

ZEBRA TECHNOLOGIES CORP

Form 10-Q

November 07, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 29, 2012

OR

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

For the transition period from _____ to _____

Commission File Number: 000-19406

Zebra Technologies Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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 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

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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

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 October 26, 2012, there were 50,858,051 shares of Class A Common Stock, \$.01 par value, outstanding.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

QUARTER ENDED SEPTEMBER 29, 2012

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(Amounts in thousands)

	September 29, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 52,253	\$ 36,418
Investments and marketable securities	160,690	182,398
Accounts receivable, net	165,160	155,230
Receivable from buyer	0	27,580
Inventories, net	122,915	133,288
Deferred income taxes	15,506	13,931
Income tax receivable	0	13,111
Prepaid expenses and other current assets	14,454	22,917
Total current assets	530,978	584,873
Property and equipment at cost, less accumulated depreciation and amortization	102,537	97,822
Long-term deferred income taxes	7,536	11,866
Goodwill	95,345	79,703
Other intangibles, net	39,017	12,667
Long-term investments and marketable securities	155,852	107,879
Other assets	9,425	4,196
Total assets	\$ 940,690	\$ 899,006
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 28,180	\$ 33,273
Accrued liabilities	50,568	64,612
Deferred revenue	12,288	11,089
Income taxes payable	2,031	0
Total current liabilities	93,067	108,974
Deferred rent	1,406	1,592
Other long-term liabilities	13,188	11,515
Total liabilities	107,661	122,081
Stockholders' equity:		
Preferred Stock	0	0
Class A Common Stock	722	722
Additional paid-in capital	136,750	131,422

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Treasury stock	(628,683)	(596,622)
Retained earnings	1,333,530	1,245,616
Accumulated other comprehensive loss	(9,290)	(4,213)
Total stockholders equity	833,029	776,925
Total liabilities and stockholders equity	\$ 940,690	\$ 899,006

See accompanying notes to consolidated financial statements.

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(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net sales				
Net sales of tangible products	\$ 239,786	\$ 241,686	\$ 706,970	\$ 700,568
Revenue from services and software	12,251	11,652	36,019	35,612
Total net sales	252,037	253,338	742,989	736,180
Cost of sales				
Cost of sales of tangible products	118,751	122,529	357,764	351,042
Cost of services and software	6,362	7,256	18,041	19,889
Total cost of sales	125,113	129,785	375,805	370,931
Gross profit	126,924	123,553	367,184	365,249
Operating expenses:				
Selling and marketing	32,321	31,942	96,593	91,420
Research and development	22,007	22,584	64,759	66,752
General and administrative	22,481	18,978	71,203	62,372
Amortization of intangible assets	1,670	843	3,210	2,514
Acquisition costs	566	188	2,072	188
Exit and restructuring costs	0	138	0	2,090
Asset impairment charge	9,114	0	9,114	0
Total operating expenses	88,159	74,673	246,951	225,336
Operating income	38,765	48,880	120,233	139,913
Other income (expense):				
Investment income	541	134	1,959	1,350
Foreign exchange loss	(514)	(173)	(936)	(1,300)
Other, net	(294)	(859)	(1,144)	(1,356)
Total other income (expense)	(267)	(898)	(121)	(1,306)
Income from continuing operations before income taxes	38,498	47,982	120,112	138,607
Income taxes	11,917	13,795	33,014	41,123
Income from continuing operations	26,581	34,187	87,098	97,484

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Income from discontinued operations, net of tax	516	10,814	816	42,115
Net income	\$ 27,097	\$ 45,001	\$ 87,914	\$ 139,599
Basic earnings per share:				
Income from continuing operations	\$ 0.52	\$ 0.64	\$ 1.68	\$ 1.79
Income from discontinued operations	0.01	0.20	0.02	0.77
Net income	\$ 0.53	\$ 0.84	\$ 1.70	\$ 2.56
Diluted earnings per share:				
Income from continuing operations	\$ 0.51	\$ 0.64	\$ 1.67	\$ 1.78
Income from discontinued operations	0.01	0.20	0.02	0.77
Net income	\$ 0.52	\$ 0.84	\$ 1.69	\$ 2.55
Basic weighted average shares outstanding	51,566	53,339	51,775	54,405
Diluted weighted average and equivalent shares outstanding	51,809	53,628	52,041	54,770
See accompanying notes to consolidated financial statements.				

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net income	\$ 27,097	\$ 45,001	\$ 87,914	\$ 139,599
Other comprehensive income (loss):				
Unrealized gains (losses) on hedging transactions, net of income taxes	(3,946)	5,615	(6,192)	2,838
Unrealized holding gains (losses) on investments, net of income taxes	392	(636)	917	(303)
Foreign currency translation adjustment	12	173	198	(630)
Comprehensive income	\$ 23,555	\$ 50,153	\$ 82,837	\$ 141,504

See accompanying notes to consolidated financial statements.

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(Amounts in thousands)

(Unaudited)

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Cash flows from operating activities:		
Net income	\$ 87,914	\$ 139,599
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	18,906	17,985
Equity-based compensation	11,485	11,060
Asset impairment charge	9,114	0
Impairment of investments	0	326
Excess tax benefit from equity-based compensation	(1,492)	(1,265)
Loss on sale of property and equipment	178	53
Gain on sale of business	(613)	(66,753)
Deferred income taxes	2,755	5,703
Changes in assets and liabilities:		
Accounts receivable, net	(6,108)	(10,112)
Inventories, net	11,981	(6,635)
Other assets	12,070	(10,150)
Accounts payable	(10,843)	(8,493)
Accrued liabilities	(11,341)	(14,917)
Deferred revenue	2,644	(16,707)
Income taxes	14,711	(7,087)
Other operating activities	(6,378)	2,116
Net cash provided by operating activities	134,983	34,723
Cash flows from investing activities:		
Purchases of property and equipment	(17,140)	(17,829)
Proceeds from the sale of business	27,580	161,206
Acquisition of business, net of cash acquired	(59,874)	0
Acquisition of intangible assets	(3,000)	(200)
Purchase of long-term equity investment	(5,000)	0
Purchases of investments and marketable securities	(483,349)	(791,811)
Maturities of investments and marketable securities	324,139	493,649
Proceeds from sales of investments and marketable securities	133,863	253,377
Net cash provided by (used in) investing activities	(82,781)	98,392
Cash flows from financing activities:		
Purchase of treasury stock	(39,697)	(146,373)
Proceeds from exercise of stock options and stock purchase plan purchases	1,909	9,197
Excess tax benefit from equity-based compensation	1,492	1,265
Net cash used in financing activities	(36,296)	(135,911)

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Effect of exchange rate changes on cash	(71)	(899)
Net increase in cash and cash equivalents	15,835	(3,695)
Cash balance of discontinued operations at beginning of period	0	1,301
Less: Cash balance of discontinued operations at end of period	0	0
Cash and cash equivalents at beginning of period	36,418	46,175
Cash and cash equivalents at end of period	\$ 52,253	\$ 43,781
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 16,773	\$ 53,512
See accompanying notes to consolidated financial statements.		

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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, 2011.

The consolidated balance sheet as of December 31, 2011 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 September 29, 2012, the consolidated statement of earnings for the three and nine months ended September 29, 2012 and October 1, 2011, consolidated statement of comprehensive income for the three and nine months ended September 29, 2012 and October 1, 2011, and the consolidated statement of cash flows for the nine months ended September 29, 2012 and October 1, 2011. These results, however, are not necessarily indicative of results for the full year.

Reclassifications. Prior-period amounts will differ from amounts previously reported because certain immaterial amounts in the prior years financial statements have been reclassified to conform to the current year s presentation.

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 (i.e. U.S. Treasuries and money market funds).

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 September 29, 2012, 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 or other types of valuation adjustment methodologies at September 29, 2012. 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 September 29, 2012, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. government and agency securities	\$ 80,885	\$ 12,491	\$ 0	\$ 93,376
Obligations of government-sponsored enterprises (1)	0	5,048	0	5,048
State and municipal bonds	0	101,024	0	101,024
Corporate securities	0	114,470	2,588	117,058
Other investments	0	36	0	36
Investments subtotal	80,885	233,069	2,588	316,542
Money market investments related to the deferred compensation plan	3,424	0	0	3,424
Total assets at fair value	\$ 84,309	\$ 233,069	\$ 2,588	\$ 319,966
Liabilities:				
Forward contracts (2)	\$ 1,843	\$ (767)	\$ 0	\$ 1,076
Liabilities related to the deferred compensation plan	3,424	0	0	3,424
Total liabilities at fair value	\$ 5,267	\$ (767)	\$ 0	\$ 4,500

Financial assets and liabilities carried at fair value as of December 31, 2011, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. government and agency securities	\$ 25,540	\$ 25,307	\$ 0	\$ 50,847
Obligations of government-sponsored enterprises (1)	0	16,612	0	16,612
State and municipal bonds	0	142,873	0	142,873
Corporate securities	0	77,321	2,588	79,909
Other investments	0	36	0	36
Investments subtotal	25,540	262,149	2,588	290,277
Forward contracts (2)	2,626	6,584	0	9,210
Money market investments related to the deferred compensation plan	3,199	0	0	3,199
Total assets at fair value	\$ 31,365	\$ 268,733	\$ 2,588	\$ 302,686
Liabilities:				
Liabilities related to the deferred compensation plan	\$ 3,199	\$ 0	\$ 0	\$ 3,199
Total liabilities at fair value	\$ 3,199	\$ 0	\$ 0	\$ 3,199

(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 contracts are calculated as follows:

- 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.

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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):

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Balance at beginning of the year	\$ 2,588	\$ 5,597
Transfers to Level 3	0	0
Total losses (realized or unrealized):		
Included in earnings	0	(362)
Included in other comprehensive income (loss)	0	317
Purchases and settlements (net)	0	(2,964)
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 current and long-term investments (in thousands):

	Amortized Cost	As of September 29, 2012		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government and agency securities	\$ 93,286	\$ 90	\$ 0	\$ 93,376
Obligations of government-sponsored enterprises	5,037	11	0	5,048
State and municipal bonds	100,836	202	(14)	101,024
Corporate securities	116,791	802	(535)	117,058
Other investments	36	0	0	36
Total investments	\$ 315,986	\$ 1,105	\$ (549)	\$ 316,542

	Amortized Cost	As of December 31, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government and agency securities	\$ 50,738	\$ 115	\$ (6)	\$ 50,847
Obligations of government-sponsored enterprises	16,581	32	(1)	16,612
State and municipal bonds	142,586	330	(43)	142,873
Corporate securities	81,132	164	(1,387)	79,909
Other investments	36	0	0	36
Total investments	\$ 291,073	\$ 641	\$ (1,437)	\$ 290,277

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

As of September 29, 2012	
Amortized Cost	Estimated Fair

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		Value
Less than 1 year	\$ 160,523	\$ 160,690
1 to 5 years	150,818	151,579
6 to 10 years	4,645	4,273
Thereafter	0	0
Total	\$ 315,986	\$ 316,542

The carrying value for Zebra's financial instruments classified as current assets and current liabilities approximate fair value due to their short maturities.

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We classify our investments in marketable debt securities as available-for-sale. As of September 29, 2012, 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 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. See Note 15 Other Comprehensive Income.

In the second quarter of 2012 Zebra acquired a 2.7% interest in a venture capital technology company for \$5,000,000. This investment is classified as a long term asset.

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 \$153,693,000 as of September 29, 2012, and \$96,829,000 as of December 31, 2011. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation upon repatriation, however, Zebra does not intend to repatriate these funds.

Note 4 Accounts Receivable

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

	September 29, 2012	As of December 31, 2011
Accounts receivable, gross	\$ 166,242	\$ 156,790
Accounts receivable reserves	(1,082)	(1,560)
Accounts receivable, net	\$ 165,160	\$ 155,230

Note 5 Inventories

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

	September 29, 2012	As of December 31, 2011
Raw material	\$ 38,397	\$ 45,795
Work in process	597	872
Deferred costs of long-term contracts	547	220
Finished goods	98,196	101,111
Inventories, gross	137,737	147,998
Inventory reserves	(14,822)	(14,710)
Inventories, net	\$ 122,915	\$ 133,288

Note 6 Goodwill and Other Intangible Assets

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Intangible assets are as follows (in thousands):

	As of September 29, 2012		
	Gross Amount	Accumulated Amortization	Net Amount
Current technology	\$ 18,978	\$ (11,975)	\$ 7,003
Patent and patent rights	27,972	(14,175)	13,797
Customer relationships	20,493	(2,276)	18,217
Other intangibles, net	\$ 67,443	\$ (28,426)	\$ 39,017
Amortization expense for the nine months ended September 29, 2012		\$ 3,210	

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	As of December 31, 2011		
	Gross Amount	Accumulated Amortization	Net Amount
Current technology	\$ 12,718	\$ (11,403)	\$ 1,315
Patent and patent rights	23,392	(12,079)	11,313
Customer relationships	1,773	(1,734)	39
Other intangibles, net	\$ 37,883	\$ (25,216)	\$ 12,667
Amortization expense for the nine months ended October 1, 2011		\$ 2,514	

On July 13, 2012, we acquired intangible assets in the amount of \$29,560,000 for patents, technology and customer relationships. These intangible assets have an estimated useful life ranging from 5 to 9 years. See Note 18 Business Combinations for specific information regarding the acquisition. In addition, during 2012, Zebra has paid \$3,000,000 towards intangible asset commitments accrued and recorded as of December 31, 2011.

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.

We performed our annual impairment test in June 2012 and determined that our goodwill was not impaired as of the end of May 2012. Zebra has two reporting units required for its annual goodwill impairment test. As of our May 2012 testing date, the larger of the two reporting units' fair value exceeded its carrying value by a significant amount; whereas the second, smaller reporting unit, the amount by which the fair value exceeded the carrying value ranged from approximately 8% under the Income Approach to 31% under the Market Approach. Key assumptions used in the first step of the goodwill impairment test were determined by management utilizing the internal operating plan. The key assumptions utilized included forecasted growth rates for revenues and operating expenses as well as a discount rate which is determined by looking at current risk-free rates of capital, current market interest rates, and the evaluation of risk premium relevant to the business segment. Due to the deterioration in the smaller reporting unit's operating results during the third quarter our fair value calculation for the smaller reporting unit changed and we determined our goodwill associated with the smaller reporting unit to be impaired. The above impairment indicators led us to conclude an interim goodwill test was necessary. Zebra performed the first step of the impairment test and failed. As a result, Zebra performed a preliminary second step analysis and recorded an estimated goodwill impairment charge of \$9,114,000 as of September 29, 2012. This amount is an estimate and could be adjusted upon completion of a detailed impairment analysis. After this impairment charge, there is no remaining

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goodwill in the smaller reporting unit.

Changes in the net carrying value amount of goodwill were as follows (in thousands):

Unamortized intangible assets:	Total
Goodwill at gross	\$ 180,731
Impairment charge 2008	(101,028)
Goodwill as of December 31, 2011	79,703
Acquisitions LaserBand	24,756
Impairment charge 2012	(9,114)
Goodwill as of September 29, 2012	\$ 95,345

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In January 2011, we announced an agreement to sell a significant portion of the Zebra Enterprise Solutions (ZES) segment, which primarily consisted of Navis, to Cargotec Corporation. We retained the Location Solutions products from the former ZES, which included active RFID real-time location solutions and associated tags and readers. In the first quarter of 2011, we also announced a plan to consolidate any remaining administrative and accounting functions from the former ZES into our corporate facilities in Illinois. The costs for 2011 below represent the costs related to the consolidation and relocation of the administrative and accounting functions. We do not anticipate costs in 2012 related to this restructuring.

The following is a summary of 2011 exit and restructuring costs incurred (in thousands):

Type of Cost:	Three Months Ended	Nine Months Ended
	October 1, 2011	October 1, 2011
Severance, stay bonuses, and other employee-related expenses	\$ 100	\$ 1,171
Professional services	38	885
Relocation and transition costs	0	34
Other exit costs	0	0
Total	\$ 138	\$ 2,090

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

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Balance at beginning of period	\$ 1,048	\$ 1,301
Charged to earnings	0	2,090
Cash paid	(872)	(2,086)
 Balance at the end of period	 \$ 176	 \$ 1,305

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 8 Derivative Instruments

In the normal course of business, portions of our operations are subject to fluctuations in currency values. Zebra and its principal subsidiaries are all designated US dollar functional currency. Certain other subsidiaries are designated in functional local currency due to legal requirements or the nature of their business.

We manage these currency risks using derivative financial instruments. 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 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

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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.

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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 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		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Change in gains (losses) from foreign exchange derivatives	\$ (1,649)	\$ 3,108	\$ (208)	\$ (3,155)
Gains (losses) on net foreign currency assets	1,135	(3,281)	(728)	1,855
Foreign exchange loss	\$ (514)	\$ (173)	\$ (936)	\$ (1,300)

	As of	
	September 29, 2012	December 31, 2011
Notional balance of outstanding contracts:		
Pound/US dollar	£ 3,412	£ 6,016
Euro/US dollar	36,640	36,684
Net fair value of outstanding contracts	\$ (17)	\$ (54)

Hedging of Anticipated Sales

We 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.

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

	As of	
	September 29, 2012	October 1, 2011
Unrealized gains and (losses) on hedging transactions:		
Gross	\$ (8,599)	\$ 4,164
Income tax expense (benefit)	(2,407)	1,326
Net	\$ (6,192)	\$ 2,838

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

	September 29, 2012	As of December 31, 2011
Notional balance of outstanding contracts versus the dollar	91,560	92,305
Hedge effectiveness	100%	100%

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net gains and (losses) included in revenue	\$ 1,967	\$ (1,487)	\$ 4,616	\$ (4,272)

Forward contracts

We record our forward contracts at fair value, on our consolidated balance sheet, which are included in either of the following lines on the balance sheet, prepaid expenses, and other current assets or accrued liabilities, 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):

	September 29, 2012	As of December 31, 2011
Assets:		
Prepaid expenses and other current assets	\$ 0	\$ 9,210
Total	\$ 0	\$ 9,210
Liabilities:		
Accrued liabilities	\$ 1,076	\$ 0
Total	\$ 1,076	\$ 0

Note 9 Warranty

In general, Zebra provides warranty coverage of one year on printers against defects in material and workmanship. Printheads are warranted for nine months and batteries are warranted for one year. Battery based products, such as location tags, are covered by a 30-day warranty. 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):

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Balance at the beginning of the year	\$ 4,613	\$ 4,554
Warranty expense	4,667	4,051
Warranty payments	(5,222)	(4,115)
Balance at the end of the period	\$ 4,058	\$ 4,490

Note 10 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

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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.

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Revolving Credit Agreement. On October 10, 2012, Zebra entered into a revolving credit agreement for a five-year \$250 million revolving credit facility with a syndicate of banks led by J. P. Morgan Securities LLC as Administrative Agent. The funds under this credit facility are available for general corporate purposes of Zebra and its subsidiaries in the ordinary course of business and other purposes permitted by the agreement.

This credit agreement is guaranteed by certain of Zebra's domestic subsidiaries. Loans under the agreement bear interest at a rate equal to the spread over the base rate, which base rate is the greater of: the prime rate, the Federal Funds Effective Rate plus one-half of one percent (0.50%), or an adjusted LIBOR rate, plus one percent (1%). The spread is dependent on Zebra's ratio of Total Debt to EBITDA, and ranges from 0.25% to 1.75%. The spread in effect at closing for prime rate and Federal Funds based loans was 0.00%. This spread for LIBOR-based loans depends on our ratio of Total Debt to EBITDA, as defined in the agreement, and ranges from 1.00% to 1.75%. The spread in effect at closing for LIBOR-based loans was 1.00%. Zebra did not make any draw or loan request under the New Credit Agreement at the time of closing.

The credit agreement includes customary representations, warranties, affirmative and negative covenants (including, among others, restrictions on the payment of cash dividends) and events of default (and related remedies, including acceleration and increased interest rates following an event of default). It also contains financial covenants tied to Zebra's leverage ratio and interest coverage ratio.

The credit agreement above replaced Zebra's August 2008 five year \$100 million credit agreement.

Note 11 Stockholders Equity

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

	September 29, 2012	As of December 31, 2011
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	51,252,384	52,095,166
Treasury stock		
Shares held	20,899,473	20,056,691

During the nine month period ended September 29, 2012, Zebra purchased 1,073,863 shares of common stock for \$39,697,000 under a board authorized share repurchase plan, compared with purchases of 3,924,910 shares of common stock for \$146,373,000 for the nine month period ended October 1, 2011.

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

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Balance at the beginning of the year	52,095,166	55,711,325
Repurchases	(1,073,863)	(3,924,910)
Stock option and ESPP issuances	176,274	453,728
Restricted share issuances	236,576	214,324
Restricted share forfeitures	(113,640)	(14,013)
Shares withheld for tax obligations	(68,129)	(51,944)
Balance at the end of the period	51,252,384	52,388,510

Table of Contents**Note 12 Earnings Per Share**

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

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Weighted average shares:				
Weighted average common shares outstanding	51,566	53,339	51,775	54,405
Effect of dilutive securities outstanding	243	289	266	365
Diluted weighted average shares outstanding	51,809	53,628	52,041	54,770
Earnings:				
Income from continuing operations	\$ 26,581	\$ 34,187	\$ 87,098	\$ 97,484
Income from discontinued operations	516	10,814	816	42,115
Net income	\$ 27,097	\$ 45,001	\$ 87,914	\$ 139,599
Basic per share amounts:				
Income from continuing operations	\$ 0.52	\$ 0.64	\$ 1.68	\$ 1.79
Income from discontinued operations	0.01	0.20	0.02	0.77
Net income	\$ 0.53	\$ 0.84	\$ 1.70	\$ 2.56
Diluted per share amounts:				
Income from continuing operations	\$ 0.51	\$ 0.64	\$ 1.67	\$ 1.78
Income from discontinued operations	0.01	0.20	0.02	0.77
Net income	\$ 0.52	\$ 0.84	\$ 1.69	\$ 2.55

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

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Potentially dilutive shares	2,150,000	1,851,000	1,809,000	1,446,000

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 up to 5 years.

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		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011

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Cost of sales	\$ 287	\$ 218	\$ 820	\$ 755
Selling and marketing	511	333	1,271	1,107
Research and development	374	343	1,196	1,037
General and administrative	2,268	2,204	8,198	7,149
Total compensation	\$ 3,440	\$ 3,098	\$ 11,485	\$ 10,048
Income tax benefit	\$ 1,217	\$ 1,069	\$ 4,003	\$ 3,467

Cash flows resulting from the tax benefits of 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 nine months ended September 29, 2012 was \$1,492,000 and for the nine months ended October 1, 2011 was \$1,265,000.

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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. Grants in the tables 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 SARs as well as the fair value of the grants based on those assumptions:

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Expected dividend yield	0%	0%
Forfeiture rate	10.21%	11.50%
Volatility	35.90%	35.33%
Risk free interest rate	.94%	2.01%
Range of interest rates	0.07% - 1.95%	0.01% - 3.18%
Expected weighted-average life	5.48 years	5.42 years
Fair value of stock appreciation rights (SARs) granted	\$ 5,507,000	\$ 5,495,000
Weighted-average grant date fair value of SARs granted	\$ 12.84	\$ 14.29

SAR activity was as follows:

SARs	Nine Months Ended September 29, 2012	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	1,287,724	\$ 28.91
Granted	428,987	38.51
Exercised	(64,582)	23.05
Forfeited	(35,725)	34.30
Expired	(2,011)	41.57
Outstanding at end of period	1,614,393	\$ 31.56
Exercisable at end of period	553,996	\$ 26.48
Intrinsic value of exercised SARs	\$ 953,020	

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 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 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 and SARs granted in 2012 to non-employee directors being fully vested upon grant. Absent an early expiration due to termination of employment, all SARs expire 10 years after the grant date.

The following table summarizes information about SARs outstanding at September 29, 2012:

Range of Exercise Prices	Outstanding			Exercisable	
	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$ 19.56-\$19.56	368,856	6.60 years	\$ 19.56	256,826	\$ 19.56
\$ 21.83-\$27.50	56,764	7.10 years	24.82	46,761	24.64
\$ 27.82-\$27.82	400,461	7.60 years	27.82	127,518	27.82
\$ 28.33-\$37.15	61,725	9.02 years	33.37	25,976	34.82
\$ 38.79-\$42.36	726,587	9.12 years	40.09	96,915	41.69

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1,614,393

553,996

	Outstanding	Exercisable
Aggregate intrinsic value	\$ 10,972,000	\$6,257,000
Weighted-average remaining contractual term	8.1 years	7.4 years

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Stock option activity was as follows:

Options	Nine Months Ended September 29, 2012	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	1,702,650	\$ 40.43
Granted	0	0.00
Exercised	(102,230)	27.26
Forfeited	(1,663)	36.36
Expired	(20,341)	43.63
Outstanding at end of period	1,578,416	\$ 41.24
Exercisable at end of period	1,572,730	\$ 41.32
Intrinsic value of exercised options	\$ 1,090,858	

The following table summarizes information about stock options outstanding at September 29, 2012:

Range of Exercise Prices	Outstanding			Exercisable	
	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$ 1.29-\$36.49	422,223	4.78 years	\$ 32.84	416,537	\$ 33.02
\$ 36.80-\$41.25	378,221	4.56 years	39.78	378,221	39.78
\$ 42.28-\$45.62	401,316	2.99 years	44.51	401,316	44.51
\$ 46.18-\$51.62	374,856	2.20 years	48.63	374,856	48.63
\$ 53.92-\$53.92	1,800	1.66 years	53.92	1,800	53.92
	1,578,416			1,572,730	

Aggregate intrinsic value	Outstanding	Exercisable
Weighted-average remaining contractual term	\$ 1,744,000	\$1,643,000
	3.7 years	3.7 years

Restricted stock award activity was as follows:

Restricted Stock Awards	Nine Months Ended September 29, 2012	
	Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	836,141	\$ 28.34
Granted	235,889	38.53
Released	(226,978)	20.93
Forfeited	(113,640)	23.26
Outstanding at end of period	731,412	\$ 34.72

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Zebra's restricted stock awards 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.

	As of September 29, 2012
Awards granted under Zebra's equity based compensation plans:	
Unearned compensation costs related to awards granted	\$ 21,978,000
Period expected to be recognized over	2.6 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.

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	Nine Months Ended	
	September 29, 2012	October 1, 2011
Fair market value	\$ 34.93	\$ 35.86
Option price	\$ 33.18	\$ 34.07
Expected dividend yield	0%	0%
Expected volatility	21%	32%
Risk free interest rate	0.06%	0.09%

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 in 2007. We intend to utilize these net operating loss carryforwards to offset future income taxes.

Zebra earns a significant amount of our operating income outside of the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. Zebra does not intend to repatriate funds, however, should Zebra require more capital in the U.S. than is generated by our operations locally, Zebra could elect to repatriate funds held in foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates or increased interest expense.

The U.S. federal tax return for 2011 is currently open and subject to an audit by the Internal Revenue Service. The 2007 tax return is open on a limited basis due to an amended return filed in August 2011. The tax years 2008 through 2010 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 nine months ended September 29, 2012 and October 1, 2011, we did not accrue any interest or penalties into income tax expense.

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Effective tax rate	31.0%	28.8%	27.5%	29.7%

Zebra's estimates of taxes for interim periods are based upon the annual effective tax rate for the full-year, adjusted for any discrete items that relate to an interim period. The estimated annual effective tax rate is determined using projections of full-year taxable income by each Zebra legal entity with the appropriate statutory tax rate for that subsidiary applied. The effective rate may change during the year, typically due to the change in our estimated taxable income by jurisdiction as each year progresses.

The 2012 effective tax rate increase in the third quarter reflects a discrete item for a nondeductible asset impairment charge which is offset by a rate decrease related to the second quarter implementation of a new structure for Zebra's international subsidiaries. The effect of the non-deductible asset impairment charge increased the effective tax rate by 6.0% for the third quarter of 2012. Effective August 2012, the statutory tax rate in the UK declined from 25.5% to 24.5%.

The effective income tax rate for the first nine months of 2012 was 27.5% compared with an income tax rate of 29.7% for the first nine months of 2011. The 2012 effective tax rate decline for the first nine months of 2012 compared to 2011 reflects the implementation of a new structure for Zebra's international subsidiaries which has contributed to reducing the effective tax rate. In addition, the UK statutory rate decreased from 25.5% to 24.5% in August 2012. These reductions were offset by a discrete item in the third quarter of 2012 related to a non-deductible asset impairment charge which increased the effective tax rate for first nine months of 2012 by 2.0%. The rate in 2011 included a tax valuation allowance in the first quarter of 2011 against a subsequently disposed subsidiary.

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Stockholders' equity includes certain items classified as accumulated other comprehensive income, 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 8 Derivative Instruments 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 significant components of other comprehensive income gross and net of income tax are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Unrealized gains (losses) on hedging transactions:				
Gross	\$ (5,458)	\$ 8,617	\$ (8,599)	\$ 4,164
Income tax (benefit) expense	(1,512)	3,002	(2,407)	1,326
Net	\$ (3,946)	\$ 5,615	\$ (6,192)	\$ 2,838
Unrealized gains (losses) on investments:				
Gross	\$ 556	\$ (989)	\$ 1,355	\$ (455)
Income tax (benefit) expense	164	(353)	438	(152)
Net	\$ 392	\$ (636)	\$ 917	\$ (303)

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

	As of	
	September 29, 2012	December 31, 2011
Unrealized gains and (losses) on hedging transactions:		
Gross	\$ (1,244)	\$ 7,355
Income tax (benefit) expense	(311)	2,096
Net	(933)	5,259
Unrealized gains and (losses) on investments classified as available-for-sale:		
Gross	558	(797)
Income tax (benefit) expense	150	(288)
Net	408	(509)
Foreign currency translation adjustments	(8,765)	(8,963)
Total accumulated other comprehensive loss	\$ (9,290)	\$ (4,213)

Note 16 New Accounting Pronouncements

In June 2011, the FASB issued update 2011-05, ASC 220, *Comprehensive Income: Presentation of Comprehensive Income* and in December 2011, the FASB issued update 2011-12, ASC 220, *Comprehensive Income: Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU No. 2011-12 is to defer only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments, while the Board is re-deliberating; entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. This standard is effective for interim and annual periods beginning after December 15, 2011. The adoption of this standard moved the Other Comprehensive Income statement disclosure from our footnote to its own financial statement for our 10-Q filings in 2012.

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In September 2011, the FASB issued update 2011-08, ASC 350, *Intangibles Goodwill and Other: Testing Goodwill for Impairment*. This updated guidance simplifies how companies test goodwill for impairment. Essentially, companies are no longer required to calculate the fair value of a reporting unit unless the entity determines that it is more-likely-than-not that its fair value is less than its carrying amount using a qualitative assessment. This standard is effective for fiscal years beginning after December 15, 2011. The adoption of this standard did not have any effect upon our consolidated financial statements.

In July 2012, the FASB issued update 2012-03, ASC 350, *Intangibles Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment*. This updated guidance provides entities with the option to make qualitative assessments about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. This standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. This standard will not have a material effect on our consolidated financial statements.

Note 17 Discontinued Operations

Sale of Navis, LLC - On March 18, 2011, we sold our Navis marine terminal solutions business and the related WhereNet marine terminal solutions product line of our Zebra Enterprise Solutions (ZES) business segment for approximately \$188,588,000 in cash to Cargotec Corporation. We received \$13,790,000 of the previously escrowed funds in the first quarter of 2012, and we received the remaining escrowed funds in the amount of \$13,790,000 in the third quarter of 2012.

Sale of proveo AG - On August 3, 2011, we entered into a Share Purchase Agreement with F Two NV (a Belgium company) to sell all of our interest in Zebra Enterprise Solutions GmbH (formerly proveo AG) business. The loss recorded upon divestiture was \$1,248,000. As part of the sale, Zebra agreed with the buyer to provide a revolving loan of up to 1,000,000 which was due August 3, 2012 and bore interest at 6.5%. Zebra realized tax benefits in the amount of \$13,308,000 with the divestiture of proveo AG. These tax benefits are primarily related to the difference in book basis versus tax basis. On June 29, 2012 F Two NV (a Belgium company) sold the business and assigned the revolving loan to OBQ SA (a Luxembourg company) with Zebra's consent. The revolving loan commitment was reduced to a lesser amount of up to 526,058. The due date for borrowings under the agreement was extended from August 3, 2012 to December 31, 2012. The interest rate remains unchanged at 6.5%.

Beginning in the first quarter of 2011, Zebra reported the results of these businesses as discontinued operations. The amounts presented below for discontinued operations include the operating results of Navis and proveo for the three and nine months ended September 29, 2012 and October 1, 2011. After the Navis sale, Zebra consolidated the remaining Location Solutions product lines.

Summary results for discontinued operations in our unaudited consolidated statement of earnings are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net sales	\$ 0	\$ 233	\$ 0	\$ 13,945
Income (loss) from discontinued operations	\$ 15	\$ (1,246)	\$ (135)	\$ (13,970)
Income tax (expense) benefit	501	0	338	1,105
Gain (loss) on sale of discontinued operations	0	(1,248)	613	66,753
Income tax (expense) benefit on sale	0	13,308	0	(11,773)
Income from discontinued operations	\$ 516	\$ 10,814	\$ 816	\$ 42,115

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The components of cash flows of discontinued operations in our unaudited consolidated statement of cash flows are as follows (in thousands):

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Cash flows from discontinued operations:		
Net cash used by operating activities	\$ 0	\$ (1,301)
Net cash provided by (used in) investing activities	0	0
Net cash provided by (used in) financing activities	0	0
Effect of exchange rate changes on cash	0	0
Net decrease in cash and cash equivalents	0	(1,301)
Cash and cash equivalents at beginning of period	0	1,301
Cash and cash equivalents at end of period	\$ 0	\$ 0

Note 18 Business Combinations

LaserBand LLC. On July 13, 2012, Zebra acquired all of the outstanding membership interests in LaserBand LLC (a Missouri limited liability company) for \$59,874,000 in cash, subject to a working capital adjustment. As part of the acquisition closing, an escrow balance of approximately \$8,700,000 was established against the total purchase price.

LaserBand LLC is based in St. Louis, Missouri, and is a leader in patient identification wristbands and related products. LaserBand strengthens Zebra's product and patent portfolio and enables Zebra to offer a wider array of products to hospitals, other healthcare organizations and other wristband customers. The consolidated financial statements include the operating results of LaserBand from the date of acquisition. Pro forma results have not been presented because the effect of the acquisition is not material to the company's financial results.

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

	As of July 13, 2012
Current assets	\$ 6,614
Property and equipment	46
Other assets	17
Goodwill	24,756
Other intangibles	29,560
Total assets acquired	\$ 60,993
Current liabilities	1,119
Net assets acquired	\$ 59,874

On a preliminary basis pending the receipt of final valuations, the purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of \$24,756,000. The intangible assets of \$29,560,000 consist of the following (in thousands):

	Amount	Useful life
Current technology	\$ 6,260	5 years
Patents and patent rights	4,580	7 years

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Customer relationships	18,720	5 to 9 years
Acquired other intangibles	\$ 29,560	

The goodwill is deductible for tax purposes.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
Results of Operations: Third Quarter of 2012 versus Third Quarter of 2011**Consolidated Results of Operations**

(Amounts in thousands, except percentages):

	Three Months Ended		Percent Change	Percent of Net Sales - 2012	Percent of Net Sales - 2011
	September 29, 2012	October 1, 2011			
Net sales					
Net sales of tangible products	\$ 239,786	\$ 241,686	(0.8)	95.1	95.4
Revenue from services & software	12,251	11,652	5.1	4.9	4.6
Total net sales	252,037	253,338	(0.5)	100.0	100.0
Cost of sales					
Cost of sales of tangible products	118,751	122,529	(3.1)	47.1	48.3
Cost of services & software	6,362	7,256	(12.3)	2.5	2.9
Total cost of sales	125,113	129,785	(3.6)	49.6	51.2
Gross profit	126,924	123,553	2.7	50.4	48.8
Operating expenses	88,159	74,673	18.1	35.0	29.5
Operating income	38,765	48,880	(20.7)	15.4	19.3
Other income (expense)	(267)	(898)	(70.3)	(0.1)	(0.4)
Income from continuing operations before income taxes	38,498	47,982	(19.8)	15.3	18.9
Income taxes	11,917	13,795	(13.6)	4.7	5.4
Income from continuing operations	26,581	34,187	(22.2)	10.6	13.5
Income from discontinued operations, net of tax	516	10,814	(95.2)	0.2	4.3
Net income	\$ 27,097	\$ 45,001	(39.8)	10.8	17.8
Diluted earnings per share:					
Income from continuing operations	\$ 0.51	\$ 0.64	(20.3)		
Income from discontinued operations	0.01	0.20	(95.0)		
Net income	\$ 0.52	\$ 0.84	(38.1)		

Consolidated Results of Operations - Third quarter**Sales**

Net sales for the third quarter of 2012 compared with the corresponding 2011 quarter, decreased by 0.5%. The slight decrease in sales was largely attributable to a 5.3% decrease in hardware sales offset by an increase in supplies sales which includes the sales in 2012 from the acquisition of Laserband. Printer unit volume decreased 1.5% from the third quarter of 2011 primarily due to volume decreases in tabletop, mobile, and card printers, offset by increased shipments of desktop printers.

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

Product Category	Three Months Ended		Percent Change	Percent of Net Sales - 2012	Percent of Net Sales - 2011
	September 29, 2011	October 1, 2011			
Hardware	\$ 183,053	\$ 193,214	(5.3)	72.6	76.3
Supplies	55,423	47,110	17.6	22.0	18.6
Service and software	12,251	11,652	5.1	4.9	4.6
Subtotal products	250,727	251,976	(0.5)	99.5	99.5
Shipping and handling	1,310	1,362	(3.8)	0.5	0.5
Total net sales	\$ 252,037	\$ 253,338	(0.5)	100.0	100.0

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Sales declines in Europe, Middle East and Africa, and Asia Pacific, substantially from a challenged business environment, were largely offset by increased sales in North America and Latin America. Sales increased in Latin America due to geographic expansion with notable increases in tabletop printers and supplies. Sales in North America increased due to increased sales to retail and manufacturing customers. Zebra continues to build a broader base of customers to penetrate targeted industries more deeply. Movements in foreign exchange rates decreased sales by \$3,767,000 in the Europe, Middle East and Africa region for the quarter, due principally to a weaker euro against the U.S. dollar.

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

Geographic Region	Three Months Ended		Percent Change	Percent of Net Sales - 2012	Percent of Net Sales - 2011
	September 29, 2012	October 1, 2011			
Europe, Middle East and Africa	\$ 75,637	\$ 84,597	(10.6)	30.0	33.4
Latin America	26,188	23,968	9.3	10.4	9.5
Asia-Pacific	36,843	38,723	(4.9)	14.6	15.3
Total International	138,668	147,288	(5.9)	55.0	58.2
North America	113,369	106,050	6.9	45.0	41.8
Total net sales	\$ 252,037	\$ 253,338	(0.5)	100.0	100.0

Gross Profit

Gross profit of 50.4%, versus 48.8% in 2011, reflects reduced overhead, freight and reserve costs, partially offset by unfavorable movements in foreign exchange rates and product mix. Unfavorable foreign currency movements decreased third quarter gross profit by \$2,939,000.

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

	Three Months Ended		Percent Change
	September 29, 2012	October 1, 2011	
Total printers shipped	310,972	315,743	(1.5)
Average selling price of printers shipped	\$ 492	\$ 524	(6.1)

The 6.1% decrease in average selling price is a result primarily of a change in product mix from one quarter compared to the other.

Operating Expenses

Operating expenses for the quarter increased 18.1% mainly due to greater general and administrative expenses and an asset impairment charge of \$9,114,000. Excluding the asset impairment charge, operating expenses increased 5.9% over 2011 levels. Compensation costs, outside professional services, rent, and depreciation all increased over 2011 levels. Acquisition costs relate to investigated or completed merger and acquisition activity during the period. The asset impairment charge in 2012 is for goodwill related to the remaining goodwill of Zebra's smaller reporting unit.

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

Operating Expenses	Three Months Ended		Percent Change	Percent of Net Sales 2012	Percent of Net Sales 2011
	September 29, 2012	October 1, 2011			
Selling and marketing	\$ 32,321	\$ 31,942	1.2	12.8	12.6
Research and development	22,007	22,584	(2.6)	8.7	8.9

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General and administrative	22,481	18,978	18.5	9.0	7.5
Amortization of intangible assets	1,670	843	98.1	0.7	0.3
Acquisition costs	566	188	N/M	0.2	0.1
Exit and restructuring costs	0	138	N/M	0.0	0.1
Asset impairment charge	9,114	0	N/M	3.6	0.0
Total operating expenses	\$ 88,159	\$ 74,673	18.1	35.0	29.5

Table of Contents*Operating Income*

The operating income decreased 20.7% for the third quarter of 2012 versus 2011 as a result of increased operating expenses as noted above, primarily the \$9,114,000 goodwill impairment. Operating income actually decreased 2.0% excluding the effect of the \$9,114,000 goodwill impairment in 2012.

Other Income (Expense)

Investment income increased due to higher cash and investment amounts in 2012 compared with 2011, primarily related to increased cash from operations. Zebra recorded a higher foreign exchange loss in 2012 as the U.S. dollar weakened against the euro.

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

	Three Months Ended	
	September 29, 2012	October 1, 2011
Investment income	\$ 541	\$ 134
Foreign exchange loss	(514)	(173)
Other, net	(294)	(859)
 Total other income (expense)	 \$ (267)	 \$ (898)

Income Taxes

The effective income tax rate for the third quarter of 2012 was 31.0% compared with 28.8% for the third quarter of 2011. The 2012 effective tax rate increase in the third quarter reflects a discrete item for a nondeductible asset impairment charge which is offset by a decrease related to the second quarter implementation of a new structure for Zebra's international subsidiaries. The effect of the non-deductibility of the asset impairment charge increased the effective tax rate by 6.0% for the third quarter of 2012. Effective August 2012, the statutory tax rate in the UK declined from 25.5% to 24.5%.

Income from Discontinued Operations

Beginning in the first quarter of 2011, Zebra reported the results of Navis and proveo as discontinued operations. Each of these businesses was sold during 2011. The income from discontinued operations in 2012 is primarily related to the reversal of a reserve for an uncertain tax position. The income from discontinued operations in 2011 relates to the tax benefit realized upon the sale of proveo AG which was offset by losses on discontinued operations and losses on the sale of discontinued operations.

Table of Contents**Results of Operations: Nine months ended September 29, 2012 versus nine months ended October 1, 2011****Consolidated Results of Operations**

(Amounts in thousands, except percentages):

	Nine Months Ended		Percent Change	Percent of Net Sales - 2012	Percent of Net Sales - 2011
	September 29, 2012	October 1, 2011			
Net sales					
Net sales of tangible products	\$ 706,970	\$ 700,568	0.9	95.2	95.2
Revenue from services & software	36,019	35,612	1.1	4.8	4.8
Total net sales	742,989	736,180	0.9	100.0	100.0
Cost of Sales					
Cost of sales of tangible products	357,764	351,042	1.9	48.2	47.7
Cost of services & software	18,041	19,889	(9.3)	2.4	2.7
Total cost of sales	375,805	370,931	1.3	50.6	50.4
Gross profit	367,184	365,249	0.5	49.4	49.6
Operating expenses	246,951	225,336	9.6	33.2	30.6
Operating income	120,233	139,913	(14.1)	16.2	19.0
Other income (expense)	(121)	(1,306)	(90.7)	0.0	(0.2)
Income from continuing operations before income taxes	120,112	138,607	(13.3)	16.2	18.8
Income taxes	33,014	41,123	(19.7)	4.5	5.6
Income from continuing operations	87,098	97,484	(10.7)	11.7	13.2
Income from discontinued operations, net of tax	816	42,115	(98.1)	0.1	5.7
Net Income	\$ 87,914	\$ 139,599	(37.0)	11.8	18.9
Diluted earnings per share					
Income from continuing operations	\$ 1.67	\$ 1.78	(6.2)		
Income from discontinued operations	0.02	0.77	(97.4)		
Net income	\$ 1.69	\$ 2.55	(33.7)		

Consolidated Results of Operations Year to date*Sales*

Net sales for the first nine months of 2012 compared with the same 2011 period increased 0.9%. The increase in sales was largely attributable to 9.6% growth in supplies including wristbands, labels, and card printer supplies. Printer unit volume increased 7.1% for the first nine months of 2012 compared to levels in 2011 primarily due to volume increases in desktop, mobile and card printers, as product mix toward lower-priced products offset the volume increase.

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

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Product Category	Nine Months Ended		Percent Change	Percent of Net Sales - 2012	Percent of Net Sales - 2011
	September 29, 2012	October 1, 2011			
Hardware	\$ 548,222	\$ 555,108	(1.2)	73.9	75.4
Supplies	154,893	141,323	9.6	20.8	19.2
Service and software	36,019	35,612	1.1	4.8	4.8
Subtotal products	739,134	732,043	1.0	99.5	99.4
Shipping and handling	3,855	4,137	(6.8)	0.5	0.6
Total net sales	\$ 742,989	\$ 736,180	0.9	100.0	100.0

Sales increased in Latin America due to geographic expansion with notable increases in supplies, mobile, and card printer sales for the first nine months of 2012 compared to the same period in 2011. Sales in North America increased due to increased sales of supplies and a strong demand for desktop, card and tabletop printers. Zebra continues to build a broader base of customers to penetrate targeted industries more deeply. Movements in foreign exchange rates decreased sales by \$10,281,000 in the Europe, Middle East and Africa regions due principally to a weaker euro against the U.S. dollar.

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

Geographic Region	Nine Months Ended		Percent Change	Percent of Net Sales 2012	Percent of Net Sales 2011
	September 29, 2012	October 1, 2011			
Europe, Middle East and Africa	\$ 239,615	\$ 254,218	(5.7)	32.3	34.5
Latin America	73,846	68,137	8.4	9.9	9.3
Asia-Pacific	105,912	109,518	(3.3)	14.3	14.9
Total International	419,373	431,873	(2.9)	56.5	58.7
North America	323,616	304,307	6.3	43.5	41.3
Total net sales	\$ 742,989	\$ 736,180	0.9	100.0	100.0

Gross Profit

Gross profit dollars increased 0.5% primarily due to favorable movements in product mix. Gross profit was affected by unfavorable foreign currency movements which decreased gross profit by \$8,116,000. The above factors contributed to the decrease in gross margin from 49.6% to 49.4%.

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

	Nine Months Ended		Percent Change
	September 29, 2012	October 1, 2011	
Total printers shipped	938,827	876,483	7.1
Average selling price of printers shipped	\$ 488	\$ 535	(8.7)

For the first nine months of 2012, unit volumes increased compared to the same period of 2011, with notable volume increases in desktop, mobile, and card printers. The 8.7% decrease in average selling price is primarily the result of a change in product mix.

Operating Expenses

Operating expenses in 2012 increased 9.6% due to greater selling and marketing and general and administrative expenses compared with the same period in 2011. Excluding the asset impairment charge, operating expenses increased 5.5% over 2011 levels. Several categories accounted for these increases, including compensation costs, business development, outside professional services, travel and entertainment, rent, depreciation and information systems expenses. These increases are principally related to activities supporting Zebra's geographic expansion and market development activities. Acquisition costs are related to investigated and completed acquisitions during the period. Exit and restructuring costs in 2011 relate to the relocation and consolidation of administrative, accounting and distribution functions of our Location Solutions product line. Asset impairment charge in 2012 relates to the remaining goodwill associated with Zebra's smaller reporting unit.

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

Operating Expenses	Nine Months Ended		Percent Change	Percent of Net Sales 2012	Percent of Net Sales 2011
	September 29, 2012	October 1, 2011			
Selling and marketing	\$ 96,593	\$ 91,420	5.7	13.0	12.4
Research and development	64,759	66,752	(3.0)	8.7	9.1
General and administrative	71,203	62,372	14.2	9.6	8.5
Amortization of intangible assets	3,210	2,514	27.7	0.4	0.3

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Acquisition costs	2,072	188	N/M	0.3	0.0
Exit and restructuring costs	0	2,090	N/M	0.0	0.3
Asset impairment charge	9,114	0	N/M	1.2	0.0
Total operating expenses	\$ 246,951	\$ 225,336	9.6	33.2	30.6

Table of Contents*Operating Income*

The operating income decrease of 14.1% for the first nine months of 2012 was the result of increased operating expenses as noted above. Operating income actually decreased 7.6% considering the effect of the \$9,114,000 goodwill impairment in 2012.

Other Income (Expense)

Investment income increased due to increased cash and investment balances in 2012 compared with 2011. Zebra recorded a larger foreign exchange loss in 2011.

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

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Investment income	\$ 1,959	\$ 1,350
Foreign exchange loss	(936)	(1,300)
Other, net	(1,144)	(1,356)
 Total other income (expense)	 \$ (121)	 \$ (1,306)

Income Taxes

The effective income tax rate for the first nine months of 2012 was 27.5% compared with an income tax rate of 29.7% for the first nine months of 2011. The 2012 effective tax rate decline for the first nine months of 2012 compared to 2011 reflects the implementation of a new structure for Zebra's international subsidiaries which has contributed to reducing the effective tax rate. In addition, the UK statutory rate decreased from 25.5% to 24.5% in August 2012. These reductions were offset by a discrete item in the third quarter of 2012 related to a non-deductible asset impairment charge which increased the effective tax rate for first nine months of 2012 by 2.0%. The rate in 2011 included a tax valuation allowance in the first quarter of 2011 against a subsequently disposed subsidiary.

Income from Discontinued Operations

Beginning in the first quarter of 2011, Zebra reported the results of Navis and proveo as discontinued operations. Each of these businesses was sold during 2011. The income in 2011 relates to these sales offset by losses on discontinued operations. The income from discontinued operations in 2012 is related to the amendment and extension of the proveo loan agreement and the reversal of a tax reserve.

Liquidity and Capital Resources

(Amounts in thousands, except percentages):

Rate of Return Analysis:	Nine Months Ended	
	September 29, 2012	October 1, 2011
Average cash and marketable securities balances	\$ 347,745	\$ 278,823
Annualized rate of return	0.8%	0.7%

Average cash and marketable securities balances for the first nine months of 2012 increased compared to 2011 as a result of increased cash provided by operating activities and from the collection of the escrowed proceeds from the sale of Navis.

As of September 29, 2012, Zebra had \$368,795,000 in cash and investments and marketable securities, compared with \$326,695,000 at December 31, 2011. Factors affecting cash and investment balances during the first nine months of 2012 include the following (changes below include the impact of foreign currency):

Inventories decreased \$11,981,000 due to decreases in raw materials and finished goods.

Accounts payable decreased \$10,843,000 due to decreased inventory levels and timing of payments.

Accrued liabilities decreased \$11,341,000 due to the timing of annual bonus payments and regular payroll.

Income taxes payable increased \$14,711,000 due to the timing of tax payments.

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Purchases of property and equipment totaled \$17,140,000.

Received escrowed proceeds from the sale of Navis totaling \$27,580,000.

Acquisition of LaserBand, LLC in the amount of \$59,874,000

Purchases of treasury shares totaled \$39,697,000.

Zebra earns a significant amount of our operating income outside of the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. Zebra does not intend to repatriate funds, however, should Zebra require more capital in the U.S. than is generated by our operations locally, Zebra could elect to repatriate funds held in foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates or increased interest expense.

On October 10, 2012, Zebra entered into a revolving credit agreement for a five-year \$250 million revolving credit facility with a syndicate of banks led by J. P. Morgan Securities LLC as Administrative Agent. The funds under this credit facility are available for general corporate purposes of Zebra and its subsidiaries in the ordinary course of business and other purposes permitted by the agreement.

This credit agreement is guaranteed by certain of Zebra's domestic subsidiaries. Loans under the agreement bear interest at a rate equal to the spread over the base rate, which base rate is the greater of: the prime rate, the Federal Funds Effective Rate plus one-half of one percent (0.50%), or an adjusted LIBOR rate, plus one percent (1%). The spread is dependent on Zebra's ratio of Total Debt to EBITDA, and ranges from 0.25% to 1.75%. The spread in effect at closing for prime rate and Federal Funds based loans was 0.00%. This spread for LIBOR-based loans depends on our ratio of Total Debt to EBITDA, as defined in the agreement, and ranges from 1.00% to 1.75%. The spread in effect at closing for LIBOR-based loans was 1.00%. Zebra did not make any draw or loan request under the New Credit Agreement at the time of closing.

The credit agreement includes customary representations, warranties, affirmative and negative covenants (including, among others, restrictions on the payment of cash dividends) and events of default (and related remedies, including acceleration and increased interest rates following an event of default). It also contains financial covenants tied to Zebra's leverage ratio and interest coverage ratio.

The credit agreement above replaced Zebra's August 2008 five year \$100 million credit agreement.

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 generally 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.

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 rebates and establish a reserve for them based on shipment history. Historically, actual rebates have been in line with our estimates.

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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 three types of software and record revenue as follows:

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

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

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

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.

Investments and Marketable Securities

Investments and marketable securities at September 29, 2012, consisted of the following:

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U.S. government and agency securities	29.5%
Obligations of government-sponsored enterprises (1)	1.6%
State and municipal bonds	31.9%
Corporate securities	37.0%

(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.

We classify our debt and marketable equity securities in one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those debt securities that Zebra has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

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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 September 29, 2012, Zebra's investments in marketable debt securities are classified as available-for-sale. In addition, as of September 29, 2012, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term investments in the 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 credit worthiness,

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 0.7% to 1.2% of total accounts receivable. Accounts receivable reserves as of September 29, 2012, were \$1,082,000, or 0.7% of the balance due. Accounts receivable reserves as of December 31, 2011, were \$1,560,000, or 1.0% of the balance due. We believe our reserve level is appropriate considering the quality of the portfolio as of September 29, 2012. 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 8.0% to 11.9% of gross inventory. As of September 29, 2012, inventory reserves were \$14,822,000, or 10.8% of gross inventory compared to inventory reserves of \$14,710,000, or 9.9% of gross inventory as of December 31, 2011. We believe our reserve level is appropriate considering the quantities and quality of the inventories as of September 29, 2012.

Valuation of Goodwill

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:

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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 of a significant asset group within a reporting unit, or

Allocation of a portion of goodwill to a business to be disposed of.

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. The approach defined below is based upon our last impairment test conducted in June 2012 as of the end of May 2012.

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Under the **Income Approach Discounted Cash Flow Analysis** the key assumptions consider sales, cost of sales and operating expenses projected through the year 2021. 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 premium 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 20 publicly traded companies, including Zebra, which we believe have significant relevant similarities. For these 20 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 19 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.

There have not been any significant changes to our impairment testing methodology other than updating the assumptions to reflect the current market environment. As discussed above, key assumptions used in the first step of the goodwill impairment test were determined by management utilizing the internal operating plan. The key assumptions utilized include forecasted growth rates for revenues and operating expenses as well as a discount rate which is determined by looking at current risk-free rates of capital, current market interest rates and the evaluation of risk premium relevant to the business segment. Zebra will monitor future results and if necessary will perform at test if indicators trigger an impairment review.

We test the impairment of goodwill each year as of 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 2012 and determined that our goodwill was not impaired as of the end of May 2012.

Zebra has two reporting units required for its annual goodwill impairment test. As part of Zebra's annual impairment test in the second quarter, Management determined that the larger of the two reporting units' fair value exceeded its carrying value by a significant amount. The second smaller reporting unit's amount by which the fair value exceeded the carrying value ranged from approximately 8% under the Income Approach to 31% under the Market Approach.

Due to the deterioration in the smaller reporting unit's operating results during the third quarter, failing to meet our forecasted revenues and operating expenses, and a decline in expected growth rates, our fair value calculation for the smaller reporting unit changed and we determined our goodwill associated with the smaller reporting unit to be impaired. The above impairment indicators led us to conclude an interim goodwill test was necessary. Zebra performed the first step of the impairment test and failed. As a result, Zebra performed a preliminary second step analysis and recorded an estimated goodwill impairment charge of \$9,114,000 as of September 29, 2012. This amount is an estimate and could be adjusted upon completion of a detailed impairment analysis. After this impairment charge, there is no remaining goodwill in the smaller reporting unit.

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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 underperformance relative to expected historical or projected future operating results,

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

Significant negative industry or economic trends,

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

Significant decline in market capitalization relative to net book value.

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

Net intangible assets, long-lived assets and goodwill amounted to \$134,362,000 as of September 29, 2012. On July 13, 2012, Zebra acquired intangible assets related to Laserband LLC in the amount of \$29,560,000 for patents, technology and customer relationships. On a preliminary basis and pending the receipt of final valuations, the purchase price was allocated to identifiable tangible assets, intangible assets, and liabilities assumed based on their estimated fair values which resulted in goodwill of \$24,756,000. See Note 18 Business Combinations for specific information regarding the Laserband LLC acquisition.

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.

Zebra earns a significant amount of our operating income outside of the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. Zebra does not intend to repatriate funds, however, should Zebra require more capital in the U.S. than is generated by our operations locally, Zebra could elect to repatriate funds held in foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates or increased interest expense.

The U.S. federal tax return for 2011 is currently open and subject to an audit by the Internal Revenue Service. The 2007 tax return is open on a limited basis due to an amended return filed in August 2011. The tax years 2008 through 2010 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 nine months ended September 29, 2012 and October 1, 2011, we did not accrue any interest or penalties into income tax expense.

Zebra's estimates of taxes for interim periods are based upon the annual effective tax rate for the full-year, adjusted for any discrete items that relate to an interim period. The estimated annual effective tax rate is determined using projections of full-year taxable income by each Zebra legal entity with the appropriate statutory tax rate for that subsidiary applied. The effective rate may change during the year, typically due to the change in our estimated taxable income by jurisdiction as each year progresses.

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	Nine Months Ended	
	September 29, 2012	October 1, 2011
Effective tax rate	27.5%	29.7%

The 2012 effective tax rate decline for the first nine months of 2012 compared to 2011 reflects the implementation of a new structure for Zebra's international subsidiaries which has contributed to reducing the effective tax rate. In addition, the UK statutory rate decreased from 25.5% to 24.5% in August 2012. These reductions were offset by a discrete item in the third quarter of 2012 related to a non-deductible asset impairment charge which increased the effective tax rate for first nine months of 2012 by 2.0%. The rate in 2011 included a tax valuation allowance in the first quarter of 2011 against a subsequently disposed subsidiary.

Table of Contents**Significant Customer**

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

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Customer A	20.8%	22.1%	21.0%	20.2%
Customer B	11.2%	9.7%	11.0%	10.4%
Customer C	10.5%	8.7%	10.0%	8.7%

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. The increase in the percentage of sales through distributors, which in turn sell to value-added resellers and other channel partners, is consistent with how other products in the automatic identification industry are distributed.

Safe Harbor

Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors which could cause actual results to differ materially from those reflected 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 printers, other hardware and software products and competitors' product offerings and the potential effects of technological changes,

The effect of market conditions in our geographic regions of North America, Europe, Middle East and Africa, Asia Pacific and Latin America,

Our ability to control manufacturing and operating costs,

Success of acquisitions and their integration, including the realization of revenue and cost synergies,

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

The growing regulatory burdens imposed by federal, state and local governments,

The effect of natural disasters on our business,

Currency exchange rates due to the large percentage of our sales and operations outside of the U.S., and

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

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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, 2011, 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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in Zebra's market risk during the quarter ended September 29, 2012. 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, 2011. See Note 3 to the Consolidated Financial Statements included in this report for further discussion of investments and marketable securities.

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

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Zebra began a program to update substantially all of its key financial systems in 2008. As portions of these systems are completed, they will be subject to the requirements related to internal control over financial reporting. The requirements for internal control over financial reporting will be a fundamental element of the design and implementation of these systems.

As of February 27, 2012, we completed the implementation of the new systems for our North America region. This implementation included customer order entry and invoicing, inventory procurement and management, certain accounts payable activity, and other related operational systems. As part of the implementation, we changed many of the related internal controls substantially by reducing the number of manual controls with system controls and streamlining Zebra's internal operations. These new controls will be subject to testing throughout 2012. The effectiveness of these new controls will be disclosed in our December 31, 2012 internal control report.

During 2012, we made additional changes to our controls and procedures as part of our ongoing monitoring of our controls. None of these changes has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In addition, there were no other changes that materially affected, or are reasonably likely to materially affect, our internal control 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.

Table of Contents**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

See Note 10 to the Consolidated Financial Statements included in this report.

Item 1A. Risk Factors

In addition to the other information included in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, 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

During the third quarter of 2012, Zebra purchased 400,000 shares of Zebra's Class A Common Stock at a weighted average share price of \$37.63 per share, as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum number of shares that may yet be purchased under the program
July 2012 (July 1 - July 28)	0	\$ 0.00	0	2,822,336
August 2012 (July 29 - August 25)	49,025	\$ 34.79	49,025	2,773,311
September 2012 (August 26 - September 29)	350,975	\$ 38.03	350,975	2,422,336

- (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 third quarter, Zebra acquired 6,349 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 \$36.68 per share.

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Item 6. Exhibits

- 10.1 J. P. Morgan Credit Agreement dated as of October 10, 2012
- 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 September 29, 2012, 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.

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SIGNATURES

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

ZEBRA TECHNOLOGIES CORPORATION

Date: November 7, 2012

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

Date: November 7, 2012

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