ZEBRA TECHNOLOGIES CORP
Form 10-K
February 20, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from ___________________ to ___________________

COMMISSION FILE NUMBER 000-19406

Zebra Technologies Corporation

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

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

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

Title of Each Class	Name of Exchange on which Registered
Class A Common Stock, par value $.01 per share	The NASDAQ Stock Market, LLC

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

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

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

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

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

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

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 definitions of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Securities Act) (Check one):

Large accelerated filer X   Accelerated filer ____

Non-accelerated filer ____ (Do not check if a 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 Securities Act). Yes ____ No X

As of June 29, 2013, the aggregate market value of each of the registrant s Class A Common held by non-affiliates was approximately $2,102,525,626. The closing price of the Class A Common Stock on June 28, 2013, as reported on the Nasdaq Stock Market, was $43.44 per share.

As of February 7, 2014, 50,369,005 shares of Class A Common Stock, par value $.01 per share, were outstanding.

Documents Incorporated by Reference

Certain sections of the registrant s Notice of Annual Meeting of Stockholders and Proxy Statement for its Annual Meeting of Stockholders to be held on May 15, 2014, are incorporated by reference into Part III of this report.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

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PART I

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

Safe Harbor

Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors which could cause actual results to differ materially from those expressed or implied in such forward looking statements. When used in this document and documents referenced, the words anticipate, believe, intend, estimate, will and expect and similar expressions as they relate to Zebra or its management are intended to identify such forward-looking statements, but are not the exclusive means of identifying these statements. The forward-looking statements include, but are not limited to, Zebra s financial outlook for the first quarter and full year of 2014. These forward-looking statements are based on current expectations, forecasts and assumptions and are subject to the risks and uncertainties inherent in Zebra s industry, market conditions, general domestic and international economic conditions, and other factors. These factors include:

- Market acceptance of Zebra s printer and software products and competitors product offerings and the potential effects of technological changes,
- The effect of global market conditions, including North America, Latin America, Asia Pacific, Europe, Middle East and Africa and other regions in which we do business,
- Our ability to control manufacturing and operating costs,
- Risks related to the manufacturing of Zebra s products in foreign countries as well as business operations in foreign countries including the risk of depending on key suppliers who are also in foreign countries,
- Zebra s ability to purchase sufficient materials, parts and components to meet customer demand, particularly in light of global economic conditions,
- The availability of credit and the volatility of capital markets, which may affect our suppliers and customers,
- Success of integrating acquisitions, including the Hart Systems business we acquired in December 2013,
- Interest rate and financial market conditions because of our large investment portfolio,
- The impact of the percentage of cash and cash equivalents held outside the United States,
- The effect of natural disasters on our business,
- The impact of changes in foreign and domestic governmental policies, laws or regulations
- Foreign exchange rates due to the large percentage of our international sales and operations,
- The outcome of litigation in which Zebra is involved, particularly litigation or claims related to infringement of third-party intellectual property rights and,
- The outcome of any future tax matters.

We encourage readers of this report to review Item 1A, Risk Factors, in this report for further discussion of issues that could affect Zebra s future results. Zebra undertakes no obligation, other than as may be required by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this report.

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Item 1. Business

The Company

Zebra is a global leader respected for innovation and reliability which offers products and solutions that enable organizations to gain greater insight into their operations. Improved visibility allows our customers to create value by managing their assets, transactions and people better.

Zebra s extensive portfolio of marking, tracking and printing technologies, which include barcode, RFID and sensoring, captures physical events in digital form to give operational events a virtual voice. This capture enables organizations to know in real-time the location, condition, timing and accuracy of events occurring throughout their value chain. Once the events are seen, organizations can create new value from what is already there.

We design, manufacture and sell specialty printing devices that print variable information on demand at the point of issuance. These devices are used worldwide by manufacturers, service and retail organizations and governments for automatic identification, data collection and personal identification in applications that improve productivity, deliver better customer service and provide more effective security. Our product range consists of direct thermal and thermal transfer label and receipt printers, passive radio frequency identification (RFID) printer/encoders and dye sublimation card printers. We also sell a comprehensive range of specialty supplies consisting of self-adhesive labels, thermal transfer ribbons, thermal printheads, batteries and other accessories, including software for label design, application development and printer network management.

Zebra also designs and sells solutions incorporating active RFID and ultra wideband radio (UWB) technologies. These solutions help businesses locate and or track assets and people in real time. They use battery-powered wireless tags, fixed-position antennae, transponder modules and application software. We also provide consulting services, maintenance contracts and software licenses related to these solutions.

In July of 2012, Zebra acquired LaserBand LLC (a Missouri limited liability company). LaserBand is a leader in patient identification wristbands and related products. LaserBand strengthens Zebra s product and patent portfolio and enables Zebra to offer a wider array of products to hospitals, other healthcare organizations and other customers that use wristbands in their operations.

In December of 2012, Zebra acquired StepOne Systems. StepOne is a mobility software company that empowers store associates by giving them access to product details as well as store and company inventories to better serve their customers. StepOne s retail application platform is incorporated into Zebra s fully integrated mobile point-of-sale (POS) offering, which retail customers use to create a more personal customer engagement and improve the overall shopping experience.

In December 2013, Zebra acquired Hart Systems, a leading provider of self-directed physical inventory management solutions to the retail industry. Hart has distinguished itself in the market by offering retailers high ROI, self-managed inventory solutions. This acquisition enables us to expand our presence in the retail market segment by offering additional inventory management services as part of Zebra s dedicated retail solutions. It adds software as a service (SaaS) to Zebra s product portfolio.

Discontinued Operations

Sale of Navis, LLC - On March 18, 2011, we sold our Navis marine terminal solutions business and the related WhereNet marine terminal solutions product line of our ZES business to Cargotec Corporation.

Sale of proveo AG - On August 3, 2011, we entered into a Share Purchase Agreement with F Two NV (a Belgium company) and sold all of our interest in Zebra Enterprise Solutions GmbH (formerly proveo AG) business.

Beginning in the first quarter of 2011, Zebra reported the results of these businesses as discontinued operations. The amounts presented in Zebra s financial statements for discontinued operations include Navis and proveo assets and liabilities, and the operating results of these businesses for 2012, 2011 and 2010. With the sale of Navis, we integrated the remaining ZES business into our Location Solutions operations.

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Continuing Operations

Zebra s continuing operations include our printers, supplies and services businesses and our Location Solutions operations.

Zebra s printer operations

We design our printer products to produce high-quality labels, wristbands, tickets, receipts, and plastic cards on demand. The exceptional diversity of applications using our printer products for barcoding and personal identification includes routing and tracking, patient safety, transaction processing, and identification and authentication. These applications require high levels of data accuracy, where speed, reliability and durability are critical. They also include specialty printing for receipts and tickets for improved customer service and productivity gains. Plastic cards are used for secure, reliable personal identification (state identification cards and drivers licenses), access control and financial cards (credit, debit and ATM cards) by financial institutions.

Applications for our printing solutions span most industries and geographies. They include inventory control, small package delivery, baggage handling, automated warehousing, just-in-time (JIT) manufacturing, employee time and attendance records, file management systems, patient barcode wrist banding, medical specimen labeling, shop floor control, in-store product labeling, employee ID cards, driver s licenses, and access control systems.

We believe competitive forces on businesses worldwide drive them to strengthen security, reduce costs, more effectively manage assets, improve quality, deliver better customer service, and increase productivity which support the adoption of the printing and automatic identification applications Zebra provides. These solutions deliver significant and predictable economic benefits. Many of Zebra s applications enhance the use of enterprise resource planning (ERP) and other process improvement systems in manufacturing and service organizations. Greater emphasis on supply chain management and the drive to reduce errors in healthcare are also increasing the use of automatic identification systems. Still other applications are taking advantage of recent advances in wireless and hand-held computing technologies.

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

Our printers are used to print barcode labels, receipts, plastic identification cards, wristbands, and tags and to encode passive RFID smart labels and cards.

We also sell related specialty labeling materials, thermal ink ribbons, and barcode label design and network management software. These products are used to support barcode labeling, personal identification and specialty printing solutions principally in the manufacturing supply chain, retail, healthcare and government sectors of the economy.

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

Of the major printing technologies, which include ink jet, laser and impact dot matrix, we believe that direct thermal and thermal transfer technologies are best suited for most barcode labeling and other on-demand printing applications. Thermal transfer printing produces durable dark, solid blacks and sharply defined lines that are important for printing readily scannable barcodes. These images can be printed on a wide variety of labeling materials, which enable users to affix barcode labels to virtually any object. This capability is very important in the industrial and service sectors Zebra serves. Direct thermal printing is best suited where ease of use, smaller size and cost are important factors in the application. Accordingly, this technology is found principally in Zebra s mobile and desktop units.

We work closely with distributors, value-added resellers, kiosk manufacturers and end users of our products to design and implement printing solutions that meet their technical demands. To achieve this flexibility, we provide our customers with a broad selection of printer models, each of which can be configured for specific applications. Additionally, we will select and, if necessary, create appropriate labeling stock, ink ribbons and adhesives to suit a particular application. In-house engineering personnel in software, mechanical, electronic and chemical engineering participate in the creation and development of unique printing solutions for particular applications.

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As of December 31, 2013, we offered 57 thermal printer models with numerous variations, in seven categories as follows:

- Tabletop printers for applications requiring continuous operation in high output, mission-critical and industrial settings as well as demanding commercial applications.
- Desktop printers to deliver value and performance in applications with lower volume or space restrictions.
- Mobile printers to meet the printing needs of mobile workers in a broad range of industries.
- Print engines, which are sold to manufacturers and integrators of high-speed automatic label applicator systems and are available with or without RFID smart label capabilities.
- Kiosk and ticket printers for use in kiosks and other unattended printing applications.
- Card printers, which print and encode national identity cards, driver s licenses, employee identification badges, gift cards, personalized cards and financial cards (credit, debit and ATM cards).
- RFID printer/encoders for passive high frequency and ultra-high frequency radio frequency identification in the retail supply chain, for defense logistics, and other applications. These units are used to print and encode smart labels in a single pass. Smart labels are printable labels embedded with an ultra-thin radio frequency transponder. Information encoded in these transponders can then be read and modified by a radio frequency reader.

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

Zebra s Location Solutions

Zebra offers a range of solutions and services that enable businesses to have visibility into the location and movement of its personnel and assets with real-time locating systems.

Zebra s Location Solutions incorporate active RFID technology. Our software and hardware locate, track, manage, and maximize the utilization of high-value assets, equipment, and people. Whether tracking pallets through a supply chain, the flow of work in process, optimizing product fulfillment, analyzing movement of professional athletes, or providing wide-area asset traceability, our real-time location solutions provide constant visibility and accurate location.

Zebra provides asset tags, call tags, sensors, exciters and application software. Each tag contains a unique ID that users can associate to a specific asset, part, workstation or person. The complementary technologies in our location solutions work seamlessly together to provide customers with asset visibility, tracking, and motion monitoring.

Applications for our location solutions span a broad array of industries where tracking assets, transactions and people are critical. Our location solutions are deployed primarily in industrial manufacturing, process industries, aerospace, transportation and logistics and healthcare environments.

Printer supplies

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

We fully support our printers, resellers and end users with an extensive line of superior quality, high-performance supplies optimized to a particular user s needs. Supplies are chosen in consultation with the reseller and end-user based on the specific application, printer and environment in which the labeling system must perform. These printing solutions frequently include proprietary ribbon and label formulations that are designed to optimize image resolution and printer performance while meeting the most demanding end-user application performance criteria. Factors such as adhesion, resistance to scratches, smudges and abrasion, and chemical and environmental exposures are all taken into account when selecting the type of ribbon and labeling materials. The use of supplies that are not carefully matched to specific printers can degrade image quality, and decrease the life of key printer components such as printheads.

Zebra also provides a family of self-laminating wristbands for use in laser printers. These wristbands are marketed under the LaserBand name.

Printer related software

Zebra s software products give assets a Digital Voice - enabling them to deliver Meaningful Data that leads to Smarter Decisions. The Zebra Digital Voice Solutions are Link-OS, Zatar, Zebra Commerce and Motion Works. These solutions create value for end users by enhancing process efficiency and by delivering insights about their business. The Digital Voice solutions enable our Partners to sell new devices, replace existing devices and deliver value over the life of those devices, via software & hardware service contracts, device management and analytics products. We leverage connectivity, mobility and Internet of Things technologies delivered via packaged, on premise software products, as well as through SaaS, PaaS and HaaS models.

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Our solutions enable high levels of functionality to all major computer network and software systems. Zebra has specialized printer management, label design, printer drivers and application development solutions to help unlock the full potential of Zebra printers. Our Link-OS suite of networking and software system offerings, makes Zebra s printers easy to use and integrate into small, medium and enterprise-wide environments. Zebra connectivity solutions include support for Ethernet, 802.11a/b/g/n, and Bluetooth®. Integration with multiple device operating systems, such as Microsoft® Windows® , Android , iOS, UNIX and Linux, are supported.

We also offer design and integration software specifically designed to optimize the performance of Zebra label and card printers. Our suite of tools includes CardStudio , ZebraDesigner , ZebraDesigner Pro, ZebraDesigner for XML, and ZebraDesigner Label Design Software for use with mySAP Business Suite. Zebra s Enterprise Connector Solution for Oracle® Business Intelligence Publisher , deliver seamless integration between Oracle and Zebra printers, creating a versatile, easily managed, cost-effective printing platform. Our Profile Manager printer management system allows networked Link-OS printers to be managed from the cloud.

Printer maintenance and services

Zebra provides maintenance and repair services at our repair centers located in Vernon Hills, Illinois, United States; Etobicoke, Ontario, Canada; Mexico City, Mexico; Preston, United Kingdom; Singapore; Shanghai, China; Heerenveen, Netherlands; Sydney, Australia; and Sao Paulo, Brazil. Zebra Authorized Service Providers (ZASP) also provide repair services for most Zebra products at their locations. In addition, Zebra offers on-site repair services for tabletop printers in the United States. Outside of the United States, Zebra s resellers may provide maintenance service, either directly as ZASPs or through independent service agents. Zebra also provides technical support from in-house support personnel located in the United States, the United Kingdom and Singapore. For most Zebra products, Zebra provides interactive technical support via the Internet at www.zebra.com, 24 hours per day, seven days per week.

Printer warranties

In general, Zebra provides one year of warranty coverage on our 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 tags, are covered by a 90 day warranty. Zebra supplies are warranted against defects in material and workmanship for their stated shelf life or twelve months, whichever ends first. Defective equipment and supplies may be returned for repair or replacement during the applicable warranty periods.

Zebra s technology

Our customers rely on Zebra to provide products and systems to help identify, authenticate, track or route both items and people, and then process the related transactions. These products and systems use technologies that provide specific benefits in each application.

All Zebra printers and print engines incorporate thermal printing technology, either direct thermal printing, thermal transfer printing or dye-sublimation printing. This technology creates an image by heating certain pixels of an electrical printhead to selectively image a ribbon or heat-sensitive substrate.

Direct thermal printers apply the heat directly to a thermally-sensitive label, wristband, or receipt to create an image. This form of thermal printing technology benefits applications requiring simple and reliable operations such as shelf labeling, patient identification, and kiosk receipts. Some desktop label printers, mobile printers and kiosk printers support only direct thermal printing.

Thermal transfer printers apply heat to a ribbon to release ink onto labels or tags. This form of thermal printing technology allows a wider range of specialty label materials and associated inks to be used for applications such as circuit board labels, chemical identification and product labels that require resistance to chemicals, extreme temperatures, abrasion, or labels requiring a long shelf life. Most of our printers in our high performance, midrange, print engine, desktop and mobile categories use thermal transfer printing but can also support direct thermal printing.

Dye-sublimation card printers apply heat to a ribbon to release a dye that is absorbed into a plastic card, retransfer film or treated paper. This process creates full-color, photographic quality images that are well-suited for driver s licenses, access and identification cards, transaction cards, on-demand photographs, and financial cards (credit, debit and ATM cards).

Direct thermal and thermal transfer printers create crisp images at high speeds, making them ideal for printing easily readable text and machine readable barcodes. Dye sublimation thermal printers quickly create full-color images with visual characteristics more similar to halide-based film than to pixel-based ink jet or laser printers, making them ideal for high quality photographs and personalized plastic cards. Some printers also include HF (13.56 MHz) or UHF (860-960 MHz) RFID technology that can encode data into passive RFID transponders embedded in a label, card, or wristband.

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Zebra s printers integrate company-designed mechanisms, electrical systems and printer operating systems. Enclosures of metal or high-impact plastic ensure the durability of our printers. Special mechanisms optimize handling of labels, ribbons, and plastic cards. Fast, high-current electrical systems provide consistent image quality. Mobile printers use NiMH or LiIon batteries to optimize print quality over an extended operating shift. Our printer operating systems support serial, parallel, Ethernet, USB, infrared, Bluetooth, or 802.11a/b/g/n wireless communications with appropriate security protocols. Printing instructions can be received as a proprietary language such as the Zebra Programming Language II (ZPL II®), as a print driver-provided image, or as user-defined XML. These features make our printers easy to integrate into virtually all common computer systems including those operating on UNIX, Linux, or Microsoft® Windows® operating systems. Some independent software vendors, including Adobe, Oracle and SAP, have included Zebra printing support in applications for healthcare, warehouse management, manufacturing, passenger transportation and retailing.

Printer sales and marketing

Sales. We sell our printer products primarily through distributors, value-added resellers (VARs), direct marketers, and original equipment manufacturers (OEMs). We also sell our printer products directly to a select number of named customer accounts. For media and consumables, we sell directly to end users through the Internet and inside operations. Distributors and VARs purchase, stock and sell a variety of automatic identification components from different manufacturers and customize systems for end-user applications using their systems and application integration expertise. Because these sales channels provide specific software, configuration, installation, integration and support services required by end users within various market segments, these relationships allow us to reach end users throughout the world in a wide variety of industries. We experience a minor amount of seasonality in sales, depending on the geographic region and industry served.

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

In some instances, we have designated a customer as a strategic account when the customer is in a targeted high-growth industry with applications using Zebra solutions that span multiple product categories. Zebra sales personnel, either alone or together with our channel partners, manage these strategic accounts to ensure their needs are being met.

The sales function also encompasses a team that manages three global alliances. They direct the business development strategies for third-party relationships that are strategic to new demand creation for specific vertical markets and/or specific applications.

Marketing. Marketing operations encompass global corporate marketing, field marketing, product marketing, industry marketing, market research and channel marketing functions. Corporate marketing manages our Zebra brand globally, corporate public relations, internal communications and our web site. Corporate marketing is also responsible for market research and planning and industry marketing. Product marketing focuses on market analysis, positioning, product launch support and analyzes Zebra s competitive position. Field marketing encompasses demand generation, channel program management and marketing and sales enablement.

Printer production and manufacturing

We design our products to optimize product performance, quality, reliability, durability and versatility. These designs combine cost-efficient materials, sourcing and assembly methods with high standards of workmanship.

Final assembly of our printer products is performed by Jabil Circuit, Inc., a third-party electronics manufacturer. Jabil produces our printers to our design specifications in the quantities we order. We maintain control over portions of the supply chain including supplier selection and price negotiations of key components. Jabil is responsible for the procurement of the components and subassemblies used in the Zebra printers it produces. Zebra has a subsidiary located in Guangzhou, China, and has an office located near the Jabil facility in China where our products are assembled. This office is staffed with our sourcing, engineering and quality personnel to help ensure that we receive optimal raw material pricing, manufacturing process controls are maintained and the final printers meet our quality standards. The majority of our printers manufactured by Jabil are shipped to our regional distribution centers. A portion of products are reconfigured at Zebra s distribution centers through firmware downloads, packaging and customer specific customization before they are shipped to customers. In addition, certain products are manufactured in accordance with Federal procurement regulations and various international trade agreements, and remain eligible for sale to the United States government.

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Competition

Many companies are engaged in the design, manufacture and marketing of barcode label printers, RFID printer/encoders, card personalization and active RFID/Real Time Locating System (RTLS) solutions.

We consider our direct competition in barcode label and receipt printing to be producers of on-demand thermal transfer and direct thermal label printing systems, printer/encoders, mobile printers and supplies. We also compete with companies engaged in the design, manufacture and marketing of printing systems that use alternative technologies, such as ink-jet and laser printing. Many of these companies are substantially larger than Zebra.

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

We compete with a diverse group of small companies marketing RTLS solutions.

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

We face competition in our printing business from many printer companies, including the following (listed in alphabetical order): Argox; Avery Dennison; Bixolon; Blue Bamboo; Boca Systems; Brother International; Canon; CIM; Citizen; Cognitive TPG; Custom; Danaher; Datacard; Datamax-O Neil, a unit of Dover Corporation; Dymo, a Newell Rubbermaid Company; Epson; Evolis; Fargo Electronics, a unit of HID Global; Godex; Hewlett-Packard; Hitachi; Honeywell International Inc.; Lexmark International; MagiCard; Matica; Microcom; Mitsubishi; NBS Technologies; Nisca; Oki Data; Olympus; Practical Automation; Printronix; Sato; Seiko Instruments; Song Woo Electronics; Sony; Star Micronics; Taiwan Semiconductor; Toshiba TEC; Victor Data Systems; Woosim; and Xerox.

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

Zebra s competitors in the location solutions products include Aeroscout, Ekahau and Ubisense.

Alternative printing technologies

We believe thermal printing will be the preferred label, card and receipt printer technology in Zebra s target applications for the foreseeable future. Among the many advantages of direct thermal and thermal transfer printing is the ability to print high-resolution, durable images on a wide variety of label materials at relatively low costs and high speeds compared with alternative printing technologies. We view passive RFID smart label encoding and active RFID location systems as complementary technologies to barcoded printing, offering growth opportunities for Zebra as the technologies become more widely adopted.

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

Therefore, we continually assess competitive and complementary methods of barcode printing and other means of automatic identification. Alternative print technologies include ink jet, laser and direct marking. While we cannot be certain that a new technology will not supplant thermal printing for labels, cards and receipts, we are not aware of any developing technology that offers the advantages of thermal printing for our targeted applications. We continually monitor and evaluate new RFID technologies, support standards development and rapidly adopt RFID into new Zebra products and systems as new markets and applications emerge.

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Customers

Zebra had three customers that accounted for 10% or more of its sales. All three of these customers are distributors and not end users. Our net sales to significant customers as a percentage of total net sales were as follows:

	Year Ended December 31,		
	2013	2012	2011
Customer A	16.8%	20.4%	20.7%
Customer B	13.1%	11.4%	10.5%
Customer C	12.3%	10.3%	8.9%

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

Sales

Net sales by product category for the last three years were (in thousands):

	Year Ended December 31,		
Product Category	**2013**	**2012**	**2011**
Hardware	$ 735,123	$ 730,489	$ 743,308
Supplies	243,965	212,499	187,457
Service and software	53,627	47,941	47,206
Subtotal	1,032,715	990,929	977,971
Shipping and handling	5,444	5,239	5,517
Total net sales	$ 1,038,159	$ 996,168	$ 983,488

Net sales to international customers, as a percent of total net sales, were as follows:

	Year Ended December 31,		
	2013	2012	2011
Percent of net sales	55.6%	56.2%	58.4%

The percentage of international sales decreased in 2012 and 2013 due to the Laserband acquisition in July of 2012, which principally sells in North America. However, organically, international sales are likely to increase faster than domestic sales because of the lower penetration of automatic identification applications outside North America and Western Europe as well as generally higher economic growth rates in developing countries. As a result, Zebra has invested resources to support our international growth and currently operates facilities and sales offices, or has representation, in 30 different countries.

Research and Development

Zebra s research and development expenditures for the last three years were as follows (in thousands, except percentages):

	Year Ended December 31,		
	2013	2012	2011
Research and development expenses	$ 91,147	$ 87,364	$ 89,926
Percent of net sales	8.8%	8.8%	9.1%

We devote significant resources to developing new innovative solutions for our target markets and ensuring that our products and solutions maintain high levels of reliability and value to our customers.

Intellectual Property Rights

Zebra relies on a combination of trade secrets, patents, trademarks, copyrights and contractual rights to establish and protect its innovations. We hold over 200 domestic and international trademarks. We hold over 700 United States and foreign patents and patent applications. The expiration of any individual patent would not have a significant negative impact on our business.

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

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

Employees

As of January 25, 2014, Zebra employed approximately 2,583 persons, of which 265 were corporate employees. None of our employees are members of a union. Some portions of our business, primarily in Europe and China, are subject to labor laws that differ significantly from those in the United States. For example, in Europe, it is common for a works council to represent employees when discussing matters such as compensation, benefits or terminations of employment. We consider our employee relations to be very good.

Contact Information

Zebra Technologies Corporation is a Delaware corporation. Our principal offices are located at 475 Half Day Road, Suite 500, Lincolnshire, Illinois 60069. Our main telephone number is (847) 634-6700 and our primary Internet web site address is www.zebra.com. You can find all of Zebra s filings with the SEC free of charge through the investor page on this web site, immediately upon filing.

Additional Information

For financial information regarding Zebra, see Zebra s Consolidated Financial Statements and the related Notes, which are included in this Annual Report on Form 10-K.

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Item 1A. Risk Factors

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

Final assembly of our thermal printers and most of our Location Solutions products is performed by Jabil Circuit, a third-party electronics manufacturer. We are dependent on Jabil as a sole-source of supply for the manufacture of such products. A failure by Jabil to provide manufacturing services to Zebra as Zebra requires, or any disruption in such manufacturing services, may adversely affect Zebra s business results. Because we rely on a third-party provider such as Jabil to manufacture our products, Zebra may incur increased business continuity risks. Zebra is not able to exercise direct control over the assembly or related operations of its thermal printers and Location Solutions products. If Jabil experiences business difficulties or fails to meet Zebra s manufacturing needs, then Zebra may be unable to satisfy customer product demands, lose sales and be unable to maintain customer relationships. Longer production lead times may result in shortages of certain products and inadequate inventories during periods of unanticipated higher demand. Without Jabil s continuing manufacture of Zebra s products, Zebra will have no other means of final assembly of its thermal printers and Location Solutions products until Zebra is able to secure the manufacturing capability at another facility or develop an alternative manufacturing facility. This transition could be costly and time consuming.

Although Zebra carries business interruption insurance to cover lost sales and profits in an amount it considers adequate, in the event of supply disruption, this insurance does not cover all possible situations. In addition, the business interruption insurance would not compensate Zebra for the loss of opportunity and potential adverse impact, both short-term and long-term, on relations with our existing customers going forward.

Zebra has significant operations outside the United States and sells a significant portion of its products internationally and purchases important components, including final products, from foreign suppliers. Zebra has significant operations outside of the United States which create significant risks. In addition, Zebra sells a substantial amount of its products to customers outside of the United States. Shipments to international customers are expected to continue to account for a material portion of net sales. Zebra also expects to continue the use of third-party contract manufacturing services with overseas production and assembly operations for our products.

Risks associated with operations, sales and purchases outside the United States include:

- Fluctuating foreign currency rates could restrict sales or increase costs of purchasing in foreign countries;
- Volatility in foreign credit markets may affect the financial well-being of our customers and suppliers;
- Adverse changes in, or uncertainty of, local business laws or practices, including the following:
  - Foreign governments may impose burdensome tariffs, quotas, taxes, trade barriers or capital flow restrictions;
  - Restrictions on the export or import of technology may reduce or eliminate the ability to sell in or purchase from certain markets;
  - Political and economic instability may reduce demand for our products or put our foreign assets at risk;
  - Potentially limited intellectual property protection in certain countries may limit recourse against infringing on our products or cause Zebra to refrain from selling in certain geographic territories;
  - Staffing may be difficult and turnover higher at international operations;
  - A government controlled exchange rate and limitations on the convertibility of the Chinese *yuan;*
  - Transportation delays that may affect production and distribution of Zebra s products; and
  - Effectively managing and overseeing operations that are distant and remote from corporate headquarters may be difficult.

Customers have the right to return products that do not function properly within a limited time after delivery. Zebra monitors and tracks product returns and records a provision for the estimated future returns based on historical experience and any notification received of pending returns. Zebra, however, cannot guarantee that it will continue to experience return rates consistent with historical patterns.

Zebra may not be able to continue to develop products to address user needs effectively in an industry characterized by ongoing change. To be successful, Zebra must adapt to rapidly changing technological and application needs by continually improving its products as well as introducing new products and services to address user demands.

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Zebra s industry is characterized by:

- Evolving industry standards,
- Frequent new product and service introductions,
- Evolving distribution channels,
- Increasing demand for customized product and software solutions, and
- Changing customer demands.

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

Zebra competes in a competitive industry, which may become more competitive. Competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements. Zebra faces significant competition in developing and selling its products and solutions. Some competitors have substantial marketing, financial, development and personnel resources. To remain competitive, Zebra believes it must continue to effectively and economically provide:

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

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

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

- Compliance with evolving laws and regulations in multiple international jurisdictions;
- Managing our distribution channel partners;
- Managing our contract manufacturing and supply chain;
- Manufacturing an increased number of products;
- Increased administrative and operational burden;
- Maintaining and improving information technology infrastructure to support growth;
- Increased logistical problems common to complex, expansive operations; and
- Increasing international operations.

Inability to consummate future acquisitions at appropriate prices could negatively impact our growth rate and stock price. Zebra s ability to grow revenues, earnings and cash flow depends in part upon our ability to identify and successfully acquire and integrate businesses at appropriate prices and to realize anticipated synergies. Acquisitions can be difficult to identify and consummate due to unreasonable asking prices, competition among prospective buyers and the need to satisfy applicable closing conditions and obtain antitrust and other regulatory approval on acceptable terms.

Zebra could encounter difficulties in any acquisition it undertakes, including unanticipated integration problems and business disruption. Acquisitions could also dilute stockholder value and adversely affect operating results. Zebra may acquire or make investments in other businesses, technologies, services or products. An acquisition may present business issues which are new to Zebra. The process of integrating any acquired business, technology, service or product into our operations may result in unforeseen operating difficulties and expenditures. Integration of an acquired company also may consume considerable management time and attention, which could otherwise be available for ongoing operations and the further development of our existing business. The expected benefits of any acquisition may not be realized.

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Acquisitions also may involve a number of risks, including:

- Difficulties and uncertainties in retaining the customers or other business relationships from the acquired entities;
- The loss of key employees of acquired entities;
- The ability of acquired entities to fulfill their customer s obligations;
- The discovery of unanticipated issues or liabilities;
- Pre-closing and post-closing acquisition-related earnings charges could adversely impact operating results in any given period, and the impact may be substantially different from period to period;
- The failure of acquired entities to meet or exceed expected returns could result in impairment of goodwill or intangible assets acquired; and
- The acquired entities ability to implement internal controls and accounting systems necessary to be compliant with requirements applicable to public companies subject to SEC reporting.

Future acquisitions could result in potentially dilutive issuances of equity securities or the incurrence of debt and contingent liabilities.

Zebra sources some of its component parts from sole source suppliers. A disruption in the supply of such component parts could have a material adverse effect on our ability to meet customer demand and negatively affect our financial results.

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

The inability to protect intellectual property could harm Zebra s reputation, and its competitive position may be materially damaged. Zebra s intellectual property is valuable and provides Zebra with certain competitive advantages. Copyrights, patents, trademarks, trade secrets and contracts are used to protect these proprietary rights. Despite these precautions, third parties may be able to copy or reproduce aspects of Zebra s intellectual property and its products or, without authorization, to misappropriate and use information which Zebra regards as its trade secrets.

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

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

Cybersecurity incidents could disrupt business operations. Like many companies, Zebra continually strives to meet industry information security standards relevant to our business. We regularly perform vulnerability assessments, remediate vulnerabilities, review log/access, perform system maintenance, manage network perimeter protection and implement and manage disaster recovery testing.

A cyber-attack that breaches our external perimeter may lead to a material disruption of our core business systems and/or lead to the loss or corruption of confidential business information that could result in an adverse business impact, as well as, possible damage to the Zebra brand. This could also lead to a public disclosure or theft of private intellectual property and a possible loss of customer confidence.

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While we have experienced, and expect to continue to experience, these types of threats and incidents, there have been no material incidents incurred to-date at Zebra. If Zebra s core business operations, or that of one of our third-party service providers, were to be breached, this could affect the confidentiality, integrity and availability of our systems and data. While we continue to perform security due diligence, there is always the possibility of a significant breach effecting the confidentiality, integrity and availability of our systems and/or data.

Zebra products that are deployed in customer environments also have the possibility of being breached, which could result in damage to a customer s confidentiality, integrity and availability of the customer s data and systems.

Defects or errors in Zebra s software products could harm its reputation, result in significant cost to Zebra and impair Zebra s ability to market such products. Zebra s software may contain undetected errors, defects or bugs. Although Zebra has not suffered significant harm from any errors, defects or bugs to date, we may discover significant errors, defects or bugs in the future that we may not be able to correct or correct in a timely manner. It is possible that errors, defects or bugs will be found in Zebra s existing or future software products and related services with the possible results of delays in, or loss of market acceptance of, Zebra s products and services, diversion of our resources, injury to our reputation, increased service and warranty expenses and payment of damages.

Zebra depends on the ongoing service of its senior management and ability to attract and retain other key personnel. The future success of Zebra is substantially dependent on the continued service and continuing contributions of senior management and other key personnel.

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

Terrorist attacks or war could lead to further economic instability and adversely affect Zebra s stock price, operations, and profitability. The terrorist attacks that occurred in the United States on September 11, 2001, caused major instability in the U.S. and other financial markets. The possibility of further acts of terrorism and current and future war risks could have a similar impact. Any such attacks could, among other things, cause further instability in financial markets and could directly, or indirectly through reduced demand, negatively affect Zebra s facilities and operations or those of its customers or suppliers.

Taxing authority challenges may lead to tax payments exceeding current reserves. Zebra is subject to ongoing tax examinations in various jurisdictions. As a result, we may record incremental tax expense based on expected outcomes of such matters. In addition, we may adjust previously reported tax reserves based on expected results of these examinations. Such adjustments could result in an increase or decrease to Zebra s effective tax rate. Future changes in tax law in various jurisdictions around the world and income tax holidays could have a material impact on Zebra s effective tax rate, foreign rate differential, future income tax expense and cash flows.

Economic conditions and financial market disruptions may adversely affect Zebra s business and results of operations. Adverse economic conditions or reduced information technology spending may adversely impact our business. Financial markets throughout the world experienced extreme disruption from 2008 through 2009, resulting in historically high volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others, failure and potential failures of major financial institutions and unprecedented government support of financial institutions and corporations. A recurrence of these developments and a related general economic downturn could adversely affect Zebra s business and financial condition through a reduction in demand for our products by our customers. If a slowdown were severe enough, it could require further impairment testing and write-downs of goodwill and other intangible assets. Cost reduction actions may be necessary and lead to restructuring charges. A tightening of financial credit could adversely affect our customers, suppliers, outsource manufacturer and channel partners (e.g., distributors and resellers) from obtaining adequate credit for the financing of significant purchases. Another economic downturn could also result in a decrease in or cancellation of orders for Zebra s products and services; negatively impact Zebra s ability to collect its accounts receivable on a timely basis; result in additional reserves for uncollectible accounts receivable; and require additional reserves for inventory obsolescence. Higher volatility and fluctuations in foreign exchange rates for the U.S. dollar against currencies such as the euro, the British pound, the Chinese *yuan*, and the Brazilian real could negatively impact product sales, margins and cash flows.

A natural disaster may cause supply disruptions that could adversely affect Zebra s business and results of operations. As reported, a powerful earthquake centered off the northeastern coast of Japan on March 11, 2011, resulted in the loss of many lives, wide-spread damage to and destruction of property, disruption of electric power, and the release of radiation from a crippled nuclear power plant. This devastation disrupted the operations to varying degrees of companies with business activity in the affected region, including the business of Zebra suppliers. Other natural disasters may occur in the future and Zebra is not able to predict to what extent or duration any such disruptions will have on our ability to maintain ordinary business operations. The consequences of an unfortunate natural disaster may have a material adverse effect on Zebra s business and results of operations.

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Item 1B. Unresolved Staff Comments

Not applicable.

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Item 2. Properties

Zebra s corporate headquarters are located in Lincolnshire, Illinois, a northern suburb of Chicago. Zebra also conducts its sales, marketing, engineering and operations activities from facilities in Vernon Hills, Illinois, and Agoura Hills, California. The additional 230,870 square footage is meant for occupancy in 2015, this lease replaces the Vernon Hills and Lincolnshire leases expiring in June 2015.

Zebra s principal facilities as of December 31, 2013, are listed below:

	Square Footage			
Location	Manufacturing, Production & Warehousing	Administrative, Research & Sales	Total	Lease Expires
Lincolnshire, Illinois, USA	0	230,870	230,870	November, 2026
Vernon Hills, Illinois, USA	110,000	115,000	225,000	June, 2015
Greenville, Wisconsin, USA	100,500	0	100,500	April, 2028
Heerenveen, The Netherlands	47,286	47,286	94,572	July, 2017
Agoura Hills, California, USA	0	75,077	75,077	March, 2021
Buffalo Grove, Illinois, USA	63,189	0	63,189	July, 2015
Preston, UK	51,450	8,600	60,050	Owned by Zebra
Lincolnshire, Illinois, USA	0	47,334	47,334	June, 2015
Flowery Branch, Georgia, USA	40,520	0	40,520	June, 2017
Lincoln, Rhode Island, USA	0	40,116	40,116	April, 2016
Guangzhou, China	0	32,655	32,655	January, 2014
Hauppauge, New York, USA	0	32,500	32,500	October, 2015
Bourne End, UK	0	27,251	27,251	June, 2019
Otay Mesa, California, USA	26,639	0	26,639	September, 2014
San Jose, California, USA	0	24,630	24,630	July, 2015
McAllen, Texas, USA	18,000	0	18,000	September, 2016
Germantown, Maryland, USA	0	13,134	13,134	January, 2016
Chicago, Illinois, USA	0	10,417	10,417	June, 2015
Rogersville, Tennessee, USA	0	9,780	9,780	April, 2014
Clayton, Missouri, USA	0	9,688	9,688	April, 2019
Singapore, Singapore	0	9,472	9,472	February, 2017
Shanghai, China	0	8,287	8,287	December, 2017
Detroit, Michigan, USA	0	7,085	7,085	February, 2018
Mexico City, Mexico	3,400	3,488	6,888	October, 2015
Sao Paulo, Brazil	0	5,812	5,812	February, 2015
Miami, Florida, USA	0	5,786	5,786	October, 2017
Shanghai, China	0	5,287	5,287	January, 2015
Total	460,984	769,555	1,230,539	

Zebra leases various other facilities around the world, which are dedicated to administrative, research and sales functions. These other leases, solely or in aggregate, are not material to Zebra.

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Item 3. Legal Proceedings

See Note 12 in the Notes to the Consolidated Financial Statements included in this Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Information: Price Range and Common Stock

Our Class A Common Stock is traded on The NASDAQ Stock Market under the symbol ZBRA. The following table shows the high and low trade prices for each fiscal quarter in 2013 and 2012, as reported by The NASDAQ Stock Market.

2013	High	Low	2012	High	Low
First Quarter	$ 47.24	$ 40.04	First Quarter	$ 41.88	$ 34.61
Second Quarter	47.20	42.51	Second Quarter	41.79	31.79
Third Quarter	49.38	42.86	Third Quarter	38.74	33.25
Fourth Quarter	55.22	45.00	Fourth Quarter	40.41	34.92

Source: The NASDAQ Stock Market

At February 7, 2014, the last reported price for the Class A Common Stock was $54.62 per share, and there were 438 registered stockholders of record for Zebra s Class A Common Stock. In addition, we had approximately 15,300 stockholders who owned Zebra stock in street name.

Dividend Policy

Since our initial public offering in 1991, we have not declared any cash dividends or distributions on our capital stock. Zebra currently does not anticipate paying any cash dividends in the foreseeable future.

Treasury Shares

During the fourth quarter of 2013, Zebra purchased 88,100 shares of Zebra s Class A Common Stock at a weighted average share price of $52.70 per share, as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program	Maximum number of shares that may yet be purchased under the program
October 2013 (September 29 October 26)	100	$ 45.03	100	753,475
November 2013 (October 27 November 23)	88,000	$ 52.71	88,000	665,475
December 2013 (November 24 December 31)	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 the purchase plan program. The November 2011 authorization does not have an expiration date.

(2) During the fourth quarter, Zebra acquired 551 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 $48.28 per share.

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Item 6. Selected Financial Data

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) DATA

(In thousands, except per share amounts)

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Net sales	$ 1,038,159	$ 996,168	$ 983,488	$ 894,359	$ 738,482
Cost of sales	534,549	504,524	496,719	473,584	420,895
Gross profit	503,610	491,644	486,769	420,775	317,587
Total operating expenses	343,346 (1)	327,293 (2)	304,733 (3)	272,560 (4)	247,308 (5)
Operating income	160,264	164,351	182,036	148,215	70,279
Income from continuing operations before income taxes	163,827	164,174	179,719	149,607	72,319
Income from continuing operations	134,225	121,897	130,343	104,614	48,491
Income (loss) from discontinued operations, net of tax	133	1,007	44,300	(2,836)	(1,387)
Net income	$ 134,358	$ 122,904	$ 174,643	$ 101,778	$ 47,104
Basic earnings per share:					
Income from continuing operations	$ 2.65	$ 2.36	$ 2.42	$ 1.83	$ 0.81
Income (loss) from discontinued operations	0.00	0.02	0.82	(0.05)	(0.02)
Net income	$ 2.65	$ 2.38	$ 3.24	$ 1.78	$ 0.79
Diluted earnings per share:					
Income from continuing operations	$ 2.63	$ 2.35	$ 2.40	$ 1.82	$ 0.81
Income (loss) from discontinued operations	0.00	0.02	0.82	(0.05)	(0.02)
Net income	$ 2.63	$ 2.37	$ 3.22	$ 1.77	$ 0.79
Weighted average shares outstanding					
Basic	50,693	51,566	53,854	57,143	59,306
Diluted	51,063	51,843	54,191	57,428	59,425

CONSOLIDATED BALANCE SHEET DATA

(In thousands)

	December 31,				
	2013	2012	2011	2010	2009
Cash and cash equivalents, restricted cash, investments and marketable securities (current and long-term)	$ 415,795	$ 394,075	$ 326,695	$ 258,598	$ 245,027
Working capital (6)	635,049	615,649	475,899	455,143	429,277
Total assets	1,119,812	967,748	899,006	878,864	830,479
Long-term obligations (7)	15,477	14,229	11,515	10,191	9,012
Stockholders equity	958,658	857,002	776,925	730,032	712,129

(1) Includes exit and restructuring costs of $5,890,000

(2) Includes asset impairment charges of $9,114,000 and exit and restructuring costs of $960,000.

(3) Includes exit and restructuring costs of $2,041,000.

(4) Includes litigation settlement proceeds received of $1,082,000 and exit and restructuring costs of $2,262,000.

(5) Includes exit and restructuring costs of $9,902,000.

(6) Calculated as current assets minus current liabilities.

(7) Long-term obligations include deferred compensation and unearned revenue. See Note 17 Deferred Compensation Plan in the Notes to the Consolidated Financial Statements included in this Form 10-K.

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

Results of Operations: Fourth Quarter of 2013 versus Fourth Quarter of 2012

Consolidated Results of Operations

(Amounts in thousands, except percentages)

	Three Months Ended December 31, 2013	December 31, 2012	Percent Change	Percent of Net Sales - 2013	Percent of Net Sales - 2012
Net Sales					
Tangible products	$ 269,583	$ 241,257	11.7	94.7	95.3
Service & software	14,956	11,922	25.4	5.3	4.7
Total net sales	284,539	253,179	12.4	100.0	100.0
Cost of Sales					
Tangible products	136,547	121,869	12.0	48.0	48.1
Service & software	6,964	6,850	1.7	2.4	2.7
Total cost of sales	143,511	128,719	11.5	50.4	50.8
Gross profit	141,028	124,460	13.3	49.6	49.2
Operating expenses	91,949	80,342	14.4	32.3	31.7
Operating income	49,079	44,118	11.2	17.3	17.5
Other income (expense)	1,127	(56)	N/M	0.3	(0.1)
Income from continuing operations before income taxes	50,206	44,062	13.9	17.6	17.4
Income taxes	8,681	9,263	(6.3)	3.0	3.7
Income from continuing operations	41,525	34,799	19.3	14.6	13.7
Income from discontinued operations, net of tax	125	191	(34.6)	0.0	0.1
Net income	$ 41,650	$ 34,990	19.0	14.6	13.8
Diluted earnings per share:					
Income from continuing operations	$ 0.82	$ 0.68	20.6		
Income from discontinued operations	0.00	0.00	0.0		
Net income	$ 0.82	$ 0.68	20.6		

Consolidated Results of Operations Fourth quarter

Sales

Net sales for the fourth quarter of 2013, compared with the same quarter in 2012, increased 12.4% as a result of increased sales across all product and service categories. Sales benefited from a general improvement in business conditions, with notable sales growth to customers in retail and manufacturing. Printer unit volume growth of 14.6% was partially offset by a 3.1% decline in average printer selling price. The acquisition of Hart Systems LLC, which occurred in December 2013, did not have a material effect on 2013 fourth quarter sales or financial results.

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

Product category	Three Months Ended December 31, 2013	December 31, 2012	Percent Change	Percent of Net Sales 2013	Percent of Net Sales 2012
Hardware	$ 202,772	$ 182,267	11.2	71.2	72.0
Supplies	65,327	57,607	13.4	23.0	22.8
Service and software	14,956	11,922	25.4	5.3	4.7
Subtotal products	283,055	251,796	12.4	99.5	99.5
Shipping and handling	1,484	1,383	7.3	0.5	0.5
Total net sales	$ 284,539	$ 253,179	12.4	100.0	100.0

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

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Percent Change
Total printers shipped	368,204	321,314	14.6
Average selling price of printers shipped	$ 462	$ 477	(3.1)

For the fourth quarter of 2013, unit volumes increased across all printer categories. The decrease in average selling price is a result of a change in product mix toward lower priced products in the 2013 quarter compared to the corresponding 2012 quarter.

Sales growth in North America, Asia Pacific and the Europe, Middle East and Africa region was partially offset by a sales decline in Latin America. Movement in foreign currency, net of hedge activity, increased sales by $1,979,000.

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

Geographic region	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Percent Change	Percent of Net Sales 2013	Percent of Net Sales 2012
Europe, Middle East and Africa	$ 88,660	$ 83,355	6.4	31.2	32.9
Latin America	25,335	26,255	(3.5)	8.9	10.4
Asia-Pacific	40,936	31,665	29.3	14.4	12.5
Total International	154,931	141,275	9.7	54.5	55.8
North America	129,608	111,904	15.8	45.5	44.2
Total net sales	$ 284,539	$ 253,179	12.4	100.0	100.0

Gross profit

Gross profit increased 13.3% for the fourth quarter of 2013 versus the fourth quarter of 2012. As a percentage of sales, gross margin increased from 49.2% to 49.6%, primarily due to higher volume. Favorable foreign currency movements, net of hedges, increased fourth quarter gross profit by $1,672,000.

Operating expenses

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

Operating expenses	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Percent Change	Percent of Net Sales 2013	Percent of Net Sales 2012
Selling and marketing	$ 36,280	$ 33,313	8.9	12.8	13.2
Research and development	23,712	22,605	4.9	8.3	8.9
General and administrative	24,434	20,964	16.6	8.6	8.3
Amortization of intangible assets	1,826	1,463	24.8	0.6	0.6
Acquisition costs	3,322	1,037	N/M	1.2	0.4
Exit and restructuring costs	2,375	960	N/M	0.8	0.4
Total operating expenses	$ 91,949	$ 80,342	14.4	32.3	31.7

Operating expenses for the quarter increased 14.4% primarily from increased expenses for compensation, outside professional services, information systems, and depreciation. The increase in amortization expense is related to the acquisition of certain patent rights in December 2012. Acquisition costs relate to investigated, and completed mergers and acquisitions during the period. Exit and restructuring costs in 2013 relate to the restructuring of the Location Solutions business management structure.

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Operating income

Operating income for the fourth quarter of 2013 compared to the same period in 2012, increased 11.2%. The combination of sales growth and related improvement in gross margin contributed to the increase in operating income.

Income taxes

The effective income tax rate for the fourth quarter of 2013 was 17.3% compared with 21.0% for the same quarter in the prior year. This decrease is due to a combination of higher profits in lower-rate international jurisdictions and the implementation of the foreign holding company structure. In addition, the company recorded a favorable provision to return adjustment of $394,000, resulting in a reduction to the effective tax rate following the filing of the companies UK & Singapore income tax returns.

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Results of Operations: Year ended December 31, 2013 versus Year ended December 31, 2012

Consolidated Results of Operations

(Amounts in thousands, except percentages)

	Year Ended December 31, 2013	December 31, 2012	Percent Change	Percent of Net Sales - 2013	Percent of Net Sales - 2012
Net Sales					
Tangible products	$ 984,532	$ 948,227	3.8	94.8	95.2
Service & software	53,627	47,941	11.9	5.2	4.8
Total net sales	1,038,159	996,168	4.2	100.0	100.0
Cost of Sales					
Tangible products	507,513	479,633	5.8	48.9	48.1
Service & software	27,036	24,891	8.6	2.6	2.5
Total cost of sales	534,549	504,524	6.0	51.5	50.6
Gross profit	503,610	491,644	2.4	48.5	49.4
Operating expenses	343,346	327,293	4.9	33.1	32.9
Operating income	160,264	164,351	(2.5)	15.4	16.5
Other income (expense)	3,563	(177)	N/M	0.4	(0.0)
Income from continuing operations before income taxes	163,827	164,174	(0.2)	15.8	16.5
Income taxes	29,602	42,277	(30.0)	2.9	4.3
Income from continuing operations	134,225	121,897	10.1	12.9	12.2
Income from discontinued operations, net of tax	133	1,007	(86.8)	0.0	0.1
Net income	$ 134,358	$ 122,904	9.3	12.9	12.3
Diluted earnings per share:					
Income from continuing operations	$ 2.63	$ 2.35	11.9		
Income from discontinued operations	0.00	0.02	N/M		
Net income	$ 2.63	$ 2.37	11.0		

Consolidated Results of Operations Full Year

Net sales for 2013 compared with 2012 increased 4.2% as a result of growth across most product categories with notable increases in supplies, service and software. The growth in supplies, due to the LaserBand acquisition in July 2012, partially offset weak business conditions from the first half of 2013. Printer unit volumes increased 4.9% for 2013 compared to 2012 due to volume increases in desktop, mobile, kiosk and card printers. Movement towards lower-priced printers partially offset unit volume increases. Movement in foreign currency, net of hedge activity, partially offset sales growth by $2,807,000.

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

Product category	Year Ended December 31, 2013	December 31, 2012	Percent Change	Percent of Net Sales 2013	Percent of Net Sales 2012
Hardware	$ 735,123	$ 730,489	0.6	70.8	73.4
Supplies	243,965	212,499	14.8	23.5	21.3
Service and software	53,627	47,941	11.9	5.2	4.8
Subtotal products	1,032,715	990,929	4.2	99.5	99.5
Shipping and handling	5,444	5,239	3.9	0.5	0.5
Total net sales	$ 1,038,159	$ 996,168	4.2	100.0	100.0

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

	Year Ended December 31, 2013	December 31, 2012	Percent Change
Total printers shipped	1,321,624	1,260,141	4.9
Average selling price of printers shipped	$ 469	$ 485	(3.3)

Product unit volumes increased 4.9% in 2013 over the prior year. This was due to increased volumes in desktop, mobile, kiosk and card printers. The average selling price reflects a change in product mix toward lower priced products from year to year.

North America, Asia Pacific and Europe, Middle East and Africa contributed to an overall growth of 4.2% with notable increases in supplies and printer sales. The growth in supplies, which includes labels and wristbands, is the result of the Laserband acquisition in July of 2012 plus organic growth in supplies.

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

Geographic region	Year Ended December 31, 2013	December 31, 2012	Percent Change	Percent of Net Sales 2013	Percent of Net Sales 2012
Europe, Middle East and Africa	$ 326,470	$ 322,970	1.1	31.4	32.4
Latin America	99,041	100,101	(1.1)	9.5	10.0
Asia-Pacific	152,740	137,577	11.0	14.7	13.8
Total International	578,251	560,648	3.1	55.6	56.2
North America	459,908	435,520	5.6	44.4	43.8
Total net sales	$ 1,038,159	$ 996,168	4.2	100.0	100.0

Gross profit

Gross profit increased 2.4% due to higher volumes partially offset by unfavorable movements in product mix. Movements in foreign currency, net of hedges, decreased gross profit by $1,014,000.

Operating expenses

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

Operating Expenses	Year Ended December 31, 2013	December 31, 2012	Percent Change	Percent of Net Sales 2013	Percent of Net Sales 2012
Selling and marketing	$ 138,020	$ 129,906	6.2	13.2	13.0
Research and development	91,147	87,364	4.3	8.8	8.8
General and administrative	96,216	92,167	4.4	9.3	9.3
Amortization of intangible assets	7,383	4,673	58.0	0.7	0.5
Acquisition costs	4,690	3,109	50.9	0.5	0.3
Exit and restructuring costs	5,890	960	N/M	0.6	0.1

Asset impairment charge	0	9,114	N/M	0.0	0.9
Total operating expenses	$ 343,346	$ 327,293	4.9	33.1	32.9

Operating expenses for 2013 increased 4.9%. The increase is due to increased expenses across all functional areas offset by the absence of a goodwill impairment charge which represents 2.8% of 2012 operating expenses. The acquisition of both LaserBand and StepOne contributed to the increase in Zebra s operating expenses. Several categories accounted for these increases, including compensation costs, outside professional services, depreciation and information systems expenses. Acquisition costs are related to investigated and completed acquisitions during the period. Amortization of intangible assets increased from additions of current technology, patent and patent rights and customer relationships during the year, including the acquisition of LaserBand in July 2012. Exit and restructuring costs in 2012 and 2013 primarily relate to the restructuring of the Location Solutions business management structure.

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Exit and restructuring costs

During the third quarter of 2012, revenue from Location Solutions fell below plan from slower than anticipated growth in the automotive and process manufacturing industries and weakness in the government sector. As a result, we initiated the Locations Solutions 2012 restructuring plan.

In the second quarter of 2013, management determined that additional restructuring actions would be required to meet our financial goals for the Location Solutions business. We anticipate that the results of our restructuring actions will reduce costs of the Location Solutions business by $4,000,000 per year. These savings should be fully realized by the first quarter 2014. The savings from the Location Solutions restructuring plan will primarily benefit cost of goods sold, engineering and selling and marketing expenses.

During 2007, Zebra began a plan to outsource printer manufacturing to a third-party contract manufacturer. The transition to the third-party manufacturer was completed during 2010. During the fourth quarter of 2012, we determined that further supply chain cost reductions were possible by moving certain supply chain support operations closer to our contract printer manufacturer s facility, which is located in China. We anticipate these actions will generate $2,600,000 in annual savings to our cost of goods sold. These actions were completed by the end of 2013.

Operating income

The operating income decrease for 2013 was the result of operating expense increases as noted above and partially offset by higher gross profit.

Other income (expense)

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

	Year Ended December 31, 2013	December 31, 2012
Investment income	$ 2,366	$ 2,485
Foreign exchange loss	(524)	(941)
Other, net	1,721	(1,721)
Total other income (expense)	$ 3,563	$ (177)

The increase in other income is the result of a net $1,557,000 favorable litigation settlement associated with an investment loss that was recorded in prior years.

Rate of return analysis:	**Year Ended December 31, 2013**	**December 31, 2012**
Average cash and marketable securities balances	$ 404,935	$ 360,385
Annualized rate of return	0.6%	0.7%

Investment income decreased due to a lower yield on invested financial assets compared with 2012, even though cash and investment balances were higher in 2013 versus 2012.

Income taxes

The effective income tax rate for 2013 was 18.1% compared with an income tax rate of 25.8%. The 2012 rate reflects a discrete item for nondeductible asset impairment charge, increasing the tax rate by 1.9% for the full year. Further, in 2012, in order to streamline the management, financing and capital structure of its foreign affiliates, Zebra established a foreign holding company and restructured the ownership structure of its foreign affiliates. This new holding company structure allows Zebra to consolidate the ownership of its significant foreign affiliates under a single holding company. In addition, the structure introduced leverage which gives Zebra the ability to facilitate cash pooling and improve the capital structure of its non-US operations. The new capital structure and global financing favorably impacts the Zebra s effective tax rate and facilitates the tax efficient movement of Zebra s foreign cash to finance the ongoing operating and investment needs of the foreign subsidiaries. The restructuring was completed in the second quarter of 2012 and was in place for the full year in 2013. In addition, the US R&D credit reinstatement for the 2012 income tax year resulted in a tax benefit of $900,000. Finally, Zebra recorded a favorable provision to return adjustment resulting in a reduction to the effective tax rate of 1.1% following the filing of Zebra s 2012 income tax returns.

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Comparison of Years Ended December 31, 2012 and 2011

Consolidated Results of Operations

(Amounts in thousands, except percentages)

	Year Ended				
	December 31, 2012	December 31, 2011	Percent Change	Percent of Net Sales - 2012	Percent of Net Sales - 2011
Net Sales					
Tangible products	$ 948,227	$ 936,282	1.3	95.2	95.2
Service & software	47,941	47,206	1.6	4.8	4.8
Total net sales	996,168	983,488	1.3	100.0	100.0
Cost of Sales					
Tangible products	479,633	469,834	2.1	48.1	47.8
Service & software	24,891	26,885	(7.4)	2.5	2.7
Total cost of sales	504,524	496,719	1.6	50.6	50.5
Gross profit	491,644	486,769	1.0	49.4	49.5
Operating expenses	327,293	304,733	7.4	32.9	31.0
Operating income	164,351	182,036	(9.7)	16.5	18.5
Other income (expense)	(177)	(2,317)	(92.4)	(0.0)	(0.2)
Income from continuing operations before income taxes	164,174	179,719	(8.6)	16.5	18.3
Income taxes	42,277	49,376	(14.4)	4.3	5.0
Income from continuing operations	121,897	130,343	(6.5)	12.2	13.3
Income from discontinued operations, net of tax	1,007	44,300	(97.7)	0.1	4.5
Net income	$ 122,904	$ 174,643	(29.6)	12.3	17.8
Diluted earnings per share:					
Income from continuing operations	$ 2.35	$ 2.40	(2.1)		
Income from discontinued operations	0.02	0.82	(97.6)		
Net income	$ 2.37	$ 3.22	(26.4)		

Consolidated Results of Operations Full Year

Net sales for 2012 compared with 2011 increased 1.3%. This increase is primarily due to growth in sales of supplies, including the impact of the acquisition of LaserBand LLC in July 2012. Printer unit volumes increased 6.0% for 2012 compared to 2011 due to volume increases in desktop, mobile and card printers. Movement towards lower-priced printers partially offset unit volume increases.

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

Product category	Year Ended December 31, 2012	December 31, 2011	Percent Change	Percent of Net Sales 2012	Percent of Net Sales 2011
Hardware	$ 730,489	$ 743,308	(1.7)	73.4	75.5
Supplies	212,499	187,457	13.4	21.3	19.1
Service and software	47,941	47,206	1.6	4.8	4.8
Subtotal products	990,929	977,971	1.3	99.5	99.4
Shipping and handling	5,239	5,517	(5.0)	0.5	0.6
Total net sales	$ 996,168	$ 983,488	1.3	100.0	100.0

Sales increased in Latin America due to improved geographic coverage with notable increases in supplies, mobile, and card printer sales compared to 2011. Sales in North America increased due to increased sales of supplies and continued demand for desktop, card and tabletop printers. Zebra continues to build a broader base of customers to penetrate targeted industries more deeply. Movements in foreign exchange rates decreased sales by $12,139,000 in the Europe, Middle East and Africa regions due principally to a weaker euro against the U.S. dollar.

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

Geographic region	Year Ended December 31, 2012	Year Ended December 31, 2011	Percent Change	Percent of Net Sales 2012	Percent of Net Sales 2011
Europe, Middle East and Africa	$ 322,970	$ 342,578	(5.7)	32.4	34.8
Latin America	100,101	89,715	11.6	10.0	9.1
Asia-Pacific	137,577	141,987	(3.1)	13.8	14.5
Total International	560,648	574,280	(2.4)	56.2	58.4
North America	435,520	409,208	6.4	43.8	41.6
Total net sales	$ 996,168	$ 983,488	1.3	100.0	100.0

Gross profit

Gross profit increased 1.0% due to higher volumes and lower material costs. Lower freight costs in 2012 of $5,042,000 versus 2011 helped improve gross profit while unfavorable movements in foreign currency decreased gross profit by $9,923,000. The above factors contributed to the slight decrease in gross margin from 49.5% to 49.4%.

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

	Year Ended December 31, 2012	Year Ended December 31, 2011	Percent Change
Total printers shipped	1,260,141	1,188,892	6.0
Average selling price of printers shipped	$ 485	$ 527	(7.9)

Product unit volumes increased 6.0% in 2012 over the prior year. This was due to increased volumes in desktop, mobile and card printers. The average selling price reflects a change in product mix toward lower priced products from year to year.

Operating expenses

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

Operating Expenses	Year Ended December 31, 2012	Year Ended December 31, 2011	Percent Change	Percent of Net Sales 2012	Percent of Net Sales 2011
Selling and marketing	$ 129,906	$ 127,797	1.7	13.0	13.1
Research and development	87,364	89,926	(2.8)	8.8	9.1
General and administrative	92,167	81,345	13.3	9.3	8.3
Amortization of intangible assets	4,673	3,320	40.8	0.5	0.3
Acquisition costs	3,109	304	N/M	0.3	0.0
Exit and restructuring costs	960	2,041	(53.0)	0.1	0.2
Asset impairment charge	9,114	0	N/M	0.9	0.0
Total operating expenses	$ 327,293	$ 304,733	7.4	32.9	31.0

Operating expenses for 2012 increased 7.4%. This is primarily due to greater selling and marketing and general and administrative expenses. The asset impairment charge accounted for 40.4% of the total increase in 2012. Several other categories accounted for these increases, including compensation costs, outside professional services, rent, depreciation and information systems expenses. Acquisition costs are related to investigated and completed acquisitions during the period. Amortization of intangible assets increased due to additions of current technology, patent and patent rights and customer relationships during the year as a result of the acquisition of LaserBand. Exit and restructuring costs in 2012 relate to the restructuring of the Location Solutions business management structure while costs in 2011 relate to the relocation and consolidation of administrative, accounting and distribution functions of our Location Solutions operations to Illinois. The asset impairment charge in 2012 relates to the goodwill associated with Zebra s smaller reporting unit.

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Operating income

The operating income decrease for 2012 was the result of operating expense increases as noted above and partially offset by higher gross profit.

Other income (expense)

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

	Year Ended	
	December 31, 2012	December 31, 2011
Investment income	$ 2,485	$ 1,944
Foreign exchange loss	(941)	(2,006)
Other, net	(1,721)	(2,255)
Total other income (expense)	$ (177)	$ (2,317)

Other expense decreased in 2012 as a result of decreases in foreign exchange losses.

	Year Ended	
Rate of return analysis:	**December 31, 2012**	**December 31, 2011**
Average cash and marketable securities balances	$ 360,385	$ 292,646
Annualized rate of return	0.7%	0.7%

Investment income increased overall from higher cash and investment balances in 2012 versus 2011.

Income taxes

The effective income tax rate for 2012 was 25.8% compared with an income tax rate of 27.5% for 2011. During 2012, Zebra established a foreign holding company structure that is designed to accomplish various international business objectives. This new holding company structure allows Zebra to consolidate the ownership of its significant foreign affiliates under a single holding company. In addition, the structure introduced leverage and gives Zebra the ability to facilitate cash pooling for its non-US operations. This favorably impacts the Zebra s effective tax rate, and provides for the tax efficient movement of cash within the structure to efficiently deploy cash generated by the foreign subsidiaries for various uses, including potential acquisitions. The structure was put in place in the second quarter of 2012. These reductions were offset by a discrete item in the third quarter of 2012 related to a non-deductible asset impairment charge which increased the effective tax rate for 2012 by 1.9%. The rate in 2011 included a tax valuation allowance in the first quarter of 2011 against a subsequently divested subsidiary.

Income from discontinued operations

The income from discontinued operations in 2012 is related to an amendment and extension of the proveo loan agreement and reversal of amounts previously reserved which were related to the finalization of the accounting and taxes. The income from discontinued operations in 2011 relates to the sale of Navis LLC and proveo AG, offset by losses on discontinued operations.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

<u>Customer returns</u>

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

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Growth Rebates

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

Price Protection

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

Software Revenue

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

- Our printers contain *embedded firmware,* which is part of the hardware purchase. We consider the sale of this firmware to be incidental to the sale of the printer and do not attribute any revenue to it.
- We sell a limited amount of *prepackaged,* or *off-the-shelf, software* for the creation of barcode labels using our printers. There is no customization required to use this software, and we have no post-shipment obligations on the software. Revenue is recognized at the time this prepackaged software is shipped.
- We sometimes provide *custom software* as part of a printer installation project. We bill custom software development services separate from the related hardware. Revenue related to custom software is recognized once the custom software development services have been completed and accepted by the customer.
- We recognize license revenue under ASC (Accounting Standards Codification) 985, when (1) a signed contract is obtained; (2) delivery of the product has occurred; (3) the license fee is fixed or determinable; and (4) collection is probable.

Maintenance and Support Agreements

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

Shipping and Handling

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

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

Investments and Marketable Securities

The composition of investments and marketable securities at December 31, 2013, was as follows:

U.S. government and agency securities	25.4%
Obligations of government sponsored enterprises (1)	9.5%
State and municipal bonds	14.6%
Corporate securities	47.2%
Other investments	3.3%

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

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Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those debt securities that Zebra has the ability and intent to hold until maturity. Securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of discounts or premiums. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders equity until realized.

Zebra s investments in marketable debt securities are classified as available-for-sale except for securities held in Zebra s deferred compensation plan which are considered to be trading securities. Investments in marketable debt securities are classified based on intent and ability to sell investment securities. Zebra s available-for-sale securities are used to fund future acquisitions and other operating needs and therefore can 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.

Accounts Receivable

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

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

We reserve for estimated credit losses based upon historical experience and specific customer collection issues. Over the last three years, accounts receivable reserves varied from 0.3% to 0.9% of total accounts receivable. Accounts receivable reserves as of December 31, 2013, were $453,000, or 0.3% of the balance due. We believe this reserve level is appropriate considering the quality of the portfolio as of December 31, 2013. While credit losses have historically been within expectations and the provisions established, we cannot guarantee that our credit loss experience will continue to be consistent with historical experience.

Inventories

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

Over the last three years, our inventory reserves have ranged from 8.8% to 11.9% of gross inventory. As of December 31, 2013, inventory reserves were $12,561,000, or 9.4% of gross inventory. We believe this reserve level is appropriate considering the quantities and quality of the inventories as of December 31, 2013.

Valuation of Goodwill

We test the impairment of goodwill each year as of the end of May or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our annual qualitative assessment, in accordance with ASU 2011-08 *Goodwill and Other (Topic 350)*, during June 2013 and determined that our goodwill was not impaired as of the end of May 2013.

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

- Significant adverse change in legal factors or in the business climate,

Adverse action or assessment by a regulator,
Unanticipated competition,
Loss of key personnel,
More-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of,

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Testing for recoverability of a significant asset group within a reporting unit,
Allocation of a portion of goodwill to a business to be disposed of.

In accordance with ASU 2011-08, Zebra s qualitative analysis determined that it is not more likely than not that the fair value of our goodwill is less than the carrying amount and therefore, performing the two-step impairment test was not necessary. If Zebra concluded otherwise, we would perform the first step of the two-step impairment test by calculating the fair value and comparing the fair value to the carrying amount. If the carrying amount exceeded the fair value, we would perform the second step of goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit s goodwill with the carrying value of that goodwill.

There have not been any significant changes to our impairment testing methodology other than updating the assumptions to reflect the current market environment. Zebra will monitor future results and will perform a test if indicators trigger an impairment review.

Valuation of Long-Lived and Other Intangible Assets

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

Significant underperformance relative to expected historical or projected future operating results,
Significant changes in the manner of use of the acquired assets or the strategy for the overall business,
Significant negative industry or economic trends,
Significant decline in Zebra s stock price for a sustained period, and
Significant decline in market capitalization relative to net book value.

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

Net intangible assets, long-lived assets and goodwill amounted to $334,356,000 as of December 31, 2013.

Income Taxes

On January 1, 2007, we adopted ASC 740. According to ASC 740, Zebra identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions

Zebra s continuing practice is to recognize interest and penalties related to income tax matters as part of income tax expense. For the years ended December 31, 2013 and December 31, 2012, we did not accrue any interest or penalties into income tax expense.

We are currently undergoing an audit of the 2011 and 2012 US federal income tax returns. The tax years 2009 through 2012 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.

Included in deferred tax assets are amounts related to federal and state net operating losses that resulted from Zebra s acquisition of WhereNet Corp. As of December 31, 2013, Zebra had approximately $8,252,000 of net operating loss carryforwards available to offset future taxable income which expire in 2022 through 2027. As of December 31, 2013, Zebra had approximately $26,980,000 of state net operating loss carryforwards which expire in 2013 through 2020. Zebra s intention is to utilize these net operating loss carryforwards to offset future income tax expense. 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.

	Year Ended	
	December 31, 2013	**December 31, 2012**
Effective tax rate	18.1%	25.8%

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During 2012, in order to streamline the management, financing and capital structure of its foreign affiliates, Zebra established a foreign holding company and restructured the ownership structure of its foreign affiliates. This new holding company structure allows Zebra to consolidate the ownership of its significant foreign affiliates under a single holding company. In addition, the structure introduced leverage which gives Zebra the ability to facilitate cash pooling and improve the capital structure of its non-US operations. The new capital structure and global financing favorably impacts the Zebra s effective tax rate, and facilitates the tax efficient movement of Zebra s foreign cash to finance the ongoing operating and investment needs of the foreign subsidiaries. The restructuring was completed in the second quarter of 2012 and was in place for the full year in 2013.

Contingencies

Zebra records estimated liabilities related to contingencies based on our estimates of the probable outcomes. Quarterly, Zebra assesses the potential liability related to pending litigation, tax audits and other contingencies and confirm or revise estimates and reserves as appropriate.

For further information regarding material pending legal proceedings, see Note 12 in the Notes to the Consolidated Financial Statements included in the Form 10-K.

Equity-Based Compensation

As of December 31, 2013, Zebra had an active equity-based compensation plan and a stock purchase plan available for future grants. We accounted for these plans in accordance with ASC 505 and ASC 718. Zebra recognizes compensation costs using the straight-line method over the vesting period of up to 5 years. See Notes 2 and 16 to the Consolidated Financial Statements included in the Form 10-K for further information.

Liquidity and Capital Resources

(Amounts in thousands, except percentages):

	Year Ended	
Rate of Return Analysis:	**December 31, 2013**	**December 31, 2012**
Average cash and marketable securities balances	$ 404,935	$ 360,385
Annualized rate of return	0.6%	0.7%

Average cash and marketable securities balances for 2013 increased compared to 2012 as a result of increased cash provided by operations, partially offset by the acquisition of LaserBand and Hart as well as stock repurchases.

As of December 31, 2013, Zebra had $415,795,000 in cash, restricted cash, investments and marketable securities, compared with $394,075,000 at December 31, 2012. Factors affecting cash and investment balances during 2013 include the following (changes below include the impact of foreign currency):

- Accounts receivable increased $6,488,000 due to the increased sales and the timing of receipts.
- Accounts payable increased $7,544,000 due to the timing of payments at period end.
- Purchases of property and equipment totaled $20,211,000.
- Acquisition of businesses totaled $95,328,000.
- Purchases of treasury stock totaled $63,102,000.

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

Zebra earns a significant amount of our operating income outside the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. Zebra does not currently foresee a need to repatriate funds, however, should Zebra require more capital in the U.S. than is generated by our operations locally, Zebra could elect to repatriate funds held in foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates or increased interest expense. Included in Zebra s cash, restricted cash, investments and marketable securities are amounts held by foreign subsidiaries. Zebra had $251,658,000 as of December 31, 2013, and $173,483,000 as of December 31, 2012 of foreign cash and investments, which are primarily invested in U.S. dollar-denominated holdings.

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Contractual Obligations

Zebra s contractual obligations as of December 31, 2013 were (in thousands):

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	$ 83,375	$ 15,619	$ 19,210	$ 13,741	$ 34,805
Deferred compensation liability	4,827				4,827
Deferred revenue	26,157	15,506	10,651		
Purchase obligations	118,081	118,081			
Total	$ 232,440	$ 149,206	$ 29,861	$ 13,741	$ 39,632

Purchase obligations are for purchases made in the normal course of business to meet operational requirements, primarily raw materials and finished goods.

On October 10, 2012, Zebra entered into a revolving credit agreement for a five-year $250 million revolving credit facility with a syndicate of banks led by J. P. Morgan Securities LLC as Administrative Agent. The funds under this credit facility are available for general corporate purposes of Zebra and its subsidiaries in the ordinary course of business and other purposes permitted by the agreement. As of December 31, 2013, we had established letters of credit totaling $1,800,000, which reduce the funds available for borrowing under the agreement. No amounts were outstanding under the credit agreement as of December 31, 2013.

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

Recently Issued Accounting Pronouncements

In February 2013, the FASB issued update 2013-02, ASC 220, *Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* This updated guidance sets requirements for presentation for significant items reclassified to net income in their entirety during the period and for items not reclassified to net income in their entirety during period. This standard is effective for annual and interim periods beginning after December 15, 2012. The adoption of this standard includes additional disclosures in the notes to the consolidated financial statements.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Zebra is exposed to the impact of changes in interest rates because of our large investment portfolio. As stated in our written investment policy s objective is to achieve stable and predictable targeted rates of return, and to provide the liquidity necessary for the operation of the business.

Zebra mitigates interest rate risk with an investment policy that requires the use of outside professional investment managers, specified investment liquidity levels, and broad diversification across investments, and which limits the types of investments that may be made. Moreover, the policy requires due diligence of each investment manager both before employment and on an ongoing basis.

The following table sets forth the full-year impact of a one-percentage point movement in interest rates on the value of Zebra s investment portfolio (in thousands, except per share data).

	As of December 31,	
Interest rate sensitive instruments	**2013**	**2012**
+1 percentage point movement		
Effect on Pretax Income	$ (3,502)	$ (3,657)
Effect on Diluted EPS (after tax)	$ (0.06)	$ (0.05)
-1 percentage point movement		
Effect on Pretax Income	$ 3,502	$ 3,657
Effect on Diluted EPS (after tax)	$ 0.06	$ 0.05

Because these securities are classified as available-for-sale under ASC 320 (formerly SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), the impact of a one-percentage point movement in interest rates occurs over an extended period of time as investments are sold and the funds are subsequently reinvested.

Foreign Exchange Risk

We conduct business in over 100 countries throughout the world and, therefore, at times are exposed to risk based on movements in foreign exchange rates. On occasion, we invoice customers in their local currency and have a resulting foreign currency denominated revenue transaction and accounts receivable. We also purchase certain raw materials and other items in foreign currencies. We manage these risks using derivative financial instruments. See Note 11 of the Notes to the Consolidated Financial Statements included in this form 10-K for further discussions of hedging activities.

The following table sets forth the impact of a ten percent movement in the dollar/pound and dollar/euro rates measured as if Zebra did not engage in the selective hedging practices described above. It is based on the dollar/euro and dollar/pound exchange rates and euro and pound denominated assets and liabilities (in thousands, except per share data).

	As of December 31,	
Foreign exchange	**2013**	**2012**
Dollar/pound		
Effect on Pretax Income	$ 313	$ 824
Effect on Diluted EPS (after tax)	$ 0.00	$ 0.01
Dollar/euro		
Effect on Pretax Income	$ 5,562	$ 5,193
Effect on Diluted EPS (after tax)	$ 0.09	$ 0.07

Equity Price Risk

Zebra s investment manager uses an investment strategy that is principally designed to preserve capital. Zebra utilizes a Value-at-Risk (VaR) model to determine the maximum potential one-day loss in the fair value of its interest rate, foreign exchange and equity price sensitive instruments.

From time to time, Zebra has taken direct equity positions in companies. These investments relate to potential acquisitions and other strategic business opportunities. To the extent that it has a direct investment in the equity securities of another company, Zebra is exposed to the risks associated with such investments.

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Item 8. Financial Statements and Supplementary Data

The financial statements and schedule of Zebra are annexed to this report as pages F-2 through F-36. An index to such materials appears on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

Not applicable.

Item 9A. 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-K. 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 Form 10-K 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.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework as released in 1992 (original framework). Based on this assessment and those criteria, our management believes that, as of December 31, 2013, our internal control over financial reporting is effective. Management s assessment of internal control over financial reporting as of December 31, 2013 excludes the internal control over financial reporting related to Hart Systems (acquired on December 18, 2013). Hart is included in the 2013 consolidated financial statements and constituted 9.1% and 10.0% of total net assets, respectively, as of December 31, 2013 and 0.03% and 0.11% of revenues and net income, respectively, for the year then ended. Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on Zebra s internal control over financial reporting. Ernst & Young LLP s report is included on page 43 of this report on Form 10-K.

Changes in Internal Control over Financial Reporting

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

As of January 31, 2011, we completed the implementation of the new systems for our EMEA region. This implementation included customer order entry and invoicing, inventory procurement and management, certain accounts payable activity, and other related operational systems. As part of the implementation, we changed many of the related internal controls, primarily by replacing manual controls with system controls and streamlining Zebra s internal operations. These new controls were subject to testing throughout 2011, 2012 and 2013.

As of February 27, 2012, we completed the implementation of the new systems for our North America region. This implementation included customer order entry and invoicing, inventory procurement and management, certain accounts payable activity, and other related operational systems. As part of the implementation, we changed many of the related internal controls substantially by reducing the number of manual controls with system controls and streamlining Zebra s internal operations. These new controls were subject to testing throughout 2012 and 2013.

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

Inherent Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent or detect 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 misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within Zebra have been prevented or 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.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

Zebra Technologies Corporation:

We have audited Zebra Technologies Corporation s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Zebra Technologies Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management s Report on Internal Control over Financial Reporting, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Topspin Hart Systems, which is included in the 2013 consolidated financial statements of Zebra Technologies Corporation and constituted 9.1% and 10.0% of total and net assets, respectively, as of December 31, 2013 and 0.03% and 0.11% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Zebra Technologies Corporation also did not include an evaluation of the internal control over financial reporting of Topspin Hart Systems.

In our opinion, Zebra Technologies Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Zebra Technologies Corporation as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive incomes, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2013, of Zebra Technologies Corporation and our report dated February 19, 2014, expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Chicago, Illinois

February 20, 2014

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Item 9B. Other Information

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

We have adopted a Code of Ethics for Senior Financial Officers that applies to Zebra s Chief Executive Officer, Chief Financial Officer and the Vice President, Finance. The Code of Ethics is posted on the Investor Relations Corporate Governance page of Zebra s Internet web site, www.zebra.com, and is available for download. Any waiver from the Code of Ethics and any amendment to the Code of Ethics will be disclosed on such page of Zebra s web site

All other information in response to this item is incorporated by reference from the Proxy Statement sections entitled Corporate Governance, Election of Directors, Board and Committees of the Board, Executive Officers, and Section 16(a) Beneficial Ownership Reporting Compliance.

Item 11. Executive Compensation

The information in response to this item is incorporated by reference from the Proxy Statement sections entitled Compensation Discussion and Analysis-Executive Summary, Compensation Discussion and Analysis, Executive Compensation, Director Compensation, Compensation Committee Interlocks and Insider Participation and Compensation Committee Report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information in response to this item is incorporated by reference from the Proxy Statement sections entitled Ownership of our Common Stock and Equity Compensation Plan Information.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information in response to this item is incorporated by reference from the Proxy Statement section entitled Corporate Governance.

Item 14. Principal Accounting Fees and Services

The information in response to this item is incorporated by reference from the Proxy Statement section entitled Fees of Independent Auditors.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

The financial statements and schedule filed as part of this report are listed in the accompanying Index to Financial Statements and Schedule. The exhibits filed as a part of this report are listed in the accompanying Index to Exhibits.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized, on the 20th day of February 2014.

ZEBRA TECHNOLOGIES CORPORATION
By: /s/ Anders Gustafsson
Anders Gustafsson
Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, the report has been signed below by the following persons in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Anders Gustafsson	Chief Executive Officer and Director	February 20, 2014
Anders Gustafsson	(Principal Executive Officer)	
/s/ Gerhard Cless	Executive Vice President,	February 20, 2014
Gerhard Cless	Director	
/s/ Michael C. Smiley	Chief Financial Officer	February 20, 2014
Michael C. Smiley	(Principal Financial Officer)	
/s/ Todd R. Naughton	Vice President, Finance	February 20, 2014
Todd R. Naughton	(Principal Accounting Officer)	
/s/ Michael A. Smith	Director and Chairman of the Board of	February 20, 2014
Michael A. Smith	Directors	
/s/ Richard Keyser	Director	February 20, 2014
Richard Keyser		
/s/ Andrew Ludwick	Director	February 20, 2014
Andrew Ludwick		
/s/ Ross W. Manire	Director	February 20, 2014
Ross W. Manire		
/s/ Robert J. Potter	Director	February 20, 2014
Robert J. Potter		
/s/ Janice M. Roberts	Director	February 20, 2014
Janice M. Roberts		

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

All other financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or related notes.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Zebra Technologies Corporation

We have audited the accompanying consolidated balance sheets of Zebra Technologies Corporation (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in Index at Item 15. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Zebra Technologies Corporation at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Zebra Technologies Corporation s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 20, 2014 expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Chicago, Illinois

February 20, 2014

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 62,827	$ 64,740
Investments and marketable securities	350,380	324,140
Accounts receivable, net	176,917	168,732
Inventories, net	121,023	123,357
Deferred income taxes	19,810	13,484
Income tax receivable	7,622	0
Prepaid expenses and other current assets	15,524	16,410
Total current assets	754,103	710,863
Property and equipment at cost, less accumulated depreciation and amortization	109,588	101,349
Long-term deferred income taxes	0	2,602
Goodwill	155,800	94,942
Other intangibles, net	68,968	39,151
Long-term investments and marketable securities	2,588	5,195
Other assets	28,765	13,646
Total assets	$ 1,119,812	$ 967,748
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 34,688	$ 23,045
Accrued liabilities	61,962	57,234
Deferred revenue	15,506	13,326
Income taxes payable	6,898	1,609
Total current liabilities	119,054	95,214
Long-term deferred tax liability	25,492	0
Deferred rent	1,131	1,303
Other long-term liabilities	15,477	14,229
Total liabilities	161,154	110,746
Stockholders equity:		
Class A Common Stock	722	722
Additional paid-in capital	143,295	139,523
Treasury stock	(678,456)	(641,438)
Retained earnings	1,502,878	1,368,520
Accumulated other comprehensive loss	(9,781)	(10,325)

Total stockholders equity	958,658	857,002
Total liabilities and stockholders equity	$ 1,119,812	$ 967,748

See accompanying notes to consolidated financial statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in thousands, except per share data)

	Year Ended December 31,		
	2013	**2012**	**2011**
Net sales			
Net sales of tangible products	$ 984,532	$ 948,227	$ 936,282
Revenue from services and software	53,627	47,941	47,206
Total net sales	1,038,159	996,168	983,488
Cost of sales			
Cost of sales of tangible products	507,513	479,633	469,834
Cost of services and software	27,036	24,891	26,885
Total cost of sales	534,549	504,524	496,719
Gross profit	503,610	491,644	486,769
Operating expenses:			
Selling and marketing	138,020	129,906	127,797
Research and development	91,147	87,364	89,926
General and administrative	96,216	92,167	81,345
Amortization of intangible assets	7,383	4,673	3,320
Acquisition costs	4,690	3,109	304
Exit and restructuring costs	5,890	960	2,041
Asset impairment charge	0	9,114	0
Total operating expenses	343,346	327,293	304,733
Operating income	160,264	164,351	182,036
Other income (expense):			
Investment income	2,366	2,485	1,944
Foreign exchange loss	(524)	(941)	(2,006)
Other, net	1,721	(1,721)	(2,255)
Total other income (expense)	3,563	(177)	(2,317)
Income from continuing operations before income taxes	163,827	164,174	179,719
Income taxes	29,602	42,277	49,376
Income from continuing operations	134,225	121,897	130,343
Income from discontinued operations, net of tax	133	1,007	44,300

Net income	$ 134,358	$ 122,904	$ 174,643
Basic earnings per share			
Income from continuing operations	$ 2.65	$ 2.36	$ 2.42
Income from discontinued operations	0.00	0.02	0.82
Net Income	$ 2.65	$ 2.38	$ 3.24
Diluted earnings per share			
Income from continuing operations	$ 2.63	$ 2.35	$ 2.40
Income from discontinued operations	0.00	0.02	0.82
Net Income	$ 2.63	$ 2.37	$ 3.22
Basic weighted average shares outstanding	50,693	51,566	53,854
Diluted weighted average and equivalent shares outstanding	51,063	51,843	54,191

See accompanying notes to consolidated financial statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
Net income	$ 134,358	$ 122,904	$ 174,643
Other comprehensive income (loss):			
Unrealized gain (loss) on hedging transactions, net of income taxes	118	(7,241)	6,209
Unrealized holding gain (loss) on investments, net of income taxes	(456)	887	(385)
Foreign currency translation adjustment	882	242	(688)
Comprehensive income	$ 134,902	$ 116,792	$ 179,779

See accompanying notes to consolidated financial statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars in thousands)

	Class A Common Stock	*Additional Paid-in Capital*	*Treasury Stock*	*Retained Earnings*	*Accumulated Other Comprehensive Income (Loss)*	*Total*
Balance at December 31, 2010	$ 722	$ 129,715	$ (462,029)	$ 1,070,973	$ (9,349)	$ 730,032
Repurchase of 4,353,801 shares of Class A Common Stock			(160,200)			(160,200)
Issuance of 809,084 treasury shares upon exercise of stock options, purchases under stock purchase plan and grants of restricted stock awards		(12,598)	25,607			13,009
Additional tax benefit resulting from exercise of options		210				210
Equity-based compensation		14,095				14,095
Net income				174,643		174,643
Unrealized holding loss on investments (net of income taxes)					(385)	(385)
Unrealized holding gain on hedging transactions (net of income taxes)					6,209	6,209
Foreign currency translation adjustment					(688)	(688)
Balance at December 31, 2011	$ 722	$ 131,422	$ (596,622)	$ 1,245,616	$ (4,213)	$ 776,925
Repurchase of 1,473,863 shares of Class A Common Stock			(54,373)			(54,373)
Issuance of 488,863 treasury shares upon exercise of stock options, purchases under stock purchase plan and grants of restricted stock awards		(6,196)	9,557			3,361
Additional tax benefit resulting from exercise of options		(430)				(430)
Equity-based compensation		14,727				14,727
Net income				122,904		122,904
Unrealized holding gain on investments (net of income taxes)					887	887
Unrealized holding loss on hedging transactions (net of income taxes)					(7,241)	(7,241)
Foreign currency translation adjustment					242	242
Balance at December 31, 2012	$ 722	$ 139,523	$ (641,438)	$ 1,368,520	$ (10,325)	$ 857,002
Repurchase of 1,356,861 shares of Class A Common Stock			(63,102)			(63,102)
Issuance of 980,999 treasury shares upon exercise of stock options, purchases under stock purchase plan and grants of restricted stock awards		(11,432)	26,084			14,652
Additional tax benefit resulting from exercise of options		2,095				2,095
Equity-based compensation		13,109				13,109
Net income				134,358		134,358
Unrealized holding loss on investments (net of income taxes)					(456)	(456)
Unrealized holding gain on hedging transactions (net of income taxes)					118	118
Foreign currency translation adjustment					882	882
Balance at December 31, 2013	$ 722	$ 143,295	$ (678,456)	$ 1,502,878	$ (9,781)	$ 958,658

See accompanying notes to consolidated financial statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
Cash flows from operating activities:			
Net income	$ 134,358	$ 122,904	$ 174,643
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	32,110	26,177	24,000
Equity-based compensation	13,109	14,727	14,095
Asset impairment charges	0	9,114	0
Impairment of investments	0	0	219
Excess tax benefit from share-based compensation	(4,277)	(1,578)	(1,392)
Loss on sale of property and equipment	224	311	284
Gain on sale of business	(201)	(930)	(68,745)
Deferred income taxes	7,929	8,067	10,796
Changes in assets and liabilities, net of businesses acquired:			
Accounts receivable, net	(6,488)	(8,647)	(3,269)
Inventories, net	2,743	11,530	(19,545)
Other assets	(342)	7,304	(12,721)
Accounts payable	7,544	(14,605)	(5,439)
Accrued liabilities	6,220	(4,193)	(11,086)
Deferred revenue	2,133	4,351	(14,131)
Income taxes	(242)	16,335	(14,983)
Other operating activities	(54)	(7,536)	5,582
Net cash provided by operating activities	194,766	183,331	78,308
Cash flows from investing activities:			
Purchases of property and equipment	(20,211)	(22,443)	(26,918)
Proceeds from the sale of business	0	27,580	161,206
Acquisition of businesses, net of cash acquired	(95,328)	(59,876)	0
Acquisition of intangible assets	(1,500)	(3,500)	(1,232)
Purchases of long-term investments	(12,021)	(9,125)	0
Purchases of investments and marketable securities	(410,283)	(347,609)	(991,633)
Maturities of investments and marketable securities	49,453	145,028	607,996
Proceeds from sales of investments and marketable securities	336,741	164,410	303,801
Net cash provided by (used in) investing activities	(153,149)	(105,535)	53,220
Cash flows from financing activities:			
Purchase of treasury stock	(63,102)	(54,373)	(160,200)
Proceeds from exercise of stock options and stock purchase plan purchases	14,652	3,361	13,009
Excess tax benefit from equity-based compensation	4,277	1,578	1,392
Net cash used in financing activities	(44,173)	(49,434)	(145,799)
Effect of exchange rate changes on cash	643	(40)	1,835
Net increase (decrease) in cash and cash equivalents	(1,913)	28,322	(12,436)

Cash balance of discontinued operations at beginning of period	0	0	1,301
Less: Cash balance of discontinued operations at end of period	0	0	0
Cash and cash equivalents at beginning of period	64,740	36,418	47,553
Cash and cash equivalents at end of period	$ 62,827	$ 64,740	$ 36,418
Supplemental disclosures of cash flow information:			
Income taxes paid	$ 18,418	$ 20,059	$ 65,364

See accompanying notes to consolidated financial statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of Business

Zebra Technologies Corporation and its wholly-owned subsidiaries (Zebra) design, manufacture, sell and support a broad range of direct thermal and thermal transfer label printers, radio frequency identification printer/encoders, dye sublimation card printers, real-time locating solutions, related accessories and support software. These products are used principally in automatic identification (auto ID), data collection and personal identification applications and are distributed world-wide through a network of resellers, distributors and end users representing a wide cross-section of industrial, service and government organizations.

In 2008 and 2007, we acquired WhereNet Corp., proveo AG, Navis Holdings, LLC (Navis) and Multispectral Solutions Inc., which we referred to as Zebra Enterprise Solutions Group (ZES). On January 31, 2011, we announced a definitive agreement to sell the Navis operations and certain other assets of ZES. Upon completion of the transaction we consolidated the remaining operations of ZES and no longer report ZES as a separate segment since it is not greater than 10% of Zebra s consolidated totals.

Note 2 Summary of Significant Accounting Policies

Principles of Consolidation. These consolidated financial statements were prepared on a consolidated basis to include the accounts of Zebra and its wholly owned subsidiaries. All significant intercompany accounts, transactions and unrealized profit were eliminated in consolidation.

Fiscal Calendar. Zebra operates on a 4 week/4 week/5 week fiscal quarter, and each fiscal quarter ends on a Saturday. The fiscal year always begins on January 1 and ends on December 31. This fiscal calendar results in some fiscal quarters being either greater than or less than 13 weeks, depending on the days of the week those dates fall. During the 2013 fiscal year, our quarter end dates were as follows:

March 30,
June 29,
September 28, and
December 31.

Use of Estimates. These consolidated financial statements were prepared using estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents. Cash consists primarily of deposits with banks. In addition, Zebra considers highly liquid short-term investments with original maturities of less than three months to be cash equivalents. These highly liquid short-term investments are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of a change in value because of changes in interest rates.

Investments and Marketable Securities. Investments and marketable securities at December 31, 2013, consisted of U.S. government and agency securities, obligations of government-sponsored enterprises, state and municipal bonds, corporate bonds, and other security interests. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those debt securities that Zebra has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale. Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of discounts or premiums. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders equity until realized, unless we determine them to be other-than-temporarily impaired.

Zebra s investments and marketable securities are classified as available-for-sale securities except for securities held in Zebra s deferred compensation plan which are considered trading securities. Investments in marketable debt securities are classified based on intent and ability to sell investment securities. Zebra s available-for-sale securities are used to fund further acquisitions and other operating needs and therefore can 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.

Accounts Receivable and Allowance for Doubtful Accounts. Accounts receivable consist primarily of amounts due to us from our normal business activities. Collateral on trade accounts receivable is generally not required. Zebra maintains an allowance for doubtful accounts for estimated uncollectible accounts receivable. The allowance is based on our assessment of known delinquent accounts. Accounts are written off against the allowance account when they are determined to be no longer collectible.

Inventories. Inventories are stated at the lower of cost or market, and cost is determined by the first-in, first-out (FIFO) method. Manufactured inventories consist of the following costs: component, direct labor and manufacturing overhead. Purchased inventories consist of purchased costs and purchasing overhead.

Property and Equipment. Property and equipment is stated at cost. Depreciation and amortization is computed primarily using the straight-line method over the estimated useful lives of the various classes of property and equipment, which are 30 years for buildings and range from 3 to 10 years for other property. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Income Taxes. Zebra s continuing practice is to recognize interest and penalties related to income tax matters as part of income tax expense.

Goodwill and Other Intangibles. Goodwill represents the unamortized excess of the cost of acquiring a business over the fair values of the net assets received at the date of acquisition.

We test the impairment of goodwill each year as of the end of May or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our annual qualitative assessment, in accordance with ASU 2011-08 *Goodwill and Other (Topic 350)*, during June 2013 and determined that our goodwill was not impaired as of the end of May 2013.

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

- Significant adverse change in legal factors or in the business climate,
- Adverse action or assessment by a regulator,
- Unanticipated competition,
- Loss of key personnel,
- More-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of,
- Testing for recoverability of a significant asset group within a reporting unit,
- Allocation of a portion of goodwill to a business to be disposed of.

In accordance with ASU 2011-08, Zebra s qualitative analysis determined that it is not more likely than not that the fair value of our goodwill is less than the carrying amount and therefore, performing the two-step impairment test was not necessary. If Zebra concluded otherwise, we would perform the first step of the two-step impairment test by calculating the fair value and comparing the fair value to the carrying amount. If the carrying amount exceeded the fair value, we would perform the second step of goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit s goodwill with the carrying value of that goodwill.

There have not been any significant changes to our impairment testing methodology other than updating the assumptions to reflect the current market environment. Zebra will monitor future results and will perform a test if indicators trigger an impairment review.

Other intangible assets capitalized consist primarily of current technology, customer relationships, patents and patent rights. These assets are recorded at cost and amortized on a straight-line basis over a weighted-average life of 6.5 years, which approximates the estimated useful lives. Weighted average lives remaining by intangible asset class are as follows: Current technology 3.7 years; Patent and patent rights 3.6 years; Customer relationships 9.8 years.

Revenue Recognition. Revenue includes sales of hardware, supplies, software and services (including repair services, extended service contracts, and professional services). Product revenue is recognized once four criteria are met: (1) we have persuasive evidence that an arrangement exits; (2) delivery has occurred and title has passed to the customer, which happens at the point of shipment provided that no significant obligations remain; (3) the price is fixed and determinable; and (4) collectability is reasonably assured. We provide for an estimate of product returns based on historical experience. Revenue related to extended warranty and service contracts is recorded as deferred revenue and recognized over the life of the contract. Professional services revenue is recorded when performed. Zebra enters into sales transactions that include more than one product type. This bundle of products might include printers, current or future supplies, and services. When this type of transaction occurs, we allocate the purchase price to each product type based on the fair value of the individual products determined by vendor specific objective evidence. The revenue for each individual product is then recognized when the earning process for that product is complete. We enter into post-contract maintenance and support agreements. Revenues are recognized ratably over the service period and the cost of providing these services is expensed as incurred.

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Zebra records payments to resellers of its product as reductions to revenue unless these payments meet the requirements for operating expense treatment under ASC 605. See the market development funds accounting policy for further details.

Revenue includes all customer billings for shipping and handling charges. The related costs of shipping and handling revenue are recorded as cost of goods sold.

Research and Development Costs. Research and development costs are expensed as incurred. These costs include:

Salaries, benefits, and other R&D personnel related costs,
Consulting and other outside services used in the R&D process,
Engineering supplies,
Engineering related information systems costs, and
Allocation of building and related costs.

Advertising. Advertising is expensed as incurred. Advertising costs totaled $7,688,000 for the year ended December 31, 2013, $8,983,000 for the year ended December 31, 2012 and $8,070,000 for the year ended December 31, 2011.

Market Development Funds. Zebra makes market development funds available to its resellers to support demand generation activity by the resellers. These funds require the reseller to provide specific services or benefits to Zebra and substantiate the fair value of such services rendered. Zebra reimburses resellers for agreed activities up to the amounts approved by Zebra. These payments are treated as marketing costs consistent with the requirements of ASC 605. Any payments to resellers that do not meet these requirements are recorded as reductions to revenue.

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 tags, are covered by a 90 day warranty. A provision for warranty expense is recorded at the time of sale and adjusted quarterly based on historical warranty experience. The following table is a summary of Zebra s accrued warranty obligation (in thousands):

	Year Ended December 31,		
Warranty Reserve	**2013**	**2012**	**2011**
Balance at the beginning of the year	$ 4,252	$ 4,613	$ 4,554
Warranty expense	7,440	6,828	5,856
Warranty payments	(7,567)	(7,189)	(5,797)
Balance at the end of the period	$ 4,125	$ 4,252	$ 4,613

Fair Value of Financial Instruments. Zebra estimates the fair value of its financial instruments as follows:

Instrument	Method for determining fair value
Cash, cash equivalents, restricted cash, accounts receivable and accounts payable	Cost, which approximates fair value due to the short-term nature of these instruments
Investments in marketable debt securities	Market quotes from independent pricing services
Investments in auction rate securities	Broker quotations, discounted cash flow analysis or other types of valuation adjustment methodologies
Foreign currency forward contracts	Estimated using market quoted rates for foreign currency at the balance sheet date
Foreign currency option contracts	Estimated using market quoted rates for foreign currency at the balance sheet date and application of such rates subject to the option terms

In accordance with ASC 815 we recognize derivative instruments and hedging activities as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. See Note 11 for additional information on our derivatives and hedging activities.

Equity-Based Compensation. At December 31, 2013, Zebra had a general equity-based compensation plan and a stock purchase plan under which shares of our common stock were available for future grants and sales, and which are described more fully in Note 16. We account for these plans in accordance with ASC 505 and ASC 718. Zebra recognizes compensation costs using the straight-line method over the vesting period upon grant of up to 5 years.

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

	For the years ended December 31,		
Compensation costs and related income tax benefit:	**2013**	**2012**	**2011**
Cost of sales	$ 871	$ 1,061	$ 1,029
Selling and marketing	2,100	1,792	1,463
Research and development	1,616	1,593	1,387
General and administration	8,522	10,281	9,228
Total compensation expense	$ 13,109	$ 14,727	$ 13,107
Income tax benefit	$ 4,531	$ 5,132	$ 4,522

ASC 505 and ASC 718 requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized (excess tax benefits) to be classified as cash flows from financing activities. Cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized (excess tax benefits) are classified as financing cash flows in the statement of cash flows. The tax benefits classified as financing cash flows were $4,277,000 as of December 31, 2013, $1,578,000 as of December 31, 2012, and $1,392,000 as of December 31, 2011.

Deferred Compensation Plan. Zebra has a deferred compensation plan that permits directors, management and highly compensated employees to defer portions of their compensation. Zebra immediately pays deferred amounts into a Rabbi Trust, and plan participants select a method of investing these funds into hypothetical investments. Zebra tracks the performance of these hypothetical investments in order to determine the value of each participant s deferral. Zebra accrues the deferred compensation liability in other long-term liabilities as the amount that is actually owed to the participants.

Foreign Currency Translation. The consolidated balance sheets of Zebra s foreign subsidiaries, not having a U.S. dollar functional currency, are translated into U.S. dollars using the year-end exchange rate, and statement of earnings items are translated using the average exchange rate for the year. The resulting translation gains or losses are recorded in stockholders equity as a cumulative translation adjustment, which is a component of accumulated other comprehensive income (loss).

Acquisition Costs. Zebra expenses acquisition costs as incurred.

Concentration risks. Final assembly of our products is performed by Jabil Circuit, a third-party electronics manufacturer. We are now dependent on Jabil for the manufacture of such printers. A failure by Jabil to provide manufacturing services to Zebra as Zebra now requires, or any disruption in such manufacturing services, may adversely affect Zebra s business results. Because we rely on a third-party provider such as Jabil to manufacture its products, Zebra may incur increased business continuity risks.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of. Zebra accounts for long-lived assets in accordance with the provisions of ASC 350. The statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the sum of the undiscounted cash flows expected to result from the use and the eventual disposition of the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. See Note 8 for further information related to impairment charges.

Recently Issued Accounting Pronouncements.

In February 2013, the FASB issued update 2013-02, ASC 220, *Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* This updated guidance sets requirements for presentation for significant items reclassified to net income in their entirety during the period and for items not reclassified to net income in their entirety during period. This standard is effective for annual and interim periods beginning after December 15, 2012. The adoption of this standard includes additional disclosures in the notes to the consolidated financial statements.

Subsequent events. We have evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were issued.

Note 3 Fair Value Measurements

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

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. (i.e. U.S. Treasuries and money market funds)

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

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

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in the assessment of fair value. Included in our investment portfolio at December 31, 2013, is an auction rate security which is classified as available for sale and is reflected at fair value. Due to events in credit markets, however, the auction event for the instrument held by Zebra is failed. Therefore, the fair value of this security is estimated utilizing broker quotations, discounted cash flow analysis or other types of valuation adjustment methodologies at December 31, 2013. These analyses consider, among other items, the collateral underlying the security instruments, the creditworthiness of the counterparty, the timing of expected future cash flows, estimates of the next time the security is expected to have a successful auction, and Zebra s intent and ability to hold such securities until credit markets improve. The security was also compared, when possible, to other securities with similar characteristics.

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

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

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

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Financial assets and liabilities carried at fair value as of December 31, 2012, are classified below (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. government and agency securities	$ 83,532	$ 13,455	$ 0	$ 96,987
Obligations of government-sponsored enterprises (1)	0	4,840	0	4,840
State and municipal bonds	0	96,516	0	96,516
Corporate securities	0	128,368	2,588	130,956
Other investments	0	36	0	36
Investments subtotal	83,532	243,215	2,588	329,335
Money market investments related to the deferred compensation plan	3,553	0	0	3,553
Total assets at fair value	$ 87,085	$ 243,215	$ 2,588	$ 332,888
Liabilities:				
Forward contracts (2)	$ 1,174	$ 871	$ 0	$ 2,045
Liabilities related to the deferred compensation plan	3,553	0	0	3,553
Total liabilities at fair value	$ 4,727	$ 871	$ 0	$ 5,598

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.

The following table presents Zebra s activity for assets measured at fair value on a recurring basis using significant unobservable inputs, Level 3 as defined in ASC 820 for the years ended December 31 (in thousands):

	Year Ended December 31, 2013	December 31, 2012
Balance at beginning of the year	$ 2,588	$ 2,588
Transfers to Level 3	0	0
Total losses (realized or unrealized):		
Included in earnings	0	0
Included in other comprehensive income (loss)	0	0
Purchases and settlements (net)	0	0
Balance at end of period	$ 2,588	$ 2,588

Total gains (losses) for the period included in earnings attributable to the change in unrealized losses relating to assets still held at end of period	$ 0	$ 0

As of December 31, 2013 and December 31, 2012, there were no other Level 3 unrealized losses that Zebra believes to be other-than-temporary. No realized gains or losses were recorded for the years ended December 31, 2013 and 2012.

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The following is a summary of short-term and long-term investments at December 31, 2013 and December 31, 2012 (in thousands):

	As of December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair 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
Total investments	$ 353,109	$ 582	$ (723)	$ 352,968

	As of December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and agency securities	$ 96,913	$ 77	$ (3)	$ 96,987
Obligations of government-sponsored enterprises	4,830	10	0	4,840
State and municipal bonds	96,383	161	(28)	96,516
Corporate securities	130,634	790	(468)	130,956
Other investments	36	0	0	36
Total investments	$ 328,796	$ 1,038	$ (499)	$ 329,335

The maturity dates of investments as of December 31, 2013 are as follows (in thousands):

	As of December 31, 2013	
	Amortized Cost	Estimated Fair Value
Less than 1 year	$ 130,430	$ 130,490
1 to 5 years	211,744	212,087
6 to 10 years	10,935	10,391
Thereafter	0	0
Total	$ 353,109	$ 352,968

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

Note 4 Investments and Marketable Securities

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

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

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

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

	Year Ended December 31,		
	2013	2012	2011
Changes in unrealized gains and losses on available-for- sale securities, net of tax, recorded in accumulated other comprehensive income (loss)	$ (456)	$ 887	$ (385)

The following table shows the number, aggregate market value and unrealized losses (in thousands) of investments with market values that were less than amortized cost as of December 31, 2013. These lower market values are primarily caused by fluctuations in interest rates and credit spreads. Market values are expected to recover to the amortized cost prior to maturity.

	Unrealized Loss < 12 months			Unrealized Loss > 12 months		
	Number of investments	Aggregate Market Value	Unrealized Losses	Number of investments	Aggregate Market Value	Unrealized Losses
Government securities	0	$ 0	$ 0	3	$ 23,207	$ (19)
State and municipal bonds	5	7,368	(8)	4	6,559	(20)
Corporate Securities	9	3,031	(2)	60	51,757	(673)
Other	1	1,018	0	2	2,982	(1)
Total	15	$ 11,417	$ (10)	69	$ 84,505	$ (713)

As of December 31, 2012, the number, aggregate market value and unrealized losses (in thousands) of investments with market values that were less than amortized cost were:

	Unrealized Loss < 12 months			Unrealized Loss > 12 months		
	Number of investments	Aggregate Market Value	Unrealized Losses	Number of investments	Aggregate Market Value	Unrealized Losses
Government securities	4	$ 5,179	$ (3)	1	$ 1,790	$ (0)
State and municipal bonds	19	24,969	(27)	1	1,092	(1)
Corporate Securities	33	15,429	(23)	14	7,262	(445)
Total	56	$ 45,577	$ (53)	16	$ 10,144	$ (446)

Using the specific identification method, the proceeds and realized gains on the sales of available-for-sale securities were as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Proceeds	$ 336,741	$ 164,410	$ 303,801
Realized gains	727	423	388
Realized losses	(81)	(78)	(306)
	603	285	159

Net realized gains included in other comprehensive income (loss) as of the end of the prior year

Included in Zebra s cash, restricted cash, investments and marketable securities are amounts held by foreign subsidiaries which are generally invested in U.S. dollar-denominated holdings. Zebra had $251,658,000 as of December 31, 2013, and $173,483,000 as of December 31, 2012 of foreign cash and investments. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation upon repatriation, however, Zebra does not see a need to repatriate these funds.

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Note 5 Accounts Receivable

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

	As of December 31, 2013	As of December 31, 2012
Gross accounts receivable	$ 177,370	$ 169,401
Accounts receivable reserves	(453)	(669)
Accounts receivable, net	$ 176,917	$ 168,732

Note 6 Inventories

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

	As of December 31, 2013	As of December 31, 2012
Raw material	$ 31,335	$ 31,350
Work in process	415	921
Deferred costs of long-term contracts	294	604
Finished goods	101,540	104,137
Total inventories, gross	133,584	137,012
Inventory reserves	(12,561)	(13,655)
Total inventories, net	$ 121,023	$ 123,357

Note 7 Property and Equipment

Property and equipment, which includes assets under capital leases, is comprised of the following (in thousands):

	As of December 31, 2013	As of December 31, 2012
Buildings	$ 4,613	$ 2,134
Land	504	504
Machinery, equipment and tooling	110,728	88,222
Furniture and office equipment	13,448	12,672
Computers and software	139,723	130,357
Automobiles	18	18
Leasehold improvements	17,880	16,380
Projects in progress computers and software	2,079	2,217
Projects in progress - other	6,675	15,561
	295,668	268,065
Less accumulated depreciation and amortization	(186,080)	(166,716)
Net property and equipment	$ 109,588	$ 101,349

Other items related to property and equipment are as follows (in thousands):

	As of December 31,	
	2013	2012
Unamortized computer software costs	$ 43,317	$ 48,873

	Year Ended December 31,		
	2013	2012	2011
Amortization of capitalized software	$ 8,688	$ 7,912	$ 6,180
Total depreciation expense charged to income	24,727	21,504	20,680

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Note 8 Goodwill and Other Intangible Asset Data

Intangible asset data are as follows (in thousands):

	As of December 31, 2013		
	Gross Amount	Accumulated Amortization	Net Amount
Amortized intangible assets			
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
Total	$ 106,240	$ (37,272)	$ 68,968
Amortization expense for the year ended December 31, 2013		$ 7,383	

Estimated amortization expense:	
For the year ended December 31, 2014	$ 10,533
For the year ended December 31, 2015	9,769
For the year ended December 31, 2016	9,331
For the year ended December 31, 2017	8,100
For the year ended December 31, 2018	5,867
Thereafter	25,368
Total	$ 68,968

In 2013, we acquired intangible assets in the amount of $37,200,000 for developed technology, customer relationships and a trade names. These intangible assets have an estimated useful life ranging from 1 to 15 years. See Note 24 Business Combinations for specific information regarding the acquisition. In 2012, we acquired intangible assets in the amount of $31,157,000 for patents, technology and customer relationships associated with the acquisition of LaserBand. During 2013, Zebra paid $1,500,000 towards intangible asset commitments previously accrued.

	As of December 31, 2012		
	Gross Amount	Accumulated Amortization	Net Amount
Amortized intangible assets			
Current technology	$ 18,978	$ (12,391)	$ 6,587
Patent and patent rights	29,569	(14,618)	14,951
Customer relationships	20,493	(2,880)	17,613
Total	$ 69,040	$ (29,889)	$ 39,151
Amortization expense for the year ended December 31, 2012		$ 4,673	

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

Total

Unamortized intangible assets:	
Goodwill at gross cost	$ 180,731
Impairment charge 2008	(101,028)
Goodwill as of December 31, 2011	79,703
Acquisition LaserBand	24,353
Impairment charge 2012	(9,114)
Goodwill as of December 31, 2012	94,942
Acquisition Hart Systems	60,858
Goodwill as of December 31, 2013	$ 155,800

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Note 9 Other Assets

Other assets consist of the following (in thousands):

	As of December 31, 2013	2012
Money market investments related to the deferred compensation plan (See Note 17)	$ 4,827	$ 3,553
Long-term investments	21,242	9,195
Other long-term assets	1,522	0
Deposits	1,174	898
Total	$ 28,765	$ 13,646

During 2013, Zebra acquired interests ranging from 2.0% to 8.3% in two venture capital technology companies for $12,021,000 during the year. During 2012, Zebra acquired interests ranging from 4.7% to 19.7% in several venture capital technology companies for $9,125,000 during the year. These investments are classified as long term.

Note 10 Costs Associated with Exit and Restructuring

In December 2012, Zebra began a plan to restructure its Location Solutions business management structure and announced a project to further optimize our manufacturing operations costs, which includes the consolidation and relocation of support functions. The costs below incurred for the year ended December 31, 2012 represent the costs related to the restructuring of Location Solutions business management structure. The costs expected to be incurred relate to the restructuring of Zebra s manufacturing operations and relocation of this portion of Zebra s business from the U.S. to China and consolidating some activities domestically.

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.

As of December 31, 2013, 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	Cost incurred through December 31, 2012	Costs incurred for the twelve months ended December 31, 2013	Total costs incurred as of December 31, 2013	Additional costs expected to be incurred	Total costs expected to be incurred
Severance, stay bonuses, and other employee-related expenses	$ 960	$ 5,690	$ 6,650	$ 61	$ 6,711
Professional services	0	180	180	0	180
Relocation and transition costs	0	20	20	0	20
Total	$ 960	$ 5,890	$ 6,850	$ 61	$ 6,911

During 2011, costs related to the consolidation and relocation of the administrative and accounting functions were due to the divestiture of our Navis marine terminal solutions business and the related WhereNet marine terminal solutions product line. There were no costs in 2012 related to this restructuring as this project was completed in 2011. As of December 31, 2012, 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 the year ended December 31, 2012	Additional costs expected to be incurred	Total costs expected to be incurred
Severance, stay bonuses, and other employee-related expenses	$ 960	$ 4,590	$ 5,550
Professional services	0	310	310
Relocation and transition costs	0	480	480
Total	$ 960	$ 5,380	$ 6,340

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

	Year Ended December 31,		
	2013	2012	2011
Balance at beginning of period	$ 967	$ 1,048	$ 1,479
Charged to earnings	5,890	960	2,041
Cash paid	(5,605)	(1,041)	(2,472)
Balance at the end of period	$ 1,252	$ 967	$ 1,048

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

Note 11 Derivative Instruments

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

Credit and market risk

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

Fair Value of Derivative Instruments

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

Hedging of Net Assets

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

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

	Year Ended December 31,		
	2013	2012	2011
Change in gains (losses) from foreign exchange derivatives	$ (1,998)	$ (1,347)	$ (825)
Gain (loss) on net foreign currency assets	1,474	406	(1,181)
Net foreign exchange loss	$ (524)	$ (941)	$ (2,006)

	As of	
	December 31, 2013	December 31, 2012
Notional balance of outstanding contracts:		
Euro/US dollar	41,021	37,598
Pound/US dollar	£ 0	£ 3,810
Net fair value of outstanding contracts	$ 33	$ 18

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Hedging of Anticipated Sales

We can 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):

	As of December 31, 2013	As of December 31, 2012
Net unrealized gains (losses) deferred in other comprehensive income:		
Gross	$ 208	$ (9,936)
Income tax expense (benefit)	90	(2,695)
Net	$ 118	$ (7,241)

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

	As of December 31, 2013	As of December 31, 2012
Notional balance of outstanding contracts versus the dollar	85,627	88,680
Hedge effectiveness	100%	100%

	Year Ended December 31, 2013	2012	2011
Net gains and (losses) included in revenue	$ (4,294)	$ 4,201	$ (4,159)

Forward Contracts

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

	As of December 31, 2013	As of December 31, 2012
Liabilities:		
Accrued liabilities	$ 2,743	$ 2,045
Total	$ 2,743	$ 2,045

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Note 12 Commitments and Contingencies

Leases. Minimum future obligations under all non-cancelable operating leases as of December 31, 2013 are as follows (in thousands):

	Operating Leases
2014	$ 15,619
2015	11,842
2016	7,368
2017	7,636
2018	6,105
Thereafter	34,805
Total minimum lease obligations	$ 83,375

Rent expense for operating leases charged to operations was as follows (in thousands):

	Year Ended December 31, 2013	2012	2011
Rent expense	$ 15,750	$ 15,254	$ 13,907

The operating lease information includes a variety of properties around the world. These properties are used as manufacturing facilities, distribution centers and sales offices. Lease terms range from one year to 9 years with breaking periods specified in the lease agreements.

Revolving Credit Agreement. On October 10, 2012, Zebra entered into a revolving credit agreement for a five-year $250,000,000 revolving credit facility with a syndicate of banks led by J. P. Morgan Securities LLC as Administrative Agent. The funds under this credit facility are available for general corporate purposes of Zebra and its subsidiaries in the ordinary course of business and other purposes permitted by the agreement.

This credit agreement is guaranteed by certain of Zebra s domestic subsidiaries. Loans under the agreement bear interest at a rate equal to a spread over the base rate, which base rate is the greater of: the prime rate, the Federal Funds Effective Rate plus one-half of one percent (0.50%), or an adjusted LIBOR rate, plus one percent (1%). The spread is dependent on Zebra s ratio of Total Debt to EBITDA, and ranges from 0.00% to 0.75%. Zebra did not borrow any monies under the New Credit Agreement at the time of closing.

The credit agreement includes customary representations, warranties, affirmative and negative covenants and events of default. It also contains financial covenants tied to Zebra s leverage ratio and interest coverage ratio. As of December 31, 2013, we had established letters of credit amounting to $1,800,000, which reduces funds available for borrowing under the agreement. As of December 31, 2013 and 2012, no amounts were outstanding under the company s credit agreement.

Legal Proceedings. 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.

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Note 13 Savings and Profit Sharing Plans

Zebra has a Retirement Savings and Investment Plan (401(k) Plan), which is intended to qualify under Section 401(k) of the Internal Revenue Code. Qualified employees may participate in Zebra s 401(k) Plan by contributing up to 15% of their gross earnings to the plan subject to certain Internal Revenue Service restrictions. Zebra matches 100% of the first 2% of gross eligible earnings, and also matches the next 4% of gross eligible earnings at the rate of 50%. Zebra may contribute additional amounts to its 401(k) Plan at the discretion of the Board of Directors, subject to certain legal limits.

Company contributions to these plans, which were charged to operations, approximated the following (in thousands):

	Year Ended December 31,		
	2013	2012	2011
401(k)	$ 4,865	$ 5,138	$ 4,813
Total	$ 4,865	$ 5,138	$ 4,813

Note 14 Stockholders Equity

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

	As of December 31, 2013	As of December 31, 2012
Preferred Stock		
Par value per share	$ 0.01	$ 0.01
Shares authorized	10,000,000	10,000,000
Shares outstanding	0	0
Common Stock Class A		
Par value per share	$ 0.01	$ 0.01
Shares authorized	150,000,000	150,000,000
Shares issued	72,151,857	72,151,857
Shares outstanding	50,349,546	50,908,267
Treasury stock		
Shares held	21,802,311	21,243,590

During the year ended December 31, 2013, Zebra purchased 1,356,861 shares of common stock for $63,102,242 under board authorized share repurchase plans compared to the year ended December 31, 2012, in which Zebra purchased 1,473,863 shares of common stock for $54,373,000. During the year ended December 31, 2011, Zebra purchased 4,353,801 shares of common stock for $160,200,000.

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

	Year Ended December 31,	
	2013	2012
Balance at the beginning of the year	50,908,267	52,095,166
Repurchases	(1,356,861)	(1,473,863)
Stock options, rights and ESPP issuances	739,148	246,625
Restricted share issuances	241,851	242,238

Restricted share forfeitures	(165,610)	(130,119)
Shares withheld for tax obligations	(17,249)	(71,780)
Balance at the end of the period	50,349,546	50,908,267

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Note 15 Earnings (Loss) Per Share

For the years ended December 31, 2013, 2012, and 2011, earnings (loss) per share were computed as follows (in thousands, except per-share amounts):

	Year Ended December 31,		
	2013	2012	2011
Weighted average shares:			
Weighted average common shares outstanding	50,693	51,566	53,854
Effect of dilutive securities outstanding	370	277	337
Diluted weighted average shares outstanding	51,063	51,843	54,191
Earnings (loss):			
Income from continuing operations	$ 134,225	$ 121,897	$ 130,343
Income (loss) from discontinued operations	133	1,007	44,300
Net Income	$ 134,358	$ 122,904	$ 174,643
Basic per share amounts:			
Income from continuing operations	$ 2.65	$ 2.36	$ 2.42
Income (loss) from discontinued operations	0.00	0.02	0.82
Net Income	$ 2.65	$ 2.38	$ 3.24
Diluted per share amounts:			
Income from continuing operations	$ 2.63	$ 2.35	$ 2.40
Income (loss) from discontinued operations	0.00	0.02	0.82
Net Income	$ 2.63	$ 2.37	$ 3.22

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

	Year Ended December 31,		
	2013	2012	2011
Potentially dilutive shares	168,472	1,753,311	1,425,880

Note 16 Equity-Based Compensation

As of December 31, 2013, Zebra had a general equity-based compensation plan and a stock purchase plan under which shares of our common stock were available for future grants and sales, and which are described below.

On May 19, 2011, Zebra s stockholders approved the 2011 Zebra Technologies Corporation Long Term Incentive Plan (the 2011 Plan), which included authorization for issuance of awards of 5,500,000 shares under the 2011 Plan. The 2011 Plan became effective immediately and superseded the 2006 Incentive Compensation Plan (the 2006 Plan), the 1997 Stock Option Plan (the 1997 Plan) and the 2002 Non-Employee Director Stock Option Plan (the 2002 Director Plan), except that the prior plans will remain in effect with respect to awards granted under the prior plans until such awards have been exercised, forfeited, cancelled, expired or otherwise terminated in accordance with the terms of such grants. The types of awards available under the 2011 Plan are incentive stock options, nonqualified stock options, stock appreciation rights (SARs), restricted stock, performance shares and units and performance-based cash bonuses. Employees, directors and consultants of Zebra and its subsidiaries are eligible to participate in the 2011 Plan. The Compensation Committee of the Board of Directors administers the plan. As of December 31, 2013, 4,212,339 shares were available for grant under the plan, and options for 691,874 shares were outstanding under the 2011 Plan.

The options and SARs granted under the 2011 Plan have an exercise or grant price equal to the closing market price of Zebra s stock on the date of grant. Options and SAR s generally vest over a four or five-year period. These awards expire on the earlier of (a) ten years following the grant date, (b) immediately if the employee is terminated for cause, (c) ninety days after termination of employment if the employee is terminated involuntarily other than for cause, (d) thirty days after termination of employment if the employee voluntarily terminates his or her employment, or (e) one year after termination of employment if the employee s employment terminates due to death, disability, or retirement.

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Zebra s time-vested restricted stock grants consist of restricted stock awards (RSA s) and performance share awards (PSA s). The following table shows the number of shares of time-vested restricted stock granted in 2013 and the vesting schedules of the restricted stock awards that were granted under the Plan to certain executive officers and other members of management.

Vesting period	RSA s	PSA s	Total
At grant	18,095	112,028	130,123
After three years of service	149,420	75,766	225,186
Total	167,515	187,794	355,309

These RSA s will vest at each vesting date if the employee remains employed by Zebra throughout the applicable time period, but will vest in whole or in part (as set forth in each Restricted Stock Agreement) before the end of the each vesting period in the event of death, disability, resignation for good reason, a change in control (as defined in the 2011 Plan), or termination by Zebra other than for Cause, as defined in the Restricted Stock Agreement entered into by Zebra with each employee who was granted restricted stock. The restricted stock is forfeited in certain situations specified in the Restricted Stock Agreement, including, if the employee s employment is terminated by Zebra for Cause or if the employee resigns for other than good reason. Zebra s restricted stock awards are expensed over the vesting period of the related award, which is typically three to five years. However, some recent awards vested upon grant. Compensation cost is calculated as the market date fair value on grant date multiplied by the number of shares granted.

The 2006 Plan was superseded by the 2011 Plan. As of December 31, 2013, options and SARs for 1,111,435 shares were outstanding and exercisable under the 2006 Plan. These options and SARs expire on the earlier of (a) ten years following the grant date, or (b) immediately if the employee is terminated for cause, (c) ninety days after termination of employment if the employee is terminated involuntarily other than for cause, (d) thirty days after termination of employment if the employee voluntarily terminates his or her employment, or (e) one year after termination of employment if the employee s employment terminates due to death, disability, or retirement.

The 1997 Plan was superseded by the 2006 Plan. As of December 31, 2013, options for 471,990 shares were outstanding and exercisable under the 1997 Plan. These options terms are the same as noted in the paragraph above in the 2006 Plan.

The 2002 Director Plan was superseded by the 2006 Plan. As of December 31, 2013, options for 80,000 shares were outstanding and exercisable under the 2002 Director Plan. Unless otherwise provided in an option agreement, options granted under the 2002 Director Plan become exercisable in five equal increments beginning on the date of the grant and continuing on each of the four anniversaries thereafter. All such options expire on the earlier of (a) ten years following the grant date, (b) the first anniversary of the termination date of the non-employee director s directorship for any reason other than the termination of the non-employee director s directorship by Zebra s stockholders for cause, or resignation for cause, in each case as defined in the option agreement.

In connection with Zebra s acquisition of WhereNet, Zebra assumed existing unvested stock options exercisable for shares of WhereNet s common stock and converted them into options exercisable for Zebra common stock. These converted options have exercise prices and vesting dates based on their previous terms and all of these options that are outstanding are fully vested. As of December 31, 2013, outstanding WhereNet options were exercisable into 3,262 shares of Zebra Class A Common Stock.

On May 19, 2011 Zebra s stockholders adopted the 2011 Employee Stock Purchase Plan (which replaced the 2001 Stock Purchase plan) under which employees who work a minimum of 20 hours per week may elect to withhold up to 10% of their cash compensation through regular payroll deductions to purchase shares of Class A Common Stock from Zebra over a period not to exceed 12 months at a purchase price per share which is equal to the lesser of: (1) 95% of the fair market value of the shares as of the date of the grant, or (2) 95% of the fair market value of the shares as of the date of purchase. Stock purchase plan expense for the year ended December 31, 2013 was $224,000. Stock purchase plan expense for the year ended December 31, 2012 was $242,000 and for the year ended December 31, 2011 was $321,000.

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For purposes of calculating the compensation cost, the fair value 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 s stock prices over our entire stock history. Stock option grants in the table below include both stock options, all of which were non-qualified, and stock appreciation rights (SAR) that will be settled in Zebra stock. The following table shows the weighted-average assumptions used for grants of SARs as well as the fair value of the grants based on those assumptions:

	2013	2012	2011
Expected dividend yield	0%	0%	0%
Forfeiture rate	10.31%	10.21%	11.50%
Volatility	32.00%	35.90%	35.33%
Risk free interest rate	.82%	.94%	2.01%
- Range of interest rates	0.02% - 1.78%	0.07% - 1.95%	0.01% - 3.18%
Expected weighted-average life	5.42 years	5.48 years	5.42 years
Fair value of SARs granted	$4,528,000	$5,533,000	$5,495,000
Weighted-average grant date fair value of options and SARs granted (per underlying share)	$13.86	$12.84	$14.29

The forfeiture rate is based on the historical annualized forfeiture rate, which is consistent with prior year rates. This rate includes only pre-vesting forfeitures. Volatility is based on an average of the implied volatility in the open market and the annualized volatility of Zebra s stock prices over our entire stock history. The risk free interest rate used is the implied yield currently available from the U.S. Treasury zero-coupon yield curve over the contractual term of the options. The expected weighted-average life is based on historical exercise behavior, which combines the average life of the options that have already been exercised or cancelled with the exercise life of all unexercised options. The exercise life of unexercised options assumes that the option will be exercised at the midpoint of the vesting date and the full contractual term. These assumptions are consistent with the assumptions used in prior years.

Stock option activity for the years ended December 31, 2013, 2012, and 2011, was as follows:

	2013		2012		2011	
Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	1,531,844	$ 41.69	1,702,650	$ 40.43	2,340,959	$ 37.35
Granted	0	0	0	0	0	0
Exercised	(543,922)	39.54	(148,802)	27.02	(490,715)	26.63
Forfeited	0	0	(1,663)	36.36	(63,714)	32.29
Expired	(32,145)	45.81	(20,341)	43.63	(83,880)	40.76
Outstanding at end of year	955,777	$ 42.78	1,531,844	$ 41.69	1,702,650	$ 40.43
Exercisable at end of year	955,777	$ 42.78	1,527,814	$ 41.75	1,589,096	$ 40.84
Intrinsic value of exercised options	$ 4,300,000		$ 1,700,000		$ 6,400,000	

There were no stock options granted in 2013, 2012 or 2011.

The following table summarizes information about stock options outstanding at December 31, 2013:

	Outstanding	Exercisable
Aggregate intrinsic value	$ 4,201,000	$ 4,201,000
Weighted-average remaining contractual term	2.5 years	2.5 years

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SAR activity for the years ended December 31, 2013, 2012, and 2011, was as follows:

	2013		2012		2011	
SARs	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	1,535,804	$ 31.66	1,287,724	$ 28.91	1,234,787	$ 23.82
Granted	326,811	46.13	431,040	38.51	387,847	41.14
Exercised	(376,673)	25.44	(102,972)	23.83	(95,672)	22.20
Forfeited	(80,515)	37.54	(75,978)	34.10	(238,965)	25.15
Expired	(2,643)	33.70	(4,010)	41.57	(273)	19.56
Outstanding at end of year	1,402,784	$ 36.36	1,535,804	$ 31.66	1,287,724	$ 28.91
Exercisable at end of year	520,426	$ 30.51	514,787	$ 26.52	305,228	$ 23.27
Intrinsic value of exercised SARs	$ 7,900,000		$ 1,500,000		$ 1,700,000	

The terms of the SARs are established under the applicable Plan and the applicable SAR agreement. Once vested, a SAR entitles the holder to receive a payment equal to the difference between the per-share 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 shares covered by the SAR. Exercised SARs will be settled in whole shares of Zebra stock, and any fraction of a share will be settled in cash. Vesting of SARs granted in 2013 is as follows: 326,811 SARs vest annually in four equal amounts on each of the first four anniversaries of the grant date. Vesting of SARs granted in 2012 is as follows: 20,155 SARs vested upon grant and 410,885 SARs vest annually in four equal amounts on each of the first four anniversaries of the grant date. All SARs expire 10 years after the grant date.

The following table summarizes information about SARs outstanding at December 31, 2013:

	Outstanding	Exercisable
Aggregate intrinsic value	$ 14,144,000	$ 8,282,000
Weighted-average remaining contractual term	7.6 years	6.6 years

Restricted stock award activity, granted under the 2011 and 2006 Plans, for the years ended December 31, 2013, 2012 and 2011 was as follows:

	2013		2012		2011	
Restricted Stock Awards	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	444,362	$ 35.43	529,880	$ 28.20	594,090	$ 25.51
Granted	167,515	46.17	169,081	38.45	152,636	41.17
Released	(161,976)	31.28	(235,580)	21.39	(197,472)	30.08
Forfeited	(14,524)	40.79	(19,019)	34.90	(19,374)	29.08
Outstanding at end of year	435,377	$ 40.92	444,362	$ 35.43	529,880	$ 28.20

Performance share award activity, granted under the 2011 and 2006 Plans, for the years ended December 31, 2013, 2012 and 2011 was as follows:

	2013		2012		2011	
Performance Share Awards	**Shares**	**Weighted-Average Grant Date Fair Value**	**Shares**	**Weighted-Average Grant Date Fair Value**	**Shares**	**Weighted-Average Grant Date Fair Value**
Outstanding at beginning of year	265,829	$ 35.55	306,261	$ 28.58	250,596	$ 25.35
Granted	187,794	35.17	72,470	38.68	62,874	41.47
Released	(253,484)	27.90	(1,802)	41.57	(7,209)	28.79
Forfeited	(4,980)	41.46	(111,100)	23.06	0	0.0
Outstanding at end of year	195,159	$ 42.25	265,829	$ 35.55	306,261	$ 28.58

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As of December 31, 2013, there was $17,646,000 of unearned compensation cost related to awards granted under Zebra s equity-based compensation plans, which is expected to be recognized over a weighted-average period of 2.3 years.

The fair value of the purchase rights issued to Zebra employees 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.

	2013	2012	2011
Fair market value	$ 42.45	$ 35.43	$ 34.77
Option price	$ 40.33	$ 33.66	$ 33.03
Expected dividend yield	0%	0%	0%
Expected volatility	19%	21%	33%
Risk free interest rate	0.05%	0.07%	0.07%

Note 17 Deferred Compensation Plan

Zebra offers a deferred compensation plan that permits directors and executive management employees to defer portions of their compensation and to select a method of investing these funds. The salaries that have been deferred since the plan s inception have been accrued and the only expense, other than salaries, related to this plan is the gain or loss from the changes to the deferred compensation liability, which is charged to compensation expense. To fund this plan, Zebra purchases mutual funds in the form of stock or bond funds.

The following table shows the income, asset and liability amounts related to this plan (in thousands):

	As of December 31,	
	2013	2012
Mutual funds included in other assets	$ 4,827	$ 3,553
Deferred compensation liability included in other long-term liabilities	$ 4,827	$ 3,553

Note 18 Income Taxes

The geographical sources of income before income taxes were as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
United States	$ 47,636	$ 60,388	$ 78,593
Outside United States	116,191	103,786	101,126
Total	$ 163,827	$ 164,174	$ 179,719

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

Deferred income taxes are not provided on undistributed earnings of foreign subsidiaries, aggregating approximately $354,164,000 at December 31, 2013 and $256,000,000 at December 31, 2012.

The provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Current:			
Federal	$ 9,556	$ 17,744	$ 7,250
State	808	1,324	1,191
Foreign	11,638	14,258	28,175
Total current	22,002	33,326	36,616
Deferred:			
Federal	7,118	8,656	12,477
State	289	375	405
Foreign	193	(80)	(122)
Total deferred	7,600	8,951	12,760
Total	$ 29,602	$ 42,277	$ 49,376

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The provision for income taxes differs from the amount computed by applying the U.S. statutory Federal income tax rate of 35% to income before income taxes. The reconciliation of statutory and effective income taxes is presented below (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Provision computed at statutory rate	$ 57,339	$ 57,461	$ 62,905
State income tax, net of Federal tax benefit	1,191	1,353	1,432
Asset impairment charge	0	3,190	0
Tax-exempt interest income	(174)	(230)	(334)
Acquisition related items	0	322	0
Domestic manufacturing deduction	(490)	(105)	(212)
Research and experimental credit	(970)	0	(508)
Foreign rate differential	(26,798)	(21,598)	(13,899)
Other	(496)	1,884	(8)
Provision for income taxes	$ 29,602	$ 42,277	$ 49,376

The primary reasons for the difference is due to a combination of higher profits in lower rate international jurisdictions, decreasing foreign statutory rates, the Singapore tax holiday and the restructuring of the foreign operations. In conjunction with the opening of Zebra s Singapore distribution center and the establishment of Singapore as a regional headquarter location in 2009, Zebra negotiated a 10% income tax rate with the Singapore Economic Development Board. The negotiated rate is a reduction from the then current statutory rate of 17%. The 10% rate expires at the end of 2014 unless Zebra meets agreed commitments for employees and business expenditures in Singapore. If these requirements are met, the 10% rate extends through 2018. This agreement reduced Zebra s consolidated income taxes by $1,860,000 in 2013, $2,002,000 in 2012, and $2,030,000 in 2011.

In order to streamline the management, financing and capital structure of its foreign affiliates, in 2012, Zebra established a foreign holding company and restructured the ownership structure of its foreign affiliates. This new holding company structure allows Zebra to consolidate the ownership of its significant foreign affiliates under a single holding company. In addition, the structure introduced leverage which gives the Zebra the ability to facilitate cash pooling and improve the capital structure of its non-US operations. The new capital structure and global financing favorably impacts the Zebra s effective tax rate, and facilitates the tax efficient movement of Zebra s foreign cash to finance the ongoing operating and investment needs of the foreign subsidiaries. The restructuring was completed in the second quarter of 2012 and was in place for the full year in 2013.

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. Based on management s assessment, it is more likely than not that the deferred tax assets will be realized through future taxable earnings.

Tax effects of temporary differences that give rise to deferred tax assets and liabilities are as follows (in thousands):

	As of December 31,	
	2013	2012
Deferred tax assets:		
Deferred rent	$ 409	$ 508
Accrued vacation	2,153	2,480
Accrued bonus	2,916	2,747
Deferred compensation	1,816	1,497
Inventory items	6,061	6,967
Allowance for doubtful accounts and other receivables	118	211
Other accruals	11,149	6,531

Equity based compensation expense	12,337	16,620
Unrealized gain on securities	558	438
Unrealized loss on other investments	410	419
Net operating loss carry-forwards	597	2,462
Valuation allowance	(267)	(267)
Total deferred tax assets	38,257	40,613
Deferred tax liabilities:		
Unrealized loss on other investments	(1,450)	0
Depreciation and amortization	(42,489)	(24,527)
Total deferred tax liabilities	(43,939)	(24,527)
Net deferred tax assets (liabilities)	$ (5,682)	$ 16,086

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On January 1, 2007, Zebra adopted ASC 740 (formerly FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*). According to ASC 740, Zebra identified, evaluated, and measured the amount of income tax benefits to be recognized for all of its income tax positions. During 2008, Zebra recognized an increase of approximately $4,000,000 in the liability for unrecognized tax benefits related to an acquisition. During 2012 Zebra recognized an increase of $680,000 in one of its UK subsidiaries. This amount was reduced as a result of filing 2012 income tax returns in 2013.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at January 1, 2013	$ 4,680
Additions based on tax positions related to 2013	0
Reductions based on 2012 tax returns as filed in 2013	(680)
Balance at December 31, 2013	$ 4,000

Included in deferred tax assets are amounts related to federal and state net operating losses that resulted from Zebra s acquisition of WhereNet Corp. As of December 31, 2013, Zebra had approximately $8,252,000 of net operating loss carryforwards available to offset future taxable income which expire in 2022 through 2027. As of December 31, 2013, Zebra had approximately $26,980,000 of state net operating loss carryforwards which expire in 2013 through 2020. Zebra s intention is to utilize these net operating loss carryforwards to offset future income tax expense. 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 December 31, 2013.

Deferred tax asset valuation allowances included in the temporary differences above are as follows (in thousands):

	Year Ended December 31,		
Valuation allowance	**2013**	**2012**	**2011**
Balance at the beginning of the year	$ 267	$ 267	$ 267
Additions	0	0	0
Subtractions	0	0	0
Balance at the end of the period	$ 267	$ 267	$ 267

Zebra s deferred tax valuation allowance is the result of uncertainties regarding the future realization of recorded tax benefits on state income tax loss carry-forwards. The addition in 2010 is primarily related to California s temporary suspension on the use of state net operating losses for tax years 2010 & 2011. Although the carryforward period for those temporarily suspended losses was increased, there is still some uncertainty as to the ability to use such losses even though carryforward periods were extended.

We are currently undergoing an audit of the 2011 and 2012 US federal income tax returns. The tax years 2009 through 2012 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.

Zebra s continuing practice is to recognize interest and or penalties related to income tax matters as part of income tax expense. For the years ended December 31, 2011 through December 31, 2013, Zebra did not accrue any interest or penalties into income tax expense.

Note 19 Other Comprehensive Income (Loss)

Stockholders equity contains certain items classified as other comprehensive income (loss), including:

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

Unrealized holding gains (losses) on foreign currency hedging activities relate to derivative instruments used to hedge the currency exchange rates for forecasted euro sales. These hedges are designated as cash flow hedges, and we have deferred income statement recognition of gains and losses until the hedged transaction occurs. See Note 11 for more details.

Unrealized gains (losses) on investments classified as available-for-sale are deferred from income statement recognition. See Note 4 for more details.

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The components of other comprehensive income (loss) included in the Consolidated Statements of Comprehensive Income (Loss) are as follows (in thousands):

	As of December 31, 2012	Gain (Loss) recognized in OCI	Gain (Loss) reclassified from AOCI to income	Twelve Months ended December 31, 2013	As of December 31, 2013
Unrealized gains (losses) on hedging transactions:					
Gross	$ (2,581)	$3,297	$(3,089)(1)	$ 208	$ (2,373)
Income tax (benefit)	(599)	862	(772)	90	(509)
Net	(1,982)	2,435	(2,317)	118	(1,864)
Unrealized gains (losses) on investments:					
Gross	540	(1,294)	603(2)	(691)	(151)
Income tax (benefit)	162	(423)	188	(235)	(73)
Net	378	(871)	415	(456)	(78)
Foreign currency translation adjustments	(8,721)	566	316(3)	882	(7,839)
Total accumulated other comprehensive gains (losses)	$(10,325)	$2,130	$(1,586)	$ 544	$(9,781)

	As of December 31, 2011	Gain (Loss) recognized in OCI	Gain (Loss) reclassified from AOCI to income	Twelve Months ended December 31, 2012	As of December 31, 2012
Unrealized gains (losses) on hedging transactions:					
Gross	$ 7,355	$ (14,757)	$ 4,821(1)	$ (9,936)	$ (2,581)
Income tax (benefit)	2,096	(3,900)	1,205	(2,695)	(599)
Net	5,259	(10,857)	3,616	(7,241)	(1,982)
Unrealized gains (losses) on investments:					
Gross	(797)	1,052	285(2)	1,337	540
Income tax (benefit)	(288)	349	101	450	162
Net	(509)	703	184	887	378
Foreign currency translation adjustments	(8,963)	321	(79)(3)	242	(8,721)
Total accumulated other comprehensive gains (losses)	$ (4,213)	$ (9,833)	$ 3,721	$ (6,112)	$ (10,325)

	As of December 31, 2010	Gain (Loss) recognized in OCI	Gain (Loss) reclassified from AOCI to income	Twelve Months ended December 31, 2011	As of December 31, 2011
Unrealized gains (losses) on hedging transactions:					
Gross	$ (1,523)	$ 12,196	$ (3,318)(1)	$ 8,878	$ 7,355
Income tax (benefit)	(573)	3,615	(946)	2,669	2,096
Net	(950)	8,581	(2,372)	6,209	5,259
Unrealized gains (losses) on investments:					
Gross	(200)	(756)	159(2)	(597)	(797)
Income tax (benefit)	(76)	(269)	57	(212)	(288)
Net	(124)	(487)	102	(385)	(509)
Foreign currency translation adjustments	(8,275)	178	(866)(3)	(688)	(8,963)
Total accumulated other comprehensive gains (losses)	$ (9,349)	$ 8,272	$ (3,136)	$ 5,136	$ (4,213)

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

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Note 20 Geographic Data

Information regarding Zebra s operations by geographic area is contained in the following table. These amounts (in thousands) are reported in the geographic area of the destination of the final sale. We manage our business based on these regions rather than by individual countries.

	North America	Europe, Middle East & Africa	Latin America	Asia	Total
2013					
Net sales	$ 459,908	$ 326,470	$ 99,041	$ 152,740	$ 1,038,159
Long-lived assets	97,768	8,149	502	3,169	109,588
2012					
Net sales	$ 435,520	$ 322,970	$ 100,101	$ 137,577	$ 996,168
Long-lived assets	90,363	7,522	538	2,926	101,349
2011					
Net sales	$ 409,208	$ 342,578	$ 89,715	$ 141,987	$ 983,488
Long-lived assets	88,382	5,965	362	3,113	97,822

Net sales by country that are greater than 10% of total net sales are as follows (in thousands):

	United States	United Kingdom	Singapore	Other	Total
2013	$ 562,848	$ 323,708	$ 140,588	$ 11,015	$ 1,038,159
2012	$ 539,504	$ 317,793	$ 134,349	$ 4,522	$ 996,168
2011	$ 504,283	$ 339,027	$ 136,757	$ 3,421	$ 983,488

Net sales by country are determined by the country from where the products are invoiced when they leave Zebra s warehouse. Generally, our United States sales company serves North America and Latin America while our United Kingdom sales company serves the Europe, Middle East and Africa markets and our Singapore sales company serves all of the Asia Pacific market.

Net sales by major product category are as follows (in thousands):

	Hardware	Supplies	Service and Software	Shipping and Handling	Total
2013	$ 735,123	$ 243,965	$ 53,627	$ 5,444	$ 1,038,159
2012	$ 730,489	$ 212,499	$ 47,941	$ 5,239	$ 996,168
2011	$ 743,308	$ 187,457	$ 47,206	$ 5,517	$ 983,488

Note 21 Major Customers

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

Year Ended December 31,

	2013	2012	2011
Customer A	16.8%	20.4%	20.7%
Customer B	13.1%	11.4%	10.5%
Customer C	12.3%	10.3%	8.9%

All three of the above customers are distributors and not end users. No other customer accounted for 10% or more of total net sales during these years.

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Note 22 Quarterly Results of Operations (unaudited)

(Amounts in thousands, except per share data)

	2013			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Net Sales				
Net sales of tangible products	$ 225,121	$ 239,909	$ 249,919	$ 269,583
Revenue from services and software	11,816	13,251	13,604	14,956
Total net sales	236,937	253,160	263,523	284,539
Cost of Sales				
Cost of sales of tangible products	117,111	125,664	128,191	136,547
Cost of sales services and software	6,761	6,589	6,722	6,964
Cost of sales	123,872	132,253	134,913	143,511
Gross Profit	113,065	120,907	128,610	141,028
Operating expenses:				
Selling and marketing	33,515	33,830	34,395	36,280
Research and development	21,858	23,201	22,376	23,712
General and administrative	25,277	24,053	22,452	24,434
Amortization of intangible assets	1,863	1,863	1,831	1,826
Acquisition costs	482	618	268	3,322
Exit and restructuring costs	1,895	1,101	519	2,375
Total operating expenses	84,890	84,666	81,841	91,949
Operating income	28,175	36,241	46,769	49,079
Other income (loss)				
Investment income	677	473	550	666
Foreign exchange loss	(98)	(462)	(173)	209
Other, net	10	1,464	(5)	252
Total other income	589	1,475	372	1,127
Income from continuing operations before income taxes	28,764	37,716	47,141	50,206
Income taxes	5,222	7,158	8,541	8,681
Income from continuing operations	23,542	30,558	38,600	41,525
Income from discontinued operations, net of tax	0	8	0	125
Net income	$ 23,542	$ 30,566	$ 38,600	$ 41,650

Basic earnings per share:				
Income from continuing operations	$ 0.46	$ 0.60	$ 0.76	$ 0.83
Income from discontinued operations	0.00	0.00	0.00	0.00
Net Income	$ 0.46	$ 0.60	$ 0.76	$ 0.83
Diluted earnings per share:				
Income from continuing operations	$ 0.46	$ 0.60	$ 0.76	$ 0.82
Income from discontinued operations	0.00	0.00	0.00	0.00
Net Income	$ 0.46	$ 0.60	$ 0.76	$ 0.82
Basic weighted average shares outstanding	50,980	50,990	50,590	50,289
Diluted weighted average and equivalent shares outstanding	51,366	51,283	50,924	50,666

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	2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales				
Net sales of tangible products	$ 232,476	$ 234,708	$ 239,786	$ 241,257
Revenue from services and software	11,399	12,369	12,251	11,922
Total net sales	243,875	247,077	252,037	253,179
Cost of Sales				
Cost of sales of tangible products	119,033	119,980	118,751	121,869
Cost of sales services and software	4,959	6,720	6,362	6,850
Cost of sales	123,992	126,700	125,113	128,719
Gross Profit	119,883	120,377	126,924	124,460
Operating expenses:				
Selling and marketing	32,114	32,158	32,321	33,313
Research and development	20,416	22,336	22,007	22,605
General and administrative	24,320	24,402	22,481	20,964
Amortization of intangible assets	770	770	1,670	1,463
Acquisition costs	254	1,252	566	1,037
Exit and restructuring costs	0	0	0	960
Asset impairment charge	0	0	9,114	0
Total operating expenses	77,874	80,918	88,159	80,342
Operating income	42,009	39,459	38,765	44,118
Other income (loss)				
Investment income	592	826	541	526
Foreign exchange loss	(342)	(80)	(514)	(5)
Other, net	(364)	(486)	(294)	(577)
Total other income (loss)	(114)	260	(267)	(56)
Income from continuing operations before income taxes	41,895	39,719	38,498	44,062
Income taxes	11,731	9,366	11,917	9,263
Income from continuing operations	30,164	30,353	26,581	34,799
Income from discontinued operations, net of tax	0	300	516	191
Net income	$ 30,164	$ 30,653	$ 27,097	$ 34,990
Basic earnings per share:				
Income from continuing operations	$ 0.58	$ 0.58	$ 0.52	$ 0.69
Income from discontinued operations	0.00	0.01	0.01	0.00
Net Income	$ 0.58	$ 0.59	$ 0.53	$ 0.69

Diluted earnings per share:				
Income from continuing operations	$ 0.58	$ 0.58	$ 0.51	$ 0.68
Income from discontinued operations	0.00	0.01	0.01	0.00
Net Income	$ 0.58	$ 0.59	$ 0.52	$ 0.68
Basic weighted average shares outstanding	51,998	51,771	51,566	50,968
Diluted weighted average and equivalent shares outstanding	52,301	52,030	51,809	51,262

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Note 23 Discontinued Operations

Sale of Navis, LLC On March 18, 2011, we sold our Navis marine terminal solutions business and the related WhereNet marine terminal solutions product line of our Zebra Enterprise Solutions (ZES) business segment for approximately $188,588,000 in cash to Cargotec Corporation. As of December 31, 2011, Zebra had a short term receivable from the buyer in the amount of $27,580,000 which represented funds held in escrow, of which, we received $13,790,000 in the first quarter of 2012 and the remaining $13,790,000 in the third quarter of 2012.

Sale of proveo AG On August 3, 2011, we entered into a Share Purchase Agreement with F Two NV (a Belgium company) to sell all of our interest in Zebra Enterprise Solutions GmbH (formerly proveo AG) business. The loss recorded upon divestiture was $1,248,000. Zebra realized tax benefits in the amount of $13,308,000 with the divestiture of proveo AG. These tax benefits are primarily related to the difference in book basis versus tax basis. As part of the sale, Zebra agreed with the buyer to provide a revolving loan of up to 1,000,000 which was due on August 3, 2012 and bore interest at 6.5%. Zebra considered this loan unlikely to be repaid in full and established a reserve for the maximum loss. During 2012, the maximum value on Zebra s loan to the purchaser was reduced to 526,058 and Zebra recorded a gain of $930,000 as a result of reducing the loan loss reserve to the new maximum loss. During 2013, Zebra received some additional payments on the loan and the remaining balance outstanding was forgiven. Zebra recorded a gain of $201,000 as a result of the payments received and loan cancellation.

Beginning in the first quarter of 2011, Zebra reported the results of these businesses as discontinued operations. The amounts presented below for discontinued operations include Navis and proveo assets and liabilities, and the operating results of these businesses for the years ended December 31, 2013, 2012 and 2011. With the Navis sale, Zebra consolidated the remaining ZES Location Solutions operations.

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

	Year Ended December 31		
	2013	2012	2011
Net sales	$ 0	$ 0	$ 13,945
Loss from discontinued operations	$ 7	$ (141)	$ (13,971)
Income tax benefit (expense)	(75)	218	1,299
Gain on sale of discontinued operations	201	930	68,745
Income tax expense on sale	0	0	(11,773)
Income from discontinued operations	$ 133	$ 1,007	$ 44,300

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

	Year Ended December 31		
	2013	2012	2011
Cash flows from discontinued operations:			
Net cash (used) by operating activities	$ 0	$ 0	$ (1,301)
Net cash provided by (used in) by investing activities	0	0	0
Net cash provided by (used in) by financing activities	0	0	0
Effect of exchange rate changes on cash	0	0	0
Net decrease in cash and cash equivalents	0	0	(1,301)
Cash and cash equivalents at beginning of period	0	0	1,301
Cash and cash equivalents at end of period	$ 0	$ 0	$ 0

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Note 24 Business Combinations

Hart Systems. On December 18, 2013, Zebra acquired all of the outstanding membership interests in Hart Systems, LLC (a New York limited liability company) for $95,669,326 in cash, subject to a working capital adjustment. As part of the acquisition closing, an escrow balance of approximately $9,402,500 was established against the total purchase price.

Hart Systems, a leading provider of self-directed physical inventory management solutions to the retail industry, has distinguished itself in the market by offering retailers high ROI, self-managed inventory solutions. This acquisition enables us to expand our presence in the retail market segment by offering additional inventory management services as part of Zebra s dedicated Retail Solutions. It adds software as a service (SaaS) to Zebra s product and service portfolio. The allocations of the purchase price for this acquisition have been prepared on a preliminary basis and changes to these allocations may occur as additional information becomes available. Acquired goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired. Zebra paid this premium for a number of reasons, including acquiring an experienced workforce and enhancing technology capabilities. Pro forma results have not been presented because the effect of the acquisition is not material to the company s financial results.

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

	As of December 31, 2013
Current assets	$ 2,600
Property and equipment	11,134
Goodwill	60,858
Other intangibles	37,200
Total assets acquired	$ 111,792
Current liabilities	2,285
Long term liabilities	13,838
Net assets acquired	$ 95,669

On a preliminary basis pending the receipt of final valuations, the purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of $60,858,000. The intangible assets of $37,200,000 consist of the following (in thousands):

	Amount	Useful life
Customer relationships	$ 32,100	15 years
Developed technology/know-how	4,800	5 years
Trade name	300	1 year
Acquired other intangibles	$ 37,200	

The goodwill is not deductible for tax purposes.

LaserBand LLC. On July 13, 2012, Zebra acquired all of the outstanding membership interests in LaserBand LLC (a Missouri limited liability company) for a cash purchase price of $59,874,000, included in this amount was cash acquired of $1,431,000.

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

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

	As of July 13, 2012
Current assets	$ 7,017
Property and equipment	46
Other assets	17
Goodwill	24,353
Other intangibles	29,560
Total assets acquired	$ 60,993
Current liabilities	1,119
Net assets acquired	$ 59,874

The purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of $24,353,000. The intangible assets of $29,560,000 consist of the following (in thousands):

	Amount	Useful life
Current technology	$ 6,260	5 years
Patents and patent rights	4,580	7 years
Customer relationships	18,720	5 to 9 years
Acquired other intangibles	$ 29,560	

The goodwill is deductible for tax purposes.

StepOne Systems. On December 21, 2012, Zebra acquired StepOne Systems for a cash purchase price of $1,543,000, included in this amount was cash acquired of $110,000. StepOne is a specialty software company focused on solving business retailer s challenges through mobile technology. StepOne is located in Pittsburgh, Pennsylvania.

StepOne has been able to increase sales via customer facing technologies, reduced out-of-stock, labor cost reduction, increased inventory/shipping accuracy and reduction in manual errors. Retail is an important part of our strategy to further penetrate existing markets. Retail organizations worldwide are increasingly embracing technology to improve the customer experience, build brand loyalty and enhance operational efficiency in the front and back of the store. This investment gives Zebra s a more comprehensive solution in mobile POS and makes Zebra more competitive in this market space.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

Schedule II

Valuation and Qualifying Accounts

(Amounts in thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions / (Recoveries)	Balance at End of Period
Valuation account for accounts receivable:				
Year ended December 31, 2013	$ 669	$ 373	$ 589	$ 453
Year ended December 31, 2012	$ 1,560	$ 0	$ 891	$ 669
Year ended December 31, 2011	$ 1,459	$ 343	$ 242	$ 1,560
Valuation accounts for inventories:				
Year ended December 31, 2013	$ 13,655	$ 8,473	$ 9,567	$ 12,561
Year ended December 31, 2012	$ 14,710	$ 6,758	$ 7,813	$ 13,655
Year ended December 31, 2011	$ 9,837	$ 8,762	$ 3,889	$ 14,710

See accompanying report of independent registered public accounting firm.

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Index to Exhibits

3.1(i)	(6)	Restated Certificate of Incorporation of the Company.
3.1(ii)	(35)	Amended and Restated By-laws of Zebra Technologies Corporation, as amended as of January 7, 2013.
4.0	(5)	Specimen stock certificate representing Class A Common Stock.
10.1	(7)	1997 Stock Option Plan. +
10.2	(8)	First Amendment to 1997 Stock Option Plan. +
10.3	(8)	Second Amendment to 1997 Stock Option Plan. +
10.4	(9)	Third Amendment to 1997 Stock Option Plan. +
10.5	(10)	Amendment No. Four to 1997 Stock Option Plan. +
10.6	(5)	Lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois.
10.7	(2)	Amendment to the lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois, dated April 1, 1993.
10.8	(2)	Amendment to the lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois, dated December 1, 1994.
10.9	(11)	Amendment to the lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois, dated June 1, 1996.
10.10	(11)	Amendment to the lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois, dated June 2, 1996.
10.11	(12)	Amendment to the lease between the Company and Unique Building Corporation for the Company s facility in Vernon Hills, Illinois, dated as of July 1, 1999.
10.12	(13)	2002 Non-Employee Director Stock Option Plan. +
10.13	(13)	Amendment No. 1 to 2002 Non-Employee Director Stock Option Plan. +
10.14	(15)	Non-Qualified Stock Option Agreement between the Company and Anders Gustafsson dated September 4, 2007. +
10.15	(17)	Employment Agreement between the Company and Hugh Gagnier dated December 12, 2007. +
10.16	(14)	Amendment No. 1 to Employment Agreement between the Company and Hugh Gagnier dated December 30, 2008. +
10.17	(32)	Employment Agreement between the Company and Michael H. Terzich dated November 16, 2007. +
10.18	(32)	Employment Agreement between the Company and Todd Naughton dated November 16, 2007. +
10.19	(16)	Employment Agreement between the Company and Phil Gerskovich dated November 16, 2007. +
10.20	(28)	Employment Agreement between Michael C. Smiley and the Company dated May 1, 2008. +
10.21	(14)	Form of Amendment No. 1 to Employment Agreement by and between the Company and each executive officer other than Messrs. Gustafsson and Gagnier, each dated December 30, 2008.+
10.22	(8)	Form of Stock Option Agreement under the 1997 Stock Option Plan for awards granted prior to February 6, 2006. +
10.23	(13)	Form of Stock Option Agreement under the 2002 Non-Employee Director Stock Option Plan for awards granted prior to February 6, 2006. +
10.24	(31)	Form of Amendment to outstanding Stock Option Agreements under the 2002 Non-Employee Director Stock Option Plan. +
10.25	(18)	Form of Stock Option Agreement under the 1997 Stock Option Plan for awards granted on or after February 6, 2006. +
10.26	(18)	Form of Stock Option Agreement under the 2002 Non-Employee Director Stock Option Plan for awards granted on or after February 6, 2006. +
10.27	(20)	Form of Stock Option Agreement under the 2006 Incentive Compensation Plan for awards granted prior to April 25, 2007. +
10.28	(21)	Form of Stock Option Agreement under the 2006 Incentive Compensation Plan for awards granted to executive officers on or after April 25, 2007 and prior to December 2, 2008. +
10.29	(25)	Form of indemnification agreement between Zebra Technologies Corporation and each director and executive officer. +
10.30	(29)	Form of Director Stock Option Agreement (1-Year Vesting) under the 2006 Incentive Compensation Plan for awards granted to directors on or after May 22, 2008 and prior to December 2, 2008. +
10.31	(29)	Form of Director Stock Option Agreement (4-Year Vesting) under the 2006 Incentive Compensation Plan for awards granted to directors on or after May 22, 2008 and prior to December 2, 2008. +
10.32	(31)	Form of Director Stock Option Agreement (1-Year Vesting) under the 2006 Incentive Compensation Plan for awards granted to directors on or after December 2, 2008. +
10.33	(31)	Form of Director Stock Option Agreement (4-Year Vesting) under the 2006 Incentive Compensation Plan for awards granted to directors on or after December 2, 2008. +
10.34	(31)	Amendment to outstanding Stock Option Agreements under the 2006 Incentive Compensation Plan, dated December 2, 2008. +
10.35	(31)	Form of Stock Option Agreement under the 2006 Incentive Compensation Plan for awards granted to executive officers on or after December 2, 2008. +

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10.36	(26)	WhereNet Corp. 1997 Stock Option Plan. +
10.37	(26)	First Amendment to the WhereNet Corp. 1997 Option Plan. +
10.38	(27)	Manufacturing Services Agreement between Jabil Circuit, Inc. and the Company dated May 30, 2007 (portions of this exhibit have been omitted and have been filed separately with the Commission pursuant to a request for confidential treatment.)
10.39	(1)	Amendment to Manufacturing Services Agreement between Jabil Circuit, Inc. and Zebra Technologies Corporation dated May 30, 2007.
10.40	(30)	J.P. Morgan Credit Agreement dated as of October 12, 2012.
10.41	(23)	2006 Incentive Compensation Plan. +
10.42	(31)	Amendment to the 2006 Incentive Compensation Plan dated December 2, 2008. +
10.43	(24)	2011 Long-Term Incentive Plan. +
10.44	(24)	2011 Short-Term Incentive Plan. +
10.45	(27)	2005 Executive Deferred Compensation Plan, as amended. +
10.46	(22)	Form of Amendment to Employment Agreement between Zebra Technologies Corporation and executive officers. +
10.47	(25)	Amended and Restated Employment Agreement between Zebra Technologies Corporation and Anders Gustafsson dated as of May 6, 2010. +
10.48	(25)	Letter Agreement between Zebra Technologies Corporation and Anders Gustafsson dated as of May 6, 2010. +
10.49	(25)	Form of 2010 - 2011 time-vested stock appreciation rights agreement for employees other than CEO. +
10.50	(25)	Form of 2010 - 2011 time-vested restricted stock agreement for employees other than CEO. +
10.51	(25)	Form of 2010 - 2011 performance-based restricted stock agreement for employees other than CEO. +
10.52	(25)	Form of 2010 time-vested stock appreciation rights agreement for CEO. +
10.53	(25)	Form of 2010 time-vested restricted stock agreement for CEO. +
10.54	(25)	Form of 2010 2011 performance-based restricted stock agreement for CEO. +
10.55	(25)	Form of 2009 time-vested stock appreciation rights agreement for non-employee directors. +
10.56	(25)	Form of 2010 time-vested stock appreciation rights agreement for non-employee directors. +
10.57	(33)	Form of 2011 time-vested stock appreciation rights agreement for CEO. +
10.58	(33)	Form of 2011 time-vested restricted stock agreement for CEO. +
10.59	(3)	Form of 2011 time-vested stock appreciation rights agreement for non-employee directors. +
10.60	(34)	Form of 2012-13 time-vested stock appreciation rights agreement for employees other than CEO. +
10.61	(34)	Form of 2012-13 time-vested restricted stock agreement for employees other than CEO. +
10.62	(34)	Form of 2012-13 performance-based restricted stock agreement for employees other than CEO. +
10.63	(34)	Form of 2012-13 time-vested stock appreciation rights agreement for CEO. +
10.64	(34)	Form of 2012-13 time-vested restricted stock agreement for CEO. +
10.65	(34)	Form of 2012-13 performance-based restricted stock agreement for CEO. +
10.66	(34)	Form of 2012-13 stock appreciation rights agreement for non-employee directors. +
21.1		Subsidiaries of the Company.
23.1		Consent of Ernst & Young LLP, independent registered public accounting firm.
31.1		Certification pursuant to Rule 13a-14(a)/15d-14(a).
31.2		Certification pursuant to Rule 13a-14(a)/15d-14(a).
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 Annual Report on Form 10-K, for the year ended December 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the consolidated balance sheets; (ii) the consolidated statements of earnings (loss); (iii) the consolidated statements of comprehensive income (loss); (iv) the consolidated statements of stockholders equity; (v) the consolidated statements of cash flows; and (vi) notes to consolidated financial statements.

(1) Incorporated by reference from Annual Report on Form 10-K for the year ended December 31, 2010.
(2) Incorporated by reference from Form 10-K for fiscal year ended December 31, 2006.
(3) Incorporated by reference from Current Report on Form 8-K dated May 19, 2011.
(4) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended October 3, 2009.
(5) Incorporated by reference from Registration Statement on Form S-1, File No. 33-41576.
(6) Incorporated by reference from Current Report on Form 8-K dated August 1, 2012.
(7) Incorporated by reference from Form 10-K for the fiscal year ended December 31, 1997.
(8) Incorporated by reference from Registration Statement on Form S-8, File No. 333-63009.
(9) Incorporated by reference from Registration Statement on Form S-8, File No. 333-84512.
(10) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended September 28, 2002.

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(11) Incorporated by reference from Form 10-K for the fiscal year ended December 31, 1996.
(12) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended April 1, 2000.
(13) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended June 29, 2002.
(14) Incorporated by reference from Current Report on Form 8-K dated January 5, 2009.
(15) Incorporated by reference from Current Report on Form 8-K dated on September 4, 2007.
(16) Incorporated by reference from Current Report on Form 8-K filed on November 21, 2007.
(17) Incorporated by reference from Current Report on Form 8-K filed on December 17, 2007.
(18) Incorporated by reference from Current Report on Form 8-K filed on February 10, 2006.
(20) Incorporated by reference from Current Report on Form 8-K filed on October 26, 2006.
(21) Incorporated by reference from Current Report on Form 8-K filed on May 1, 2007.
(22) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended October 2, 2010.
(23) Incorporated by reference from Current Report on Form 8-K filed on May 15, 2006.
(24) Incorporated by reference from Proxy Statement dated April 15, 2011 for the 2011 Annual Meeting of Stockholders.
(25) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended April 3, 2010.
(26) Incorporated by reference from Registration Statement on Form S-8 filed on January 25, 2007, File No. 333-140207.
(27) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended March 29, 2008.
(28) Incorporated by reference from Current Report on Form 8-K filed on May 7, 2008.
(29) Incorporated by reference from Current Report on Form 8-K filed on May 29, 2008.
(30) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended September 29, 2012.
(31) Incorporated by reference from Current Report on Form 8-K filed on December 8, 2008.
(32) Incorporated by reference from Form 10-K for fiscal year ended December 31, 2008.
(33) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended April 2, 2011.
(34) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.
(35) Incorporated by reference from Current Report on Form 8-K dated January 7, 2013.

\+ Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K.