

ZEBRA TECHNOLOGIES CORP  
Form 10-Q  
November 05, 2014  
Table of Contents

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 27, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-19406

Zebra Technologies Corporation

(Exact name of registrant as specified in its charter)

|   |   |
|---|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization) | 36-2675536<br>(I.R.S. Employer<br>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

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  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 24, 2014, there were 50,921,759 shares of Class A Common Stock, \$.01 par value, outstanding.

**Table of Contents**

**ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES**

**QUARTER ENDED SEPTEMBER 27, 2014**

**INDEX**

|  | <b><u>PAGE</u></b> |
|--|--------------------|
| <b><u>PART I - FINANCIAL INFORMATION</u></b>   |                    |
| Item 1. <u>Consolidated Financial Statements</u>   |                    |
| <u>Consolidated Balance Sheets as of September 27, 2014 (unaudited) and December 31, 2013</u>  | 3                  |
| <u>Consolidated Statements of Earnings (unaudited) for the three and nine months ended September 27, 2014 and September 28, 2013</u>             | 4                  |
| <u>Consolidated Statements of Comprehensive Income (unaudited) for the three and nine months ended September 27, 2014 and September 28, 2013</u> | 5                  |
| <u>Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 27, 2014 and September 28, 2013</u>                     | 6                  |
| <u>Notes to Consolidated Financial Statements</u>  | 7                  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 25                 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 32                 |
| Item 4. <u>Controls and Procedures</u>   | 33                 |
| <b><u>PART II - OTHER INFORMATION</u></b>  |                    |
| Item 1. <u>Legal Proceedings</u>   | 34                 |
| Item 1A. <u>Risk Factors</u>   | 34                 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 39                 |
| Item 6. <u>Exhibits</u>  | 40                 |
| <b><u>SIGNATURES</u></b>   | 41                 |

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

(Amounts in thousands)

|  | <b>September 27,<br/>2014<br/>(Unaudited)</b> | <b>December 31,<br/>2013</b> |
|--|---|------------------------------|
| <b>ASSETS</b>  |   |                              |
| Current assets:  |   |                              |
| Cash and cash equivalents  | \$ 60,214                                     | \$ 62,827                    |
| Investments and marketable securities  | 481,706                                       | 350,380                      |
| Accounts receivable, net   | 187,543                                       | 176,917                      |
| Inventories, net   | 139,621                                       | 121,023                      |
| Deferred income taxes  | 19,480  | 19,810                       |
| Income tax receivable  | 9,813   | 7,622                        |
| Prepaid expenses and other current assets                                      | 22,673  | 15,524                       |
| <b>Total current assets</b>  | <b>921,050</b>                                | <b>754,103</b>               |
| Property and equipment at cost, less accumulated depreciation and amortization | 113,206                                       | 109,588                      |
| Goodwill   | 153,515                                       | 155,800                      |
| Other intangibles, net   | 61,032  | 68,968                       |
| Other assets   | 34,367  | 31,353                       |
| <b>Total assets</b>  | <b>\$ 1,283,170</b>                           | <b>\$ 1,119,812</b>          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                     |   |                              |
| Current liabilities:   |   |                              |
| Accounts payable   | \$ 46,083                                     | \$ 34,688                    |
| Accrued liabilities  | 83,035  | 61,962                       |
| Deferred revenue   | 18,965  | 15,506                       |
| Income taxes payable   | 10,131  | 6,898                        |
| <b>Total current liabilities</b>   | <b>158,214</b>                                | <b>119,054</b>               |
| Long-term deferred tax liability   | 27,387  | 25,492                       |
| Deferred rent  | 1,796   | 1,131                        |
| Other long-term liabilities  | 19,024  | 15,477                       |
| <b>Total liabilities</b>   | <b>206,421</b>                                | <b>161,154</b>               |

|   |                     |                     |
|---|---------------------|---------------------|
| <b>Stockholders' equity:</b>                      |                     |                     |
| Class A Common Stock                              | 722                 | 722                 |
| Additional paid-in capital                        | 153,026             | 143,295             |
| Treasury stock                                    | (660,294)           | (678,456)           |
| Retained earnings                                 | 1,586,986           | 1,502,878           |
| Accumulated other comprehensive loss              | (3,691)             | (9,781)             |
| <b>Total stockholders' equity</b>                 | <b>1,076,749</b>    | <b>958,658</b>      |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 1,283,170</b> | <b>\$ 1,119,812</b> |

See accompanying notes to consolidated financial statements.

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

(Amounts in thousands, except per share data)

(Unaudited)

|                                     | <b>Three Months Ended</b> |                      | <b>Nine Months Ended</b> |                      |
|-------------------------------------|---------------------------|----------------------|--------------------------|----------------------|
|                                     | <b>September 27,</b>      | <b>September 28,</b> | <b>September 27,</b>     | <b>September 28,</b> |
|                                     | <b>2014</b>               | <b>2013</b>          | <b>2014</b>              | <b>2013</b>          |
| <b>Net sales:</b>                   |                           |                      |                          |                      |
| Net sales of tangible products      | \$ 282,643                | \$ 249,919           | \$ 814,584               | \$ 714,949           |
| Revenue from services and software  | 20,629                    | 13,604               | 65,377                   | 38,671               |
| <b>Total net sales</b>              | <b>303,272</b>            | <b>263,523</b>       | <b>879,961</b>           | <b>753,620</b>       |
| <b>Cost of sales:</b>               |                           |                      |                          |                      |
| Cost of sales of tangible products  | 141,842                   | 128,191              | 409,253                  | 370,966              |
| Cost of services and software       | 9,924                     | 6,722                | 29,095                   | 20,072               |
| <b>Total cost of sales</b>          | <b>151,766</b>            | <b>134,913</b>       | <b>438,348</b>           | <b>391,038</b>       |
| <b>Gross profit</b>                 | <b>151,506</b>            | <b>128,610</b>       | <b>441,613</b>           | <b>362,582</b>       |
| <b>Operating expenses:</b>          |                           |                      |                          |                      |
| Selling and marketing               | 36,781                    | 34,395               | 107,952                  | 101,740              |
| Research and development            | 25,225                    | 22,376               | 71,792                   | 67,435               |
| General and administrative          | 24,741                    | 22,452               | 79,453                   | 71,781               |
| Amortization of intangible assets   | 2,597                     | 1,831                | 7,936                    | 5,557                |
| Acquisition and integration costs   | 35,326                    | 268                  | 60,617                   | 1,368                |
| Exit and restructuring costs        | (120)                     | 519                  | 434                      | 3,515                |
| <b>Total operating expenses</b>     | <b>124,550</b>            | <b>81,841</b>        | <b>328,184</b>           | <b>251,396</b>       |
| <b>Operating income</b>             | <b>26,956</b>             | <b>46,769</b>        | <b>113,429</b>           | <b>111,186</b>       |
| <b>Other income (expense):</b>      |                           |                      |                          |                      |
| Investment income (loss)            | (2,448)                   | 550                  | (1,648)                  | 1,700                |
| Foreign exchange loss               | (83)                      | (173)                | (332)                    | (733)                |
| Forward swaps gain/(loss)           | 185                       | 0                    | (2,248)                  | 0                    |
| Other, net                          | 196                       | (5)                  | 147                      | 1,468                |
| <b>Total other income (expense)</b> | <b>(2,150)</b>            | <b>372</b>           | <b>(4,081)</b>           | <b>2,435</b>         |
|                                     | <b>24,806</b>             | <b>47,141</b>        | <b>109,348</b>           | <b>113,621</b>       |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Income from continuing operations before income taxes        |           |           |           |           |
| Income taxes   | 9,861     | 8,541     | 25,240    | 20,921    |
| Income from continuing operations                            | 14,945    | 38,600    | 84,108    | 92,700    |
| Income from discontinued operations, net of tax              | 0         | 0         | 0         | 8         |
| Net income   | \$ 14,945 | \$ 38,600 | \$ 84,108 | \$ 92,708 |
| Basic earnings per share:                                    |           |           |           |           |
| Income from continuing operations                            | \$ 0.29   | \$ 0.76   | \$ 1.66   | \$ 1.82   |
| Income from discontinued operations                          | 0.00      | 0.00      | 0.00      | 0.00      |
| Net income   | \$ 0.29   | \$ 0.76   | \$ 1.66   | \$ 1.82   |
| Diluted earnings per share:                                  |           |           |           |           |
| Income from continuing operations                            | \$ 0.29   | \$ 0.76   | \$ 1.64   | \$ 1.81   |
| Income from discontinued operations                          | 0.00      | 0.00      | 0.00      | 0.00      |
| Net income   | \$ 0.29   | \$ 0.76   | \$ 1.64   | \$ 1.81   |
| Basic weighted average shares outstanding                    | 50,835    | 50,590    | 50,615    | 50,808    |
| Diluted weighted average and equivalent shares outstanding   | 51,461    | 50,924    | 51,251    | 51,171    |
| See accompanying notes to consolidated financial statements. |           |           |           |           |

Table of Contents

**ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in thousands)

(Unaudited)

|  | <b>Three Months Ended</b> |                      | <b>Nine Months Ended</b> |                      |
|--|---------------------------|----------------------|--------------------------|----------------------|
|  | <b>September 27,</b>      | <b>September 28,</b> | <b>September 27,</b>     | <b>September 28,</b> |
|  | <b>2014</b>               | <b>2013</b>          | <b>2014</b>              | <b>2013</b>          |
| Net income   | \$ 14,945                 | \$ 38,600            | \$ 84,108                | \$ 92,708            |
| Other comprehensive income (loss):                                     |                           |                      |                          |                      |
| Unrealized gains (losses) on hedging transactions, net of income taxes | 4,352                     | (1,007)              | 5,741                    | 345                  |
| Unrealized holding gains (losses) on investments, net of income taxes  | 240                       | 433                  | 736                      | (506)                |
| Foreign currency translation adjustment                                | (191)                     | 182                  | (387)                    | 499                  |
| Comprehensive income   | \$ 19,346                 | \$ 38,208            | \$ 90,198                | \$ 93,046            |

See accompanying notes to consolidated financial statements.



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

(Amounts in thousands)

(Unaudited)

|   | <b>Nine Months Ended</b>      |                               |
|---|-------------------------------|-------------------------------|
|   | <b>September 27,<br/>2014</b> | <b>September 28,<br/>2013</b> |
| <b>Cash flows from operating activities:</b>  |                               |                               |
| Net income  | \$ 84,108                     | \$ 92,708                     |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                               |                               |
| Depreciation and amortization   | 27,223                        | 23,312                        |
| Share-based compensation  | 10,304                        | 9,372                         |
| Impairment of long term investment  | 2,333                         | 0                             |
| Excess tax benefit from share-based compensation  | (5,779)                       | (4,170)                       |
| Loss on sale of property and equipment  | 135                           | 172                           |
| Deferred income taxes   | 4,509                         | 4,888                         |
| Loss on forward interest rate swaps   | 2,248                         | 0                             |
| Changes in assets and liabilities:  |                               |                               |
| Accounts receivable, net  | (10,810)                      | (6,641)                       |
| Inventories, net  | (18,606)                      | 16,702                        |
| Other assets  | (10,859)                      | 2,257                         |
| Accounts payable  | 7,975                         | (445)                         |
| Accrued liabilities   | 21,160                        | (6,256)                       |
| Deferred revenue  | 2,667                         | 1,752                         |
| Income taxes  | 6,664                         | 3,040                         |
| Other operating activities  | 6,406                         | 298                           |
| Net cash provided by operating activities   | 129,678                       | 136,989                       |
| <b>Cash flows from investing activities:</b>  |                               |                               |
| Purchases of property and equipment   | (20,023)                      | (13,522)                      |
| Acquisition of intangible assets  | 0                             | (1,500)                       |
| Purchase of long-term investments   | (1,870)                       | (1,708)                       |
| Purchase of investments and marketable securities   | (384,134)                     | (338,227)                     |
| Maturities of investments and marketable securities   | 44,158                        | 41,021                        |
| Proceeds from sales of investments and marketable securities                                | 211,975                       | 223,905                       |
| Net cash used in investing activities   | (149,894)                     | (90,031)                      |
| <b>Cash flows from financing activities:</b>  |                               |                               |
| Purchase of treasury stock  | 0                             | (58,459)                      |

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|   |           |           |
|---|-----------|-----------|
| Proceeds from exercise of stock options and stock purchase plan purchases | 11,964    | 6,470     |
| Excess tax benefit from share-based compensation                          | 5,779     | 4,170     |
| Net cash provided by (used in) financing activities                       | 17,743    | (47,819)  |
| Effect of exchange rate changes on cash                                   | (140)     | 317       |
| Net decrease in cash and cash equivalents                                 | (2,613)   | (544)     |
| Cash and cash equivalents at beginning of period                          | 62,827    | 64,740    |
| Cash and cash equivalents at end of period                                | \$ 60,214 | \$ 64,196 |
| Supplemental disclosures of cash flow information:                        |           |           |
| Income taxes paid   | \$ 12,656 | \$ 10,951 |
| See accompanying notes to consolidated financial statements.              |           |           |

**Table of Contents**

**ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**Note 1 Basis of Presentation**

Management prepared these unaudited interim consolidated financial statements for Zebra Technologies Corporation and subsidiaries ( Zebra ) according to the rules and regulations of the Securities and Exchange Commission ( SEC ) for interim financial information. These financial statements do not include all of the information and footnotes required by United States generally accepted accounting principles ( GAAP ) for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in Zebra s Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

The consolidated balance sheet as of December 31, 2013, included in this Form 10-Q is taken from the audited consolidated balance sheet in our Form 10-K. These interim financial statements include all adjustments (of a normal, recurring nature) necessary to present fairly Zebra s consolidated financial position as of September 27, 2014, the consolidated statements of earnings and consolidated statements of comprehensive income for the three and nine months ended September 27, 2014 and September 28, 2013 and the consolidated statements of cash flows for the nine months ended September 27, 2014 and September 28, 2013. These results, however, are not necessarily indicative of results for the full year.

On April 14, 2014, Zebra entered into a definitive agreement under which Zebra will acquire a portion of the Enterprise business of Motorola Solutions, Inc. for \$3.45 billion in an all-cash transaction. Zebra completed the transaction on October 27, 2014. See Note 18 for more details. Zebra funded the acquisition with a combination of approximately \$200 million of available cash on hand and the issuance of \$3.25 billion in new debt.

**Note 2 Fair Value Measurements**

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

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

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

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

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in the assessment of fair value. Included in our investment portfolio at September 27, 2014, is an auction rate security which is classified as available for sale and is reflected at fair value. Due to events in credit markets, however, the auction event for the instrument held by Zebra is failed. Therefore, the fair value of this security is estimated utilizing broker quotations,

discounted cash flow analysis and other types of valuation adjustment methodologies at September 27, 2014. These analyses consider, among other items, the collateral underlying the security instruments, the creditworthiness of the counterparty, the timing of expected future cash flows, estimates of the next time the security is expected to have a successful auction, and Zebra's intent and ability to hold such securities until credit markets improve. The security was also compared, when possible, to other securities with similar characteristics.

On October 1, 2011, Zebra deemed the auction rate security discussed above to be temporarily impaired and recorded the estimated value decline of \$412,000 in other comprehensive income. As of September 27, 2014 Zebra decided to dispose of the security during the fourth quarter of 2014 and has deemed the investment to be permanently impaired and recorded a loss of \$600,000.

**Table of Contents**

Financial assets and liabilities carried at fair value as of September 27, 2014, are classified below (in thousands):

|  | Level 1    | Level 2    | Level 3  | Total      |
|--|------------|------------|----------|------------|
| <b>Assets:</b>   |            |            |          |            |
| U.S. government and agency securities                              | \$ 182,470 | \$ 0       | \$ 0     | \$ 182,470 |
| Obligations of government-sponsored enterprises (1)                | 0          | 40,631     | 0        | 40,631     |
| State and municipal bonds  | 0          | 49,022     | 0        | 49,022     |
| Corporate securities   | 0          | 183,418    | 2,400    | 185,818    |
| Other investments  | 0          | 23,765     | 0        | 23,765     |
| Investments subtotal   | 182,470    | 296,836    | 2,400    | 481,706    |
| Forward contracts (2)  | \$ 3,416   | \$ 6,206   | \$ 0     | \$ 9,622   |
| Money market investments related to the deferred compensation plan | 5,698      | 0          | 0        | 5,698      |
| Total assets at fair value   | \$ 191,584 | \$ 303,042 | \$ 2,400 | \$ 497,026 |
| <b>Liabilities:</b>  |            |            |          |            |
| Forward interest rate swap contracts (3)                           | \$ 0       | \$ 3,472   | \$ 0     | \$ 3,472   |
| Liabilities related to the deferred compensation plan              | 5,698      | 0          | 0        | 5,698      |
| Total liabilities at fair value                                    | \$ 5,698   | \$ 3,472   | \$ 0     | \$ 9,170   |

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

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

|                                 |          |          |      |          |
|---------------------------------|----------|----------|------|----------|
| Total liabilities at fair value | \$ 5,992 | \$ 1,578 | \$ 0 | \$ 7,570 |
|---------------------------------|----------|----------|------|----------|

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

**Table of Contents**

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 27, 2014 | September 28, 2013 |
| Balance at beginning of the year              | \$ 2,588           | \$ 2,588           |
| Transfers to Level 3                          | 0                  | 0                  |
| Total losses (realized or unrealized):        |                    |                    |
| Included in earnings                          | (600)              | 0                  |
| Included in other comprehensive income (loss) | 412                | 0                  |
| Purchases and settlements (net)               | 0                  | 0                  |
| <br>Balance at end of period                  | <br>\$ 2,400       | <br>\$ 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 | \$ (412) | \$ 0 |
|---|----------|------|

The following is a summary of short-term and long-term investments (in thousands):

|   | As of September 27, 2014 |                              |                               |                            |
|---|--------------------------|------------------------------|-------------------------------|----------------------------|
|   | Amortized<br>Cost        | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| U.S. government and agency securities           | \$ 182,354               | \$ 123                       | \$ (7)                        | \$ 182,470                 |
| Obligations of government-sponsored enterprises | 40,632                   | 2                            | (3)                           | 40,631                     |
| State and municipal bonds                       | 48,914                   | 113                          | (5)                           | 49,022                     |
| Corporate securities                            | 185,145                  | 756                          | (83)                          | 185,818                    |
| Other investments                               | 23,762                   | 15                           | (12)                          | 23,765                     |
| <br>Total investments                           | <br>\$ 480,807           | <br>\$ 1,009                 | <br>\$ (110)                  | <br>\$ 481,706             |

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

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

|                  | <b>As of September 27, 2014</b> |                                     |
|------------------|---------------------------------|-------------------------------------|
|                  | <b>Amortized<br/>Cost</b>       | <b>Estimated<br/>Fair<br/>Value</b> |
| Less than 1 year | \$ 135,482                      | \$ 135,603                          |
| 1 to 5 years     | 342,925                         | 343,703                             |
| 6 to 10 years    | 2,400                           | 2,400                               |
| Thereafter       | 0                               | 0                                   |
| <b>Total</b>     | <b>\$ 480,807</b>               | <b>\$ 481,706</b>                   |

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



**Table of Contents****Note 3 Investments and Marketable Securities**

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

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

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

Included in Zebra's cash and investments and marketable securities are amounts held by foreign subsidiaries which are generally invested in U.S. dollar-denominated holdings. Zebra had foreign cash and investments of \$330,895,000 as of September 27, 2014, and \$251,658,000 as of December 31, 2013. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation upon repatriation. Zebra does not see a need to repatriate these funds.

**Note 4 Accounts Receivable**

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

|                              | As of              |                   |
|------------------------------|--------------------|-------------------|
|                              | September 27, 2014 | December 31, 2013 |
| Accounts receivable, gross   | \$ 187,964         | \$ 177,370        |
| Accounts receivable reserves | (421)              | (453)             |
| Accounts receivable, net     | \$ 187,543         | \$ 176,917        |

**Note 5 Inventories**

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

|                    | As of              |                   |
|--------------------|--------------------|-------------------|
|                    | September 27, 2014 | December 31, 2013 |
| Raw material       | \$ 27,184          | \$ 31,335         |
| Work in process    | 578                | 415               |
| Finished goods     | 119,736            | 101,834           |
| Inventories, gross | 147,498            | 133,584           |

|                    |            |            |
|--------------------|------------|------------|
| Inventory reserves | (7,877)    | (12,561)   |
| Inventories, net   | \$ 139,621 | \$ 121,023 |

**Table of Contents****Note 6 Goodwill and Other Intangible Assets**

Intangible assets are as follows (in thousands):

|   | <b>As of September 27, 2014</b> |                                     |                       |
|---|---------------------------------|-------------------------------------|-----------------------|
|   | <b>Gross<br/>Amount</b>         | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Amount</b> |
| Current technology  | \$ 23,778                       | \$ (15,960)                         | \$ 7,818              |
| Patent and patent rights  | 29,569                          | (20,314)                            | 9,255                 |
| Customer relationships  | 52,893                          | (8,934)                             | 43,959                |
| Other intangibles, net  | \$ 106,240                      | \$ (45,208)                         | \$ 61,032             |
| Amortization expense for the nine months ended September 27, 2014 |                                 | \$ 7,936                            |                       |

|   | <b>As of December 31, 2013</b> |                                     |                       |
|---|--------------------------------|-------------------------------------|-----------------------|
|   | <b>Gross<br/>Amount</b>        | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Amount</b> |
| Current technology  | \$ 23,778                      | \$ (14,060)                         | \$ 9,718              |
| Patent and patent rights  | 29,569                         | (17,919)                            | 11,650                |
| Customer relationships  | 52,893                         | (5,293)                             | 47,600                |
| Other intangibles, net  | \$ 106,240                     | \$ (37,272)                         | \$ 68,968             |
| Amortization expense for the nine months ended September 28, 2013 |                                | \$ 5,557                            |                       |

Zebra had goodwill of \$153,515,000 as of September 27, 2014 and \$155,800,000 as of December 31, 2013.

In the fourth quarter 2013, Zebra acquired all of the outstanding membership interests in Hart Systems, LLC (a New York limited liability company) with \$60,858,000 of the purchase price allocated to goodwill. As of September 27, 2014 the purchase price allocation was finalized and the amount of goodwill was reduced to \$58,573,000 for adjustments related to deferred taxes. This acquisition is considered a separate reporting unit for purposes of Zebra's goodwill impairment test.

We test goodwill for impairment on an annual basis or more frequently if we believe indicators of impairment exist. We performed our assessment in accordance with Accounting Standards update (ASU) 2011-08, which allows for the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether the fair value needs to be reassessed. We performed our qualitative assessment, which excluded Hart Systems, LLC, as of May 24, 2014 and determined that our goodwill was not impaired. Impairment testing for Hart Systems, LLC will occur in the fourth quarter of this year.

**Note 7 Other Assets**

Other assets consist of the following (in thousands):

|  | <b>As of</b>              |                          |
|--|---------------------------|--------------------------|
|  | <b>September 27, 2014</b> | <b>December 31, 2013</b> |
| Money market investments related to the deferred compensation plan | \$ 5,698                  | \$ 4,827                 |
| Long-term equity investments                                       | 20,915                    | 21,242                   |
| Other long-term assets   | 2,099                     | 1,522                    |
| Long-term investments and marketable securities                    | 0                         | 2,588                    |
| Long-term debt issuance cost                                       | 4,460                     | 0                        |
| Deposits   | 1,195                     | 1,174                    |
| <b>Total</b>   | <b>\$ 34,367</b>          | <b>\$ 31,353</b>         |

**Table of Contents****Note 8 Costs Associated with Exit and Restructuring Activities**

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

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

| Type of Cost   | Costs incurred for                      |  | Total costs                       | Additional costs expected to be incurred | Total costs expected to be incurred |
|--|---|--|-----------------------------------|--|-------------------------------------|
|  | Cost incurred through December 31, 2013 | the nine months ended September 27, 2014 | incurred as of September 27, 2014 |  |                                     |
| Severance, stay bonuses, and other employee-related expenses | \$ 6,650                                | \$ 434                                   | \$ 7,084                          | \$ 0                                     | \$ 7,084                            |
| Professional services  | 180                                     | 0  | 180                               | 0  | 180                                 |
| Relocation and transition costs                              | 20                                      | 0  | 20                                | 0  | 20                                  |
| Total  | \$ 6,850                                | \$ 434                                   | \$ 7,284                          | \$ 0                                     | \$ 7,284                            |

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

|  | Three Months Ended |                    | Nine Months Ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Severance, stay bonuses, and other employee-related expenses | \$ (120)           | \$ 440             | \$ 434             | \$ 3,338           |
| Professional services  | 0                  | 91                 | 0                  | 157                |
| Relocation and transition costs                              | 0                  | (12)               | 0                  | 20                 |
| Total  | \$ (120)           | \$ 519             | \$ 434             | \$ 3,515           |

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

|                                | Nine Months Ended  |                    |
|--------------------------------|--------------------|--------------------|
|                                | September 27, 2014 | September 28, 2013 |
| Balance at beginning of period | \$ 1,252           | \$ 967             |
| Charged to earnings            | 434                | 3,515              |
| Cash paid                      | (1,275)            | (3,962)            |

|                              |        |        |
|------------------------------|--------|--------|
| Balance at the end of period | \$ 411 | \$ 520 |
|------------------------------|--------|--------|

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

**Note 9 Derivative Instruments**

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

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**Table of Contents**

In addition, we have exposure to market risk for changes in interest rates resulting from the announced acquisition of the Enterprise business of Motorola Solutions, Inc. In June 2014, we entered into a commitment letter for a new variable rate credit facility to fund the announced acquisition and we also entered into two tranches of floating-to-fixed forward interest rate swaps to hedge the interest rate risk. In July 2014, we designated these forward interest rate swaps as cash flow hedges of interest rate exposure associated with variability in future cash flows on our variable rate commitment. Changes in fair value of the forward interest rate swaps that are effective at offsetting variability in the future cash flows are recognized in other comprehensive income (loss). Ineffectiveness is immediately recognized in earnings.

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

*Credit and Market Risk*

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

*Fair Value of Derivative Instruments*

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

*Hedging of Net Assets*

We use forward contracts to manage exposure related to our pound and euro denominated net assets. Forward contracts typically mature within three months after execution of the contracts. We record gains and losses on these contracts 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**

|  | <b>September 27,<br/>2014</b> | <b>September 28,<br/>2013</b> | <b>September 27,<br/>2014</b> | <b>September 28,<br/>2013</b> |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Change in gains (losses) from foreign exchange derivatives | \$ 3,211                      | \$ (1,611)                    | \$ 3,752                      | \$ (892)                      |
| Gain (loss) on net foreign currency assets                 | (3,294)                       | 1,438                         | (4,084)                       | 159                           |
| Foreign exchange loss                                      | \$ (83)                       | \$ (173)                      | \$ (332)                      | \$ (733)                      |

|  | <b>As of</b>              |                          |
|--|---------------------------|--------------------------|
|  | <b>September 27, 2014</b> | <b>December 31, 2013</b> |
| Notional balance of outstanding contracts: |                           |                          |
| Pound/US dollar                            | £ 2,942                   | £ 0                      |
| Euro/US dollar                             | 36,786                    | 41,021                   |
| Net fair value of outstanding contracts    | \$ (135)                  | \$ 33                    |



**Table of Contents***Hedging of Anticipated Sales*

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

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

|  | <b>September 27, 2014</b> | <b>As of<br/>September 28, 2013</b> |
|--|---------------------------|-------------------------------------|
| Unrealized gains on anticipated sales hedging: |                           |                                     |
| Gross  | \$ 8,196                  | \$ 448                              |
| Income tax expense                             | 1,674                     | 103                                 |
| Net  | \$ 6,522                  | \$ 345                              |

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

|   | <b>September 27, 2014</b> | <b>As of<br/>December 31, 2013</b> |
|---|---------------------------|------------------------------------|
| Notional balance of outstanding contracts versus the dollar | 91,860                    | 85,627                             |
| Hedge effectiveness   | 100%                      | 100%                               |

|  | <b>Three Months Ended<br/>September 27, 2014</b> | <b>September 28, 2013</b> | <b>Nine Months Ended<br/>September 27, 2014</b> | <b>September 28, 2013</b> |
|--|--|---------------------------|---|---------------------------|
| Net gains (losses) included in net sales | \$ 421   | \$ (1,135)                | \$ (1,507)                                      | \$ (3,082)                |

*Forward Contracts*

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

|   | <b>September 27, 2014</b> | <b>As of<br/>December 31, 2013</b> |
|---|---------------------------|------------------------------------|
| Assets:                                   |                           |                                    |
| Prepaid expenses and other current assets | \$ 9,622                  | \$ 0                               |
| Total                                     | \$ 9,622                  | \$ 0                               |

Liabilities:

|                     |      |          |
|---------------------|------|----------|
| Accrued liabilities | \$ 0 | \$ 2,743 |
| Total               | \$ 0 | \$ 2,743 |

**Table of Contents***Forward Interest Rate Swaps*

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

These forward interest rate swaps were used to economically hedge interest rate risk associated with the variable rate commitment until July 30, 2014, and as such, changes in their fair value were recognized in earnings in other income (expense). Effective July 30, 2014, these forward interest rate swaps were designated as cash flow hedges of interest rate exposure associated with variability in future cash flows on the variable rate commitment. Subsequent to the hedge designation, the effective portion of changes in their fair value is recognized in other comprehensive income (loss) and the ineffective portion is recognized in earnings in other income (expense). The effective portion recognized in other comprehensive income (loss) will be reclassified to earnings as interest expense in other income (expense) as the interest payments under the committed variable rate credit facility affect earnings.

The location of the forward interest rate swaps designated in a hedge relationship is as follows (in thousands):

|                             | <b>As of</b>              |                          |
|-----------------------------|---------------------------|--------------------------|
|                             | <b>September 27, 2014</b> | <b>December 31, 2013</b> |
| <b>Liabilities:</b>         |                           |                          |
| Other long-term liabilities | \$ 3,472                  | \$ 0                     |
| <b>Total</b>                | <b>\$ 3,472</b>           | <b>\$ 0</b>              |

The volume of the forward interest rate swaps designated in a hedge relationship is as follows (in thousands):

|   | <b>As of</b>              |                          |
|---|---------------------------|--------------------------|
|   | <b>September 27, 2014</b> | <b>December 31, 2013</b> |
| Notional balance of outstanding contracts | \$ 3,339,000              | \$ 0                     |

Zebra entered into a series of forward starting swaps, each with a term of one year, with the following notional amounts per year (in thousands):

|   |              |
|---|--------------|
| Year 2015                                 | \$ 1,010,000 |
| Year 2016                                 | \$ 697,000   |
| Year 2017                                 | \$ 544,000   |
| Year 2018                                 | \$ 544,000   |
| Year 2019                                 | \$ 272,000   |
| Year 2020                                 | \$ 272,000   |
| Notional balance of outstanding contracts | \$ 3,339,000 |

The gain (loss) recognized on the forward interest rate swaps not designated in a hedge relationship is as follows (in thousands):

|  | <b>Three Months Ended</b> |                           | <b>Nine Months Ended</b>  |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | <b>September 27, 2014</b> | <b>September 28, 2013</b> | <b>September 27, 2014</b> | <b>September 28, 2013</b> |

|  |        |      |            |      |
|--|--------|------|------------|------|
| Gain (loss) on forward interest-rate swaps | \$ 185 | \$ 0 | \$ (2,248) | \$ 0 |
|--|--------|------|------------|------|

The gain (loss) recognized in other comprehensive income (loss) on the forward interest rate swaps designated in a hedging relationship is as follows (in thousands):

|  | <b>As of</b>              |                           |
|--|---------------------------|---------------------------|
|  | <b>September 27, 2014</b> | <b>September 28, 2013</b> |
| Unrealized loss on forward interest rate swap hedging: |                           |                           |
| Gross  | \$ (1,224)                | \$ 0                      |
| Income tax benefit                                     | (443)                     | 0                         |
| Net  | \$ (781)                  | \$ 0                      |

No gain (loss) was reclassified from accumulated other comprehensive income (loss) into earnings on the forward interest rate swaps designated in a hedging relationship during the three months and nine months ended September 27, 2014.

At September 27, 2014, we expect that approximately \$1,077,980 in losses on the forward interest rate swaps designated in a hedging relationship will be reclassified from accumulated other comprehensive loss into earnings during the next 12 months.

**Table of Contents****Note 10 Warranty**

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

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

|                                      | <b>Nine Months Ended</b>  |                           |
|--------------------------------------|---------------------------|---------------------------|
|                                      | <b>September 27, 2014</b> | <b>September 28, 2013</b> |
| Balance at the beginning of the year | \$ 4,125                  | \$ 4,252                  |
| Warranty expense                     | 5,798                     | 5,417                     |
| Warranty payments                    | (5,498)                   | (5,520)                   |
| Balance at the end of the period     | \$ 4,425                  | \$ 4,149                  |

**Note 11 Contingencies**

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

**Note 12 Stockholders Equity**

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

|                               | <b>As of</b>              |                          |
|-------------------------------|---------------------------|--------------------------|
|                               | <b>September 27, 2014</b> | <b>December 31, 2013</b> |
| <b>Preferred Stock</b>        |                           |                          |
| Par value per share           | \$ 0.01                   | \$ 0.01                  |
| Shares authorized             | 10,000,000                | 10,000,000               |
| Shares outstanding            | 0                         | 0                        |
| <b>Common Stock - Class A</b> |                           |                          |
| Par value per share           | \$ 0.01                   | \$ 0.01                  |
| Shares authorized             | 150,000,000               | 150,000,000              |
| Shares issued                 | 72,151,857                | 72,151,857               |
| Shares outstanding            | 50,914,361                | 50,349,546               |
| Treasury stock                |                           |                          |
| Shares held                   | 21,237,496                | 21,802,311               |

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During the nine-month period ended September 28, 2013, Zebra purchased 1,268,761 shares of common stock for \$58,459,233 under a board authorized share repurchase plan. Zebra did not purchase shares of its common stock for the nine months ended September 27, 2014.

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

|   | <b>Nine Months Ended</b>  |                           |
|---|---------------------------|---------------------------|
|   | <b>September 27, 2014</b> | <b>September 28, 2013</b> |
| Balance at the beginning of the year    | 50,349,546                | 50,908,267                |
| Repurchases                             | 0                         | (1,268,761)               |
| Stock option and ESPP issuances         | 511,163                   | 532,777                   |
| Restricted share issuances              | 125,626                   | 238,325                   |
| Restricted share forfeitures            | (6,733)                   | (15,973)                  |
| Shares withheld for tax obligations     | (65,241)                  | (165,059)                 |
| <b>Balance at the end of the period</b> | <b>50,914,361</b>         | <b>50,229,576</b>         |

**Table of Contents****Note 13 Earnings Per Share**

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

|   | Three Months Ended |                    | Nine Months Ended  |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| <b>Weighted average shares:</b>             |                    |                    |                    |                    |
| Weighted average common shares outstanding  | 50,835             | 50,590             | 50,615             | 50,808             |
| Effect of dilutive securities outstanding   | 626                | 334                | 636                | 363                |
| Diluted weighted average shares outstanding | 51,461             | 50,924             | 51,251             | 51,171             |
| <b>Earnings (loss):</b>                     |                    |                    |                    |                    |
| Income from continuing operations           | \$ 14,945          | \$ 38,600          | \$ 84,108          | \$ 92,700          |
| Income from discontinued operations         | 0                  | 0                  | 0                  | 8                  |
| Net income                                  | \$ 14,945          | \$ 38,600          | \$ 84,108          | \$ 92,708          |
| <b>Basic per share amounts:</b>             |                    |                    |                    |                    |
| Income from continuing operations           | \$ 0.29            | \$ 0.76            | \$ 1.66            | \$ 1.82            |
| Income from discontinued operations         | 0.00               | 0.00               | 0.00               | 0.00               |
| Net income                                  | \$ 0.29            | \$ 0.76            | \$ 1.66            | \$ 1.82            |
| <b>Diluted per share amounts:</b>           |                    |                    |                    |                    |
| Income from continuing operations           | \$ 0.29            | \$ 0.76            | \$ 1.64            | \$ 1.81            |
| Income from discontinued operations         | 0.00               | 0.00               | 0.00               | 0.00               |
| Net income                                  | \$ 0.29            | \$ 0.76            | \$ 1.64            | \$ 1.81            |

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

|                             | Three Months Ended |                    | Nine Months Ended  |                    |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|
|                             | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Potentially dilutive shares | 0                  | 351,000            | 179,760            | 879,000            |

**Note 14 Share-Based Compensation**

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

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

|                            | Three Months Ended |                    | Nine Months Ended  |                    |
|----------------------------|--------------------|--------------------|--------------------|--------------------|
|                            | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Cost of sales              | \$ 243             | \$ 140             | \$ 725             | \$ 600             |
| Selling and marketing      | 612                | 491                | 1,681              | 1,497              |
| Research and development   | 381                | 406                | 1,121              | 1,190              |
| General and administrative | 1,958              | 1,831              | 6,777              | 6,085              |
| <b>Total compensation</b>  | <b>\$ 3,194</b>    | <b>\$ 2,868</b>    | <b>\$ 10,304</b>   | <b>\$ 9,372</b>    |
| Income tax benefit         | \$ 1,077           | \$ 985             | \$ 3,511           | \$ 3,237           |

Cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized (excess tax benefits) are classified as financing cash flows in the statement of cash flows. The tax benefits classified as financing cash flows for the nine months ended September 27, 2014 were \$5,779,000 and for the nine months ended September 28, 2013 were \$4,170,000.



**Table of Contents**

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

|  | <b>Nine Months Ended</b>  |                           |
|--|---------------------------|---------------------------|
|  | <b>September 27, 2014</b> | <b>September 28, 2013</b> |
| Expected dividend yield                                | 0%                        | 0%                        |
| Forfeiture rate  | 10.32%                    | 10.31%                    |
| Volatility   | 34.92%                    | 32.00%                    |
| Risk free interest rate                                | 1.73%                     | .82%                      |
| Range of interest rates                                | 0.02% - 2.61%             | 0.02% - 1.78%             |
| Expected weighted-average life                         | 5.36 years                | 5.42 years                |
| Fair value of stock appreciation rights (SARs) granted | \$ 4,600,000              | \$ 4,443,000              |
| Weighted-average grant date fair value of SARs granted | \$ 25.00                  | \$ 13.83                  |

Stock option activity was as follows:

| <b>Options</b>                       | <b>Nine Months Ended September 27, 2014</b> |  |
|--------------------------------------|---|--|
|                                      | <b>Shares</b>                               | <b>Weighted-Average Exercise Price</b> |
| Outstanding at beginning of year     | 956,502                                     | \$ 42.77                               |
| Exercised                            | (355,640)                                   | 44.49                                  |
| Outstanding at end of period         | 600,862                                     | \$ 41.76                               |
| Exercisable at end of period         | 600,862                                     | \$ 41.76                               |
| Intrinsic value of exercised options | \$ 9,451,000                                |  |

The following table summarizes information about stock options outstanding at September 27, 2014:

|   | <b>Outstanding</b> | <b>Exercisable</b> |
|---|--------------------|--------------------|
| Aggregate intrinsic value                   | \$ 17,481,000      | \$ 17,481,000      |
| Weighted-average remaining contractual term | 1.9 years          | 1.9 years          |

SAR activity was as follows:

| <b>SARs</b> | <b>Nine Months Ended September 27, 2014</b> |  |
|-------------|---|--|
|             | <b>Shares</b>                               |  |

|  |                     | <b>Weighted-Average<br/>Exercise Price</b> |
|--|---------------------|--|
| Outstanding at beginning of year         | 1,402,784           | \$ 36.36                                   |
| Granted                                  | 183,932             | 74.69                                      |
| Exercised                                | (245,454)           | 33.82                                      |
| Forfeited                                | (20,674)            | 49.07                                      |
| <b>Outstanding at end of period</b>      | <b>1,320,588</b>    | <b>\$ 41.97</b>                            |
| Exercisable at end of period             | 607,616             | \$ 33.14                                   |
| <b>Intrinsic value of exercised SARs</b> | <b>\$ 9,958,000</b> |  |

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

**Table of Contents**

The following table summarizes information about SARs outstanding at September 27, 2014:

|   | <b>Outstanding</b> | <b>Exercisable</b> |
|---|--------------------|--------------------|
| Aggregate intrinsic value                   | \$ 38,828,000      | \$ 22,910,000      |
| Weighted-average remaining contractual term | 7.2 years          | 6.3 years          |

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

| <b>Restricted Stock Awards</b>   | <b>Nine Months Ended September 27, 2014</b> |   |
|----------------------------------|---|---|
|                                  | <b>Shares</b>                               | <b>Weighted-Average<br/>Grant Date Fair Value</b> |
| Outstanding at beginning of year | 435,377                                     | \$ 40.92  |
| Granted                          | 121,132                                     | 74.28   |
| Released                         | (150,618)                                   | 43.16   |
| Forfeited                        | (8,144)                                     | 52.80   |
| Outstanding at end of period     | 397,747                                     | \$ 50.00  |

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

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

| <b>Performance Share Awards</b>  | <b>Nine Months Ended September 27, 2014</b> |   |
|----------------------------------|---|---|
|                                  | <b>Shares</b>                               | <b>Weighted-Average<br/>Grant Date Fair Value</b> |
| Outstanding at beginning of year | 195,159                                     | \$ 42.25  |
| Granted                          | 4,323                                       | 69.41   |
| Released                         | (33,535)                                    | 41.45   |
| Forfeited                        | (20,555)                                    | 41.45   |
| Outstanding at end of period     | 145,392                                     | \$ 43.36  |

|   | <b>As of<br/>September 27, 2014</b> |
|---|-------------------------------------|
| Awards granted under Zebra's equity-based compensation plans: |                                     |
| Unearned compensation costs related to awards granted         | \$ 19,545,000                       |
| Period expected to be recognized over                         | 2.2 years                           |

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

|                         | <b>Nine Months Ended</b>  |                           |
|-------------------------|---------------------------|---------------------------|
|                         | <b>September 27, 2014</b> | <b>September 28, 2013</b> |
| Fair market value       | \$ 63.42                  | \$ 41.69                  |
| Option price            | \$ 60.25                  | \$ 39.61                  |
| Expected dividend yield | 0%                        | 0%                        |
| Expected volatility     | 31%                       | 17%                       |
| Risk free interest rate | 0.06%                     | 0.05%                     |

**Table of Contents****Note 15 Income Taxes**

Zebra has identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. Included in deferred tax assets are amounts related to federal and state net operating losses that resulted from our acquisition of WhereNet Corp in 2007. We intend to utilize these net operating loss carryforwards to offset future income taxes prior to expiration. Under the United States Tax Reform Act of 1986, the amount of benefits from net operating loss carryforwards may be impaired or limited in certain circumstances, including significant changes in ownership interests. The company has reviewed the impact of ownership changes and believes that this will not have an impact on the realizability on the related deferred tax asset recorded as of September 27, 2014.

Zebra earns a significant amount of our operating income outside of the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. We do not intend to repatriate funds nor do we need to fund U.S. operations. Repatriation would result in higher effective tax rates.

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

At September 27, 2014 Zebra's unrealized tax benefit was \$4,000. Zebra's continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense. For the nine months ended September 27, 2014 and September 28, 2013, we did not accrue any interest or penalties into income tax expense.

|                    | <b>Three Months Ended</b> |                           | <b>Nine months Ended</b>  |                           |
|--------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                    | <b>September 27, 2014</b> | <b>September 28, 2013</b> | <b>September 27, 2014</b> | <b>September 28, 2013</b> |
| Effective tax rate | 39.8%                     | 18.1%                     | 23.1%                     | 18.4%                     |

The effective income tax rate for the first nine months of 2014 was 23.1% compared with 18.4% for 2013. The change in the tax rate was driven by a change in the UK tax laws related to intercompany debt which resulted in a one-time charge of \$5,900,000 and additional tax expense for the current quarter of \$2,600,000 during Q3. We expect this charge to be reversed in the fourth quarter as a result of the issuance of the Motorola Enterprise acquisition debt. See Notes 18 for details. In addition, the third quarter rate was decreased by the significant acquisition expenses incurred primarily in the United States.

**Table of Contents****Note 16 Other Comprehensive Income**

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

**Unrealized gains (losses) on anticipated sales hedging transactions** relate to derivative instruments used to hedge the currency exchange rates for forecasted euro sales and interest rates on variable rate commitments. These hedges are designated as cash flow hedges, and we have deferred income statement recognition of gains and losses until the hedged transaction occurs. See Note 9 for more details.

**Unrealized gains (losses) on forward interest rate swap hedging transactions** refers to the hedging of the interest rate risk associated with the variable rate commitment entered into for the acquisition of the Enterprise business of Motorola Solutions, Inc. See Note 9 for more details.

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

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

The components of other comprehensive loss for the three months ended September 27, 2014 are as follows (in thousands):

|  | As of<br>June 28,<br>2014 | Gain (Loss)<br>OCI | Gain (Loss)<br>AOCI to income | Three Months<br>ended September 27,<br>2014 | As of<br>September 27, 2014 |
|--|---------------------------|--------------------|-------------------------------|---|-----------------------------|
| <b>Unrealized gains (losses) on anticipated sales hedging transactions:</b>        |                           |                    |                               |   |                             |
| Gross  | \$ (594)                  | \$ 6,304           | \$ 113(1)                     | \$ 6,417                                    | \$ 5,823                    |
| Income tax (benefit)   | (119)                     | 1,260              | 24                            | 1,284                                       | 1,165                       |
| Net  | (475)                     | 5,044              | 89                            | 5,133                                       | 4,658                       |
| <b>Unrealized gains (losses) forward interest rate swaps hedging transactions:</b> |                           |                    |                               |   |                             |
| Gross  | 0                         | (1,224)            | 0(2)                          | (1,224)                                     | (1,224)                     |
| Income tax (benefit)   | 0                         | (443)              | 0                             | (443)                                       | (443)                       |
| Net  | 0                         | (781)              | 0                             | (781)                                       | (781)                       |
| <b>Unrealized gains (losses) on investments:</b>                                   |                           |                    |                               |   |                             |
| Gross  | 526                       | (67)               | 443(3)                        | 376   | 902                         |
| Income tax (benefit)   | 108                       | (22)               | 158                           | 136   | 244                         |
| Net  | 418                       | (45)               | 285                           | 240   | 658                         |

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|  |            |          |        |          |            |
|--|------------|----------|--------|----------|------------|
| Foreign currency translation adjustments             | (8,035)    | (191)    | 0(4)   | (191)    | (8,226)    |
| Total accumulated other comprehensive gains (losses) | \$ (8,092) | \$ 4,027 | \$ 374 | \$ 4,401 | \$ (3,691) |

|   | As of<br>June 29,<br>2013 | Gain (Loss)<br>OCI | reclassified from<br>AOCI to<br>income | Three<br>Months<br>ended<br>September 28,<br>2013 | As of<br>September 28,<br>2013 |
|---|---------------------------|--------------------|--|---|--------------------------------|
| <b>Unrealized gains (losses) on anticipated sales hedging transactions:</b> |                           |                    |  |   |                                |
| Gross   | \$ (821)                  | \$ (563)           | \$ (749)(1)                            | \$ (1,312)  | \$ (2,133)                     |
| Income tax (benefit)  | (191)                     | (118)              | (187)                                  | (305)   | (496)                          |
| Net   | (630)                     | (445)              | (562)                                  | (1,007)   | (1,637)                        |
| <b>Unrealized gains (losses) on investments:</b>                            |                           |                    |  |   |                                |
| Gross   | (844)                     | 518                | 106(3)                                 | 624   | (220)                          |
| Income tax (benefit)  | (283)                     | 157                | 34                                     | 191   | (92)                           |
| Net   | (561)                     | 361                | 72                                     | 433   | (128)                          |
| Foreign currency translation adjustments                                    | (8,404)                   | 182                | 0(4)                                   | 182   | (8,222)                        |
| Total accumulated other comprehensive gains (losses)                        | \$ (9,595)                | \$ 98              | \$ (490)                               | \$ (392)  | \$ (9,987)                     |

**Table of Contents**

- (1) Transfer of unrealized gains and (losses) from AOCI to income on anticipated sales hedging transactions are included in net sales of tangible products.
- (2) Transfer from AOCI to income and (losses) on forward interest rate swap hedging transactions are reported in forward swaps gain (loss).
- (3) Transfer of unrealized gains and (losses) from AOCI to income on investments are included in investment income.
- (4) Transfer of foreign currency translation gains and (losses) from AOCI to income, are included in foreign exchange.

The components of other comprehensive loss for the nine months ended September 27, 2014 are as follows (in thousands):

|  | As of<br>December 31, 2013 |          | Gain (Loss)<br>reclassified from<br>OCI to income |          | As of<br>September 27, 2014 |            |
|--|----------------------------|----------|---|----------|-----------------------------|------------|
|  | recognized in OCI          |          | recognized in OCI                                 |          | September 27, 2014          |            |
| <b>Unrealized gains (losses) on anticipated sales hedging transactions:</b>        |                            |          |   |          |                             |            |
| Gross  | \$ (2,373)                 | \$ 9,892 | \$ (1,696)(1)                                     | \$ 8,196 | \$ 5,823                    | \$ 5,823   |
| Income tax (benefit)   | (509)                      | 2,039    | (365)   | 1,674    | 1,165                       | 1,165      |
| Net  | (1,864)                    | 7,853    | (1,331)   | 6,522    | 4,658                       | 4,658      |
| <b>Unrealized gains (losses) forward interest rate swaps hedging transactions:</b> |                            |          |   |          |                             |            |
| Gross  | 0                          | (1,224)  | 0(2)  | (1,224)  | (1,224)                     | (1,224)    |
| Income tax (benefit)   | 0                          | (443)    | 0   | (443)    | (443)                       | (443)      |
| Net  | 0                          | (781)    | 0   | (781)    | (781)                       | (781)      |
| <b>Unrealized gains (losses) on investments:</b>                                   |                            |          |   |          |                             |            |
| Gross  | (151)                      | 536      | 517(3)  | 1,053    | 902                         | 902        |
| Income tax (benefit)   | (73)                       | 139      | 178   | 317      | 244                         | 244        |
| Net  | (78)                       | 397      | 339   | 736      | 658                         | 658        |
| Foreign currency translation adjustments   | (7,839)                    | (380)    | (7)(4)  | (387)    | (8,226)                     | (8,226)    |
| Total accumulated other comprehensive gains (losses)                               | \$ (9,781)                 | \$ 7,089 | \$ (999)  | \$ 6,090 | \$ (3,691)                  | \$ (3,691) |

|  | As of<br>December 31, 2012 |          | Gain (Loss)<br>reclassified from<br>OCI to income |          | As of<br>September 28, 2013 |            |
|--|----------------------------|----------|---|----------|-----------------------------|------------|
|  | recognized in OCI          |          | recognized in OCI                                 |          | September 28, 2013          |            |
| <b>Unrealized gains (losses) on anticipated sales hedging transactions:</b>        |                            |          |   |          |                             |            |
| Gross  | \$ (2,373)                 | \$ 9,892 | \$ (1,696)(1)                                     | \$ 8,196 | \$ 5,823                    | \$ 5,823   |
| Income tax (benefit)   | (509)                      | 2,039    | (365)   | 1,674    | 1,165                       | 1,165      |
| Net  | (1,864)                    | 7,853    | (1,331)   | 6,522    | 4,658                       | 4,658      |
| <b>Unrealized gains (losses) forward interest rate swaps hedging transactions:</b> |                            |          |   |          |                             |            |
| Gross  | 0                          | (1,224)  | 0(2)  | (1,224)  | (1,224)                     | (1,224)    |
| Income tax (benefit)   | 0                          | (443)    | 0   | (443)    | (443)                       | (443)      |
| Net  | 0                          | (781)    | 0   | (781)    | (781)                       | (781)      |
| <b>Unrealized gains (losses) on investments:</b>                                   |                            |          |   |          |                             |            |
| Gross  | (151)                      | 536      | 517(3)  | 1,053    | 902                         | 902        |
| Income tax (benefit)   | (73)                       | 139      | 178   | 317      | 244                         | 244        |
| Net  | (78)                       | 397      | 339   | 736      | 658                         | 658        |
| Foreign currency translation adjustments   | (7,839)                    | (380)    | (7)(4)  | (387)    | (8,226)                     | (8,226)    |
| Total accumulated other comprehensive gains (losses)                               | \$ (9,781)                 | \$ 7,089 | \$ (999)  | \$ 6,090 | \$ (3,691)                  | \$ (3,691) |



|  |             |          |               |        |            |
|--|-------------|----------|---------------|--------|------------|
| Unrealized gains (losses) on anticipated sales hedging transactions: |             |          |               |        |            |
| Gross  | \$ (2,581)  | \$ 3,096 | \$ (2,648)(1) | \$ 448 | \$ (2,133) |
| Income tax (benefit)   | (599)       | 765      | (662)         | 103    | (496)      |
| Net  | (1,982)     | 2,331    | (1,986)       | 345    | (1,637)    |
| Unrealized gains (losses) on investments:                            |             |          |               |        |            |
| Gross  | 540         | (1,140)  | 380(3)        | (760)  | (220)      |
| Income tax (benefit)   | 162         | (373)    | 119           | (254)  | (92)       |
| Net  | 378         | (767)    | 261           | (506)  | (128)      |
| Foreign currency translation adjustments                             | (8,721)     | 390      | 109(4)        | 499    | (8,222)    |
| Total accumulated other comprehensive gains (losses)                 | \$ (10,325) | \$ 1,954 | \$ (1,616)    | \$ 338 | \$ (9,987) |

- (1) Transfer of unrealized gains and (losses) from AOCI to income on anticipated sales hedging transactions are included in net sales of tangible products.
- (2) Transfer from AOCI to income and (losses) on forward interest rate swap hedging transactions are reported in forward swaps gain (loss).
- (3) Transfer of unrealized gains and (losses) from AOCI to income on investments are included in investment income.
- (4) Transfer of foreign currency translation gains and (losses) from AOCI to income, are included in foreign exchange.

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**Table of Contents****Note 17 New Accounting Pronouncements**

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

**Note 18 Subsequent Events****Private Offering & New Credit Facilities**

On October 15, 2014, Zebra completed its previously announced private offering of \$1.05 billion aggregate principal amount of 7.25% Senior Notes due 2022 (the Notes). The Notes are governed by the terms of an indenture, dated as of October 15, 2014, by and among Zebra and U.S. Bank National Association, as trustee. Interest on the Notes will be payable in cash on April 15 and October 15 of each year, commencing on April 15, 2015.

On October 27, 2014, Zebra entered into a new credit agreement which provides for a term loan of \$2.2 billion (the Term Loan) and a revolving credit facility of \$250.0 million (the Revolving Credit Facility). Zebra is required to make scheduled quarterly payments each equal to 0.25% of the original principal amount of the Term Loan, with the balance due on the seventh anniversary of the closing date of the Acquisition (see below for further description of this acquisition). The Term Loan accrues interest at a variable rate of LIBOR (subject to a floor of 0.75% per annum) plus a margin of 4.0%.

Certain domestic subsidiaries of Zebra (the Guarantors) guarantee the Notes, the Term Loan and the Revolving Credit Facility on a senior unsecured basis beginning on the date of close of the acquisition of the Enterprise Business (see below for further description of this acquisition).

The indenture governing the Notes and the agreements governing Zebra's other indebtedness impose certain operating and financial restrictions on our activities. Zebra will be required, during certain periods where outstanding revolving loans under the Revolving Credit Facility exceed a certain threshold, to maintain a total secured net leverage ratio calculated pursuant to a financial maintenance covenant under the senior credit agreement governing the Revolving Credit Facilities.

**Business Combination**

On October 27, 2014, Zebra completed its acquisition of the Enterprise Business under the terms of the previously announced Acquisition Agreements with Motorola Solutions Inc. (MSI) for a preliminary purchase price of \$3.45 billion. This acquisition will transform Zebra into a leading provider of solutions that deliver greater intelligence and insights into our customers' enterprises and extending value chains. The Enterprise Business will generate significant value for our shareholders by driving further product innovation and deeper engagement with our customers and partners. It positions Zebra as a leading technology innovator, with the accelerating convergence of mobility, data analytics and cloud computing. This transaction will enable Zebra to further sharpen its strategic focus on providing mission-critical solutions for its customers. On April 14, 2014, Zebra entered into the Acquisition Agreements with MSI pursuant to which we agreed to acquire the Enterprise Business. Certain assets historically associated with the Enterprise Business have been retained by MSI, including MSI's iDEN infrastructure business, and other assets and certain liabilities as specified by the definitive agreement. The acquisition is structured as a combination of stock and

asset sales and a merger of certain US entities, resulting in 100% ownership of the Enterprise Business.

At the closing of the Acquisition, the Term Loan was drawn in full and the Revolving Credit Facility remained undrawn. The proceeds from the Notes and Term Loan together with cash on hand were used to finance the Acquisition and related fees and expenses.

The final determination of the purchase price allocation is expected to be completed as soon as practicable after consummation of the Acquisition. Due to the limited time between the acquisition date and the filing of this Quarterly

**Table of Contents**

Report on Form 10-Q, it is not practicable for Zebra to disclose: (i) the allocation of purchase price to assets acquired and liabilities assumed as of the date of close, and (ii) pro forma revenues and earnings of the combined company for the period ended September 27, 2014.

*Tax Event*

During 2012, Zebra established a foreign holding company and restructured the structure of its foreign affiliates. The new structure introduced leverage which favorably impacted Zebra's effective tax rate and the Company recorded a benefit of \$5,900,000 during the first two quarters of 2014. However, due to the change in UK tax law, the Company has recorded a charge of \$5,900,000 in the third quarter of 2014. As a result of the acquisition transaction of the Enterprise business of Motorola Solutions, Inc. closing on October 27, 2014, the Company will reverse this income tax charge in the fourth quarter of 2014. In addition, since the company did not record a benefit from interest expense in the third quarter, the related benefit of \$2,600,000 will be recorded in the fourth quarter in addition to the benefit from fourth quarter interest expense.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Results of Operations: Third Quarter of 2014 versus Third Quarter of 2013****Consolidated Results of Operations**

(Amounts in thousands, except percentages):

|  | Three Months Ended    |                       |                   | Percent                |                                |
|--|-----------------------|-----------------------|-------------------|------------------------|--------------------------------|
|  | September 27,<br>2014 | September 28,<br>2013 | Percent<br>Change | of<br>Net Sales - 2014 | Percent of<br>Net Sales - 2013 |
| Net sales  |                       |                       |                   |                        |                                |
| Net sales of tangible products                           | \$ 282,643            | \$ 249,919            | 13.1              | 93.2                   | 94.8                           |
| Revenue from services & software                         | 20,629                | 13,604                | 51.6              | 6.8                    | 5.2                            |
| Total net sales  | 303,272               | 263,523               | 15.1              | 100.0                  | 100.0                          |
| Cost of Sales  |                       |                       |                   |                        |                                |
| Cost of sales of tangible products                       | 141,842               | 128,191               | 10.6              | 46.7                   | 48.6                           |
| Cost of services & software                              | 9,924                 | 6,722                 | 47.6              | 3.3                    | 2.6                            |
| Total cost of sales                                      | 151,766               | 134,913               | 12.5              | 50.0                   | 51.2                           |
| Gross profit   | 151,506               | 128,610               | 17.8              | 50.0                   | 48.8                           |
| Operating expenses                                       | 124,550               | 81,841                | 52.2              | 41.1                   | 31.1                           |
| Operating income   | 26,956                | 46,769                | (42.4)            | 8.9                    | 17.7                           |
| Other expense  | (2,150)               | 372                   | N/M               | (0.7)                  | 0.1                            |
| Income from continuing operations<br>before income taxes | 24,806                | 47,141                | (47.4)            | 8.2                    | 17.8                           |
| Income taxes   | 9,861                 | 8,541                 | 15.5              | 3.3                    | 3.2                            |
| Income from continuing operations                        | 14,945                | 38,600                | (61.3)            | 4.9                    | 14.6                           |
| Income from discontinued operations,<br>net of tax       | 0                     | 0                     | N/M               | 0.0                    | 0.0                            |
| Net income   | \$ 14,945             | \$ 38,600             | (61.3)            | 4.9                    | 14.6                           |
| Diluted earnings per share:                              |                       |                       |                   |                        |                                |
| Income from continuing operations                        | \$ 0.29               | \$ 0.76               | (61.8)            |                        |                                |
| Income from discontinued operations                      | 0.00                  | 0.00                  | N/M               |                        |                                |
| Net income   | \$ 0.29               | \$ 0.76               | (61.8)            |                        |                                |

**Consolidated Results of Operations Third quarter**

*Sales*

Net sales growth of 15.1% for the third quarter of 2014, compared with the corresponding 2013 quarter, reflects sales growth to record levels in all geographic regions. The company had notable growth in shipments of tabletop, desktop, mobile and card printers. The increase in service and software revenue is due to both organic growth and the December 2013 acquisition of Hart Systems LLC. Movement in foreign currency, net of hedges, increased sales by \$2,862,000.

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

| <b>Product Category</b> | <b>Three Months Ended</b> |                           |       | <b>Percent Change</b> | <b>Percent of Net Sales 2014</b> | <b>Percent of Net Sales 2013</b> |
|-------------------------|---------------------------|---------------------------|-------|-----------------------|----------------------------------|----------------------------------|
|                         | <b>September 27, 2014</b> | <b>September 28, 2013</b> |       |                       |                                  |                                  |
| Hardware                | \$ 215,700                | \$ 186,721                | 15.5  | 71.2                  | 70.8                             |                                  |
| Supplies                | 65,643                    | 61,897                    | 6.1   | 21.6                  | 23.5                             |                                  |
| Service and software    | 20,629                    | 13,604                    | 51.6  | 6.8                   | 5.2                              |                                  |
| Subtotal products       | 301,972                   | 262,222                   | 15.2  | 99.6                  | 99.5                             |                                  |
| Shipping and handling   | 1,300                     | 1,301                     | (0.1) | 0.4                   | 0.5                              |                                  |
| Total net sales         | \$ 303,272                | \$ 263,523                | 15.1  | 100.0                 | 100.0                            |                                  |

**Table of Contents**

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

| Geographic Region              | Three Months Ended |                    | Percent Change | Percent of Net Sales 2014 | Percent of Net Sales 2013 |
|--------------------------------|--------------------|--------------------|----------------|---------------------------|---------------------------|
|                                | September 27, 2014 | September 28, 2013 |                |                           |                           |
| Europe, Middle East and Africa | \$ 94,375          | \$ 79,225          | 19.1           | 31.1                      | 30.1                      |
| Latin America                  | 29,060             | 26,252             | 10.7           | 9.6                       | 10.0                      |
| Asia-Pacific                   | 45,705             | 41,922             | 9.0            | 15.1                      | 15.9                      |
| Total International            | 169,140            | 147,399            | 14.7           | 55.8                      | 56.0                      |
| North America                  | 134,132            | 116,124            | 15.5           | 44.2                      | 44.0                      |
| Total net sales                | \$ 303,272         | \$ 263,523         | 15.1           | 100.0                     | 100.0                     |

*Gross Profit*

Gross margin of 50.0%, versus 48.8%, for 2013, reflects the favorable impact of lower product costs, improved absorption of fixed costs from higher sales and a reduction in freight costs. Favorable movements in foreign currency, net of hedges, increased third quarter gross profit by \$1,668,000.

*Operating Expenses*

Operating expenses for the third quarter increased 52.2% primarily due to acquisition and integration costs related to the acquisition of the Enterprise business of Motorola Solutions, which was announced in April 2014. Zebra completed the transaction on October 27, 2014.

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

| Operating Expenses                | Three Months Ended |                    | Percent Change | Percent of Net Sales 2014 | Percent of Net Sales 2013 |
|-----------------------------------|--------------------|--------------------|----------------|---------------------------|---------------------------|
|                                   | September 27, 2014 | September 28, 2013 |                |                           |                           |
| Selling and marketing             | \$ 36,781          | \$ 34,395          | 6.9            | 12.1                      | 13.1                      |
| Research and development          | 25,225             | 22,376             | 12.7           | 8.3                       | 8.5                       |
| General and administrative        | 24,741             | 22,452             | 10.2           | 8.2                       | 8.5                       |
| Amortization of intangible assets | 2,597              | 1,831              | 41.8           | 0.9                       | 0.7                       |
| Acquisition and integration costs | 35,326             | 268                | N/M            | 11.6                      | 0.1                       |
| Exit and restructuring costs      | (120)              | 519                | N/M            | N/M                       | 0.2                       |
| Total operating expenses          | \$ 124,550         | \$ 81,841          | 52.2           | 41.1                      | 31.1                      |

*Other income (expense)*

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

|                                     | <b>Three Months Ended</b> |                           |
|-------------------------------------|---------------------------|---------------------------|
|                                     | <b>September 27, 2014</b> | <b>September 28, 2013</b> |
| Investment income (loss)            | \$ (2,448)                | \$ 550                    |
| Foreign exchange loss               | (83)                      | (173)                     |
| Forward swaps gain (loss)           | 185                       | 0                         |
| Other, net                          | 196                       | 5                         |
| <b>Total other income (expense)</b> | <b>\$ (2,150)</b>         | <b>\$ 372</b>             |

The increase in other expense is primarily due to a \$2,300,000 impairment recorded during the third quarter of 2014 associated with a minority investment.



**Table of Contents**

*Forward Interest Rate Swaps*

Zebra entered into two tranches of forward interest rate swaps that will economically hedge the interest rate risk associated with the variable rate commitment entered into for the announced acquisition of the Enterprise business of Motorola Solutions, Inc. These forward interest rate swaps did not qualify for hedge accounting prior to July 30, 2014, and as such, were recognized at their fair value through the statement of earnings in other income (expense) prior to this date. Subsequent to July 30, 2014, the interest rate swaps qualified for hedge accounting and an unrealized loss of \$1,224,000 was recorded in comprehensive income and a realized gain of \$185,000 was recognized in the statement of earnings on the swap for the three months ended September 27, 2014.

*Income Taxes*

The effective income tax rate for the third quarter of 2014 was 39.8% versus 18.1% for the third quarter of 2013. During the third quarter of 2014, a change in the UK tax laws relating to intercompany debt resulted in a one-time charge of \$5,900,000 and additional tax expense of \$2,600,000 for the current quarter. We expect this charge to be reversed in the fourth quarter as a result of the issuance of the Motorola Enterprise acquisition debt. See Notes 15 and 18 for details. In addition, the third quarter rate was decreased by the significant acquisition expenses incurred primarily in the United States. The effective tax rate for the third quarter before the UK law change and without the acquisition expenses would have been 21.8%.

**Table of Contents****Results of Operations: Nine months ended September 27, 2014 versus nine months ended September 28, 2013****Consolidated Results of Operations**

(Amounts in thousands, except percentages):

|  | <b>Nine Months Ended</b>      |                               | <b>Percent<br/>Change</b> | <b>Percent of<br/>Net Sales - 2014</b> | <b>Percent of<br/>Net Sales - 2013</b> |
|--|-------------------------------|-------------------------------|---------------------------|--|--|
|  | <b>September 27,<br/>2014</b> | <b>September 28,<br/>2013</b> |                           |  |  |
| <b>Net sales</b>   |                               |                               |                           |  |  |
| Net sales of tangible products                                   | \$ 814,584                    | \$ 714,949                    | 13.9                      | 92.6                                   | 94.9                                   |
| Revenue from services & software                                 | 65,377                        | 38,671                        | 69.1                      | 7.4                                    | 5.1                                    |
| <b>Total net sales</b>   | <b>879,961</b>                | <b>753,620</b>                | <b>16.8</b>               | <b>100.0</b>                           | <b>100.0</b>                           |
| <b>Cost of Sales</b>   |                               |                               |                           |  |  |
| Cost of sales of tangible products                               | 409,253                       | 370,966                       | 10.3                      | 46.5                                   | 49.2                                   |
| Cost of services & software                                      | 29,095                        | 20,072                        | 45.0                      | 3.3                                    | 2.7                                    |
| <b>Total cost of sales</b>                                       | <b>438,348</b>                | <b>391,038</b>                | <b>12.1</b>               | <b>49.8</b>                            | <b>51.9</b>                            |
| <b>Gross profit</b>  | <b>441,613</b>                | <b>362,582</b>                | <b>21.8</b>               | <b>50.2</b>                            | <b>48.1</b>                            |
| Operating expenses   | 328,184                       | 251,396                       | 30.5                      | 37.3                                   | 33.4                                   |
| <b>Operating income</b>  | <b>113,429</b>                | <b>111,186</b>                | <b>2.0</b>                | <b>12.9</b>                            | <b>14.7</b>                            |
| Other income   | (4,081)                       | 2,435                         | N/M                       | (0.5)                                  | 0.4                                    |
| <b>Income from continuing operations<br/>before income taxes</b> | <b>109,348</b>                | <b>113,621</b>                | <b>(3.8)</b>              | <b>12.4</b>                            | <b>15.1</b>                            |
| Income taxes   | 25,240                        | 20,921                        | 20.6                      | 2.8                                    | 2.8                                    |
| <b>Income from continuing operations</b>                         | <b>84,108</b>                 | <b>92,700</b>                 | <b>(9.3)</b>              | <b>9.6</b>                             | <b>12.3</b>                            |
| Income from discontinued operations,<br>net of tax               | 0                             | 8                             | N/M                       | 0.0                                    | 0.0                                    |
| <b>Net Income</b>  | <b>\$ 84,108</b>              | <b>\$ 92,708</b>              | <b>(9.3)</b>              | <b>9.6</b>                             | <b>12.3</b>                            |
| <b>Diluted earnings per share</b>                                |                               |                               |                           |  |  |
| Income from continuing operations                                | \$ 1.64                       | \$ 1.81                       | (9.4)                     |  |  |
| Income from discontinued operations                              | 0.00                          | 0.00                          | N/M                       |  |  |
| <b>Net income</b>  | <b>\$ 1.64</b>                | <b>\$ 1.81</b>                | <b>(9.4)</b>              |  |  |

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

Net sales for the first nine months of 2014, compared with the corresponding 2013 period, increased 16.8% as a result of growth across all regions and across all product categories, with notable increases in supplies and service contracts, tabletop, desktop and mobile printers. Increased services and software revenue is attributable to both organic growth and the December 2013 acquisition of Hart Systems. The increase in North American sales was favorably affected by higher shipments of large enterprise deals, which were complemented by ongoing strong shipments through distributors. The Europe, Middle East and Africa region benefited from improved business activity, with notable sales to retail customers. Movement in foreign currency, net of hedges, increased sales growth by \$9,553,000.

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

| Product<br>Category   | Nine Months Ended  |                    | Percent<br>Change | Percent of<br>Net Sales<br>2014 | Percent of<br>Net Sales<br>2013 |
|-----------------------|--------------------|--------------------|-------------------|---------------------------------|---------------------------------|
|                       | September 27, 2014 | September 28, 2013 |                   |                                 |                                 |
| Hardware              | \$ 615,132         | \$ 532,350         | 15.6              | 69.9                            | 70.7                            |
| Supplies              | 194,426            | 178,638            | 8.8               | 22.1                            | 23.7                            |
| Service and software  | 65,377             | 38,671             | 69.1              | 7.4                             | 5.1                             |
| Subtotal products     | 874,935            | 749,659            | 16.7              | 99.4                            | 99.5                            |
| Shipping and handling | 5,026              | 3,961              | 26.9              | 0.6                             | 0.5                             |
| Total net sales       | \$ 879,961         | \$ 753,620         | 16.8              | 100.0                           | 100.0                           |

**Table of Contents**

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

| Geographic Region              | Nine Months Ended  |                    | Percent Change | Percent of Net Sales 2014 | Percent of Net Sales 2013 |
|--------------------------------|--------------------|--------------------|----------------|---------------------------|---------------------------|
|                                | September 27, 2014 | September 28, 2013 |                |                           |                           |
| Europe, Middle East and Africa | \$ 280,015         | \$ 237,811         | 17.7           | 31.8                      | 31.6                      |
| Latin America                  | 79,904             | 73,706             | 8.4            | 9.1                       | 9.8                       |
| Asia-Pacific                   | 124,007            | 111,803            | 10.9           | 14.1                      | 14.8                      |
| Total International            | 483,926            | 423,320            | 14.3           | 55.0                      | 56.2                      |
| North America                  | 396,035            | 330,300            | 19.9           | 45.0                      | 43.8                      |
| Total net sales                | \$ 879,961         | \$ 753,620         | 16.8           | 100.0                     | 100.0                     |

*Gross Profit*

Gross margin of 50.2%, versus 48.1% for 2013, reflects the favorable impact of lower product costs, improved absorption of fixed costs, lower freight costs, and revenue related to the December 2013 acquisition of Hart Systems LLC. Favorable movements in foreign currency, net of hedges, increased gross profit by \$5,790,000.

*Operating Expenses*

Operating expenses for the first nine months of 2014 increased 30.5% as a result of increased acquisition and integration costs related to the pending acquisition of substantially all of the Enterprise business of Motorola Solutions announce in April 2014. In addition, the Company realized increased compensation and amortization costs related to the December 2013 acquisition of Hart Systems LLC.

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

| Operating Expenses                | Nine Months Ended  |                    | Percent Change | Percent of Net Sales 2014 | Percent of Net Sales 2013 |
|-----------------------------------|--------------------|--------------------|----------------|---------------------------|---------------------------|
|                                   | September 27, 2014 | September 28, 2013 |                |                           |                           |
| Selling and marketing             | \$ 107,952         | \$ 101,740         | 6.1            | 12.3                      | 13.5                      |
| Research and development          | 71,792             | 67,435             | 6.5            | 8.2                       | 9.0                       |
| General and administrative        | 79,453             | 71,781             | 10.7           | 9.0                       | 9.5                       |
| Amortization of intangible assets | 7,936              | 5,557              | 42.8           | 0.9                       | 0.7                       |
| Acquisition and integration costs | 60,617             | 1,368              | N/M            | 6.9                       | 0.2                       |
| Exit and restructuring costs      | 434                | 3,515              | (87.7)         | N/M                       | 0.5                       |
| Total operating expenses          | \$ 328,184         | \$ 251,396         | 30.5           | 37.3                      | 33.4                      |

*Other income (expense)*

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

|                                     | <b>Nine Months Ended</b>  |                           |
|-------------------------------------|---------------------------|---------------------------|
|                                     | <b>September 27, 2014</b> | <b>September 28, 2013</b> |
| Investment income (loss)            | \$ (1,648)                | \$ 1,700                  |
| Foreign exchange loss               | (332)                     | (733)                     |
| Forward swaps gain (loss)           | (2,248)                   | 0                         |
| Other, net                          | 147                       | 1,468                     |
| <b>Total other income (expense)</b> | <b>\$ (4,081)</b>         | <b>\$ 2,435</b>           |

The increase in other expense is primarily due to a \$2,300,000 impairment recorded during the third quarter of 2014 associated with a minority investment as well as the loss recognized on the forward interest rate swaps.

**Table of Contents***Forward Interest Rate Swaps*

Zebra entered into two tranches of forward interest rate swaps that will economically hedge the interest rate risk associated with the variable rate commitment entered into for the announced acquisition of the Enterprise business of Motorola Solutions, Inc. These forward interest rate swaps did not qualify for hedge accounting prior to July 30, 2014, and as such, were recognized at their fair value through the statement of earnings in other expense prior to this date. Subsequent to July 30, 2014, the interest rate swaps qualified for hedge accounting and an unrealized loss of \$1,224,000 was recorded in comprehensive income and a realized loss of \$2,248,000 was recognized in the statement of earnings on the swap for the nine months ended September 27, 2014.

*Income Taxes*

The effective income tax rate for the first nine months of 2014 was 23.1% compared with 18.4% for the first nine months of 2013. The change in the tax rate was driven by a change in the UK tax laws related to intercompany debt which resulted in a one-time charge of 5.9M and additional tax expense for the current quarter of \$2.6M during Q3. We expect this charge to be reversed in Q4 as a result of the issuance of the Motorola Enterprise acquisition debt. See Notes 15 and 18 for details. In addition, the 2014 YTD rate was decreased by the significant acquisition expenses incurred primarily in the United States. The effective tax rate for the first nine months of 2014 before the UK law change and without the acquisition expenses would have been 21.2%.

**Liquidity and Capital Resources**

(Amounts in thousands, except percentages):

| <b>Rate of Return Analysis:</b>                 | <b>Nine Months Ended</b>  |                           |
|---|---------------------------|---------------------------|
|   | <b>September 27, 2014</b> | <b>September 28, 2013</b> |
| Average cash and marketable securities balances | \$ 478,900                | \$ 430,200                |
| Annualized rate of return                       | 0.2%                      | 0.5%                      |

As of September 27, 2014, Zebra had \$541,920,000 in cash and investments and marketable securities, compared with \$415,795,000 at December 31, 2013. Factors affecting cash and investment balances during the first nine months of 2014 include the following (changes below include the impact of foreign currency):

Inventories increased \$18,606,000 to accommodate increased demand and optimization of freight expense

Other assets increased \$10,859,000 due to forward contracts and debt issuance costs

Accounts receivable increased \$10,810,000 due to increased sales and timing of receipts

Acquisition and integration costs are the main contributors to the increase in accrued liabilities of \$21,160,000

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

On April 14, 2014, Zebra entered into a definitive agreement under which Zebra will acquire substantially all of the Enterprise business of Motorola Solutions, Inc. for \$3.45 billion in an all-cash transaction. Zebra completed the transaction on October 27, 2014, and in connection with closing Zebra issued \$1.05 billion in 7.25% senior subordinated notes due in 2022 and \$2.20 billion in the form of a term loan. To partially mitigate our exposure to the variable interest rates on the term loan, we entered into forward interest rate swap contracts that exchange variable-for-fixed cash flows with a single counterparty.

Pursuant to the terms of the indenture, summary financial information with respect to the Guarantors and subsidiaries that do not guarantee the Notes, the Term Loan and the Revolving Credit Facility (the Non-Guarantors ) is required to be provided in Zebra's annual and quarterly reporting. The summary financial information to be provided includes total revenue, total assets, and total liabilities (including trade payables but excluding intercompany liabilities) for the Non-Guarantors. This information will be included in our Annual Report on Form 10-K for the year ended December 31, 2014 to be filed with the SEC.

### 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 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Customer A | 17.1%              | 17.5%              | 16.0%              | 16.6%              |
| Customer B | 12.8%              | 12.9%              | 12.6%              | 13.1%              |
| Customer C | 11.8%              | 12.6%              | 11.8%              | 12.3%              |

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.

**Table of Contents**

**Safe Harbor**

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

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

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

Our ability to control manufacturing and operating costs,

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

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

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

Success of integrating acquisitions,

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

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

The effect of natural disasters on our business,

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



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

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

The outcome of future tax matters.

When used in this document and documents referenced, the words anticipate, believe, estimate, will and expect similar expressions as they relate to Zebra or its management are intended to identify such forward-looking statements. We encourage readers of this report to review Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, for a further discussion of issues that could affect Zebra's future results. Zebra undertakes no obligation, other than as may be required by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this report.

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There were no material changes in Zebra's market risk during the quarter ended September 27, 2014. For additional information on market risk, refer to the "Quantitative and Qualitative Disclosures About Market Risk" section of our Form 10-K for the year ended December 31, 2013.

In the normal course of business, portions of Zebra's operations are subject to fluctuations in currency values. We manage these risks using derivative financial instruments. See Note 9 to the Consolidated Financial Statements included in this report for further discussion of derivative instruments.

**Table of Contents**

**Item 4. Controls and Procedures**  
**Evaluation of Disclosure Controls and Procedures**

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act )) as of the end of the period covered by this Form 10-Q. The evaluation was conducted under the supervision of our Disclosure Committee, and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by us in this report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) information required to be disclosed by us in our reports that we file or furnish under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

During the quarter covered by this report, there have been no changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Inherent Limitations on the Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Zebra have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

**Table of Contents**

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

**Recent Developments**

On October 27, 2014, Zebra Technologies Corporation ( Zebra or Company ) completed its previously announced acquisition (the Acquisition ) of the Enterprise business (the Enterprise Business ), a division of Motorola Solutions, Inc. ( MSI ).

On April 14, 2014, Zebra and MSI entered into a Master Acquisition Agreement (the Master Acquisition Agreement ), an Intellectual Property Agreement and an Employee Matters Agreement (the IP Agreement , Employee Matters Agreement and collectively, the Principal Agreements ). Upon the terms and subject to the conditions set forth in the Principal Agreements, which were approved by our board of directors, we agreed to the Acquisition of the Enterprise Business. Certain assets of MSI relating to the Enterprise Business were excluded from the Acquisition and retained by MSI, including MSI's iDEN infrastructure business and other assets and certain liabilities as specified in the Principal Agreements. The Acquisition was structured as a combination of stock and asset sales and a merger of certain U.S. entities. Upon completion of the Acquisition, we paid MSI \$3.45 billion in cash, subject solely to an adjustment based on the estimated amount of cash of the Enterprise Business at closing. In addition, we assumed certain liabilities related to the Enterprise Business under the terms of the Principal Agreements.

On October 24, 2014 and October 26, 2014, Zebra and MSI entered into Amendment No. 1 ( Amendment No. 1 ) and Amendment No. 2 ( Amendment No. 2 ), respectively, to the Master Acquisition Agreement. Amendment No. 1 amended the terms of the Master Acquisition Agreement to address certain rights and obligations relating to certain information technology assets. Amendment No. 2 amended the terms of the Master Acquisition Agreement to, among other things, provide (i) that the cash purchase price to be paid at closing be subject solely to an adjustment based on the estimated amount of cash of the Enterprise Business at closing; (ii) that certain enterprise software migration costs incurred by Zebra be reimbursed by MSI, subject to a cap; and (iii) that a proportion of certain information technology-separation costs be reimbursed by Zebra to MSI, subject to an initial threshold amount.

On October 27, 2014, Zebra and MSI entered into Amendment No. 1 to the IP Agreement, which amended the terms of the IP Agreement to address certain rights and obligations relating to certain intellectual property assets.

Zebra funded the Acquisition and the related fees, commissions and expenses with a combination of cash on hand and new financing consisting of the sale of senior unsecured notes and entry into a new credit agreement, each as further described herein.

On October 15, 2014, Zebra closed on its private offering of \$1.05 billion in aggregate principal amount of 7.25% senior unsecured notes due 2022 (the Notes ). The Notes are governed by the terms of an indenture, dated as of October 15, 2014, and a supplemental indenture dated as of October 27, 2014 (together, the Indenture ), by and among Zebra certain of its wholly-owned U.S. subsidiaries, as guarantors (the Guarantors ), and U.S. Bank National Association, as trustee (the Trustee ). The Notes will mature on October 15, 2022. Additionally, in connection with the

completion of the Acquisition, Zebra entered into a new credit agreement, dated October 27, 2014 (the Credit Agreement ), by and among Zebra, the lenders and issuing banks party thereto, JPMorgan Chase Bank, N.A., as revolving facility administrative agent, and Morgan Stanley Senior Funding, Inc., as term loan administrative agent and collateral agent, which provides for a term loan of \$2.2 billion (the Term Loan ) and a revolving credit facility of \$250.0 million (the Revolving Credit Facility ). Zebra's obligations under the Term Loan are unconditionally guaranteed by the Guarantors and, together with obligations under the guarantees, are secured by a perfected security interest in substantially all of Zebra's and the Guarantors' U.S. assets. At the closing of the Acquisition, the Term Loan was drawn in full and the Revolving Credit Facility remained undrawn. The proceeds of the Notes and the Term Loan were used, in part, to finance the Acquisition and related fees and expenses.

The foregoing description of the Principal Agreements, including Amendment No. 1 and Amendment No. 2, the Notes, the Indenture and Credit Agreement does not purport to be a complete description and is qualified in its entirety by reference to the full text of the Master Acquisition Agreement, the IP Agreement, the Employee Matters Agreement,

## **Table of Contents**

which were filed as Exhibits 2.1, 10.1, and 10.2 to our Form 8-K filed April 16, 2014; the Indenture, which was filed as Exhibit 4.1 to our Form 8-K filed October 17, 2014; and Amendment No. 1, Amendment No. 2 and the Credit Agreement, which were filed as Exhibits 2.1, 2.2 and 10.1 to our Form 8-K filed on October 30, 2014; and each as incorporated herein by reference. The Principal Agreements, including Amendment No. 1 and Amendment No. 2, the Indenture and the Credit Agreement are filed to provide security holders with information regarding their terms. They are not intended to provide any other factual information about us, MSI or their respective subsidiaries and affiliates, or the Enterprise Business. These agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to each such agreement and (a) are not intended to be treated as categorical statements of fact, but rather as a way of allocating risk to one of the parties if those statements prove to be inaccurate, (b) may have been qualified in the applicable agreement by confidential disclosure schedules that were delivered to the other party in connection with the signing of the agreements, which disclosure schedules contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in such agreements, (c) may be subject to standards of materiality applicable to the parties that differ from what might be viewed as material to stockholders and (d) were made only as of the date of the agreement or such other date or dates as may be specified in the agreement. Accordingly, investors should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of us, our subsidiaries and affiliates, MSI, their subsidiaries and affiliates or the Enterprise Business.

### **Risks Related to the Acquisition**

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

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

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

In connection with the integration of the Enterprise business into our existing operating structure, we will seek to realize growth opportunities, along with cost savings. We currently expect to realize cost savings of approximately \$150 million per year to be fully achieved by 2017. The anticipated cost savings are based upon assumptions about our ability to implement integration measures in a timely fashion and within certain cost parameters. Our ability to achieve the planned cost synergies is dependent upon a significant number of factors, some of which may be beyond our control. For example, we may be unable to eliminate duplicative costs in a timely fashion or at all. Our inability to realize anticipated cost savings, and revenue enhancements from the acquisition could have a material adverse effect on our business, financial condition, operating results, cash flows and growth prospects.

**The Acquisition could divert the attention of management.**

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

## **Table of Contents**

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

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

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

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

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

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

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

## **Risks Related to the Indebtedness**

### **In connection with the Acquisition, we have incurred substantial debt obligations, which could adversely affect our financial condition.**

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

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

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



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

it may limit our ability to borrow additional funds;

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

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

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

**Table of Contents**

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

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

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

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

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

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

incur additional indebtedness or guarantees;

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

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

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

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

enter into transactions with affiliates;

engage in new lines of business;

consolidate, merge or enter into other fundamental changes;

make loans, investments and/or acquisitions; and

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

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

The restrictions could adversely affect our ability to:

finance operations;

make needed capital expenditures;

make strategic acquisitions or investments or enter into alliances;

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

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

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

## **Table of Contents**

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

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

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

If our business does not generate sufficient cash flows from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness on or before the maturity thereof, sell assets, reduce or delay capital investments or seek to raise additional capital, any of which could have a material adverse effect on our operations. In addition, we may not be able to affect any of these actions, if necessary, on commercially reasonable terms or at all. Our ability to restructure or refinance our indebtedness will depend on the condition of the capital and debt markets and our financial condition at such time. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict business operations. The terms of anticipated or future debt instruments may limit or prevent us from taking any of these actions. In addition, any failure to make scheduled payments of interest and/or principal on outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to access additional capital on commercially reasonable terms or at all. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would have an adverse effect, which could be material, on our business, financial condition and results of operations, as well as on our ability to satisfy the obligations in respect of our indebtedness.

In addition to the other information included in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, and the factors identified under Safe Harbor at the end of Item 2 of Part I of this Quarterly Report on Form 10-Q, which could materially affect our business, financial condition, cash flows or results of operations. The risks described in our Annual Report on Form 10-K, are not the only risks facing Zebra. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, cash flows and/or results of operations.



**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Treasury Shares**

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

**ISSUER PURCHASES OF EQUITY SECURITIES**

| <b>Period</b>                             | <b>Total number of shares purchased</b> | <b>Average price paid per share</b> | <b>Total number of shares purchased as part of publicly announced programs</b> | <b>Maximum number of shares that may yet be purchased under the program</b> |
|---|---|-------------------------------------|--|---|
| July 2014 (June 29 - July 26)             | 0                                       | \$ 0.00                             | 0  | 665,475   |
| August 2014 (July 27 - August 23)         | 0                                       | \$ 0.00                             | 0  | 665,475   |
| September 2014 (August 24 - September 27) | 0                                       | \$ 0.00                             | 0  | 665,475   |

- (1) On November 4, 2011, Zebra's Board authorized the purchase of up to an additional 3,000,000 shares under our stock repurchase program. This authorization does not have an expiration date.
- (2) During the third quarter, Zebra acquired 2,186 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 \$78.12 per share.

**Table of Contents**

**Item 6. Exhibits**

- 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 27, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) the consolidated balance sheets; (ii) the consolidated statements of earnings; (iii) the consolidated statements of comprehensive income, (iv) the consolidated statements of cash flows; and (v) notes to consolidated financial statements.

**Table of Contents**

**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 5, 2014

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

Date: November 5, 2014

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