ZEBRA TECHNOLOGIES CORP
Form 10-K
February 14, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

COMMISSION FILE NUMBER 000-19406

Zebra Technologies Corporation
(Exact name of registrant as specified in its charter)

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

3 Overlook Point, Lincolnshire, IL 60069
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “accelerated filer,” “large accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Securities Act (Check one):

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Act).
Yes ¨ No ý

The aggregate market value of the shares of Class A Common Stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock as of the last business day of the registrant’s most recently completed second quarter, was $7.6 billion.

As of February 7, 2019, there were 53,870,497 shares of Class A Common Stock, par value $.01 per share, outstanding.

Documents Incorporated by Reference

Certain sections of the registrant’s Notice of Annual Meeting of Stockholders and Proxy Statement for its Annual Meeting of Stockholders to be held on May 16, 2019, are incorporated by reference into Part III of this report, as indicated herein.

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PART I

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

Safe Harbor

Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors, which could cause actual results to differ materially from those expressed or implied in such forward-looking statements. When used in this document and documents referenced, the words “anticipate,” “believe,” “intend,” “estimate,” “will,” and “expect” and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements but are not the exclusive means of identifying these statements. The forward-looking statements include, but are not limited to, the Company’s financial outlook for the first quarter and full year of 2019. These forward-looking statements are based on current expectations, forecasts and assumptions and are subject to the risks and uncertainties inherent in the Company’s industry, market conditions, general domestic and international economic conditions, and other factors. These factors include:

- Market acceptance of the Company’s products and solution offerings and competitors’ offerings and the potential effects of technological changes,
- The effect of global market conditions, including North America; Europe, Middle East, and Africa; Latin America; and Asia-Pacific regions in which we do business,
- The impact of foreign exchange rates due to the large percentage of our sales and operations being outside the United States (“U.S.”),
- Our ability to control manufacturing and operating costs,
- Risks related to the manufacturing of the Company’s products and conducting business operations in non-U.S. countries, including the risk of depending on key suppliers who are also in non-U.S. countries,
- The Company’s ability to purchase sufficient materials, parts, and components to meet customer demand, particularly considering global economic conditions,
- The availability of credit and the volatility of capital markets, which may affect our suppliers, customers, and ourselves,
- Success of integrating acquisitions,
- Interest rate and financial market conditions,
- Access to cash and cash equivalents held outside the U.S.,
- The effect of natural disasters on our business,
- The impact of changes in foreign and domestic governmental policies, laws, or regulations,
- The outcome of litigation in which the Company may be involved, particularly litigation or claims related to infringement of third-party intellectual property rights, and
- The outcome of any future tax matters or tax law changes.

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

Item 1. Business

The Company

We are a global leader in the Automatic Identification and Data Capture (“AIDC”) market. The AIDC market consists of mobile computing, data capture, radio frequency identification devices (“RFID”), barcode printing, and other automation products and services. The Company’s solutions are proven to help our customers and end-users achieve their mission critical strategic business objectives, including improved operational efficiency, optimized workflows, increased asset utilization, and better customer experiences.

We design, manufacture, and sell a broad range of AIDC products, including: mobile computers, barcode scanners, RFID readers, specialty printers for barcode labeling and personal identification, real-time location systems (“RTLS”), related accessories and supplies, such as self-adhesive labels and other consumables, and software utilities and applications. We also provide a full range of services, including maintenance, technical support, repair, managed and professional services, including cloud-based subscriptions. End-users of our products and services include retail and e-commerce, transportation and logistics, manufacturing, health care, hospitality, warehouse and distribution, energy and utilities, government, and education enterprises around the world. We provide our products and services globally through a direct sales force and extensive network of channel

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partners. We provide products and services in over 180 countries, with 109 facilities and approximately 7,400 employees worldwide.

Through innovative application of our technologies, we are leading an evolution of the AIDC market into Enterprise Asset Intelligence (“EAI”). Specifically, EAI encompasses solutions which “sense” information from enterprise assets, including packages moving through a supply chain, equipment in a factory, workers in a warehouse, and shoppers in a store. Operational data from enterprise assets, including status, location, utilization, and preferences, is then analyzed to provide actionable insights. Finally, with the benefits of mobility, these insights can be delivered to the right user at the right time to drive more effective actions. As a result, our solutions and technologies enable enterprises to “sense, analyze, and act” more effectively to improve operational effectiveness and achieve critical business objectives.

The evolution of the AIDC market toward a more strategically oriented EAI focus is being driven by strong underlying secular trends in technology. These trends include internet of things (“IoT”), cloud-based data analytics, and mobility. The IoT is enabling a proliferation of smart, connected devices. EAI solutions, which include these smart, connected devices, capture a much broader range of information than is possible with traditional AIDC solutions and communicate this information in real-time. Cloud computing and expanded data analytics are allowing enterprises to make better business decisions through improved timeliness and visibility to information and workflows. While traditional AIDC solutions sporadically capture limited amounts of data and populate static enterprise systems, EAI solutions continuously analyze real-time data from many sources to generate actionable insights. Finally, the continued rapid growth of mobile devices and applications are significantly expanding mobile computing use cases to levels of near ubiquity in the enterprise. With this expanded mobility, end-users can consume or act upon dynamic enterprise data and information anytime and anywhere. The broad availability of wireless and internet connectivity also supports the adoption and deployment of the Company’s solutions to enable organizations to collect more data in real-time on the location, movement, and condition of their assets.

Acquisition of Xplore Business

On August 14, 2018, the Company acquired all outstanding equity interests of Xplore Technologies Corporation (“Xplore”), for $87 million in cash, which included, $72 million for the net assets acquired, a $9 million payment of Xplore debt as well as $6 million of other Xplore transaction-related obligations. The Xplore business designs, integrates, markets and sells rugged tablets that are primarily used by industrial, government, and field service organizations. The acquisition of Xplore is intended to expand the Company’s portfolio of mobile computing devices to serve a wider range of customers. See Note 5, Business Acquisition and Divestiture in the Notes to Consolidated Financial Statements.

Disposition

On October 28, 2016, the Company concluded the sale of Extreme Networks, Inc., its wireless LAN (“WLAN”) business, for net proceeds of $39 million. See Note 5, Business Acquisition and Divestiture in the Notes to Consolidated Financial Statements.

Integration of Enterprise Business

In October 2014, the Company acquired the Enterprise business (“Enterprise”), excluding its iDEN or Integrated Digital Enhanced Network Business, from Motorola Solutions, Inc. (“MSI”) for $3.45 billion in cash.

The Company funded the acquisition of Enterprise through a combination of the sale of $1.1 billion senior notes due in 2022, a credit agreement with various lenders that provided a $2.2 billion term loan due in 2021, and cash on hand. In 2017, the Company executed a debt restructuring program to lower its cost of debt, which included amending its credit facilities, establishing a Receivables Financing Facility and fully redeeming the $1.1 billion senior notes. In 2018, the Company executed a second debt restructuring program, which included entering into Amendment No. 1 to the “A&R Credit Agreement” (“Amendment No. 1”) that included an increase to the credit facility and partial extinguishment of the term loan, further lowering the cost of debt. See Note 11, Long-Term Debt in the Notes to Consolidated Financial Statements.

Since closing the acquisition of Enterprise in October 2014, integration activities by the Company have focused on creating “One Zebra” by integrating the operations of Enterprise to create a single business with common sales, service, supply chain, marketing, finance, information technology (“IT”), and other functions. Our integration priorities centered on maintaining business continuity while identifying and implementing cost synergies, operating efficiencies, and integration of functional organizations and processes. Another key focus of the integration was to conclude MSI-provided transition service agreements (“TSAs”) related primarily to IT support services. These TSAs were an interim measure to continue the operations of the Enterprise business without disruption while integration activities were completed.

During 2017, the Company substantially completed its integration activities, including the implementation of a common enterprise resource planning system, associated with the Enterprise acquisition. The Company also exited the TSAs with MSI.

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Operations

Our operations consist of two segments: (1) Asset Intelligence & Tracking (“AIT”), comprised of barcode and card printing, location solutions, supplies, and services; and (2) Enterprise Visibility & Mobility (“EVM”), comprised of mobile computing, data capture, RFID, and services.

Asset Intelligence & Tracking

Barcode and Card Printing: We design, manufacture, and sell printers, which produce high-quality labels, wristbands, tickets, receipts, and plastic cards on demand. Our customers use our printers in a wide range of applications, including routing and tracking, patient safety, transaction processing, personal identification, and product authentication. These applications require high levels of data accuracy, speed, and reliability. They also include specialty printing for receipts and tickets for improved customer service and productivity gains. Plastic cards are used for secure, reliable personal identification (e.g. state identification cards and drivers’ licenses, healthcare IDs), access control (e.g. employee or student building access), and financial cards (e.g. credit, debit and ATM cards) by financial institutions. Our RFID printers/encoders are used to print and encode passive RFID labels. We offer a wide range of accessories and options for our printers, including vehicle mounts and battery chargers.

Supplies: We produce and sell stock and customized thermal labels, receipts, ribbons, plastic cards, and wristbands suitable for use with our printers, and also wristbands which can be imaged in most commercial laser printers. We support our printing products, resellers, and end-users with an extensive line of superior quality, high-performance supplies optimized to a particular end-user’s needs. We promote the use of genuine Zebra branded supplies with our printing equipment. We also provide a family of self-laminating wristbands for use in laser printers. These wristbands are marketed under the LaserBand® name. We operate supplies production facilities located in the United States and Western Europe. We supplement our in-house production capabilities with those of third-party manufacturers to offer genuine Zebra supplies, principally in Asia.

Services: We provide a full range of maintenance, technical support, and repair services. We also provide managed and professional services including those which help customers manage their devices and related software applications. Our offerings include cloud-based subscriptions and multiple service levels. They are typically contracted through multi-year service agreements. We provide our services directly and through our global network of partners.

Location Solutions: The Company offers a range of RTLS and services which incorporate active and passive RFID and other tracking technologies to enable users to locate, track, manage, and optimize the utilization of enterprise assets and personnel. We provide substantially all elements of the location solution, including tags, sensors, exciters, middleware software, and application software. Our location solutions are deployed primarily in manufacturing, aerospace, transportation and logistics, sports, and healthcare industries. Various sports teams utilize our Zebra MotionWorks® sports solution to track the location and movement of personnel and objects in real-time during sporting events, as well as in training and practice activities.

Enterprise Visibility & Mobility

Mobile Computing: We design, manufacture, and sell rugged and enterprise-grade mobile computing products and accessories in a variety of specialized form factors and designs to meet a wide variety of enterprise applications. Industrial applications include inventory management in warehouses and distribution centers; field mobility applications include field service, post and parcel, and direct store delivery; and retail and customer facing applications include e-commerce, omnichannel, mobile point of sale, inventory look-up, and staff collaboration. Our products incorporate both Android™ and Microsoft® Windows® operating systems and support local-area and wide-area voice and data communications. Our mobile computing products often incorporate barcode scanning, global position system (“GPS”) and RFID features, and other sensory capabilities. We also provide related software tools, utilities, and applications.

Data Capture and RFID: We design, manufacture, and sell barcode scanners, image capture devices, and RFID readers. Our portfolio of barcode scanners includes laser scanning and imager products and form factors, including fixed, handheld, and embedded original equipment manufacturer (“OEM”) modules. The Company’s data capture products capture business-critical information by decoding barcodes and images, and transmit the resulting data to enterprise systems for analysis and timely decision making. Common applications include asset identification and tracking and workflow management in a variety of industries, including retail, transportation and logistics, manufacturing, and healthcare. Our RFID line of data capture products is focused on ultra-high frequency ("UHF") technology. These RFID devices comply with the electronic product code ("EPC") global Generation 2 UHF standard and similar standards around the world. We also provide related accessories.

Services: We provide a full range of maintenance, technical support, and repair services. We also provide managed and professional services that, among other things, help customers design, test, and deploy our solutions as well as manage their mobility devices, software applications and workflows. Our offerings include cloud-based subscriptions and multiple service levels. They are typically contracted through multi-year service agreements. We provide our services directly and through our global network of partners.

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Our Competitive Strengths

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

An industry leader focused solely on improving enterprise operations

We are a market leader in the key technologies of Enterprise Asset Intelligence, including mobile computing, barcode and card printing, data capture, and RFID readers. We also provide related software, services, and accessories. Our leadership position enables us to work with and support customers globally, in a variety of industries, who are focused on implementing leading-edge solutions.

High entry and switching barriers

On a global basis, we have long-standing relationships with end customers and with our extensive network of channel partners. We believe these customer relationships and our strong partner network are critical to our success and would be difficult for a new market entrant to replicate. We believe a significant portion of our products are deployed with specialized product performance and software application requirements, which could result in high switching costs.

Commitment to innovation and deep industry-specific expertise

We leverage our strong commitment to innovation and deep industry-specific expertise to deliver end-to-end solutions to a wide array of industries, with a broad portfolio of products and services.

Highly diversified business mix

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

Global reach and brand

We sell to customers directly and through our network of channel partners around the world. This global presence gives us the capability to supply our customers with products, solutions, and services no matter the location of their operations. In addition, we believe we have strong brand recognition with a reputation in the industry as a trusted and strategic partner.

Scale advantages

We believe the size and scope of our operations, including market leadership, product development investment, portfolio breadth, and global distribution, give us advantages over our competitors. We believe we have the largest installed base of products compared with other companies in our industry. These characteristics enable us to compete successfully, achieve economies of scale, and develop industry-leading solutions.

Our Business Strategies

Leverage our market leadership position and innovation to profitably grow our core business

We expect to drive revenue growth by continuing to outpace our competition in our core businesses, including mobile computing, data capture, barcode printing, and services. We expect to achieve this by leveraging our broad portfolio of solutions and product innovation and continuing to be a strategic partner to end customers. We also expect to drive growth by capitalizing on technology transitions occurring in the industry, including the transition to the Android™ operating system in mobile computing and transitions in data capture to newer technologies involving 2D imaging and RFID. This includes increased focus on market segments and geographies that offer share-gain opportunities. In addition, we plan to leverage our market-leading installed base to accelerate growth in attach-oriented products, including services, supplies, and accessories. Our global channel partner network is vital to helping us achieve these goals. As such, we will ensure that we provide the necessary value and support for our partners to be successful.

Drive our Enterprise Asset Intelligence vision

We believe that secular technology trends, particularly in IoT, cloud computing, automation, and mobility are transforming our customers' businesses and our industry and provide us with significant new opportunities to create value for our customers and for the Company. We expect to capitalize on these trends, and in particular the proliferation of smart connected sensors and devices in our core market segments, by providing end-to-end solutions that integrate these sensors and devices with cloud-based workflows and analytics applications. These solutions will enable increased visibility into the enterprise, real-time, actionable information, and improved customer experiences. Our solutions will also increasingly include common features, functions, and user experiences to drive additional competitive differentiation.

Increase our opportunity for growth through expansion in adjacent market segments

We plan to drive growth through expansion, organically or inorganically, in adjacent market segments that share similar technology needs with our core markets. We will focus specifically on segments where our products and solutions, workflow expertise, and customer and industry relationships will enable us to provide significant value to end users.

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Enhance financial strength and flexibility
We intend to continue to improve profitability and cash flow generation through operational execution and increased productivity derived from continuous business process improvement, cost management, and focus on working capital efficiency.

Competition
We operate in a highly competitive environment. The need for companies to improve productivity and implement their strategies, as well as the secular trends around IoT, cloud computing, automation, and mobility, are some of the factors that are creating growth opportunities for established and new competitors.

Key competitive factors include the design, breadth and quality of products and services, price, product performance, durability, product and service availability, warranty coverage, brand recognition, company relationships with customers and channel partners, and company reputation. We believe we compete effectively with respect to these factors.

Mobile Computing: Competitors in mobile computing include companies that have historically served enterprises with ruggedized devices. For some applications, we compete with companies that provide tablets and smart phones. Competitors include: Datalogic, Honeywell, and Panasonic.

Data Capture and RFID: Competitors that provide a broad portfolio of barcode scanning products that are suitable for most global market applications include Datalogic and Honeywell. We also compete against smaller companies that focus on limited product subsets or specific regions, including Fujian Newland and Impinj.

Barcode and Card Printing: We consider our direct competition in printing to be producers of on-demand thermal transfer and direct thermal label printing systems, RFID printer/encoders, and mobile printers. We also compete with companies engaged in the design, manufacture, and marketing of printing systems that use technologies such as ink-jet, direct marking and laser printing, as well as card printers based on ink-jet, thermal transfer, embossing, film-based systems, encoders, laser engraving, and large-scale dye sublimation printers. In addition, service bureaus, which provide centralized services, compete for end-user business and provide an alternative to our card printing solutions. Competitors include: Fargo Electronics (a unit of HID Global), Honeywell, Sato, and Toshiba TEC.

Location Solutions: We compete with a diverse group of companies marketing location solutions that are primarily based on active RFID technologies. Competitors include: Cisco, Impinj, and Stanley Healthcare.

Supplies: The supplies industry is highly fragmented with competition comprised of numerous companies of various sizes around the world.

Customers
End-users of our products are diversified across a wide variety of industries, including retail and e-commerce, transportation and logistics, manufacturing, and healthcare industries. We have had three customers that each accounted for 10% or more of our Net sales over the past three years. All three of these customers are distributors and not end-users of our products. No end-user has accounted for 10% or more of our Net sales during these years. See Note 18, Segment Information & Geographic Data in the Notes to Consolidated Financial Statements for further information.

	Year Ended December 31,		
	2018	2017	2016
Customer A	20.3 %	21.3 %	20.1 %
Customer B	15.7 %	14.2 %	13.2 %
Customer C	14.1 %	13.2 %	12.4 %

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Sales and Marketing

Sales: We sell our products, solutions, and services primarily through distributors (two-tier distribution), value added resellers ("VARs"), independent software vendors ("ISVs"), direct marketers, and OEMs. We also sell directly to a select number of customers through our direct sales force. Distributors purchase our products and sell to VARs, ISVs and others, thereby increasing the distribution of our products globally. VARs, ISVs, OEMs, and systems integrators provide customers with a variety of hardware, accessories, software applications, and services. VARs and ISVs typically customize solutions for specific end-user applications using their industry, systems, and applications expertise. Some OEMs resell the Zebra-manufactured products under their own brands as part of their own product offering. Because these sales channels provide specific software, configuration, installation, integration, and support services to end-users within various industry segments, these relationships are highly valued by end-users and allow our products to reach customers in a wide array of industries around the world. We believe that the breadth of our distributor and channel partner network is a competitive differentiator and enhances our ability to compete. Finally, we experience some seasonality in sales, depending upon the geographic region and industry served.

Marketing: Our marketing function aligns closely with sales and product management functions to market our products and to deliver and promote solutions that address the needs of our customers and partners. Our marketing organization includes regional and channel marketing teams that interface closely with customers, partners, and sellers. Our marketing organization also includes teams that support global strategies and communications, including portfolio marketing, digital marketing, marketing operations and communications, and strategic marketing functions.

Manufacturing and Outsourcing

Final assembly of our hardware products is performed by third-parties, including electronics manufacturing services companies ("EMS") and joint design manufacturers ("JDMs"). Our products are produced primarily in facilities located in China, Mexico, and Brazil. These JDMs or manufacturers produce our products to our design specifications. We maintain control over portions of the supply chain, including supplier selection and price negotiations for key components. The manufacturers purchase the components and subassemblies used in the production of our products. Our products are shipped to regional distribution centers, operated by 3rd party logistics providers ("3PL's") or the Company. A portion of products are reconfigured at the distribution centers through firmware downloads, packaging, and customer specific customization before they are shipped to customers. In addition, certain products are manufactured in accordance with procurement regulations and various international trade agreements, and remain eligible for sale to the U.S. government. Production facilities for our supplies products are located in the U.S. and Western Europe. We also supplement our in-house production capabilities with those of third-party manufacturers to offer our supplies, principally in Asia.

Research and Development

The Company devotes significant resources to developing innovative solutions for our target markets and ensuring that our products and services maintain high levels of reliability and provide value to end-users. Research and development expenditures for the years ended 2018, 2017, and 2016 were $444 million, $389 million, and $376 million, or 10.5%, 10.5% and 10.5% of Net sales, respectively. We have more than 1,900 engineers worldwide focused on strengthening and broadening our extensive portfolio of products and solutions.

Our Technology

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

Data Capture and RFID: Our data capture products allow businesses to track business critical information simply, quickly, and accurately by providing critical visibility into business processes and performance and enabling real-time action in response to the information. These products include barcode scanners in a variety of form factors, including fixed and handheld scanners and standalone modules designed for integration into third-party OEM devices. Our scanners incorporate a variety of technologies including area imagers, linear imagers, lasers, and read linear, and two-dimensional barcodes. They are used in a broad range of applications, ranging from supermarket checkout to industrial warehouse optimization to patient management in hospitals. The design of these products reflects the diverse needs of these markets, with different ergonomics, multiple communication protocols, and varying levels of ruggedness.

Our RFID products include fixed readers, RFID enabled mobile computers, and RFID sleds. These utilize passive Ultra High Frequency ("UHF") to provide high speed, non-line of sight data capture from hundreds or thousands of RFID tags in near real-time. Using the Electronic Product Code ("EPC") standard, end-users across multiple industries take advantage of RFID technology to track high-value assets, monitor shipments, and drive increased retail sales though improved inventory accuracy. We also offer mobile computers that support high frequency ("HF") near-field communications ("NFC") and low frequency ("LF") radio technologies.

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

The Company's printers integrate company-designed mechanisms, electrical systems, and firmware. Enclosures of metal or high-impact plastic ensure the durability of our printers. Special mechanisms optimize handling of labels, ribbons, and plastic cards. Fast, high-current electrical systems provide consistent image quality. Firmware supports serial, parallel, Ethernet, USB, Bluetooth, or 802.11 wireless communications with appropriate security protocols. Printing instructions can be received as a proprietary language such as Zebra Programming Language II ("ZPL II®"), as a print driver-provided image, or as user-defined XML. These features make our printers easy to integrate into virtually all common computer systems.

Location Solutions: Our RTLS solutions use active and passive RFID technologies, beacons, and other tracking technologies to locate, track, manage, and optimize high-value assets, equipment, and people. We offer a range of scalable RTLS technologies that generate precise, on-demand information about the physical location and status of high-valued assets. In addition, we offer a selection of RTLS infrastructure products that receive tag transmissions and provide location and motion calculations, database and system management functions and asset visibility. The flexible infrastructure supports large tag populations and coverage areas that range from small to large.

Supplies: Our supplies business includes thermal labels, receipts, ribbons, plastic cards and wristbands suitable for use with our printers, and wristbands which can be imaged in most commercial laser printers. Our wristbands incorporate multi-layer form technology to ensure trouble-free printing, wearer comfort, and reliable barcode reading, even when exposed to harsh chemical environments. We offer many thermal label, card, and receipt materials, and matching ribbons for diverse applications that may require meeting unique or precise specifications, including chemical or abrasion resistance, extreme temperatures, exceptional image quality, or long life.

Intellectual Property

We rely on a combination of trade secrets, patents, trademarks, copyrights, and contractual rights to establish and protect our innovations, and hold a large portfolio of intellectual property rights in the U.S. and other countries. As of December 31, 2018, the Company owned approximately 1,800 trademark registrations and trademark applications, and over 4,400 patents and patent applications, worldwide. We continue to actively seek to obtain patents and trademarks, whenever possible and practical, to secure intellectual property rights in our innovations.

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

Employees

As of December 31, 2018, the Company had approximately 7,400 employees. Some portions of our business, primarily in Europe, China, and India are subject to labor laws that differ significantly from those in the U.S. In Europe, for example, it is common for a works council to represent employees when discussing matters such as compensation, benefits, restructurings and layoffs. We consider our relations with our employees to be very good.

Regulatory Matters

Wireless Regulatory Matters

Our business is subject to certain wireless regulatory matters.

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

Other Regulatory Matters

Some of our operations use substances regulated under various federal, state, local, and international laws governing the environment and worker health and safety, including those governing the discharge of pollutants into the ground, air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. Certain products are subject to various federal, state, local, and international laws governing chemical substances in electronic products. During 2018, compliance with U.S. federal, state and local, and foreign laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment did not have a material effect on our business or results of operations.

Available Information

Our website address is www.zebra.com. The information on our website is not, and shall not be deemed to be, a part of this annual report Form 10-K or incorporated into any other filings we make with the Securities and Exchange Commission (the "SEC"). Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, are made available free of charge on the Investor Relations page of our website as soon as reasonably practicable after we electronically file them with or furnish them to the SEC.

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Item 1A. Risk Factors
Investors should carefully consider the risks, uncertainties, and other factors described below, as well as other disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations, because they could have a material adverse effect on our business, financial condition, operating results, cash flows, and growth prospects. These risks are not the only risks we face. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial.

The Company has substantial operations and sells a significant portion of our products outside of the U.S. and purchases important components, including final products, from suppliers located outside the U.S. Shipments to non-U.S. customers are expected to continue to account for a material portion of Net sales. We also expect to continue the use of third-party contract manufacturing services with non-U.S. production and assembly operations for our products.

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

- Fluctuating foreign currency rates could restrict sales, increase costs of purchasing, and impact collection of receivables outside of the U.S.;
- Volatility in foreign credit markets may affect the financial well-being of our customers and suppliers;
- Violations of anti-corruption laws, including the Foreign Corrupt Practices Act and the U.K. Bribery Act could result in large fines and penalties;
- Adverse changes in, or uncertainty of, local business laws or practices, including the following:
- Imposition of burdensome tariffs, quotas, taxes, trade barriers, or capital flow restrictions;
- Restrictions on the export or import of technology may reduce or eliminate the ability to sell in or purchase from certain markets;
- Political and economic instability may reduce demand for our products or put our non-U.S. assets at risk;
- Potentially limited intellectual property protection in certain countries may limit recourse against infringing on our products or cause us to refrain from selling in certain geographic territories;
- Staffing may be difficult along with higher turnover at international operations;
- A government-controlled exchange rate and limitations on the convertibility of currencies, including the Chinese yuan;
- Transportation delays and customs related delays that may affect production and distribution of our products;
- Effectively managing and overseeing operations that are distant and remote from corporate headquarters may be difficult; and
- Integration and enforcement of laws varies significantly among jurisdictions and may change significantly over time.

The Company may not be able to continue to develop products or solutions to address user needs effectively in an industry characterized by ongoing change. To be successful, we must adapt to rapidly changing technological and application needs by continually improving our products, as well as introducing new products and services, to address user demands.
The Company's industry is characterized by:

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

Future success will depend on our ability to effectively and economically adapt in this evolving environment. We could incur substantial costs if we must modify our business to adapt to these changes, and may even be unable to adapt to these changes.

The Company participates in a competitive industry, which may become more competitive. Competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements. We face significant competition in developing and selling our products and solutions. To remain competitive, we believe we must continue to effectively and economically provide:

- Technologically advanced systems that satisfy user demands;
- Superior customer service;

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- High levels of quality and reliability; and
- Dependable and efficient distribution networks.

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

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

- Managing our distribution channel partners;
- Managing our contract manufacturing and supply chain;
- Manufacturing an increased number of products;
- Managing parties to whom we have outsourced portions of our business operations;
- Increased administrative and operational burden;
- Maintaining and improving information technology infrastructure to support growth;
- Increased logistical problems common to complex, expansive operations;
- Increasing international operations; and
- Attract, develop and retain individuals with the requisite technical expertise to develop new technologies and introduce new products and solutions.

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

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

Acquisitions also may involve a number of risks, including:

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

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

Infringement by the Company or our suppliers on the proprietary rights of others could put us at a competitive disadvantage, and any related litigation could be time consuming and costly. Third parties may claim that we or our suppliers violated their intellectual property rights. To the extent of a violation of a third-party's patent or other intellectual property right, we may be prevented from operating our 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 our objectives. Any of these claims, with or without merit, could result in costly litigation and divert the attention of key personnel. If such claims are successful, they could result in costly judgments or settlements. Also, as new technologies emerge the intellectual property rights of parties in such technologies can be uncertain. As a result, our products involving such technologies may have higher risk of claims of infringement of the intellectual proprietary rights of third parties.

The inability to protect intellectual property could harm our reputation, and our competitive position may be materially damaged. Our intellectual property is valuable and provides us with certain competitive advantages. We use copyrights, patents, trademarks, trade secrets, and contracts to protect these proprietary rights. Despite these precautions, third parties may be able to copy or reproduce aspects of our intellectual property and our products or, without authorization, to misappropriate and use information, which we regard as trade secrets. Additionally, the intellectual property rights we obtain may not be sufficient to provide us with a competitive advantage and may be successfully challenged, invalidated, circumvented, or infringed. In any infringement litigation that the Company may undertake to protect our intellectual property, any award of monetary damages may be unlikely or very difficult to obtain, and any such award we may receive may not be commercially valuable. Furthermore, efforts to enforce or protect our proprietary rights may be ineffective and could result in the invalidation or narrowing of the scope of our intellectual property and incurring substantial litigation costs. Because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of the Company’s confidential information could be compromised by disclosure during this type of litigation. Some aspects of our business and services also rely on technologies, software, and content developed by or licensed from third parties, and we may not be able to maintain our relationships with such third parties or enter into similar relationships in the future on reasonable terms or at all.

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

Cybersecurity incidents could disrupt business operations. Like many companies, we continually strive to meet industry information security standards relevant to our business. We periodically perform vulnerability assessments, remediate vulnerabilities, review log/access, perform system maintenance, manage network perimeter protection, implement and manage disaster recovery testing, and provide periodic educational sessions to our employees to foster awareness of schemes to access sensitive information. A cybersecurity incident could include an attempt to gain unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. “Phishing” and other types of attempts to obtain unauthorized information or access are often sophisticated and difficult to detect or defeat.

A cybersecurity incident, including deliberate attacks and unintentional events, may lead to a material disruption of our core business systems, the loss or corruption of confidential business information and/or the disclosure of personal data that in each case could result in an adverse business impact, as well as, possible damage to our brand. This could also lead to a public disclosure or theft of private intellectual property and a possible loss of customer confidence. While we have experienced and expect to continue to experience these types of threats and incidents, there have been no material incidents incurred to-date at the Company. If our core business operations, or that of one of our third-party service providers, were to be breached, this could affect the confidentiality, integrity, and availability of our systems and data. While we continue to perform security due diligence, there is always the possibility of a significant breach affecting the confidentiality, integrity, and availability of our systems and/or data.

Our products that are deployed in customer environments also have the possibility of being breached, which could result in damage to a customer's confidentiality, integrity, and availability of the customer's data and systems. It is possible that such a breach could result in delays in, or loss of market acceptance of, our products and services; diversion of our resources; injury to our reputation; increased service and warranty expenses; and payment of damages. To date, we have had no material incidents related to the security on our products.

Laws and regulations relating to the handling of personal data may result in increased costs, legal claims, or fines against the Company. As part of our operations, the Company collects, uses, stores, and transfers personal data of third parties and employees in and across jurisdictions. The governing bodies in such jurisdictions have adopted or are considering adopting

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laws and regulations regarding the collection, use, transfer, storage and disclosure of personal data obtained from third parties and employees; for example, General Data Protection Regulation effective May 2018. These laws may result in burdensome or inconsistent requirements affecting the collection, use, storage, transfer and disclosure of our third-party and employee personal data. Compliance may require changes in services, business practices, or internal systems that result in increased costs, lower revenue, reduced efficiency, or greater difficulty in competing with foreign-based firms. Failure to comply with existing or new rules may result in claims against the Company or significant penalties or orders to stop the alleged noncompliant activity.

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

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

We depend on the ongoing services of our senior management and the ability to attract and retain key personnel. The future success of the Company is substantially dependent on the continued services and continuing contributions of senior management and other key personnel. The ability to attract, retain, and motivate highly skilled employees is important to our long-term success. Competition for skill sets in certain functions within our industry is intense, and we may be unable to retain key employees or attract, assimilate, or retain other highly qualified employees in the future. Any disruption in the services of senior management or our ability to attract and retain key personnel may have a material adverse effect on our business and results of operations.

Terrorist attacks or war could lead to further economic instability and adversely affect the Company’s stock price, operations, and profitability. The terrorist attacks that occurred in the United States on September 11, 2001 caused major instability in the U.S. and other financial markets. Since then, a number of significant acts of terrorism have occurred, and war continues in the Middle East, all of which may contribute to instability in financial markets. Additional acts of terrorism and current and future war risks could have a similar impact. Any such attacks could, among other things, cause further instability in financial markets and could directly, or indirectly through reduced demand, negatively affect our facilities and operations or those of our customers or suppliers.

The impact of changes in customs duties and trade policies in the United States and corresponding actions by other countries in which the Company does business could adversely affect our financial performance. The U.S. government has imposed customs duties on various imports from China that are intended to address trade imbalances. These actions will result in increased customs duties and will likely result in the renegotiation of some U.S. trade agreements. In response to such actions, China has instituted customs duties on certain U.S. goods. Other governments could also institute customs duties on U.S. goods similar to China’s actions in response to the U.S. government’s customs duties. The Company imports a significant percentage of our products into the U.S. and China, and an increase in customs duties with respect to these imports could negatively impact the Company’s financial performance. Based on the current products affected, we do not anticipate such increase in customs duties to materially impact the

Company's financial performance. Such customs duties also may cause the U.S.' trading partners, other than China, to take actions with respect to U.S. imports or U.S. investment activities in their respective countries. Any potential changes in trade policies in the U.S. and the potential corresponding actions by other countries in which the Company does business could adversely affect the Company's financial performance.

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

Forecasting our estimated annual effective tax rate is complex and subject to uncertainty, and there may be material differences between our forecasted and actual tax rates. Forecasts of our income tax position and effective tax rate are complex, subject to uncertainty and periodic updates because our income tax position for each year combines the effects of a mix of profits earned and losses incurred by us in various tax jurisdictions with a broad range of income tax rates, as well as changes in the valuation of deferred tax assets and liabilities, the impact of various accounting rules and changes to these rules and tax laws, the results of examinations by various tax authorities, and the impact of any acquisition, business combination, disposition or other reorganization, or financing transaction.

As a multinational corporation, we conduct our business in many countries and are subject to taxation in many jurisdictions. The taxation of our business is subject to the application of multiple and sometimes conflicting tax laws and regulations, as well as multinational tax conventions. Many countries have recently adopted or are considering the adoption of revisions to their respective tax laws based on the on-going reports issued by the Organization for Economic Co-operation and Development ("OECD")/G20 Base Erosion and Profit Shifting ("BEPS") Project, which could materially impact our tax liability due to our organizational structure and significant operations outside of the U.S. Our effective tax rate is highly dependent upon the geographic distribution of our worldwide earnings or losses resulting from our structure and operating model, the tax regulations and tax holidays in each geographic region, and the availability of tax credits and carry-forwards. The application of tax laws and regulations is subject to legal and factual interpretation, judgment, and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, and the evolution of regulations and court rulings. Consequently, taxing authorities may impose tax assessments or judgments against us that could materially impact our tax liability and/or our effective income tax rate.

Economic conditions and financial market disruptions may adversely affect our business and results of operations. Adverse economic conditions or reduced information technology spending may adversely impact our business. General disruption of financial markets and a related general economic downturn could adversely affect our business and financial condition through a reduction in demand for our products by our customers. If a slowdown were severe enough, it could require further impairment testing and write-downs of goodwill and other intangible assets. Cost reduction actions may be necessary and might lead to restructuring charges. A tightening of financial credit could adversely affect our customers, suppliers, outsourced manufacturers, and channel partners (e.g., distributors and resellers) from obtaining adequate credit for the financing of significant purchases. An economic downturn could also result in a decrease in or cancellation of orders for our products and services; negatively impacting the ability to collect accounts receivable on a timely basis; result in additional reserves for uncollectible accounts receivable; and require additional reserves for inventory obsolescence. Higher volatility and fluctuations in foreign exchange rates for the U.S. dollar against currencies such as the euro, the British pound, the Chinese yuan, and the Brazilian real could negatively impact product sales, margins, and cash flows.

A natural disaster may cause supply disruptions that could adversely affect our business and results of operations. Natural disasters may occur in the future, and the Company is not able to predict to what extent or duration any such disruptions will have on our ability to maintain ordinary business operations. The consequences of an unfortunate natural disaster may have a material adverse effect on our business and results of operations.

Zebra could be adversely impacted by the United Kingdom's withdrawal from the European Union. Zebra maintains its European regional headquarters and a label converting facility in the U.K. and has significant operations and sales throughout Europe. The U.K. formally notified the E.U. of its intention to withdraw, with such notice triggering a two-year period ending in March 2019, which could be followed by a transition period. During such two-year period, the U.K. has been negotiating the terms of the withdrawal. Since the U.K.'s referendum in June 2016 to withdraw from the E.U., markets have been more volatile, including fluctuations in the British pound, that could adversely impact Zebra's operating costs in the U.K. Such market volatility could also cause customers to alter or delay buying decisions that would adversely impact Zebra’s sales in the U.K. and throughout Europe. Our European business involves cross border transactions between the U.K. and the E.U. The future trade relationship between the U.K. and the E.U. could adversely impact Zebra’s operations in the region by increasing importation requirements or disrupting shipments between the E.U. to the U.K. or vice versa. The terms of the U.K.’s withdrawal from the E.U. and resulting impacts to Zebra’s operations are currently uncertain and could adversely affect the Company’s financial performance.

We are exposed to risks under large, multi-year system and solutions and services contracts that may negatively impact our business. We enter into large, multi-year system and solutions and services contracts with our customers. This exposes us to risks, including among others: (i) technological risks, especially when the contracts involve new technology; (ii) financial risks, including the estimates inherent in projecting costs associated with large, long-term contracts and the related impact on operating results; and (iii) cyber security risk, especially in managed services contracts with customers that process personal data. Recovery of front-loaded costs incurred on long-term managed services contracts with customers is dependent on the

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continued viability of such customers. The insolvency of customers could result in a loss of anticipated future revenue attributable to that program or product, which could have an adverse impact on our profitability.

We enter into fixed-price contracts that could subject us to losses in the event we fail to properly estimate our costs. If our initial cost estimates are incorrect, we can lose money on these contracts. Because many of these contracts involve new technologies and applications and require the Company to engage subcontractors and can last multiple years, unforeseen events, such as technological difficulties, fluctuations in the price of raw materials, problems with our subcontractors or suppliers and other cost overruns, can result in the contract pricing becoming less favorable or even unprofitable to us and have an adverse impact on our financial results. In addition, a significant increase in inflation rates could have an adverse impact on the profitability of longer-term contracts.

We utilize the services of subcontractors to perform under many of our contracts and the inability of our subcontractors to perform in a timely and compliant manner could negatively impact our performance obligations as the prime contractor. We engage subcontractors on many of our contracts and as we expand our global solutions and services business, our use of subcontractors has and will continue to increase. Our subcontractors may further subcontract performance and may supply third-party products and software. We may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor or our subcontractors and the functionality, warranty and indemnities of products, software, and services supplied by our subcontractor. We are not always successful in passing along customer requirements to our subcontractors, and thus in some cases may be required to absorb contractual risks from our customers without corresponding back-to-back coverage from our subcontractor. Our subcontractors may not be able to acquire or maintain the quality of the materials, components, subsystems and services they supply, or secure preferred warranty and indemnity coverage from their suppliers which might result in greater product returns, service problems, warranty claims and costs and regulatory compliance issues and could harm our business, financial condition, and results of operations.

We have outsourced portions of certain business operations such as repair, distribution, engineering services and information technology services and may outsource additional business operations, which limits our control over these business operations and exposes us to additional risk as a result of the actions of our outsource partners. When we outsource certain business operations, we are not able to directly control these activities. Our outsource partners may not prioritize our business over that of their other customers and they may not meet our desired level of service, cost reductions, or other metrics. In some cases, their actions may result in our being found to be in violation of laws or regulations like import or export regulations. As many of our outsource partners operate outside of the U.S., our outsourcing activity exposes us to information security vulnerabilities and increases our global risks. In addition, we are exposed to the financial viability of our outsource partners. Once a business activity is outsourced, we may be contractually prohibited from, or may not practically be able to, bring such activity back within the Company or move it to another outsource partner. The actions of our outsource partners could result in reputational damage to us and could negatively impact our financial results. Additionally, transitioning activities between new or existing outsource partners or across different geographies as well as insourcing activities could result in additional cost, time and management attention in order to effectively manage the transition which could negatively impact our financial results.

Failure of our suppliers, subcontractors, distributors, resellers, and representatives to use acceptable legal or ethical business practices could negatively impact our business. It is our policy to require suppliers, subcontractors, distributors, resellers, and third-party sales representatives (“TPSRs”) to operate in compliance with applicable laws, rules, and regulations regarding working conditions, employment practices, environmental compliance, anti-corruption, and trademark and copyright licensing. However, we do not control their labor and other business practices. If one of our suppliers, subcontractors, distributors, resellers, or TPSRs violates labor or other laws or implements labor or other business practices that are regarded as unethical, the shipment of finished products to us could be interrupted, orders could be canceled, relationships could be terminated, and our reputation could be damaged. If one of our suppliers or subcontractors fails to procure necessary license rights to trademarks, copyrights, or patents, legal action could be taken against us that could impact the salability of the Company’s products and expose us to financial obligations to a third-party. Any of these events could have a negative impact on our sales and results of operations.

We rely on third-party dealers, distributors, and resellers to sell many of our products. In addition to our own sales force, we offer our products through a variety of third-party dealers, distributors, and resellers. These third-parties may also market other products that compete with our products. Failure of one or more of our dealers, distributors, or resellers to effectively promote our products could affect our ability to bring products to market and have a negative impact on our results of operations. Any changes to our channel program may cause some of our third-party dealers, distributors or resellers to exit the program due to modifications to the program structure, thereby reducing our ability to bring products to market and have a negative impact on our results of operations.

Some of these third-parties are smaller and more likely to be impacted by a significant decrease in available credit that could result from a weakness in the financial markets. If credit pressures or other financial difficulties result in insolvency for third-

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party dealers, distributors, or retailers and we are unable to successfully transition end-customers to purchase our products from other third-parties or from us directly, it may cause, and in some cases, has caused, a negative impact on our financial results.

Final assembly of certain of our products is performed by third-party electronics manufacturers. We may be dependent on these third-party electronics manufacturers as a sole-source of supply for the manufacture of such products. A failure by such manufacturers to provide manufacturing services to us as we require, or any disruption in such manufacturing services up to and including a catastrophic shut-down, may adversely affect our business results. Because we rely on these third-party electronics manufacturers to manufacture our products, we may incur increased business continuity risks. We are not able to exercise direct control over the assembly or related operations of certain of our products. If these third-party manufacturers experience business difficulties or fail to meet our manufacturing needs, then we may be unable to satisfy customer product demands, lose sales, and be unable to maintain customer relationships. Longer production lead times may result in shortages of certain products and inadequate inventories during periods of unanticipated higher demand. Without such third parties continuing to manufacture our products, we may have no other means of final assembly of certain of our products until we are able to secure the manufacturing capability at another facility or develop an alternative manufacturing facility. This transition could be costly and time consuming.

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

Our future operating results depend on our ability to purchase a sufficient amount of materials, parts, and components, as well as services and software to meet the demands of customers. We source some of our components from sole source suppliers. Any disruption to our suppliers or significant increase in the price of supplies could have a negative impact on our results of operations. Our ability to meet customers' demands depends, in part, on our ability to obtain in a timely manner an adequate delivery of quality materials, parts, and components, as well as services and software from our suppliers. In addition, certain supplies are available only from a single source or limited sources and we may not be able to diversify sources in a timely manner. If demand for our products or services increases from our current expectations or if suppliers are unable or unwilling to meet our demand for other reasons, including as a result of natural disasters or financial issues, we could experience an interruption in supplies or a significant increase in the price of supplies that could have a negative impact on our business. We have experienced shortages in the past that have negatively impacted our results of operations and may experience such shortages in the future. Credit constraints at our suppliers could cause us to accelerate payment of accounts payable by us, impacting our cash flow.

In addition, our current contracts with certain suppliers may be canceled or not extended by such suppliers and, therefore, not afford us with sufficient protection against a reduction or interruption in supplies. Moreover, in the event any of these suppliers breach their contracts with us, our legal remedies associated with such a breach may be insufficient to compensate us for any damages it may suffer.

The unfavorable outcome of any pending or future litigation, arbitration, or administrative action could have a material adverse effect on our financial condition or results of operations. From time to time we are a party to litigation, arbitration, or administrative actions. Our financial results and reputation could be negatively impacted by unfavorable outcomes to any pending or future litigation or administrative actions, including those related to the Foreign Corrupt Practices Act, the U.K. Bribery Act, or other anti-corruption laws. There can be no assurances as to the favorable outcome of any litigation or administrative proceedings. In addition, it can be very costly to defend litigation or administrative proceedings and these costs could negatively impact our financial results.

It is important that we are able to obtain many different types of insurance, and if we are not able to obtain insurance or exhaust our coverage, we may be forced to retain the risk. We have many types of insurance coverage and are also self-insured for some risks and obligations. While the cost and availability of most insurance is stable, there are still certain types and levels of insurance that remain difficult to obtain, such as professional liability insurance, which is expensive to obtain for the amount of coverage often requested by certain customers. As we grow our global solutions and services business, we are being asked to obtain higher amounts of professional liability insurance, which could result in higher costs to do business. Natural disasters and certain risks arising from securities claims, professional liability, and public liability are potential self-insured events that could negatively impact our financial results. In addition, while we maintain insurance for certain risks, the amount of our insurance coverage may not be adequate to cover all claims or liabilities, and we may be forced to bear substantial costs from an accident, incident, or claim.

We are subject to a wide range of product regulatory and safety, consumer, worker safety, and environmental laws.

Our operations and the products we manufacture and/or sell are subject to a wide range of product regulatory and safety, consumer,

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worker safety, and environmental laws and regulations. Compliance with such existing or future laws and regulations could subject us to future costs or liabilities, impact our production capabilities, constrict our ability to sell, expand or acquire facilities, restrict what products and services we can offer, and generally impact our financial performance. Some of these laws are environmental and relate to the use, disposal, remediation, emission and discharge of, and exposure to hazardous substances. These laws often impose liability and can require parties to fund remedial studies or actions regardless of fault. We continue to incur disposal costs and have ongoing remediation obligations. Environmental laws have tended to become more stringent over time and any new obligations under these laws could have a negative impact on our operations or financial performance.

Laws focused on the energy efficiency of electronic products and accessories; recycling of both electronic products and packaging; reducing or eliminating certain hazardous substances in electronic products; and the transportation of batteries continue to expand significantly. Laws pertaining to accessibility features of electronic products, standardization of connectors and power supplies, the transportation of lithium-ion batteries, and other aspects are also proliferating. There are also demanding and rapidly changing laws around the globe related to issues such as product safety, radio interference, radio frequency radiation exposure, medical related functionality, and consumer and social mandates pertaining to use of wireless or electronic equipment. These laws, and changes to these laws, could have a substantial impact on whether we can offer certain products, solutions, and services, and on what capabilities and characteristics our products or services can or must include.

These laws impact our products and negatively affect our ability to manufacture and sell products competitively. We expect these trends to continue. In addition, we anticipate that we will see increased demand to meet voluntary criteria related to reduction or elimination of certain constituents from products, increasing energy efficiency, and providing additional accessibility.

We could be adversely impacted by changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters. Generally accepted accounting principles and related accounting pronouncements, implementation guidelines, and interpretations with regard to a wide range of matters that are relevant to our businesses, including, but not limited to, revenue recognition, asset impairment, business acquisition purchase price allocations, impairment of goodwill and other intangible assets, inventories, tax matters, and litigation and other contingent liabilities are highly complex and involve many subjective assumptions, estimates, and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates, or judgments could significantly change our reported or expected financial performance or financial condition. New accounting guidance may also require systems and other changes that could increase our operating costs and/or change our financial statements.

Our indebtedness could adversely affect our business. As of December 31, 2018, we had $1.6 billion of outstanding debt, gross of unamortized discounts and debt issuance costs. Our indebtedness could have important consequences, including the following:

- We may experience difficulty in satisfying our obligations with respect to our existing indebtedness or future indebtedness;
- Our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired;
- We plan to use a substantial portion of cash flow from operations to pay interest and principal on our indebtedness, which may reduce the funds available for other purposes, such as acquisitions and capital expenditures;
- We may be at a competitive disadvantage with reduced flexibility in planning for, or responding to, changing conditions in the industry, including increased competition; and
- We may be more vulnerable to economic downturns and adverse developments in the business.

We expect to fund our expenses and to pay the principal and interest on our indebtedness from cash flow from operations. Our ability to meet our expenses and to pay principal and interest on our indebtedness when due depends on our future performance, which will be affected by financial, business, economic, and other factors. We will not be able to control many of these factors, such as economic conditions in the markets where we operate and pressure from competitors.

If our business does not generate sufficient cash flows from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness on or before the maturity thereof, sell assets, reduce or delay capital investments, or seek to raise additional capital, any of which could have a material adverse effect on our operations. In addition, we may not be able to effect any of these actions, if necessary, on commercially reasonable terms or at all. Our ability to restructure or refinance our indebtedness will depend on the condition of the capital and debt markets and our financial condition at such time. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict business operations. The terms of anticipated or future debt instruments may limit or prevent us

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from taking any of these actions. In addition, any failure to make scheduled payments of interest and/or principal on outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to access additional capital on commercially reasonable terms or at all. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would have an adverse effect, which could be material, on our business, financial condition and results of operations, as well as on our ability to satisfy the obligations in respect of our indebtedness.
Our use of derivative financial instruments to reduce interest rate risk may result in added volatility in our operating results. We do not hold or issue derivative financial instruments for trading purposes. However, we do utilize derivative financial instruments to reduce interest rate risk associated with our indebtedness. To manage variable interest rate risk, we entered into forward interest rate swap agreements, which will effectively convert a portion of our indebtedness into a fixed rate loan. Under generally accepted accounting principles, changes in the fair values of the swap contracts are reflected in our Consolidated Statements of Operations as a component of “Other, net” if not hedged. The associated impact on our quarterly operating results is directly related to changes in prevailing interest rates. If interest rates increase, we would have a non-cash gain on the swaps, and vice versa in the event of a decrease in interest rates. Consequently, these swaps introduce additional volatility to our operating results.

Item 1B. Unresolved Staff Comments
None.

Item 2. Properties

Our corporate headquarters are located in Lincolnshire, Illinois; a northern suburb of Chicago. We also operate manufacturing, production and warehousing, administrative, research, and sales facilities in other U.S. and international locations.

As of December 31, 2018, the Company owned three laboratory and warehouse facilities located in Holtsville, NY, Preston, UK, and Mississauga, Ontario, Canada. The Company leases seven facilities for the purposes of manufacturing, production, and warehousing; five of which are located in the U.S. and two are located in other countries.

As of December 31, 2018, the Company had a total of 106 leased facilities with locations spread globally; 30 of which are located in the U.S. and 76 are located in 45 other countries.

We generally consider the productive capacity of the plants to be adequate and sufficient for our requirements. The extent of utilization of each manufacturing facility varies throughout the year.

Item 3. Legal Proceedings
See Note 12, Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Item 4. Mine Safety Disclosures
Not applicable.

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PART II

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

Stock Information: Price Range and Common Stock

Our Class A common stock is traded on the NASDAQ Stock Market, LLC under the symbol "ZBRA". The following table shows the high and low trade prices for each fiscal quarter in 2018 and 2017, as reported by the NASDAQ Stock Market, LLC.

2018	High	Low	2017	High	Low
First Quarter	$147.99	$102.75	First Quarter	$93.61	$81.02
Second Quarter	161.72	130.79	Second Quarter	109.30	86.82
Third Quarter	179.47	136.16	Third Quarter	109.89	94.78
Fourth Quarter	184.75	140.95	Fourth Quarter	117.44	101.49

At February 7, 2019, the last reported price for the Class A common stock was $176.79 per share, and there were 125 registered stockholders of record for Zebra's Class A common stock.

Dividend Policy

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

Treasury Shares

In November 2011, our Board authorized the purchase of up to 3,000,000 shares under the purchase plan program with a maximum of 665,475 shares remaining available for purchase. The November 2011 authorization does not have an expiration date. We did not purchase shares of Zebra Class A common stock during 2018 as part of the purchase plan program.

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Stock Performance Graph

This graph compares the cumulative annual change since December 31, 2013, of the total stockholder return of Zebra Technologies Corporation Class A common stock with the cumulative return on the following published indices: (i) the RDG Technology Composite; and (ii) the NASDAQ Composite Market Index, during the same period. The comparison assumes that $100 was invested in each of the Company's Class A common stock, the stocks comprising the RDG Technology Composite and the stocks comprising the NASDAQ Composite Market Index on December 31, 2013. The comparison assumes that all dividends were reinvested at the end of the month in which they were paid.

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Item 6. Selected Financial Data
FIVE YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(In millions, except shares and per share amounts)

	Year Ended December 31,				
Consolidated Statements of Operations[1]	2018	2017	2016	2015	2014
Total Net sales	$4,218	$ 3,722	$ 3,574	$ 3,650	$ 1,671
Gross profit	1,981	1,710	1,642	1,644	778
Net income (loss)	$421	$ 17	$ (137)	$ (158)	$ 32
Basic earnings (loss) per share	$7.86	$ 0.33	$ (2.65)	$ (3.10)	$ 0.64
Diluted earnings (loss) per share	$7.76	$ 0.32	$ (2.65)	$ (3.10)	$ 0.63
Weighted average shares outstanding:					
Basic	53,591,655	53,021,761	51,579,112	50,996,297	50,789,173
Diluted	54,299,812	53,688,832	51,579,112	50,996,297	51,379,698

	December 31,				
Consolidated Balance Sheets[1]	2018	2017	2016	2015	2014
Cash and cash equivalents, investments and marketable securities	$44	$ 62	$156	$192	$418
Total Assets	4,339	4,275	4,632	5,040	5,539
Long-term liabilities	1,703	2,441	2,891	3,252	3,346
Total Stockholders' Equity	1,335	834	792	893	1,040

(1) Includes the Xplore business from its date of acquisition, August 14, 2018 and the Enterprise business from its date of acquisition, October 27, 2014.

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

Overview

The Company is a global leader respected for innovative EAI solutions in the automatic information and data capture solutions industry. We design, manufacture, and sell a broad range of products that capture and move data, including: mobile computers; barcode scanners and imagers; RFID readers; specialty printers for barcode labeling and personal identification; RTLS; related accessories and supplies, such as self-adhesive labels and other consumables; and software utilities and applications. We also provide a full range of services, including maintenance, technical support, and repair, managed and professional services, including cloud-based subscriptions. End-users of our products and services include those in the retail and e-commerce, transportation and logistics, manufacturing, healthcare, hospitality, warehouse and distribution, energy and utilities, government and education enterprises around the world. Benefits of our solutions include improved efficiency and workflow management, increased productivity and asset utilization, real-time, actionable enterprise information, and better customer experiences. We provide our products and services globally through a direct sales force and an extensive network of partners. We provide products and services in over 180 countries, with 109 facilities and approximately 7,400 employees worldwide.

Segments

The Company's operations consist of two reportable segments: Asset Intelligence & Tracking ("AIT") and Enterprise Visibility & Mobility ("EVM").

Asset Intelligence & Tracking

The AIT segment is an industry leader in barcode printing and asset tracking technologies. Its major product lines include barcode and card printers, supplies, services and location solutions. Industries served include retail and e-commerce, transportation and logistics, manufacturing, healthcare, and other end markets within the following regions: North America; Europe, Middle East, and Africa ("EMEA"); Asia-Pacific; and Latin America.

Enterprise Visibility & Mobility

The EVM segment is an industry leader in automatic information and data capture solutions. Its major product lines include mobile computing, data capture, RFID, and services. Industries served include retail and e-commerce, transportation and logistics, manufacturing, healthcare, and other end markets within the following regions: North America; EMEA; Asia-Pacific; and Latin America.

Geographic Information

For the year ended December 31, 2018, the Company recorded $4.2 billion of Net sales in its consolidated statements of operations, of which approximately 48.4% were attributable to North America; approximately 33.4% were attributable to EMEA; and other foreign locations accounted for the remaining 18.2%. Relative Net sales attributable to each region is comparable with the prior year period.

Acquisition and Integration

On August 14, 2018, the Company completed its tender offer to acquire all outstanding common stock of Xplore for $6.00 per share. In connection with this acquisition, the Company paid $87 million in cash, which included $72 million for the net assets acquired, a $9 million payment of Xplore debt, as well as $6 million of other Xplore transaction-related obligations. The operating results of Xplore are included within the Company's EVM segment beginning August 14, 2018, contributing approximately 1% to our consolidated Net sales growth in 2018. The Xplore acquisition was accounted for under the acquisition method of accounting for business combinations and the preliminary opening balance sheet was included in the Company's Consolidated Balance Sheet and operating results beginning August 14, 2018.

On October 27, 2014, the Company acquired Enterprise from MSI and began integration activities focused on creating "One Zebra". Our integration priorities centered on maintaining business continuity while identifying and implementing cost synergies, operating efficiencies, and integration of functional organizations and processes. Another key focus of the integration was to exit MSI-provided TSAs related primarily to IT systems and support services. These TSAs were an interim measure to continue the operations of the Enterprise business without disruption while integration activities were completed. The Company substantially completed its integration activities in fiscal year 2017, including the implementation of a common enterprise resource planning system and has exited the last TSAs with MSI.

Restructuring Programs

In the first quarter 2017, the Company’s executive leadership approved an initiative to continue the Company’s efforts to increase operational efficiency (the “Productivity Plan”). The Productivity Plan built upon the exit and restructuring initiatives specific to the October 2014 Enterprise acquisition (the “Acquisition Plan”). Actions under the Productivity Plan included organizational design changes, process improvements and automation. The Company substantially completed all initiatives

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under the Acquisition Plan as of December 31, 2017, and substantially completed all initiatives under the Productivity Plan as of December 31, 2018. Exit and restructuring costs are not included in the operating results of our segments as they do not impact the specific segment measures as reviewed by our Chief Operating Decision Maker and therefore are reported as a component of Corporate eliminations. See Note 18, Segment Information & Geographic Data in the Notes to Consolidated Financial Statements.

Total exit and restructuring charges of $23 million life-to-date specific to the Productivity Plan have been recorded through December 31, 2018 and include severance and related benefits, lease exit costs and other expenses. Charges related to the Productivity Plan for the year ended December 31, 2018 and 2017 were $11 million and $12 million, respectively.

Total exit and restructuring charges of $69 million life-to-date specific to the Acquisition Plan have been recorded through December 31, 2018 and include severance and related benefits, lease exit costs and other expenses. Charges related to the Acquisition Plan for the periods ended December 31, 2017 and 2016, were $4 million and $19 million, respectively.

See Note 8, Costs Associated with Exit and Restructuring Activities in the Notes to Consolidated Financial Statements for further information.

Impact of U.S. Tax Reform

Enacted on December 22, 2017, the Tax Cut and Jobs Act ("TCJA" or "the Act") reduced the U.S. federal corporate tax rate from 35% to 21% and requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. Based on current operations, the Company is subject to the Global Intangible Low-Taxed Income and the Deduction for Foreign-Derived Intangible Income provisions (collectively referred to as "GILTI") of the Act, for which we recorded income tax expense of $10 million in 2018. We are not currently subject to the new limitations which defer U.S. interest deductions in excess of 30% of adjusted taxable income or the Base Erosion Anti-Avoidance Tax ("BEAT"). However, the application of the interest limitations and BEAT regime may apply in the future, depending on changes in the Company's business model or the level of taxable income in any given year. Additionally, the Company is no longer able to deduct performance-based compensation for its covered employees which exceeds the limitation under amended Internal Revenue Code Section 162(m). These impacts are included in the calculation of the Company's effective tax rate.

During 2017, the Company provisionally recognized an income tax expense of $72 million associated with the Act, comprised of one-time transition tax of $37 million and $35 million remeasurement of its net U.S. deferred tax assets based on the federal statutory rate of 21%.

During 2018, the Company finalized its analysis of the Act, including the one-time transition tax and measurement of net deferred tax assets, and recorded a $3 million income tax benefit for the year ended December 31, 2018 as a result of differences between its final analysis and provisional analysis from the prior year. The final analysis included both federal and state tax effects based on legislative pronouncements through December 31, 2018. The Company also utilized a total of $28 million of available net operating losses, research and development credits, alternative minimum tax credits, and foreign tax credits, in order to reduce its future cash payments for the one-time transition tax, resulting in a net liability for the one-time transition tax of $6 million, of which $1 million has been classified as a short term liability and $5 million as a long term liability. The final one-time transition tax installment payment will be made in 2024.

See Note 14, Income Taxes in the Notes to Consolidated Financial Statements for further information.

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Results of Operations: Year Ended 2018 versus 2017 and Year Ended 2017 versus 2016
Consolidated Results of Operations
(amounts in millions, except percentages)

	Year Ended December 31, 2018	2017	2016	Percent Change 2018 vs 2017	Percent Change 2017 vs 2016
Net sales	$4,218	$3,722	$3,574	13.3 %	4.1 %
Gross profit	1,981	1,710	1,642	15.8 %	4.1 %
Operating expenses	1,371	1,388	1,562	(1.2)%	(11.1)%
Operating income	$610	$322	$80	89.4 %	302.5 %
Gross margin	47.0 %	45.9 %	45.9 %		

Net sales to customers by geographic region were as follows (amounts in millions, except percentages):

	Year Ended December 31, 2018	2017	2016	Percent Change 2018 vs 2017	Percent Change 2017 vs 2016
North America	$2,041	$1,798	$1,739	13.5 %	3.4 %
Europe, Middle East, and Africa	1,409	1,221	1,138	15.4 %	7.3 %
Asia-Pacific	520	468	483	11.1 %	(3.1)%
Latin America	248	235	214	5.5 %	9.8 %
Total Net sales	$4,218	$3,722	$3,574	13.3 %	4.1 %

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

	Year Ended December 31,			As Percentage of Net sales		
	2018	2017	2016	2018	2017	2016
Selling and marketing	$483	$448	$444	11.5%	12.0%	12.4%
Research and development	444	389	376	10.5%	10.5%	10.5%
General and administrative	328	301	307	7.8 %	8.1 %	8.6 %
Amortization of intangible assets	97	184	229	NM	NM	NM
Acquisition and integration costs	8	50	125	NM	NM	NM
Impairment of goodwill and other intangibles	—	—	62	NM	NM	NM
Exit and restructuring costs	11	16	19	NM	NM	NM
Total Operating expenses	$1,371	$1,388	$1,562	32.5%	37.3%	43.7%

Consolidated Organic Net sales growth:

	Year Ended December 31, 2018	2017
Reported GAAP Consolidated Net sales growth	13.3 %	4.1 %
Adjustments:		
Impact of foreign currency translation [1]	(1.6)%	(0.6)%
Impact of Xplore acquisition [2]	(0.6)%	— %
Impact of Wireless LAN divestiture [3]	— %	3.2 %
Corporate, eliminations [4]	— %	(0.2)%
Consolidated Organic Net sales growth	11.1 %	6.5 %

Operating results reported in U.S. dollars are affected by foreign currency exchange rate fluctuations.

(1) Foreign currency translation impact represents the difference in results that are attributable to fluctuations in the currency exchange rates used to convert the results for businesses where the functional currency is not the U.S. dollar. This impact is calculated by translating, for certain currencies, the current period results at the currency exchange

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rates used in the comparable prior year period, rather than the exchange rates in effect during the current period. In addition, we exclude the impact of the company's foreign currency hedging program in both the current and prior year periods.

(2) For purposes of computing Organic Net sales, amounts directly attributable to the Xplore acquisition (included in our consolidated results beginning August 14, 2018) will be excluded for 12 months following the acquisition date.

(3) The Company sold the WLAN business in October 2016. The Company excludes the impact of the Net sales of this business in 2016 when computing Organic Net sales growth.

(4) Amounts included in Corporate, eliminations consist of purchase accounting adjustments not reported in segments related to the Enterprise acquisition.

2018 compared to 2017

Net sales increased by $496 million or 13.3% compared with the prior year, reflecting growth across all regions, most notably North America, EMEA and Asia-Pacific. The increase in Net sales was primarily due to higher sales of mobile computing, barcode printing and data capture products. Net sales growth was also positively impacted by currency changes, primarily in the EMEA region, as well as the inclusion of Xplore. Consolidated Organic Net sales growth was 11.1%.

Gross margin increased to 47.0% in the current year compared to 45.9% in the prior year. Gross margin improvement was driven by higher margins in both the EVM and AIT segments primarily due to operational efficiencies, favorable business mix as well as favorable foreign currency changes.

Operating expenses for the years ended December 31, 2018 and 2017 were $1.4 billion, or 32.5% and 37.3% of Net sales, respectively. As a percentage of Net sales, operating costs continue trending favorably primarily due to lower intangible asset amortization expense and acquisition and integration charges. The lower amortization expense results from certain acquired intangible assets becoming fully amortized in 2017. Additionally, the Company had lower acquisition and integration charges in the current year as the Enterprise business integration activities were substantially completed during 2017. Current operating costs reflect higher compensation costs, which include the impact of higher incentive-based compensation associated with financial performance, a $13 million pretax charge related to a legal settlement included within general and administrative expense, investments to accelerate organic growth, as well as the inclusion of Xplore.

Operating income was $610 million for the current year, compared to $322 million for the prior year. The increase was primarily due to higher Net sales and Gross profit as well as lower Operating expenses.

Total Other expenses, net was $86 million for the current year, compared to $234 million for the prior year. The decrease was primarily due to $81 million reduction of debt extinguishment and modification costs versus the prior year. The current year also benefited from lower outstanding debt and interest rates, a $10 million gain on sale of certain investments, and a $6 million increase in interest rate swap gains.

The Company recognized income tax expense of $103 million and $71 million for the years ended December 31, 2018 and 2017, respectively. The Company's effective tax rates were 19.7% and 80.7% as of December 31, 2018 and 2017, respectively. The decrease in the effective tax rate in the current year versus the prior year is primarily due to favorable year-over-year impacts of U.S. Tax Reform, changes in valuation allowances, U.S. impacts of the Enterprise acquisition as well as uncertain tax benefits, partially offset by the benefits of net foreign deferred tax asset remeasurements and intercompany asset transfers recorded in the prior year as well as reduced year-over-year favorability of foreign income taxes.

2017 compared to 2016

Net sales increased by $148 million or 4.1% compared with the prior year period. The increase in Net sales was due to higher hardware sales in North America, EMEA, and Latin America, offset by lower hardware sales in Asia-Pacific.

The increase in hardware sales was largely attributable to increased sales of mobile computing, data capture, and barcode printing products, partially offset by the impact of the divestiture of the WLAN business in October 2016. Services sales were lower primarily due to the impact of the WLAN divestiture. Organic net sales growth was 6.5%, reflecting growth in all four geographic regions, most notably in EMEA, North America, and Latin America.

Gross margin was 45.9% in both the current and prior year periods. This reflects an increase in gross margin in the EVM segment primarily due to changes in business mix and operational efficiencies, offset by lower AIT segment gross margin driven primarily by higher overhead and service costs, as well as increased customer sales incentives.

Operating expenses for the year ended December 31, 2017 and 2016, were $1.4 billion, or 37.3% of Net sales, and $1.6 billion, or 43.7% of Net sales, respectively. The reduction in operating expenses was primarily due to impairment charges related to the disposal of the Company’s WLAN business in the prior year, lower acquisition and integration costs, and lower amortization of intangible assets. During 2017, the Company substantially completed its integration activities, including the implementation of

a common enterprise resource planning system, associated with the Enterprise acquisition. The Company also exited the transition service agreements with MSI. The decrease in amortization of intangible assets was due to certain assets reaching full amortization in 2017. Exit and restructuring costs were also lower than the prior year due to the prior year including costs associated with the divestiture of the WLAN business. Research and development costs were higher primarily due to increased incentive compensation expense associated with improved financial performance, partially offset by the impact of the divestiture of the WLAN business. General and administrative expenses were lower compared to the prior year due primarily to reduced facility and IT expenses, professional fees, and employee benefit costs, as well as the impact of the divestiture of the WLAN business being offset partially by increased incentive compensation expense associated with improved financial performance.
Operating income increased $242 million compared to the prior year. The increase was primarily due to the decline in Operating expenses as well as the increase in Net sales and Gross profit.

Total Other expenses, net was $234 million for the current year, compared to $209 million for the prior year. The increase was primarily driven by $65 million of payments for early extinguishment and $16 million of accelerated amortization of debt issuance costs related to the redemption of $1.1 billion senior notes in the current year, partially offset by the impact of early repayments of debt and lower interest rates as well as lower long-term investment impairment charges in the current year.

The Company recognized income tax expense of $71 million and $8 million for the years ended December 31, 2017 and 2016, respectively. The Company's effective tax rates were 80.7% and (6.2)% for the years ended December 31, 2017 and December 31, 2016, respectively. The increase in income tax expense in 2017 was primarily due to improvement in pre-tax operating results as well as the one-time unfavorable impacts of U.S. Tax Reform, and unfavorable changes in valuation allowances as well as uncertain tax benefits, which were partially offset by the benefits of net foreign deferred tax asset remeasurements and intercompany asset transfers in 2017 as well as favorability of foreign income taxes.

Results of Operations by Segment

The following commentary should be read in conjunction with the financial results of each operating business segment as detailed in Note 18, Segment Information & Geographic Data in the Notes to Consolidated Financial Statements. Segment results exclude purchase accounting adjustments, amortization of intangible assets, acquisition and integration costs, impairment of goodwill and intangibles, and exit and restructuring costs. Segment results reflect a current year revision to the Company's operating cost allocation methodologies which more accurately reflects where costs are being incurred. The effect of this revision on prior periods resulted in $14 million and $41 million of operating expenses being reclassified from AIT to EVM for the years ended December 31, 2017 and 2016, respectively.

Asset Intelligence & Tracking Segment ("AIT")

(amounts in millions, except percentages)

	Year Ended December 31,			Percent Change	Percent Change
	2018	2017	2016	2018 vs 2017	2017 vs 2016
Net sales	$1,423	$1,311	$1,247	8.5 %	5.1 %
Gross profit	710	640	620	10.9 %	3.2 %
Operating expenses	385	366	339	5.2 %	8.0 %
Operating income	$325	$274	$281	18.6 %	(2.5)%
Gross margin	49.9 %	48.8 %	49.7 %		

AIT Organic Net sales growth:

December 31,

	2018	2017
AIT Reported GAAP Net sales growth	8.5 %	5.1 %
Adjustments:		
Impact of foreign currency translations [1]	(1.5)%	(0.5)%
AIT Organic Net sales growth	7.0 %	4.6 %

(1) Operating results reported in U.S. dollars are affected by foreign currency exchange rate fluctuations. Foreign currency translation impact represents the difference in results that are attributable to fluctuations in the currency exchange rates used to convert the results for businesses where the functional currency is not the U.S. dollar. This impact is calculated by

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translating, for certain currencies, the current period results at the currency exchange rates used in the comparable prior year period, rather than the exchange rates in effect during the current period. In addition, we exclude the impact of the company's foreign currency hedging program in both the current and prior year periods.

2018 compared to 2017

Net sales for AIT increased $112 million or 8.5% compared to the prior year. The increase in Net sales was primarily due to higher sales of barcode printing products being partially offset by declines in card printer sales. Barcode printer growth was broad based across all major product lines and led by North America, Asia-Pacific, and EMEA regions. Net sales growth was also positively impacted by currency changes, primarily in the EMEA region. AIT Organic Net sales growth for the year ended December 31, 2018 was 7.0%.

Gross margin increased to 49.9% in the current year compared to 48.8% for the prior year. The increase was primarily driven by favorable product mix, operational efficiencies and the favorable impact of currency changes.

Operating income for the current period increased 18.6% primarily due to higher Net sales and Gross profit partially offset by higher Operating expenses.

2017 compared to 2016

AIT Net sales for the year ended December 31, 2017 increased $64 million or 5.1% compared to the prior year. The increase in Net sales was largely driven by higher sales of barcode and card printers, primarily in the EMEA and Asia-Pacific regions. Sales of supplies and services were also higher than the prior year. The year-on-year growth also reflects a price concession to distributors of barcode printer products imported into China in the third quarter of 2016. During 2017, no additional price concession provisions were required and a reduction of the 2016 provision was recorded due to a change in import classification for barcode printers. AIT Organic Net sales growth for the year ended December 31, 2017 was 4.6%.

Gross margin was 48.8% compared to 49.7% for comparable prior year. The decrease in gross margin reflects higher overhead costs, including freight and costs associated with our regional distribution center transitions, higher services costs and increased customer sales incentives, offset partially by lower provisions for price concessions to distributors of barcode printer products imported into China.

Operating income decreased 2.5% as higher Net sales and Gross profit were more than offset by higher Operating expenses.

Enterprise Visibility & Mobility Segment ("EVM")

(amounts in millions, except percentages)

	Year Ended December 31,			Percent Change 2018 vs 2017	Percent Change 2017 vs 2016
	2018	2017	2016		
Net sales	$2,795	$2,414	$2,337	15.8 %	3.3 %
Gross profit	1,274	1,073	1,032	18.7 %	4.0 %
Operating expenses	870	772	787	12.7 %	(1.9)%
Operating income	$404	$301	$245	34.2 %	22.9 %
Gross margin	45.6 %	44.4 %	44.2 %		

EVM Organic Net sales growth:

	December 31,	
	2018	2017
EVM Reported GAAP Net sales growth	15.8 %	3.3 %

Adjustments:		
Impact of foreign currency translation [(1)]	(1.6)%	(0.7)%
Impact of Xplore acquisition [(2)]	(0.8)%	— %
Impact of Wireless LAN Divestiture [(3)]	— %	4.9 %
EVM Organic Net sales growth	13.4 %	7.5 %

(1) Operating results reported in U.S. dollars are affected by foreign currency exchange rate fluctuations. Foreign currency translation impact represents the difference in results that are attributable to fluctuations in the

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currency exchange rates used to convert the results for businesses where the functional currency is not the U.S. dollar. This impact is calculated by translating, for certain currencies, the current period results at the currency exchange rates used in the comparable prior year period, rather than the exchange rates in effect during the current period. In addition, we exclude the impact of the company's foreign currency hedging program in both the current and prior year periods.

(2) For purposes of computing Organic Net sales, amounts directly attributable to the Xplore acquisition (included in our consolidated results beginning August 14, 2018) will be excluded for 12 months following the acquisition date.

(3) The Company sold the WLAN business in October 2016. The Company excludes the impact of the Net sales of this business in 2016 when computing Organic Net sales growth.

2018 compared to 2017

Net sales for EVM increased $381 million or 15.8% compared to the prior year. The increase in Net sales was primarily attributable to strong global sales of mobile computing and data capture products, most notably in North America, EMEA and Asia-Pacific regions. Net sales growth was also positively impacted by currency changes, primarily in the EMEA region, as well as the inclusion of Xplore. EVM Organic Net sales growth was 13.4%.

Gross margin increased to 45.6% in the current year as compared to 44.4% in the prior year. The increase was primarily due to favorable product mix, operational efficiencies, and the positive impact of currency changes.

Operating income for the current year increased 34.2% due to higher Net sales and Gross profit that were partially offset by higher Operating expenses.

2017 compared to 2016

EVM Net sales for the year ended December 31, 2017 increased $77 million or 3.3% compared to prior year. The increase in Net sales was primarily driven by higher sales of mobile computing and data capture products, primarily in the North America and EMEA regions, partially offset by impact of the divestiture of the WLAN business in October 2016. EVM Organic Net sales growth for the year ended December 31, 2017 was 7.5%.

Gross margin for the year ended December 31, 2017 was 44.4% compared to 44.2% in the prior year. The increase in gross margin primarily reflects changes in product mix and improvements in hardware product costs.

Operating income increased 22.9% primarily as a result of higher Net sales and Gross profit as well as lower Operating expenses.

Critical Accounting Policies and Estimates

Management prepared the consolidated financial statements of the Company under accounting principles generally accepted in the United States of America. The application of these principles requires the use of estimates, judgments, and assumptions which affect the amounts reported in our consolidated financial statements. We believe that our estimates, judgments, and assumptions are reasonable based upon available information. Our more significant estimates and assumptions include those related to the measurement and recognition of income tax assets and liabilities, development of reporting unit fair values as part of our annual goodwill impairment testing, and the allocation of transaction price to performance obligations in certain revenue transactions. See Note 2, Significant Accounting Policies in the Notes to Consolidated Financial Statements for additional discussion of these as well as other accounting policies.

Recently Issued Accounting Pronouncements

See Note 2, Significant Accounting Policies in the Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

The primary factors that influence our liquidity include, but are not limited to, the amount and timing of our revenues, cash collections from our customers, cash payments to our suppliers, capital expenditures, repatriation of foreign cash and investments, and acquisitions of third-parties. Management believes that our existing capital resources and funds generated from operations are sufficient to meet anticipated capital requirements and service our indebtedness. The following table summarizes our cash flow activities for the years indicated (in millions):

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	Year Ended December 31,		
	2018	2017	2016
Cash flow (used in) provided by:			
Operating activities	$785	$478	$380
Investing activities	(137)	(51)	(39)
Financing activities	(661)	(517)	(384)
Effect of exchange rates on cash balances	(5)	(4)	7
Net decrease in cash and cash equivalents	$(18)	$(94)	$(36)

The change in our cash and cash equivalents balance is reflective of the following:

2018 vs. 2017

Cash flows from operations increased by $307 million during 2018 to $785 million. The increase was primarily due to higher net income, favorable changes in accounts payable due primarily to timing of payments and extension of contractual payment terms, lower cash payments for interest, and commencement of our Receivables Factoring program. These were partially offset by unfavorable timing of accounts receivable collections.

The increase in net cash used in investing activities was driven by the acquisition of Xplore and higher capital expenditures.

Net cash used in financing activities during the year ended December 31, 2018 consisted primarily of net debt repayments of $657 million compared to $454 million during the year ended December 31, 2017. The net debt repayment activities in 2017 also included $65 million of debt extinguishment costs associated with the full redemption of $1.1 billion in debt obligations.

2017 vs. 2016

Cash flows from operations increased $98 million during 2017 to $478 million. This improvement was driven by an increase in net earnings of $154 million, partially offset by a decline in working capital primarily related to higher inventory levels and lower accounts payable. Net inventory increased primarily as a result of growth in the business and changes in product mix, an increased backlog level compared to the prior year, and our recent transition to a new distribution model for our European operations. In addition, the prior year working capital benefited from the successful renegotiation of longer payment terms with vendors.

Net cash used in the purchase of property, plant and equipment declined $27 million as compared to the prior year, as capital expenditures related to the Enterprise acquisition integration were substantially completed in 2016. The prior year investing activities also included net cash proceeds of $39 million related to the sale of the WLAN business.

Net cash used in financing activities increased by $133 million during 2017 to $517 million. The increase was primarily due to higher net debt repayments in 2017 as well as $65 million of debt extinguishment costs associated with the full redemption of $1.1 billion in debt obligations.

Company Debt

The following table shows the carrying value of the Company’s debt (in millions):

	December 31,	
	2018	2017
Term Loan A	$608	$679
Term Loan B	445	1,160
Revolving Credit Facility	408	275
Receivables Financing Facility	139	135
Total debt	1,600	2,249
Less: Debt issuance costs	(5)	(7)

Less: Unamortized discounts	(4)	(15)
Less: Current portion of long-term debt	(157)	(51)
Total long-term debt	$1,434	$2,176

Credit Facilities

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The Company's debt includes borrowings under Term Loan A, Term Loan B and a multi-currency Revolving Credit Facility, all maturing in 2021. Borrowings under each instrument bear interest at a variable rate for which the Company has entered into interest rate swap contracts to manage interest rate exposure. All borrowings under the credit facilities as of December 31, 2018 were denominated in U.S. Dollars, except for €92 million under the Revolving Credit Facility that was borrowed in Euros. The average interest rates as of December 31, 2018 for Term Loan A, Term Loan B, and the Revolving Credit Facility were 3.84%, 4.09% and 3.26%, respectively. The Company is required to prepay certain amounts in the event of certain circumstances or transactions. The Company may make prepayments against the Term Loans, in whole or in part, without premium or penalty.

Receivables Financing Facility
In December 2017, the Company entered into a Receivables Financing Facility with a financial institution that has a borrowing limit of up to $180 million which matures on November 29, 2019. As collateral, the Company pledges a perfected first-priority security interest in its domestically originated accounts receivables. Borrowings bear interest at a variable rate and are accounted for as secured borrowings. As of December 31, 2018, the Receivables Financing Facility had an average interest rate of 3.36% and the Company's Consolidated Balance Sheets included $459 million of receivables that were pledged, of which $139 million had been borrowed against and reflected as a component of the Current portion of long-term debt on the Company's Consolidated Balance Sheets. All borrowings under the Receivable Financing Facility were denominated in U.S. Dollars.

Both the Revolving Credit Facility and Receivables Financing Facility include terms and conditions that limit the incurrence of additional borrowings and require that certain financial ratios be maintained at designated levels. As of December 31, 2018, the Company was in compliance with all debt covenants.

See Note 11, Long-Term Debt in the Notes to Consolidated Financial Statements for further details.

Receivables Factoring
In addition to the Company's borrowing arrangements described above, the Company entered into a Receivables Factoring arrangement in December 2018 in order to provide additional liquidity and improve working capital. Under the Receivables Factoring arrangement, the Company sells certain EMEA-originated receivables to a bank in exchange for cash without maintaining a beneficial interest in the receivables sold. At any time, the bank's purchase of eligible receivables is subject to a maximum of $90 million of uncollected receivables. Transactions under the Receivables Factoring arrangement are accounted for as sales under ASC 860, Transfers and Servicing of Financial Assets with related cash flows reflected in operating cash flows. As of December 31, 2018, $33 million of uncollected receivables were sold and removed from the Company's Consolidated Balance Sheet.

Cash and Cash Equivalents
Included in the Company's Cash and cash equivalents are amounts held by foreign subsidiaries. The Company had $39 million and $54 million of foreign cash and cash equivalents included in the Company's total cash positions of $44 million and $62 million as of December 31, 2018 and 2017, respectively.

Historically, significant portions of our cash inflows were generated by our operations. We currently expect this trend to continue throughout 2019. We believe that our existing cash and investments, borrowings available under our Revolving Credit Facility and Receivables Financing Facility and funds available from our Receivables Factoring arrangement, combined with cash flows expected from operations will be sufficient to meet expected operating and investing activities as well as debt repayment obligation requirements for the next 12 months.
Contractual Obligations
Zebra's contractual obligations as of December 31, 2018 were as follows (in millions):

	Payments due by period				
	Total	Less than 1	1-3 years	3-5 years	More than 5

		year			years
Operating lease obligations[1]	$153	$ 34	$ 52	$ 30	$ 37
Deferred compensation liability[2]	17	1	1	1	14
Debt principal payments	1,600	157	1,443	—	—
Interest payments[3]	160	64	96	—	—
Purchase obligations[4]	392	392	—	—	—
Total	$2,322	$ 648	$ 1,592	$ 31	$ 51

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(1) Includes leases of facilities, distribution centers, and sales and administrative offices that are classified as operating leases. The contractual obligations above include future minimum payments, including payments for those periods where renewal options are reasonably certain to be exercised.

(2) These payments relate to obligations under our deferred compensation plan. The deferred compensation plan allows certain members of management and other highly-compensated employees to defer receipt of a portion of their compensation. The amount in "More than 5 Years" represents the remaining total balance under the deferred compensation plan to be paid to participants who have not terminated employment, since we cannot estimate the timings of those terminations and withdrawals.

(3) Payments related to variable interest or interest rate swap agreements are based on applicable rates as of December 31, 2018 plus the specified margin were applicable in the associated agreements for each period presented.

(4) Purchase obligations are for purchases made in the normal course of business to meet operational requirements, primarily raw materials and finished goods. Purchase obligations included in the table above are based on quarterly forecasted component and manufacturing requirements and typically provide for fulfillment within agreed upon lead-times and/or commercially standard lead-times for products.

Uncertain tax benefits of $50 million have been excluded from the above table; of which $20 million is expected to be settled in the next twelve months and is reflected as a current liability as of December 31, 2018. The remainder is reflected within Other long-term liabilities as we cannot make a reasonably reliable estimate of the period of cash settlement, if any, with the respective taxing authority. See Note 14, Income Taxes in the Notes to Consolidated Financial Statements for further information.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the sensitivity of income to changes in interest rates, commodity prices, and foreign currency changes. Zebra is exposed to the following types of market risk: interest rates and foreign currency.

Interest Rate Risk

We are exposed to interest rate volatility with regard to existing debt issuances. Primary exposures include LIBOR rates. From time to time, we use interest rate derivative contracts including interest rate swaps to hedge our exposure to the impact of interest rate changes on existing debt and future debt issuances to reduce the volatility of our financing costs and, based on current and projected market conditions, achieve a desired proportion of fixed versus floating-rate debt. Generally, under these swaps, we agree with a counterparty to exchange floating-rate for fixed-rate interest amounts with an agreed upon notional principal amount.

As of December 31, 2018, we had $1.6 billion of debt outstanding under our debt facilities, which bears interest determined by reference to a variable rate index. A one percentage point increase or decrease in interest rates would increase or decrease annual interest expense by approximately $8 million. This amount includes the impact of an associated forward interest rate swap outstanding as of December 31, 2018, which was entered into to mitigate the interest rate risk associated with the variable interest payments on our debt facilities. Refer to Note 10, Derivative Instruments in the Notes to Consolidated Financial Statements for further discussion of hedging activities.

Foreign Exchange Risk

We provide products and services in over 180 countries throughout the world and, therefore, at times are exposed to risk based on movements in foreign exchange rates. On occasion, we invoice customers in their local currency and have a resulting foreign currency denominated revenue transaction and accounts receivable. We also purchase certain raw materials and other items in foreign currencies. We manage these risks using derivative financial instruments. See Note 10, Derivative Instruments in the Notes to Consolidated Financial Statements for further discussions of hedging activities.

We are exposed to fluctuations in foreign currency exchange rates, primarily with respect to the Euro, British Pound Sterling, Czech koruna, Australian dollar, Mexican peso, and Chinese yuan. A one percentage point increase or decrease in exchange rates relative to the U.S. dollar would increase or decrease our pre-tax income by approximately $1 million. This amount is inclusive of the impact of associated derivative contracts. We enter into foreign currency forward contracts to hedge against the effect of exchange rate fluctuations on the Consolidated Balance Sheets of certain entities with exposures denominated in foreign currencies. These transactions are typically one month in maturity and are not designated as hedges.

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Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Zebra Technologies Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Zebra Technologies Corporation (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15 (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 14, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company‘s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2005.

Chicago, Illinois
February 14, 2019

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$44	$62
Accounts receivable, net of allowances for doubtful accounts of $3 million as of December 31, 2018 and 2017, respectively	520	479
Inventories, net	520	458
Income tax receivable	24	40
Prepaid expenses and other current assets	54	24
Total Current assets	1,162	1,063
Property, plant and equipment, net	249	264
Goodwill	2,495	2,465
Other intangibles, net	232	299
Long-term deferred income taxes	114	119
Other long-term assets	87	65
Total Assets	$4,339	$4,275
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$157	$51
Accounts payable	552	424
Accrued liabilities	322	296
Deferred revenue	210	186
Income taxes payable	60	43
Total Current liabilities	1,301	1,000
Long-term debt	1,434	2,176
Long-term deferred income taxes	8	—
Long-term deferred revenue	172	148
Other long-term liabilities	89	117
Total Liabilities	3,004	3,441
Stockholders’ Equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares; none issued	—	—
Class A common stock, $.01 par value; authorized 150,000,0000 shares; issued 72,151,857 shares	1	1
Additional paid-in capital	294	257
Treasury stock at cost, 18,280,673 and 18,915,762 shares at December 31, 2018 and December 31, 2017, respectively	(613)	(620)
Retained earnings	1,688	1,248
Accumulated other comprehensive income (loss)	(35)	(52)
Total Stockholders’ Equity	1,335	834
Total Liabilities and Stockholders’ Equity	$4,339	$4,275

See accompanying Notes to Consolidated Financial Statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except share data)

	Year Ended December 31,		
	2018	2017	2016
Net sales			
Tangible products	$3,685	$3,223	$3,056
Services and software	533	499	518
Total Net sales	4,218	3,722	3,574
Cost of sales:			
Tangible products	1,871	1,677	1,593
Services and software	366	335	339
Total Cost of sales	2,237	2,012	1,932
Gross profit	1,981	1,710	1,642
Operating expenses:			
Selling and marketing	483	448	444
Research and development	444	389	376
General and administrative	328	301	307
Amortization of intangible assets	97	184	229
Acquisition and integration costs	8	50	125
Impairment of goodwill and other intangibles	—	—	62
Exit and restructuring costs	11	16	19
Total Operating expenses	1,371	1,388	1,562
Operating income	610	322	80
Other (expenses) income:			
Foreign exchange loss	(5)	(1)	(5)
Interest expense, net	(91)	(227)	(193)
Other, net	10	(6)	(11)
Total Other expenses, net	(86)	(234)	(209)
Income (loss) before income tax	524	88	(129)
Income tax expense	103	71	8
Net income (loss)	$421	$17	$(137)
Basic earnings (loss) per share	$7.86	$0.33	$(2.65)
Diluted earnings (loss) per share	$7.76	$0.32	$(2.65)

See accompanying Notes to Consolidated Financial Statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)

	Year Ended December 31,		
	2018	2017	2016
Net income (loss)	$421	$17	$(137)
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on anticipated sales hedging transactions	21	(15)	7
Unrealized gain on forward interest rate swaps hedging transactions	9	6	—
Foreign currency translation adjustment	(13)	2	(4)
Comprehensive income (loss)	$438	$10	$(134)

See accompanying Notes to Consolidated Financial Statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except share data)

	Class A Common Stock Shares	Class A Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2015	52,161,851	$ 1	$ 194	$ (631)	$ 1,377	$ (48)	$ 893
Issuance of treasury shares upon exercise of stock options, purchases under stock purchase plan and grants of restricted stock awards, net of cancellations	817,943	—	(14)	25	—	—	11
Shares withheld related to net share settlement	(95,206)	—	—	(8)	—	—	(8)
Additional tax benefit resulting from exercise of options	—	—	3	—	—	—	3
Share-based compensation	—	—	27	—	—	—	27
Net loss	—	—	—	—	(137)	—	(137)
Unrealized gain anticipated sales hedging transactions (net of income taxes)	—	—	—	—	—	7	7
Foreign currency translation adjustment	—	—	—	—	—	(4)	(4)
Balance at December 31, 2016	52,884,588	$ 1	$ 210	$ (614)	$ 1,240	$ (45)	$ 792
Cumulative effect of change in accounting principle	—	—	—	—	(9)	—	9
Issuance of treasury shares upon exercise of stock options, purchases under stock purchase plan and grants of restricted stock awards, net of cancellations	410,239	—	12	—	—	—	12
Shares withheld related to net share settlement	(58,732)	—	—	(6)	—	—	(6)
Share-based compensation	—	—	35	—	—	—	35
Net income	—	—	—	—	17	—	17
Unrealized loss on anticipated sales hedging transactions (net of income taxes)	—	—	—	—	—	(15)	(15)
Unrealized gain on forward interest rate swaps hedging transactions (net of income taxes)	—	—	—	—	—	6	6
Foreign currency translation adjustment	—	—	—	—	—	2	2