ZEBRA TECHNOLOGIES CORP
Form 10-Q
May 06, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended April 3, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number: 000-19406

Zebra Technologies Corporation

(Exact name of registrant as specified in its charter)

Delaware	**36-2675536**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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.

Large accelerated filer x	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 x

As of April 30, 2010, there were 57,730,176 shares of Class A Common Stock, $.01 par value, outstanding.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

QUARTER ENDED APRIL 3, 2010

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	April 3, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,988	$ 38,943
Restricted cash	1,598	1,725
Investments and marketable securities	136,565	114,064
Accounts receivable, net	145,642	150,992
Inventories, net	81,565	79,926
Deferred income taxes	10,561	10,792
Income taxes receivable		4,724
Prepaid expenses and other current assets	14,288	9,771
Total current assets	426,207	410,937
Property and equipment at cost, net of accumulated depreciation and amortization	77,951	77,589
Long-term deferred income taxes	32,643	35,842
Goodwill	152,288	153,225
Other intangibles, net	53,486	55,982
Long-term investments and marketable securities	79,947	91,989
Other assets	4,435	4,915
Total assets	$ 826,957	$ 830,479
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 26,870	$ 28,137
Accrued liabilities	43,322	52,591
Deferred revenue	22,553	24,082
Income taxes payable	423	
Total current liabilities	93,168	104,810
Deferred rent	3,702	4,108
Other long-term liabilities	9,168	9,432
Total liabilities	106,038	118,350
Stockholders equity:		
Preferred Stock		
Class A Common Stock	722	722
Additional paid-in capital	136,143	136,104

Treasury stock	(401,123)	(385,831)
Retained earnings	993,928	969,195
Accumulated other comprehensive loss	(8,751)	(8,061)
Total stockholders equity	720,919	712,129
Total liabilities and stockholders equity	$ 826,957	$ 830,479

See accompanying notes to consolidated financial statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended	
	April 3, 2010	**April 4, 2009**
Net sales		
Net sales of tangible products	$ 202,084	$ 166,684
Revenue from services and software	24,347	25,925
Total net sales	226,431	192,609
Cost of sales		
Cost of sales of tangible products	108,540	95,859
Cost of services and software	10,556	10,941
Total cost of sales	119,096	106,800
Gross profit	107,335	85,809
Operating expenses:		
Selling and marketing	27,500	23,199
Research and development	23,072	22,149
General and administrative	20,869	21,357
Amortization of intangible assets	2,358	2,634
Exit, restructuring and integration costs	1,816	2,296
Total operating expenses	75,615	71,635
Operating income	31,720	14,174
Other income (expense):		
Investment income	842	1,178
Foreign exchange gain (loss)	199	(1,284)
Other, net	(349)	(317)
Total other income (expense)	692	(423)
Income before income taxes	32,412	13,751
Income taxes	7,679	4,399
Net income	$ 24,733	$ 9,352
Basic earnings per share	$ 0.43	$ 0.16

Diluted earnings per share	$	0.42	$	0.16
Basic weighted average shares outstanding		58,016		60,266
Diluted weighted average and equivalent shares outstanding		58,265		60,332

See accompanying notes to consolidated financial statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Three Months Ended April 3, 2010	Three Months Ended April 4, 2009
Cash flows from operating activities:		
Net income	$ 24,733	$ 9,352
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,814	7,953
Equity-based compensation	2,231	3,167
Excess tax benefit from equity-based compensation	(3)	
Gain on sale of assets	(82)	
Deferred income taxes	3,535	3,263
Changes in assets and liabilities:		
Accounts receivable, net	3,990	13,018
Inventories, net	(1,780)	(1,400)
Other assets	224	(244)
Accounts payable	870	(6,539)
Accrued liabilities	(9,118)	(23,946)
Deferred revenue	(1,618)	2,544
Income taxes	4,295	(8,055)
Other operating activities	(4,917)	(327)
Net cash provided by (used in) operating activities	30,174	(1,214)
Cash flows from investing activities:		
Purchases of property and equipment	(5,818)	(6,802)
Acquisition of intangible assets		(425)
Purchases of investments and marketable securities	(89,586)	(57,473)
Maturities of investments and marketable securities	61,144	72,401
Sales of investments and marketable securities	17,736	22,583
Net cash provided by (used in) investing activities	(16,524)	30,284
Cash flows from financing activities:		
Purchase of treasury stock	(20,823)	(28,593)
Proceeds from exercise of stock options and stock purchase plan purchases	4,191	1,168
Excess tax benefit from equity-based compensation	3	
Net cash used in financing activities	(16,629)	(27,425)
Effect of exchange rate changes on cash	24	(213)
Net increase (decrease) in cash and cash equivalents	(2,955)	1,432
Cash and cash equivalents at beginning of period	38,943	33,267

Cash and cash equivalents at end of period	$ 35,988	$ 34,699
Supplemental disclosures of cash flow information:		
Income taxes (refunded) paid	(454)	$ 8,302

See accompanying notes to consolidated financial statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation

Management prepared these unaudited interim consolidated financial statements for Zebra Technologies Corporation and subsidiaries (Zebra) according to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles (GAAP) for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in Zebra s Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

The consolidated balance sheet as of December 31, 2009 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 April 3, 2010, the consolidated results of operations for the three months ended April 3, 2010 and April 4, 2009, and cash flows for the three months ended April 3, 2010 and April 4, 2009. These results, however, are not necessarily indicative of results for the full year.

Reclassifications. Certain amounts in the prior years financial statements have been reclassified to conform to the current year s presentation. For the three months ended April 4, 2009, general and administrative expenses of $523,000 were reclassified to selling and marketing expenses, also, general and administrative expenses of $345,000 were reclassified to research and development expenses. These reclassifications were made to better reflect costs as they relate to their functional areas. Prior period amounts will differ in these categories from amounts previously reported.

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 are four auction rate security instruments. These instruments are classified as available-for-sale securities and are reflected at fair value. Due to events in credit markets, however, the auction events for the instruments held by Zebra as of April 3, 2010, are failed. Therefore, the fair values of these securities are estimated utilizing broker quotations, discounted cash flow analysis or other types of valuation adjustment methodologies at April 3, 2010. 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. These securities were also compared, when possible, to other securities with similar characteristics.

Of the four auction rate security instruments, Zebra deemed one item to be other than temporarily impaired and recorded the market value decline in 2008. The decline in the market value of the other securities 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 these securities until they are sold at auction, redeemed at carrying value or reach maturity, we have classified them as long-term investments on the balance sheet.

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Financial assets and liabilities carried at fair value as of April 3, 2010, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. government and agency securities	$ 24,695	$	$	$ 24,695
Obligations of government-sponsored enterprises (1)	14,392			14,392
State and municipal bonds	154,515		4,133	158,648
Corporate securities	15,827		2,914	18,741
Other investments	36			36
Investments subtotal	209,465		7,047	216,512
Forward contracts (2)	3,896			3,896
Money market investments related to the deferred compensation plan	2,955			2,955
Total assets at fair value	$ 216,316	$	$ 7,047	$ 223,363
Liabilities:				
Liabilities related to the deferred compensation plan	$ 2,968	$	$	$ 2,968
Total liabilities at fair value	$ 2,968	$	$	$ 2,968

Financial assets and liabilities carried at fair value as of December 31, 2009, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. government and agency securities	$ 12,811	$	$	$ 12,811
Obligations of government-sponsored enterprises (1)	10,666			10,666
State and municipal bonds	161,839		4,133	165,972
Corporate securities	13,654		2,914	16,568
Other investments	36			36
Investments subtotal	199,006		7,047	206,053
Forward contracts (2)	851			851
Money market investments related to the deferred compensation plan	3,155			3,155
Total assets at fair value	$ 203,012	$	$ 7,047	$ 210,059
Liabilities:				
Liabilities related to the deferred compensation plan	$ 3,155	$	$	$ 3,155
Total liabilities at fair value	$ 3,155	$	$	$ 3,155

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

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

a. Fair value of forward collar contract associated with forecasted sales hedges are calculated using the midpoint of ask and bid 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 the discount rate (3 month LIBOR rate).
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.

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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 three month periods (in thousands):

	Three Months Ended	
	April 3, 2010	**April 4, 2009**
Balance at beginning of the year	$ 7,047	$ 7,047
Transfers to Level 3		
Total losses (realized or unrealized):		
Included in earnings		
Included in other comprehensive income (loss)		
Purchases and settlements (net)		
Balance at end of period	$ 7,047	$ 7,047
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	$	$

The following is a summary of short-term and long-term investments at April 3, 2010 and December 31, 2009 (in thousands):

	As of April 3, 2010			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. government and agency securities	$ 24,809	$ 53	$ (167)	$ 24,695
Obligations of government-sponsored enterprises	14,310	94	(12)	14,392
State and municipal bonds	158,358	852	(562)	158,648
Corporate securities	18,944	211	(414)	18,741
Other investments	36			36
Total investments	$ 216,457	$ 1,210	$ (1,155)	$ 216,512

	As of December 31, 2009			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. government and agency securities	$ 12,931	$ 45	$ (165)	$ 12,811
Obligations of government-sponsored enterprises	10,589	82	(5)	10,666
State and municipal bonds	165,366	1,177	(571)	165,972
Corporate securities	16,680	306	(418)	16,568
Other investments	36			36
Total investments	$ 205,602	$ 1,610	$ (1,159)	$ 206,053

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

	As of April 3, 2010	
	Amortized Cost	Estimated Fair Value
Less than 1 year	136,800	136,565
1 to 5 years	71,723	72,473
6 to 10 years	1,657	1,699
Thereafter	6,277	5,775
Total	$ 216,457	$ 216,512

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 short maturities.

Note 3 Investments and Marketable Securities

We classify our investments in marketable debt securities as available-for-sale. As of April 3, 2010, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term investments on the balance sheet due to our ability and intent to hold them until maturity.

Changes in the market value of available-for-sale securities are reflected in the accumulated other comprehensive income caption of stockholders equity in the balance sheet, until we dispose of the securities. Once these securities are disposed of, either by sale or maturity, the accumulated changes in market value are transferred to investment income. On the cash flow statements, changes in the balances of *available-for-sale* securities are shown as purchases, sales and maturities of investments and marketable securities under investing activities.

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

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

	Three Months Ended	
	April 3, 2010	April 4, 2009
Changes in unrealized gains and (losses) on available for-sale securities, net of tax, recorded in accumulated other comprehensive income	$ (247)	$ 587

Note 4 Inventories

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

	As of	
	April 3, 2010	December 31, 2009
Raw material	$ 28,492	$ 27,953
Work in process	270	162
Deferred costs of long-term contracts	1,148	1,937
Finished goods	61,141	58,928
Total inventories, gross	91,051	88,980

Inventory reserves	(9,486)	(9,054)
Total inventories, net	$ 81,565	$ 79,926

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Note 5 Goodwill and Other Intangible Asset Data

Intangible asset data are as follows (in thousands):

	April 3, 2010 Gross Carrying Amount	April 3, 2010 Accumulated Amortization	December 31, 2009 Gross Carrying Amount	December 31, 2009 Accumulated Amortization
Amortized intangible assets				
Current technology	$ 31,898	$ (17,965)	$ 32,038	$ (17,071)
Patent and patent rights	13,663	(7,356)	13,663	(6,774)
Customer relationships	44,712	(11,466)	44,822	(10,696)
Total	$ 90,273	$ (36,787)	$ 90,523	$ (34,541)
Aggregate amortization expense				
For the year ended December 31, 2009			$ 10,466	
For the three months ended April 3, 2010	$ 2,358			

	As of April 3, 2010
Estimated amortization expense	
For the year ended December 31, 2010	$ 9,255
For the year ended December 31, 2011	8,842
For the year ended December 31, 2012	8,187
For the year ended December 31, 2013	6,838
For the year ended December 31, 2014	3,858
Thereafter	18,864
Total	$ 55,844

Unamortized intangible assets	April 3, 2010	December 31, 2009
Goodwill at gross cost	$ 265,799	$ 265,799
Impairment charges	(112,184)	(112,184)
Foreign exchange impact	(1,327)	(390)
Goodwill	$ 152,288	$ 153,225

Certain of our intangible assets including goodwill are denominated in foreign currency and, as such, include the effects of foreign currency translation.

We test goodwill for impairment on an annual basis or more frequently if we believe indicators of impairment exist. Factors considered that may trigger an impairment review consist of:

Significant underperformance relative to historical or projected future operating results,

Significant changes in the manner of use of the acquired assets or the strategy for the overall business,

- Significant negative industry or economic trends,

- Significant decline in Zebra s stock price for a sustained period, and

- Significant decline in market capitalization relative to net book value.

If we believe that one or more of the above indicators of impairment have occurred, we perform an impairment test. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. We generally determine the fair value of our reporting units using three valuation methods: Income Approach Discounted Cash Flow Analysis, Market Approach Guideline Public Company Method and Market Approach Comparative Transactions Method. If the carrying amount of a reporting unit exceeds the reporting unit s fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit s goodwill with the carrying value of that goodwill.

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During the fourth quarter of 2008, we determined that certain impairment indicators existed related to identified intangible assets and conducted an additional impairment test of intangibles. Due to the deterioration of the economy and a significant reduction in the price of our stock, we determined that our goodwill and other intangible assets were impaired which resulted in impairment charges.

We performed our annual impairment test in June 2009 and determined that our goodwill was not impaired as of the end of May 2009.

Note 6 Costs Associated with Exit or Disposal Activities

In 2008, we announced plans to establish regional distribution and configuration centers, consolidate our supplier base, and transfer final assembly of thermal printers to Jabil Circuit, Inc., a global third-party electronics manufacturer. These actions are intended to optimize our global printer product supply chain by improving responsiveness to customer needs and increasing Zebra s flexibility to meet emerging business opportunities. As a result, substantially all printer manufacturing in our Vernon Hills, Illinois, and Camarillo, California, facilities has been transferred to Jabil s facility in Guangzhou, China.

As of April 3, 2010, we have incurred and expect to incur the following exit costs (in thousands):

Type of Cost	Cost incurred through December 31, 2009	Costs incurred for the three months ended April 3, 2010	Total costs incurred as of April 3, 2010	Additional costs expected to be incurred	Total costs expected to be incurred
Severance, stay bonuses, and other employee-related expenses	$ 7,633	$ 430	$ 8,063	$ 207	$ 8,270
Professional services	5,915	35	5,950	249	6,199
Relocation and transition costs	8,802	1,306	10,108	362	10,470
Other exit costs	30	45	75	45	120
Total	$ 22,380	$ 1,816	$ 24,196	$ 863	$ 25,059

Included in the above costs incurred for the three month period ended April 3, 2010 is $55,000 related to our Zebra Enterprise Solutions (ZES) segment. These costs are broken down as $10,000 for severance (severance, stay bonuses and other employee-related expenses), and $45,000 for other. The remainder relate to Zebra s Specialty Printing Group (SPG) segment.

For the three-month period ended April 4, 2009, we incurred exit, restructuring and integration costs of $474,000 for severance (severance, stay bonuses and other employee-related expenses), $91,000 for professional services, $1,323,000 for relocation and transition costs, which totaled $1,888,000. Also included in the line item exit, restructuring and integration costs for 2009 are expenses related to an integration project to combine our acquisitions of WhereNet Corp., proveo AG, Navis Holdings, LLC, and Multispectral Solutions, Inc., to form our ZES segment. Expenses related to integrating ZES totaled $0 for the three month period ended April 3, 2010 and $408,000 for the three month period ended April 4, 2009.

Liabilities and expenses related to exit activities were as follows (in thousands):

	Three Months Ended	
	April 3, 2010	April 4, 2009
Balance at beginning of period	$ 3,038	$ 6,378
Charged to earnings	1,816	1,888
Cash paid	(2,322)	(4,125)
Balance at the end of period	$ 2,532	$ 4,141

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

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Note 7 Derivative Instruments

In the normal course of business, 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.

Credit and market risk

Financial instruments, including derivatives, expose us to counterparty 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. Our sales are not materially dependent on a single customer or a small group of customers.

Fair Value of Derivative Instruments

Zebra has determined that derivative instruments for hedges that have settled are considered Level 1 in the fair value hierarchy, and hedges that have not settled 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 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 and options 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	
	April 3, 2010	**April 4, 2009**
Change in gains (losses) from foreign exchange derivatives	$ 3,913	$ 3,252
Gain (loss) on net foreign currency assets	(3,714)	(4,536)
Foreign exchange gain (loss)	$ 199	$ (1,284)

	As of	
	April 3, 2010	**December 31, 2009**
Notional balance of outstanding contracts:		
Pound/US dollar	£ 7,605	£ 7,500
Euro/US dollar	36,404	37,000
Net fair value of outstanding contracts	$ 37	$ (6)

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

	April 3, 2010	As of December 31, 2009
Net unrealized gains (losses) deferred in other comprehensive income:		
Gross	$	$ 31
Income tax benefit		12
Net	$	$ 19

Hedging of Anticipated Sales

We can manage the exchange rate risk of anticipated euro-denominated sales using purchased options, forward contracts, participating forwards and option collars. 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. We did not have any outstanding contracts or option collars as of April 3, 2010 and December 31, 2009. Summary financial information related to the cash flow hedges of future revenues follows (in thousands, except percentages):

	April 3, 2010	As of December 31, 2009
Notional balance of outstanding contracts versus the dollar		
Hedge effectiveness		

	Three Months Ended April 3, 2010	April 4, 2009
Net gains and (losses) included in revenue	$	$ 1,370

Forward contracts

We record our forward contracts at fair value on our consolidated balance sheet as either long-term other assets or long-term other liabilities depending upon the fair value calculation as detailed in Note 2 of Zebra s financial statements. The amounts recorded as of April 3, 2010, on our consolidated balance sheet are as follows (in thousands):

	April 3, 2010	As of December 31, 2009
Assets:		
Other assets	$ 3,896	$ 851
Total	$ 3,896	$ 851
Liabilities:		
Other long-term liabilities	$	$
Total	$	$

Note 8 Warranty

In general, Zebra provides warranty coverage of one year on SPG printers against defects in material and workmanship. SPG printheads are warranted for nine months and batteries are warranted for twelve months. Warranty coverage for most ZES hardware products is similar, with coverage periods ranging from 90 days to one year depending on the nature of the product. Battery based products, such as location tags, are covered by a 30 day warranty. For ZES software products, the warranty period is generally 90 days and provides coverage against defects in material and workmanship as well as performance materially in compliance with the accompanying documentation. A provision for warranty expense is recorded at the time of shipment and adjusted quarterly based on historical warranty experience.

The following table is a summary of Zebra s accrued warranty obligation (in thousands):

	Three Months Ended	
	April 3, 2010	April 4, 2009
Balance at the beginning of the year	$ 3,813	$ 2,814
Warranty expense	694	958
Warranty payments	(1,346)	(1,031)
Balance at the end of the period	$ 3,161	$ 2,741

In the European Union, we have an obligation to recycle printers. We reserve for this obligation based on the number of new printers sold after August 13, 2005, and printers sold prior to that date that are returned to us upon our sale of a new printer to a customer. The following is a summary of Zebra s accrued recycling obligation (in thousands):

	Three Months Ended	
	April 3, 2010	April 4, 2009
Balance at the beginning of the year	$ 1,001	$ 1,207
Recycling expense		14
Recycling payments		
Other adjustments	(3)	(9)
Balance at the end of the period	$ 998	$ 1,212

Note 9 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 10 Changes to Benefit Programs

Zebra has a Retirement Savings and Investment Plan (401(k) Plan), which is intended to qualify under Section 401(k) of the Internal Revenue Code. During the first quarter of 2009, Zebra announced changes to its 401(k) Plan, profit sharing plan and stock purchase plan. Qualified employees may participate in Zebra s 401(k) Plan by contributing up to 15% of their gross earnings to the plan subject to certain Internal Revenue Service restrictions. Effective March 1, 2009, Zebra reduced the company match to each participant s contribution from 6% of gross eligible earnings at the rate of 50%, to 3% of gross eligible earnings at the rate of 50%. Effective January 1, 2010, Zebra increased the company match to each participant s contribution to a total of 4%. Zebra will match 100% of the first 2% of gross eligible earnings, and also match the next 4% of gross eligible earnings at the rate of 50%. Zebra may contribute additional amounts to its 401(k) Plan at the discretion of the Board of Directors, subject to certain legal limits.

Zebra also has a discretionary profit-sharing plan for qualified employees, to which it contributes a percentage of eligible payroll each year. Zebra announced that it will suspend any contributions to the profit sharing plan for the 2009 plan year and plan years going forward. Participants are not permitted to make contributions under the discretionary profit-sharing plan.

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Note 11 Stockholders Equity

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

	April 3, 2010	December 31, 2009
Preferred Stock		
Par value per share	$ 0.01	$ 0.01
Shares authorized	10,000,000	10,000,000
Shares outstanding		
Common Stock Class A		
Par value per share	$ 0.01	$ 0.01
Shares authorized	150,000,000	150,000,000
Shares issued	72,151,857	72,151,857
Shares outstanding	57,724,510	58,318,983
Treasury stock		
Shares held	14,427,347	13,832,874

During the three-month period ended April 3, 2010, Zebra purchased 750,000 shares of common stock for $20,823,000 under board authorized share repurchase plans compared to the three-month period ended April 4, 2009, in which Zebra purchased 1,652,772 shares of common stock for $28,593,000.

Zebra issued 166,528 treasury shares of common stock upon exercise of stock options and purchases under the stock purchase plan during the first three months of 2010. Zebra also issued from treasury shares 3,995 shares of common stock under restricted stock awards during the first three months of 2010. During the first three months of 2009, Zebra issued 88,372 treasury shares of common stock upon the exercise of stock options and purchases under the stock purchase plan and issued 106,370 shares of common stock from treasury shares under restricted stock awards.

Note 12 Earnings Per Share

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

	Three Months Ended	
	April 3, 2010	April 4, 2009
Basic earnings per share:		
Net income	$ 24,733	$ 9,352
Weighted average common shares outstanding	58,016	60,266
Per share amount	$ 0.43	$ 0.16
Diluted earnings per share:		
Net income	$ 24,733	$ 9,352
Weighted average common shares outstanding	58,016	60,266
Add: Effect of dilutive securities	249	66
Diluted weighted average and equivalent shares outstanding	58,265	60,332
Per share amount	$ 0.42	$ 0.16

Potentially dilutive securities that were excluded from the earnings per share calculation consist of options with an exercise price greater than the market closing price of the Class A common stock as of April 3, 2010. These options were as follows:

	Three Months Ended	
	April 3, 2010	April 4, 2009
Potentially dilutive shares	1,924,000	2,875,000

Note 13 Equity-Based Compensation

Zebra has an equity-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 1 month to 5 years.

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

	Three Months Ended	
	April 3, 2010	April 4, 2009
Cost of sales	$ 249	$ 281
Selling and marketing	311	417
Research and development	357	551
General and administrative	1,314	1,918
Total compensation	$ 2,231	$ 3,167
Income tax benefit	$ 770	$ 1,093

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 three months ended April 3, 2010 was $3,000 and for the three months ended April 4, 2009, was less than $1,000.

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

	Three Months Ended	
	April 3, 2010	April 4, 2009
Expected dividend yield	0%	0%
Forfeiture rate	9.92%	8.99%
Volatility	43.08%	37.79%
Risk free interest rate	2.23%	3.17%
Range of interest rates	0.15% - 3.29%	0.81% - 3.87%
Expected weighted-average life	5.23 years	5.09 years
Fair value of options and SARs granted	$ 145,000	$ 186,000
Weighted-average grant date fair value of options and SARs granted	$ 11.85	$ 7.62

Stock option and SAR activity was as follows:

	Three Months Ended April 3, 2010	
Options and SARs	**Shares**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	3,451,945	$ 32.81
Granted	12,277	29.34
Exercised	(139,148)	25.60
Forfeited	(48,022)	30.50
Expired	(36,017)	37.73
Outstanding at end of period	3,241,035	$ 33.04
Exercisable at end of period	1,830,013	$ 36.46

Intrinsic value of exercised options and SARs	$ 495,000

For the three months ended April 3, 2010, equity granted above includes SARs with respect to 12,277 shares of Zebra common stock. The terms of the SARs are established under the 2006 Zebra Technologies Corporation Incentive Compensation Plan (the 2006 Plan) and the applicable SAR agreement. Once vested, a SAR entitles the holder to receive a payment equal to the difference between the per-share base 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 SAR s exercised. Exercised SARs are settled in whole shares of Zebra stock, and any fraction of a share is settled in cash. The SARs granted during the first three months of 2010 vest annually in four equal amounts on each of the first four anniversaries of the grant date and expire 10 years after the grant date.

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The following table summarizes information about stock options and SARs outstanding at April 3, 2010:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$ 1.29-$19.56	760,872	8.05 years	$ 18.59	126,686	$ 13.98
$ 19.57-$34.59	679,630	4.45 years	25.13	509,460	24.53
$ 34.60-$39.27	616,348	7.15 years	36.51	255,080	36.48
$ 39.28-$43.35	552,566	6.70 years	42.07	319,168	42.24
$ 43.36-$53.92	631,619	4.74 years	47.66	619,619	47.69
	3,241,035			1,830,013	

	Outstanding	Exercisable
Aggregate intrinsic value	$ 11,941,000	$ 4,830,000
Weighted-average remaining contractual term	6.3 years	4.7 years

Restricted stock award activity, granted under the 2006 Plan, for the period ended April 3, 2010, was as follows:

	Three Months Ended April 3, 2010	
Restricted Stock Awards	Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	507,984	$ 23.90
Granted	3,995	29.38
Released	(11,441)	33.31
Forfeited	(11,045)	25.93
Outstanding at end of period	489,493	$ 23.68

As of April 3, 2010, there was $16,089,000 of unearned compensation cost related to awards granted under Zebra s equity-based compensation plans, which is expected to be recognized over a weighted-average period of 2.3 years.

The fair value of the purchase rights of all Zebra employees 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.

	Three Months Ended	
	April 3, 2010	April 4, 2009
Fair market value	$ 28.35	$ 19.02
Option price	$ 26.93	$ 16.17
Expected dividend yield	0%	0%
Expected volatility	21%	45%
Risk free interest rate	0.06%	0.11%

Note 14 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. Zebra s intention is to utilize these net operating loss carryforwards to offset future income tax expense.

Zebra has concluded all U.S. federal income tax audits for years through 2006. The tax years 2005 through 2009 remain open to examination by multiple state taxing jurisdictions. Tax authorities in the United Kingdom have completed income tax audits for tax years through 2006.

Zebra s continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense. For the three month periods ended April 3, 2010 and April 4, 2009, we did not accrue any interest or penalties into income tax expense.

The effective income tax rate for the first quarter of 2010 was 23.7% compared with an income tax rate of 32.0% for the first quarter of 2009. Zebra s effective tax rate for the quarter ended April 3, 2010 included a $2,764,000 reduction of federal taxes related to prior years adjustments for intercompany profit in ending inventory which reduced our effective rate by 8.5%.

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Note 15 Other Comprehensive Income

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

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

Unrealized gains (losses) on foreign currency hedging activities relate to derivative instruments used to hedge the currency exchange rates for forecasted euro sales. These hedges are designated as cash flow hedges, and we have deferred income statement recognition of gains and losses until the hedged transaction occurs. See Note 7 for more details.

Unrealized gains (losses) on investments classified as available-for-sale are deferred from income statement recognition until the gains or losses are realized. See Note 3 for more details.

The Consolidated Statements of Comprehensive Income are as follows (in thousands):

	Three Months Ended	
	April 3, 2010	**April 4, 2009**
Net income	$ 24,733	$ 9,352
Other comprehensive income (loss):		
Foreign currency translation adjustment	(444)	(1,581)
Changes in unrealized gains (losses) on hedging transactions, net of tax	1	8
Changes in unrealized gains (losses) on investments, net of tax	(247)	587
Comprehensive income	$ 24,043	$ 8,366

The components of other comprehensive income gross and net of income tax are as follows (in thousands):

	Three Months Ended	
	April 3, 2010	**April 4, 2009**
Changes in unrealized gains and losses on foreign currency hedging activities:		
Gross	$ 1	$ 13
Income tax (benefit)		5
Net	$ 1	$ 8
Changes in unrealized gains and losses on investments classified as available-for-sale:		
Gross	$ (396)	$ 941
Income tax (benefit)	(149)	354
Net	$ (247)	$ 587

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

	As of	
	April 3, 2010	December 31, 2009
Foreign currency translation adjustments	$ (8,786)	$ (8,342)
Unrealized gains and (losses) on hedging transactions:		
Gross	$	$ (1)
Income tax (benefit)		
Net	$	$ (1)
Unrealized gains and (losses) on investments classified as available-for-sale:		
Gross	$ 56	$ 452
Income tax (benefit)	21	170
Net	$ 35	$ 282

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Note 16 Segment Information

Zebra has two reportable segments: Specialty Printing Group (SPG) and Zebra Enterprise Solutions (ZES).

SPG includes direct thermal and thermal transfer label and receipt printers, passive radio frequency identification (RFID) printer/encoders, dye sublimation card printers and digital photo printers. Also included in this group is a comprehensive range of specialty supplies consisting of self-adhesive labels, thermal transfer ribbons, thermal printheads, batteries and other accessories, including software for label design and printer network management.

ZES has evolved since the beginning of 2007 with the acquisitions of WhereNet Corp., proveo AG, Navis Holdings, LLC and Multispectral Solutions, Inc. The solutions that these companies provide are generally sold on a contract basis and are typically installed over several quarters. These contracts cover a range of services, including design, installation and ongoing maintenance services.

Segment information is as follows (in thousands):

	Three Months Ended	
	April 3, 2010	**April 4, 2009**
Net sales:		
SPG Tangible products	$ 199,200	$ 162,498
SPG Service & software	8,728	8,270
SPG Net Sales	207,928	170,768
ZES Tangible products	2,884	4,186
ZES Service & software	15,619	17,655
ZES Net Sales	18,503	21,841
Total	$ 226,431	$ 192,609
Operating profit (loss):		
SPG	$ 54,443	$ 33,999
ZES	(5,411)	(3,359)
Corporate and other	(17,312)	(16,466)
Total	$ 31,720	$ 14,174

	As of	
	April 3, 2010	**December 31, 2009**
Identifiable assets:		
SPG	$ 335,215	$ 336,428
ZES	181,189	185,495
Corporate and other	310,553	308,556
Total	$ 826,957	$ 830,479

Zebra records its federal and state deferred tax assets and liabilities in corporate and other as reflected above. Intersegment sales are not significant. Corporate and other includes corporate administration costs or assets that support both reporting segments.

Note 17 New Accounting Pronouncements

In October 2009, the FASB issued update 2009-13, ASC 605, Revenue Recognition: Multiple Deliverable Revenue Arrangements-a consensus of the FASB Emerging Issues Task Force. The revised guidance provides for two significant changes to existing multiple element arrangement guidance. The first relates to the determination of when the individual deliverables included in a multiple-

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element arrangement may be treated as separate units of accounting. This change is significant as it may result in the requirement to separate more deliverables within an arrangement, ultimately leading to less revenue deferral. The second change modifies the manner in which the transaction consideration is allocated across the separately identifiable deliverables. These changes may result in earlier recognition of revenue for multiple-element arrangements than under previous guidance. This standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We have not yet determined the effect of this standard upon our consolidated financial statements.

In October 2009, the FASB issued update 2009-14, ASC 985, Software: Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force. This updated guidance is expected to significantly affect how entities account for revenue arrangements that contain both hardware and software elements. This standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We have not yet determined the effect of this standard upon our consolidated financial statements.

In January 2010, the FASB issued update 2010-06, ASC 820, Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements. This updated guidance requires new disclosures related to transfers in and out of Levels 1 and 2. The standard also provides guidance on the disclosures related to Level 3 activities. In addition, existing disclosures related to disaggregation levels and disclosures about inputs and valuation techniques are clarified. This standard is effective for interim and annual periods beginning after December 15, 2009. This standard did not have a material effect upon our consolidated financial statements.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations: First Quarter of 2010 versus First Quarter of 2009

Consolidated Results of Operations

(Amounts in thousands, except percentages):

	Three Months Ended April 3, 2010	Three Months Ended April 4, 2009	Percent Change	Percent of Net Sales - 2010	Percent of Net Sales - 2009
Net Sales					
Tangible products	$ 202,084	$ 166,684	21.2	89.2	86.5
Service & software	24,347	25,925	(6.1)	10.8	13.5
Total net sales	226,431	192,609	17.6	100.0	100.0
Cost of Sales					
Tangible products	108,540	95,859	13.2	49.9	49.7
Service & software	10,556	10,941	(3.5)	4.7	5.7
Total cost of sales	119,096	106,800	11.5	52.6	55.4
Gross profit	107,335	85,809	25.1	47.4	44.6
Operating expenses	75,615	71,635	5.6	33.4	37.2
Operating income	31,720	14,174	123.8	14.0	7.4
Other income (expense)	692	(423)	263.6	0.3	(0.3)
Income before income taxes	32,412	13,751	135.7	14.3	7.1
Income taxes	7,679	4,399	74.6	3.4	2.2
Net income	$ 24,733	$ 9,352	164.5	10.9	4.9
Diluted earnings per share	$ 0.42	$ 0.16			

Consolidated Results of Operations First quarter

Sales

Net sales for the first quarter of 2010 compared with the 2009 quarter increased 17.6% due to a broad-based increase in demand for Zebra products. The increase in sales was largely attributable to increased hardware sales with notable volume increases in high-performance tabletop, desktop, mobile printers and aftermarket parts. Supplies sales increased from greater shipments of labels and thermal ribbons. Printer unit volume increased 22.7% for the first quarter of 2010 compared to levels in 2009.

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

Product Category	Three Months Ended April 3, 2010	Three Months Ended April 4, 2009	Percent Change	Percent of Net Sales - 2010	Percent of Net Sales - 2009
Hardware	$ 160,030	$ 127,235	25.8	70.7	66.1
Supplies	40,697	38,081	6.9	18.0	19.8
Service and software	24,347	25,925	(6.1)	10.8	13.5

Shipping and handling	1,357	1,368	(0.8)	0.5	0.6
Total net sales	$ 226,431	$ 192,609	17.6	100.0	100.0

Sales increased in all geographic territories due primarily to the global economic recovery. The sales growth on a percentage basis was greatest in Latin America and Asia Pacific because of higher rates of economic growth in those regions. Movements in foreign exchange rates, principally a weaker euro against the dollar, increased sales in the Europe, Middle East and Africa region by $4,294,000, net of hedges.

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

	Three Months Ended				
Geographic Region	**April 3, 2010**	**April 4, 2009**	**Percent Change**	**Percent of Net Sales - 2010**	**Percent of Net Sales - 2009**
Europe, Middle East and Africa	$ 83,544	$ 74,620	12.0	36.9	38.7
Latin America	20,990	13,071	60.6	9.3	6.8
Asia-Pacific	25,347	19,409	30.6	11.2	10.0
Total International	129,881	107,100	21.3	57.4	55.5
North America	96,550	85,509	12.9	42.6	44.5
Total net sales	$ 226,431	$ 192,609	17.6	100.0	100.0

Gross Profit

Gross profit increased due to higher volumes and an improved product mix, with increased sales in high-performance and mid-range table top printers, partially offset by $5,915,000 in higher freight costs in 2010. The benefit of outsourcing printer production to a third party and continued cost control contributed to increase gross profit.

Operating Expenses

Operating expenses for the three-month period increased 5.6% due mainly to greater selling and marketing expenses from the higher level of business activity. Several categories accounted for the increase, including compensation costs, outside commissions, advertising and direct marketing, travel and entertainment and offsite meeting expenses. Amortization of intangibles decreased $276,000 and exit, restructuring and integration costs decreased $480,000 in the first quarter of 2010 as compared to 2009. Amortization decreases were due to an intangible asset being fully amortized at the end of 2009. Zebra s program for outsourcing its manufacturing operations is nearing completion and the related restructuring costs for this program are declining. In addition, integration costs associated with integrating the Zebra Enterprise Solutions (ZES) businesses were completed in 2009.

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

	Three Months Ended				
Operating Expenses	**April 3, 2010**	**April 4, 2009**	**Percent Change**	**Percent of Net Sales 2010**	**Percent of Net Sales 2009**
Selling and marketing	$ 27,500	$ 23,199	18.5	12.1	12.0
Research and development	23,072	22,149	4.2	10.2	11.5
General and administrative	20,869	21,357	(2.3)	9.2	11.1
Amortization of intangible assets	2,358	2,634	(10.5)	1.0	1.4
Asset impairment charges					
Exit, restructuring and integration costs	1,816	2,296	(20.9)	0.9	1.2
Total operating expenses	$ 75,615	$ 71,635	5.6	33.4	37.2

Other Income

Investment income for 2010 declined primarily from lower short-term interest rates in the first quarter of 2010 compared with 2009. Zebra recorded a foreign exchange gain in the first quarter of 2010 as the U.S. dollar strengthened during the period against the euro versus 2009 when exchange rates were not as favorable.

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

	Three Months Ended	
	April 3, 2010	**April 4, 2009**
Investment income (loss)	$ 842	$ 1,178
Foreign exchange gain (loss)	199	(1,284)
Other, net	(349)	(317)
Total other income (loss)	$ 692	$ (423)

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Operating Income (Loss)

The operating income increase for the first quarter of 2010 was the result of increased sales and gross profit as noted above.

Income Taxes

The effective income tax rate for the first quarter of 2010 was 23.7% compared with an income tax rate of 32.0% for the first quarter of 2009. Zebra s effective tax rate for the quarter ended April 3, 2010 included a $2,764,000 reduction of federal taxes related to prior years adjustments for intercompany profit in ending inventory which reduced our effective rate by 8.5%.

Business Groups

Specialty Printing Group

(Amounts in thousands, except percentages):

	Three Months Ended April 3, 2010	Three Months Ended April 4, 2009	Percent Change	Percent of Net Sales - 2010	Percent of Net Sales - 2009
Net Sales					
Tangible products	$ 199,200	$ 162,498	22.6	95.8	95.2
Service & software	8,728	8,270	5.5	4.2	4.8
Total net sales	207,928	170,768	21.8	100.0	100.0
Cost of Sales					
Tangible products	106,026	92,642	14.4	51.1	54.3
Service & software	5,473	4,454	22.9	2.5	2.6
Total cost of sales	111,499	97,096	14.8	53.6	56.9
Gross profit	96,429	73,672	30.9	46.4	43.1
Operating expenses	41,986	39,673	5.8	20.2	23.2
Operating income	$ 54,443	$ 33,999	60.1	26.2	19.9

Specialty Printing Group First quarter

Net sales in our Specialty Printing Group (SPG) increased 21.8% with the highest percentage growth in sales occurring in Latin America and Asia Pacific, and the highest dollar growth occurring in North America and the Europe, Middle East and Africa region.

The increase in sales was largely attributable to increased hardware sales, with notable increases in sales of high-performance and mid-range tabletop, desktop, mobile printers and aftermarket parts. Supplies sales increased from higher shipments of labels and thermal ribbons.

Gross profit for SPG was affected by favorable foreign currency movements which increased first quarter gross profit by $3,681,000. Gross profit also increased due to higher volumes and a favorable product mix with increased sales of high-performance table top printers, partially offset by higher freight costs of $5,915,000 in 2010. The benefit of outsourcing printer production to a third party and continued cost control contributed to increase gross profit.

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

	Three Months Ended		
	April 3, 2010	April 4, 2009	Percent Change
Total printers shipped	244,422	199,218	22.7
Average selling price of printers shipped	$ 547	$ 517	5.8

For the first quarter of 2010, unit volumes increased in nearly all printer product lines compared to the same period of 2009, with notable volume increases in high-performance tabletop, desktop and mobile printers. These increases were offset by a reduction in photo printers as this line was discontinued in 2009.

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Operating expense related changes for SPG are as follows (in thousands):

	Three Months Ended		
	April 3, 2010	April 4, 2009	Increase/ (Decrease)
Payroll and benefit costs	$ 25,577	$ 24,412	$ 1,165
Business development	3,838	3,320	518
Outside professional services	2,107	1,341	766
Travel and entertainment	1,334	1,037	297
Exit, restructuring and integration costs	1,600	2,038	(438)
Other expenses	7,530	7,525	5
Total operating expenses	$ 41,986	$ 39,673	$ 2,313

Operating expenses for SPG increased primarily to greater selling and marketing expenses from the higher level of business activity and expansion into new markets. Operating expenses are higher due to increases in payroll and benefit costs, advertising and marketing costs, consulting fees, compliance costs, and travel and entertainment expenses. Exit, restructuring and integration costs are being reduced as the outsourcing project is nearing completion.

Zebra Enterprise Solutions

(Amounts in thousands, except percentages):

	Three Months Ended				
	April 3, 2010	April 4, 2009	Percent Change	Percent of Net Sales - 2010	Percent of Net Sales - 2009
Net Sales					
Tangible products	$ 2,884	$ 4,186	(31.1)	15.6	19.2
Service & software	15,619	17,655	(11.5)	84.4	80.8
Net sales	18,503	21,841	(15.3)	100.0	100.0
Cost of Sales					
Tangible products	2,514	3,217	(21.9)	13.6	14.7
Service & software	5,083	6,487	(21.6)	27.5	29.7
Cost of sales	7,597	9,704	(21.7)	41.1	44.4
Gross profit	10,906	12,137	(10.1)	58.9	55.6
Operating expenses	16,317	15,496	5.3	88.1	71.0
Operating loss	$ (5,411)	$ (3,359)	61.1	(29.2)	(15.4)

Zebra Enterprise Solutions First quarter

ZES sales decreased 15.3% for the first quarter of 2010 compared to 2009 primarily due to lower bookings and delays associated with project implementations affecting license revenue. Sales of hardware declined due to reduced or delayed bookings. Margins improved in services provided to customers due to reduced service costs.

Operating expense changes for ZES are due to the following (in thousands):

	Three Months Ended April 3, 2010	April 4, 2009	Increase/ (Decrease)
Payroll and benefit costs	$ 10,031	$ 9,053	$ 978
Business development	387	328	59
Outside professional services	640	380	260
Travel and entertainment	768	509	259
Exit, restructuring and integration costs	55	408	(353)
Amortization expense	1,668	1,946	(278)
Other expenses	2,768	2,872	(104)
Total operating expenses	$ 16,317	$ 15,496	$ 821

ZES operating expenses for the first quarter of 2010 are higher than 2009 due to increases in payroll and benefit costs, consulting, project expenses and travel and entertainment costs. These increases were offset due to the collection of receivables that had been previously considered uncollectible, reduced integration costs, and lower amortization expense due to an intangible asset being fully amortized at the end of 2009.

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Liquidity and Capital Resources

(Amounts in thousands, except percentages):

	Three Months Ended	
Rate of Return Analysis:	**April 3, 2010**	**April 4, 2009**
Average cash and marketable securities balances	$ 250,409	$ 207,098
Annualized rate of return	0.3%	2.3%

Average cash and marketable securities balances for the first quarter of 2010 increased compared to 2009 as a result of increased cash provided by operations and a lesser amount spent on stock repurchases throughout 2009 compared to 2008.

As of April 3, 2010, Zebra had $254,098,000 in cash, restricted cash, investments and marketable securities, compared with $246,721,000 at December 31, 2009. Factors affecting cash and investment balances during the first three months of 2010 include the following (changes below include the impact of foreign currency):

Operations provided cash in the amount of $30,174,000, primarily from net income and collection of receivables.

Accounts receivable decreased $3,990,000 because of successful collection efforts. Days sales outstanding, as calculated by the financial method, improved from 62 days to 59 days.

Accrued liabilities decreased $9,118,000, due to the payment of payroll-related expenses, sales promotions and rebates.

Taxes payable increased $4,295,000 due to the timing of tax payments.

Purchases of property and equipment totaled $5,818,000.

Net sales of investments totaled $17,736,000.

Purchases of treasury shares totaled $20,823,000.

Stock option exercises and purchases under the stock purchase plan contributed $4,191,000.

Management believes that existing capital resources and funds generated from operations are sufficient to finance anticipated capital requirements.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

Customer Returns

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

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Growth Rebates

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

Pass Through Rebate Program

Some of our distributors are offered monthly rebates based on distribution of products to our program partners. These rebates are recorded as a reduction to revenue. Each month we estimate the amount of rebate earned and establish a reserve for them based on recent trends of actual activity. The actual distributor rebates paid have historically been in line with our estimates.

Price Protection

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

Software Revenue

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

- ZES has *fixed fee software implementation projects*, for which we use the percentage of completion method for revenue recognition. Under this method of accounting, we recognize revenue based on the ratio of costs incurred to total estimated costs. If increases in projected costs-to-complete are sufficient to create a loss contract, the entire estimated loss is charged to operations in the period the loss first becomes known.
- Our printers contain *embedded firmware,* which is part of the hardware purchase. We consider the sale of this firmware to be incidental to the sale of the printer and do not attribute any revenue to it.
- We sell a limited amount of *prepackaged,* or *off-the-shelf, software* for the creation of bar code labels using our printers. There is no customization required to use this software, and we have no post-shipment obligations on the software. Revenue is recognized at the time this prepackaged software is shipped.
- We sometimes provide *custom software* as part of a printer installation project. We bill custom software development services separate from the related hardware. Revenue related to custom software is recognized once the custom software development services have been completed and accepted by the customer.
- We recognize license revenue when (1) a signed contract is obtained; (2) delivery of the product has occurred; (3) the license fee is fixed or determinable; and (4) collection is probable.

Maintenance and Support Agreements

We enter into post-contract maintenance and support agreements. Revenues are recognized ratably over the service period and the cost of providing these services is expensed as incurred.

Shipping and Handling

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

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

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Investments and Marketable Securities

Investments and marketable securities at April 3, 2010, consisted of the following:

U.S. government and agency securities	11.4%
Obligations of government sponsored enterprises (1)	6.7%
State and municipal bonds	73.3%
Corporate securities	8.6%

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

We classify our debt and marketable equity securities in one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those debt securities that Zebra has the ability and intent to hold until maturity. All investments in marketable securities are classified as available-for-sale securities.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of discounts or premiums. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders equity until realized. As of April 3, 2010, Zebra s investments in marketable debt securities are classified as available-for-sale. In addition, as of April 3, 2010, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term in the consolidated balance sheet due to our ability and intent to hold them until maturity.

Accounts Receivable

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

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

We reserve for estimated credit losses based upon historical experience and specific customer collection issues. Over the last three years, accounts receivable reserves varied from 1.4% to 3.8% of total accounts receivable. Accounts receivable reserves as of April 3, 2010, were $2,325,000, or 1.6% of the balance due. Accounts receivable reserves as of December 31, 2009, were $2,186,000, or 1.4% of the balance due. The decrease is driven primarily by the collection of previously reserved accounts. We believe our reserve level is appropriate considering the quality of the portfolio as of April 3, 2010. While credit losses have historically been within expectations and the provisions established, we cannot guarantee that our credit loss experience will continue to be consistent with historical experience.

Inventories

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

Over the last three years, our reserves for excess and obsolete inventories have ranged from 6.8% to 12.4% of gross inventory. As of April 3, 2010, inventory reserves were $9,486,000, or 10.4% of gross inventory compared to inventory reserves of $9,054,000, or 10.2% of gross inventory as of December 31, 2009. We believe our reserve level is appropriate considering the quantities and quality of the inventories as of April 3, 2010.

Valuation of Goodwill

We test the impairment of goodwill each year at the end of May or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our annual assessment during June 2009 and determined that our goodwill was not impaired as of the end of May 2009.

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Goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Examples of such events or circumstances include:

- Significant adverse change in legal factors or in the business climate,
- Adverse action or assessment by a regulator,
- Unanticipated competition,
- Loss of key personnel,
- More-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of,
- Testing for recoverability under ASC 360 (formerly SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) of a significant asset group within a reporting unit,
- Recognition of a goodwill impairment loss in the financial statement of a subsidiary that is a component of a reporting unit, or
- Allocation of a portion of goodwill to a business to be disposed of.

Due to the deterioration of the economy and a significant reduction in the price of our stock, we performed an interim test of our goodwill in the fourth quarter of 2008 and determined that the goodwill associated with our ZES segment was impaired. See Note 5 of the Consolidated Financial Statements for further discussion of this impairment charge.

If we believe that one or more of the above indicators of impairment have occurred, we perform an impairment test. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. We generally determine the fair value of our reporting units using three valuation methods: Income Approach Discounted Cash Flow Analysis, Market Approach Guideline Public Company Method and Market Approach Comparative Transactions Method.

Under the Income Approach Discounted Cash Flow Analysis the key assumptions consider sales, cost of sales and operating expenses projected through the year 2015. These assumptions were determined by management utilizing our internal operating plan and assuming growth rates for revenues and operating expenses, and margin assumptions. The fourth key assumption under this approach is the discount rate which is determined by looking at current risk-free rates of capital, current market interest rates and the evaluation of risk premia relevant to the business segment. If our assumptions relative to growth rates were to change or were incorrect, our fair value calculation may change which could result in impairment.

Under the Market Approach Guideline Company Method we identified 12 publicly traded companies, including Zebra, which we believe have significant relevant similarities. For these 12 companies we calculated the mean ratio of invested capital to revenues and invested capital to EBITDA. Similar to the Income approach discussed above, sales, cost of sales, operating expenses and their respective growth rates were the key assumptions utilized. The market prices of Zebra and other guideline company shares are key assumptions. If these market prices increase, the estimated market value would increase. If the market prices decrease, the estimated market value would decrease.

Under the Market Approach Comparative Transactions Method we looked at 22 market based transactions for companies that have similarities to our business segment, including similarities to one or more of the business lines, markets, growth prospects, margins and size. We calculated mean revenue and EBITDA multiples for the selected transactions. These multiples were applied to forecasted Zebra results for that segment to estimate market value. The key assumptions and impact to changes to those assumptions would be similar to those assumptions under the Income Approach Discounted Cash Flow Analysis and the Market Approach Guideline Company Method .

The results of these three methods are weighted based upon management s determination with more weighing upon the Income approach because it considers anticipated future financial performance. The Market approaches are based upon historical and current economic conditions which might not reflect the long term prospects or opportunities for our business segment being evaluated.

If the carrying amount of a reporting unit exceeds the reporting unit s fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit s goodwill with the carrying value of that goodwill.

Due to the deterioration of the economy and a significant reduction in the price of our stock, we determined that our goodwill from our recent ZES acquisitions was impaired requiring goodwill impairment charges of $113,679,000 at December 31, 2008. Upon completion of a detailed second step impairment analysis we recorded a credit of $1,495,000 in the second quarter of 2009 to adjust a portion of the original estimated goodwill impairment for ZES.

Valuation of Long-Lived and Other Intangible Assets

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

Significant underperfor