We currently expect the financing under the Commitment Letter, together with cash balances, to be sufficient to provide the financing necessary to consummate the Acquisition. However, the financing commitment of the Lender is subject to certain conditions set forth in the Commitment Letter and we can provide no assurance that the Lender will ultimately provide the financing contemplated by the Commitment Letter. If the necessary financing is not available pursuant to the Commitment Letter, we will seek alternative sources of financing for the Acquisition. We cannot assure you that any additional financing will be available to us on acceptable terms, if at all. To the extent that financing proves to be unavailable when needed to consummate the Acquisition, we may be unable to complete the Acquisition. See [There can be no assurance that the Acquisition will be consummated on the terms or timetable currently anticipated or at all.](#)

We may be unable to effectively integrate the Enterprise business into our existing business after the Acquisition.

We cannot assure you that we will be able to integrate the Enterprise business effectively into the Company. The integration of the Enterprise business, which is significantly larger than our existing business, into our operations will be a significant undertaking and will require significant attention from our management. The Acquisition, with an approximate enterprise value of \$3.45 billion, is significantly larger than prior acquisitions we have completed and will significantly increase the size of our operations, increase our number of employees and operating facilities and expand our geographic scope. There can be no assurance that we will be able to successfully integrate the Enterprise business, or if such integration is successfully accomplished, that such integration will not be more costly than presently contemplated. There can also be no assurance that we can successfully manage the combined business due to our greatly increased size and scope. If we cannot successfully integrate and manage the Enterprise business within a reasonable time following the Acquisition, we may not be able to realize the potential and anticipated benefits of the acquisition, which could have a material adverse effect on our business, financial condition, operating results, cash flows and growth prospects.

We may be unable to realize the expected growth opportunities and cost savings from the Acquisition.

In connection with the integration of the Enterprise business into our existing operating structure, we will seek to realize growth opportunities, along with cost savings. We currently expect to realize cost savings of approximately \$100 million per year to be fully achieved by 2017. The anticipated cost savings are based upon assumptions about our ability to implement integration measures in a timely fashion and within certain cost parameters. Our ability to achieve the planned cost synergies is dependent upon a significant number of factors, some of which may be beyond our control. For example, we may be unable to eliminate duplicative costs in a timely fashion or at all. Our inability to realize anticipated cost savings, and revenue enhancements from the acquisition could have a material adverse effect on our business, financial condition, operating results, cash flows and growth prospects.

The Acquisition could divert the attention of management.

If we complete the Acquisition, we will be entering new lines of business that we lack experience managing. Similarly, because the Enterprise business is significantly larger than our existing business, we will be required to manage new and larger lines of business, and consequently the integration process will require significant attention from management, which may divert management's attention from our existing businesses. Management may also have difficulty assimilating the corporate cultures, maintaining employee morale and retaining key employees. These diversions, together with other difficulties we may have integrating the Enterprise business, could have a material adverse effect on our business, financial condition, operating results, cash flows and growth prospects.

We may be unable to retain key employees who are currently employed by the Enterprise business.

Generally, employees of the Enterprise business are not contractually obligated to continue their employment with the Enterprise business. Our ability to successfully integrate and operate the Enterprise business depends in part on the continued service of senior management and other key personnel of the Enterprise business. We can provide no assurance that we will be successful in retaining the service of the Enterprise business's senior managers and key employees, and the failure to do so could have a material adverse effect on our ability to integrate the Enterprise business.

The Enterprise business may have liabilities that are not known to us.

As part of the Acquisition, we will assume certain liabilities of the Enterprise business. There may be liabilities that we failed or were unable to discover in the course of performing due diligence investigations into the Enterprise business. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition, operating results, cash flows and growth prospects.

The Acquisition will entitle certain customers of the Enterprise business to terminate their agreements with it as a result of change of control provisions.

The Acquisition may entitle certain Enterprise customers to terminate certain of their agreements with the Enterprise business. We cannot avoid the possibility that some customers may exercise their termination rights and opt to discontinue business with the Enterprise business once we complete the Acquisition, which could have an adverse effect on our expected revenues following the Acquisition.

Moreover, the Acquisition may cause some of our existing customers to conclude that they are overly reliant on a single provider. In such circumstance, our customers may engage our competitors or facilitate the emergence of new competitors to diversify sourcing and service options, which could have an adverse effect on our expected revenues following the Acquisition.

Risks Related to the Indebtedness

In connection with the Acquisition, we will incur substantial debt obligations, which could adversely affect our financial condition.

As of March 29, 2014, after giving pro forma effect to the Acquisition, our total outstanding debt for borrowed money would have been approximately \$3.25 billion, assuming we did not issue any convertible preferred stock to finance the Acquisition. In addition, subject to restrictions in the agreements governing our existing and future indebtedness, we may incur additional indebtedness. Our substantial level of indebtedness could have important consequences, including the following:

it may be more difficult for us to satisfy our obligations with respect to our existing indebtedness or future indebtedness, including indebtedness we incur in connection with the Acquisition;

our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired;

a substantial portion of cash flow from operations will be used to pay interest and principal on the indebtedness, which may reduce the funds available to us for other purposes, such as acquisitions and capital expenditures;

it may limit our ability to borrow additional funds;

result in our being at a competitive disadvantage with reduced flexibility in planning for, or responding to, changing conditions in the industry, including increased competition; and

make us more vulnerable to economic downturns and adverse developments in the business.

We expect to fund our expenses and to pay the principal and interest on our indebtedness from cash flow from operations. Our ability to meet our expenses and to pay principal and interest on our indebtedness when due thus depends on our future performance, which will be affected by financial, business, economic and other factors. We will not be able to control many of these factors, such as economic conditions in the markets where we operate and pressure from competitors. Additionally, we have not previously undertaken substantial amounts of indebtedness. Historically, we have operated our business without incurring significant indebtedness for borrowed money and have limited experience operating our business subject to the constraints imposed by agreements governing such indebtedness.

Despite the indebtedness to be incurred in connection with the Acquisition, we may be able to incur substantially more indebtedness and take other actions that could further exacerbate the risk associated with our substantial indebtedness.

We plan to incur approximately \$3.25 billion of indebtedness in connection with the Acquisition. In addition to the planned financing activities, we may be able to incur substantially more indebtedness in the future, resulting in higher leverage. Subject to the limits contained in the agreements governing our indebtedness, we may incur additional indebtedness from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. To the extent we incur additional indebtedness, the risks associated with our substantial indebtedness will be exacerbated.

Our use of derivative financial instruments to reduce interest rate risk associated with the Acquisition may result in added volatility in our quarterly operating results.

We do not hold or issue derivative financial instruments for trading purposes. However, we do utilize derivative financial instruments to reduce interest rate risk associated with the planned indebtedness for the Acquisition. To manage the planned variable interest rate risk, we entered into forward interest rate swap agreements, which will effectively convert a portion of our planned indebtedness into a fixed rate loan. Under generally accepted accounting principles, the fair values of the swap contracts, which will either be amounts receivable from or payable to counterparties, are reflected as either assets or liabilities on our Consolidated Balance Sheets. We record its fair value change in our Consolidated Statements of Earnings, as a component of Other income (expense). The associated impact on our quarterly operating results is

directly related to changes in prevailing interest rates. If interest rates increase, we would have a non-cash gain on the swaps, and vice versa. Consequently, these swap contracts will introduce volatility to our operating results.

Restrictive covenants in the agreements governing our indebtedness may limit our current and future operations, particularly our ability to respond to changes in our business or to pursue our business strategies.

The agreements governing the indebtedness we expect to incur to fund the Acquisition, and instruments governing any future indebtedness will contain, a number of restrictive covenants that impose significant operating and financial restrictions, including restrictions on our ability to take actions that we believe may be in our interest. We expect these covenants will limit our ability to:

incur additional indebtedness or guarantees;

pay dividends or make other distributions or repurchase or redeem our stock or prepay or redeem certain indebtedness;

sell or dispose of assets and issue capital stock of restricted subsidiaries;

incur liens or enter into sale-lease-back transactions;

enter into agreements restricting our subsidiaries' ability to pay dividends;

enter into transactions with affiliates;

engage in new lines of business;

consolidate, merge or enter into other fundamental changes;

make loans, investments and/or acquisitions; and

enter into amendments or modifications of certain material subordinated debt agreements or organizational documents.

Additionally, the senior credit facility we plan to enter into to fund a portion of the Enterprise acquisition will require us to maintain in certain circumstances compliance with a consolidated total secured net leverage ratio. Our ability to comply with this ratio may be affected by events beyond our control, and we cannot assure you that we will meet this ratio.

The restrictions could adversely affect our ability to:

finance operations;

make needed capital expenditures;

make strategic acquisitions or investments or enter into alliances;

withstand a future downturn in our business or the economy in general;

engage in business activities, including future opportunities, that may be in our interest; and

plan for or react to market conditions or otherwise execute our business strategies.

A breach of any of the covenants contained in the agreements governing the indebtedness (including an inability to comply with the financial maintenance covenants) that is not remedied within the applicable cure period, if any, would result in an event of default under the indebtedness we plan to incur to fund the Acquisition. If, when required, we are unable to repay or refinance our indebtedness or amend the covenants contained in the agreements governing our indebtedness, or if a default otherwise occurs that is not cured or waived, the lenders or holders of our debt securities could elect to declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable or institute foreclosure proceedings against those assets that secure the borrowings. Should the outstanding obligations be accelerated and become due and payable because of any failure to comply with the applicable covenants in the future, we would be required to search for alternative measures to finance current and ongoing obligations of our business. There can be no assurance that such financing will be available on acceptable terms, if at all. Any of these scenarios could adversely impact our liquidity, financial condition and results of operations.

A significant amount of cash will be required to service the indebtedness we plan to incur to fund the Acquisition.

Our ability to make payments on and to refinance the indebtedness we plan to incur to fund the Acquisition and to fund working capital needs, general corporate expenditures and planned capital expenditures will depend on our ability to generate a significant amount of cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control. Additionally, the specific interest rates with respect to the Financing have not been determined, and will not be determined for some time. As a result, we currently do not know with certainty the exact amount of interest expense we will be subject to as a result of the Financing.

If our business does not generate sufficient cash flows from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness on or before the maturity thereof, sell assets, reduce or delay capital investments or seek to raise additional capital, any of which could have a material adverse effect on our operations. In addition, we may

not be able to affect any of these actions, if necessary, on commercially reasonable terms or at all. Our ability to restructure or refinance our indebtedness will depend on the condition of the capital and debt markets and our financial condition at such time. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict business operations. The terms of anticipated or future debt instruments may limit or prevent us from taking any of these actions. In addition, any failure to make scheduled payments of interest and/or principal on outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to access additional capital on commercially reasonable terms or at all. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would have an adverse effect, which could be material, on our business, financial condition and results of operations, as well as on our ability to satisfy the obligations in respect of our indebtedness.

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, 2013, 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, cash flows or results of operations. 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, cash flows and/or results of operations.

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

Treasury Shares

Zebra did not purchase shares of Zebra Class A Common Stock during the second quarter of 2014.

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 programs	Maximum number of shares that may yet be purchased under the program
April 2014 (March 30 - April 26)	0	\$ 0.00	0	665,475
May 2014 (April 27 - May 24)	0	\$ 0.00	0	665,475
June 2014 (May 25 - June 28)	0	\$ 0.00	0	665,475

- (1) On November 4, 2011, Zebra's Board authorized the purchase of up to an additional 3,000,000 shares under our stock repurchase program. This authorization does not have an expiration date.
- (2) During the second quarter, Zebra acquired 60,819 shares of Zebra Class A Common Stock through the withholding of shares necessary to satisfy tax withholding obligations upon the vesting of restricted stock awards. These shares were acquired at an average price of \$72.40 per share.

Item 6. Exhibits

- 10.1 2011 Zebra Technologies Corporation Long-Term Incentive Plan (Amended and Restated as of May 15, 2014). +
- 31.1 Rule 13a-14(a)/15d-14(a) Certification
- 31.2 Rule 13a-14(a)/15d-14(a) Certification
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following financial information from Zebra Technologies Corporation Quarterly Report on Form 10-Q, for the quarter ended June 28, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) the consolidated balance sheets; (ii) the consolidated statements of earnings; (iii) the consolidated statements of comprehensive income; (iv) the consolidated statements of cash flows; and (v) notes to consolidated financial statements.

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 5, 2014

By: /s/ Anders Gustafsson
Anders Gustafsson
Chief Executive Officer

Date: August 5, 2014

By: /s/ Michael C. Smiley
Michael C. Smiley
Chief Financial Officer