QUANTA SERVICES INC
Form SC 13D/A
August 27, 2002

**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Schedule 13D/A**
Under the Securities Exchange Act of 1934
(Amendment No. 28)

Quanta Services, Inc.
(Name of Issuer)

Common Stock, $0.00001 par value
(Title of Class of Securities)

74762E102
(CUSIP Number)

Leslie J. Parrette, Jr., Senior Vice President, General Counsel and Corporate Secretary
Aquila, Inc. (formerly, UtiliCorp United Inc.)
20 West Ninth Street, Kansas City, Missouri 64105 (816) 421-6600
(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

August 27, 2002
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f), or 13d-1(g), check the following box. |  |

NOTE: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See ss. 240.13d-7(b) for other parties to whom copies are to be sent.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 74762E102

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|---|---|
| 1 | NAMES OF REPORTING PERSONS<br>I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (entities only)<br><br>Aquila, Inc. (formerly, UtiliCorp United Inc.)    #440541877 |
| 2 | CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)<br>(a) |

(b) X

| | | | |
|---|---|---|---|
| 3 | SEC USE ONLY | | |
| 4 | SOURCE OF FUNDS (See Instructions) | | |
| 5 | CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) | | |
| 6 | CITIZENSHIP OR PLACE OR ORGANIZATION<br><br>Delaware | | |
| NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH | | 7 | SOLE VOTING POWER<br><br>20,821,579 |
| | | 8 | SHARED VOTING POWER<br>None* |
| | | 9 | SOLE DISPOSITIVE POWER<br>20,821,579 |
| | | 10 | SHARED DISPOSITIVE POWER<br>None |
| 11 | AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON<br>20,821,579 | | |
| 12 | CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)<br>X | | |
| 13 | PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)<br>27.03%** | | |
| 14 | TYPE OF REPORTING PERSON (See Instructions)<br>CO | | |

* This representation is qualified by the fact that, as described in Item 4 of the Schedule 13D, originally filed on October 4, 1999, Aquila has the ability to vote or direct the vote of the shares subject to the Stockholder's Voting Agreements only in two limited, tax-related circumstances. Aquila expressly disclaims beneficial ownership to any shares of Common Stock that are subject to the Stockholder's Voting Agreements.

** The percentage reflected in row 13 above is obtained by using 77,024,653 shares as the denominator (in accordance with Rule 13d-3(d)(1)(i)(B)). This denominator includes: (a) 59,799,848 shares of Issuer's issued and outstanding Common Stock (as indicated as outstanding as of August 9, 2002 in Issuer's Form 10-Q filed on August 14, 2002), and (b) 17,224,805 shares of Common Stock into which Issuer's Series A Convertible Preferred Stock held by Aquila is convertible. Also note that the percentage of Common Stock owned by Aquila on a partially diluted basis is approximately 25.62%. This percentage is obtained by using 81,271,799 shares as the denominator, which includes (a) the 77,024,653 shares discussed above, (b) 1,083,750 shares of Limited Vote Common Stock (as indicated as outstanding as of August 9, 2002 in Issuer's Form 10-Q filed on August 14, 2002), and (c)

3,163,396 shares of Common Stock into which the Issuer's Convertible Subordinated Notes can be converted (as indicated in the Issuer's Form 10-Q filed on August 14, 2002). Aquila's ownership can be further diluted by (x) other classes of Issuer's securities that can be converted into Common Stock and (y) shares of Common Stock issuable under Issuer's Stock Option Plan.



**AMENDMENT NO. 28 TO**
**STATEMENT ON SCHEDULE 13D**

**INTRODUCTION**

All information herein with respect to Aquila, Inc. (formerly known as UtiliCorp United Inc.), a Delaware corporation ("Reporting Person" or "Aquila"), and the common stock, par value $0.00001 per share (the "Common Stock"), of Quanta Services, Inc., a Delaware corporation ("Issuer" or "Quanta"), is correct to the best knowledge and belief of Aquila. The Schedule 13D originally filed on October 4, 1999 on behalf of Aquila (the "Original Schedule 13D") and twenty-seven amendments thereto filed on October 8, 1999, October 14, 1999, October 20, 1999, October 26, 1999, November 9, 1999, January 13, 2000, April 27, 2000, May 25, 2000, June 20, 2000, July 17, 2000, May 23, 2001, October 1, 2001, October 4, 2001, October 11, 2001, October 19, 2001, October 30, 2001, November 13, 2001, November 28, 2001, February 8, 2002, February 25, 2002, March 7, 2002, March 12, 2002, March 21, 2002, March 26, 2002, May 22, 2002 and July 31, 2002 respectively, on behalf of Aquila are incorporated by reference and amended as follows.

**ITEM 4. PURPOSE OF TRANSACTION.**

On August 23, 2002, Aquila and Q Holdings LLC ("Q Holdings") entered into a letter agreement, a copy of which is attached hereto and is incorporated by reference in its entirety in this Item 4. Pursuant to this letter agreement, Aquila sold 2,917,500 shares of Common Stock to Q Holdings on August 27, 2002. After this sale, Aquila's ownership percentage in Quanta has dropped to 27.03% from the previous level of 30.65%. As a result, the number of directors that Aquila may elect to the Quanta board of directors has reduced to two from three, pursuant to the Certificate of Designation, Rights, Limitations of the Series A Convertible Preferred Stock of Quanta dated September 21, 1999, which was filed with the Original Schedule 13D.

**ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.**

On August 27, 2002, Aquila sold 2,917,500 shares of Common Stock to Q Holdings through a privately negotiated transaction for $8,752,500 at $3.00 per share pursuant to a letter agreement dated August 23, 2002.

The shares of Common Stock that were sold as indicated above represent 3.79% of Issuer's outstanding securities (calculated in accordance with Rule 13d-3(d)(1)(i)(B)), or 3.59% on a partially diluted basis. In the aggregate, Aquila beneficially owns 20,821,579 shares of Issuer's Common Stock, which represent 27.03% of Issuer's outstanding securities (calculated in accordance with Rule 13d-3(d)(1)(i)(B)), or 25.62% on a partially diluted basis.

**ITEM 6. CONTRACTS, ARRANGMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER.**

On August 23, 2002, Aquila entered into a letter agreement with Q Holdings

LLC, which is described in greater details in Items 4 and 5 above.

**ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.**

Letter Agreement between Aquila, Inc. and Q Holdings LLC, dated August 23, 2002.

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**SIGNATURE**

After reasonable inquiry and to the best of the undersigned's knowledge and belief, the undersigned hereby certifies that the information set forth in this statement is true, complete and correct.

Dated: August 27, 2002

Aquila, Inc.

By: /s/ Leslie J. Parrette, Jr.
Name: Leslie J. Parrette, Jr.
Title: Senior Vice President, General Counsel and Corporate Secretary

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[Aquila letterhead]

August 23, 2002

**VIA FACSIMILE: (212) 836-8211**
Q Holdings LLC
c/o Kaye Scholer LLP
425 Park Avenue
New York, New York

Ladies and Gentlemen:

This letter agreement (this "Agreement") will set forth the terms and conditions pursuant to which Aquila, Inc. ("Aquila") will sell to Q Holdings LLC, a Delaware limited liability company ("QH"), and QH will purchase from Aquila, 2,917,500 shares of common stock of Quanta Services, Inc. ("Quanta") owned by Aquila. QH and Aquila can be referred to collectively as "Parties" or individually as "Party" under this Agreement.

1. Number of Shares. The number of shares of common stock of Quanta that Aquila will sell to QH under this Agreement will be 2,917,500 shares (the "Quanta Shares").

2. Price. QH shall purchase from Aquila the Quanta Shares at US$3.00 per share.

3. Representations and Warranties of QH. By signing this Agreement, QH hereby makes the following representations and warranties:

a. QH qualifies as an "accredited investor," as such term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933.

b. QH has reasonable access to, and has had sufficient opportunity to carefully review and analyze, all material information about Quanta's business, financial condition, operations and value that QH believes to be relevant to its purchase of the Quanta Shares (including, without limitation, a release of Quanta's quarterly financial results for the fiscal quarter ending June 30, 2002). QH is sophisticated and experienced in evaluating the merits and risks involving an investment in Quanta securities and the particulars of the purchase of the Quanta Shares. QH has the ability to bear the economic risks of its purchase of the Quanta Shares, and has been able to obtain all information required in making an informed decision regarding its investment.

c. QH is acquiring the Quanta Shares for its own account for investment and not with a view to, or for sale in connection with, any distribution thereof, nor with any present intention of distributing or selling the same.



4. Representations and Warranties of Aquila. By signing this Agreement, Aquila hereby makes the following representations and warranties:

a. Aquila has reasonable access to, and has had sufficient opportunity to carefully review and analyzed, all material information about Quanta's business, financial condition, operations and value that Aquila believes to be relevant to its sale of the Quanta Shares (including, without limitation, a release of Quanta's quarterly financial results for the fiscal quarter ending June 30, 2002).

b. At the time immediately before the completion of the sale and purchase of the Quanta Shares in accordance with this Agreement, the Quanta Shares shall be Aquila's absolute property free of any security, lien, encumbrance or adverse interest whatsoever and together with all benefits or entitlements applicable to such Quanta Shares, except for those transfer restrictions that might be applicable to the Quanta Shares pursuant to the US or Canadian securities laws.

5. Acknowledgement and Disclaimer. QH further acknowledges that Aquila may possess certain information regarding Quanta or otherwise (including, but not limited to, its plans and intentions regarding Quanta) that QH may not possess, that such undisclosed information may be material to the value of the Quanta Shares and is not being disclosed to QH and QH has not requested such disclosure. Aquila further acknowledges that QH may possess certain information regarding Quanta or otherwise (including, but not limited to, its plans and intentions regarding Quanta) that Aquila may not possess, and such undisclosed information may be material to the value of the Quanta Shares and is not being disclosed to Aquila and Aquila has not requested such disclosure. Neither Party has relied on any information provided by, or any representation or warranty of, the other Party, except as expressly set forth in this Agreement. Under no

circumstances may a Party hold the other Party liable for not disclosing any information.

6. Closing and Payment. Upon the execution of this Agreement by QH, each respective Party shall simultaneously do the following:

a. QH shall immediately pay Aquila US$8,752,500.00 by wire transfer to an account designated by Aquila in writing; and

b. Aquila shall immediately deliver to QH (i) the stock certificate(s) representing the Quanta Shares and (ii) the Stock Power (a sample of which is attached hereto).

7. Governing Law and Dispute Resolution. This Agreement in all respects will be interpreted, construed and governed by and in accordance with the laws of the State of Delaware, U.S. Any disputes or disagreements arising under or related to this Agreement will be subject to the exclusive jurisdiction of the Courts of the State of Delaware or the United States District Court for the District of Delaware.



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8. Indemnification. Each Party acknowledges that (a) it understands the meaning and legal consequences of the representations, warranties and agreements contained herein; (b) the other Party is relying on the accuracy of such representations, warranties and agreements; and (c) the other Party would not have entered into this transaction if any representation, warranty or agreement were known to be materially false. Accordingly, each Party agrees to indemnify and hold harmless the other from and against any and all loss, damage, liability, cost or expense due to or arising out of a breach of any of its representations, warranties or agreements contained herein. This indemnity will survive the purchase and sale of the Quanta Shares herein.

9. Binding Effect. This Agreement will be binding upon and inure to the benefit of the parties and their heirs, successors, legal representatives and assigns.

10. Entire Agreement. This Agreement constitutes the entire agreement between the Parties pertaining to the purchase and sale of the Quanta Shares and supersedes any prior understanding.

11. Counterparts; Facsimile Signatures. This Agreement may be executed in several counterparts, each of which will be deemed an original and which together will constitute one and the same instrument. This Agreement may be executed by facsimile signatures.

* * * *

Very truly yours,

By: /s/ Robert K. Green
Name: Robert K. Green
Title: Chief Executive Officer
Date: August 23, 2002

**Agreed to and accepted:**

Q Holdings LLC

By: /s/ Anthony Munk
Name: Anthony Munk
Title: Managing Director
Date: 8.23.02

are, 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. Any of these factors could reduce our earnings.

*The inability to protect intellectual property could harm the Company's reputation, and competitive position may be materially damaged.*

Zebra's intellectual property is important to its success. Copyrights, patents, trade secrets and contracts are used to protect these proprietary rights. Despite these precautions, it may be possible for third parties to copy aspects of the Company's products or, without authorization, to obtain and use information which Zebra regards as trade secrets.

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*Zebra sells a significant portion of its products internationally and purchases important components from foreign suppliers. These circumstances create a number of risks.*

The Company sells a significant amount of its products to customers outside the United States. Shipments to international customers are expected to continue to account for a material portion of net sales. Risks associated with sales and purchases outside the United States include:

Fluctuating foreign currency rates could restrict sales, or increase costs of purchasing, in foreign countries.

Foreign governments may impose burdensome tariffs, quotas and taxes or other trade barriers.

Political and economic instability may reduce demand for our products, or put our foreign assets at risk.

Restrictions on the export or import of technology may reduce or eliminate the ability to sell in or purchase from certain markets.

Potentially limited intellectual property protection in certain countries, such as China, may limit recourse against infringing products or cause the Company to refrain from selling in certain geographic territories.

Staffing and managing international operations may be unusually difficult.

The Company may not be able to control international distributors working on its behalf.

*Economic factors, which are outside the Company's control, could lead to a deterioration in the quality of the Company's accounts receivable.*

The Company sells its products to customers in the United States and several other countries around the world. Sales are typically made on unsecured credit terms, which are generally consistent with the prevailing business practices in a given country. A deterioration of economic or political conditions in a country could impair Zebra's ability to collect on receivables in the affected country.

*Infringement on the proprietary rights of others could put the company at a competitive disadvantage, and any related litigation could be time consuming and costly.*

Third parties may claim that Zebra violated their intellectual property rights. To the extent of a violation of a third party's patent or other intellectual property right, the Company 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.

*The Company depends on the ongoing service of its senior management and ability to attract and retain other key personnel.*

Future success is substantially dependent on the continued service and continuing contributions of senior management and other key personnel. The loss of the service of any of executive officer or other key employees could adversely affect business. The Company neither has long-term employment agreements with key personnel, nor maintains key man life insurance policies on any of its key employees.

The ability to attract, retain and motivate highly skilled employees is important to Zebra's long-term success. Competition for personnel in the Company's industry is intense, and the Company may be unable to retain key employees or attract, assimilate or retain other highly qualified employees in the future.

*Terrorist attacks such as the attacks that occurred in New York City and Washington, D.C., on September 11, 2001, and other attacks or acts of war may adversely affect the market for the Company's stock, its operations and profitability.*

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope. These attacks caused periodic major instability in the U.S. and other financial markets. Possible further acts of terrorism in the United States or elsewhere could have a similar impact. Leaders of the U.S. government announced their intention to actively pursue and take military and other action against those behind the September 11 attacks and to initiate broader action against global terrorism. Armed hostilities or further acts of terrorism would cause further instability in financial markets and could directly, or indirectly through reduced demand, negatively affect the Company's facilities and operations or those of its customers or suppliers.

*Taxing authority challenges may lead to tax payments exceeding current reserves.*

The Company operates in multiple tax jurisdictions in the United States and worldwide, and uses strategies to minimize its tax exposure. Local tax authorities may challenge these tax positions from time to time. Adverse outcomes in these situations may exceed the Company's reserves for tax payments.



The Company operates in many markets around the world and in the ordinary course of business, is subjected to many external influences that may affect the Company's operations and financial position. Management believes that adequate provision has been made for any such existing matter. Further events, however, including and in addition to those enumerated above may occur.



**Item 7A. Quantitative and Qualitative Disclosure About Market Risk**

**Interest Rate Risk**

The Company is exposed to the impact of changes in interest rates because of its large investment portfolio. As stated in the Company's written investment policy, the Company's investment portfolio is viewed as a strategic resource that will be managed to achieve above market rates of return in exchange for accepting a prudent amount of incremental risk, which includes the risk of interest rate movements. Risk tolerance is constrained by an overriding objective to preserve capital across each quarterly reporting cycle.

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

**Foreign Exchange Risk**

The Company conducts business in more than 90 countries throughout the world and, therefore, is exposed to risk based on movements in foreign exchange rates. Currency exposures are related to the U.S. dollar/U.K. pound sterling, U.S. dollar/euro, and the U.K. pound sterling/euro exchange rates arising from invoicing European customers in pounds sterling and euros from the Company's U.K. office. The U.S. dollar/Japanese yen exchange rate arises from invoicing customers. The yen foreign currency exposure averages less than $200,000. There is no foreign exchange risk associated with the Company's investment portfolio.

The Company manages its foreign exchange exposure through a policy of selective hedging. This policy involves selling forward up to 120 days projected remittances in euros from the Company's U.K. subsidiary. Currency swaps that are net settled every month mitigate the U.S. dollar to U.K. pound sterling net exposure. This policy mitigates, but does not eliminate, the impact of exchange movements on the value of future cash flows. Thus, adverse movements in either the pound or the euro in relation to the dollar can directly affect the Company's financial results. The corporate treasury department executes all foreign exchange contracts with major financial institutions only. Under no circumstances does the Company enter into any type of foreign exchange contract for trading or speculative purposes.

**Equity Price Risk**

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

The Company currently employs three investment managers, two of which manage portfolios of investment funds (i.e. fund of funds). These investment funds use a variety of investment strategies, some of which involve the use of equity securities. Each investment manager's portfolio is designed to be market neutral, although an individual fund within a portfolio may be exposed to market risk. By policy, management limits the amount of the Company's investments in alternative investment strategies to a maximum of 20% of the total investment portfolio, with no single investment exceeding $10,000,000.

The Company utilizes a "Value-at-Risk" (VaR) model to determine the maximum potential one-day loss in the fair value of its interest rate, foreign exchange and equity price sensitive instruments.



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The following table sets forth the impact of a 1% movement in interest rates on the value of the Company's investment portfolio as of December 31, 2001. Similarly, the impact of a 1% change in the value of all equity positions held by the Company's investment managers is tabulated. The impact of a 1% movement in the dollar/pound and dollar/euro rates is measured as if the Company did *not* engage in the selective hedging practices described above. It is based on the dollar/euro and dollar/pound exchange rates and euro- and pound-denominated assets and liabilities as of December 31, 2001.

| | | |
|---|---|---|
| Interest rate sensitive instruments | | |
| +1% movement | $ | (2,044,747) |
| -1% movement | $ | 2,044,747 |
| | | |
| Foreign exchange | | |
| Dollar/pound | $ | 87,360 |
| Dollar/euro | $ | 196,130 |
| | | |
| Equity price sensitive instruments | | N/A |



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**Item 8. Financial Statements and Supplemental Data**

The financial statements and schedule of the Company are annexed to this Report as pages F-2 through F-22. An index to such materials appears on page F-1.

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

Not applicable.



**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

The information in response to this item is incorporated by reference from the Proxy Statement sections entitled "Election of Directors" and "Executive Officers."

**Item 11. Executive Compensation**

The information in response to this item is incorporated by reference from the Proxy Statement section entitled "Executive Compensation and Certain Transactions."

**Item 12. Security Ownership of Certain Beneficial Owners and Management**

The information in response to this item is incorporated by reference from the Proxy Statement section entitled "Security Ownership of Management and Certain Beneficial Owners."

**Item 13. Certain Relationships and Related Transactions**

The information in response to this item is incorporated by reference from the Proxy Statement section entitled "Executive Compensation and Certain Transactions."



**PART IV**

**Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

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

The Company filed no Current Report on Form 8-K during the fourth quarter of 2001.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 22nd day of March 2002.

**ZEBRA TECHNOLOGIES CORPORATION**

By: /s/ EDWARD L. KAPLAN

Edward L. Kaplan
*Chairman and Chief Executive Officer*

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

| Signature | Title | Date |
|---|---|---|
| /s/ EDWARD L. KAPLAN<br>Edward L. Kaplan | Chief Executive Officer and Chairman the Board of Directors (Principal Executive Officer) | March 22, 2002 |
| /s/ GERHARD CLESS<br>Gerhard Cless | Executive Vice President, Secretary and Director | March 22, 2002 |
| /s/ CHARLES R. WHITCHURCH<br>Charles R. Whitchurch | Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer) | March 22, 2002 |
| /s/ CHRISTOPHER G. KNOWLES<br>Christopher G. Knowles | Director | March 22, 2002 |
| /s/ DAVID P. RILEY<br>David P. Riley | Director | March 22, 2002 |
| /s/ MICHAEL A. SMITH<br>Michael A. Smith | Director | March 22, 2002 |

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**Index to Exhibits**

| | |
|---|---|
| 2.1 (1) | Stock Purchase Agreement dated March 21, 2000, by and among Registrant, Comtec Information Systems, Inc., Comtec Information Systems Acquisition Corporation and the stockholders of Comtec Information Systems, Inc., and Comtec Information Systems Acquisition Corporation |
| 2.2 (2) | Acquisition Agreement dated as of July 31, 2001, among Registrant, Rushmore Acquisition Corp., and Fargo Electronics, Inc. |
| 2.3 (3) | Amendment No. 1 to Acquisition Agreement among Registrant, Rushmore Acquisition Corp., and Fargo Electronics, Inc., dated August 30, 2001 |
| 2.4 (3) | |

| | |
|---|---|
| | Amendment No. 2 to Acquisition Agreement among Registrant, Rushmore Acquisition Corp., and Fargo Electronics, Inc., dated October 11, 2001 |
| 2.5 | Amendment No. 3 to Acquisition Agreement among Registrant, Rushmore Acquisition Corp., and Fargo Electronics, Inc., dated February 5, 2002 |
| 3.1 (4) | Certificate of Incorporation of the Registrant. |
| 3.2 (5) | Bylaws of the Registrant. |
| 3.3 (6) | Amendment to Bylaws of the Registrant. |
| 4.0 (5) | Specimen stock certificate representing Class A Common Stock. |
| 10.1 (7) | 1997 Stock Option Plan + |
| 10.2 (8) | First Amendment to the 1997 Stock Option Plan + |
| 10.3 (8) | Second Amendment to the 1997 Stock Option Plan + |
| 10.4 (9) | Third Amendment to the 1997 Stock Option Plan + |
| 10.5 (5) | Form of Indemnification Agreement between the Registrant and each of its directors. |
| 10.6 (5) | Lease between the Registrant and Unique Building Corporation for the Registrant's facility in Vernon Hills, Illinois, as amended. |
| 10.7 (5) | Guaranty by the Registrant of certain obligations. |
| 10.8 (7) | Directors' 1997 Stock Option Plan.+ |
| 10.9 (6) | Employment Agreement between the Registrant and Charles R. Whitchurch. + |
| 10.10 (10) | Amendment to the lease between the Registrant and Unique Building Corporation for the Registrant's facility in Vernon Hills, Illinois, dated April 1, 1993. |
| 10.11 (11) | Amendment to the lease between the Registrant and Unique Building Corporation for the Registrant's facility in Vernon Hills, Illinois, dated December 1, 1994. |
| 10.12 (12) | Amendment to the lease between the Registrant and Unique Building Corporation for the Registrant's facility in Vernon Hills, Illinois, dated June 1, 1996. |
| 10.13 (12) | Amendment to the lease between the Registrant and Unique Building Corporation for the Registrant's facility in Vernon Hills, Illinois, dated June 2, 1996. |
| 10.14 (13) | Employment Agreement between the Registrant, Eltron, and Donald K. Skinner. + |
| 10.15 (14) | Amendment to the lease between the Registrant and Unique Building Corporation for the Registrant's facility in Vernon Hills, Illinois, dated as of July 1, 1999. |
| 10.16 (15) | Lease between the Registrant and CRE Corporation for the Registrant's facility in Warwick, Rhode Island, dated as of June 30, 2000. |
| 21.0 | Subsidiaries of the Registrant. |
| 23.1 | Consent of KPMG LLP, independent auditors. |

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(1)

Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Form 8-K filed April 18, 2000, and incorporated herein by reference.

(2)

Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Form 8-K filed August 1, 2001, and incorporated herein by reference.

(3)

Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Form 10-Q filed for the quarterly period ended September 29, 2001.

(4)

Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form S-3, File No. 333-33315, and incorporated herein by reference.

(5)

Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form S-1, as amended, File No. 33-41576, and incorporated herein by reference.

(6)

Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992, and incorporated herein by reference.

(7) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, and incorporated herein by reference.

(8) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form S-8, File No. 333-63009, and incorporated herein by reference.

(9) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form S-8, File No. 333-84512, and incorporated herein by reference.

(10) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, and incorporated herein by reference.

(11) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994, and incorporated herein by reference.

(12) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, and incorporated herein by reference.

(13) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form S-4, as amended, File No. 333-60241, and incorporated herein by reference.

(14) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Form 10-Q for the quarterly period ended April 1, 2000, and incorporated herein by reference.

(15) Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

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



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**ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES**

**INDEX TO FINANCIAL STATEMENTS AND SCHEDULE**

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



**Independent Auditors' Report**

The Board of Directors and Shareholders
Zebra Technologies Corporation:

We have audited the accompanying consolidated balance sheets of Zebra Technologies Corporation and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2001. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule of valuation and qualifying accounts. These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zebra Technologies Corporation and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Chicago, Illinois
February 1, 2002, except as to Note 17,
which is as of March 13, 2002



**ZEBRA TECHNOLOGIES CORPORATION**
**CONSOLIDATED BALANCE SHEETS**
**(Amounts in thousands, except share and per share data)**

| | December 31, 2001 | December 31, 2000 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 26,328 | $ 13,776 |
| Investments and marketable securities | 223,021 | 142,938 |
| Accounts receivable, net of allowances of $1,975 in 2001 and $1,420 in 2000 | 67,160 | 83,941 |
| Inventories | 39,923 | 56,852 |
| Deferred income taxes | 4,295 | 4,601 |
| Prepaid expenses | 3,611 | 1,578 |
| Total current assets | 364,338 | 303,686 |

| | December 31, 2001 | December 31, 2000 |
|---|---|---|
| Property and equipment at cost, less accumulated depreciation and amortization | 40,742 | 41,587 |
| Deferred income taxes | 902 | 3,469 |
| Excess of cost over fair value of net assets acquired | 32,735 | 34,529 |
| Other intangibles | 26,693 | 29,281 |
| Other assets | 14,146 | 6,344 |
| **Total assets** | $ 479,556 | $ 418,896 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 14,414 | $ 23,838 |
| Accrued liabilities | 14,993 | 11,910 |
| Short-term note payable | 221 | 149 |
| Current portion of obligation under capital lease with related party | 79 | 77 |
| Income taxes payable | 4,121 | 10,913 |
| Total current liabilities | 33,828 | 46,887 |
| Obligation under capital lease with related party, less current portion | 408 | 513 |
| Deferred rent | 313 | 208 |
| **Total liabilities** | 34,549 | 47,608 |
| Shareholders' equity: | | |
| Preferred stock, $.01 par value; 10,000,000 shares authorized, none outstanding | | |
| Class A Common Stock, $.01 par value; 50,000,000 shares authorized, 26,018,743 and 25,610,515 shares issued, and 25,256,380 and 24,551,762 shares outstanding in 2001 and 2000, respectively | 260 | 256 |
| Class B Common Stock, $.01 par value; 28,358,189 shares authorized, 5,527,773 and 5,936,001 shares issued and outstanding in 2001 and 2000, respectively | 55 | 59 |
| Additional paid-in capital | 59,012 | 63,491 |
| Treasury stock, at cost (762,363 shares and 1,058,753 shares, respectively) | (35,482) | (50,128) |
| Retained earnings | 422,555 | 361,026 |
| Accumulated other comprehensive loss | (1,393) | (3,416) |
| **Total shareholders' equity** | 445,007 | 371,288 |
| **Total liabilities and shareholders' equity** | $ 479,556 | $ 418,896 |

See accompanying notes to consolidated financial statements.



**ZEBRA TECHNOLOGIES CORPORATION**
**CONSOLIDATED STATEMENTS OF EARNINGS**
**(Amounts in thousands, except per share data)**

**Year Ended December 31,**

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net sales | $ 450,008 | $ 481,569 | $ 402,213 |
| Cost of sales | 240,115 | 249,141 | 198,942 |
| Gross profit | 209,893 | 232,428 | 203,271 |
| Operating expenses: | | | |
| Selling and marketing | 49,688 | 48,306 | 39,990 |
| Research and development | 28,184 | 26,746 | 22,007 |
| General and administrative | 32,491 | 33,594 | 30,858 |
| Amortization of intangible assets | 5,233 | 4,046 | 291 |
| Acquired in-process technology | | 5,953 | |
| Merger costs | 1,838 | 5,113 | 6,341 |
| Total operating expenses | 117,434 | 123,758 | 99,487 |
| Operating income | 92,459 | 108,670 | 103,784 |
| Other income (expense): | | | |
| Investment income | 5,419 | 11,345 | 8,732 |
| Interest expense | (231) | (1,120) | (209) |
| Other, net | (1,508) | (6,984) | (3,507) |
| Total other income | 3,680 | 3,241 | 5,016 |
| Income before income taxes | 96,139 | 111,911 | 108,800 |
| Income taxes | 34,610 | 40,289 | 39,168 |
| Net income | $ 61,529 | $ 71,622 | $ 69,632 |
| Basic earnings per share | $ 2.01 | $ 2.33 | $ 2.23 |
| Diluted earnings per share | $ 1.99 | $ 2.30 | $ 2.21 |
| Basic weighted average shares outstanding | 30,645 | 30,790 | 31,175 |
| Diluted weighted average and equivalent shares outstanding | 30,881 | 31,155 | 31,521 |

See accompanying notes to consolidated financial statements.



**ZEBRA TECHNOLOGIES CORPORATION**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(Amounts in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | | | |
| Net income | $ 61,529 | $ 71,622 | $ 69,632 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustment | (977) | (1,508) | (1,432) |
| Unrealized holding gains (losses) on investments: | | | |
| Net change in unrealized holding gain (loss) for the period, net of income tax expense (benefit) of $1,687 for 2001 and of ($801) for 2000. | 3,000 | (1,425) | |
| Comprehensive income | $ 63,552 | $ 68,689 | $ 68,200 |

See accompanying notes to consolidated financial statements.



**ZEBRA TECHNOLOGIES CORPORATION**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**(Dollars in thousands)**

| | Class A Common Stock | Class B Common Stock | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income: Unrealized Holding Loss on Investment | Accumulated Other Comprehensive Income: Cumulative Translation Adjustment | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 1998 | $ 223 | $ 86 | $ 49,854 | $ 219,772 | $ | $ | $ 949 | $ 270,884 |
| Issuance of 474,676 shares of Class A Common Stock | 5 | | 9,828 | | | | | 9,833 |
| Conversion of 2,079,731 shares of Class B Common Stock to 2,079,731 shares of Class A Common Stock | 21 | (21) | | | | | | |
| Tax benefit resulting from exercise of options | | | 390 | | | | | 390 |
| Net income | | | | 69,632 | | | | 69,632 |
| Foreign currency translation adjustment | | | | | | | (1,432) | (1,432) |
| Balance at December 31, 1999 | 249 | 65 | 60,072 | 289,404 | | | (483) | 349,307 |
| Issuance of 128,827 shares of Class A Common Stock upon exercise of stock options | 1 | | 3,227 | | | | | 3,228 |
| Conversion of 604,187 shares of Class B Common Stock to 604,187 shares of Class A Common Stock | 6 | (6) | | | | | | |
| Repurchase of 1,170,500 shares of Class A Common Stock | | | | | (55,505) | | | (55,505) |
| Reissuance of 111,747 treasury shares upon exercise of stock options | | | (1,952) | | 5,377 | | | 3,425 |
| Tax benefit resulting from exercise of options | | | 1,505 | | | | | 1,505 |
| Gains on put options | | | 639 | | | | | 639 |

| | | | | | | Accumulated Other Comprehensive Income | | |
|---|---|---|---|---|---|---|---|---|
| Net income | | | | 71,622 | | | | 71,622 |
| Unrealized holding loss on investments (net of income taxes) | | | | | | (1,425) | | (1,425) |
| Foreign currency translation adjustment | | | | | | | (1,508) | (1,508) |
| Balance at December 31, 2000 | 256 | 59 | 63,491 | 361,026 | (50,128) | (1,425) | (1,991) | 371,288 |
| Conversion of 408,228 shares of Class B Common Stock to 408,228 shares of Class A Common Stock | 4 | (4) | | | | | | |
| Reissuance of 296,390 treasury shares upon exercise of stock options | | | (5,751) | | 14,646 | | | 8,895 |
| Tax benefit resulting from exercise of options | | | 1,273 | | | | | 1,273 |
| Loss on put options | | | (1) | | | | | (1) |
| Net income | | | | 61,529 | | | | 61,529 |
| Unrealized holding gain on investments (net of income taxes) | | | | | | 3,000 | | 3,000 |
| Foreign currency translation adjustment | | | | | | | (977) | (977) |
| Balance at December 31, 2001 | $ 260 | $ 55 | $ 59,012 | $ 422,555 | $ (35,482) | $ 1,575 | $ (2,968) | $ 445,007 |

See accompanying notes to consolidated financial statements.



**ZEBRA TECHNOLOGIES CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Amounts in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2001** | **2000** | **1999** |
| Cash flows from operating activities: | | | |
| Net income | $ 61,529 | $ 71,622 | $ 69,632 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 15,691 | 14,383 | 9,900 |
| Tax benefit from exercise of options | 1,273 | 1,505 | 390 |
| Acquired in-process technology | | 5,953 | |
| Depreciation (appreciation) in market value of investments and marketable securities | (1,209) | 2,952 | (936) |
| Write-down of long-term investment | 2,242 | | |
| Deferred income taxes | 2,873 | (6,076) | 1,211 |
| Changes in assets and liabilities, net of businesses acquired: | | | |
| Accounts receivable, net | 16,223 | (7,106) | (5,216) |
| Inventories | 17,284 | (7,179) | (2,695) |
| Other assets | (7,895) | (542) | (2,931) |
| Accounts payable | (9,424) | (6,064) | 3,233 |

| | Year Ended December 31, | | |
|---|---|---|---|
| Accrued expenses | 3,083 | (810) | (203) |
| Income taxes payable | (6,792) | 3,372 | 3,055 |
| Other operating activities | (1,928) | (305) | (286) |
| Investments and marketable securities | (78,874) | 60,860 | (59,471) |
| Net cash provided by operating activities | 14,076 | 132,565 | 15,683 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (9,613) | (8,947) | (11,349) |
| Acquisition of Comtec Information Systems, net of cash acquired | | (88,476) | |
| Sales of investments and marketable securities | | | 6,946 |
| Net cash used in investing activities | (9,613) | (97,423) | (4,403) |
| Cash flows from financing activities: | | | |
| Purchase of treasury stock | | (55,505) | |
| Proceeds from exercise of stock options | 8,895 | 6,653 | 9,833 |
| Proceeds from (cost of) put options | (1) | 639 | |
| Issuance (repayment) of notes payable | 72 | (140) | 70 |
| Payments for obligation under capital lease, with related party | (103) | (322) | (312) |
| Net cash provided by (used in) financing activities | 8,863 | (48,675) | 9,591 |
| Effect of exchange rate changes on cash | (774) | (1,508) | (1,432) |
| Net increase (decrease) in cash and cash equivalents | 12,552 | (15,041) | 19,439 |
| Cash and cash equivalents at beginning of year | 13,776 | 28,817 | 9,378 |
| Cash and cash equivalents at end of year | $ 26,328 | $ 13,776 | $ 28,817 |
| Supplemental disclosures of cash flow information: | | | |
| Interest paid | $ 231 | $ 1,120 | $ 209 |
| Income taxes paid | 38,604 | 44,736 | 36,010 |
| Supplemental disclosures of non-cash financing activity: | | | |
| Conversion of Class B Common Stock to Class A Common Stock | 4 | 6 | 21 |

See accompanying notes to consolidated financial statements.



**ZEBRA TECHNOLOGIES CORPORATION**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Description of Business**

Zebra Technologies Corporation and its wholly-owned subsidiaries (the Company) design, manufacture, sell and support a broad line of bar code label and receipt printers and card printers, self-adhesive labeling materials, card supplies, thermal transfer ribbons and bar code label design software. These products are used principally in automatic identification (auto ID), data collection and personal identification applications and are distributed world-wide through a network of resellers, distributors and end users representing a wide cross-section of industrial, service and government organizations.

**Note 2 Summary of Significant Accounting Policies**

*Principles of Consolidation.* The accompanying financial statements have been prepared on a consolidated basis to include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts, transactions, and unrealized profit have been eliminated in consolidation.

*Cash and Cash Equivalents.* Cash consists primarily of deposits with banks. In addition, the Company considers highly liquid short-term investments with original maturities of less than seven days to be cash equivalents. Previously, the Company considered highly liquid instruments with original maturities of less than three months to be cash equivalents. Those instruments with original maturities of seven to 119 days that were considered cash equivalents are now included in investments and marketable securities. The financial statements for all periods presented have been reclassified to reflect this change.

*Investments and Marketable Securities.* Investments and marketable securities at December 31, 2001, consisted of U.S. government securities, state and municipal bonds, partnership interests and equity securities, which are held indirectly in diversified funds actively managed by investment professionals. The Company classifies its 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 the Company 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 shareholders' equity until realized.

*Inventories.* Inventories are stated at the lower of cost or market, and cost is determined by the first-in, first-out (FIFO) method.

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

*Income Taxes.* The Company accounts for income taxes under the asset and liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

*Intangible Assets.* Excess cost over fair value of net assets acquired represents the unamortized excess of the cost of acquiring a business over the fair values of the net assets received at the date of acquisition. This excess cost is being amortized on a



straight-line basis over 20 years and is stated net of accumulated amortization of $4,648,000 and $2,870,000 at December 31, 2001 and 2000, respectively.

Other intangible assets consist primarily of customer lists, assembled workforce and current technology. These assets are recorded at cost and amortized on a straight-line basis over periods up to 15 years. Accumulated amortization for these other intangible assets was $5,944,000 and $2,505,000 at December 31, 2001 and 2000, respectively.

*Revenue Recognition.* Revenue is recognized at the time of shipping and includes freight billed to customers.

*Research and Development Costs.* Research and development costs are expensed as incurred.

*Advertising.* Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2001, 2000 and 1999 totaled $4,405,000, $4,637,000 and $4,700,000, respectively.

*Warranty.* The Company provides warranty coverage of up to one year on printers against defects in material and workmanship. A provision for warranty expense is recorded at the time of shipment. To date, the Company has not experienced any significant warranty claims.

*Financial instruments.* The reported amounts of the Company's financial instruments, which include investments and marketable securities, trade accounts receivable, accounts payable, accrued liabilities, income taxes payable and short-term notes payable, approximate their fair values because of the contractual maturities and short-term nature of these instruments.

*Stock-based Compensation.* The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and provides the pro forma disclosures required by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-based Compensation*.

*Use of Estimates.* The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Foreign Currency Translation.* The consolidated balance sheets of the Company's foreign subsidiaries are translated into U.S. dollars using the year-end exchange rate, and statement of earnings items are translated using the average exchange rate for the year. The resulting translation gains or losses are recorded in shareholders' equity as a cumulative translation adjustment, which is a component of accumulated other comprehensive loss.

*Capitalized Software.* The Company's investment in software development consists primarily of enhancements to its existing E-commerce web-based application, which will include the automation of current business activities. Specifically, the activities include the processing of customer orders; the acknowledgement of customer orders and delivery; and the financial invoicing for all of Zebra's products and will aid in enabling the Company to create new business efficiencies.

Costs associated with the planning and design phases of web-based development, including coding and testing activities necessary to establish technological feasibility of the functionality of the website, are charged to research and development as incurred. Once technological feasibility has been determined, costs incurred in the construction phase of software development including coding, testing, and product quality assurance are capitalized.

Amortization commences at the time of capitalization or, in the case of a new service offering, at the time the service becomes available for use. Unamortized capitalized costs determined to be in excess of the net realizable value of the product are expensed at the date of such determination. The Company assesses the recoverability of its software development costs against estimated future undiscounted cash flows. Given the highly competitive environment and technological changes, it is reasonably possible that those estimates of anticipated future gross revenue, the remaining estimated economic life of the product, or both may be reduced significantly.



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*Funded Engineering Arrangement.* The Company is part of an arrangement with a third party, whereby the Company will be reimbursed for certain engineering services performed on behalf of the third party. The arrangement has a term of three years. The arrangement also provides that the Company will be the exclusive manufacturer of the products resulting from the engineering agreement. The products will be distributed under the third party's brand name. During 2001, the Company incurred approximately $2,800,000 of reimbursable expenses under the agreement. As of December 31, 2001, the Company had an accounts receivable of approximately $2,600,000, including an unbilled portion of $1,100,000 related to the arrangement.

*Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of.* The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of.* The statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

*Recently Issued Accounting Pronouncements.* In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*, which supersedes APB Opinion No. 17, *Intangible Assets*. SFAS 142 replaces the requirements to amortize intangible assets with indefinite lives and goodwill with a requirement for an impairment test. SFAS 142 also requires an evaluation of intangible assets and their useful lives and a transitional impairment test for goodwill and certain intangible assets upon adoption. After transition, the impairment test will be performed annually. SFAS 142 is effective for fiscal years beginning after December 15, 2001. Management is currently evaluating the impact of adopting SFAS 142 on the Company's consolidated financial statements.

As of the date of adoption, the Company expects to have unamortized goodwill in the amount of $54,455,000, which includes existing intangible assets that are not considered identifiable under SFAS No. 142. Amortization expense related to goodwill was $5,134,000 and $1,283,000 for the year ended December 31, 2001 and three months ended December 31, 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS 142, it is not practicable to reasonably estimate the impact of adopting this Statement on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated asset retirement costs. SFAS 143 must be applied starting with fiscal years beginning after June 15, 2002. Management is currently evaluating the impact that the adoption of SFAS 143 will have on the consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal for Long-Lived Assets*. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* it retains many of the fundamental provisions of that Statement. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* for the disposal of a segment of a business. It retains, however, the requirement in APB Opinion No. 30 to report separately discontinued operations, and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company is in the process of evaluating the impact that adoption of SFAS No. 144 may have on the financial statements; however, such impact, if any, is not known or reasonably estimable at this time.

*Reclassifications.* Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

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**Note 3 Business Combinations**

*Comtec Information Systems, Inc.* On April 3, 2000, the Company acquired Comtec Information Systems, Inc. (Comtec), by acquiring all of the outstanding capital stock of Comtec for approximately $88,476,000 in cash. Located in Warwick, Rhode Island, Comtec had been a privately held company. Comtec designs, manufactures and supports mobile printing systems. The acquisition was accounted for under the purchase method. Accordingly, the purchase price has been allocated to identifiable tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values. Estimated amounts allocated to acquired in-process technology were expensed at the time of the acquisition. The excess of cost over net assets acquired is amortized on a straight-line basis over the expected period to be benefited of 20 years. Other intangible assets are amortized on a straight-line basis over periods up to 15 years. The consolidated statements of earnings reflect the results of operations of Comtec since the effective date of the acquisition.

The following summary presents information concerning the purchase price allocation for the Comtec acquisition:

| | Amount (in thousands) |
|---|---|
| Net tangible assets | $ 15,235 |
| Acquired in-process technology | 5,953 |
| Intangible assets | 31,786 |
| Excess of cost over fair value of net assets acquired | 35,502 |
| Purchase price | $ 88,476 |

| | Amount (in thousands) |
|---|---|

*Pending Transaction.* On July 31, 2001, the Company announced that it signed a definitive agreement to acquire all of the outstanding common stock (including associated rights to purchase preferred stock) of Fargo Electronics, Inc., for $7.25 per share in cash, or approximately $86,000,000, plus approximately $16,500,000 in debt. This debt will become due upon consummation of the tender offer. On August 3, 2001, Zebra, through its Rushmore Acquisition Corporation wholly owned subsidiary, commenced a cash tender offer for Fargo Electronics common stock. The tender offer is subject to certain conditions, including successful termination of Hart-Scott-Rodino antitrust review, and at least a majority of the outstanding shares of Fargo's common stock on a fully diluted basis being tendered without withdrawal before expiration of the offer.

The applicable Hart-Scott-Rodino antitrust review waiting period has yet to expire or be terminated. Zebra intends to extend the offer at least until expiration or termination of the Hart-Scott-Rodino antitrust review waiting period, subject to the provisions of the acquisition agreement. Pursuant to the acquisition agreement signed by Zebra and Fargo, the tender offer will generally be extended in increments of 10 business days. See Zebra's Form 8-K dated July 31, 2001, for additional information regarding the Fargo transaction. In addition, see the Acquisition Agreement, Amendment No. 1 to the Acquisition Agreement, Amendment No. 2 to the Acquisition Agreement, and Amendment No. 3 to the Acquisition Agreement, all of which have been filed with the SEC.

Fargo Electronics, Inc. designs and manufactures desktop plastic card personalization systems. Fargo printing systems create personalized plastic identification cards complete with digital images and text, lamination, and electronically encoded information. On a combined basis, sales of instant-issuance plastic card printers and related supplies and accessories would represent approximately 20% of Zebra's net sales for the twelve-month period that ended December 31, 2001.



**Note 4 Earnings Per Share**

For the years ended December 31, 2001, 2000, and 1999, earnings per share were computed as follows (in thousands, except per-share amounts):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| **Basic earnings per share:** | | | |
| Net income | $ 61,529 | $ 71,622 | $ 69,632 |
| Weighted average common shares outstanding | 30,645 | 30,790 | 31,175 |
| Per share amount | $ 2.01 | $ 2.33 | $ 2.23 |
| **Diluted earnings per share:** | | | |
| Net income | $ 61,529 | $ 71,622 | $ 69,632 |
| Weighted average common shares outstanding | 30,645 | 30,790 | 31,175 |
| Add: Effect of dilutive securities stock options | 236 | 365 | 346 |
| Diluted weighted average and equivalent shares outstanding | 30,881 | 31,155 | 31,521 |
| Per share amount | $ 1.99 | $ 2.30 | $ 2.21 |

The potentially dilutive securities, which were excluded from the earnings per share calculation, consisted of stock options for which the exercise price was greater than the average market price of the Class A Common Stock. For the years ended December 31, the shares amounted to 436,325 in 2001, 267,500 in 2000, and 21,500 in 1999.

**Note 5 Investments and Marketable Securities**

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and aggregate fair value of investment securities at December 31, 2001, were as follows (in thousands):

| | Amortized Cost | Gross Unrealized | Gross Unrealized | Fair Value |
|---|---|---|---|---|

| | | Holding Gains | Holding Losses | |
|---|---|---|---|---|
| Available for sale (included in other assets): | | | | |
| Equity securities | $ 1,804 | $ 2,462 | $ | $ 4,266 |
| Trading securities: | | | | |
| U.S. government and agency securities | 118,825 | 42 | (53) | 118,814 |
| State and municipal bonds | 76,576 | 286 | (222) | 76,640 |
| Corporate bonds | 5,077 | 89 | | 5,166 |
| Partnership interests | 17,326 | 3,104 | (29) | 20,401 |
| Other | 2,000 | | | 2,000 |
| | 219,804 | 3,521 | (304) | 223,021 |
| | $ 221,608 | $ 5,983 | $ (304) | $ 227,287 |

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The amortized cost, gross unrealized holding gains, gross unrealized holding losses and aggregate fair value of investment securities at December 31, 2000, were as follows (in thousands):

| | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
|---|---|---|---|---|
| Available for sale (included in other assets): | | | | |
| Equity securities | $ 4,596 | $ | $ (2,226) | $ 2,370 |
| Trading securities: | | | | |
| U.S. government and agency securities | 22,564 | 110 | (61) | 22,613 |
| State and municipal bonds | 104,699 | 326 | (816) | 104,209 |
| Corporate bonds | 5,054 | 35 | | 5,089 |
| Partnership interests | 8,614 | 2,413 | | 11,027 |
| | 140,931 | 2,884 | (877) | 142,938 |
| | $ 145,527 | $ 2,884 | $ (3,103) | $ 145,308 |

The Company is a limited partner in two non-registered partnerships. The partnerships seek to provide returns to its partners by making strategic investments in a diversified portfolio of investment funds. Zebra's investment as a limited partner allows it to have liability protection limited to the amount of its investments in the funds.

The contractual maturities of debt securities at December 31, 2001, were as follows (in thousands):

| | Fair Value |
|---|---|
| Due within one year | $ 131,583 |
| Due after one year through five years | 25,067 |
| Due after five years | 45,970 |
| | $ 202,620 |

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

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Proceeds | | | $ 6,947 |
| Realized gains (losses) | ($ 2,242) | | 19 |

The realized loss of $2,242,000 in 2001 is the result of a write-down of an available-for-sale security whose decline in value was determined to be other than temporary.

**Note 6 Related-Party Transactions**

Unique Building Corporation (Unique), an entity controlled by certain officers and stockholders of the Company, leases a facility and equipment to the Company under a lease described in Note 11. Management believes that the lease payments are substantially consistent with amounts that could be negotiated with third parties on an arm's-length basis.

Lease payments related to the leases were included in the consolidated financial statements as follows (in thousands):

| | Unique Operating Lease Payments |
|---|---|
| 2001 | $ 2,085 |
| 2000 | 2,085 |
| 1999 | 1,662 |



**Note 7 Inventories**

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

| | December 31, | |
|---|---|---|
| | 2001 | 2000 |
| Raw material | $ 25,410 | $ 35,907 |
| Work in process | 1,360 | 365 |
| Finished goods | 13,153 | 20,580 |
| Total inventories | $ 39,923 | $ 56,852 |

**Note 8 Property and Equipment**

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

| | December 31, | |
|---|---|---|
| | 2001 | 2000 |
| Buildings | $ 12,029 | $ 11,981 |
| Land | 1,910 | 1,910 |
| Machinery, equipment and tooling | 35,507 | 31,211 |
| Machinery and equipment under capital leases | 1,670 | 1,670 |
| Furniture and office equipment | 5,681 | 5,375 |
| Computers and software | 28,951 | 27,854 |
| Automobiles | 183 | 254 |
| Leasehold improvements | 2,997 | 2,516 |
| Projects in progress | 2,705 | 1,508 |

| | December 31, | |
|---|---|---|
| | | |
| | 91,633 | 84,279 |
| Less accumulated depreciation and amortization | (50,891) | (42,692) |
| Net property and equipment | $ 40,742 | $ 41,587 |

Amortization of capitalized software was $1,834,000 in 2001, $1,797,000 in 2000, and $2,129,000 in 1999.

**Note 9 Income Taxes**

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

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| United States | $ 90,272 | $ 101,532 | $ 95,637 |
| Outside United States | 5,867 | 10,379 | 13,163 |
| Total | $ 96,139 | $ 111,911 | $ 108,800 |

The Company does not provide for deferred income taxes on undistributed earnings of foreign subsidiaries, which totaled approximately $8,700,000 at December 31, 2001 and $6,500,000 at December 31, 2000. Management expects such earnings to be permanently reinvested in these companies. Should such earnings be remitted to the Company, foreign tax credits would be available to substantially offset the U.S. income taxes due upon repatriation.



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

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 25,998 | $ 35,362 | $ 27,914 |
| State | 5,319 | 6,441 | 4,489 |
| Foreign | 2,107 | 3,761 | 5,554 |
| Deferred: | | | |
| Federal | 1,132 | (4,922) | 1,376 |
| State | 152 | (472) | (85) |
| Foreign | (98) | 119 | (80) |
| Total | $ 34,610 | $ 40,289 | $ 39,168 |

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

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Provision computed at statutory rate | $ 33,649 | $ 39,169 | $ 38,080 |
| State income tax (net of Federal tax benefit) | 3,556 | 3,880 | 2,862 |
| Tax-exempt interest and dividend income | (1,524) | (1,588) | (1,677) |
| Tax benefit of exempt foreign trade income | (1,438) | (1,035) | (805) |
| Other | 367 | (137) | 708 |

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Provision for income taxes | $ 34,610 | $ 40,289 | $ 39,168 |

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

The Company is litigating a dispute over a 1998 tax assessment in the amount of approximately $2,600,000, including penalties and interest, with the Illinois Department of Revenue for the years 1993 through 1995. The case was filed by the Company on November 1, 2000, in the District Court of Illinois and tried during November 2000. The decision from the court was unfavorable to the Company but has been appealed. Management believes that adequate provisions have been made in the Company's financial statements for the estimated liability arising from this dispute.

The Illinois Department of Revenue is currently examining the Company's tax returns for the years 1996 and 1997. Management believes that this examination will not be completed until the outcome of the lawsuit relating to the 1993 through 1995 returns is known. The Company believes that adequate provisions have also been made in its financial statements related to the potential assessments for the years 1996 through 2000.



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

| | December 31, | |
|---|---|---|
| | 2001 | 2000 |
| Deferred tax assets: | | |
| Deferred rent-building | $ 124 | $ 83 |
| Capital equipment lease | 11 | 15 |
| Accrued vacation | 576 | 825 |
| Inventory items | 2,193 | 2,354 |
| Allowance for doubtful accounts | 259 | 152 |
| Other accruals | 3,102 | 2,843 |
| Acquisition related items | 2,321 | 2,538 |
| Unrealized loss on securities | | 1,235 |
| Total deferred tax assets | 8,586 | 10,045 |
| Deferred tax liabilities: | | |
| Unrealized gain on securities | (1,717) | |
| Depreciation | (1,672) | (1,975) |
| Total deferred tax liabilities | (3,389) | (1,975) |
| Net deferred tax asset | $ 5,197 | $ 8,070 |



**Note 10 401(k) Savings and Profit Sharing Plans**

The Company has a Retirement Savings and Investment Plan (the 401(k) Plan), which is intended to qualify under Section 401(k) of the Internal Revenue Code. Qualified employees may participate in the Company's 401(k) Plan by contributing up to 15% of their gross earnings to the plan subject to certain Internal Revenue Service restrictions. The Company matches each participant's contribution of up to 6% of gross eligible earnings at the rate of 50%. The Company may contribute additional amounts to the 401(k) Plan at the discretion of the Board of Directors, subject to certain legal limits.

The Company has a discretionary profit-sharing plan for qualified employees, to which it contributed 1.9% of eligible earnings for 2001, 3.1% for 2000 and 4.2% for 1999. Participants are not permitted to make contributions under the profit-sharing plan.

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

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| 401(k) | $ 1,374 | $ 1,287 | $ 740 |
| Profit sharing | 1,178 | 877 | 820 |
| Total | $ 2,552 | $ 2,164 | $ 1,560 |

**Note 11 Commitments and Contingencies**

*Leases.* In September 1989, the Company entered into a lease agreement for its Vernon Hills facility and certain machinery, equipment, furniture and fixtures with Unique Building Corporation. The facility portion of the lease is the only remaining portion in existence as of December 31, 2001, and is treated as an operating lease. An amendment to the lease dated July 1997 added 59,150 square feet and extended the term of the existing lease through June 30, 2014. The lease agreement includes a modification to the base monthly rental, which goes into effect if the prescribed rent payment is less than the aggregate principal and interest payments required to be made by Unique under an Industrial Revenue Bond (IRB).

Minimum future obligations under noncancelable operating leases and future minimum capital lease payments as of December 31, 2001, are as follows (in thousands):

| | Capital Lease | Operating Leases |
|---|---|---|
| 2002 | $ 106 | $ 3,742 |
| 2003 | 106 | 3,107 |
| 2004 | 91 | 2,643 |
| 2005 | 91 | 2,636 |
| 2006 | 91 | 2,604 |
| Thereafter | 105 | 19,972 |
| Total minimum lease payments | $ 590 | $ 34,704 |
| Less amount representing interest | (103) | |
| Present value of minimum payments | 487 | |
| Less current portion of obligation under capital lease | (79) | |
| Long-term portion of obligation under capital lease | $ 408 | |

Rent expense for operating leases charged to operations for the years ended December 31, 2001, 2000, and 1999 was $4,917,000, $4,833,000, and $4,317,000, respectively.

*Letter of credit.* In connection with the lease agreements described above, the Company has guaranteed Unique's full and prompt payment under Unique's letter of credit agreement with a bank. The contingent liability of the Company under this guaranty as of December 31, 2001, is $700,000, which is the limit of the Company's guaranty throughout the term of the IRB.

*Derivative Instruments.* In the normal course of business, portions of the Company's operations are subject to fluctuations in currency values. The Company addresses these risks through a controlled program of risk management that includes the use of derivative financial instruments.



The Company enters into foreign exchange forward contracts to manage exposure to fluctuations in foreign exchange rates to the funding of its United Kingdom operations. The Company accounts for such contracts by recording any unrealized gains or losses in income each reporting period. The notional principal amounts of outstanding forward contracts were €16,391,000 and £6,019,000 at December 31, 2001, and €15,000,000 at December 31, 2000. The realized loss was $661,000 in 2001 and the realized gain was $367,000 in 2000.

**Note 12 Segment Data and Export Sales**

The Company operates in one industry segment. Information regarding the Company's operations by geographic area for the years ended December 31, 2001, 2000, and 1999 is contained in the following table. These amounts (in thousands) are reported in the geographic area where the final sale originates.

| | United States | United Kingdom | Other | Total |
|---|---|---|---|---|
| **2001** | | | | |
| Net sales | $ 325,003 | $ 111,577 | $ 13,428 | $ 450,008 |
| Long-lived assets | 107,491 | 5,755 | 1,071 | 114,317 |
| **2000** | | | | |
| Net sales | $ 357,412 | $ 100,988 | $ 23,169 | $ 481,569 |
| Long-lived assets | 103,957 | 6,526 | 1,258 | 111,741 |
| **1999** | | | | |
| Net sales | $ 284,462 | $ 97,426 | $ 20,325 | $ 402,213 |
| Long-lived assets | 39,370 | 6,799 | 1,695 | 47,864 |

**Note 13 Shareholders' Equity**

Holders of Class A Common Stock are entitled to one vote per share. Holders of Class B Common Stock are entitled to 10 votes per share. Holders of Class A and Class B Common Stock vote together as a single class on all actions submitted to a vote of shareholders, except in certain circumstances. If at any time the number of outstanding shares of Class B Common Stock represents less than 10% of the total number of outstanding shares of both classes of common stock, then at that time such outstanding shares of Class B Common Stock will automatically convert into an equal number of shares of Class A Common Stock.

Class A Common Stock has no conversion rights. A holder of Class B Common Stock may convert the Class B Common Stock into Class A Common Stock, in whole or in part, at any time and from time to time. Shares of Class B Common Stock convert into shares of Class A Common stock on a share-for-share basis.

Holders of Class A and Class B Common Stock are entitled to receive cash dividends equally on a per-share basis, if and when the Company's Board of Directors declares such dividends. In the case of any stock dividend paid, holders of Class A Common Stock are entitled to receive the same percentage dividend (payable in shares of Class A Common Stock) as the holders of Class B Common Stock receive (payable in shares of Class B Common Stock).

Holders of Class A and Class B Common Stock share with each other on a ratable basis as a single class in the net assets of the Company in the event of liquidation.



**Note 14 Stock Option and Purchase Plans**

As of December 31, 2001, the Company had four active stock option and stock purchase plans, described below.

The Board of Directors and stockholders adopted the Zebra Technologies Corporation Stock Option Plan (the 1991 Plan), effective as of August 1, 1991. A total of 400,000 shares of Class A Common Stock was authorized and reserved for issuance under the 1991 Plan. Under this plan, the Company has granted only nonqualified stock options. During 2001, all options expired, and thus, no shares are available under the plan.

The Board of Directors and stockholders also adopted a Directors' Stock Option Plan, which reserved 80,000 shares of Class A Common Stock for issuance under the plan. During 2001, all options expired, and thus, no shares are available under the plan.

The Board of Directors and stockholders adopted an employee stock purchase plan (Stock Purchase Plan) and reserved 300,000 shares of Class A Common Stock for issuance thereunder. Under this plan, employees who work a minimum of 20 hours per week may elect to withhold up to 10% of their cash compensation through regular payroll deductions to purchase shares of Class A Common Stock from the Company over a period not to exceed 12 months at a purchase price per share equal to the lesser of: (1) 85% of the fair market value of the shares as of the date of the grant, or (2) 85% of the fair market value of the shares as of the date of purchase. A total of 248,411 shares were purchased under this plan, which terminated on July 11, 2001.

The Board of Directors adopted the 1997 Stock Option Plan, effective February 11, 1997, and 4,250,000 shares of Class A Common Stock were reserved for issuance under the plan. The 1997 Stock Option Plan is a flexible plan that provides the committee that administers the Plan broad discretion to fashion the terms of the awards to provide eligible participants with stock-based incentives, including: (i) nonqualified and incentive stock options for the purchase of the Company's Class A Common Stock and (ii) dividend equivalents. The persons eligible to participate in the 1997 Stock Option Plan are directors, officers, and employees of the Company or any subsidiary of the Company who, in the opinion of the committee administering the plan, are in a position to make contributions to the growth, management, protection and success of the Company or its subsidiaries. As of December 31, 2001, 1,916,098 shares were available under the plan.

The options granted under the 1997 Stock Option Plan have an exercise price equal to the closing market price of the Company's stock on the date of grant. The options generally vest over two- to five-year periods and have a legal life of ten years from the date of grant. A committee of the Board of Directors determines the specific provisions of any grant.

The Company's Board of Directors adopted the 1997 Director Plan, effective February 11, 1997. The 1997 Director Plan provides for the issuance of options to purchase up to 77,000 shares of Class A Common Stock, which shares are reserved and available for purchase upon the exercise of options granted under the 1997 Director Plan. Only directors who are not employees or officers of the Company are eligible to participate in the 1997 Director Plan. Under the 1997 Director Plan, each non-employee director was granted, on the effective date of the plan, an option to purchase 15,000 shares of Class A Common Stock, and each non-employee director subsequently elected to the Board will be granted an option to purchase shares of Class A Common Stock on the date of his or her election. Options granted under the 1997 Director Plan provide for the purchase of Class A Common Stock at a price equal to the fair market value on the date of grant. If there are not sufficient shares remaining and available to all non-employee directors eligible for an automatic grant at the time at which an automatic grant would otherwise be made, then each eligible non-employee director shall receive an option to purchase a pro rata number of shares. As of December 31, 2001, 24,500 shares were available under the plan. Unless otherwise provided in an option agreement, options granted under the 1997 Director Plan shall become exercisable in five equal increments beginning on the date of the grant and on each of the first four anniversaries thereof. All options expire on the earlier of (a) ten years following the grant date or (b) the second anniversary of the termination of the non-employee director's directorship for any reason other than due to death or disability (as defined in the 1997 Director Plan).

The Board of Directors and stockholders adopted the 2001 Stock Purchase Plan and reserved 500,000 shares of Class A Common Stock for issuance thereunder. Under this plan, employees who work a minimum of 20 hours per week may elect to withhold up to 10% of their cash compensation through regular payroll deductions to purchase shares of Class A Common Stock from the Company over a period not to exceed 12 months at a purchase price per share equal to the lesser of: (1) 85% of the fair market value of the shares as of the date of the grant, or (2) 85% of the fair market value of the shares as of the date of purchase. As of December 31, 2001, 27,547 shares have been purchased under the plan.



The Company applies APB No. 25 in accounting for its plans. No compensation cost has been recognized for its fixed stock option plans and its stock purchase plan. Had compensation cost for the Company's stock option and stock purchase plans been determined consistent with SFAS No. 123, the Company's net income and diluted earnings per share would have been as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net income: | | | |
| As reported | $ 61,529 | $ 71,622 | $ 69,632 |

| | 2001 | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| Pro forma | | 57,971 | | 67,613 | | 66,569 |
| Basic earnings per share: | | | | | | |
| As reported | $ | 2.01 | $ | 2.33 | $ | 2.23 |
| Pro forma | | 1.89 | | 2.20 | | 2.14 |
| Diluted earnings per share: | | | | | | |
| As reported | $ | 1.99 | $ | 2.30 | $ | 2.21 |
| Pro forma | | 1.88 | | 2.17 | | 2.11 |

For purposes of calculating the compensation cost consistent with SFAS No. 123, the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for stock option grants in 2001, 2000, and 1999, respectively: expected dividend yield of 0% for each period; expected volatility of 59%, 58%, and 50%; risk free interest rate of 4.38%, 5.05%, and 6.54%; and expected weighted-average life of five years. The fair market value of options granted were $11,930,000 in 2001, $24,290,000 in 2000 and $19,774,000 in 1999.

The fair value of the employees' purchase rights pursuant to the Stock Purchase Plan are estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for purchase rights granted in 2001, 2000, and 1999, respectively: fair market value of $38.18, $44.62, and $30.45; option price of $32.45, $37.92, and $25.88; expected dividend yield of 0% for each period; expected volatility of 54%, 71%, and 49%; risk-free interest rate of 2.17%, 5.85%, and 6.11%; and expected lives of three months to one year.

Stock option activity for the years ended December 31, 2001, 2000, and 1999 was as follows:

| | 2001 | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| **Fixed Options** | **Shares** | **Weighted-Average Exercise Price** | **Shares** | **Weighted-Average Exercise Price** | **Shares** | **Weighted-Average Exercise Price** |
| Outstanding at beginning of year | 1,487,277 | $ 36.08 | 1,390,588 | $ 27.88 | 1,416,138 | $ 26.55 |
| Granted | 287,500 | 41.49 | 440,000 | 55.29 | 720,500 | 27.45 |
| Exercised | (247,838) | 28.38 | (195,369) | 23.76 | (433,526) | 21.28 |
| Canceled | (113,554) | 38.02 | (147,942) | 31.57 | (312,524) | 30.03 |
| Outstanding at end of year | 1,413,385 | 38.38 | 1,487,277 | 36.10 | 1,390,588 | 27.88 |
| Options exercisable at end of year | 477,385 | 31.22 | 417,570 | 27.82 | 291,485 | 25.24 |



The following table summarizes information about fixed stock options outstanding at December 31, 2001:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| **Range of Exercise Prices** | **Number of Shares** | **Weighted-Average Remaining Contractual Life** | **Weighted-Average Exercise Price** | **Number of Shares** | **Weighted-Average Exercise Price** |
| $4.31 | 4,500 | 2.52 years | $ 4.31 | 4,500 | $ 4.31 |
| $17.38-$26.56 | 514,377 | 6.50 years | $ 25.88 | 266,302 | $ 25.58 |
| $29.25-$40.88 | 445,183 | 7.79 years | $ 37.26 | 137,758 | $ 31.51 |
| $43.13-$54.69 | 229,825 | 8.41 years | $ 47.92 | 34,625 | $ 47.76 |
| $60.63 | 219,500 | 8.13 years | $ 60.63 | 34,200 | $ 60.63 |
| | 1,413,385 | | | 477,385 | |

| Options Outstanding | Options Exercisable |
|---|---|

**Note 15 Quarterly Results of Operations (unaudited)**

(Amounts in thousands, except per share data)

| 2001 | First Quarter (1) | Second Quarter (1) | Third Quarter (1) | Fourth Quarter (1) |
|---|---|---|---|---|
| Net sales | $ 115,144 | $ 112,935 | $ 110,318 | $ 111,611 |
| Gross profit | 54,022 | 52,334 | 52,037 | 51,500 |
| Operating expenses | 29,339 | 31,069 | 28,317 | 28,709 |
| Operating income | 24,683 | 21,265 | 23,720 | 22,791 |
| Net income | 16,930 | 14,471 | 14,882 | 15,246 |
| Basic earnings per share | $ 0.55 | $ 0.47 | $ 0.49 | $ 0.50 |
| Diluted earnings per share | $ 0.55 | $ 0.47 | $ 0.48 | $ 0.49 |

| 2000 | First Quarter (1) | Second Quarter (1) | Third Quarter (1) | Fourth Quarter (1) |
|---|---|---|---|---|
| Net sales | $ 99,635 | $ 129,995 | $ 129,717 | $ 122,222 |
| Gross profit | 49,380 | 62,312 | 64,180 | 56,555 |
| Operating expenses | 25,171 | 37,369 | 29,325 | 31,892 |
| Operating income | 24,209 | 24,943 | 34,855 | 24,663 |
| Net income | 15,228 | 16,650 | 22,590 | 17,154 |
| Basic earnings per share | $ 0.48 | $ 0.54 | $ 0.74 | $ 0.56 |
| Diluted earnings per share | $ 0.48 | $ 0.53 | $ 0.73 | $ 0.56 |

(1) Reflects pretax charges for merger costs and acquired in-process technology relating to the Company's merger with Eltron International, Inc. and acquisition of Comtec Information Systems, Inc. as follows:

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| 2001 | $ 832 | $ 532 | $ 305 | $ 169 |
| 2000 | $ 1,009 | $ 7,685 | $ 1,651 | $ 721 |

**Note 16 Major Customers**

No customer accounted for 10% or more of net sales in 2001, 2000 or 1999.



**Note 17 Subsequent Event**

On March 13, 2002, the Company's Board of Directors established a Stockholder Rights Plan under which stockholders will receive one Class A Right for each share of the Company's Class A Common Stock they own and one Class B Right for each share of the Company's Class B Common Stock they own on March 15, 2002 (collectively, the "Rights"). Each Class A Right entitles the holder to purchase from the Company one ten-thousandth of a share of the Company's Series A Junior Participating Preferred Stock and each Class B Right entitles the holder to purchase from the Company one ten-thousandth of a share of the Company's Series B Junior Participating Preferred Stock, each at an exercise price of $300 per one ten-thousandth of a Preferred Share, subject to adjustment. The Rights will only be exercisable if a person or group (excluding certain grandfathered persons) acquires, has the right to acquire, or has commenced a tender offer for 15% or more of the

Company's outstanding common stock. If any person or group acquires 15% or more of the Company's outstanding common stock, each Right not owned by that person or group or related parties will enable its holder to either purchase, at the Right's exercise price, common stock (or, in certain circumstances, cash, property or other securities of the Company) having double the value of the exercise price, or if so determined by the Board of Directors, exchange each Right for one share of Common Stock. In the event of certain merger or asset sale transactions with another party, the Rights would entitle their holders to purchase that party's common stock on similar terms.

Upon approval by the Board of Directors, the Rights may be redeemed for $0.001 per Right at any time prior to the time a person or group has acquired 15% of the Company's outstanding common stock. The Rights are nonvoting, pay no dividends and expire on March 14, 2012, unless earlier redeemed or terminated. A committee of the Board of Directors comprised of the independent directors will review the Rights Agreement at least every three years and may recommend a modification or termination of the Rights Agreement.



**ZEBRA TECHNOLOGIES CORPORATION**
**Schedule II**
**Valuation and Qualifying Accounts**
(Amounts in thousands)

| Description | Balance at Beginning of Period | Charged to Costs and Expenses | Deductions | Balance at End of Period |
|---|---|---|---|---|
| Valuation account for accounts receivable: | | | | |
| Year ended December 31, 2001 | $ 1,420 | $ 489 | $ (66) | $ 1,975 |
| Year ended December 31, 2000 | $ 1,850 | $ (47) | $ 383 | $ 1,420 |
| Year ended December 31, 1999 | $ 2,156 | $ (176) | $ 130 | $ 1,850 |
| Valuation account for inventories: | | | | |
| Year ended December 31, 2001 | $ 5,743 | $ 2,171 | $ 1,998 | $ 5,916 |
| Year ended December 31, 2000 | $ 4,556 | $ 3,692 | $ 2,505 | $ 5,743 |
| Year ended December 31, 1999 | $ 9,354 | $ 971 | $ 5,769 | $ 4,556 |

See accompanying independent auditors' report.



QuickLinks