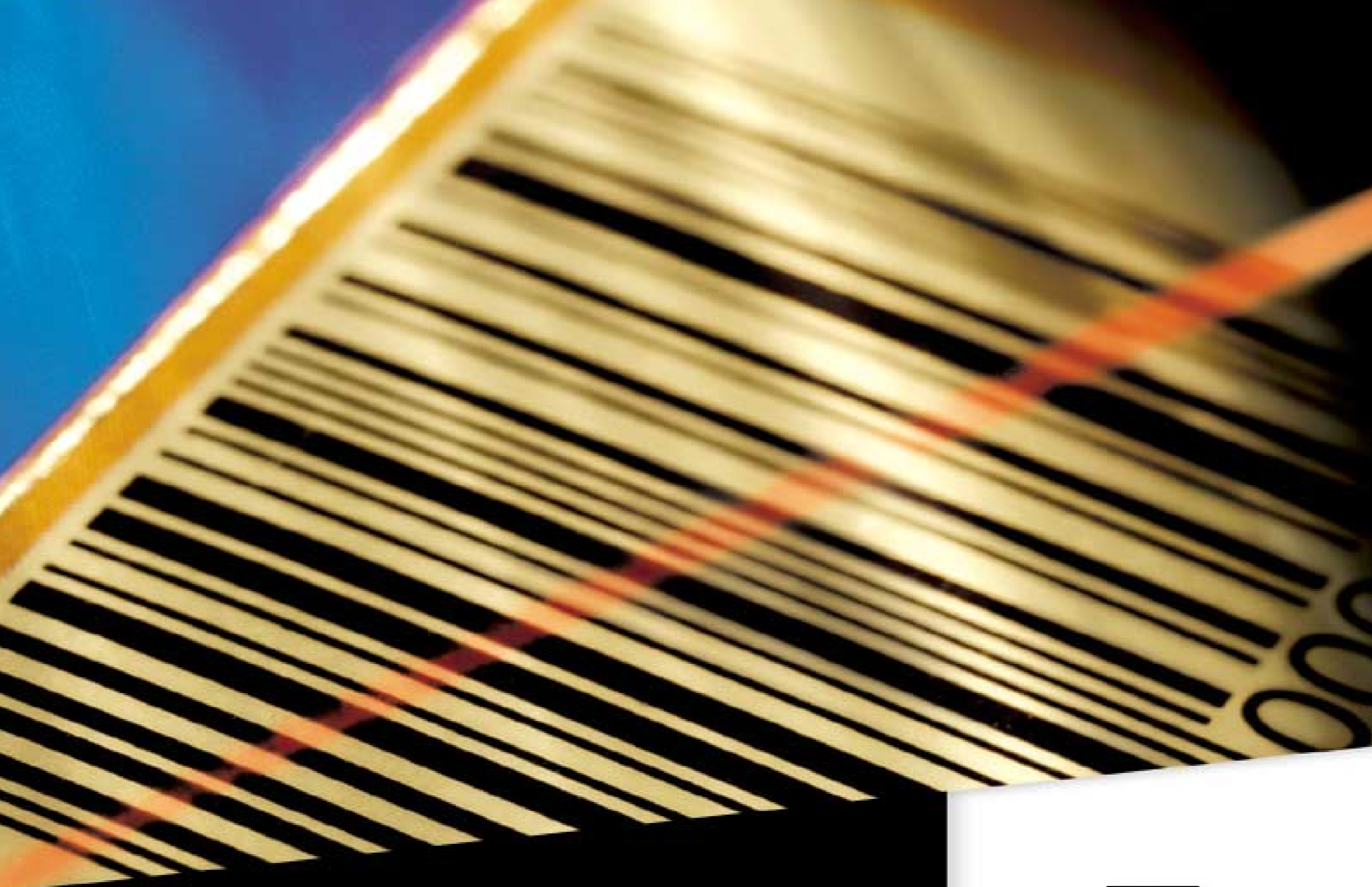

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annual report

Zebra

Zebra Technologies Corporation

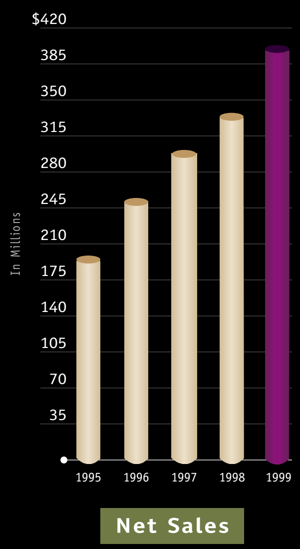
About The Company

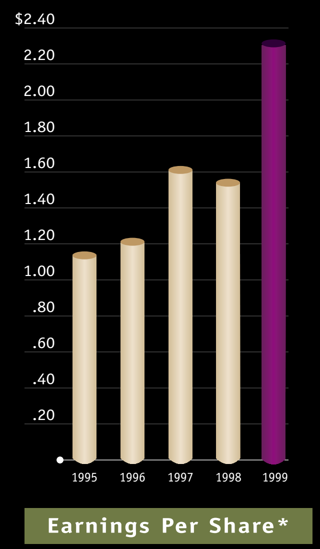
Zebra Technologies Corporation is the leading worldwide manufacturer of bar code labeling solutions and a leading provider of instant-issuance plastic card printers. We distribute our on-demand bar code label printers, plastic card printers, secure ID printing systems, software and related supplies under the Zebra and Eltron brand names to users in more than 90 countries. Our products are used in high-growth automatic identification applications that improve quality and productivity. We count among our customers more than 70 percent of the FORTUNE 500.

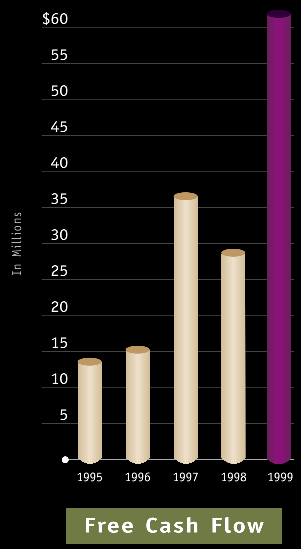
F I N A N C I A L S U M M A R Y

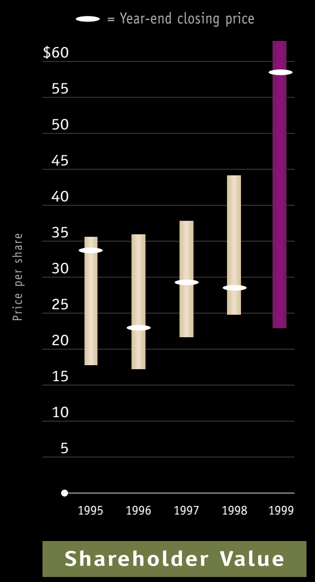
Getting Results

(In thousands, except per share data and percentages)	1999	% change	1998	% change	1997
Operating Results					
Net sales	**$398,517**	18.6%	$335,983	13.1%	$297,100
Gross profit	**202,389**	29.9	155,810	8.4	143,708
Operating income	**102,902**	67.0	61,636	(13.5)	71,262
Income from continuing operations	**69,632**	73.8	40,069	(26.4)	54,447
Diluted earnings per share from continuing operations	**2.21**	71.3	1.29	(25.9)	1.74
Capitalization					
Cash and cash equivalents and investments and marketable securities	**$235,568**		$162,668		$139,320
Working capital	**302,804**		229,688		209,862
Total assets	**394,643**		310,002		270,447
Total shareholders' equity	**349,307**		270,884		236,220









Record Sales

In 1999, Zebra's net sales increased 18.6% to $398.5 million. Net sales have increased every year and, over the past five years, have increased at a compound average annual rate of 23.9%.

Record Earnings per Share

Earnings (excluding merger costs) rose 47.5% to $2.34 per share in 1999. Consistent with our sales growth, our earnings per share have increased at an average annual rate of 23.0% over the past five years.

**Excludes merger costs and other one-time items.*

Record Free Cash Flow

A consistent producer of free cash flow, Zebra generated a record $62.1 million in free cash in 1999 and ended the year with $236 million in cash and investments.

Record Shareholder Value

Investor recognition of our leading market position, record financial results, and opportunities for further growth led to record stock prices for Zebra and a doubling of our market capitalization in 1999.

Our goal is clear global leadership in our target markets.

Leadership

The Cless Technology Center

In 1999, Zebra dedicated the Cless Technology Center. Named in honor of Zebra co-founder Gerhard (Gary) Cless, this 59,000-square-foot facility is the new home of our Vernon Hills engineering department. A noticeable feature in the CTC is a leaping frog carved on many of the chairs. This whimsical motif reminds us of one of Gary's favorite stories. In it, two frogs were trapped in separate jugs of cream. One frog, seeing no hope of escape, gave up and died. The other did not give up; he paddled so hard that he turned the cream into butter. When the lid was opened, he leaped out and went on to live a long life. This tale illustrates Zebra's undying spirit and our commitment to developing innovative products that meet the needs of our customers.

Edward Kaplan Chairman and Chief Executive Officer

We are extremely pleased with Zebra's financial performance in 1999. As important, Zebra is well positioned to capture further growth opportunities in 2000 and beyond.

To Our Shareholders:

Last year I shared with you a vision of increased sales growth and profitability resulting from our merger with Eltron International in October 1998. I am pleased to report that in 1999 Zebra turned this vision into reality.

Our Number One goal in 1999 was the successful integration of Eltron. During the year, we worked to capture the merger's growth opportunities of an expanded product line, further channel development, and entry into new markets. We organized our Bar Code Labeling Solutions and Plastic Card Printer business units to focus on their markets, with their own resources, strong leadership, and abundant growth opportunities. Other efforts reduced product costs, eliminated duplicate functions, and leveraged global channel partnerships.

Our record financial results for 1999 reflect the tremendous success of our integration efforts. Net sales of $398.5 million advanced 18.6%. Profit margins set new records. Net income, excluding merger costs, increased 47.5% to $73.7 million, or $2.34 per share. In addition, free cash flow more than doubled to $62.1 million, and we ended the year with $236 million in cash and investments. Investors recognized these strong results and more than doubled the market capitalization of Zebra to nearly $2 billion by the end of 1999.

As impressive as these results are, Zebra is now well positioned to capture further growth opportunities in 2000 and beyond. This year, we intend to leverage on our extraordinary financial and market strength to increase market share in bar code labeling solutions and to continue the rapid growth of our plastic card printer business. We also expect acquisitions to play an important role in building our business units, aided by our strong cash position.

Our growth plan calls for a continuous stream of innovative new products and solutions to capitalize on the applications developing with new technologies. Supply chain logistics, small package delivery, and e-commerce fulfillment are just some of the markets where the Internet and technological advances create an ever-increasing array of exciting opportunities for Zebra. In addition, emerging wireless applications are spurring opportunities for portable printing applications. Heightened global concern for security is driving demand for instant-issuance plastic card printers.

For e-commerce, bar code labeling is essential for efficient package shipping and tracking from the point of origin to the customer. We see businesses shipping more small packages, in part because of e-commerce, and Zebra is the largest provider of bar code label printers to the small package delivery industry.

The convergence of computing and wireless technologies enables mobile computing devices to communicate with corporate networks and the Internet. Realizing the power of this trend, we view portable printer products as an outstanding growth opportunity. We are enhancing printer connectivity and wireless capabilities to improve worker productivity in warehousing and distribution, in-store retail, and non-retail receipt printing.

We are also leading the development of radio frequency identification. We are extending our technology with new products that simultaneously print bar codes and encode chip-embedded smart labels for use in emerging applications in package sortation and equipment tracking.

Instant-issuance plastic card printing is benefiting from new products and expanding worldwide distribution. With our digital printing technology, we are rapidly increasing our installed base in access control, driver's license, and personal identification applications.

We are genuinely excited about our growth prospects, because Zebra is uniquely positioned to extend its leading position in high-growth markets. We are tapping global opportunities with the industry's broadest product line and strongest channels. New OEM and key account relationships, and new business alliances, are benefiting both business units as well.

We have a great plan in place for 2000 and great people to carry it out. We look forward to leveraging on our market strength to deliver further increases in the value of your investment in Zebra. I am very optimistic about our future and look forward to another excellent year.

Edward Kaplan

Edward Kaplan
Chairman and Chief Executive Officer

Zebra Technologies Corporation manufactures the industry's broadest range of on-demand thermal printers for automatic identification solutions. With supplies, software and accessories, Zebra's printing solutions fulfill a multitude of business application needs and requirements.

Bar code labeling solutions

High performance printers

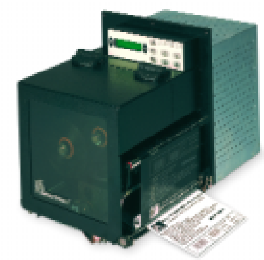
Mid-range printers

Desktop printers

Zebra is the only company that offers a full line of bar code label printers across five categories. Together, Zebra- and Eltron-brand bar code label printers cover the entire range of business conditions, from mission-critical manufacturing to distributed office desktop use. Our product breadth, combined with a worldwide network of channel partners, strategically position Zebra to succeed with our aggressive growth plan of extending our leadership position by increasing market share in established and emerging markets.

Portable printers

Print engines



Supplies and Software

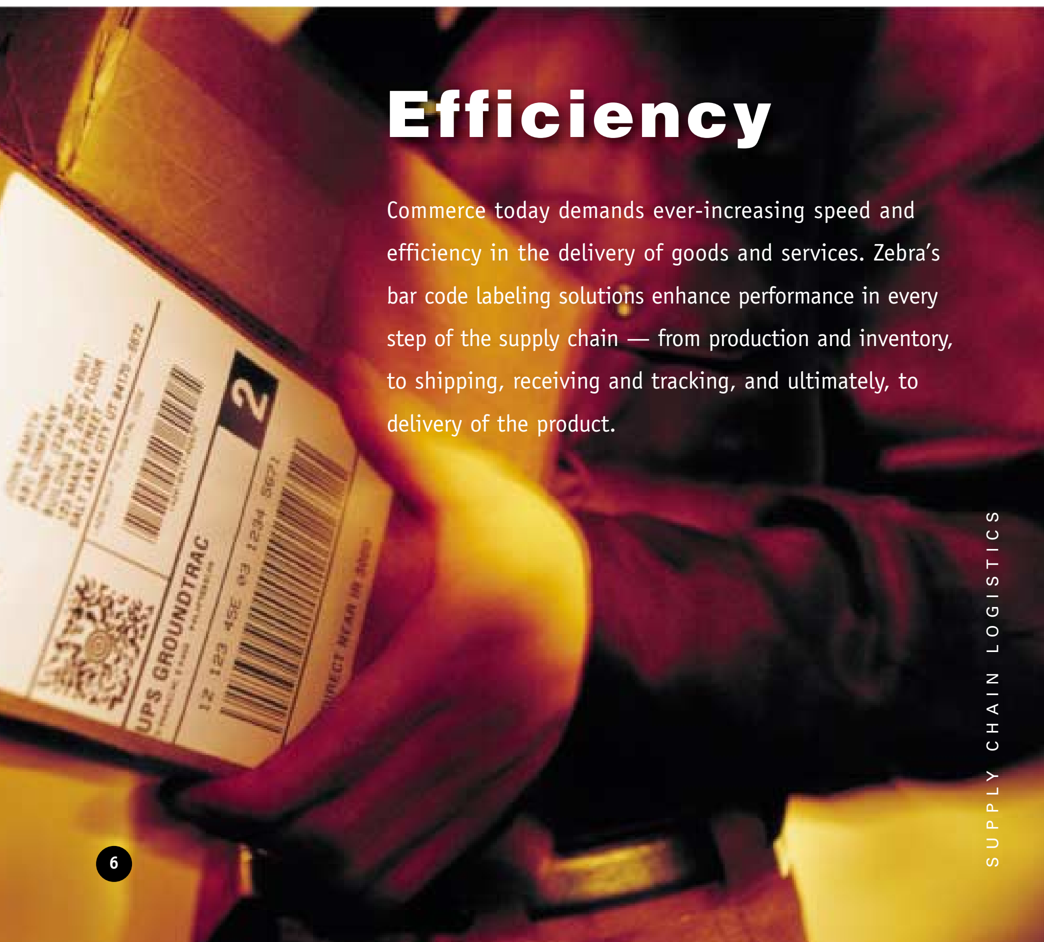
Instant issuance plastic card printers

We are seeing dramatic growth for our instant issuance plastic card printers. Eltron plastic card printers allow users to create digital personalized cards on demand, right at the point of issuance. Combining a lower cost with the ability to tailor identification technology to an application and the capability to issue a fully customized identification card in mere seconds is making Eltron the card printer of choice. Our commitment to developing innovative products that deliver higher performance and better value, the increasing number of our worldwide channel partners and the rapid adoption of new technology support this rapidly growing area of our business.

Driving Growth

The global movement toward quality and productivity improvement is driving the rapid growth for our bar code labeling solutions and instant issuance plastic card printers.

Beyond our traditional markets of manufacturing and warehousing/distribution, we are capitalizing on the expanding auto ID printing needs in small package delivery, supply chain management, e-commerce fulfillment, personal identification, and other high-growth applications.



Efficiency

Commerce today demands ever-increasing speed and efficiency in the delivery of goods and services. Zebra's bar code labeling solutions enhance performance in every step of the supply chain — from production and inventory, to shipping, receiving and tracking, and ultimately, to delivery of the product.

SUPPLY CHAIN LOGISTICS

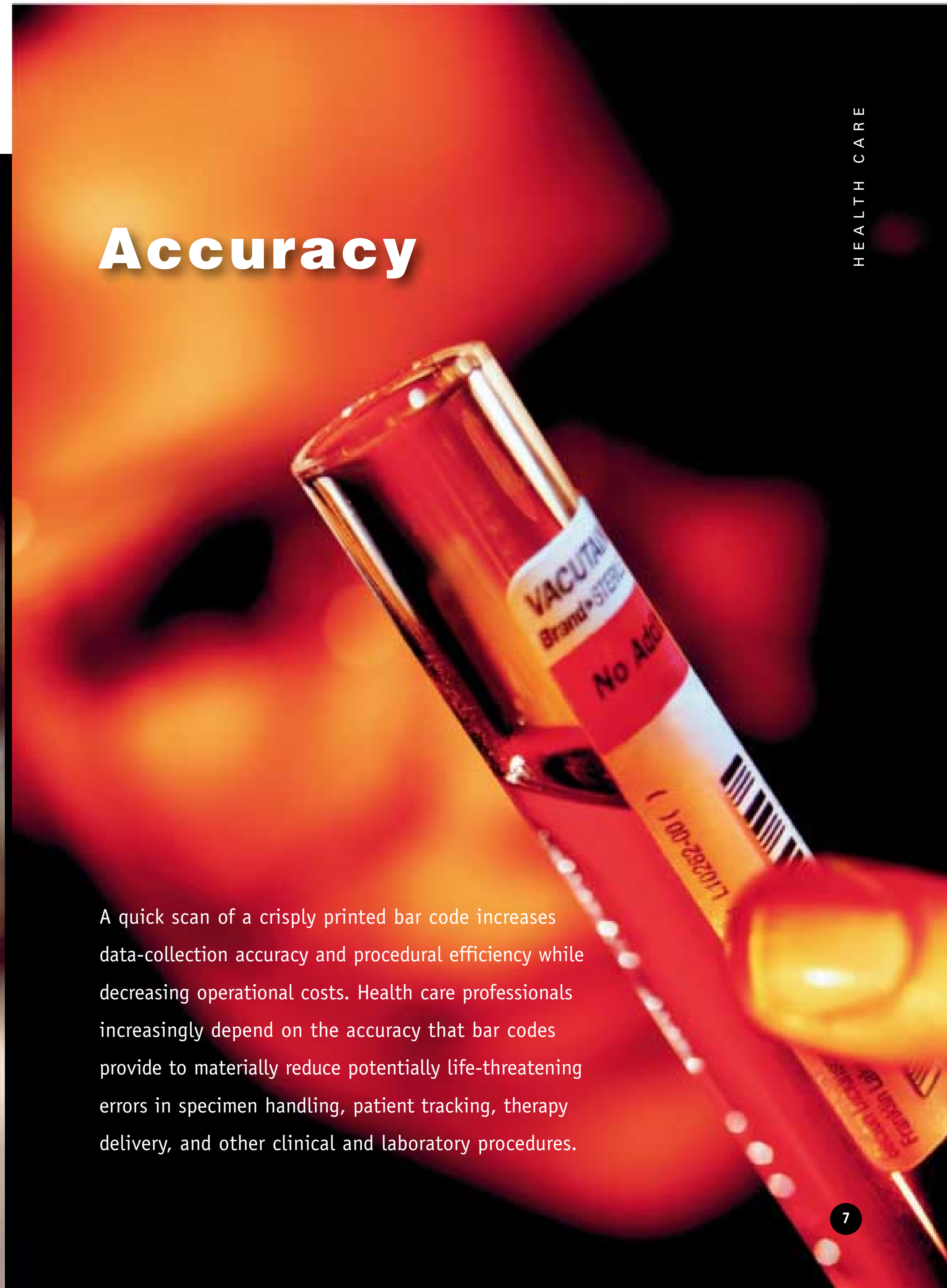
Durability

Extreme labeling applications, such as high-temperature solder baths for PC boards and hazardous chemical container identification, are easily served with our specialized labeling materials and bar code label printers. The durability of labels under the most challenging conditions improves the quality of production processes and helps customers meet stringent compliance labeling requirements.

MANUFACTURING

Security

The safety of people, assets, and premises are challenges for all businesses and organizations. Zebra's instant-issuance card printers are addressing a rapidly growing number of applications, including driver's licenses, student and employee identification, electronic purse, and high-security access control. Immediate photo personalization combines with magnetic stripes, smart card chips, linear and 2-D bar codes, and hologram laminate overlays to deliver the optimal identification solution.



Accuracy

A quick scan of a crisply printed bar code increases data-collection accuracy and procedural efficiency while decreasing operational costs. Health care professionals increasingly depend on the accuracy that bar codes provide to materially reduce potentially life-threatening errors in specimen handling, patient tracking, therapy delivery, and other clinical and laboratory procedures.

New Opportunities

By staying at the forefront of new auto-identification trends, innovations and applications, Zebra's growth remains on target. Our products, technology and powerful alliances strengthen our move into new, high-growth markets as well as help us gain market share where we already hold the clear leadership position.

As e-commerce is generating an increasing number of small package shipments, our bar code labeling solutions are a key component of the e-commerce infrastructure. Worldwide distribution, fulfillment operations, and on-line/Internet tracking require the efficiency and accuracy provided by barcoding and auto ID technologies.

Eltron card printers continue to win contracts for driver's licenses and government security cards around the globe. Our participation in the Defense Department's AIT II contract is only the beginning of federal government opportunities. To capture these opportunities, we expanded our sales presence in Washington, D.C.

Portable printing is one of our industry's fastest growing segments. Zebra is strategically positioned for leadership, as new opportunities for distributed printing applications develop for shipping and receiving, in-store retail and non-retail receipt printing.

New software solutions integrate Zebra bar code label printers into enterprise-wide resource planning, warehouse and other resource management systems. We are strengthening Zebra's market position by building relationships with key software integrators and companies such as SAP, BaaN, and J. D. Edwards.

New Technology

Radio Frequency Identification

In 1999, we established a leadership role with the industry's first printer/encoder, which simultaneously prints a bar code label and encodes an embedded RFID chip. Smart labels offer advantages over traditional bar codes where it is not possible to achieve line-of-sight between label and scanner. Working with several beta site partners, we have developed RFID printer/encoders that will meet the needs of users who incorporate RFID technology into their applications.

Connectivity and Wireless

As wireless communication evolves, Zebra will be on the cutting edge with the most comprehensive package of connectivity solutions. We are developing new technologies and strong associations to add value to our printers by eliminating the need for hard network wiring. Examples of our leadership include radio frequency connectivity and web-enabled printers, which permit on-site or remote printer configuration, instant error messaging and plug-and-play compatibility with hand-held data terminals.

5 year Financial Review

(In thousands, except per share amounts)
Year Ended December 31,

Consolidated statements of earnings data

	1999	1998	1997[1]	1996[1]	1995[1]
Net sales	**$398,517**	$ 335,983	$ 297,100	$ 252,487	$ 200,319
Cost of sales	**196,128**	180,173	153,392	135,474	106,365
Gross profit	**202,389**	155,810	143,708	117,013	93,954
Total operating expenses	**99,487**[2]	94,174[2]	72,446	62,880[4]	43,328
Operating income	**102,902**[2]	61,636[2]	71,262	54,133[4]	50,626
Income from continuing operations before income taxes	**108,800**[2]	65,021[2]	85,225[3]	60,703[4]	56,185
Income from continuing operations	**69,632**[2]	40,069[2]	54,447[3]	37,952[4]	36,693
Earnings per share from continuing operations					
Basic	**$ 2.23**[2]	$ 1.30[2]	$ 1.76[3]	$ 1.24[4]	$ 1.22
Diluted	**$ 2.21**[2]	$ 1.29[2]	$ 1.74[3]	$ 1.21[4]	$ 1.19
Weighted average shares outstanding					
Basic	**31,175**	30,919	30,897	30,696	30,128
Diluted	**31,521**	31,176	31,380	31,269	30,780

(In thousands)
December 31,

Consolidated balance sheet data

	1999	1998	1997	1996	1995
Cash and cash equivalents and investments and marketable securities	**$235,568**	$ 162,668	$ 139,320	$ 103,777	$ 88,139
Working capital	**302,804**	229,688	209,862	164,678	131,369
Total assets	**394,643**	310,002	270,447	218,631	176,695
Long-term obligations	**664**	36	314	3,137	2,928
Shareholders' equity	**349,307**	270,884	236,220	184,007	144,391

(1) Revised to reflect the discontinuance of operations of Zebra Technologies VTI, which was acquired by the Company in July 1995.

(2) Includes a pretax charge for merger costs of $6,341 in 1999 and $8,080 in 1998 relating to the merger with Eltron International, Inc.

(3) Includes a one-time pretax gain of $5,458 from the sale of Zebra's investment in Norand Corporation common stock.

(4) Reflects a pretax charge for acquired in-process technology of $1,117 relating to the Company's acquisition of Fenestra Computer Services and $2,500 relating to the Company's acquisition of Privilege, S.A.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

On October 28, 1998, the Company merged with Eltron International, Inc. This transaction has been accounted for as a pooling of interests for financial reporting purposes. All financial statements for periods presented prior to the merger have been restated to give effect to the combination.

In the fourth quarter of 1998, the Company recorded one-time charges totaling $13,161,000 related to the merger with Eltron. Of this amount, $8,080,000 is reported separately as Merger Costs and consists of fees for accountants, attorneys, consultants, and investment bankers, as well as provisions for facilities consolidation and severance costs. The balance of $5,081,000 relates to adjustments to bring the former Eltron operations into conformance with Zebra's accounting policies and to eliminate certain duplicate assets. These adjustments, which are reported within Cost of Sales and Operating Expenses as described below, include increases to inventory and bad debt reserves and the expensing of certain duplicate fixed assets. For 1999, charges related to the Eltron merger totaled $6,341,000, which was all reported as Merger Costs. These costs, which could not be provided for at the time of the merger, include expenditures on consulting fees, as well as personnel-related expenses for relocation, severance, and recruitment.

Comparison of Years Ended December 31, 1999 and 1998

Net sales increased 18.6% in 1999 to $398,517,000 from $335,983,000 in 1998. Unit growth in hardware (printers and replacement parts) principally drove sales growth. Product mix changes lowered the average unit price for printers, since volume in lower-priced models increased faster than in higher-priced models. Hardware sales increased 21.0% to 80.6% of net sales, and supplies sales increased 10.9% to 17.3% of net sales. The remaining 2.0% of net sales consisted of service and software revenue.

Both North American and international sales increased at the same 18.6% rate. International sales increased to $159,769,000 from $134,723,000 and accounted for 40.1% of net sales in both 1999 and 1998.

Gross profit increased 29.9% to $202,389,000 for 1999 from $155,810,000 for 1998. As a percentage of net sales, gross profit increased 4.4 percentage points to 50.8% from 46.4%. Gross profit for 1998 was affected by $3,485,000 in one-time adjustments to cost of goods sold related to the Eltron merger. Excluding this one-time charge, gross profit for 1998 would have been $159,295,000, or 47.4% of net sales. Excluding the effect of merger costs on 1998 gross profit, the increase in gross profit margin was primarily due to better overhead utilization, as the increased sales volume was produced through roughly the same amount of fixed assets, as well as lower product component costs. Average unit costs deteriorated slightly, primarily because of changes in the mix of products sold toward shipments of relatively larger volumes of lowered priced printers.

Selling and marketing expenses increased 10.8% to $39,930,000 from $36,052,000. As a percentage of net sales, selling and marketing expenses decreased to 10.0% from 10.7%. Excluding one-time charges of $242,000 related to the Eltron merger, selling and marketing expenses for 1998 would have been $35,810,000, or 10.7% of net sales. Excluding the effect of merger costs, the higher selling and marketing expenses in 1999 resulted from higher co-op and other business development expenses and higher staffing levels to support the increased levels of business.

Research and development expenses for 1999 increased 2.7% to $22,007,000, or 5.5% of net sales, from $21,428,000, or 6.4% of net sales, for 1998. Research and development expenses for 1998 included $175,000 in one-time charges related to the Eltron merger. Excluding these one-time charges, research and development expenses for 1998 would have been $21,253,000, or 6.3% of net sales. For 1999, lower business development expenses partially offset higher expenses for increased staffing levels and outside professional services.

General and administrative expenses increased by 9.1% to $31,209,000 from $28,614,000. As a percentage of net sales, general and administrative expenses decreased to 7.8% from 8.5%. Excluding $1,178,000 in one-time charges related to the Eltron merger, 1998 general and administrative expenses were $27,436,000, or 8.2% of net sales. For 1999, higher expenses related to increased staffing levels and information technology operations were partially offset by lower expenditures for outside consulting and other professional services.

In 1999, the Company incurred $6,341,000 in costs related to the Eltron merger for consulting fees as well as personnel-related expenses for relocation, severance, and recruitment. For 1998, the Company incurred $8,080,000 in merger-related costs for accounting, legal, investment banking, and consulting fees, as well as provisions for facilities consolidation and severance. The Company expects to incur merger costs through the second quarter of 2000.

Investment income increased to $8,732,000 from $4,005,000. The increase was principally due to higher invested balances and a more normalized return on the Company's investment portfolio during 1999, compared with the loss resulting from the unusually high volatility in the capital markets during the second half of 1998. During the fourth quarter of 1998, the Company took steps to reduce its investment portfolio's exposure to market volatility.

Other expense for 1999 totaled $2,625,000, compared with $195,000 for 1998. The expense increase was principally due to certain one-time items recorded during the third quarter of 1999, including a settlement for claims prior to any litigation that was unrelated to the Company's operations. Other expense also includes a revaluation of the Company's euro- and deutsche mark-denominated receivables and cash balances as a result of the relative strength of the pound sterling versus both the euro and deutsche mark in the fourth quarter of 1999.

Income from continuing operations before income taxes increased 67.3% to $108,800,000 from $65,021,000. Excluding merger-related charges of $6,341,000 in 1999 and $13,161,000 in 1998, income from continuing operations before taxes increased 47.3% to $115,141,000 in 1999 from $78,182,000 in 1998.

The effective income tax rate for 1999 was 36.0%, compared with 38.4% for 1998. The provision for income taxes for 1998 includes the effect of $2,875,000 in certain merger-related costs, which are not deductible for income tax purposes. Excluding these costs, the Company's effective tax rate for 1998 would have been 36.8%.

Income from continuing operations for 1999 was $69,632,000, or $2.21 per diluted share. For 1998, income from continuing operations was $40,069,000, or $1.29 per diluted share. Excluding the effects of merger expenses, income from continuing operations for 1999 was $73,691,000, or $2.34 per diluted share, up 49.1% from $49,420,000, or $1.59 per diluted share, for 1998.

Comparison of Years Ended December 31, 1998 and 1997

Net sales increased 13.1% in 1998 to $335,983,000 from $297,100,000 in 1997. Unit growth in hardware (printers and replacement parts) principally drove sales growth. Product mix changes lowered the average unit price for printers, since volume in lower-priced models increased faster than higher-priced models. Hardware sales increased 18.5% to 79.4% of net sales, and supplies sales increased 5.4% to 18.6% of net sales. The remaining 2.0% of net sales consisted of service and software revenue.

International sales increased 8.5% to $136,128,000 from $125,411,000 and accounted for 40.5% of net sales in 1998, compared with 42.2% of net sales in 1997. The decrease in the percentage of international sales is principally due to higher sales growth to North American customers combined with a decline in sales to the Asia-Pacific region.

Gross profit increased 8.4% to $155,810,000 from $143,708,000 for 1997. As a percentage of net sales, gross profit decreased 2.0 percentage points to 46.4% from 48.4%. Excluding $3,485,000 in one-time charges related to the Eltron merger, gross profit for 1998 would have been $159,295,000, or 47.4% of net sales. The decline in gross profit margin was also due to an unfavorable shift in product mix toward lower margin printers.

Selling and marketing expenses of $36,052,000 increased 9.2% from $33,017,000. As a percentage of net sales, selling and marketing expenses decreased to 10.7% from 11.1%. Excluding $242,000 in one-time charges related to the Eltron merger, selling and marketing expenses for 1998 would have been $35,810,000, or 10.7% of net sales. During 1998, the Company increased staff levels to support anticipated higher levels of business. Higher personnel-related expenses and depreciation were partially offset by lower advertising and trade show expenses.

Research and development expenses for 1998 totaled $21,428,000, or 6.4% of net sales, compared with $17,911,000, or 6.0% of net sales, for 1997. Excluding $175,000 in one-time charges related to the Eltron merger, research and development expenses for 1998 would have been $21,253,000, or 6.3% of net sales. Higher personnel-related expenses and prototype work related to new product development were primarily responsible for the increase.

General and administrative expenses increased by 33.0% to $28,614,000 from $21,518,000. As a percentage of net sales, general and administrative expenses increased to 8.5% from 7.2%. Excluding $1,178,000 in one-time merger charges, 1998 general and administrative expenses were $27,436,000, or 8.2% of net sales. In 1998, the Company incurred higher personnel costs related to increased staffing levels. Depreciation and other expenses also increased, as Zebra's Baan ERP system became active during the second quarter of 1998.

In 1998, the Company incurred $8,080,000 in costs related to the Eltron merger. These merger costs include accounting, legal, investment banking, and consulting fees, as well as provisions for facilities consolidation and severance.

Other income decreased to $3,385,000 from $13,963,000, including investment income of $4,005,000 compared with $13,520,000. During the second half of 1998, net investment income declined because of financial market volatility. In addition, investment income for 1997 includes a one-time pretax investment gain of $5,458,000, which was recognized in the first quarter of 1997. This one-time gain resulted from the sale by the Company of 350,000 shares of Norand Corporation common stock. Excluding this gain, investment income for 1997 would have been $8,062,000. During the fourth quarter of 1998, the Company took steps to reduce its investment portfolio's exposure to market volatility.

Income from continuing operations before income taxes was $65,021,000, compared with $85,225,000, a decrease of $20,204,000, or 23.7%. Excluding the $13,161,000 in merger-related charges in 1998 and the one-time investment gain recognized in the first quarter of 1997, income from continuing operations before taxes declined 2.0% to $78,182,000 in 1998 from $79,767,000 in 1997.

The effective income tax rate for 1998 was 38.4%, compared with 36.1% for 1997. The provision for income taxes for 1998 includes the effect of $2,875,000 in certain merger-related costs, which are not deductible for income tax purposes. Excluding these effects, the Company's effective tax rate for 1998 would have been 36.8%.

Income from continuing operations for 1998 was $40,069,000, or $1.29 per diluted share. Excluding charges related to the Eltron merger, income from continuing operations for 1998 was $49,420,000, or $1.59 per diluted share, compared with $54,447,000, or $1.74 per diluted share, for 1997.

Discontinued Operations

During 1997, the Company decided to discontinue the operations of its Zebra Technologies VTI subsidiary (Zebra VTI), which developed bar code label design software targeted at the small business market and distributed through PC distributors and catalogs. A one-time charge of $2,363,000, net of applicable tax benefit, was recorded in the second quarter of 1997 to cover expected product returns, provisions for slow-moving and obsolete inventory, estimated contingent liabilities, and the write-off of remaining goodwill and other intangible assets. Remaining business records and assets were transferred to other portions of the Company.

Liquidity and Capital Resources

Internally generated funds from operations are the primary source of liquidity for the Company. As of December 31, 1999, the Company had $235,568,000 in cash and marketable securities, compared with $162,668,000 at the end of 1998.

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 100 basis points over the London Interbank Offered Rate (LIBOR), at the Company's discretion. As of December 31, 1999, the Company had borrowings of $176,959 outstanding under its lines of credit.

Capital expenditures were $12,445,000 in 1999, $25,615,000 in 1998 and $10,241,000 in 1997. In 1998, capital expenditures included purchases of new manufacturing and distribution facilities in Camarillo, California (acquired in conjunction with the Eltron merger), and Preston, United Kingdom, as well as expenditures on computer hardware and software, including the Company's new enterprise-wide resource planning (ERP) system. Management believes that existing capital resources and funds generated from operations are sufficient to finance anticipated capital requirements.

Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133,* which is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. SFAS 133 establishes a comprehensive standard for the recognition and measurement of derivative instruments and hedging activities. This pronouncement will require the Company to recognize derivatives on its balance sheet at fair value. Changes in the fair values of derivatives that qualify as cash flow hedges will be recognized in other comprehensive income until the hedged item is recognized in earnings. The Company expects that this new standard will not have a significant effect on its results of operations.

Year 2000 Considerations

The Company conducted a program to bring its internal systems and products into Year 2000 (Y2K) compliance. This program included upgrades to internal computer systems and technical infrastructure, as well as a review of the Company's product lines to bring them into Y2K compliance. In addition, the Company surveyed its significant suppliers to determine their ability to provide necessary products and services that are critical to business continuation through Y2K.

Zebra has experienced no interruptions in its business because of Y2K and is not aware of any significant problems being experienced by its customers or suppliers that would have a negative impact on the Company. There can be no assurance, however, that unexpected difficulties related to Y2K compliance at the Company, its customers, or its suppliers will not occur. Such unexpected difficulties could have a material adverse effect on the Company. Through December 31, 1999, the Company estimates that it spent approximately $400,000 on Y2K compliance for software testing and modifications or upgrades. These funds exclude regular upgrades to computer systems and technical infrastructure to meet the Company's information technology requirements.

Significant Customers

For the year ended December 31, 1999, no customer accounted for 10.0% or more of net sales. Two customers accounted for more than 10% of net sales in at least one of the years ended December 31, 1998 and 1997. The Peak Technologies Group, Inc., represented 10.9% of net sales in 1997. United Parcel Service represented 10.3% of net sales in 1998.

Safe Harbor

Forward-looking statements contained in this document are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors which could cause actual results to differ materially from those reflected in such forward looking statements. These factors include market acceptance of the Company's products and competitors' product offerings. 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 and financial market conditions will also have an impact on results. Foreign exchange rates will have an effect on financial results because of the large percentage of the Company's international operations. When used in this document, 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 document are referred to prior filings with the Securities and Exchange Commission, for further discussions of issues that could affect the Company's future results.

Consolidated Balance Sheets

(Amounts in thousands, except share and per share data)
December 31,

	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	**$ 38,501**	$ 11,391
Investments and marketable securities	**197,067**	151,277
Accounts receivable, net of allowance of $1,850 in 1999 and $2,156 in 1998	**62,870**	57,654
Inventories	**42,379**	39,684
Deferred income taxes	**3,467**	5,137
Prepaid taxes	**1,614**	1,328
Total current assets	**345,898**	266,471
Property and equipment at cost, less accumulated depreciation and amortization	**41,686**	38,850
Other assets	**7,059**	4,681
Total assets	**$394,643**	$310,002
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	**$ 23,798**	$ 20,565
Accrued liabilities	**11,295**	11,498
Short-term note payable	**196**	183
Current portion of obligation under capital lease with related party	**264**	51
Income taxes payable	**7,541**	4,486
Total current liabilities	**43,094**	36,783
Obligation under capital lease with related party, less current portion	**571**	—
Long-term liability	**93**	36
Deferred income taxes	**1,473**	1,932
Other	**105**	367
Total liabilities	**45,336**	39,118
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, 24,877,501 and 22,323,094 shares issued and outstanding in 1999 and 1998	**249**	223
Class B Common Stock, $.01 par value; 28,358,189 shares authorized, 6,540,188 and 8,619,919 shares issued and outstanding in 1999 and 1998	**65**	86
Additional paid-in capital	**60,072**	49,854
Retained earnings	**289,404**	219,772
Accumulated other comprehensive income	**(483)**	949
Total shareholders' equity	**349,307**	270,884
Total liabilities and shareholders' equity	**$394,643**	$310,002

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

(Amounts in thousands, except per share data)
Year Ended December 31,

	1999	1998	1997
Net sales	**$ 398,517**	$ 335,983	$ 297,100
Cost of sales	**196,128**	180,173	153,392
Gross profit	**202,389**	155,810	143,708
Operating expenses:			
Selling and marketing	**39,930**	36,052	33,017
Research and development	**22,007**	21,428	17,911
General and administrative	**31,209**	28,614	21,518
Merger costs	**6,341**	8,080	—
Total operating expenses	**99,487**	94,174	72,446
Operating income	**102,902**	61,636	71,262
Operating income (expense):			
Investment income	**8,732**	4,005	13,520
Interest expense	**(209)**	(425)	(86)
Other, net	**(2,625)**	(195)	529
Total other income	**5,898**	3,385	13,963
Income from continuing operations before income taxes	**108,800**	65,021	85,225
Income taxes	**39,168**	24,952	30,778
Income from continuing operations	**69,632**	40,069	54,447
Discontinued operations:			
Loss from discontinued operations (less applicable income tax benefit of $372 in 1997)	**—**	—	(1,692)
Loss on disposal of discontinued operations, including provision for operating losses during phase-out period (less applicable income tax benefit of $615 in 1997)	**—**	—	(963)
Net income	**$ 69,632**	$ 40,069	$ 51,792
Basic earnings per share from continuing operations	**$ 2.23**	$ 1.30	$ 1.76
Diluted earnings per share from continuing operations	**$ 2.21**	$ 1.29	$ 1.74
Basic earnings per share	**$ 2.23**	$ 1.30	$ 1.68
Diluted earnings per share	**$ 2.21**	$ 1.29	$ 1.65
Basic weighted average shares outstanding	**31,175**	30,919	30,897
Diluted weighted average and equivalent shares outstanding	**31,521**	31,176	31,380

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Amounts in thousands)
Year Ended December 31,

	1999	1998	1997
Net income	**$ 69,632**	$ 40,069	$ 51,792
Other comprehensive income (loss):			
Foreign currency translation adjustment	**(1,432)**	659	(946)
Unrealized holding gains (losses) on investments available for sale:			
Net change in unrealized holding gains for the period, net of income tax expense of $3 in 1997	**—**	—	6
Comprehensive income	**$ 68,200**	$ 40,728	$ 50,852

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(Dollars in thousands)	Class A Common Stock	Class B Common Stock	Additional Paid-in Stock	Retained Earnings	Accumulated Other Comprehensive Income: Unrealized Holding Gain on Investments	Accumulated Other Comprehensive Income: Cumulative Translation Adjustment	Total
Balance at December 31, 1996	$ 169	$138	$ 54,559	$ 127,911	$ (6)	$1,236	$ 184,007
Issuance of 64,165 shares of Class A Common Stock	1	—	907	—	—	—	908
Issuance of 144,978 shares of Class B Common Stock	—	1	1,011	—	—	—	1,012
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)
Cancellation of 6,715 shares of Class B Common Stock in connection with RJS merger	—	—	(253)	—	—	—	(253)
Tax benefit resulting from exercise of options	—	—	1,066	—	—	—	1,066
Net income	—	—	—	51,792	—	—	51,792
Foreign currency translation adjustment	—	—	—	—	—	(946)	(946)
Unrealized holding gain on investments	—	—	—	—	6	—	6
Balance at December 31, 1997	194	115	55,918	179,703	—	290	236,220
Issuance of 55,578 shares of Class A Common Stock	1	—	946	—	—	—	947
Issuance of 229,290 shares of Class B Common Stock	—	3	566	—	—	—	569
Conversion of 3,187,641 shares of Class B Common Stock to 3,187,641 shares of Class A Common Stock	32	(32)	—	—	—	—	—
Elimination of intercorporate investments in Eltron	(4)	—	(8,088)	—	—	—	(8,092)
Tax benefit resulting from exercise of options	—	—	512	—	—	—	512
Net income	—	—	—	40,069	—	—	40,069
Foreign currency translation adjustment	—	—	—	—	—	659	659
Balance at December 31, 1998	223	86	49,854	219,772	—	949	270,884
Issuance of 474,676 shares of Class A Common Stock	5	—	9,828	—	—	—	9,833
Conversion of 2,079,731 shares of Class B Common Stock to 2,079,731 shares of Class A Common Stock	21	(21)	—	—	—	—	—
Tax benefit resulting from exercise of options	—	—	390	—	—	—	390
Net income	—	—	—	69,632	—	—	69,632
Foreign currency translation adjustment	—	—	—	—	—	(1,432)	(1,432)
Balance at December 31, 1999	**$249**	**$ 65**	**$60,072**	**$289,404**	**$ —**	**$ (483)**	**$349,307**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Amounts in thousands)
Year Ended December 31,

	1999	1998	1997
Cash flows from operating activities:			
Net income	**$ 69,632**	$ 40,069	$ 51,792
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**9,900**	10,248	7,002
Depreciation (appreciation) in market value of investments and marketable securities	**(936)**	1,085	(5,973)
Deferred income taxes	**1,211**	1,995	(3,761)
Discontinued operations	**—**	—	(3,371)
Changes in assets and liabilities, net of business acquired:			
Accounts receivable, net	**(5,216)**	(6,046)	(3,645)
Inventories	**(2,695)**	4,176	(5,409)
Other assets	**(2,931)**	(294)	(1,007)
Accounts payable	**3,233**	3,496	(2,172)
Accrued liabilities	**(203)**	744	3,909
Income taxes payable	**3,055**	(205)	1,944
Other operating activities	**(286)**	430	339
Investments and marketable securities	**(51,800)**	(23,967)	(37,853)
Net cash provided by operating activities	**22,964**	31,731	1,795
Cash flows from investing activities:			
Purchases of property and equipment	**(11,349)**	(25,615)	(10,241)
Purchase of investments and marketable securities	**—**	—	(14,549)
Sales of investments and marketable securities	**6,946**	—	27,304
Net cash provided by (used in) investing activities	**(4,403)**	(25,615)	2,514
Cash flows from financing activities:			
Proceeds from exercise of stock options	**10,223**	2,028	1,983
Common stock retired in Eltron merger	**—**	(8,092)	—
Issuance (repayment) of notes payable	**70**	(180)	(819)
Payments for obligation under capital lease	**(312)**	(65)	(61)
Net cash provided by (used in) financing activities	**9,981**	(6,309)	1,103
Effect of exchange rate changes on cash	**(1,432)**	659	(946)
Net increase in cash and cash equivalents	**27,110**	466	4,466
Cash and cash equivalents at beginning of year	**11,391**	10,925	6,459
Cash and cash equivalents at end of year	**$ 38,501**	$ 11,391	$ 10,925
Supplemental disclosures of cash flow information:			
Interest paid	**$ 209**	$ 425	$ 85
Income taxes paid	**36,010**	22,624	30,060
Supplemental disclosures of non-cash transactions:			
Tax benefit arising from exercise of options	**390**	512	1,066
Cancellation of shares issued in connection with RJS merger	**—**	—	(253)
Equipment under capital lease obligation	**1,096**	—	—

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 Description of Business

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

Note 2 Summary of Significant Accounting Policies

Principles of Consolidation. The accompanying financial statements have been prepared on a consolidated basis to include the accounts of the Company and its wholly-owned subsidiaries. All significant 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, 1999, consisted of U.S. government securities, state and municipal bonds, partnership interests, and equity securities, which are held indirectly in diversified funds actively managed by investment professionals. The Company classifies its debt and marketable equity securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities that the Company has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

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

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

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

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

Advertising. Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 1999, 1998, and 1997 totaled $4,700,000, $3,931,000 and $4,767,000, respectively.

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

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

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

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

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.

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 statement of earnings items are translated using the average exchange rate for the year. The resulting translation gains or losses are recorded in shareholders' equity as a cumulative translation adjustment, which is a component of accumulated other comprehensive income.

Note 3 Business Combinations

Eltron. On October 28, 1998, the Company acquired all of the outstanding capital stock of Eltron International, Inc. (Eltron), a manufacturer of bar code label and plastic card printers and related accessories, in exchange for 6,916,951 shares of the Company's Class B Common Stock, which had a market value of approximately $201 million at the time of the acquisition.

The acquisition was accounted for as a pooling of interests and, accordingly, the consolidated financial statements have been restated as if the companies had been combined for all periods presented. Merger costs reported in the consolidated statement of earnings for the year ended December 31, 1999 and 1998 include investment banking and other professional fees, write-downs of certain assets, employee severance, and other acquisition related charges. Included in accrued liabilities as of December 31, 1999 and 1998 is $115,000 and $1,181,000, respectively, related to these costs.

The following information (in thousands) reconciles net sales and income from continuing operations of the companies as previously reported in the companies' Annual Report on Form 10-K for the year ended December 31, 1997, with the amounts presented in the accompanying consolidated statements of earnings for the year ended December 31, 1997, as well as the separate results of operations of Eltron for the period from January 1, 1998, through October 28, 1998, representing the period in 1998 preceding the acquisition.

	1998		1997	
	Net Sales	Income from Continuing Operations	Net Sales	Income from Continuing Operations
Zebra*			$192,071	$42,810
Eltron	$100,043	$9,090	105,029	11,637
Total			$297,100	$54,447

*Represents the historical results of Zebra without considering the effect of the pooling of interests business combination with Eltron.

RJS, Incorporated. In January 1998, Printronix, Inc., a leading manufacturer of computer printers, acquired the assets and rights to the bar code verification business and the RJS name from the Company for approximately $2.8 million. In the first quarter of 1998, the Company recorded a tax-effected gain on the sale of approximately $250,000. The Company retained the rights to the in-line verification technology for use in its line of integrated verified printing systems, as well as the QualaBar and ThermaBar industrial printer lines.

Note 4 Earnings Per Share

For the years ended December 31, 1999, 1998, and 1997, earnings per share were computed as follows (in thousands, except per share amounts):

	1999	1998	1997
Basic earnings per share:			
Income from continuing operations	**$ 69,632**	$ 40,069	$ 54,447
Weighted average common shares outstanding	**31,175**	30,919	30,897
Per share amount	**$ 2.23**	$ 1.30	$ 1.76
Diluted earnings per share:			
Income from continuing operations	**$ 69,632**	$ 40,069	$ 54,447
Weighted average common shares outstanding	**31,175**	30,919	30,897
Add: Effect of dilutive securities – stock options	**346**	257	483
Diluted weighted average and equivalent shares outstanding	**31,521**	31,176	31,380
Per share amount	**$ 2.21**	$ 1.29	$ 1.74

The potentially dilutive securities, which were excluded from the earnings per share calculation, consisted of stock options for which the exercise price was greater than the average market price of the Class A Common Stock, amounting to 21,500, 227,250 and 246,855 at December 31, 1999, 1998 and 1997, respectively.

Note 5 Investments and Marketable Securities

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and aggregate fair value of investment securities at December 31, 1999 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Trading Securities:				
U.S. government and agency securities	$ 8,191	$ 16	$ (81)	$ 8,126
State and municipal bonds	138,946	90	(426)	138,610
Corporate bonds	5,056	—	(39)	5,017
Equity securities	9,522	32	(903)	8,651
Partnership interests	26,933	6,106	—	33,039
Other	3,428	196	—	3,624
	$ 192,076	$ 6,440	$ (1,449)	$ 197,067

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and aggregate fair value of investment securities at December 31, 1998 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Available for sale:				
State and municipal bonds	$ 6,928	$ —	$ —	$ 6,928
Trading Securities:				
U.S. government and agency securities	8,981	147	(6)	9,122
State and municipal bonds	82,869	469	(30)	83,308
Equity securities	16,456	589	(117)	16,928
Partnership interests	24,500	3,162	—	27,662
Other	7,487	—	(158)	7,329
	140,293	4,367	(311)	144,349
	$ 147,221	$ 4,367	$ (311)	$ 151,277

The contractual maturities of debt securities at December 31, 1999 were as follows (in thousands):

	Fair Value
Due within one year	$ 88,893
Due after one year through five years	57,124
Due after five years	9,360
	$155,377

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

	1999	1998	1997
Proceeds	**$ 6,947**	$ —	$ 11,506
Realized gains	**19**	—	5,458

Note 6 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 11. Management believes that the lease payments are substantially consistent with amounts that could be negotiated with third parties on an arm's-length basis.

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

	1999	1998	1997
Unique operating lease payments	**$ 1,662**	$ 1,323	$ 1,261
Interest expense on unique capital lease	**1**	4	7

Note 7 Inventories

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

December 31,	1999	1998
Raw material	**$ 23,098**	$ 21,292
Work in process	**3,744**	2,838
Finished goods	**15,537**	15,554
Total inventories	**$ 42,379**	$ 39,684

Note 8 Property and Equipment

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

December 31,	1999	1998
Buildings	**$ 11,185**	$ 10,256
Land	**1,910**	1,910
Machinery, equipment and tooling	**26,672**	25,005
Machinery and equipment under capital leases	**1,670**	574
Furniture and office equipment	**5,310**	4,125
Computers and software	**25,775**	21,589
Automobiles	**347**	514
Leasehold improvements	**2,848**	1,444
	75,717	65,417
Less accumulated depreciation and amortization	**34,031**	26,567
Net property and equipment	**$ 41,686**	$ 38,850

Note 9 Income Taxes

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

	1999	1998	1997
United States	**$ 95,637**	$62,071	$82,614
Outside United States	**13,163**	2,950	2,611
Total	**$ 108,800**	$65,021	$85,225

Management expects that the cumulative unremitted earnings of foreign operations, which amounted to $6,000,000 after foreign taxes at December 31, 1999, will be reinvested. Accordingly, no provision has been made for additional U.S. taxes, which would be payable if such earnings were to be remitted to the parent company as dividends.

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

	1999	1998	1997
Current:			
Federal	**$ 27,914**	$17,194	$26,553
State	**4,489**	2,822	3,599
Foreign	**5,554**	2,941	3,528
Deferred:			
Federal	**1,376**	2,197	(3,250)
State	**(85)**	(202)	(627)
Foreign	**(80)**	—	116
Total	**$ 39,168**	$24,952	$29,919

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):

	1999	1998	1997
Provision computed at statutory rate	**$38,080**	$22,747	$28,608
State income tax (net of Federal tax benefit)	**2,862**	2,044	2,284
Tax-exempt interest and dividend income	**(1,677)**	(1,369)	(635)
Tax benefit of exempt foreign trade income	**(805)**	(1,227)	(441)
Acquisition related items	**—**	1,006	109
Other	**708**	1,751	(6)
Provision for income taxes	**$39,168**	$24,952	$29,919

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

December 31,	1999	1998
Deferred tax assets:		
Deferred rent — building	**$ 42**	$ 77
Capital equipment lease	**20**	20
Accrued vacation	**798**	595
Inventory items	**2,221**	4,220
Allowance for doubtful account	**405**	667
Other accruals	**1,096**	—
Acquisition related items	**413**	473
Total deferred tax assets	**4,995**	6,052
Deferred tax liabilities:		
Unrealized gain on securities	**(1,067)**	(440)
Depreciation	**(1,934)**	(1,587)
Other	**—**	(820)
Total deferred tax liabilities	**(3,001)**	(2,847)
Net deferred tax asset	**$ 1,994**	$ 3,205

Note 10 401(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 eligible earnings at the rate of 50%. The Company may contribute additional amounts to the 401(k) Plan at the discretion of the Board of Directors, subject to certain legal limits.

The Company has a discretionary profit-sharing plan for qualified employees, to which it contributed 4.2% of eligible earnings for 1999, 3.4% for 1998, and 3.3% for 1997. 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):

	1999	1998	1997
401(k)	**$ 740**	$ 620	$ 548
Profit Sharing	**820**	970	847
Total	**$ 1,560**	$ 1,590	$ 1,395

Note 11 Commitments and Contingencies

Leases. In September 1989, the Company entered into a lease agreement for its Vernon Hills facility and certain machinery, equipment, furniture and fixtures with Unique Building Corporation. The facility portion of the lease is the only remaining portion in existence as of December 31, 1999, and is treated as an operating lease. An amendment to the lease dated July 1997 added 59,150 square feet and extended the term of the existing lease through June 30, 2014. The lease agreement includes a modification to the base monthly rental, which goes into effect if the prescribed rent payment is less than the aggregate principal and interest payments required to be made by Unique under an Industrial Revenue Bond (IRB).

Minimum future obligations under noncancelable operating leases and future minimum capital lease payments as of December 31, 1999 are as follows (in thousands):

	Capital Lease	Operating Leases
2000	$ 316	$ 3,773
2001	117	3,135
2002	117	2,907
2003	117	2,882
2004	103	2,436
Thereafter	325	13,587
Total minimum lease payments	$ 1,095	$ 28,720
Less amount representing interest	260	
Present value of minimum payments	835	
Less current portion of obligation under capital lease	264	
Long-term portion of obligation under capital lease	$ 571	

Rent expense for operating leases charged to operations for the years ended December 31, 1999, 1998, and 1997 was $4,317,000, $2,898,000, and $2, 871,000, respectively.

Letter of credit. In connection with the lease agreements described above, the Company has guaranteed Unique's full and prompt payment under Unique's letter of credit agreement with a bank. The contingent liability of the Company under this guaranty as of December 31, 1999 is $700,000, which is the limit of the Company's guaranty throughout the term of the IRB.

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 100 basis points over the London Interbank Offered Rate, at the Company's discretion. The line of credit is renewed annually with the current agreement expiring on February 28, 2001. At December 31, 1999, borrowings under these lines amounted to $176,959 bearing interest at 6.0%.

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

The Company enters into foreign exchange forward contracts to manage exposure to fluctuations in foreign exchange rates to the funding of its United Kingdom operations. The Company accounts for such contracts by recording any unrealized gains or losses in income each reporting period. At December 31, 1999 and 1998, the notional principal amounts of outstanding forward contracts were $0, and $4,057,000, respectively.

Note 12 Segment Data and Export Sales

The Company operates in one industry segment. Information regarding the Company's operations by geographic area for the years ended December 31, 1999, 1998, and 1997 is contained in the following table. These amounts (in thousands) are reported in the geographic area where the final sale originates.

		Domestic	Europe	Other	Total
1999	Net sales	$281,890	$116,627	$ —	$398,517
	Identifiable assets	327,347	67,177	119	394,643
1998	Net sales	$238,354	$ 96,397	$1,232	$335,983
	Identifiable assets	267,470	41,751	781	310,002
1997	Net sales	$224,376	$ 72,724	$ —	$297,100
	Identifiable assets	239,117	31,236	94	270,447

Note 13 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 14 Shareholders' Equity

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

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

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

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

Note 15 Stock Option and Purchase Plans

As of December 31, 1999, the Company has five stock option and stock purchase plans, 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 nonqualified stock options. As of December 31, 1999, 196,311 shares were available under the plan. 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 Board of Directors determines the specific provisions of any grant.

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. As of December 31, 1999, 12,000 shares were available 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 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.

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 (January 1 or July 1), or (2) 85% of the fair market value of the shares as of the date of purchase. As of December 31, 1999, 181,456 shares have been purchased under the plan.

The Company's Board of Directors adopted the 1997 Stock Option Plan, effective February 11, 1997. On May 18,1999, the Company's shareholders approved an increase in the number of shares of Class A Common Stock reserved for issuance under the plan to 4,250,000 from 2,000,000 shares. 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) nonqualified and incentive stock options for the purchase of the Company's Class A Common Stock and (ii) dividend equivalents. The persons eligible to participate in the 1997 Stock Option Plan are directors, officers, and employees of the Company or any subsidiary of the Company who, in the opinion of the Option Committee, are in a position to make contributions to the growth, management, protection and success of the Company or its subsidiaries. As of December 31, 1999, 2,375,603 shares were available under the plan.

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

The Company's Board of Directors adopted the 1997 Director Plan, effective February 11, 1997. The 1997 Director Plan provides for the issuance of options to purchase up to 77,000 shares of Class A Common Stock, which shares are reserved and available for purchase upon the exercise of options granted under the 1997

Director Plan. Only directors who are not employees or officers of the Company are eligible to participate in the 1997 Director Plan. Under the 1997 Director Plan, each non-employee director was granted, on the effective date of the plan, an option to purchase 15,000 shares of Class A Common Stock, and each non-employee director subsequently elected to the Board will be granted an option to purchase 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. As of December 31, 1999, 32,000 shares were available under the plan.

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

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

	1999	1998	1997
Income from continuing operations:			
As reported	**$ 69,632**	$ 40,069	$ 54,447
Pro forma	**66,569**	37,785	52,215
Basic earnings per share from continuing operations:			
As reported	**$ 2.23**	$ 1.30	$ 1.76
Pro forma	**2.14**	1.22	1.69
Diluted earnings per share from continuing operations:			
As reported	**$ 2.21**	$ 1.29	$ 1.74
Pro forma	**2.11**	1.21	1.66

For purposes of calculating the compensation cost consistent with SFAS 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 1999, 1998, and 1997, respectively: expected dividend yield of 0% for each period; expected volatility of 50%, 55%, and 51%; risk free interest rate of 6.54%, 4.75%, and 5.71%; and expected weighted-average life of five 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 1999, 1998, and 1997, respectively: fair market value of $30.45, $28.75, and $23.63; option price of $25.88, $24.44, and $20.09; expected dividend yield of 0% for each period; expected volatility of 49%, 51%, and 51%; risk-free interest rate of 6.11%, 4.60%, and 5.59%; and expected lives of six months to one year.

Stock option activity for the years ended December 31, 1999, 1998, and 1997 was as follows:

	1999		1998		1997	
Fixed Options	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	1,416,138	$26.55	1,180,293	$23.31	722,654	$18.90
Granted	720,500	27.45	368,550	35.18	567,410	26.12
Exercised	(433,526)	21.28	(66,767)	18.03	(109,771)	8.83
Canceled	(312,524)	30.03	(65,938)	25.34	—	—
Outstanding at end of year	1,390,588	27.88	1,416,138	26.55	1,180,293	23.31
Options exercisable at end of year	291,485	25.24	604,453	23.10	330,971	23.05

The following table summarizes information about fixed stock options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number of Shares**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Number of Shares**	**Weighted-Average Exercise Price**
$4.31 – $24.17	141,386	5.19 years	$18.70	87,554	$ 16.42
$24.50 – $26.50	225,966	6.94 years	$24.55	65,868	$ 24.66
$26.56	601,500	9.17 years	$26.56	—	$ 0.00
$29.25 – $33.27	206,761	7.13 years	$30.04	114,713	$ 29.57
$35.38 – $46.25	214,975	8.56 years	$39.02	23,350	$ 38.62
	1,390,588			291,485	

Note 16 Quarterly Results of Operations (unaudited)

(Amounts in thousands, except per share data)	First Quarter[2]	Second Quarter[2]	Third Quarter[2]	Fourth Quarter[2]
1999				
Net sales	$ 89,822	$ 97,321	$103,988	$107,386
Gross profit	42,480	48,195	55,849	55,865
Operating expenses	24,526	24,666	24,458	25,837
Operating income	17,954	23,529	31,391	30,028
Net income	12,650	17,122	19,932	19,928
Basic earnings per share	$ 0.41	$ 0.55	$ 0.64	$ 0.64
Diluted earnings per share	$ 0.41	$ 0.55	$ 0.63	$ 0.63

(Amounts in thousands, except per share data)	First Quarter[1]	Second Quarter[1]	Third Quarter[1]	Fourth Quarter[2]
1998				
Net sales	$ 80,798	$ 87,040	$ 88,068	$ 80,077
Gross profit	38,861	41,701	42,381	32,867
Operating expenses	20,752	20,464	21,009	31,949
Operating income	18,109	21,237	21,372	918
Net income (loss)	13,163	14,037	13,213	(344)
Basic earnings per share	$ 0.42	$ 0.45	$ 0.43	$ (0.01)
Diluted earnings per share	$ 0.42	$ 0.45	$ 0.42	$ (0.01)

(1) Reflects the elimination of intercorporate investment in Eltron International, Inc., and the related tax effect.

(2) Reflects a pretax charge for merger costs relating to the Company's merger with Eltron International, Inc. as follows:

	1998 Fourth Quarter	1999 First Quarter	1999 Second Quarter	1999 Third Quarter	1999 Fourth Quarter
Merger costs	$8,080	$1,869	$1,291	$1,581	$1,600

Note 17 Major Customers

Two customers accounted for more than 10% of total net sales in at least one of the fiscal years ended December 31, 1998 and 1997. The Peak Technologies Group, Inc., represented 10.9% of net sales in 1997. United Parcel Service represented 10.3% of net sales in 1998.

Independent Auditors' Report

The Board of Directors and Shareholders
Zebra Technologies Corporation:

We have audited the accompanying consolidated balance sheets of Zebra Technologies Corporation and Subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1999. 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 did not audit the financial statements of Eltron International, Inc., a wholly-owned subsidiary, which statements reflect net sales constituting 35 percent for the year ended December 31, 1997, of the related consolidated total. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Eltron International, Inc., is based solely on the report of the other auditors.

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, and the report of the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, 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, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Chicago, Illinois

January 31, 2000

Shareholder Information

Corporate Office

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Fax: 847-913-8766

Independent Auditors

KPMG LLP
Chicago, Illinois

Corporate Counsel

Katten Muchin Zavis
Chicago, Illinois

Investor Relations

For corporate or product information please contact the Corporate Office.

Form 10-K Report

You may receive a free copy of the Zebra Technologies Corporation Form 10-K Report filed with the Securities and Exchange Commission by contacting the Investor Relations Department at the Corporate Headquarters.

Web Site

Investors are invited to learn more about Zebra Technologies Corporation by accessing the Company's web site at www.zebracorporation.com

Equal Employment Opportunity/Affirmative Action

It is the policy of Zebra Technologies Corporation to provide equal opportunity and affirmative action in all areas of its employment practices without regard to race, color, religion, national origin, sex, age, ancestry, citizenship, disability, veteran status, marital status, sexual orientation or any other reason prohibited by law.

Stock Information: Price Range and Common Stock

The Company's Class A Common Stock is traded on the Nasdaq Stock Market under the symbol ZBRA. The following table shows the high and low trade prices for each quarter in 1999 and 1998, as reported by the Nasdaq Stock Market. No market exists for the Company's Class B Common Stock. The shares of Class B Common Stock are convertible on a one-for-one basis into shares of Class A Common Stock at the option of the holder.

1999	High	Low
First Quarter	$37.00	$22.88
Second Quarter	38.50	23.50
Third Quarter	50.38	37.00
Fourth Quarter	64.50	44.19

1998	High	Low
First Quarter	$38.50	$25.50
Second Quarter	44.63	34.75
Third Quarter	42.63	27.00
Fourth Quarter	37.00	25.00

Source: The Nasdaq Stock Market

At March 1, 2000, the last reported price for the Class A Common Stock was $67.00 per share, and there were 524 shareholders of record for the Company's Class A Common Stock and 24 shareholders of record for the Company's Class B Common Stock.

Dividend Policy

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 intends to retain its earnings to finance future growth and therefore does not anticipate paying any cash dividends in the foreseeable future.

Number of Employees

The Company had approximately 1,650 associates as of March 1, 2000.

Global Growth

Zebra Locations:

Illinois
California
Florida
Utah
Wisconsin
Denmark
France
Germany
Hong Kong
Japan
Singapore
South Korea
United Kingdom

Representation in:

Washington, D.C.
Italy
The Netherlands
South Africa

Zebra serves the needs of companies, from small local suppliers to the largest multinational firms, through its valued network of reseller partners on six continents. We have 15 manufacturing, warehousing, and sales facilities located in 12 countries, and our installed base of more than 1.5 million printers is distributed in more than 90 countries around the world.

Reseller Locations:

Argentina	Costa Rica	Guatemala	Kuwait	Oman	Singapore	Tunisia
Australia	Croatia	Hong Kong	Latvia	Pakistan	Slovak Republic	Turkey
Austria	Cyprus	Hungary	Lebanon	Panama	Slovenia	United Kingdom
Bahrain	Czech Republic	Iceland	Liechtenstein	Paraguay	South Africa	Ukraine
Belarus	Denmark	India	Lithuania	Peru	South Korea	United Arab
Belgium	Dominican Republic	Indonesia	Malaysia	Philippines	Spain	Emirates
Brazil	Ecuador	Ireland	Mexico	Poland	Sri Lanka	United States
Bulgaria	Egypt	Israel	Morocco	Portugal	Sweden	Uruguay
Canada	Finland	Italy	Netherlands	Puerto Rico	Switzerland	Uzbekistan
Chile	France	Japan	New Zealand	Romania	Syria	Venezuela
China	Germany	Jordan	Nigeria	Russia	Taiwan	Yugoslavia
Colombia	Greece	Kenya	Norway	Saudi Arabia	Thailand	Zimbabwe

Board of Directors

Edward Kaplan
Chairman and Chief Executive Officer
Zebra Technologies Corporation

Gerhard Cless
Executive Vice President and Secretary
Zebra Technologies Corporation

Donald Skinner
Vice Chairman and President,
Card Printer Business Unit
Zebra Technologies Corporation

Christopher Knowles
Chief Executive Officer
Insurance Auto Auctions, Inc.

David Riley
President and Chief Executive Officer
The Middleby Corporation

Michael Smith
Chairman and Chief Executive Officer
FireVision L.L.C.

Officers

Edward Kaplan
Chairman and Chief Executive Officer

Gerhard Cless
Executive Vice President and Secretary

Charles Turnbull
President

Donald Skinner
Vice Chairman and President,
Card Printer Business Unit

Jack LeVan
Senior Vice President,
Business Development

Charles Whitchurch
Chief Financial Officer and Treasurer

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