ZEBRA TECHNOLOGIES CORP/DE
Form 10-Q/A
September 15, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended July 3, 2004

OR

o 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.)

333 Corporate Woods Parkway, Vernon Hills, IL 60061

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ý No o

As of July 30, 2004, there were the following shares outstanding:

Class A Common Stock, $.01 par value 47,782,170

The Company is filing this Quarterly Report on Form 10-Q/A (Amendment No. 1) for the fiscal quarter ended July 3, 2004 solely to correct a typographical error in the Consolidated Financial Statements contained in Item 1 of Part I of the Form 10-Q filed with the Securities and Exchange Commission on August 6, 2004.

Explanatory Note

The Company is filing this Quarterly Report on Form 10-Q/A (Amendment No. 1) for the fiscal quarter ended July 3, 2004 solely to correct a typographical error in the Consolidated Financial Statements contained in Item 1 of Part I of the Form 10-Q filed with the Securities and Exchange Commission on August 6, 2004. The balance sheet line item property and equipment at cost, less accumulated depreciation and amortization, contained a typographical error. The property and equipment was shown as $41,352,000 and should be $42,352,000. Total assets are correct as originally stated.

In addition, the net intangible assets, long-lived assets and goodwill included in the Critical Accounting Policies and Estimates for Valuation of Long-lived and Intangible Assets and Goodwill should be $111,299,000 rather than the originally stated $110,299,000. This item is located in Part I, Item 2. Management s Discussion and Analysis.

Except for the corrected items noted above, no other information is being amended by this Form 10-Q/A. The Company has not updated disclosures in this Form 10-Q/A to reflect any event subsequent to the Company s filing of the original Form 10-Q.

ZEBRA TECHNOLOGIES CORPORATION

QUARTER ENDED JULY 3, 2004

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PART I - FINANCIAL INFORMATION

Item 1. **Consolidated Financial Statements**

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	July 3, 2004 (Unaudited)	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,387	$ 14,266
Investments and marketable securities	489,557	433,582
Accounts receivable, net	95,333	81,867
Inventories	47,613	42,781
Deferred income taxes	5,087	4,507
Prepaid expenses	4,668	4,415
Total current assets	651,645	581,418
Property and equipment at cost, less accumulated depreciation and amortization	42,352	39,286
Goodwill	61,137	61,150
Other intangibles, net	7,810	9,031
Other assets	14,669	10,726
Total assets	$ 777,613	$ 701,611
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 17,216	$ 16,238
Accrued liabilities	24,837	26,938
Current portion of obligation under capital lease	160	153
Income taxes payable	4,118	2,273
Total current liabilities	46,331	45,602
Obligation under capital lease, less current portion	437	452
Deferred income taxes	602	723
Deferred rent	567	518
Other long-term liabilities	3,302	2,401
Total liabilities	51,239	49,696

Stockholders equity:				
Preferred stock		—		—
Class A Common Stock		478		474
Additional paid-in capital		79,110		62,166
Retained earnings		643,208		585,846
Accumulated other comprehensive income		3,578		3,429
Total stockholders equity		726,374		651,915
Total liabilities and stockholders equity	$	777,613	$	701,611

See accompanying notes to consolidated financial statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 3, 2004	**June 28, 2003**	**July 3, 2004**	**June 28, 2003**
Net sales	$ 162,830	$ 129,863	$ 317,004	$ 254,547
Cost of sales	78,315	63,305	151,886	123,640
Gross profit	84,515	66,558	165,118	130,907
Operating expenses:				
Selling and marketing	18,023	16,754	35,231	31,257
Research and development	9,233	7,560	18,129	15,139
General and administrative	12,527	10,248	25,273	20,500
Amortization of intangible assets	626	371	1,275	742
Exit costs	876	—	1,238	—
Merger costs	13	—	58	—
Total operating expenses	41,298	34,933	81,204	67,638
Operating income	43,217	31,625	83,914	63,269
Other income (expense):				
Investment income	2,091	3,017	5,163	5,456
Interest expense	(6)	(14)	(32)	(52)
Foreign exchange gains (losses)	413	(87)	(244)	(230)
Other, net	(559)	(292)	(851)	(286)
Total other income	1,939	2,624	4,036	4,888
Income before income taxes	45,156	34,249	87,950	68,157
Income taxes	15,728	11,987	30,588	23,855
Net income	$ 29,428	$ 22,262	$ 57,362	$ 44,302
Basic earnings per share	$ 0.62	$ 0.47	$ 1.21	$ 0.94
Diluted earnings per share	$ 0.61	$ 0.47	$ 1.19	$ 0.93
Basic weighted average shares outstanding	47,706	47,037	47,598	46,922
Diluted weighted average and equivalent shares outstanding	48,369	47,562	48,268	47,412

See accompanying notes to consolidated financial statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 3, 2004	**June 28, 2003**	**July 3, 2004**	**June 28, 2003**
Net income	$ 29,428	$ 22,262	$ 57,362	$ 44,302
Other comprehensive income (loss):				
Foreign currency translation adjustment	(519)	2,147	769	1,409
Changes in unrealized gains/losses on hedging transactions, net of tax	(117)	151	909	151
Changes in unrealized gains/losses on investments, net of tax	(1,919)	(154)	(1,529)	(273)
Comprehensive income	$ 26,873	$ 24,406	$ 57,511	$ 45,589

See accompanying notes to consolidated financial statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended	
	July 3, 2004	**June 28, 2003**
Cash flows from operating activities:		
Net income	$ 57,362	$ 44,302
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,080	5,783
Tax benefit from exercise of stock options	5,516	2,858
Deferred income taxes	(685)	(315)
Changes in assets and liabilities:		
Accounts receivable, net	(12,496)	(7,479)
Inventories	(4,527)	(1,697)
Other assets	(3,083)	417
Accounts payable	398	535
Accrued liabilities	(2,152)	(453)
Income taxes payable	1,767	4,077
Other operating activities	(807)	(3,376)
Net cash provided by operating activities	47,373	44,652
Cash flows from investing activities:		
Purchases of property and equipment	(7,737)	(4,547)
Purchases of investments and marketable securities	(709,560)	(771,137)
Sales and maturities of investments and marketable securities	653,585	719,065
Net cash used in investing activities	(63,712)	(56,619)
Cash flows from financing activities:		
Proceeds from exercise of stock options and stock purchase plan purchases	11,432	12,110
Payments for obligation under capital lease	(8)	(225)
Net cash provided by financing activities	11,424	11,885
Effect of exchange rate changes on cash	36	781
Net increase (decrease) in cash and cash equivalents	(4,879)	699
Cash and cash equivalents at beginning of period	14,266	18,418
Cash and cash equivalents at end of period	$ 9,387	$ 19,117
Supplemental disclosures of cash flow information:		
Interest paid	$ 32	$ 52

Income taxes paid	23,929	19,130
Supplemental disclosures of non-cash transactions:		
Conversion of Class B Common Stock to Class A Common Stock	—	10

See accompanying notes to consolidated financial statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

Management prepared these unaudited interim consolidated financial statements for Zebra Technologies Corporation and subsidiaries (Zebra) according to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information required in full-year audited financial statements is omitted, as allowed by SEC rules and regulations. These omissions relate to required annual disclosures, which have not materially changed since our Form 10-K was filed with the SEC. See our Form 10-K for the year ended December 31, 2003, for these additional disclosures.

The consolidated balance sheet as of December 31, 2003, in this Form 10-Q is taken from the audited consolidated balance sheet in our Form 10-K. These interim financial statements include all adjustments necessary to present fairly Zebra s consolidated financial position as of July 3, 2004, the consolidated results of operations for the three and six months ended July 3, 2004 and June 28, 2003, and cash flows for the six months ended July 3, 2004 and June 28, 2003. These results, however, are not necessarily indicative of results for the full year.

Note 2 Stock-Based Compensation

As of July 3, 2004, we had three stock-based compensation plans available for future grants. We account for these plans under the principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based compensation cost is reflected in net income, because all options granted under these plans had grant prices equal to the market value of the underlying common stock on the date of grant. The following table shows the effect on net income and earnings per share if we had used the alternative fair value recognition provisions of Statement of Financial Standards (SFAS) No. 123, *Accounting for Stock-based Compensation* (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	July 3, 2004	**June 28, 2003**	**July 3, 2004**	**June 28, 2003**
Net income	$ 29,428	$ 22,262	$ 57,362	$ 44,302
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(1,306)	(1,600)	(2,727)	(2,993)
Pro forma net income	$ 28,122	$ 20,662	$ 54,635	$ 41,309
Basic earnings per share:				
As reported	$ 0.62	$ 0.47	$ 1.21	$ 0.94
Pro forma	0.59	0.44	1.15	0.88

Diluted earnings per share:								
As reported	$	0.61	$	0.47	$	1.19	$	0.93
Pro forma		0.58		0.43		1.13		0.87

Note 3 Inventories

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

		July 3, 2004		December 31, 2003
Raw materials	$	30,122	$	29,127
Work in process		569		645
Finished goods		16,922		13,009
Total inventories	$	47,613	$	42,781

Note 4 Investments and Marketable Securities

We classify the majority of our investments and marketable securities as available-for-sale in accordance with the classifications defined in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.*

SFAS No. 115 requires that changes in the market value of available-for-sale securities are reflected in the accumulated other comprehensive income caption of stockholders equity in the balance sheet, until we dispose of the securities. Once these securities are disposed of, either by sale or maturity, the accumulated changes in market value are transferred to investment income. On the cash flow statements, changes in the balances of *available-for-sale* securities are shown as purchases, sales and maturities of investments and marketable securities.

Changes in market value of *trading* securities are 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.

Unrealized gains and losses on investment securities are included in these financial statements as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 3, 2004	**June 28, 2003**	**July 3, 2004**	**June 28, 2003**
Unrealized losses on available-for-sale securities, recorded net of tax, in accumulated other comprehensive income	$ (1,919)	$ (154)	$ (1,529)	$ (273)
Unrealized gains on trading securities in investment income	$ 2	$ 55	$ 14	$ 9

Note 5 Stockholders Equity

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

	July 3, 2004	**December 31, 2003**
Preferred Stock		
Par value per share	$ 0.01	$ 0.01
Shares authorized	10,000,000	10,000,000
Shares outstanding	—	—
Common Stock - Class A		
Par value per share	$ 0.01	$ 0.01

Shares authorized	150,000,000	78,358,189
Shares issued	47,780,813	47,399,302
Shares outstanding	47,780,813	47,399,302

Note 6 Other Comprehensive Income (Loss)

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

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

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

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

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

	Three Months Ended		Six Months Ended	
	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003
Foreign currency translation adjustments	$ (519)	$ 2,147	$ 769	$ 1,409
Changes in unrealized gains (losses) on foreign currency hedging activities:				
Gross	$ (180)	$ 233	$ 1,398	$ 233
Income tax (benefit)	(63)	82	489	82
Net	$ (117)	$ 151	$ 909	$ 151
Changes in unrealized losses on investments classified as available-for-sale:				
Gross	$ (2,944)	$ (238)	$ (2,367)	$ (421)
Income tax benefit	(1,025)	(84)	(838)	(148)
Net	$ (1,919)	$ (154)	$ (1,529)	$ (273)

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

	As of	
	July 3, 2004	December 31, 2003
Foreign currency translation adjustments	$ 4,879	$ 4,110
Unrealized losses on foreign currency hedging activities:		
Gross	$ (138)	$ (1,537)
Income tax benefit	(48)	(538)
Net	$ (90)	$ (999)
Unrealized gains (losses) on investments classified as available-for-sale:		
Gross	$ (1,862)	$ 489
Income tax (benefit)	(651)	171
Net	$ (1,211)	$ 318

Note 7 Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003
Basic earnings per share:				
Net income	$ 29,428	$ 22,262	$ 57,362	$ 44,302
Weighted average common shares outstanding	47,706	47,037	47,598	46,922
Per share amount	$ 0.62	$ 0.47	$ 1.21	$ 0.94
Diluted earnings per share:				
Net income	$ 29,428	$ 22,262	$ 57,362	$ 44,302
Weighted average common shares outstanding	47,706	47,037	47,598	46,922
Add: Effect of dilutive securities stock options	663	525	670	490
Diluted weighted average and equivalent shares outstanding	48,369	47,562	48,268	47,412
Per share amount	$ 0.61	$ 0.47	$ 1.19	$ 0.93

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

	Three Months Ended		Six Months Ended	
	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003
Potentially dilutive shares	1,200	223,000	1,200	233,000

Note 8 Goodwill and Other Intangible Asset Data

Intangible asset data are as follows (in thousands):

	July 3, 2004		December 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Current technology	$ 12,258	$ (6,599)	$ 12,033	$ (5,466)
Customer relationships	2,333	(182)	2,503	(39)
Total	$ 14,591	$ (6,781)	$ 14,536	$ (5,505)

Unamortized intangible assets				
Goodwill	$	61,137	$	61,150
Aggregate amortization expense				
For the year ended December 31, 2003			$	1,640
For the three months ended July 3, 2004	$	626		
For the six months ended July 3, 2004		1,275		
Estimated amortization expense				
For the year ended December 31, 2004	$	2,568		
For the year ended December 31, 2005		1,691		
For the year ended December 31, 2006		1,103		
For the year ended December 31, 2007		1,103		
For the year ended December 31, 2008		1,099		
For the year ended December 31, 2009		975		
For the year ended December 31, 2010		292		
For the year ended December 31, 2011		254		

We test the impairment of goodwill each year or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last assessment during June 2004.

We evaluate the impairment of long-lived assets including identifiable intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors considered that might trigger an impairment review consist of:

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

If we believe that one or more of the above indicators of impairment have occurred, we measure impairment based on a projected discounted cash flow methodology using a discount rate that incorporates the risk inherent in the cash flows.

Note 9 Derivative Instruments

In the normal course of business, portions of Zebra s operations are subject to fluctuations in currency values. We manage these risks using derivative financial instruments.

Hedging of Net Assets

We use forward contracts and options to manage exposure related to our pound and euro denominated net assets and designate these contracts and options as fair value hedges. We record gains and losses on these contracts and options in income each quarter along with the translation gains and losses related to our net euro asset position, which would ordinarily offset each other to a large extent. Summary financial information related to these activities follows (in thousands):

	Three Months Ended	Six Months Ended

	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003
Change in gains (losses) from foreign exchange derivatives	$ (183)	$ (1,159)	$ 345	$ (2,514)
Gain (loss) on net foreign currency assets	596	1,072	(589)	2,284
Net foreign exchange gain (loss)	$ 413	$ (87)	$ (244)	$ (230)

	As of	
	July 3, 2004	December 31, 2003
Notional balance of outstanding contracts:		
Pound	£ 8,314	£ 8,569
Euro	29,000	22,000

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Hedging of Anticipated Sales

We manage the exchange rate risk of anticipated euro denominated sales using forward contracts and designate these contracts as cash flow hedges. Gains and losses on these contracts are deferred in other comprehensive income until the contracts are settled and the hedged sales are realized, at which time the deferred gains or losses will be reported as an increase or decrease to sales. Summary financial information related to the cash flow hedges of future revenues follows (in thousands, except percentages):

	As of	
	July 3, 2004	**December 31, 2003**
Net unrealized losses deferred in other comprehensive income:		
Gross	$ (138)	$ (1,537)
Income tax	(48)	(538)
Net	$ (90)	$ (999)
Notional balance of outstanding contracts	8,000	30,420
Hedge effectiveness	100%	100%
Net gains (losses) included in revenue for the		
Three months ended June 28, 2003		—
Three months ended July 3, 2004	$ 12	
Six months ended June 28, 2003		—
Six months ended July 3, 2004	$ (631)	

Note 10 Costs associated with Exit or Disposal Activities

During the third quarter of 2003, we initiated a plan to close our engineering site in Varades, France. This plan was announced in October 2003 and is accounted for under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. All exit costs associated with this activity are identified on a separate line of our income statement, as part of operating expenses. Our consolidation plan is intended to reduce costs and improve manufacturing efficiency.

Our Varades facility conducted the product development for our line of card imaging printers and included the European service center for these printers. We transferred the product development activities to Camarillo, California, where we have manufactured these printers since 2001. We transferred the European card imaging printer service operation to our Preston, United Kingdom, facility where the Europe, Middle East and African distribution of these printers already occurs. To date, we eliminated most of the Varades administrative functions including finance, information systems and human resources support. At the completion of the plan, the Varades facility will be closed and no employees will remain. As of July 3, 2004, we expect the following exit costs to be incurred for the entire project (in thousands):

Type of Cost	**Costs incurred to date**	**Additional costs expected**	**Total costs expected to be incurred**
	$ 1,519	$ 63	$ 1,582

Severance, stay bonuses, and other employee-related expenses			
Asset disposal costs	63	—	63
Other exit costs	222	25	247
Total	$ 1,804	$ 88	$ 1,892

During January 2004, we announced plans to consolidate our Warwick, Rhode Island, printer manufacturing and repair service into our Camarillo, California and Vernon Hills, Illinois locations. This transition was expected to take 12 to 18 months to complete. The Warwick facility will continue to manufacture and distribute bar code label printer supplies, as well as house engineering, product management, and the key account sales functions for mobile products. As of July 3, 2004, we expect the following exit costs:

Type of Cost	Costs incurred to date	Additional costs expected	Total costs expected to be incurred
Severance, stay bonuses, and other employee-related expenses	$ 451	$ 689	$ 1,140
Asset disposal costs	—	150	150
Other exit costs	174	351	525
Total	$ 625	$ 1,190	$ 1,815

Liabilities and expenses related to exit activities for the three and six months ended July 3, 2004 were as follows:

	Varades Closure	Warwick Consolidation	Total
Accrued liabilities related to exit activities at December 31, 2003	$ 990	$	$ 990
Expenses incurred for the three months ended April 3, 2004	224	138	362
Expenses incurred for the three months ended July 3, 2004	390	486	876
Total expenses incurred for the six months ended July 3, 2004	614	624	1,238
Amounts paid for the six months ended July 3, 2004	1,257	261	1,518
Accrued liabilities related to exit activities at July 3, 2004	$ 347	$ 363	$ 710

The accrued liability at July 3, 2004 was reduced from the amount at December 31, 2003 by the excess of the amounts paid during the first six months over the expenses incurred.

Note 11 Contingencies

On April 24, 2003, Paxar Americas, Inc. (Paxar Americas) filed a patent infringement lawsuit in the United States District Court for the Southern District of Ohio against Zebra and certain of its subsidiaries. Paxar Americas Complaint alleges that certain of Zebra s products infringe on one or more of eight identified Paxar Americas patents, although not each product is accused of infringing each patent. Zebra has filed an Answer to Paxar Americas Complaint, denying Paxar Americas allegations of infringement and asserting several affirmative defenses, including the invalidity of Paxar Americas asserted patent claims. Paxar has moved to amend its complaint to add other allegations of infringement and a trademark-based claim. Zebra has opposed Paxar s Motion to Amend, and the parties are awaiting the Court s ruling on the Motion.

On November 21, 2003, ZIH Corp. (ZIH) filed a Complaint in the United States District Court for the District of Massachusetts against Paxar Corporation, alleging that Paxar Corporation printers infringe ZIH s U.S. Patent Nos. 5,813,343 and 5,860,753. Paxar Corporation answered

ZIH s Complaint, denying infringement and seeking a declaratory judgment that ZIH s patents-in-suit are not infringed and are invalid and/or unenforceable. Paxar Corporation filed a motion to transfer ZIH s Massachusetts suit to Ohio federal court. ZIH opposed Paxar Corporation s motion to transfer, and the parties are awaiting the Court s ruling on the transfer motion.

On November 25, 2003, Paxar Americas filed a Complaint against ZIH in the United States District Court for the Southern District of Ohio, seeking a declaratory judgment that the patents asserted by ZIH in its Massachusetts Complaint are not infringed and are invalid and unenforceable. On December 17, 2003, Paxar Americas amended its complaint to add Zebra Technologies Corporation as a defendant. The Court has granted the parties motion to stay this action pending the Massachusetts District Court s ruling on Paxar Corporation s motion to transfer. The parties have agreed to file a motion to transfer this action to the Massachusetts District Court if the Massachusetts District Court denies Paxar Corporation s pending motion to transfer.

We do not believe a liability is probable and are unable at this time to estimate the range of the potential liability that would result from an unsuccessful defense, and consistent with the requirements of SFAS No. 5, *Accounting for Contingencies,* no liability has been recorded in Zebra s consolidated financial statements as of July 3, 2004.

Note 12 Subsequent Events

On July 15, 2004, the Board of Directors authorized a fifty percent (50%) Class A common stock dividend on each issued share of Class A common stock payable before the close of business on August 25, 2004, to the holders of record of all such shares at the close of business on July 29, 2004.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations: Second Quarter of 2004 versus Second Quarter of 2003, Year-to-date 2004 versus Year-to-date 2003

Sales

Sales by product category, percent change, and percent of total sales for the three and six months ended July 3, 2004, and June 28, 2003, were (in thousands, except percentages):

Product Category	Three Months Ended July 3, 2004	Three Months Ended June 28, 2003	Percent Change	Percent of Total Sales - 2004	Percent of Total Sales - 2003
Hardware	$ 127,167	$ 98,567	29.0	78.1	75.9
Supplies	28,273	24,206	16.8	17.4	18.6
Service and software	6,283	6,085	3.3	3.9	4.7
Shipping and handling	1,095	1,005	9.0	0.6	0.8
Cash flow hedging activities	12	—	—	—	—
Total sales	$ 162,830	$ 129,863	25.4	100.0	100.0

Product Category	Six Months Ended July 3, 2004	Six Months Ended June 28, 2003	Percent Change	Percent of Total Sales - 2004	Percent of Total Sales - 2003
Hardware	$ 245,645	$ 193,117	27.2	77.5	75.8
Supplies	56,947	47,345	20.3	18.0	18.6
Service and software	12,824	12,122	5.8	4.0	4.8
Shipping and handling	2,219	1,963	13.0	0.7	0.8
Cash flow hedging activities	(631)	—	—	(0.2)	—
Total sales	$ 317,004	$ 254,547	24.5	100.0	100.0

Sales to customers by geographic region, percent changes and percent of total sales for the three and six months ended July 3, 2004, and June 28, 2003, were (in thousands, except percentages):

Geographic Region	Three Months Ended July 3, 2004	Three Months Ended June 28, 2003	Percent Change	Percent of Total Sales - 2004	Percent of Total Sales - 2003
Europe, Middle East and Africa	$ 53,156	$ 42,560	24.9	32.6	32.9
Latin America	9,452	7,189	31.5	5.8	5.5
Asia-Pacific	12,039	10,002	20.4	7.4	7.7
Total International	74,647	59,751	24.9	45.8	46.1

North America		88,183		70,112	25.8	54.2	55.9
Total sales	$	162,830	$	129,863	25.4	100.0	100.0

	Six Months Ended						
Geographic Region		**July 3, 2004**		**June 28, 2003**	**Percent Change**	**Percent of Total Sales - 2004**	**Percent of Total Sales - 2003**
Europe, Middle East and Africa	$	105,608	$	81,891	29.0	33.3	32.2
Latin America		17,891		13,855	29.1	5.6	5.4
Asia-Pacific		24,189		19,131	26.4	7.6	7.5
Total International		147,688		114,877	28.6	46.5	45.1
North America		169,316		139,670	21.2	53.5	54.9
Total sales	$	317,004	$	254,547	24.5	100.0	100.0

We believe that our sales growth for the second quarter of 2004 reflects the overall increase in economic activity as well as the success of sales and marketing programs to improve demand for Zebra products, strengthen distribution channel relationships and increase the awareness of Zebra products and the Zebra brand in targeted end markets. The growth in Zebra s business was well balanced across geographies, products, and channels. New printer products (defined as printers released within 18 months prior to the end of the applicable fiscal period) accounted for 27.8% of printer sales in the second quarter of 2004 and 25.2% of printer sales in the second quarter of 2003. Year to-date, new printer products accounted for 28.3% of printer sales in 2004, compared with 23.3% for the corresponding period in 2003.

In North America, we introduced a new marketing and channel program during 2003, intending to strengthen the quality of our channel relationships and expand the number of resellers selling Zebra products. We believe that this program is succeeding. Over the past year, we substantially increased the number of new reseller partners in North America and increased demand for solutions incorporating Zebra products.

We also believe that a new organizational structure in Europe helped achieve sharper business focus and contributed to the sales growth in that region. Zebra representatives added to Asia-Pacific and Latin America in the past two years also had a positive impact on the second quarter sales.

Our international sales are denominated in multiple currencies, primarily the dollar, pound and euro, which cause our reported sales to be subject to fluctuations in currency rates. When significant currency rate fluctuations occur, we review our product pricing and make appropriate changes to maintain our competitive position. We estimate that favorable foreign exchange movements of the euro and the pound versus the dollar, offset by product pricing adjustments, had a net positive effect of $1,238,000 on sales during the second quarter.

We currently hedge a portion of anticipated euro-denominated sales to protect Zebra against exchange rate movements. For the second quarter, this program resulted in a gain of $12,000 and a year-to-date loss of $631,000. See note 9 to the financial statements for a more detailed discussion of this hedging program.

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

	Three Months Ended			Six Months Ended		
	July 3, 2004	**June 28, 2003**	**Percent Change**	**July 3, 2004**	**June 28, 2003**	**Percent Change**
Total printers shipped	164,926	130,459	26.4	315,583	258,978	21.9
Average selling price of printers shipped	$ 648	$ 632	2.5	$ 644	$ 620	3.9

For the second quarter of 2004, unit volumes increased in all product lines and all regions.

Gross Profit

Gross profit information is summarized below (in thousands, except percentages):

	Three Months Ended			Six Months Ended		
	July 3, 2004	June 28, 2003	Percent Change	July 3, 2004	June 28, 2003	Percent Change
Gross Profit	$ 84,515	$ 66,558	27.0	$ 165,118	$ 130,907	26.1
Gross Margin	51.9	51.3		52.1	51.4	

Gross margin improved by 0.6 percentage points over last year due to: cost reduction programs, higher rates of capacity utilization and favorable foreign exchange rates. The relatively modest gain over last year speaks primarily to the fact that last year s margins were quite strong and increases from this level are more difficult to attain. We anticipate that gross margins will fluctuate in the range of 51.0% to 53.0% for the balance of the year.

Selling and Marketing Expenses

Selling and marketing expenses are summarized below (in thousands, except percentages):

	Three Months Ended			Six Months Ended		
	July 3, 2004	June 28, 2003	Percent Change	July 3, 2004	June 28, 2003	Percent Change
Selling and marketing expenses	$ 18,023	$ 16,754	7.6	$ 35,231	$ 31,257	12.7
Percent of sales	11.1	12.9		11.1	12.3	

We continue to invest heavily in demand-generating activities to build brand equity in our core product lines as well as in the emerging area of radio frequency identification (RFID). During the second quarter of 2004, selling and marketing expenses increased due to higher payroll costs from increased staffing and higher market development funding. Much of the additional headcount related to placing more Zebra representatives in high-growth international regions as part of our geographic expansion activities. We also increased staff for better coverage of strategic accounts. For the first six months of 2004, advertising costs also increased over the corresponding period of 2003.

Research and Development Costs

The development of new products and enhancement of existing products are important to Zebra s business and growth prospects. To maintain and build our product pipeline, we made investments in research and development, summarized below (in thousands, except percentages):

	Three Months Ended			Six Months Ended		
	July 3, 2004	**June 28, 2003**	**Percent Change**	**July 3, 2004**	**June 28, 2003**	**Percent Change**
Research and development costs	$ 9,233	$ 7,560	22.1	$ 18,129	$ 15,139	19.8
Percent of sales	5.7	5.8		5.7	5.9	

Quarterly product development expenses fluctuate widely depending on the status of on-going projects. We are committed to a long-term strategy of significant investment in product development. For the second quarter of 2004, payroll and benefits increased by $949,000 in relation to the second quarter of 2003. Project expenses also increased due to additional expenditures for radio frequency identification (RFID) products among others.

We believe the deployment of RFID technology offers Zebra substantial long-term growth opportunities. We have introduced new products that extend RFID technologies into our bar code label printers, and we expect to invest a larger portion of our engineering expenditures in the future on the development of RFID printer/encoders.

General and Administrative Expenses

General and administrative expenses are summarized in the table below (in thousands, except percentages):

	Three Months Ended			Six Months Ended		
	July 3, 2004	**June 28, 2003**	**Percent Change**	**July 3, 2004**	**June 28, 2003**	**Percent Change**
General and administrative expenses	$ 12,527	$ 10,248	22.2	$ 25,273	$ 20,500	23.3
Percent of sales	7.7	7.9		8.0	8.1	

For the second quarter of 2004, payroll and benefits increased $407,000 due to increases in headcount and information system expenses increased $172,000. Legal expenses also increased $1,677,000 related to:

Litigation with Paxar described in Note 11,

Increased intellectual property work,

International activity, and

General employment issues.

We expect large increases in legal expenses to continue for the next few quarters based on the legal activity we are currently experiencing.

Exit Costs

During the fourth quarter of 2003, we announced plans to close our engineering site in Varades, France. This plan is accounted for under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* Included in operating expenses for the second quarter of 2004 are exit costs in the amount of $390,000. These costs consist primarily of severance costs, asset disposal costs and other employee related expenses. For the first six months of 2004, exit costs relating to the Varades closure were $614,000.

During the first quarter of 2004, we announced plans to consolidate our Warwick, Rhode Island, printer manufacturing and repair service business into our Camarillo, California and Vernon Hills, Illinois locations. During the second quarter, we incurred exit costs of $486,000 for severance and travel costs related to the consolidation. For the first six months of 2004, exit costs relating to the Warwick consolidation were $624,000.

Operating Income

Operating income is summarized in the following table (in thousands, except percentages):

	Three Months Ended			Six Months Ended		
	July 3, 2004	June 28, 2003	Percent Change	July 3, 2004	June 28, 2003	Percent Change
Operating Income	$ 43,217	$ 31,625	36.7	$ 83,914	$ 63,269	32.6
Percent of sales	26.5	24.4		26.5	24.9	

The increase in operating income is attributable to the following factors:

Higher second quarter and year-to-date sales,

Improved gross margins,

Favorable changes in foreign exchange rates for Zebra s non-dollar denominated businesses, and

Cost controls that held operating expense growth below the rate of sales growth.

As a result of these factors, operating income increased by 11.3 percentage points more than the rate of sales growth during the second quarter and 8.1 percentage points more than the rate of sales growth year-to-date.

Non-operating Income and Expenses

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

	Three Months Ended		Six Months Ended	
	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003
Investment income	$ 2,091	$ 3,017	$ 5,163	$ 5,456
Interest expense	(6)	(14)	(32)	(52)
Foreign exchange gain (loss)	413	(87)	(244)	(230)
Other, net	(559)	(292)	(851)	(286)
Total other income	$ 1,939	$ 2,624	$ 4,036	$ 4,888

During the second quarter of 2004, Zebra earned $2,091,000 on ending investment balances of $489,557,000, which equates to a 1.7% rate of return.

Income Taxes

The effective income tax rates for the second quarter and the year to-date were 34.8%, compared with 35% for the same time periods last year. This change is the result of implementing tax minimization strategies over the last year.

Net Income

Zebra s net income is summarized below (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	July 3, 2004	**June 28, 2003**	**July 3, 2004**	**June 28, 2003**
Net income	$ 29,428	$ 22,262	$ 57,362	$ 44,302
Diluted earnings per share	$ 0.61	$ 0.47	$ 1.19	$ 0.93

Liquidity and Capital Resources

Zebra continued to generate cash well in excess of its operating requirements. As a result, Zebra s cash and investment balances have continually grown over time. As of July 3, 2004, Zebra had $498,944,000 in cash, cash equivalents, investments and marketable securities, compared with $447,848,000 at December 31, 2003. Factors affecting cash and investment balances during the first six months of 2004 include:

Operations provided cash in the amount of $47,373,000, primarily from net income.

Accounts receivable increased $12,496,000 year-to-date (net of the effect of foreign currency translation adjustment) because of higher sales. This increase is offset by a decrease in days sales outstanding to 53 days in the second quarter of 2004 from 56 days a year ago.

Inventories increased $4,527,000, net of foreign currency translation adjustment. This increase was in support of the higher sales levels. Compared to the same period a year ago, inventory turns are up slightly to 6.6 from 6.3 a year ago.

Other assets increased $3,083,000, net of foreign currency translation adjustment, primarily due to the increase in the value of outstanding forward contracts.

Taxes payable increased $1,767,000 because of the timing of tax payments combined with increased taxation resulting from higher profits.

Purchases of property and equipment totaled $7,737,000.

Net purchases of investments and marketable securities totaled $55,975,000.

Stock option exercises and purchases under the stock purchase plan contributed $11,432,000.

Management believes that existing capital resources and funds generated from operations are sufficient to finance anticipated capital requirements. It is our intention to actively pursue opportunities to acquire other businesses.

Critical Accounting Policies and Estimates

Management prepared the consolidated financial statements of Zebra Technologies Corporation under accounting principles generally accepted in the United States of America. These principles require the use of estimates, judgments and assumptions. We believe that estimates, judgments and assumptions we use 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

Zebra recognizes product sales at the time of shipment and passage of title, which are generally the same. Other items that affect our revenue recognition include:

Customer returns

Customers have the right to return products that do not function properly within a limited time after delivery. We monitor and track product returns and record a provision for the estimated future returns based on historical experience and any notification received of pending returns. Returns have historically been within expectations and the provisions established, but Zebra cannot guarantee that it will continue to experience return rates consistent with historical patterns. A significant increase in product failure rates and the resulting credit returns could have a material effect on our operating results. A 10% increase (decrease) in returns above historical levels would have decreased (increased) operating income for the second quarter of 2004 by $96,000, or 0.2% of operating income.

Volume Rebates

Some of our customers are offered incentive rebates based on the volume of product 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 volume rebates and establish a reserve for them based on shipment history. Historically, actual volume 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 consequence, the amounts paid under theses plans have been minimal. We cannot guarantee that this minimal level will continue.

Software Revenue

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

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

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

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.

Investments and Marketable Securities

Investments and marketable securities at July 3, 2004 consisted of U.S. government securities (24.3%), state and municipal bonds (60.9%), corporate bonds (8.8%) and partnership interests (6.0%). We classify our debt and marketable equity securities in one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those 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.

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, and
- An active collection effort by regional credit functions, reporting directly to the corporate financial officers.

We reserve for estimated credit losses based upon historical experience and specific customer collection issues. Over the last three years, accounts receivable reserves varied from 1.7% to 2.9% of total accounts receivable. Accounts receivable reserves as of July 3, 2004, were $1,727,000, or 1.8% of the balance due. We feel this reserve level is appropriate considering the quality of the portfolio as of July 3, 2004. 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.

A significant increase in the demand for Zebra s products could result in a short-term increase in the cost of inventory purchases; however, this would be offset by improved overhead utilization resulting from the additional demand. A significant decrease in demand could result in an increase in excess inventory quantities on hand.

Our forecasted product demand may prove to be inaccurate, in which case the provision required for excess and obsolete inventory may be understated or overstated. If inventories were determined to be overvalued, we would recognize such costs in cost of goods sold at the time of such determination. We make every effort to ensure the accuracy of our forecasts of product demand; however, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of inventories and reported operating results.

Over the last three years, our reserves for excess and obsolete inventories have ranged from 10.4% to 13.1% of gross inventory. As of July 3, 2004, reserves for excess and obsolete inventories were $7,062,000, or 12.6% of gross inventory. We feel this reserve level is appropriate considering the quantities and quality of the inventories as of July 3, 2004.

Valuation of Long-Lived and Intangible Assets and Goodwill.

We test the impairment of identifiable intangibles and goodwill each year or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last assessment during June 2004.

We evaluate the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors considered that may trigger an impairment review consist of:

Significant underperformance relative to expected historical or projected future operating results,

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

Significant negative industry or economic trends,

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

Significant decline in market capitalization relative to net book value.

If we believe that one or more of the above indicators of impairment have occurred, we measure impairment based on projected discounted cash flows using a discount rate that incorporates the risk inherent in the cash flows. Net intangible assets, long-lived assets and goodwill amounted to $111,299,000 as of July 3, 2004.

Contingencies

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

On April 24, 2003, Paxar Americas, Inc. (Paxar Americas) filed a patent infringement lawsuit in the United States District Court for the Southern District of Ohio against Zebra and certain of its subsidiaries. Paxar Americas Complaint alleges that certain of Zebra s products infringe on one or more of eight identified Paxar Americas patents, although not each product is accused of infringing each patent. Zebra has filed an Answer to Paxar Americas Complaint, denying Paxar Americas allegations of infringement and asserting several affirmative defenses, including the invalidity of Paxar Americas asserted patent claims. Paxar has moved to amend its complaint to add other allegations of infringement and a trademark-based claim. Zebra has opposed Paxar s Motion to Amend, and the parties are awaiting the Court s ruling on the Motion.

On November 21, 2003, ZIH Corp. (ZIH) filed a Complaint in the United States District Court for the District of Massachusetts against Paxar Corporation, alleging that Paxar Corporation printers infringe ZIH s U.S. Patent Nos. 5,813,343 and 5,860,753. Paxar Corporation answered ZIH s Complaint, denying infringement and seeking a declaratory judgment that ZIH s patents-in-suit are not infringed and are invalid and/or unenforceable. Paxar Corporation filed a motion to transfer ZIH s Massachusetts suit to Ohio federal court. ZIH opposed Paxar Corporation s motion to transfer, and the parties are awaiting the Court s ruling on the transfer motion.

On November 25, 2003, Paxar Americas filed a Complaint against ZIH in the United States District Court for the Southern District of Ohio, seeking a declaratory judgment that the patents asserted by ZIH in its Massachusetts Complaint are not infringed and are invalid and unenforceable. On December 17, 2003, Paxar Americas amended its complaint to add Zebra Technologies Corporation as a defendant. The Court has granted the parties motion to stay this action pending the Massachusetts District Court s ruling on Paxar Corporation s motion to transfer. The parties have agreed to file a motion to transfer this action to the Massachusetts District Court if the Massachusetts District Court denies Paxar Corporation s pending motion to transfer.

We do not believe a liability is probable and are unable at this time to estimate the range of the potential liability that would result from an unsuccessful defense, and consistent with the requirements of SFAS No. 5, *Accounting for Contingencies,* no liability has been recorded in Zebra s consolidated financial statements as of July 3, 2004.

Stock-Based Compensation

As of July 3, 2004, Zebra had three stock-based compensation plans available for future grants. We account for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related Interpretations. No stock-based compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-based Compensation,* to stock-based compensation (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	July 3, 2004	**June 28, 2003**	**July 3, 2004**	**June 28, 2003**
Net income, as reported	$ 29,428	$ 22,262	$ 57,362	$ 44,302
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(1,306)	(1,600)	(2,727)	(2,993)
Pro forma net income	$ 28,122	$ 20,662	$ 54,635	$ 41,309
Basic earnings per share:				
As reported	$ 0.62	$ 0.47	$ 1.21	$ 0.94
Pro forma	0.59	0.44	1.15	0.88
Diluted earnings per share:				
As reported	$ 0.61	$ 0.47	$ 1.19	$ 0.93
Pro forma	0.58	0.43	1.13	0.87

Significant Customer

ScanSource, Inc. is our most significant customer and our sales to them accounted for the following percentages:

	July 3, 2004	**June 28, 2003**
For the three months ended	14.0%	13.1%
For the six months ended	13.6%	13.2%

No other customer accounted for 10% or more of net sales during these time periods.

Expectations

During our quarterly conference call on July 28, 2004, we provided net sales and earnings guidance for the third quarter of 2004 as follows (in thousands, except per share amounts and percentages):

	Third Quarter 2004
Net sales	$162,000 to $168,000
Gross profit margins	51.5% to 52.5%
Operating expenses	$42,000 to $43,750
Diluted earnings per share	$0.59 to $0.64

The effective tax rate is expected to be 34.75% of income before income taxes for the third quarter of 2004.

Our forecast includes a $426,000 restructuring charge related principally to closing our facility in Varades, France, and the consolidation of operations into other Zebra facilities. This consolidation will increase operating margin and give us greater efficiency in our product development and manufacturing activities.

Safe Harbor

Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors which could cause actual results to differ materially from those reflected in such forward looking statements. These factors include market acceptance of Zebra s printer and software products and competitors product offerings. They also include the effect of market conditions in North America and other geographic regions on Zebra s financial results. Profits will be affected by Zebra s ability to control manufacturing and operating costs. Because of Zebra s large investment portfolio, interest rate and financial market conditions will also have an impact on results. Foreign exchange rates will have an effect on financial results, because of the large percentage of Zebra s international sales. When used in this document and documents referenced herein, the words anticipate, believe, estimate, will and expect and similar expressions as they relate to Zebra or its management a intended to identify such forward-looking statements. Readers of this document are referred to prior filings with the Securities and Exchange Commission, including the Risk Factors portion of Management s Discussion and Analysis of Financial Condition and Results of Operation in Zebra s Form 10-K for the year ended December 31, 2003, for a further discussion of issues that could affect Zebra s future results. Zebra undertakes no obligation 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.

PART II - OTHER INFORMATION

Item 6. **Exhibits and Reports on Form 8-K**

(a) Exhibits.

31.1	**Rule 13a-14(a)/15d-14(a) Certification**
31.2	**Rule 13a-14(a)/15d-14(a) Certification**
32.1	**Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	**Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

b) Reports.

The Registrant furnished one report on Form 8-K during the quarterly period covered by this report. The Form 8-K was furnished in connection with the Company reporting its financial results for the quarter ended April 3, 2004.

SIGNATURES

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

ZEBRA TECHNOLOGIES CORPORATION

Date:	September 13, 2004	By:	/s/Edward L. Kaplan Edward L. Kaplan Chief Executive Officer
Date:	September 13, 2004	By:	/s/Charles R. Whitchurch Charles R. Whitchurch Chief Financial Officer