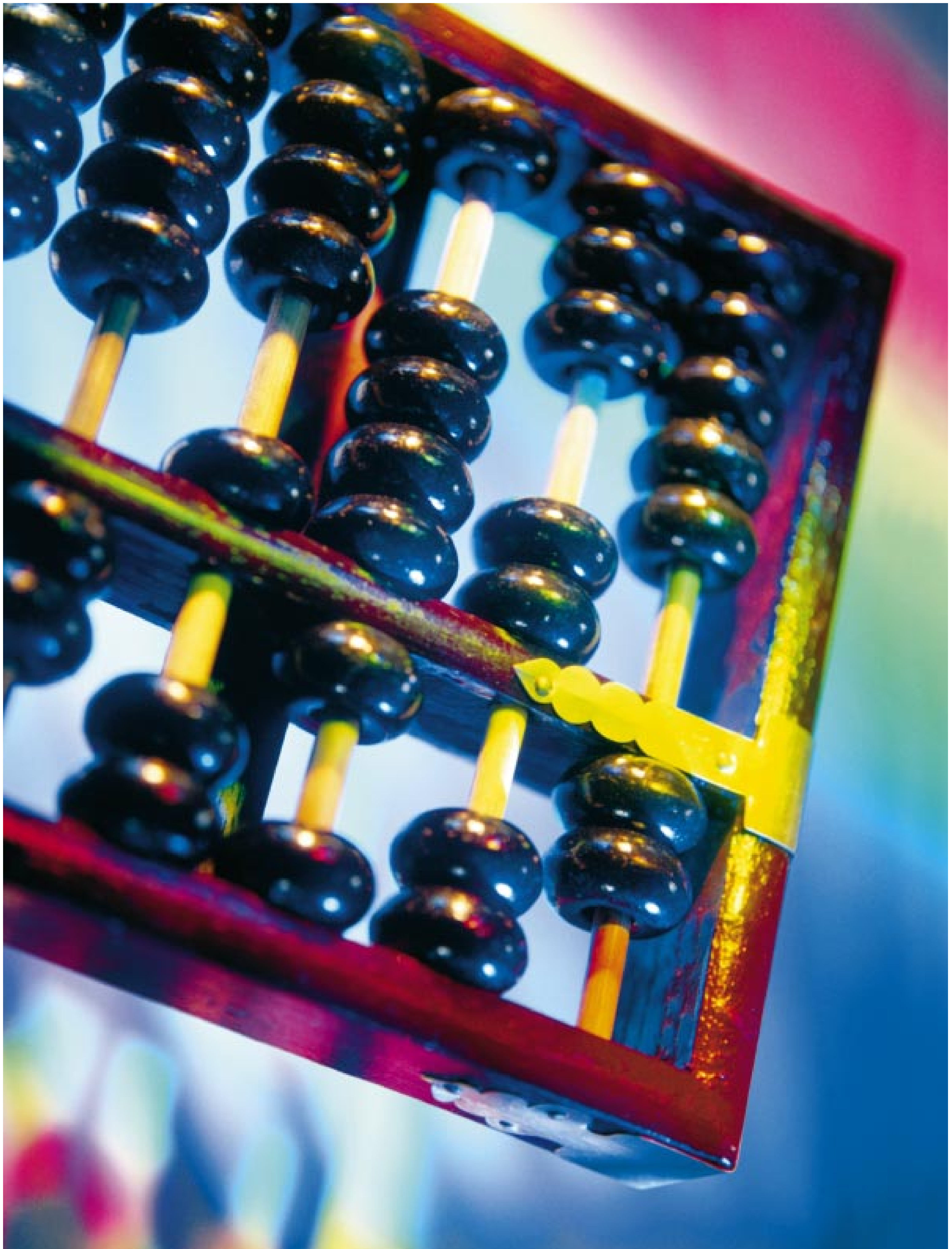

Financial report

Selected financial data

DOLLARS IN THOUSANDS, EXCEPT FOR PER SHARE DATA	1997 (3)	1996 (3)	1995 (3)	1994	1993
Net sales	$ 192,071	$ 163,980	$ 145,348	$ 107,103	$ 87,456
Gross profit	98,200	78,678	69,107	52,023	43,567
Operating income	52,775	41,031 (1)	39,981	30,343	24,897
Net income from continuing operations	42,810	30,853 (1)	29,574	21,073	18,255
Net income	40,155	28,915 (1)	22,564 (2)	21,073	18,255
Basic earnings per share from continuing operations	$ 1.77	$ 1.27 (1)	$ 1.23	$ 0.88	$ 0.76
Diluted earnings per share from continuing operations	1.76	1.27 (1)	1.22	0.87	0.76
Basic earnings per share	1.66	1.19 (1)	0.94 (2)	0.88	0.76
Diluted earnings per share	1.65	1.19 (1)	0.93 (2)	0.87	0.76
Total assets	$ 203,584	$ 164,386	$ 131,071	$ 95,043	$ 76,697
Long-term obligations	263	2,326	2,177	236	293

(1) Reflects a pre-tax charge for acquired in-process technology of $1,117 relating to the Company's acquisition of Fenestra Computer Services.
(2) Reflects a pre-tax charge for acquired in-process technology of $6,028 relating to the Company's acquisition of Zebra Technologies VTI.
(3) Revised to reflect the discontinuance of operations of Zebra Technologies VTI. See the Company's consolidated financial statements, Note 11—Discontinued Business Operations.

Management's discussion and analysis of financial condition and results of operations

Results of Operations

Revenues. During 1997 Zebra's net sales were $192,071,000, increasing by 17.1% from net sales of $163,980,000 in 1996. Net sales in 1995 were $145,348,000. Net sales growth in both 1997 and 1996 is attributed to unit growth, as the average unit price of the Company's printer products declined due to product mix changes and price reductions on certain products.

Printers vs. supplies. Zebra sells printer products, software and related supplies, which consist of self-adhesive labels and thermal transfer ribbons. In 1997 printer sales were $146,239,000 (76.1% of net sales), supplies sales were $41,079,000 (21.4% of net sales), and software and service sales were $4,753,000 (2.5% of net sales). In 1996 printer sales were $120,889,000 (73.7% of net sales) and supplies sales were $39,537,000 (24.1% of net sales), and software and service sales were $3,551,000 (2.2% of net sales). In 1995 printer sales were $106,778,000 (73.5% of net sales), supplies sales were $36,033,000 (24.8% of net sales), and software and service sales were $2,537,000 (1.7% of net sales). Management believes that the decline in supplies revenues as a percentage of total net sales is partially due to the shift in the Company's installed base of printers to lower cost printers, which consume smaller quantities of supplies per unit. Contributing factors also include the overcapacity in ribbon coating worldwide, which is forcing ribbon manufacturers to be more aggressive in marketing their output directly to the Company's distribution channel partners and end-users than in prior periods. Also, label sales were adversely affected in 1997 due to the acquisition of a significant customer, Peak Technologies, by Moore Corporation. Moore Corporation is a major provider of self-adhesive labels.

INTERNATIONAL SALES. Zebra products are sold through an international network of resellers in approximately 80 countries. International sales in 1997 were $87,428,000, an increase of 18.4% over 1996 international sales of $73,853,000. International sales comprised 45.5% of net sales in 1997 and 45.0% in 1996. In 1995 international sales were 44.5% of net sales, or $64,631,000. Management believes that international sales have the potential to grow faster than domestic sales due to the lower penetration of bar code systems outside the United States. The Company is expanding its operations outside the United States in order to take advantage of these favorable growth opportunities. Sales offices were opened in Germany and Singapore in 1997.

GROSS MARGINS. Gross margins increased significantly in 1997 to 51.1% of net sales, compared to 48.0% of net sales in 1996. Margins were 47.5% in 1995. The increase in gross margins in 1997 is attributed to decreased material costs of high volume printer parts plus favorable product mix. Supplies sales, which were a lower portion of total sales in 1997, provide a lower gross margin than the printer and software product lines.

SALES AND MARKETING. Total sales and marketing expenses increased by $4,506,000 or 29.2% in 1997, to $19,951,000 or 10.4% of net sales, compared to 1996 expenses of $15,445,000 or 9.4% of net sales. In 1995 the Company incurred $12,421,000 of sales and marketing costs, or 8.5% of net sales. The increasing trend in sales and marketing expenses as a percentage of net sales over the past three years is principally the result of expenses related to expansion of the Company's sales infrastructure needed to support international sales. In 1996 the Company opened a sales office in Miami, Florida to serve its markets in Central and South America. In addition, the Company opened several domestic sales offices to improve service to its customers in the United States. Marketing expenses have also increased as a percent of sales (3.5% in 1995, 3.7% in 1996, 4.2% in 1997) to support the Company's expanded distribution channel structure in various international markets. In late 1997 the Company incurred significant advertising and promotional expenses related to the introduction of the *Z* Series platform of printers, which was introduced at the Scan-Tech trade show in November 1997.

RESEARCH AND DEVELOPMENT. Research and development expenses increased by 12.1% in 1997 to $10,784,000, from $9,615,000 in 1996, and $7,771,000 in 1995. As a percentage of net sales, these expenses decreased to 5.6% in 1997 compared to 5.9% in 1996 and 5.3% in 1995. The change in research and development expenses was primarily the result of increased staffing to support new product development in the European and the Vernon Hills facilities. As a percent of sales, research and development expenses in 1996 were higher than 1995 or 1997 due to the quantity of new product development projects then in progress. The Company will continue to invest significant amounts in new product development as management believes that a steady stream of new products is vitally important to the Company's future sales growth.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased by 28.1% to $14,690,000 or 7.6% of net sales in 1997, compared to $11,470,000, or 7.0% of net sales in 1996. In 1995 general and administrative expenses were $8,934,000, or 6.1% of net sales. The increased level of general and administrative expenses in 1997 and 1996 was caused principally by higher staffing levels plus increased usage of professional services. In addition, 1997 and 1996 expenses include increased information systems costs related to the Company's enterprise-wide software implementation project.

ACQUIRED IN-PROCESS TECHNOLOGY. The charge for acquired in-process technology in 1996 relates to the Company's acquisition of software technologies as part of the acquisition of Fenestra Computer Services in the first quarter of 1996. This acquisition was accounted for under the purchase method, which requires that the purchase price be allocated to the fair value of the assets acquired. Among these assets was in-process technology (projects that had not reached technological feasibility and had no alternative future use) that was valued at $1,117,000. Accounting rules require that this asset be immediately expensed. Intangible assets and goodwill resulting from the acquisition are being amortized over periods of between three and ten years.

Other income. Other income, which consists of investment income and gains on the sale of securities (net of interest expense), increased by 119.5% in 1997 to $13,959,000 from $6,358,000 in 1996. The substantial increase in investment income is the result of a one-time gain of $5,458,000 during the first quarter of 1997 from the sale of 350,000 shares of Norand Corporation common stock, which was purchased in October of 1995 when Management briefly considered Norand a possible acquisition candidate. Without this gain on securities, other income was up 33.7% as a result of larger investment balances. Other income in 1996 was up 16.8% from $5,444,000 in 1995, again, principally due to gains on the Company's investment portfolio. The pretax return on average cash invested for 1997, 1996, and 1995, excluding the gain from the sale of Norand stock, was 7.5%, 8.8%, and 9.8%, respectively.

Income before income taxes. Income before income taxes for 1997 was $66,734,000 or 34.7% of net sales, an increase of 40.8% from $47,389,000 or 28.9% of net sales, in the previous year. In 1995 income before income taxes was $45,425,000 or 31.3% of net sales.

Provision for income taxes. The provision for income taxes in 1997 was $23,924,000 or 35.8% of income before income taxes. The provision for income taxes in 1996 was $16,536,000, or 34.9% of income before income taxes. In 1995 the provision for income taxes was $15,851,000 representing 34.9% of income before income taxes.

Net income from continuing operations. Net income from continuing operations in 1997 was $42,810,000 or $1.77 per basic share and $1.76 per diluted share. In 1996 net income from continuing operations was $30,853,000 or $1.27 per basic share and $1.27 per diluted share. In 1995 net income from continuing operations was $29,574,000 or $1.23 per basic share and $1.22 per diluted share. Outstanding shares have all been adjusted for the two-for-one stock split effective December 28, 1995. Net income from continuing operations, as a percentage of net sales, increased in 1997 to 22.3% of net sales compared to 18.8% in 1996, and 20.3% in 1995. 1996 and 1995 earnings per share have been restated in accordance with Statement of Financial Accounting Standards No. 128, which the Company adopted during the fourth quarter of 1997.

Discontinued Operations

As of June 28, 1997, the Company made the decision to discontinue the operations of Zebra Technologies VTI, a subsidiary of the Company. The discontinuance of Zebra Technologies VTI and the related PC retail channel was completed during the third quarter of 1997. A one-time charge of $2,363,000, before income tax benefits, was recorded in the second quarter and was related to the discontinuance of Zebra Technologies VTI and the Company's presence in the PC retail channel. The one-time charge includes a provision for expected product returns from present retail channel partners, provision for slow moving/obsolete product, and provisions for estimated contingent liabilities. As part of recording the provisions and charges, the related remaining goodwill and intangible assets were written off as part of the discontinued operations charge. The transition of remaining products and the business records and responsibilities was made during the third quarter of 1997 to appropriate personnel at the Company's Vernon Hills facility. Due to the discontinuance of Zebra Technologies VTI, the Company's 1995 and 1996 financial statements have been revised to reflect such discontinuance.

Liquidity and Capital Resources

Internally generated funds from operations are the primary source of liquidity for the Company. The Company has long-term obligations of $263,000 as of December 31, 1997, which consist of $212,000 of deferred payouts owed to the former shareholders of Fenestra Computer Services and $51,000 of deferred rent and capitalized lease obligations. As of December 31, 1997, the Company had $128,853,000 in cash and marketable securities compared to $94,540,000 at the end of 1996. The Company has a $6,000,000 unsecured line of credit plus an additional $4,000,000 unsecured revocable line of credit with its bank. These credit facilities are priced at either the prime rate or 150 basis points over the London Inter-bank Offer Rate (LIBOR), at the Company's discretion. As of December 31, 1997, the Company had outstanding borrowings of $137,000 under its lines of credit. Capital expenditures in 1997 were $5,272,000, compared to $5,994,000 in 1996, and $4,333,000 in 1995. Management believes that existing capital resources and funds generated from operations are sufficient to finance anticipated capital requirements.

Recently Issued Accounting Pronouncements

The Company will implement the provisions of Statement of Financial Accounting Standards No. 130, ("Statement 130") "Reporting Comprehensive Income," beginning with financial statements issued for 1998. Statement 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. Management believes that the adoption of Statement 130 will not have a significant impact on the Company's financial statements.

The Company will implement the provisions of Statement of Financial Accounting Standards No. 131, ("Statement 131") "Disclosures about Segments of an Enterprise and Related Information," for financial statements issued for periods after December 15, 1997. Statement 131, which is based on the management approach to segment reporting, includes requirements to report selected segment information, quarterly and entity-wide, disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenues. Management believes that the adoption of Statement 131 will not have a significant impact in the Company's financial statements.

Year 2000 Considerations

The Company initiated an enterprise-wide system conversion in 1994 to meet changing business needs, using the Baan system. This system is year 2000 compliant and its implementation is planned to be completed in the second quarter of 1998 for Vernon Hills and completed by year-end 1998 for the United Kingdom location. In addition, the Company's payroll system, not covered by the Baan system, will also be replaced by the end of 1998. The payroll system will integrate payroll with the Company's human resources software and will be year 2000 compliant. To date, expenditures on the Baan project have aggregated $4,870,000, of which $3,702,000 have been capitalized. At completion, total expenditures are estimated to be $8,800,000, of which $7,100,000 are estimated to be capitalized.

Significant Customer

Sales to Peak Technologies accounted for more than 20% of the Company's total net sales in the fiscal year ended December 31, 1996 and 17% in the fiscal year ended December 31, 1997. Peak Technologies was acquired by Moore Corporation in June 1997. Management recognizes Moore Corporation is a major provider of labels which could have an adverse affect on Zebra sales of this product to Peak Technologies. Sales to Peak Technologies of labels accounted for 2% of the Company's total net sales in the fiscal year ended December 31, 1997 and 3% in the fiscal year ended December 31, 1996.

Safe Harbor

Forward looking statements contained in this report are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors which could cause actual results to differ materially from those reflected in such forward looking statements. These factors include the acceptance of the Company's printer and software products by the market, and product offerings made by its competitors. Profits will be affected by the Company's ability to control manufacturing and operating costs. Due to the Company's large investment portfolio, interest rate conditions will also have an impact on results, as will foreign exchange rates due to the large percentage of the Company's sales in international markets. When used in this document and documents referenced hereby, the words "anticipate", "believe", "estimate", and "expect" and similar expressions as they relate to the Company or its management are intended to identify such forward looking statements. Readers of this release are referred to prior filings with the Securities and Exchange Commission, including Zebra's prospectus of September 4, 1997, for further discussions of factors that could affect Zebra's future results.

DOLLARS N THOUSANDS, EXCEPT FOR PER SHARE DATA	December 31, 1997	December 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,155	$ 5,168
Investments and marketable securities	121,698	89,372
Accounts receivable, net of allowance of $1,788 in 1997 and $960 in 1996	31,032	31,631
Inventories	22,443	21,503
Prepaid expenses	843	1,322
Deferred income taxes	4,307	1,250
Total current assets	187,478	150,246
Machinery and equipment at cost, less accumulated depreciation and amortization	12,753	11,328
Other assets	3,353	2,812
TOTAL ASSETS	$ 203,584	$ 164,386
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,141	$ 12,200
Accrued liabilities	6,900	4,180
Short-term note payable	137	1
Current portion of obligation under capital lease with related party	65	62
Income taxes payable	4,329	3,750
Total current liabilities	22,572	20,193
Obligation under capital lease with related party, less current portion	51	115
Long-term obligations	212	2,211
Other	287	308
Deferred income taxes	911	1,103
Total liabilities	24,033	23,930
Shareholders' equity:		
Preferred stock, $.01 par value: 10,000,000 shares authorized. None outstanding	—	—
Class A Common stock, $.01 par value: 50,000,000 shares authorized, 19,413,933 and 16,924,973 shares issued and outstanding in 1997 and 1996, respectively	194	169
Class B Common stock, $.01 par value: 28,358,189 shares authorized, 4,890,609 and 7,315,404 shares issued and outstanding in 1997 and 1996, respectively	49	73
Additional paid-in capital	29,984	30,386
Retained earnings	148,779	108,624
Unrealized holding loss on investments	—	(6)
Cumulative translation adjustment	545	1,210
Total shareholders' equity	179,551	140,456
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 203,584	$ 164,386

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

in thousands, except for per share data	Year Ended December 31, 1997	December 31, 1996	December 31, 1995
Net sales	$ 192,071	$ 163,980	$ 145,348
Cost of sales	93,871	85,302	76,241
Gross profit	98,200	78,678	69,107
Operating expenses:			
Sales and marketing	19,951	15,445	12,421
Research and development	10,784	9,615	7,771
General and administrative	14,690	11,155	8,934
Merger costs	—	315	—
Acquired in-process technology	—	1,117	—
Total operating expenses	45,425	37,647	29,126
Operating income	52,775	41,031	39,981
Other income (expense):			
Investment income	13,288	6,189	5,207
Interest expense	(35)	(87)	(59)
Other, net	706	256	296
Total other income	13,959	6,358	5,444
Income from continuing operations before income taxes	66,734	47,389	45,425
Income taxes	23,924	16,536	15,851
Net income from continuing operations	42,810	30,853	29,574
Discontinued operations:			
Loss from discontinued operations (less applicable income tax benefit of $372, $815 and $442)	(1,692)	(1,938)	(7,010)
Loss on disposal of discontinued operations including provision for operating losses during phase-out period (less applicable income tax benefit of $615)	(963)	—	—
Net income	$ 40,155	$ 28,915	$ 22,564
Basic earnings per share from continuing operations	$ 1.77	$ 1.27	$ 1.23
Diluted earnings per share from continuing operations	$ 1.76	$ 1.27	$ 1.22
Basic earnings per share	$ 1.66	$ 1.19	$ 0.94
Diluted earnings per share	$ 1.65	$ 1.19	$ 0.93
Weighted average shares outstanding	24,255	24,203	24,113
Weighted average and equivalent shares outstanding	24,318	24,241	24,166

See accompanying notes to consolidated financial statements.

DOLLARS IN THOUSANDS	Year Ended December 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995
Cash flows from operating activities:			
Net income	$ 40,155	$ 28,915	$ 22,564
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,275	3,839	2,219
Acquired in-process technology	—	1,117	6,028
Appreciation in market value of investments and marketable securities	(5,973)	(2,483)	(2,061)
Discontinued operations	(3,371)	—	—
(Increase) decrease in accounts receivable	599	(6,744)	(7,295)
(Increase) in inventories	(940)	(1,138)	(3,193)
(Increase) decrease in other assets	(968)	132	(1,884)
Increase (decrease) in accounts payable	(1,059)	932	3,867
Increase in accrued expenses	2,699	355	1,003
Increase (decrease) in income taxes payable	579	(317)	1,791
(Decrease) in deferred taxes	(3,249)	(484)	(815)
Net increase (decrease) in other operating activities	(186)	1,491	927
Net (purchases) of investments and marketable securities	(37,853)	(24,153)	(11,460)
Net cash provided by (used in) operating activities	(5,292)	1,462	11,691
Cash flows from investing activities:			
Purchases of machinery and equipment	(5,273)	(5,994)	(4,333)
Payment for acquisition	—	(962)	(2,550)
Proceeds from sales/(purchases) of investments and marketable securities	11,506	265	(6,147)
Net cash provided by (used in) investing activities	6,233	(6,691)	(13,030)
Cash flows from financing activities:			
Proceeds from exercise of stock options	971	476	324
Proceeds from sales of common stock	—	—	631
Issuance (repayment) of short-term notes payable	136	(37)	37
Payments for obligation under capital lease	(61)	(59)	(57)
Net cash provided by financing activities	1,046	380	935
Net increase (decrease) in cash and cash equivalents	1,987	(4,849)	(404)
Cash and cash equivalents at beginning of year	5,168	10,017	10,421
Cash and cash equivalents at end of year	$ 7,155	$ 5,168	$ 10,017
Supplemental disclosures of cash flow information:			
Interest paid	$ 35	$ 87	$ 59
Income taxes paid	$ 23,858	$ 16,763	$ 13,626

See accompanying notes to consolidated financial statements.

DOLLARS IN THOUSANDS	*Class A Common Stock*	*Class B Common Stock*	*Additional Paid-in Capital*	*Retained Earnings*	*Unrealized Holding Loss On Investments*	*Cumulative Translation Adjustment*	*Total*
Balance at December 31, 1994	$ 76	$ 44	$ 25,313	$ 57,145	$ (395)	$ (151)	$ 82,032
Issuance of 117,388 shares of Class A Common stock	1	—	2,453	—	—	—	2,454
Conversion of 1,391,712 shares of Class B Common stock to 1,391,712 shares of Class A Common stock	7	(7)	—	—	—	—	—
Adjustments for stock split	85	36	(121)	—	—	—	—
VTI acquisition	—	—	2,000	—	—	—	2,000
Net income	—	—	—	22,564	—	—	22,564
Cumulative translation adjustment	—	—	—	—	—	(73)	(73)
Unrealized holding loss on investments	—	—	—	—	(771)	—	(771)
Balance at December 31, 1995	169	73	29,645	79,709	(1,166)	(224)	108,206
Issuance of 56,815 shares of Class A Common stock	—	—	741	—	—	—	741
Conversion of 2,658 shares of Class B Common stock to 2,658 shares of Class A Common stock	—	—	—	—	—	—	—
Net income	—	—	—	28,915	—	—	28,915
Cumulative translation adjustment	—	—	—	—	—	1,434	1,434
Unrealized holding gain on investments	—	—	—	—	1,160	—	1,160
Balance at December 31, 1996	169	73	30,386	108,624	(6)	1,210	140,456
Issuance of 64,165 shares of Class A Common Stock	1	—	970	—	—	—	971
Conversion of 2,424,795 shares of Class B Common Stock to 2,424,795 shares of Class A Common Stock	24	(24)	—	—	—	—	—
Settlement of litigation— Zebra Technologies VTI	—	—	(1,372)	—	—	—	(1,372)
Net income	—	—	—	40,155	—	—	40,155
Cumulative translation adjustment	—	—	—	—	—	(665)	(665)
Unrealized holding gain on investments	—	—	—	—	6	—	6
Balance at December 31, 1997	$ 194	$ 49	$ 29,984	$ 148,779	$ —	$ 545	$ 179,551

See accompanying notes to consolidated financial statements.

NOTE 1 DESCRIPTION OF BUSINESS

Zebra Technologies Corporation and its wholly-owned subsidiaries (the "Company") design, manufacture, sell, and support a broad line of computerized on-demand bar code label printers, specialty bar code labeling materials, thermal transfer ribbons, and PC-based bar code software, which provides bar code labeling solutions targeted primarily at industrial and service organizations worldwide.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Research and development costs. Research and development costs are expensed as incurred.

Cash equivalents. Cash equivalents consist primarily of short-term treasury securities. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Investments and marketable securities. Investments and marketable securities at December 31, 1997 consisted of U.S. Treasury, mortgaged-backed, and corporate debt and equity securities. The Company applies the provisions of Statement of Financial Accounting Standards No. 115, ("Statement 115"), "Accounting for Certain Investments in Debt and Equity Securities." Under Statement 115, the Company classifies its debt and marketable equity securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

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

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

Machinery and equipment. Machinery and equipment is stated at cost. Depreciation and amortization is computed primarily using the straight-line method over the estimated useful lives of the various classes of machinery and equipment, which range from 3 to 10 years. Machinery and equipment held under a capital lease is amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Income Taxes. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, ("Statement 109"), "Accounting for Income Taxes." Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

Earnings per share. For the years ended December 31, 1997, 1996, and 1995, earnings per share was computed in accordance with Statement of Financial Accounting Standards No. 128, which the Company adopted during the fourth quarter of 1997. Weighted-average and equivalent shares outstanding include the dilutive effect of common stock options aggregating 63,435, 37,724, and 53,402, for the years ended December 31, 1997, 1996, and 1995, respectively.

Foreign Currency Translation. The balance sheets of the Company's foreign subsidiaries are translated into U.S. dollars using the year-end exchange rate, and sales and expenses are translated using the average exchange rate for the year. The resulting translation gains or losses are recorded as a separate component of shareholders' equity as a cumulative translation adjustment.

NOTE 3 INVESTMENTS AND MARKETABLE SECURITIES

Investments and marketable securities consist of (in thousands):

	December 31, 1997	*December 31, 1996*
Trading, at fair value	$ 121,698	$ 83,334
Available-for-sale, at fair value	–	6,038
	$ 121,698	$ 89,372

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for available-for-sale investments and marketable securities as of December 31, 1996 were as follows (in thousands):

	Cost	*Gains*	*Losses*	*Fair Value*
Gross Unrealized Holding	$ 6,047	–	$ (9)	$ 6,038

Proceeds from the sale of an available-for-sale security during 1997 were $11,506,000, resulting in a gross realized gain of $5,458,000.

NOTE 4 RELATED-PARTY TRANSACTIONS

Unique Building Corporation (Unique), an entity controlled by certain officers and shareholders of the Company, leases a facility and equipment to the Company under a lease described in Note 9. Management believes that the lease payments are substantially consistent with amounts which could be negotiated with third parties on an arm's-length basis.

Interest expense and lease payments related to the leases were included in the consolidated financial statements as follows (in thousands):

	Unique Operating Lease Payments	*Interest Expense on Unique Capital Lease*
1997	$ 1,261	$ 7
1996	1,227	10
1995	1,114	12

NOTE 5 INVENTORIES

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

	December 31, 1997	*December 31, 1996*
Raw material	$ 14,651	$ 10,750
Work in process	1,273	325
Finished goods	6,519	10,428
Total inventories	$ 22,443	$ 21,503

NOTE 6 MACHINERY AND EQUIPMENT

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

	December 31, 1997	*December 31, 1996*
Machinery, equipment, and tooling	$ 12,129	$ 11,091
Machinery and equipment under capital leases	574	591
Furniture and office equipment	2,512	2,259
Computers and related equipment	10,834	6,943
Automobiles	505	536
Leasehold improvements	843	704
	27,397	22,124
Less accumulated depreciation and amortization	14,644	10,796
Net machinery and equipment	$ 12,753	$ 11,328

Unamortized computer software costs were approximately $1,800,000 and $1,700,000 at December 31, 1997 and December 31, 1996, respectively.

NOTE 7 INCOME TAXES

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

	1997	*1996*	*1995*
Current:			
Federal	$ 21,217	$ 12,914	$ 12,365
State	2,446	1,412	1,192
Foreign	2,523	1,879	1,037
Deferred:			
Federal	(2,774)	(240)	289
State	(391)	(244)	64
Foreign	116	—	462
Total	$ 22,937	$ 15,721	$ 15,409

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

	1997	*1996*	*1995*
Provision computed at statutory rate	$ 22,091	$ 15,623	$ 13,291
State income tax (net of Federal tax benefit)	1,336	759	816
Tax-exempt interest and dividend income	(493)	(280)	(211)
Tax benefit of exempt foreign trade income	(441)	(585)	(670)
Acquisition related items	109	259	2,213
Other	335	(55)	(30)
Provision for income taxes	$ 22,937	$ 15,721	$ 15,409

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

Temporary differences which give rise to deferred tax assets and liabilities are as follows (in thousands):

	December 31, 1997	*December 31, 1996*
Deferred tax assets:		
Deferred rent-building	$ 103	$ 104
Capital equipment lease	46	70
Accrued vacation	340	276
Inventory items	1,484	951
Allowance for doubtful accounts	577	275
Other accruals	2,085	569
Acquisition related items	404	435
Total deferred tax assets	5,039	2,680
Deferred tax liabilities:		
Unrealized gain on securities	(179)	(821)
Depreciation	(897)	(979)
Acquisition of VTI	(451)	(451)
Other	(116)	(282)
Total deferred tax liabilities	(1,643)	(2,533)
Net deferred tax asset	$ 3,396	$ 147

The valuation allowance was zero as of December 31, 1997 and 1996.

NOTE 8 401(K) SAVINGS AND PROFIT SHARING PLANS

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

additional amounts to the 401(k) Plan at the discretion of the Board of Directors, subject to certain legal limits.

The Company has a discretionary profit-sharing plan for qualified employees, to which it contributed 3.318% of eligible earnings for 1997, 2.925% for 1996, and 3.4% for 1995. Participants are not permitted to make contributions under the profit-sharing plan.

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

	401(k)	*Profit sharing*	*Total*
1997	$ 522	$ 847	$ 1,369
1996	398	513	911
1995	324	453	777

NOTE 9 COMMITMENTS AND CONTINGENCIES

(A) Leases. In September 1989, the Company entered into a lease agreement for its Vernon Hills facility and certain machinery, equipment, furniture and fixtures with Unique Building Corporation. The facility portion of the lease is treated as an operating lease. An amendment to the lease dated June 1996 extended the term of the lease through March 31, 2008. The lease agreement includes a modification to the base monthly rental which goes into effect if the prescribed rent payment is less than the aggregate principal and interest payments required to be made by Unique under an Industrial Revenue Bond (IRB). Under the portion of the lease agreement with Unique which is accounted for as a capital lease, the Company leases machinery, equipment, furniture and fixtures at a monthly rental of $5,725 for a ten-year period. Assets under these leases are as follows (in thousands):

	December 31, 1997	*December 31, 1996*
Assets under capital leases	$ 553	$ 592
Less accumulated amortization	553	578
Net leased machinery and equipment under capital leases	—	$ 14

Minimum future obligations under noncancelable operating leases and future minimum capital lease payments as of December 31, 1997 are as follows (in thousands):

	Capital Lease	*Operating Leases*
1998	$ 69	$ 1,297
1999	52	1,349
2000	—	1,417
2001	—	1,384
2002	—	1,384
Thereafter	—	8,000
Total minimum lease payments	121	$ 14,831
Less amount representing interest	5	
Present value of minimum payments	116	
Less current portion of obligation under capital lease	65	
Long-term portion of obligation under capital lease	$ 51	

Rent expense for operating leases charged to operations for the years ended December 31, 1997, 1996, and 1995 was $1,932,000, $1,750,000, and $1,348,000, respectively.

(B) Manufacturing and office facility. In October 1997, the Company committed to the purchase of a 37,000 square foot manufacturing and office facility for its Preston, England operations for $1,100,000, which will replace its current facility. The Company plans to begin transferring its operations to this facility in September 1998.

(C) Letter of credit. In connection with the lease agreements described above, the Company has guaranteed Unique's full and prompt payment under Unique's letter of credit agreement with a bank. The liability of the Company under this guaranty as of December 31, 1997 is $700,000, which is the limit of the Company's guaranty throughout the term of the IRB.

(D) Lines of credit. In December 1992, the Company established a $6,000,000 unsecured line of credit and an additional $4,000,000 unsecured revocable line with a bank. Borrowings under these lines bear interest indexed at either the prime rate or 150 basis points over the LIBOR rate, at the Company's discretion. The Company had $137,000 outstanding at December 31, 1997. The lines of credit expire on February 28, 1999.

(E) Derivative instruments. In the normal course of business, portions of the Company's expenses are subject to fluctuations in currency values. The Company addresses these risks through a controlled program of risk management that includes the use of derivative financial instruments. To some degree, the Company is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments, but management does not expect any counterparties to fail to meet their obligations given their high credit ratings.

The Company enters into foreign exchange forward contracts to manage exposure to fluctuations in foreign exchange rates to the funding of its United Kingdom operations. The Company accounts for such contracts by recording any unrealized gains or losses in income each reporting period. At December 31, 1997, the Company had entered into foreign exchange forward contracts which provide for purchases of approximately 1,227,038 pounds sterling per month through March 1998. At December 31, 1997 and 1996, the notional principal amounts of outstanding forward contracts were $6,211,000 and $9,858,000, respectively.

NOTE 10 SEGMENT DATA AND EXPORT SALES

The Company operates in one industry segment. The Company generated sales to foreign customers of approximately $87,428,000, $73,853,000, and $64,631,000 for the years ended December 31, 1997, 1996, and 1995, respectively.

For the year ended December 31, 1997, the Company's wholly-owned subsidiaries located in the United Kingdom had net sales, net income, and total assets of $55,029,000, $5,818,000 and $23,066,000, respectively. For the year ended December 31, 1996, the subsidiaries' had net sales, net income, and total assets of $44,518,000, $3,532,000, and $21,015,000, respectively.

NOTE 11 DISCONTINUED BUSINESS OPERATIONS

As of June 28, 1997, the Company made the decision to discontinue the operations of its subsidiary, Zebra Technologies VTI ("Zebra VTI"). The discontinuance of Zebra VTI and its related PC-retail channel

resulted in a one-time charge of $2,363,000 before income tax benefits, which was recorded in the second quarter of 1997. The one-time charge includes a provision for expected product returns from the present retail channel partners, provision for slow moving/ obsolete product, and provisions for estimated contingent liabilities. Additionally, the remaining goodwill and intangible assets of $1,833,000 were written off as part of the charge to discontinued operations.

NOTE 12 SHAREHOLDERS' EQUITY

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

Class A Common Stock has no conversion rights. A holder of Class B Common Stock may convert his Class B Common Stock into Class A Common Stock, in whole or in part, at any time and from time to time on the basis of one share of Class A Common Stock for each share of Class B Common Stock.

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

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

The Company has authorized 10,000,000 shares of Preferred Stock. No shares of Preferred Stock have been issued.

In 1997 the Board of Directors and the shareholders of the Company approved an amendment to the Company's Certificate of Incorporation which increased the total authorized Class A Common Stock of the Company from 35,000,000 shares to 50,000,000.

NOTE 13 STOCK OPTION AND PURCHASE PLANS

As of December 31, 1997, the Company has five stock option and stock purchase plans, which are described below.

The Board of Directors and shareholders adopted the Zebra Technologies Corporation Stock Option Plan (the "1991 Plan"), effective as of August 1, 1991. A total of 400,000 shares of Class A Common Stock have been authorized and reserved for issuance under the 1991 Plan. Under this plan, the Company has granted only non-qualified stock options. These options have an exercise price equal to the closing market price of the Company's stock on the date of grant. Typically, the options vest in annual installments of 15% on the first anniversary, 17.5% on the second anniversary, 20% on the third anniversary, 22.5% on the fourth anniversary, and 25% on the fifth anniversary of the grant date. Upon vesting, the options have a legal life of two years from the date of vesting. The specific provisions of any grant are determined by the Board of Directors.

The Board of Directors and shareholders also adopted a Directors' Stock Option Plan, which reserves 80,000 shares of Class A Common Stock for issuance under the plan. All options granted under this plan are exercisable immediately upon grant at a price per share equal to the closing market price of the Company's Class A Common Stock on the date of grant. Options granted to the Board of Directors carry a seven year expiration period, however, should a member of the board discontinue service on the Board of Directors, they are limited to a two year period to exercise all outstanding options.

In addition, the Board of Directors and shareholders adopted an employee stock purchase plan ("Stock Purchase Plan") and have reserved 300,000 shares of Class A Common Stock for issuance thereunder. Under this plan, employees who work a minimum of 20 hours per week may elect to withhold up to 8.5% of their cash compensation through regular payroll deductions to purchase shares of Class A Common Stock from the Company over a period not to exceed 12 months at a purchase price per share equal to the lesser of: (1) 85% of the fair market value of the shares as of the date of the grant, or (2) 85% of the fair market value of the shares as of the date of purchase. As of December 31, 1997, 125,870 shares have been purchased under the plan.

In general, the options granted under the Stock Purchase Plan during 1997 and 1996 have similar provisions. Under this plan, the Company has granted only non-qualified stock options. These options are granted either on January 1 or July 1 of the current year and expire at the end of the year. Therefore, the options have a legal life of six months to one year and typically vest upon grant. The specific provisions of any grant are determined by the Board of Directors.

The Company's Board of Directors adopted the 1997 Stock Option Plan effective February 11, 1997. The Company has reserved 531,500 shares of Common Stock for issuance under the plan. The 1997 Stock Option Plan is a flexible plan that provides the Option Committee broad discretion to fashion the terms of the awards to provide eligible participants with stock-based incentives, including: (i) non-qualified and incentive stock options for the purchase of the Company's Class A Common Stock and (ii) dividend equivalents. The persons eligible to participate in the 1997 Stock Option Plan are directors, officers and employees of the Company or any subsidiary of the Company who, in the opinion of the Option Committee, are in a position to make contributions to the growth, management, protection and success of the Company or its subsidiaries.

The options granted under the 1997 Stock Option Plan have an exercise price equal to the closing market price of the Company's stock on the date of grant. Typically, the options vest in annual installments of 15% on the first anniversary, 17.5% on the second anniversary, 20% on the third anniversary, 22.5% on the fourth anniversary, and 25% on the fifth anniversary of the grant date. The options have a legal life of ten years from the date of grant. The specific provisions of any grant are determined by the Board of Directors.

The Company's Board of Directors adopted the 1997 Director Plan effective February 11, 1997. The 1997 Director Plan provides for the issuance of options to purchase up to 77,000 shares of Class A Common

Stock, which shares are reserved and available for purchase upon the exercise of options granted under the 1997 Director Plan. Only directors who are not employees or officers of the Company are eligible to participate in the 1997 Director Plan. Under the 1997 Director Plan, each non-employee director was granted, on the effective date of the plan, an option to purchase 15,000 shares of Class A Common Stock, and each non-employee director subsequently elected to the Board will be granted an option to purchase 15,000 shares of Class A Common Stock on the date of his or her election. Options granted under the 1997 Director Plan provide for the purchase of Class A Common Stock at a price equal to the fair market value on the date of grant. If there are not sufficient shares remaining and available to all non-employee directors eligible for an automatic grant at the time at which an automatic grant would otherwise be made, then each eligible non-employee director shall receive an option to purchase a pro rata number of shares.

Unless otherwise provided in an option agreement, options granted under the 1997 Director Plan shall become exercisable in five equal increments on the date of the grant and on each of the first four anniversaries thereafter. All options expire on the earlier to occur of (1) ten years following the grant date or (2) the second anniversary of the termination of the non-employee director's directorship for any reason other than due to death or Disability (as defined in the 1997 Director Plan).

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its plans. No compensation cost has been recognized for its fixed stock option plans and its stock purchase plan. Had compensation cost for the Company's stock option and stock purchase plans been determined consistent with Statement of Financial Accounting Standards No. 123 ("Statement 123"), "Accounting for Stock-Based Compensation," the Company's 1997 net income and diluted earnings per share would have been as follows:

Net income:	
As reported	$ 40,155
Pro forma	39,638
Diluted earnings per share:	
As reported	$ 1.65
Pro forma	1.63

Net income and earnings per share were affected by less than 1% in 1996 and 1995.

For purposes of calculating the compensation cost consistent with Statement 123, the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for stock option grants in 1997, 1996, and 1995, respectively: option price, which equals the fair market value at the date of grant; expected dividend yield of 0% for each period; expected volatility of 42.08%, 41.21%, and 41.21%; risk free interest rate of 6.36%, 6.45%, and 6.36%; and expected weighted-average life of 6.00 years, 5.25 years, and 5.25 years.

The fair value of the employees' purchase rights pursuant to the Stock Purchase Plan are estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for purchase rights granted in 1997, 1996, and 1995, respectively: fair market value of $23.63, $22.11, and $20.20; option price of $20.09, $18.79, and $17.17; expected dividend yield of 0% for each period; expected volatility of 48%, 44%, and 30%; risk-free interest rate of 5.49%, 5.55%, and 5.55%; and expected lives of six months to one year.

Stock option activity for the years ended December 31, 1997, 1996, and 1995 was as follows:

Fixed Options	*Shares*	*1997 Weighted-Average Exercise Price*	*Shares*	*1996 Weighted-Average Exercise Price*	*Shares*	*1995 Weighted-Average Exercise Price*
Outstanding at beginning of year	187,500	$ 19.70	174,000	$ 15.19	176,000	$ 12.02
Granted	336,500	24.70	57,000	27.11	56,000	19.36
Exercised	(22,400)	14.63	(38,500)	9.01	(38,500)	8.42
Canceled	—	—	(5,000)	29.25	(19,500)	11.91
Outstanding at end of year	501,600	23.28	187,500	19.70	174,000	15.19
Options exercisable at end of year	90,450	19.92	78,700	18.19	63,500	15.63

The following table summarizes information about fixed stock options outstanding at December 31, 1997:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Range of Exercise Prices	*Number of Shares*	*Weighted-Average Remaining Contractual Life*	*Weighted-Average Exercise Price*	*Number of Shares*	*Weighted-Average Exercise Price*
$9.88–$20.50	108,600	2.63 years	$ 16.54	52,575	$ 15.57
$24.50–$24.50	331,500	9.12 years	24.50	9,000	24.50
$25.19–$37.63	61,500	4.19 years	28.60	28,875	26.42

NOTE 14 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

DOLLARS IN THOUSANDS, EXCEPT FOR PER SHARE DATA	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
1997	(2)				
Net sales	$ 41,009	$ 47,844	$ 49,889	$ 53,329	$ 192,071
Cost of sales	20,603	23,546	24,878	24,844	93,871
Gross profit	20,406	24,298	25,011	28,485	98,200
Total operating expenses	9,234	11,768	11,360	13,063	45,425
Operating income	11,172	12,530	13,651	15,422	52,775
Total other income	7,231	2,236	1,888	2,604	13,959
Income from continuing operations before income taxes	18,403	14,766	15,539	18,026	66,734
Income taxes	6,876	5,121	5,594	6,333	23,924
Net income from continuing operations	11,527	9,645	9,945	11,693	42,810
Loss from discontinued operation	(292)	(1,400)	—	—	(1,692)
Loss on disposal of discontinued operation	—	(963)	—	—	(963)
Net income	$ 11,235	$ 7,282	$ 9,945	$ 11,693	$ 40,155
Basic earnings per share from continuing operations	$ 0.48	$ 0.40	$ 0.41	$ 0.48	$ 1.77
Diluted earnings per share from continuing operations	$ 0.48	$ 0.40	$ 0.41	$ 0.48	$ 1.76
Basic earnings per share	$ 0.46	$ 0.30	$ 0.41	$ 0.48	$ 1.66
Diluted earnings per share	$ 0.46	$ 0.30	$ 0.41	$ 0.48	$ 1.65
Basic weighted-average shares outstanding	24,240	24,244	24,257	24,278	24,255
Diluted weighted-average and equivalent shares outstanding	24,268	24,293	24,338	24,373	24,318
1996	(2)	(2)	(2)	(2)	(2)
Net sales	$ 36,526	$ 38,920	$ 41,858	$ 46,676	$ 163,980
Cost of sales	18,961	20,468	21,763	24,110	85,302
Gross profit	17,565	18,452	20,094	22,566	78,678
Total operating expenses	10,236(1)	9,759	8,345	9,307	37,647
Operating income	7,329(1)	8,693	11,750	13,259	41,031
Total other income	1,282	1,529	1,399	2,148	6,358
Income before income taxes	8,611(1)	10,222	13,149	15,407	47,389
Income taxes	2,903	3,440	4,526	5,667	16,536
Net income from continuing operations	5,708(1)	6,782	8,623	9,740	30,853
Loss from discontinued operation	(459)	(522)	92	(1,049)	(1,938)
Loss on disposal of discontinued operation	—	—	—	—	—
Net income	$ 5,249(1)	$ 6,260	$ 8,715	$ 8,691	$ 28,915
Basic earnings per share from continuing operations	$ 0.24(1)	$ 0.28	$ 0.36	$ 0.40	$ 1.27
Diluted earnings per share from continuing operations	$ 0.23(1)	$ 0.28	$ 0.36	$ 0.40	$ 1.27
Basic earnings per share	$ 0.22(1)	$ 0.26	$ 0.36	$ 0.36	$ 1.19
Diluted earnings per share	$ 0.22(1)	$ 0.26	$ 0.36	$ 0.36	$ 1.19
Basic weighted-average shares outstanding	24,189	24,198	24,203	24,223	24,203
Diluted weighted-average and equivalent shares outstanding	24,242	24,237	24,228	24,257	24,241

(1) Reflects a pre-tax charge for acquired-in-process technology of $1,117 relating to the Company's acquisition of Fenestra Computer Services.
(2) Revised to reflect the discontinuance of operations of Zebra VTI. (See Note 11—Discontinued Business Operations).

NOTE 15 MAJOR CUSTOMERS

One customer represents revenues of 17% and 21% in the fiscal years ended December 31, 1997 and December 31, 1996, respectively. Consolidated sales to Peak Technology amounted to $31,762,000 in 1997 and $36,310,000 in 1996. No other customer accounted for 10% or more of consolidated sales. Peak Technologies was acquired by Moore Corporation in 1997. Management recognizes Moore Corporation as a major provider of labels which could have an adverse affect on Zebra sales of this product to Peak Technologies. Sales to Peak Technologies of labels accounted for 2% of the Company's total net sales in the fiscal year ended December 31, 1997 and 3% in the fiscal year ended December 31, 1996.

Independent Auditors' Report

To The Board of Directors and Shareholders
Zebra Technologies Corporation:

We have audited the accompanying consolidated balance sheets of Zebra Technologies Corporation and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zebra Technologies Corporation and Subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Chicago, Illinois
February 27, 1998

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Independent auditors

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Corporate counsel

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Investor relations

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Common stock

The Company's common stock trades on the Nasdaq Stock Market℠ under the symbol ZBRA. The following table shows the quarter's high and low closing prices for each fiscal quarter in 1997 and 1996 as reported by Nasdaq.

Fiscal 1997	*High*	*Low*
First Quarter	$ 27.25	$ 21.38
Second Quarter	32.00	21.50
Third Quarter	35.00	27.19
Fourth Quarter	37.88	29.75
Fiscal 1996		
First Quarter	$ 35.25	$ 25.25
Second Quarter	27.88	17.75
Third Quarter	26.25	15.50
Fourth Quarter	31.50	23.13

At March 6, 1998, the last reported sale price for the Class A Common Stock was $35.00 and there were 572 and 14 holders of record of the Company's Class A Common Stock and Class B Common Stock, respectively.

Since the Company's initial public offering in 1991, the Company has not declared any cash dividends or distributions on its capital stock. The Company currently intends to retain its earnings to finance future growth and therefore does not anticipate paying any cash dividends in the foreseeable future.