

ZEBRA TECHNOLOGIES CORP  
Form 10-K  
March 17, 2015  
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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, 2014**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**COMMISSION FILE NUMBER 000-19406**

Zebra Technologies Corporation

(Exact name of registrant as specified in its charter)

Delaware	36-2675536
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
<u>475 Half Day Road, Suite 500, Lincolnshire, IL 60069</u>	

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(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:

<b>Title of Each Class</b>	<b>Name of Exchange on which Registered</b>
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  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

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

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

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. [  ]

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  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

As of June 28, 2014, the aggregate market value of each of the registrant's Class A Common held by non-affiliates was approximately \$4,111,264,305. The closing price of the Class A Common Stock on June 27, 2014, as reported on the Nasdaq Stock Market, was \$81.01 per share.

As of February 13, 2015, 51,747,349 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 14, 2015, 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, or our refer to Zebra Technologies Corporation and its subsidiaries, unless the context specifically 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 2015. 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 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 Enterprise business we acquired in October 2014 from Motorola Solutions, Inc.,
- Interest rate and financial market conditions,
- The impact of the percentage of cash and cash equivalents held outside the United States,
- The effect of natural disasters on our business,
- The impact of changes in foreign and domestic governmental policies, laws or regulations
- Foreign exchange rates due to the large percentage of our international sales and operations,
- The outcome of litigation in which Zebra may be 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.

#### **Item 1. Business**

### **Acquisition of Enterprise Business**

In October 2014, Zebra acquired the Enterprise business ( Enterprise ) from Motorola Solutions, Inc. ( MSI ), excluding its iDEN, or Integrated Digital Enhanced Network Business, for \$3.45 billion in cash (the Acquisition ). Enterprise is an industry leader in mobile computing and advanced data capture technologies and services, which complement Zebra's printing and RFID products. Its products include rugged and enterprise-grade mobile computers; laser imaging and radio frequency identification based data capture products; wireless LAN ( WLAN ) solutions and software; and applications that are associated with these products and services.

The Acquisition expanded Zebra's product line with complementary products that together are employed by customers to obtain greater visibility and insight into their operations. It enables us to deliver end-to-end solutions supporting the Internet of Things ( IoT ) in targeted industries. The Acquisition strengthened our global reach. We believe that the greater real-time capabilities of the combined company will make Zebra a more valued strategic vendor to our customers, as well as a more important supplier of products and solutions to our channel partners.

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Similar to Zebra's business, Enterprise's products and services are sold to a wide range of enterprise customers, including those in the retail, hospitality, transportation and logistics, manufacturing, warehouse and distribution centers, energy and utilities, education and healthcare industries.

Zebra funded the Acquisition through a combination of foreign cash on hand of \$250 million, the sale of 7 1/4% senior notes due 2022 with an aggregate principal amount of \$1.05 billion (the Notes), and a new credit agreement with various lenders that provided a term loan of \$2.2 billion (the Term Loan). The new credit agreement also included a revolving credit facility providing \$250 million (the Revolving Facility); and, together with the Notes and the Term Loan, the Debt Agreements).

## **Integration of Enterprise Business**

We commenced integration planning soon after announcing the Acquisition in April 2014. Prior to closing, integration activities focused on understanding the carve-out of Enterprise from MSI. We needed to understand the systems and operations requirements of Enterprise and ensure that we had appropriate systems and personnel in place to handle Enterprise requirements. After closing the Acquisition, integration activities have focused on creating one Zebra by integrating the operations of Enterprise with Zebra to create a single business with common sales, marketing, finance, supply chain and other functions. Over the next few years, the integration will transform how we operate. Our priorities have centered on maintaining business and customer continuity while identifying and accelerating synergies and integrating organizations, processes and systems. As part of integration, we have been undergoing organizational review that involves a talent selection process that we expect to complete over the course of 2015.

To leverage our ability to deliver end-to-end solutions, we are creating a unified go-to-market strategy. This involves an evaluation of the current channel programs for Enterprise and Zebra along with understanding our new capabilities for delivering value directly to end users. For the near term, we foresee continuing with separate channel partner programs with differing program requirements until we are able to redesign our channel programs to best address the combined organization.

As part of the Acquisition, Zebra acquired a new enterprise resource planning (ERP) system that Enterprise uses for its operations and financial reporting. Until such time as Zebra is able to move onto a single ERP system, Zebra and Enterprise will be operating on separate ERP systems. In the interim, Zebra is implementing processes to address the multiple ERP systems and investigating the appropriate path to having a unified ERP system.

Another key focus of the post-closing integration activities relates to transitioning off of MSI-provided transition services related primarily to information technology. These services are an interim measure to facilitate the integration of Enterprise and enable us to continue operating Enterprise without disruption.

The remaining discussion of the Business section in this Annual Report addresses the way we currently operate. We expect that the continuing integration of Enterprise will significantly impact most of these processes in future periods.

## **The Company**

Zebra is a global leader respected for innovation and reliability. We offer products and services that give organizations greater visibility and insights into their operations, which we call Enterprise Asset Intelligence. Our products and services allow our customers to manage their assets, transactions and people more effectively, and thereby improve their operational efficiency, deliver a better customer experience, provide more effective security and achieve other objectives of their organization. We provide products and services in approximately 100 countries, with 122 facilities and approximately 6,800 employees worldwide.

We design, manufacture and sell a broad range of products, including: enterprise mobile computers; advanced data capture devices such as laser, 2D and RFID scanners and readers; WLAN products; specialty printers for barcode labeling and personal identification; real-time location systems; related supplies such as self-adhesive labels; and utilities, frameworks and application software. Retailers, manufacturers, transportation and logistics companies, governments, healthcare institutions and other organizations around the world use our devices in solutions for automatic identification of assets, data collection and personal identification.



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We believe strong underlying technology trends support growth in our industry and the further adoption of our products and solutions. Global competitive forces continue to drive enterprises to improve workflow and deliver better service to their customers. The broad availability of wireless and Internet connectivity supports the adoption and deployment of Zebra mobile computers, data capture devices and printers to enable organizations to collect more data in real time on the location, movement and condition of their assets. This information, which is generated with the increasing use of barcodes, RFID and other sensors, can help enterprises make smarter business decisions. Organizations are increasingly taking advantage of cloud computing for data analysis, as well as device management with solutions supported by the IoT. Zebra is well positioned to benefit from the further adoption of mobility, cloud computing, and IoT.

### **Acquisitions (other than the Acquisition of the Enterprise Business)**

*Laserband Acquisition* In July 2012, Zebra acquired LaserBand LLC. 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, healthcare organizations and other customers that use wristbands in their operations.

*Hart Systems Acquisition* 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 Zebra Enterprise Solutions business to Cargotec Corporation.

*Sale of proveo AG* - On August 3, 2011, we entered into a Share Purchase Agreement with F Two NV and sold all of our interest in Zebra Enterprise Solutions GmbH (formerly proveo AG) business. proveo AG provided integrated aviation solutions to help optimize motorized ground support equipment and other mobile assets in airport terminal areas.

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 2013, 2012, 2011 and 2010. With the sale of Navis, we integrated the remaining ZES business into our Location Solutions operations.

### **Continuing Operations**

Commencing with the acquisition of Enterprise in October 2014, our continuing operations consist of two segments (1) Enterprise, comprised of our mobile computing, data capture, and WLAN products and (2) Legacy Zebra, comprised of barcode and card printing, location and motion sensing and supplies products.

#### ***Enterprise***

*Mobile Computing:* We design, manufacture and sell rugged and enterprise-grade mobile computing products in a variety of specialized form factors and features for specific enterprise applications. These specialized computers are

used in industrial applications including inventory management in warehouses and distribution centers; field mobility applications including field service, post and parcel and direct store delivery; and customer facing applications including mobile point of sale and staff communication. Our products incorporate both Android and Microsoft operating systems and support local- and wide-area voice and data communications. Our mobile computing products often incorporate barcode scanning, global position system (GPS) and RFID features. We also provide related accessories and software applications.

*Data Capture:* We produce a wide variety of barcode scanners, RFID readers and image capture devices. Our portfolio of barcode scanning products includes fixed, handheld and embedded OEM modules, in both laser scanners and imagers. The devices collect and decode barcodes and transmit the resulting data to enterprise systems. Our RFID line of data capture products is focused on ultra-high frequency (UHF) technology. These RFID devices comply with the electronic product code global Generation 2 UHF standard and similar standards around the world. We also provide related accessories and software for our data capture products.

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*Wireless LAN:* We sell WLAN switches, controllers and access points to provide wireless broadband and WLAN capabilities primarily to customers in retail, transportation and logistics and hospitality enterprises. We optimize the architecture of these solutions to minimize the resources required for installation and maintenance.

### ***Legacy Zebra***

*Barcode and Card Printing:* We design our printers to produce high-quality labels, wristbands, tickets, receipts, and plastic cards on demand. Our customers use our printers in a wide range of applications, including routing and tracking, patient safety, transaction processing, personal identification and product 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, healthcare IDs), access control and financial cards (credit, debit and ATM cards) by financial institutions. Our RFID printer/encoders are used to print and encode passive RFID labels. We also provide related accessories and software to our data capture products.

*Location and Motion Sensing:* Zebra offers a range of solutions and services that provide visibility into the location and movement of a business personnel and assets with real-time locating systems. Zebra's Location Solutions incorporates active RFID and other tracking technologies with software and services that offer benefits to users over systems using other technologies. The benefits of Zebra's active RFID hardware include delivering high levels of location accuracy and the ability to be deployed indoors. Our software and hardware locate, track, manage, and optimize the utilization of high-value assets, equipment, and people. Zebra provides substantially all elements of the location solution, including asset tags, call tags, sensors, exciters and application software. 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. Sports teams are increasingly using our Zebra MotionWorks sports solution to track the movement of players in real time on the field of play and in practice.

*Supplies:* We produce stock and customized thermal labels, wristbands, plastic cards, card laminates and thermal transfer ribbons. Zebra supports its printing products, its resellers and its end users with an extensive line of superior quality, high-performance supplies optimized to a particular end user's needs. Zebra promotes the use of genuine Zebra branded supplies with its printing equipment. Zebra also provides a family of self-laminating wristbands for use in laser printers. These wristbands are marketed under the LaserBand name. Zebra operates supplies production facilities located in the United States and Western Europe. We supplement our in-house production capabilities with those of third-party manufacturers to offer Genuine Zebra supplies, principally in Asia.

### ***Service and Software***

Each of our segments Enterprise and Legacy Zebra sells services and software that complement our hardware products described above.

*Service:* We provide maintenance, product support and repair services at our repair centers around the globe. Where appropriate, we also work with our network of resellers who may provide maintenance service, either directly or through independent service agents, to extend the geographic reach of maintenance and repair services. We also perform network integration, network and device management, as well as mobility consulting. Our expanded product line and services operations, which we acquired in the Enterprise Acquisition, increases our capability to provide

services to our global customer base.

*Software:* Zebra's software products enhance our customers' ability to integrate, operate and manage their Zebra devices as well as gain visibility into their increasingly complex value chains, all to achieve improved management over their assets, people and transactions. We offer design and integration software, which is specifically designed to optimize the performance of Zebra label and card printers. We also offer a portfolio of software applications, utilities and platforms to enable optimal use of our devices, to assist in application development and integration, and to allow the management of devices and applications. Software for mobile computers, data capture devices and WLAN products include support for native operating systems, HTML5 application development frameworks, push-to-talk (PTT) technology, voice-over-IP (VoIP), device management, and custom applications. We use connectivity, mobility and IoT technologies delivered via packaged, on-premise software products, as well as through Software as a Service (SaaS), Platform as a Service (PaaS), and Hardware as a Service (HaaS) models. Our software products include Zatar, a cloud-based service that makes it easy for businesses to adopt and use an IoT solution in their operations.

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Zebra connectivity solutions include support for Ethernet, 802.11a/b/g/n, and Bluetooth®. We support integration with multiple device operating systems, such as Android, iOS, Linux, Microsoft Windows® and UNIX. We have programs supporting the development of application software from independent third parties, as well as the integration of Zebra devices in systems developed by independent software vendors (ISVs).

### **Our Competitive Strengths**

The following are our core competitive strengths that we believe enable us to differentiate ourselves from our competitors:

#### ***An industry leader focused solely on Enterprise Asset Intelligence***

We focus on seven key technologies of Enterprise Asset Intelligence: (1) mobile computing, (2) barcode and card printing, (3) data capture, (4) RFID, (5) location and motion sensing; (6) cloud-based device management, and (7) WLAN. We believe we are the only pure play Enterprise Asset Intelligence supplier in the world.

#### ***High entry and switching barriers***

We have deep and long-standing relationships with end customers for our products and services, and with our channel partners on a global basis. We believe a significant portion of our products are deployed in applications that are focused on rugged or semi-rugged environments, with specialized product performance requirements. These characteristics provide high switching barriers for our products.

#### ***Depth and breadth of products and services for delivering end-to-end solutions***

We are able to deliver full end-to-end solutions across targeted industries, with a broad portfolio of products and our wide network of business and reseller partners.

#### ***Strong brands with multiple growth opportunities***

We have strong brands in our relevant markets, and are well positioned to benefit from attractive global and secular trends in, including, mobility computing, data sensing, tracking and capturing devices, secure wireless networks, cloud-based applications and edge sensor analytics.

#### ***Highly diversified business mix***

We are highly diversified across business segments, end markets, geographies, customers and suppliers. Additionally, we have strong recurring business in services and supplies driven by an extensive installed worldwide base of products.

#### ***Global reach***

We sell to customers in approximately 100 countries around the world. This global presence gives us the capability to supply our customers with products, solutions and services no matter the location of their operations.

#### ***Scale advantages***

We believe the size and scope of our operations, including product development, distribution and procurement capabilities, give us advantages over our competitors. We believe we have the largest installed base of products, compared with other companies in our industry. These characteristics allow us to achieve economies of scale and develop industry-leading solutions.

### **Our Business Strategy**

Our business strategy is to deliver compelling value propositions and solutions, including IoT solutions, to our customers in Enterprise Asset Intelligence by leveraging and expanding our engineering, product development and distribution capabilities and best-in-class offerings. The following are key elements to our strategy for achieving this objective:

#### ***Capitalize on attractive longer-term secular growth trends***

We intend to fuel long-term growth by capitalizing on transformational secular trends, particularly in mobility, the cloud and IoT. We expect to extend our leadership in mobile computing by delivering innovative solutions that increase productivity and revenues for customers through untethering their workforce. We intend to drive new business models and revenue streams for customers through delivering solutions that seamlessly integrate smart devices with cloud-based software applications. Finally, we will capitalize on the accelerating IoT trend by providing solutions that take advantage of proliferation of data from smart connected devices to drive increased visibility into customer operations.

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### ***Build upon and extend our leadership position in Enterprise Asset Intelligence***

We intend to continue to deliver best-in-class offerings in core barcode, RFID and mobile computing and data capture solutions and use our product, services and distribution capabilities to offer an expanded set of solutions that provide increased visibility into customer operations. We intend to accelerate penetration of the industries and geographies we serve through the continued development of compelling Enterprise Asset Intelligence solutions, and by taking advantage of global channel relationships and industry leadership.

### ***Provide customers with highly differentiated solutions that deliver compelling value***

We intend to develop and use our knowledge and expertise of our customers' industries and account relationships to drive customer-focused innovations in product and service offerings. Our sales and product development teams focus on delivering integrated end-to-end solutions that take advantage of our full suite of product and service offerings. We aim to provide differentiated solutions by:

- strengthening premiumness against hardware-centric competitors through increasing beyond the box value propositions (e.g., software, services, supplies);
- expanding into underpenetrated markets by delivering disruptive XaaS business model solutions (e.g., Hart Systems hardware / software-as-a-service physical inventory solution); and
- investing in a broader set of technologies that help customers unlock and create new value through gaining greater real-time visibility and insights into their operations.

### ***Leverage unmatched scale and scope advantages to accelerate share gain***

We aim to capture a significant share of the Enterprise Asset Intelligence industry through leveraging transformative scale advantage and by outdistancing competition through a broad portfolio of best-in-class products, research and development scale, go-to-market reach and global footprint.

### ***Increase speed and trajectory of expanding profitability***

We intend to improve profit margins through operational excellence, cost reductions and operating efficiencies derived from business process improvement activities and integration of Enterprise. We also intend to increase profitability through delivering innovative end-to-end solutions that provide significant value to customers.

## **Competition**

We operate in a highly competitive environment. Competitive pressures on companies worldwide, growth in the number of mobile workers globally, industry consolidation and trends in technology are some of the factors that are creating business opportunities for established and new competitors.

Key competitive factors include the design, breadth and quality of products and services, product performance, product and service availability, warranty coverage, brand recognition, company relationships with customers and go-to-market channel partners and company reputation. We believe Zebra competes effectively with respect to these factors.

Many companies are engaged in the design, manufacture and marketing of mobile computing devices, barcode and card printers, data capture solutions, WLAN and location systems.

### ***Mobile Computing***

Competitors in mobile computing include companies that have historically served enterprises with ruggedized devices. We also compete with companies engaged in the design, manufacture and marketing of devices for broader consumer and commercial applications, including notebook computers and tablets, smart phones, cordless phones, and cellular/WLAN/wired infrastructure equipment.

We face competition in our mobile computing products and WLAN products and solutions from many companies, including the following (listed in alphabetical order): Apple, Aruba, Cisco, Bluebird, Datalogic, HP, Honeywell, Panasonic, Ruckus and Samsung.

#### *Data Capture*

Competition is robust among suppliers of data capture products. Each company seeks to provide a broad portfolio of barcode scanning products that are suitable for the majority of global market needs. In addition, we also compete against several smaller segment-focused competitors, which focus on limited product subsets or specific regional strengths. These competitors include Code Corporation, Fujian Newland, and Opticon. We provide competitive scanning products based distinct technologies – flying spot lasers, area (2D) imagers, and linear (1D) imagers. This diversity is required to meet a variety of customer needs.



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We also offer a broad portfolio of both fixed and hand-held UHF (Ultra High Frequency) RFID readers, which are based on the Electronic Product Code ( EPC ) standard. Competition in this product segment remains highly fragmented.

*Barcode and Card Printing*

We consider our direct competition in printing to be producers of on-demand thermal transfer and direct thermal label printing systems, RFID printer/encoders, and mobile printers. 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 engaged in the design, manufacture and marketing of printing systems that use alternative technologies, such as ink-jet and laser printing, as well as card printers based on 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 we are. In addition, service bureaus, which provide centralized services, compete for end-user business and provide an alternative to the purchase of our card printing equipment and supplies.

We face competition in our printing products from many printer companies, including the following (listed in alphabetical order): Argox; Avery Dennison; Bixelon; Blue Bamboo; Boca Systems; Brother International; Canon; CIM; Citizen; Cognitive TPG; Custom; Danaher; Datacard; 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.

*Location Solutions*

We compete with a diverse group of companies marketing location solutions that are primarily based on active RFID technologies. These competitors include Aeroscout, Ekahau, Ubisense, Nebusens, Prozone, ZXY Sport Tracking, Sportsvision, IsoLynx, GE Healthcare, Versus Technology, Mojix, Impinj, Alien Technology, ThingMagic, TeleTracking Technologies, ARISTA, Centrak, Plus Location Systems and STATS LLC.

*Supplies*

The supplies business is highly fragmented and competition is comprised of numerous competitors of various sizes depending on the geographic area. We focus our supplies business primarily on providing differentiated products, which have unique performance characteristics, backed by reliable service.

**Customers**

Zebra's customers are diversified across a wide variety of industries, including retail, manufacturing, transportation and logistics, and healthcare industries. Over the past three years, we had three customers that each accounted for 10% or more of its sales. All three of these customers are distributors and not end users. No end customers account for 10% or more of net sales during these years.

**Year Ended December 31,**  
**2014    2013    2012**

Customer A	17.1%	16.8%	20.4%
Customer B	12.2%	13.1%	11.4%
Customer C	10.5%	12.3%	10.3%

### **Sales and Marketing**

*Sales.* We sell our products and solutions primarily through distributors (two-tier distribution), VARs, independent software vendors, direct marketers, and original equipment manufacturers ( OEMs ). We also sell our products directly to a select number of named customer accounts through our in-house sales force. Distributors purchase, stock and sell a variety of AIDC components from different manufacturers and sell to VARs, thereby increasing the distribution of our products. VARs customize systems for end-user applications using their systems and application integration expertise. Some OEMs resell the Zebra-manufactured products under their own brands as part of their own product offering. VARs, OEMs and systems integrators provide customers with a variety of AIDC hardware, accessories, application software, and systems integration expertise. Because these sales channels provide specific software, configuration, installation, integration and support services to end users within various industry segments, these relationships allow us to reach

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customers around the world. We experience a minor amount of seasonality in sales, depending on the geographic region and industry served. We believe that the breadth of our distributor, VAR and OEM channel network, both in terms of variety of channel and extent of geographic reach, enhances our ability to compete and to effectively offer our solutions to a greater number of end users.

*Marketing.* Our marketing function aligns closely with sales and product management functions to deliver solutions that address the business needs of our customers and partners. Our marketing operations encompass global corporate marketing, field marketing, solutions marketing, product marketing, industry marketing, business intelligence, global demand center and channel marketing functions. Our corporate marketing function manages our global Zebra brand, corporate public relations, industry analyst relations, internal communications and crisis communications. Field marketing encompasses regional demand generation, channel program management and marketing and sales enablement. Our solutions marketing function includes product and industry marketing. Business intelligence focuses on market analysis, positioning and competitive analysis. Our global demand center leads content development and digital marketing, including our corporate website and social media. Our global channel team executes the corporate go-to-market strategy by building partner loyalty and attracting emerging partners.

## **Manufacturing and Outsourcing**

Final assembly of our hardware products is performed by third-party electronics manufacturers. The manufacturing facility of our printers is located in China. Our mobile computing and data capture products are primarily produced in facilities located in Brazil, Israel, Mexico and China. We also use the services of joint design manufacturers (JDMs) for certain products. These manufacturers produce our products 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. The manufacturers purchase the components and subassemblies used in the production of our products. The majority of our products are shipped to our regional distribution centers. A portion of products are reconfigured at our 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 procurement regulations and various international trade agreements, and remain eligible for sale to the United States government.

## **Research and Development**

Zebra devotes significant resources developing new innovative solutions for our target markets and ensuring that our products and services maintain high levels of reliability and value to our customers. Research and development expenditures for 2014, 2013 and 2012 were \$151.1 million, \$91.1 million and \$87.4 million, respectively, or 9.0% of net sales for 2014, and 8.8% of net sales in each of 2013 and 2012. Following the Acquisition, Zebra has more than 1,700 product development engineers worldwide focused on strengthening and broadening the already extensive product platform of the combined business.

## **Our Technology**

Zebra's mobile computing products incorporate a wide array of advanced technologies and sensors in rugged, ergonomic enclosures to meet the needs of specific use cases. These devices couple industry-standard operating systems with specialized hardware and software features to satisfy a customer's mission-critical applications. Purpose-built rugged housings ensure reliable operations, surviving years of rough handling and harsh environments. Specialized features such as advanced data capture technologies, voice and video collaboration tools and advanced battery technologies enable our customers to work more efficiently and better serve their customers. A broad portfolio of accessories further tailors mobile computers to meet a wide variety of enterprise needs. Zebra mobile computers are offered with software tools and services that support application development, device configuration and field support

to facilitate smooth and rapid deployment and ensure maximum customer return on investment.

Zebra's advanced data capture products allow the rapid and accurate capture of business critical information simply, quickly, and accurately enabling critical visibility into business processes and providing key metrics for enterprise operations. These products include barcode scanners in a variety of form factors, including handheld scanners, presentation scanners, and standalone engines designed for integration into third-party devices. These scanners incorporate a variety of technologies area imagers, linear imagers, and lasers to read linear and two-dimensional barcodes. They are used in a broad range of applications, ranging from supermarket checkout to industrial warehouse optimization to patient management in hospitals. The design of these products reflects the diverse needs of these markets, with different ergonomics, multiple communication protocols, and varying levels of ruggedness.

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Zebra's RFID readers use passive ultra-high frequency (UHF) to provide high speed, non-line of sight data capture, reading data from hundreds or thousands of RFID tags in near real time. Using the EPC (Electronic Product Code) standard, our customers take advantage of RFID technology across multiple industries to track high-value assets, monitor shipments, and drive increased retail sales through improved inventory accuracy. Zebra also offers mobile computers that support high frequency (HF) near-field communications (NFC), and low frequency (LF) radio technologies.

Zebra's WLAN products provide the wireless backbone throughout an enterprise. Built upon industry standard Wi-Fi protocols, our products are differentiated by massive scalability, enhanced capacity controls, site survivability, comprehensive security and location-based services for enterprises. Zebra's WiNG 5 technology enables geographically distributed enterprises to rapidly deploy controller-less WLAN solutions at multiple branch locations for corporate and guest access, all managed centrally. Integrated network, RF management, and application services at the edge allow an enterprise to prioritize mission critical or latency sensitive traffic like voice and video and provide proactive assurance for the wireless network. Network security brings a comprehensive threat library to protect the network from a broad spectrum of intruders. Device management protocols allow a single network infrastructure to onboard mobile users, campus and remote employees, authorized visitors and guest users bringing their own devices.

All Zebra printers and print engines incorporate thermal printing technology. This technology creates an image by heating certain pixels of an electrical printhead to selectively image a ribbon or heat-sensitive substrate. Thermal printing benefits applications requiring simple and reliable operations, yet it is flexible enough to support a wide range of specialty label materials and associated inks. Our dye-sublimation thermal card printers produce full-color, photographic quality images that are well-suited for driver's licenses, access and identification cards, transaction cards, and on-demand photographs. Our printers also incorporate RFID technology that can encode data into passive RFID transponders embedded in a label, card, or wristband.

Zebra's printers integrate company-designed mechanisms, electrical systems, and firmware. 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. Firmware supports serial, parallel, Ethernet, USB, Bluetooth, or 802.11 wireless communications with appropriate security protocols. Printing instructions can be received as a proprietary language such as 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.

Our Real Time Locating System (RTLS) solutions, which use active RFID technologies, extend Zebra's reach by employing technologically advanced hardware and software solutions to locate, track, manage and optimize high-value assets, equipment and people. We offer a range of scalable RTLS technologies that generate accurate, on-demand information about the physical location and status of high-valued assets. Customers benefit by utilizing the choice or combination of asset tracking products that can be application matched based on ISO/IEC 24730-2, Cisco CCX Wi-Fi, precision GPS, and ultra wideband (UWB) technologies. In addition, we offer a selection of RTLS infrastructure products that receive tag transmissions and provide location and motion calculations, database and system management functions and asset visibility. The flexible infrastructure supports large tag populations and coverage areas that can range from small to large.

Zebra's supplies business includes labels, receipts, ribbons, plastic cards and wristbands suitable for use with Zebra's printers, and also wristbands which can be imaged in most commercial laser printers. Our wristbands incorporate multi-layer form technology to ensure trouble-free printing, wearer comfort, and reliable barcode reading, even when exposed to harsh chemical environments. Zebra offers many thermal label, card, and receipt materials, and matching ribbons, for diverse applications that may require chemical resistance, temperature extremes, abrasion, exceptional

image quality, or long life.

### **Intellectual Property**

Zebra relies on a combination of trade secrets, patents, trademarks, copyrights and contractual rights to establish and protect its innovations, and holds a large portfolio of U.S. and foreign registered intellectual property rights. As of December 31, 2014, such portfolio consisted of more than 800 trademark registrations, 500 trademark applications, 3,100 patents and 1,100 patent applications.

We believe that our intellectual property will continue to provide us with a competitive advantage in our core product areas as well as provide leverage for future technologies. We also believe that we are not dependent upon any single patent or select group of patents. Our success depends more upon our extensive know-how, innovative culture, technical leadership and marketing abilities. Although we do not rely only on patents or other intellectual property rights to protect or establish our market position; we will enforce our intellectual property rights when and where appropriate.

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### **Employees**

As of January 31, 2015, Zebra employed approximately 6,800 persons, of which 740 were corporate employees. Some portions of our business, primarily in Europe and China, are subject to labor laws that differ significantly from those in the United States. In Europe, for example, it is common for a works council to represent employees when discussing matters such as compensation, benefits, restructurings and layoffs. We consider our relations with our employees to be very good.

### **Regulatory Matters**

#### ***Wireless Regulatory Matters***

Our business is subject to certain wireless regulatory matters.

The use of wireless voice, data and video communications systems requires radio spectrum, which is regulated by government agencies throughout the world. In the U.S., the Federal Communications Commission ( FCC ) and the National Telecommunications and Information Administration ( NTIA ) regulate spectrum use by non-federal entities and federal entities, respectively. Similarly, countries around the world have one or more regulatory bodies that define and implement the rules for use of the radio spectrum, pursuant to their respective national laws and international coordination under the International Telecommunications Union. We manufacture and market products in spectrum bands already made available by regulatory bodies. These include voice and data infrastructure, mobile radios and portable or hand held devices. Consequently, our results of operations could be positively or negatively affected by the rules and regulations adopted from time to time by the FCC, NTIA or regulatory agencies in other countries. Our products operate both on licensed and unlicensed spectrum. The availability of additional radio spectrum may provide new business opportunities, and consequently, the loss of available radio spectrum may result in the loss of business opportunities. Regulatory changes in current spectrum bands may also provide opportunities or may require modifications to some products so they can continue to be manufactured and marketed.

#### ***Other Regulatory Matters***

Some of our operations use substances regulated under various federal, state, local and international laws governing the environment and worker health and safety, including those governing the discharge of pollutants into the ground, air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. Certain products are subject to various federal, state, local and international laws governing chemical substances in electronic products. During 2014, compliance with U.S. federal, state and local, and foreign laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment did not have a material effect on our business or results of operations.

### **Contact Information**

Zebra Technologies is a Delaware corporation. Our principal offices are located at 475 Half Day Road, Suite 500, Lincolnshire, Illinois 60069. Our main telephone number is +1 (847) 634-6700, and our primary Internet Web site address is [www.zebra.com](http://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. During the second quarter of 2015, our principal offices will move to Three Overlook Point, Lincolnshire, Illinois 60069

### **Additional Information**

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

**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.

We have organized the risk factors into three sections: (1) Risks related to our business generally, (2) Risks related to the Acquisition and Integration of Enterprise, and (3) Risks related to the Indebtedness.



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**Risks related to our business**

*Zebra has substantial 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 substantial 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 non-US 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 currencies, including the the Chinese *yuan*;
  - Transportation delays and customs related 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.

We also are subject to risks that our operations could be conducted by our employees, contractors, representatives or agents in ways that violate the Foreign Corrupt Practices Act, the U.K. Bribery Act or other similar anti-corruption laws. While we have policies and procedures to comply with these laws, our employees, contractors, representatives and agents may take actions that violate our policies. Any such violations could have a negative impact on our business. Moreover, we face risks that our anti-corruption policies and procedures may be violated by third-party sales representatives or other third-parties that help sell our products or provide other solutions and services, because such representatives or agents are not our employees and it may be more difficult to oversee their conduct.

*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.

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,

Changing customer demands, and  
Changing security protocols.

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.

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*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 mobile computing products, data capture products, printers, WLAN products and solutions 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 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.*

*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 the Acquisition and 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 Zebra:*

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 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.

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 customers' 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;

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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.

*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's 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. Zebra uses copyrights, patents, trademarks, trade secrets and contracts 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. Additionally, the intellectual property rights Zebra obtains may not be sufficient to provide it with a competitive advantage and may be successfully challenged, invalidated, circumvented, or infringed. In any infringement litigation that Zebra may undertake to protect its intellectual property, any award of monetary damages may be unlikely or very difficult to obtain, and any such award Zebra may receive may not be commercially valuable. Furthermore, efforts to enforce or protect Zebra's proprietary rights may be ineffective and could result in the invalidation or narrowing of the scope of Zebra's intellectual property and its incurring substantial litigation costs, and, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of Zebra's confidential information could be compromised by disclosure during this type of litigation. Some aspects of Zebra's business and services also rely on technologies, software and content developed by or licensed from third parties, and Zebra may not be able to maintain its relationships with such third parties or enter into similar relationships in the future on reasonable terms or at all.

*We currently use third party and/or open source operating systems and associated application ecosystems in certain of our mobile computing products. Such parties ceasing continued development of the operating system or restricting our access to such operating system could adversely impact our business and financial results.* We currently use third-party and/or open source operating systems and associated application ecosystems in certain of our mobile computing products. As a result, we are dependent on third-parties' continued development of operating systems, software application ecosystem infrastructures and such third-parties' approval of our implementations of their operating system and associated applications. If such parties cease to continue development or support of such operating systems or restrict our access to such operating systems, we would be required to change our strategy for such devices. As a result, our financial results could be negatively impacted because a resulting shift away from the operating systems we currently use and the associated applications ecosystem could be costly and difficult. A strategy shift could increase the burden of development on Zebra and potentially create a gap in our portfolio for a period of time, which could competitively disadvantage Zebra.

*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.

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.

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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. It is possible that such a breach could result in delays in, or loss of market acceptance of, Zebra's products and services; diversion of our resources; injury to our reputation; increase service and warranty expenses and payment of damages.

*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 protectio