2002 annual report

Which companies will be around in ten years? Which will thrive? Who will continue to lead into the future? Who should you invest in?

The answer is black and white.

Zebra Technologies Corporation

Desktop label, ticket
and receipt printers

Connectivity and
label design software

Plastic card printers

High performance bar code
label and specialty printers

Industrial and commercial
bar code printers

Thermal printing supplies

Radio frequency identification
(RFID)

Mobile printing systems

Zebra Technologies Corporation

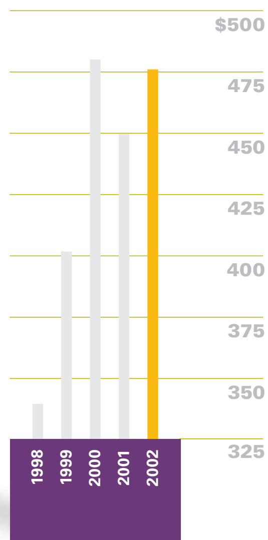
Zebra Technologies Corporation delivers innovative and reliable on-demand printing solutions for business improvement and security applications in nearly 100 countries around the world. A broad range of applications benefit from Zebra® thermal bar code, "smart" label and receipt printers, and Eltron® card printers, resulting in enhanced security, increased productivity, improved quality, lower costs, and better customer service.

FINANCIAL SUMMARY

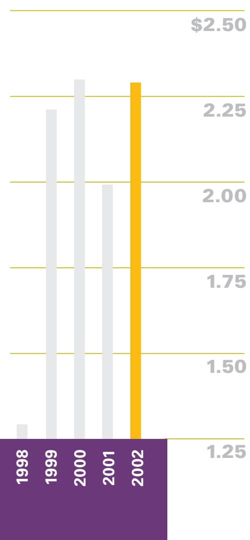
(In thousands, except per share data and percentages)

		2002	% change	2001	% change	2000
Operating Results	Net sales	**$475,611**	5.7%	$450,008	-6.6%	$481,569
	Gross profit	**230,747**	9.9	209,893	-9.7	232,428
	Operating income	**101,805**	10.1	92,459	-14.9	108,670
	Net income	**71,595**	16.4	61,529	-14.1	71,622
	Diluted earnings per share	**2.29**	15.1	1.99	-13.5	2.30
Capitalization	Cash and cash equivalents and investments in marketable securities	**$348,577**		$249,349		$156,714
	Working capital	**427,676**		330,510		256,799
	Total assets	**573,088**		479,556		418,896
	Total stockholders' equity	**534,155**		445,007		371,288

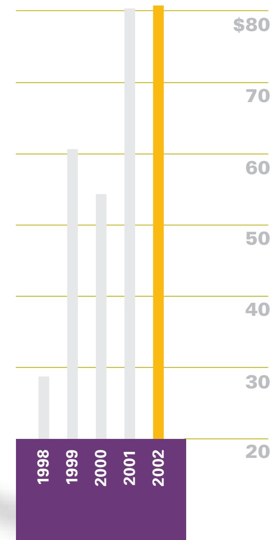
Sales (in millions)



Diluted earnings per share



Free cash flow (in millions)



At Zebra, we are proud of our accomplishments and the positions of financial strength and market leadership that we occupy. We are confident in our ability to achieve our strategic goals for growth and deliver increasing stockholder value.

Edward Kaplan
Chairman and Chief Executive Officer

At this time a year ago, we discussed with you our strategy of investing in activities to extend Zebra's market leadership, improve its growth prospects and, fundamentally, continue to build value for all of Zebra's stockholders over the long term. We made these investments while many of our competitors lacked the resources or had business models that required them to pull back on their spending. We affirmed our confidence in the long-term prospects for our markets, as competitive forces drive companies and organizations worldwide to increase productivity, enhance quality, improve customer service, and ensure more effective security.

Throughout the U.S. economic downturn, we leveraged our financial strength to achieve these goals by following a growth strategy based on:

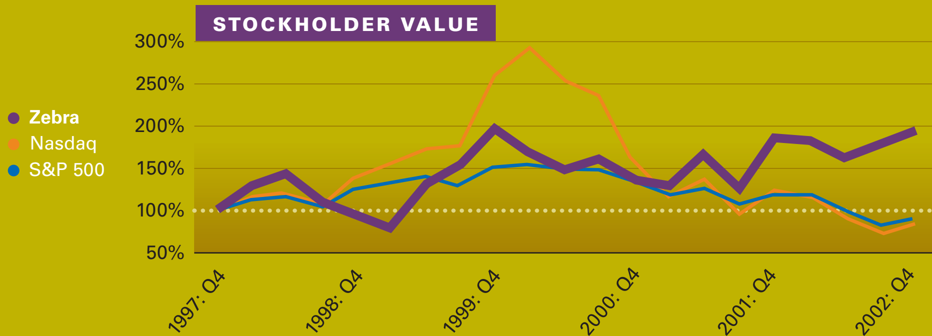
Introducing new products, including wireless and mobile printing systems, photo ID card printers, and printer/encoders that incorporate radio transponder technology (RFID).

Expanding our international presence with greater Zebra representation in the high-growth, under-penetrated regions of Asia Pacific, Eastern Europe, and Latin America.

Increasing our focus on delivering business improvement and specialty printing applications and building the infrastructure to support them.

Investing in marketing initiatives to enter high-growth vertical markets where we can deliver applications in routing and tracking, identification and authentication, and transactions processing.

Pursuing acquisitions to deploy our substantial cash reserves to strengthen the strategic position of our current business and diversify into related specialty printing and supporting technologies.



Stockholder wealth in Zebra Technologies increased 40% for the two years through 2002. For the five-year period, Zebra's stock appreciated 93%. If you had become a stockholder at Zebra's IPO in 1991, the value of your holding would have **increased 639%, compared with 150% for the stock market.**

While pursuing these objectives, we also strengthened our management team and took steps to ensure full compliance with the new corporate governance regulations enacted in 2002. At the same time, we invested in information systems to support effective corporate governance, maintain strong financial oversight, and improve our ability to serve our customers.

Our financial results for 2002 reflect the success of these investments and validate our growth strategy. During this difficult economic environment:

- **Quarterly sales increased throughout the year.**
- **North American sales, which had been a source of weakness, began to rebound.**
- **All three international geographic territories achieved record sales, as well as our Plastic Card Business Unit.**

Net income advanced 16.4% to $2.29 per diluted share on 5.7% sales growth to $475.0 million, as we leveraged higher sales to achieve increased gross profit and operating margins. We improved our already enviable financial position with tighter management of working capital to generate $82.8 million in free cash flow, a record for the second consecutive year. We ended 2002 with $348 million in cash and investments and no long-term debt.

Just as our investments throughout the economic downturn helped us achieve growth in 2002, they will also have an enduring effect on Zebra's business and provide a foundation for further investment as we look to 2003 and beyond. As we discuss in the following pages of this annual report, this year we will extend our product leadership with a stream of new bar code, specialty, and plastic card printer products. Our plans also call for building on our strategy to deliver applications into high-growth vertical markets. And, we will make additional investments in people and infrastructure to generate further international sales growth.

We enhanced our ability to GROW and DELIVER stockholder value over the long term.

Innovative products. Industry-leading support. Unprecedented financial strength. Leading industry brand. With these attributes, Zebra is attracting new business opportunities and new customers who are assured that the company will continue to grow and succeed in delivering printing solutions for business improvement.

I believe we are a stronger company today than at any time in our company's history. Because of our ability to invest, we distanced ourselves from the competition and improved our ability to serve our customers better. Zebra's management team, product portfolio, infrastructure, and competitive position have never been as great. We have the financial resources to invest in high-growth areas to gain share, develop new markets, and make acquisitions to strengthen our competitive positions further. These elements make us confident that Zebra's business strategy puts us firmly on the path to deliver sustainable long-term growth and increasing stockholder value.

Edward Kaplan
Chairman and Chief Executive Officer

Product LEADERSHIP

Innovation is at the heart of Zebra Technologies. New products and new ways to connect enable us to extend our leadership into growing markets by building on our unmatched reputation for reliability and durability. We offer the industry's broadest product line and incorporate market-leading wireless and security technologies to deliver real value in specialty printing, business improvement and compliance labeling applications.

LINKING THE SUPPLY CHAIN

Zebra bar code label printers, software, and connectivity technologies enable the delivery of goods and services more accurately and with greater efficiency. Routing and tracking operations rely on automated information exchange, facilitated by network-addressable bar code printers, to move goods from production and inventory all the way to customer delivery.

PLASTIC CARD PRINTING

Personalized identification cards printed on Zebra plastic card printers are used for a broad range of purposes, from simple membership cards to controlled access in sophisticated, high-security environments. Overt and covert technologies add new levels of security to Zebra printing systems and supplies.

DELIVERING

Real value

RFID

The emerging technology of radio frequency identification (RFID) offers an exciting complement to bar coding. The ability to "read" labels embedded with RF chips without seeing them and append information in a record that accompanies the label is opening new auto-ID opportunities that will work along side the expanding number of bar coding applications.

MOBILE AND WIRELESS PRINTING SYSTEMS

Advances in radio technology, with Bluetooth™ and other wireless protocols, are greatly expanding the opportunities for business improvement and specialty printing applications. Zebra wireless printing systems help mobile workers perform consumer credit collections, retail shelf labeling, bus and train ticketing, and other operations that provide better customer service, increase worker productivity, and deliver real-time information for improved accuracy.

Bluetooth is a trademark owned by Bluetooth SIG and used by Zebra Technologies under license.

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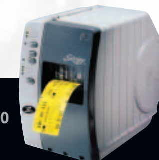
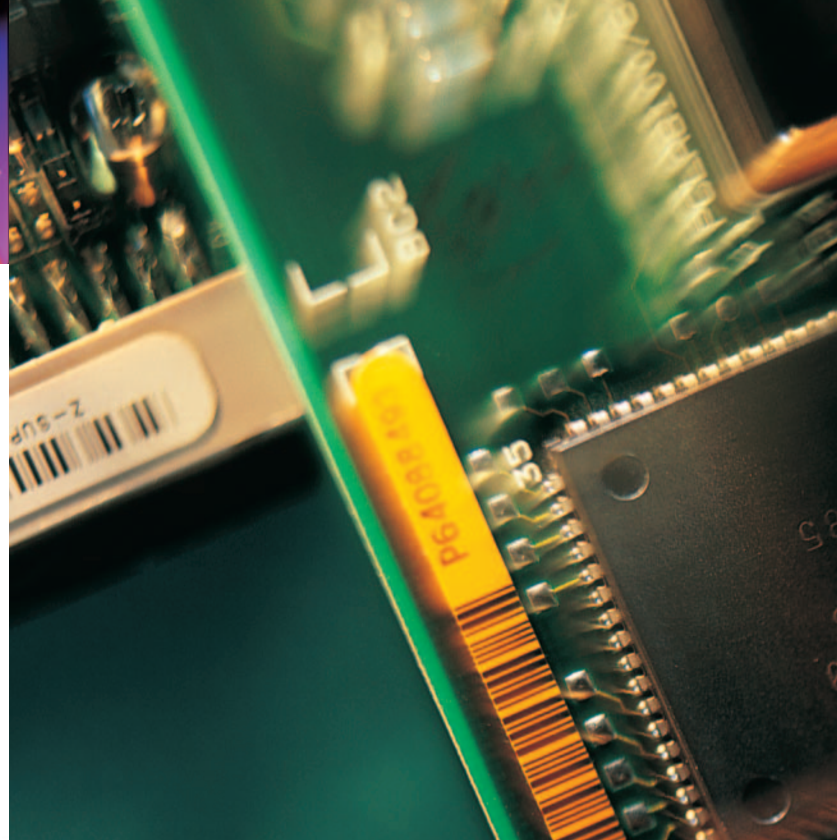


Vertical MARKET FOCUS

Zebra is expanding its relationships with channel partners to deliver high-growth applications more effectively to targeted markets. The company is enhancing its growth opportunities by demonstrating the bottom-line value of implementing printing solutions that increase productivity, provide better customer service, and strengthen safety and security.



ELECTRONICS MANUFACTURING

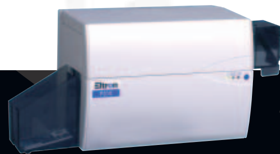
Small spaces need small labels and even smaller bar codes. Zebra's 600 dpi printers produce sharp bar codes on a wide variety of durable materials to ensure accurate product ID during production, and for subsequent warranty and product authentication purposes.

SAFETY AND SECURITY

Cards printed on Zebra plastic card printers incorporating digital photos, biometric information, and other identification technologies are one of numerous solutions from Zebra to ensure increased safety and more effective security of people, products, and property.

HIGH GROWTH
Opportunities

LIFE SCIENCES The life sciences supply chain increasingly relies on the exceptional accuracy bar coding offers to minimize costly errors. With the U.S. Food and Drug Administration taking positive steps to mandate the use of bar coding, drug manufacturers are implementing unit-of-use marking with bar codes, enabling health care facilities to conduct an automated and reliable bedside match of medication and patient, identified by a bar coded wristband. Prescription medicines are labeled more clearly with bar codes to ensure proper dispensing, and bar coded specimen vials are identified, tracked, and recorded more easily throughout the health care system.



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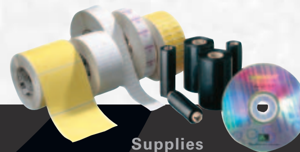

Supplies and Software

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Global EXPANSION

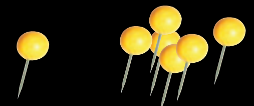
We continue to pursue international business opportunities by expanding Zebra's presence in high-growth countries and regions. In-country Zebra representatives are successfully working with channel partners to implement a broad range of solutions, from important compliance and shipping applications to emerging applications in retail, transportation and postal delivery.

SPANNING THE GLOBE

Our success in growing international sales results from our commitment to invest in the scope of our global operations.

International Sales (in millions)
1998 - $134.7 **2002** - $205.3

International Employees
1998 - 221 **2002** - 290



International Zebra Locations
1998 - 9 **2002** - 23

EXTENDING OUR Customer reach

POSTAL APPLICATIONS

Zebra is leveraging its strength in bar code label printing for small package delivery applications to help postal organizations around the world become more efficient in tracking parcels and important mail. Mobile applications also are providing new revenue opportunities for couriers.

QUEUE BUSTING

Retailers use mobile printers equipped with magnetic stripe readers in stores and at entertainment venues to speed sales transactions and ticketing during peak times. Shorter checkout lines increase customer satisfaction and minimize lost sales.

INTERNATIONAL OPPORTUNITIES

Global presence makes it attractive for multi-national companies to do business with Zebra. The company's financial resources give it the ability to invest in the people and infrastructure to support customers outside North America. As companies in developing countries adopt bar coding, they increasingly turn to Zebra for expertise in compliance and business improvement applications.

Selected Consolidated Financial Data

Financial Data

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

Consolidated statements of earnings data

	2002	2001	2000	1999	1998
Net sales	**$ 475,611**	$ 450,008	$ 481,569	$ 402,213	$ 339,678
Cost of sales	**244,864**	240,115	249,141	198,942	183,639
Gross profit	**230,747**	209,893	232,428	203,271	156,039
Total operating expenses	**128,942**[1][2]	117,434[2]	123,758[2]	99,487[3]	94,174[3]
Operating income	**101,805**[1][2]	92,459[2]	108,670[2]	103,784[3]	61,865[3]
Income before income taxes	**110,883**[1][2]	96,139[2]	111,911[2]	108,800[3]	65,021[3]
Net income	**71,595**[1][2]	61,529[2]	71,622[2]	69,632[3]	40,069[3]
Earnings per share					
Basic	**$ 2.31**[1][2]	$ 2.01[2]	$ 2.33[2]	$ 2.23[3]	$ 1.30[3]
Diluted	**$ 2.29**[1][2]	$ 1.99[2]	$ 2.30[2]	$ 2.21[3]	$ 1.29[3]
Weighted average shares outstanding					
Basic	**30,983**	30,645	30,790	31,175	30,919
Diluted	**31,265**	30,881	31,155	31,521	31,176

(In thousands)
December 31,

Consolidated balance sheet data

	2002	2001	2000	1999	1998
Cash and cash equivalents and investments and marketable securities	**$ 348,577**	$ 249,349	$ 156,714	$ 235,568	$ 162,668
Working capital	**427,676**	330,510	256,799	302,804	229,688
Total assets	**573,088**	479,556	418,896	394,643	310,002
Long-term obligations	**1,613**	408	513	664	36
Stockholders' equity	**534,155**	445,007	371,288	349,307	270,884

(1) Includes $3,300 in operating expenses related to the terminated acquisition of Fargo Electronics, Inc.

(2) Includes pretax charges for merger costs relating to the acquisition of Comtec Information Systems, Inc., and merger with Eltron International, Inc. of $73 in 2002, $1,838 in 2001 and $11,066 in 2000.

(3) 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.

Comparison of Years Ended December 31, 2002 and 2001

Sales by product category, related percent changes and percent of total sales for 2002 and 2001 were as follows:

	Years Ended				
Product Category	**December 31, 2002**	**December 31, 2001**	**Percent Change**	**Percent of Total Sales 2002**	**Percent of Total Sales 2001**
Hardware	**$360,185**	$339,895	6.0	**75.7**	75.6
Supplies	**87,981**	85,266	3.2	**18.5**	18.9
Service and software	**23,301**	19,336	20.5	**4.9**	4.3
Freight revenue	**4,144**	5,511	(24.8)	**0.9**	1.2
Total sales	**$475,611**	$450,008	5.7	**100.0**	100.0

Sales to customers by geographic region, related percent changes, and percent of total sales for 2002 and 2001 were as follows:

	Years Ended				
Geographic Region	**December 31, 2002**	**December 31, 2001**	**Percent Change**	**Percent of Total Sales 2002**	**Percent of Total Sales 2001**
International	**$205,323**	$180,053	14.0	**43.2**	40.0
North America	**270,288**	269,955	0.1	**56.8**	60.0
Total sales	**$475,611**	$450,008	5.7	**100.0**	100.0

During 2001 and 2002, through the downturn in the U.S. economy, the Company implemented its growth strategy by introducing new products, expanding international coverage, and creating new sales and marketing programs. The Company's investments in product development resulted in a stream of product introductions throughout this period. The Company also placed Zebra sales representatives in international territories deemed to have growth potential, thereby allowing the Company to work more closely with its channel partners in those regions. In addition, the Company organized its sales and marketing efforts to support a sales strategy that demonstrates the business benefits associated with implementing bar code labeling and specialty printing solutions. Management believes that these investments contributed to the Company's sales growth in 2002.

In North America, the Company recorded positive sales growth in the second, third and fourth quarters of 2002, compared with the corresponding periods of 2001. Overall, however, the slow U.S. economy continued to limit sales growth of bar code label and receipt printers to rates below the Company's historical average. Sales of supplies, specifically ribbons, were affected by price pressure from increased international competition particularly from Japan. Sales of supplies nevertheless benefited from an increase in unit sales. Management believes that the long-term outlook for

bar code label and receipt printing in North America remains favorable but is unable to determine at this time when growth might return to historical levels experienced before the 2001 downturn.

All three of the Company's international regions — Europe, Asia Pacific, and Latin America — had record sales and contributed to the significant growth in international sales in 2002. The Company's increase of the number of Zebra representatives in these regions, including the formation of a sales team in Europe for mobile printing solutions in 2001, was an important factor in the growth of international sales. On a dollar-volume basis, the largest increase occurred in the Company's European region. The strength of the British pound and the euro versus the U.S. dollar increased sales for the Company's European region by approximately $5,565,000, compared with exchange rates that prevailed during 2001. It is difficult for management to accurately forecast the direction of foreign exchange movements, and therefore, to estimate the impact of foreign exchange rates on future financial results, either positive or negative. Management believes that international territories hold significant growth opportunities for the Company and expects to continue to invest in personnel and infrastructure to support sales growth in these regions.

Gross profit was $230,747,000 for 2002, up 9.9% from $209,893,000 for 2001. In addition, gross profit margin increased to 48.5% from 46.6%. The major contributors to the margin improvement were higher capacity utilization related to the higher sales volume, product cost reductions, and the effect of foreign exchange movements. Management estimates that changes in foreign exchange rates increased gross profit by $4,377,000 in 2002.

Selling and marketing expenses increased 13.1% to $56,176,000, or 11.8% of net sales, from $49,688,000, or 11.0% of net sales. Most of the change can be attributed to an increase in additional headcount and performance-related payroll expenses, specifically commissions and bonuses related to the Company's growth in net sales. Trade show, travel and consulting expenses were also higher compared with 2001.

During 2002, the Company identified vertical markets that management believes offer growth opportunities for Zebra's printing and connectivity technologies. To this end, management expects that a higher level of selling and marketing infrastructure will be required to access these markets and achieve the Company's growth objectives within them, compared with Zebra's historical business model. Increased staffing occurred in marketing functions in 2002 to enable the Company to access vertical markets. Management expects that selling and marketing expenses in future periods will reflect the higher costs related to generating business within vertical markets.

Research and development expenses for 2002 were $29,210,000, up 3.6% from $28,184,000 for 2001, and represented 6.1% of net sales in 2002 versus 6.3% in 2001. Printer products introduced over an 18-month period that ended December 31, 2002 accounted for approximately 22% of printer sales for 2002, compared with 20% for the comparable period ending December 31, 2001. Higher project and personnel expenses were partially offset by lower expenditures for consulting services. The Company considers its ability to develop and introduce new products to be a significant competitive factor. Accordingly, management expects to continue high levels of expenditures on the development of a broad range of printers and related items.

General and administrative expenses increased 19.1% to $38,689,000 from $32,491,000. As a percentage of net sales, general and administrative expenses increased to 8.1% from 7.2%. The Company had higher bonus payments related to the growth in net sales. It also incurred additional consulting expenses for the development and implementation of growth strategies, as well as higher expenditures on information systems and insurance.

During 2002, Zebra recorded $1,494,000 in amortization of intangible assets, compared with $5,233,000 for 2001. During the first quarter of 2002, Zebra implemented SFAS No. 142, *Goodwill and Other Intangible Assets,* which eliminates the requirements to amortize intangible assets with indefinite lives and goodwill with a requirement for an annual impairment test. SFAS No. 142 also establishes requirements for identifiable intangible assets. As a result, during the first quarter Zebra reclassified $21,272,000 of intangible assets into goodwill, as such assets, which included assembled workforce and customer lists, did not meet the criteria for recognition as an asset apart from goodwill under SFAS No. 142. Operating income for 2001 includes $3,835,000 of amortization of goodwill and other intangible assets that are not included in the 2002 results in conjunction with the implementation of SFAS No. 142.

Also in the first quarter of 2002, the Company terminated the acquisition agreement and tender offer in which the Company would acquire all outstanding shares of common stock (including associated rights to purchase preferred stock) of Fargo Electronics, Inc. for $7.25 per share in cash. In connection with the termination, the Company recorded $3,300,000 in expenses for acquisition costs that would otherwise have been capitalized. There was no such expense in 2001.

The Company incurred merger costs of $73,000 in 2002 and $1,838,000 in 2001. These costs related to the acquisition of Comtec Information Systems in April 2000. Management expects that future periods will have no further merger costs related to acquisitions completed prior to the date of this report. In the event of future acquisitions, management expects to record merger costs related to those acquisitions, the amount of which cannot be determined at this time.

Investment income was $10,004,000 for 2002, an increase of 84.6% from $5,419,000 for 2001. Favorable investment income was a result of a $1,953,000 pre-tax gain on the sale of 585,000 shares of common stock of Fargo Electronics, in addition to the absence of a $2,242,000 pre-tax write-down of a long-term investment that occurred in 2001. The write-down occurred because the decline in the asset's value was viewed as other than temporary. This write-down reduced 2001 diluted earnings by $0.05 per share. The Company made an additional write-down of $193,000 for this investment in 2002.

Income before income taxes increased 15.3% to $110,883,000 from $96,139,000. As a percentage of net sales, income before income taxes increased to 23.3% from 21.4%.

The effective income tax rate for 2002 was 35.4% versus 36.0% in 2001. This change is the result of implementing tax minimization strategies during the third quarter of 2002. Management expects that these strategies will allow the Company to remain at a 35.0% effective tax rate in future periods.

Net income of $71,595,000, or $2.29 per diluted share, for 2002 was up 16.4% from $61,529,000, or $1.99 per diluted share, for 2001.

Comparison of Years Ended December 31, 2001 and 2000

Sales by product category, related percent changes and percent of total sales for 2001 and 2000 were as follows:

	Years Ended				
Product Category	December 31, 2001	December 31, 2000	Percent Change	Percent of Total Sales 2001	Percent of Total Sales 2000
Hardware	$339,895	$378,093	(10.1)	75.6	78.5
Supplies	85,266	81,045	5.2	18.9	16.8
Service and software	19,336	16,659	16.1	4.3	3.5
Freight revenue	5,511	5,772	(4.5)	1.2	1.2
Total sales	$450,008	$481,569	(6.6)	100.0	100.0

Sales to customers by geographic region, related percent changes, and percent of total sales for 2001 and 2000 were as follows:

	Years Ended				
Geographic Region	December 31, 2001	December 31, 2000	Percent Change	Percent of Total Sales 2001	Percent of Total Sales 2000
International	$180,053	$179,989	0.0	40.0	37.4
North America	269,955	301,580	(10.5)	60.0	62.6
Total sales	$450,008	$481,569	(6.6)	100.0	100.0

The decline in sales was primarily related to softness in sales of bar code label and receipt printers in North America from deteriorating economic conditions in the U. S., specifically in the manufacturing and technology sectors. A full year's sales of mobile printing systems as a result of the Comtec acquisition, compared with only three quarters in 2000, partially offset the decline from this weakness.

The decline in North American sales was a result of the slowdown in the U.S. economy, which restricted sales of bar code label and receipt printers in North America. This slowdown began in 2000 and became more severe in 2001.

International sales for 2001 showed virtually no growth. Growth in the Company's European region to a record level resulted from the formation of a team dedicated to the sale of mobile printing systems and sales expansion in Eastern Europe. This growth was offset by sales declines in Latin America and Asia Pacific. The strength of the U.S. dollar versus the British pound and the euro reduced sales for the Company's European region by approximately $2,976,000, compared with exchange rates that prevailed during 2000.

Gross profit was $209,893,000 for 2001, down 9.7% from $232,428,000 for 2000. In addition, gross profit margin declined to 46.6% from 48.3%. Lower production volumes and the resulting decline in manufacturing capacity utilization had the predominant effect on the gross profit and gross profit margin declines.

Selling and marketing expenses increased 2.9% to $49,688,000, or 11.0% of net sales, from $48,306,000, or 10.0% of net sales. During 2001, the Company continued to invest in demand-generating activities to support long-term growth. For 2001, higher expenditures for personnel, market research and co-op activities were partially offset by declines in travel and entertainment and other expenses.

Research and development expenses for 2001 were $28,184,000, up 5.4% from $26,746,000 for 2000, and represented 6.3% of net sales in 2001 versus 5.6% in 2000. Lower project expenses partially offset higher expenditures related to engineering personnel and consulting services.

General and administrative expenses declined 3.3% to $32,491,000 from $33,594,000. As a percentage of net sales, general and administrative expenses increased to 7.2% from 7.0%. Higher expenditures on information systems were partially offset by expense declines for personnel-related expenses from benefits and taxes, as well as lower expenditures on outside services for recruiting and consulting.

Amortization of intangible assets totaled $5,233,000, compared with $4,046,000 for 2000. The increase was due to a full year's amortization of intangible assets related to the Comtec acquisition, compared with three quarters in 2000.

As part of the Comtec acquisition, the Company acquired printer and wireless technology. A portion of the purchase price was attributed to acquired in-process technology, as the development work associated with the projects had not yet reached technological feasibility and was believed to have no alternative future use. The Company assessed the fair value of the acquired in-process technology using an income approach. During the second quarter of 2000, the Company recorded a $5,953,000 charge to write off this acquired in-process technology. There was no such charge in 2001.

The Company incurred merger costs of $1,838,000 in 2001 and $5,113,000 in 2000. These costs related to the merger with Eltron International, Inc. in October 1998, which was accounted for as pooling-of-interests, and the Comtec acquisition. These costs exclude certain direct costs of the Comtec acquisition, which were not included as a portion of the purchase price or recorded at the time of the transaction. In 2001, these costs primarily consisted of expenditures on information technology infrastructure to integrate the Comtec and Eltron operations.

Investment income was $5,419,000 for 2001, a decrease of 52.2% from $11,345,000 for 2000. Lower investment returns on invested balances contributed to the decline. In addition, in the third quarter of 2001, the Company recorded a $2,242,000 pre-tax write-down of a long-term investment, in which the decline in value was viewed as other than temporary. This write-down reduced 2001 diluted earnings by $0.05 per share.

Interest expense and other expense, net, for 2001 totaled $1,739,000, compared with $8,104,000 in 2000. The 78.5% decline was primarily attributable to the effectiveness of currency hedging strategies to minimize the effects of foreign currency transactions, which the Company implemented during the second half of 2000. In 2001, losses from foreign currency transactions on the value of euro-denominated cash deposits and receivables from customers and pound sterling-denominated receivables from the Company's U.K. subsidiary totaled $896,000, compared with $6,032,000 for 2000.

Income before income taxes decreased 14.1% to $96,139,000 from $111,911,000. As a percentage of net sales, income before income taxes declined to 21.4% from 23.2%.

Net income of $61,529,000, or $1.99 per diluted share, for 2001 was down 14.1% from $71,622,000, or $2.30 per diluted share, for 2000.

Critical Accounting Policies and Estimates

Management prepared the consolidated financial statements of Zebra Technologies Corporation in conformity with accounting principles generally accepted in the United States. Accordingly, the consolidated financial statements require certain estimates, judgments and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating the Company's reported financial results.

Valuation of Long-Lived and Intangible Assets and Goodwill

Management assesses the impairment of identifiable intangibles, long-lived assets and related goodwill and enterprise-level goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important to possibly trigger an impairment review consist of:

- significant underperformance relative to expected historical or projected future operating results
- significant changes in the manner of use of the acquired assets or the strategy for the overall business
- significant negative industry or economic trends
- significant decline in Zebra's stock price for a sustained period
- significant decline in market capitalization relative to net book value

When it is determined that the carrying value of intangibles, long-lived assets and related goodwill and enterprise-level goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, management measures any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. Net intangible assets, long-lived assets, and goodwill amounted to $97,473,000 as of December 31, 2002.

In 2002, SFAS No. 142, *Goodwill and Other Intangible Assets,* became effective. As a result, the Company ceased amortizing approximately $54,455,000 of goodwill, including existing intangible assets that were not considered identifiable under SFAS No. 142. The Company recorded approximately $3,835,000 of amortization on these amounts during 2001 and would have recorded approximately $3,835,000 of amortization during 2002. In lieu of amortization, the Company was required to perform an initial impairment review of its goodwill in 2002 and an annual impairment review thereafter.

The Company completed its initial impairment review during the second quarter of 2002. Considering the share price of the Company's stock among other measures of fair value, this impairment test indicated that the fair value of the Company's goodwill was significantly in excess of the carrying value. Consequently, no impairment charge was recorded.

Revenue Recognition

Zebra recognizes revenue from product sales at the time of shipment and passage of title. Certain customers have the right to return products that do not function properly within a limited time after delivery. The Company regularly monitors and tracks product returns and records a provision for the estimated amount of such future returns, based on historical experience and any notification received of pending returns. While such returns have historically been within expectations and the provisions established, the Company cannot guarantee that it will continue to experience return rates consistent with historical patterns. Any significant increase in product failure rates and the resulting credit returns could have a material adverse effect on operating results for the periods in which such returns materialize. A 10% increase (decrease) in returns above historical levels would decrease (increase) operating income by approximately 0.3%.

Accounts Receivable

The Company has established standardized credit granting and review policies and procedures for all customer accounts receivable. These policies and procedures include credit reviews of all new customer accounts to establish credit limits and payment terms based on available credit information, which may include customer financial statements, bank and trade references, credit rating agency information and other credit related information that becomes available. Additionally, the Company performs ongoing credit evaluations of current customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by a review of current credit information. The Company has established regional credit functions, reporting directly to the corporate financial officers, to manage the credit granting, review, and collections processes.

Over the last three years, quarter-end accounts receivable balances have ranged from 53.0 to 68.5 days sales outstanding. As of December 31, 2002, accounts receivable before provisions for uncollectible accounts were $72,535,000, or 53.0 days of sales. Similarly, past due accounts receivable are also at the low end of historical ranges as of December 31, 2002. The historically low balance, high quality, accounts receivable portfolio is the result of improvements to credit and collections policies, procedures, and staffing implemented during 2002.

The Company maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues. Over the last three years, accounts receivable reserves have been in the range of 1.7% to 2.9% of total accounts receivable. Accounts receivable reserves as of December 31, 2002 were $1,236,000, or 1.7% of the balance due. Management feels this reserve level is appropriate given the relatively low accounts receivable balances combined with the quality of the portfolio as of December 31, 2002. While credit losses have historically been within expectations and the provisions established, management cannot guarantee that the Company will continue to experience credit loss consistent with historical experience.

Zebra's accounts receivable portfolio is diversified among a large number of customers and geographic markets. No individual customer exceeds 9% of gross accounts receivable balances as of December 31, 2002, and only one customer exceeds 5% of gross accounts receivable as of December 31, 2002. Included in accounts receivable is an account with a $2,100,000 disputed balance. Although management believes this account is fully collectible, a $481,000 accrued liability has been recorded to cover the estimated cost of collection. If the actual collection, net of costs, is less than $1,619,000, operating income would be reduced.

Inventories

The Company values its inventories at the lower of the actual cost to purchase or manufacture, or the current estimated market value. Management regularly reviews inventory quantities on hand and records a provision for excess and obsolete inventory based primarily on estimated forecasts of product demand and production requirements for the subsequent twelve months. A significant increase in the demand for Zebra's products could result in a short-term increase in the cost of inventory purchases, while a significant decrease in demand could result in an increase in the amount of excess inventory quantities on hand. Additionally, the Company's estimates of future product demand may prove to be inaccurate, in which case the provision required for excess and obsolete inventory may be understated or overstated. In the future, if inventories are determined to be overvalued, the Company would be required to recognize such costs in cost of goods sold at the time of such determination. Likewise, if inventories are determined to be undervalued, the Company may have over-reported cost of goods sold in prior periods and would be required to recognize such additional operating income at the time of sale. The Company makes every effort to ensure the accuracy of its forecasts of future product demand; however any significant unanticipated changes in demand or technological developments could have a significant impact on the value of inventories and reported operating results.

Over the last three years, the Company's reserves for excess and obsolete inventory have ranged from 9.7% to 12.9% of gross inventory. As of December 31, 2002, reserves for excess and obsolete inventory were $5,075,000, or 11.5% of gross inventory.

Reserve for Tax Litigation and Tax Audits

The Company has recorded the estimated liability related to certain pending tax litigation and tax audits based on management's estimates of the probable range of loss. As additional information becomes available, management will assess the potential liability related to pending litigation and tax audits, and revise estimates. Such revisions in the estimates of potential future liabilities could materially affect the results of operations and financial position.

The Company is litigating a dispute over a 1998 tax assessment in the amount of approximately $2,000,000, including penalties and interest, with the Illinois Department of Revenue for the years 1993 through 1995. The case was filed by the Company in the District Court of Illinois and tried during November 2000. The decision from the court was unfavorable to the Company but has been appealed. The Company does not expect to know the result of the appeal until some time in the second half of 2003.

The Illinois Department of Revenue has also examined the Company's tax returns for the years 1996 and 1997, and issued an assessment for $3,200,000. The issues involved in this audit are identical to those involved in the 1993 to 1995 returns being litigated. The Company has paid this assessment under protest. Management believes that the ultimate outcome of this assessment will be consistent with the 1993 to 1995 litigation under appeal.

In addition, the Illinois Department of Revenue has not yet examined the Company's income tax returns for 1998 through 2001, but has a right to do so. Management believes that if such an audit occurred, the Illinois Department of Revenue would raise issues similar to those raised during the 1993 through 1997 audits.

The Company recorded tax reserves equal to management's estimate of the likely outcome of the Illinois Department of Revenue litigation for 1993 to 1995, the audit assessment for 1996 and 1997, and the unaudited 1998 through 2001 returns. If the Company loses all issues on appeal, the Company would record an additional one-time tax expense of $1,300,000. If the Company wins all issues on appeal, the Company would record a reduction to tax expense of $4,400,000. For additional information respecting this matter, see Note 9 "Income Taxes" in the Notes to Consolidated Financial Statements annexed to this report.

Liquidity and Capital Resources

Internally generated funds from operations are the primary source of liquidity for the Company, largely as a result of the Company's sales and profitability, control over working capital and relatively low requirements for purchases of property and equipment. As of December 31, 2002, the Company had $348,577,000 in cash and cash equivalents and investments and marketable securities, compared with $249,349,000 at the end of 2001. Capital expenditures totaled $8,481,000 in 2002, $9,613,000 in 2001, and $8,947,000 in 2000. Management believes that existing capital resources and funds generated from operations are sufficient to finance anticipated capital requirements.

For 2002, net cash used in operating activities was $13,393,000, which included increases in investments and marketable securities of $108,498,000 and accounts receivable of $1,629,000, offset by a decline in inventories and other assets totaling $6,891,000 and an increase in accrued liabilities of $2,564,000. These changes are net of the effect of foreign exchange rates on cash. Depreciation and amortization totaled $12,259,000. Net cash used in investing activities was used exclusively for $8,481,000 in purchases of property and equipment, and $13,032,000 in net cash provided by financing activities was substantially generated by proceeds from the exercise of stock options. Cash and cash equivalents decreased by $7,910,000 for the year.

Net cash provided by operating activities totaled $14,076,000 in 2001, which included an increase in investments and marketable securities of $78,874,000 and relatively significant declines of $16,223,000, or 19.3%, in accounts receivable and of $17,284,000, or 30.4%, in inventories. Both declines exclude the effect of foreign exchange rates on cash. Depreciation and amortization totaled $15,691,000. Net cash used in investing activities was used exclusively for $9,613,000 in purchases of property and equipment, and $8,863,000 in net cash provided by financing activities was substantially generated by proceeds from the exercise of stock options.

Net cash provided by operating activities totaled $132,565,000 in 2000. During the year, the Company reduced its investments and marketable securities by $60,860,000 as partial funding for the Comtec acquisition. The Company also recorded increases of $7,106,000 in accounts receivable and $7,179,000 in inventories. Depreciation and amortization totaled $14,383,000. Investing activities used $97,423,000 in cash in 2000. In addition to the $8,947,000 used for purchases of property and equipment, the Company used $88,476,000 for the Comtec acquisition, net of cash acquired. For 2000, the Company used $48,675,000 for financing activities, including $55,505,000 for the purchase of treasury stock. Proceeds of $6,653,000 from the exercise of stock options had a positive effect on net cash used in financing activities. For 2000, cash and cash equivalents declined by $15,041,000.

Recently Issued Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations.* SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated asset retirement costs. SFAS 143 must be applied starting with fiscal years beginning after June 15, 2002. Management does not believe the adoption of SFAS No. 143 will have a significant impact on the Company's consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.* SFAS 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30. Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent and meet the criteria for classification as an extraordinary item. SFAS No. 145 is effective beginning January 1, 2003. Management does not believe the adoption of SFAS No. 145 will have a significant impact on the Company's consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. This standard will be applied prospectively to exit or disposal activities initiated after December 31, 2002. Management does not believe the adoption of SFAS No. 146 will have a significant impact on the Company's consolidated financial statements.

Risk Factors

Investors should carefully consider the risks, uncertainties and other factors described below, as well as other disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations, because they could have a material adverse effect on the Company's business, financial condition, operating results, and growth prospects.

The Company could encounter difficulties in any acquisition it undertakes, including unanticipated integration problems and business disruption. Acquisitions could also dilute stockholder value and adversely affect operating results. Proposed acquisitions that are not consummated may result in the write-off of certain acquisition costs.
The Company may acquire or make investments in other businesses, technologies, services or products. The process of integrating any acquired business, technology, service or product into operations may result in unforeseen operating difficulties and expenditures. Integration of an acquired company also may consume considerable management time and attention, which could otherwise be available for ongoing development of the business. The expected benefits of any acquisition may not be realized. Moreover, the Company may be unable to identify, negotiate or finance future acquisitions successfully. Future acquisitions could result in potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities or amortization expenses. To the extent that a proposed acquisition is not consummated, the Company may be required to write off certain costs associated with the acquisition, which could be significant.

The Company may not be able to continue to develop products to address user needs effectively in an industry characterized by rapid technological change.
To be successful, Zebra must adapt to rapidly changing technological and application needs by continually improving its products as well as introducing new products and services to address user demands.

Zebra's industry is characterized by:

- rapidly changing technology
- evolving industry standards
- frequent new product and service introductions
- evolving distribution channels
- changing customer demands

Future success will depend on the Company's ability to adapt in this rapidly evolving environment. The Company could incur substantial costs if it has to modify its business to adapt to these changes, and may even be unable to adapt to these changes.

The Company competes in a highly competitive market, which is likely to become more competitive. Competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements.
Zebra faces significant competition in developing and selling its systems. Principal competitors have substantial marketing, financial, development and personnel resources. To remain competitive, the Company believes it must continue to provide:

- technologically advanced systems that satisfy the user demands;
- superior customer service;
- high levels of quality and reliability, and
- dependable and efficient distribution networks

Zebra cannot assure it will be able to compete successfully against current or future competitors. Increased competition in printers or supplies may result in price reductions, lower gross profit margins and loss of market share, and could require increased spending on research and development, sales and marketing and customer support. Some competitors may make strategic acquisitions or establish cooperative relationships with suppliers or companies that produce complementary products. Any of these factors could reduce the Company's earnings.

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

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

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

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

- Fluctuating foreign currency rates could restrict sales, or increase costs of purchasing, in foreign countries.
- Foreign governments may impose burdensome tariffs, quotas and taxes or other trade barriers.
- Political and economic instability may reduce demand for our products, or put our foreign assets at risk.
- Restrictions on the export or import of technology may reduce or eliminate the ability to sell in or purchase from certain markets.
- Potentially limited intellectual property protection in certain countries, such as China, may limit recourse against infringing products or cause the Company to refrain from selling in certain geographic territories.
- Staffing and managing international operations may be unusually difficult.
- The Company may not be able to control international distributors working on its behalf.

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

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

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

Third parties may claim that Zebra violated their intellectual property rights. To the extent of a violation of a third party's patent or other intellectual property right, the Company may be prevented from operating its business as planned, and may be required to pay damages, to obtain a license, if available, or to use a non-infringing method, if possible, to accomplish its objectives. Any of these claims, with or without merit, could result in costly litigation and divert the attention of key personnel.

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

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

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

Continued terrorist attacks or war could lead to further economic instability and adversely affect the Company's stock price, operations, and profitability. The terrorist attacks that occurred in the United States on September 11, 2001 caused periodic major instability in the U.S. and other financial markets. Possible further acts of terrorism and current and future war risks could have a similar impact. The United States continues to take military action against terrorism and has made strong overtures of going to war with Iraq. Terrorist attacks and potential war in the Middle East may lead to additional armed hostilities or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may further contribute to economic instability. Any such attacks could, among other things, cause further instability in financial markets and could directly, or indirectly through reduced demand, negatively affect the Company's facilities and operations or those of its customers or suppliers.

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

Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

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

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

The following table sets forth the impact of a 1% movement in interest rates on the value of the Company's investment portfolio as of December 31, 2002.

	Effect on Pretax Income	Effect on Diluted EPS (after tax)
Interest rate sensitive instruments		
+1% movement	$(3,428,059)	$(0.07)
-1% movement	$ 3,428,059	$ 0.07

Foreign Exchange Risk

The Company conducts business in approximately 100 countries throughout the world and, therefore, is exposed to risk based on movements in foreign exchange rates. Currency exposures are related to the U.S. dollar/U.K. pound sterling, U.S. dollar/euro, and the U.K. pound sterling/euro exchange rates arising from invoicing European customers in pounds sterling and euros from the Company's U.K. office. The U.S. dollar/Japanese yen exchange rate arises from invoicing customers in Japanese yen. The yen foreign currency exposure averages approximately $125,000. There is no foreign exchange risk associated with the Company's investment portfolio.

The Company manages its foreign exchange exposure through a policy of selective hedging. This policy involves selling forward up to 120 days projected remittances in euros from the Company's U.K. subsidiary. Currency swaps that are net settled every month mitigate the U.S. dollar to U.K. pound sterling net exposure. This policy mitigates, but does not eliminate, the impact of exchange movements on the value of future cash flows. Thus, adverse movements in either the pound or the euro in relation to the dollar can directly affect the Company's financial results. The corporate treasury department executes all foreign exchange contracts with major financial institutions

only. Under no circumstances does the Company enter into any type of foreign exchange contract for trading or speculative purposes.

The following table sets forth the impact of a 1% movement in the dollar/pound and dollar/euro rates measured as if the Company did not engage in the selective hedging practices described above. It is based on the dollar/euro and dollar/pound exchange rates and euro and pound denominated assets and liabilities as of December 31, 2002.

	Effect on Pretax Income	Effect on Diluted EPS (after tax)
Foreign exchange		
Dollar/pound	$ 96,582	$0.00
Dollar/euro	$273,000	$0.01

Equity Price Risk

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

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

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

The following table sets forth the impact of a 1% change in the value of all equity positions held by the Company's investment managers.

	Effect on Pretax Income	Effect on Diluted EPS (after tax)
Equity price sensitive instruments		
+1% movement	$ 183,112	$ 0.00
-1% movement	$(183,112)	$(0.00)

Balance Sheets

Consolidated Balance Sheets

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

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	**$ 18,418**	$ 26,328
Investments and marketable securities	**330,159**	223,021
Accounts receivable, net of allowance of $1,236 in 2002 and $1,975 in 2001	**71,299**	67,160
Inventories	**38,066**	39,923
Deferred income taxes	**4,107**	4,295
Prepaid expenses	**2,531**	3,611
Total current assets	**464,580**	364,338
Property and equipment at cost, less accumulated depreciation and amortization	**39,462**	40,742
Deferred income taxes	**1,722**	902
Goodwill	**54,455**	32,735
Other intangibles	**3,556**	26,693
Other assets	**9,313**	14,146
Total assets	**$ 573,088**	$479,556
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	**$ 15,447**	$ 14,414
Accrued liabilities	**17,661**	14,993
Short-term note payable	**275**	221
Current portion of obligation under capital lease	**145**	79
Income taxes payable	**3,376**	4,121
Total current liabilities	**36,904**	33,828
Obligation under capital lease, less current portion	**605**	408
Deferred rent	**416**	313
Other long-term liability	**1,008**	—
Total liabilities	**38,933**	34,549
Stockholders' 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, 27,660,466 and 26,018,743 shares issued, and 27,282,087 and 25,256,380 shares outstanding in 2002 and 2001, respectively	**276**	260
Class B Common Stock, $.01 par value; 28,358,189 shares authorized, 3,886,050 and 5,527,773 shares issued and outstanding in 2002 and 2001, respectively	**39**	55
Additional paid-in capital	**56,478**	59,012
Treasure stock, at cost (378,379 shares and 762,363 shares, respectively)	**(16,760)**	(35,482)
Retained earnings	**494,150**	422,555
Accumulated other comprehensive loss	**(28)**	(1,393)
Total stockholders' equity	**534,155**	445,007
Total liabilities and stockholders' equity	**$ 573,088**	$479,556

See accompanying notes to consolidated financial statements.

Earnings

Consolidated Statements of Earnings

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

	2002	2001	2000
Net sales	**$ 475,611**	$ 450,008	$ 481,569
Cost of sales	**244,864**	240,115	249,141
Gross profit	**230,747**	209,893	232,428
Operating expenses:			
Selling and marketing	**56,176**	49,688	48,306
Research and development	**29,210**	28,184	26,746
General and administrative	**38,689**	32,491	33,594
Amortization of intangible assets	**1,494**	5,233	4,046
Acquired in-process technology	**—**	—	5,953
Costs related to terminated acquisition	**3,300**	—	—
Merger costs	**73**	1,838	5,113
Total operating expenses	**128,942**	117,434	123,758
Operating income	**101,805**	92,459	108,670
Operating income (expense):			
Investment income	**10,004**	5,419	11,345
Interest expense	**(319)**	(231)	(1,120)
Other, net	**(607)**	(1,508)	(6,984)
Total other income	**9,078**	3,680	3,241
Income before income taxes	**110,883**	96,139	111,911
Income taxes	**39,288**	34,610	40,289
Net income	**$ 71,595**	$ 61,529	$ 71,622
Basic earnings per share	**$ 2.31**	$ 2.01	$ 2.33
Diluted earnings per share	**$ 2.29**	$ 1.99	$ 2.30
Basic weighted average shares outstanding	**30,983**	30,645	30,790
Diluted weighted average and equivalent shares outstanding	**31,265**	30,881	31,155

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Amounts in thousands)
Year Ended December 31,

	2002	2001	2000
Net income	**$ 71,595**	$ 61,529	$ 71,622
Other comprehensive income (loss):			
Foreign currency translation adjustment	**2,968**	(977)	(1,508)
Unrealized holding gains (losses) on investments:			
Net change in unrealized holding gains (losses) for the period, net of income tax expense (benefit) of ($863) for 2002, $1,687 for 2001, and ($801) for 2000	**(1,603)**	3,000	(1,425)
Comprehensive income	**$ 72,960**	$ 63,552	$ 68,689

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income: Unrealized Holding Gain (Loss) on Investments	Accumulated Other Comprehensive Income: Cumulative Translation Adjustment	Total
Balance at December 31, 1999	$ 249	$ 65	$ 60,072	$ 289,404	$ —	$ —	$ (483)	$ 349,307
Issuance of 128,827 shares of Class A Common Stock upon exercise of stock options	1	—	3,227	—	—	—	—	3,228
Conversion of 604,187 shares of Class B Common Stock to 604,187 shares of Class A Common Stock	6	(6)	—	—	—	—	—	—
Repurchase of 1,170,500 shares of Class A Common Stock	—	—	—	—	(55,505)	—	—	(55,505)
Reissuance of 111,747 treasury shares upon exercise of stock options and purchases under stock purchase plan	—	—	(1,952)	—	5,377	—	—	3,425
Tax benefit resulting from exercise of options	—	—	1,505	—	—	—	—	1,505
Gains on put options	—	—	639	—	—	—	—	639
Net income	—	—	—	71,622	—	—	—	71,622
Unrealized holding loss on investments (net of income taxes)	—	—	—	—	—	(1,425)	—	(1,425)
Foreign currency translation adjustment	—	—	—	—	—	—	(1,508)	(1,508)
Balance at December 31, 2000	256	59	63,491	361,026	(50,128)	(1,425)	(1,991)	371,288
Conversion of 408,228 shares of Class B Common Stock to 408,228 shares of Class A Common Stock	4	(4)	—	—	—	—	—	—
Reissuance of 296,390 treasury shares upon exercise of stock options and purchases under stock purchase plan	—	—	(5,751)	—	14,646	—	—	8,895
Tax benefit resulting from exercise of options	—	—	1,273	—	—	—	—	1,273
Loss on put options	—	—	(1)	—	—	—	—	(1)
Net income	—	—	—	61,529	—	—	—	61,529
Unrealized holding gain on investments (net of income taxes)	—	—	—	—	—	3,000	—	3,000
Foreign currency translation adjustment	—	—	—	—	—	—	(977)	(977)
Balance at December 31, 2001	260	55	59,012	422,555	(35,482)	1,575	(2,968)	445,007
Conversion of 1,641,723 shares of Class B Common Stock to 1,641,723 shares of Class A Common Stock	16	(16)	—	—	—	—	—	—
Reissuance of 383,984 treasury shares upon exercise of stock options and purchases under stock purchase plan	—	—	(5,616)	—	18,722	—	—	13,106
Tax benefit resulting from exercise of options	—	—	3,082	—	—	—	—	3,082
Net income	—	—	—	71,595	—	—	—	71,595
Unrealized holding loss on investments (net of income taxes)	—	—	—	—	—	(1,603)	—	(1,603)
Foreign currency translation adjustment	—	—	—	—	—	—	2,968	2,968
Balance at December 31, 2002	**$276**	**$39**	**$56,478**	**$494,150**	**$(16,760)**	**$ (28)**	**$ —**	**$534,155**

See accompanying notes to consolidated financial statements.

Cash Flows

Consolidated Statements of Cash Flows

(Amounts in thousands)
Year Ended December 31,

	2002	2001	2000
Cash flows from operating activities:			
Net income	**$ 71,595**	$ 61,529	$ 71,622
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**12,259**	15,691	14,383
Tax benefit from exercise of options	**3,082**	1,273	1,505
Acquired in-process technology	**—**	—	5,953
Depreciation (appreciation) in market value of investments and marketable securities	**1,360**	(1,209)	2,952
Write-down of long-term investment	**193**	2,242	—
Deferred income taxes	**(616)**	2,873	(6,076)
Changes in assets and liabilities, net of businesses acquired:			
Accounts receivable, net	**(1,629)**	16,223	(7,106)
Inventories	**2,922**	17,284	(7,179)
Other assets	**3,969**	(7,895)	(542)
Accounts payable	**(939)**	(9,424)	(6,064)
Accrued liabilities	**2,564**	3,083	(810)
Income taxes payable	**(896)**	(6,792)	3,372
Other operating activities	**1,241**	(1,928)	(305)
Investments and marketable securities	**(108,498)**	(78,874)	60,860
Net cash provided by (used in) operating activities	**(13,393)**	14,076	132,565
Cash flows from investing activities:			
Purchases of property and equipment	**(8,481)**	(9,613)	(8,947)
Acquisition of Comtec Information Systems, net of cash acquired	**—**	—	(88,476)
Net cash used in investing activities	**(8,481)**	(9,613)	(97,423)
Cash flows from financing activities:			
Purchase of treasury stock	**—**	—	(55,505)
Proceeds from exercise of stock options	**13,106**	8,895	6,653
Proceeds from (cost of) put options	**—**	(1)	639
Issuance (repayment) of notes payable	**43**	72	(140)
Payments for obligation under capital lease	**(117)**	(103)	(322)
Net cash provided by (used in) financing activities	**13,032**	8,863	(48,675)
Effect of exchange rate changes on cash	**932**	(774)	(1,508)
Net increase (decrease) in cash and cash equivalents	**(7,910)**	12,552	(15,041)
Cash and cash equivalents at beginning of year	**26,328**	13,776	28,817
Cash and cash equivalents at end of year	**$ 18,418**	$ 26,328	$ 13,776
Supplemental disclosures of cash flow information:			
Interest paid	**$ 319**	$ 231	$ 1,120
Income taxes paid	**33,840**	38,604	44,736
Supplemental disclosures of non-cash transactions:			
Conversion of Class B Common Stock to Class A Common Stock	**16**	4	6
Assets under capital lease obligation	**333**	—	—

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 bar code label and receipt printers and card printers, self-adhesive labeling materials, card supplies, thermal transfer ribbons and bar code label design software. These products are used principally in automatic identification (auto ID), data collection and personal identification applications and are distributed world-wide through a network of resellers, distributors and end users representing a wide cross-section of industrial, service and government organizations.

Note 2 Summary of Significant Accounting Policies

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

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

Cash and Cash Equivalents. Cash consists primarily of deposits with banks. In addition, the Company considers highly liquid short-term investments with original maturities of less than seven days to be cash equivalents.

Investments and Marketable Securities. Investments and marketable securities at December 31, 2002, 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 stockholders' equity until realized.

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

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

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

Intangible Assets. Goodwill represents the unamortized excess of the cost of acquiring a business over the fair values of the net assets received at the date of acquisition. Goodwill is no longer being amortized as required by SFAS No. 142, *Goodwill and Other Intangible Assets.*

Other intangible assets consist primarily of current technology. These assets are recorded at cost and amortized on a straight-line basis over 5 years. Accumulated amortization for these other intangible assets was $3,865,000 and $5,944,000 at December 31, 2002 and 2001, respectively.

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

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

Advertising. Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2002, 2001 and 2000 totaled $3,965,000, $4,405,000 and $4,637,000, 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 and adjusted quarterly based on historical warranty experience. The following is a summary of the Company's accrued warranty obligation during the year ended December 31, 2002.

	2002
Accrued warranty — beginning balance	**$ 1,021**
Add: warranty expense	**3,080**
Deduct: warranty payments	**2,426**
Accrued warranty — ending balance	**$ 1,675**

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. At December 31, 2002, the Company has three stock-based compensation plans, which are described more fully in Note 16. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related Interpretations. No stock-based compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB No. 123, *Accounting for Stock-based Compensation,* to stock-based compensation.

	2002	2001	2000
Net income, as reported	**$71,595**	$61,529	$ 71,622
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	**(5,102)**	(3,558)	(4,009)
Pro forma net income	**$66,493**	$ 57,971	$ 67,613
Basic earnings per share:			
As reported	**$ 2.31**	$ 2.01	$ 2.33
Pro forma	**2.15**	1.89	2.20
Diluted earnings per share:			
As reported	**$ 2.29**	$ 1.99	$ 2.30
Pro forma	**2.13**	1.88	2.17

Deferred Compensation Plan. The Company has a deferred compensation plan that permits management and highly compensated employees to defer portions of their compensation and to select a method of investing these funds. The salaries that have been deferred since the plan's inception have been accrued and the only charges, other than additional deferred salaries, related to this plan are the unrealized gain/loss on the deferred amounts.

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

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

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

Funded Engineering Arrangement. The Company was part of an arrangement with a third party, whereby the Company was reimbursed for certain engineering services performed on behalf of the third party. The arrangement had a term of three years. The arrangement also provided that the Company would be the exclusive manufacturer of the products resulting from the engineering agreement. The products would be distributed under the third party's brand name. During 2000 and 2001, the Company incurred approximately $2,800,000 of reimbursable expenses under the agreement. As of December 31, 2002, the Company had an accounts receivable of approximately $2,100,000 related to this arrangement. A provision of $481,000 has been established to cover estimated collection costs, which is included in accrued liabilities. The arrangement was terminated in 2002.

Acquisition Costs. The Company periodically invests in potential acquisitions. Any external costs incurred are recorded as prepaid expenses until such time as the Company either completes the transaction or abandons the transaction. If the transaction is completed, the costs are treated as part of the cost of the acquisition. If the transaction is abandoned, the costs are expensed during the period in which it is abandoned. During 2002, operating expenses include $3,300,000 of costs related to such an abandonment. As of December 31, 2002, the balance sheet includes $35,000 in prepaid expenses related to acquisitions.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of. The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* The statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the sum of the undiscounted cash flows expected to result from the use and the eventual disposition of the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.* SFAS 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30. Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent and meet the criteria for classification as an extraordinary item. SFAS No. 145 is effective beginning January 1, 2003. Management is currently evaluating the impact that the adoption of SFAS No. 145 will have on the Company's consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. This standard will be applied prospectively to exit or disposal activities initiated after December 31, 2002. Management does not believe the adoption of SFAS No. 146 will have a significant impact on the Company's consolidated financial statements.

Note 3 Business Combinations

Comtec Information Systems, Inc. On April 3, 2000, the Company acquired Comtec Information Systems, Inc. (Comtec), by acquiring all of the outstanding capital stock of Comtec for approximately $88,476,000 in cash. Located in Warwick, Rhode Island, Comtec had been a privately held company. Comtec designs, manufactures and supports mobile printing systems. The acquisition was accounted for under the purchase method. At the time of the acquisition, the purchase price was allocated to identifiable tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values. Estimated amounts allocated to acquired in-process technology were expensed at the time of the acquisition. The consolidated statements of earnings reflect the results of operations of Comtec since the effective date of the acquisition.

At the time of acquisition, the purchase price allocation for Comtec was as follows:

	Amount (in thousands)
Net tangible assets	**$15,235**
Acquired in-process technology	**5,953**
Intangible assets	**31,786**
Goodwill	**35,502**
Purchase price	**$88,476**

The following summary presents information concerning the purchase price allocation for the Comtec acquisition after the Company's implementation of SFAS No. 142, *Goodwill and Other Intangible Assets*, during the first quarter of 2002:

	Amount (in thousands)
Net tangible assets	**$15,235**
Acquired in-process technology	**5,953**
Current technology	**6,494**
Goodwill	**60,794**
Purchase price	**$88,476**

Prior to the implementation of SFAS No. 142, goodwill was amortized on a straight-line basis over the expected period of 20 years and other intangible assets were amortized over periods up to 15 years. These amortization periods are reflective of the expense amounts recorded in the Company's 2001 and 2000 income statements. Subsequent to the implementation of SFAS No. 142, the amount allocated to current technology related to the Comtec acquisition is amortized over a period of five years and is included as a component of other intangible assets on the balance sheet as of December 31, 2002. See Note 10 for a further discussion of the Company's implementation of SFAS No. 142.

Acquisition Termination Costs and Sale of Investment. In the first quarter of 2002, the Company terminated the acquisition agreement and tender offer in which the Company would acquire all outstanding shares of common stock (including associated rights

to purchase preferred stock) of Fargo Electronics, Inc. for $7.25 per share in cash. In connection with the termination, the Company recorded $3,300,000 in expenses for capitalized acquisition costs and other acquisition costs that would otherwise have been capitalized. Also during the quarter ended March 30, 2002, the Company sold its investment in common stock of Fargo and realized a pre-tax gain of $1,953,000, which is included in investment income.

Note 4 Earnings Per Share

For the years ended December 31, 2002, 2001, and 2000, earnings per share were computed as follows (in thousands, except per-share amounts):

Year Ended December 31,	2002	2001	2000
Basic earnings per share:			
Net income	**$71,595**	$61,529	$71,622
Weighted average common shares outstanding	**30,983**	30,645	30,790
Per share amount	**$ 2.31**	$ 2.01	$ 2.33
Diluted earnings per share:			
Net income	**$71,595**	$61,529	$71,622
Weighted average common shares outstanding	**30,983**	30,645	30,790
Add: Effect of dilutive securities – stock options	**282**	236	365
Diluted weighted average and equivalent shares outstanding	**31,265**	30,881	31,155
Per share amount	**$ 2.29**	$ 1.99	$ 2.30

The potentially dilutive securities, which were excluded from the earnings per share calculation, consisted of stock options for which the exercise price was greater than the average market price of the Class A Common Stock. For the years ended December 31, the shares amounted to 194,875 in 2002, 436,325 in 2001, and 267,500 in 2000.

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, 2002, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Available for sale (included in other assets):				
Equity securities	$ 365	$ —	$ (42)	$ 323
Trading securities:				
U.S. government and agency securities	96,195	207	(152)	96,250
State and municipal bonds	174,508	275	(1,565)	173,218
Corporate bonds	34,316	149	(196)	34,269
Partnership interests	15,676	3,139	(12)	18,803
Other	7,607	28	(16)	7,619
	328,302	3,798	(1,941)	330,159
	$328,667	$3,798	$ (1,983)	$330,482

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

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

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

The contractual maturities of debt securities at December 31, 2002, were as follows (in thousands):

	Fair Value
Due within one year	$142,829
Due after one year through five years	138,508
Due after five years	30,019
	$311,356

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

	2002	2001	2000
Proceeds	**$3,499**	$ —	$ —
Realized gains (losses)	**$1,760**	$(2,242)	$ —

The realized gain of $1,760,000 in 2002 includes a gain on the sale of an available-for-sale stock offset by an additional write-down of an available-for-sale security whose decline in value was determined to be other than temporary. The realized loss of $2,242,000 in 2001 is the result of a write-down of an available-for-sale security whose decline in value was determined to be other than temporary.

Note 6 Related-Party Transactions

Unique Building Corporation (Unique), an entity controlled by certain officers and stockholders of the Company, leases a facility and equipment to the Company under a lease described in Note 12. Management believes that the lease payments are substantially consistent with amounts that could be negotiated with third parties on an arm's-length basis and represent conditions at the time of the negotiations.

Lease payments related to the leases, and recorded as a component of all functional areas, were included in the consolidated financial statements as follows (in thousands):

	Unique Operating Lease Payments
2002	$2,085
2001	2,085
2000	2,085

Future minimum lease payments related to this lease as of December 31, 2002, are as follows (in thousands):

	Operating Leases
2003	$ 2,195
2004	2,284
2005	2,336
2006	2,336
2007	2,336
Thereafter	17,341
Total minimum lease payments	$28,828

Note 7 Inventories

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

December 31,	2002	2001
Raw material	**$ 21,404**	$ 25,410
Work in process	**1,104**	1,360
Finished goods	**15,558**	13,153
Total inventories	**$ 38,066**	$ 39,923

Note 8 Property and Equipment

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

December 31,	2002	2001
Buildings	**$ 11,499**	$ 12,029
Land	**1,910**	1,910
Machinery, equipment and tooling	**38,941**	35,507
Machinery and equipment under capital leases	**2,757**	1,670
Furniture and office equipment	**6,164**	5,681
Computers and software	**33,899**	28,951
Automobiles	**153**	183
Leasehold improvements	**4,012**	2,997
Projects in progress	**1,274**	2,705
	100,609	91,633
Less accumulated depreciation and amortization	**(61,147)**	(50,891)
Net property and equipment	**$ 39,462**	$ 40,742

Amortization of capitalized software was $2,042,000 in 2002, $1,834,000 in 2001, and $1,797,000 in 2000.

Note 9 Income Taxes

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

	2002	2001	2000
United States	**$ 101,454**	$ 90,272	$ 101,532
Outside United States	**9,429**	5,867	10,379
Total	**$ 110,883**	$ 96,139	$ 111,911

The Company does not provide for deferred income taxes on undistributed earnings of foreign subsidiaries, which totaled approximately $11,600,000 at December 31, 2002 and $8,700,000 at December 31, 2001. Management expects such earnings to be permanently reinvested in these companies. Should such earnings be remitted to the Company, foreign tax credits would be available to substantially offset the U.S. income taxes due upon repatriation.

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

	2002	2001	2000
Current:			
Federal	**$ 30,660**	$ 25,998	$ 35,362
State	**5,247**	5,319	6,441
Foreign	**3,254**	2,107	3,761
Deferred:			
Federal	**296**	1,132	(4,922)
State	**40**	152	(472)
Foreign	**(209)**	(98)	119
Total	**$ 39,288**	$ 34,610	$ 40,289

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):

	2002	2001	2000
Provision computed at statutory rate	**$ 38,809**	$ 33,649	$ 39,169
State income tax (net of Federal tax benefit)	**3,634**	3,556	3,880
Tax-exempt interest and dividend income	**(2,422)**	(1,524)	(1,588)
Tax benefit of exempt foreign trade income	**(1,575)**	(1,438)	(1,035)
Other	**842**	367	(137)
Provision for income taxes	**$ 39,288**	$ 34,610	$ 40,289

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

The Company is litigating a dispute over a 1998 tax assessment in the amount of approximately $2,000,000, including penalties and interest, with the Illinois Department of Revenue for the years 1993 through 1995. The case was filed by the Company in the District Court of Illinois and tried during November 2000. The decision from the court was unfavorable to the Company but has been appealed. The Company does not expect to know the result of the appeal until some time in the second half of 2003.

The Illinois Department of Revenue has also examined the Company's tax returns for the years 1996 and 1997 and issued an assessment for $3,200,000. The issues involved in this audit are identical to those involved in the 1993 through 1995 returns being litigated. The Company has paid this assessment under protest. The Company believes that the ultimate outcome of this assessment will be consistent with the 1993 to 1995 litigation under appeal.

In addition, the Illinois Department of Revenue has not yet examined the Company's income tax returns for 1998 through 2001, but has a right to do so. Management believes that if such an audit occurred, the Illinois Department of Revenue would raise issues similar to those raised during the 1993 through 1997 audits.

The Company recorded tax reserves equal to management's estimate of the likely outcome of the Illinois Department of Revenue litigation for 1993 to 1995, the audit assessment for 1996 and 1997, and the unaudited 1998 through 2001 returns. If the Company loses all issues on appeal, the Company would record an additional one-time tax expense of $1,300,000. If the Company wins all issues on appeal, the Company would record a reduction to tax expense of $4,400,000.

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

December 31,	**2002**	2001
Deferred tax assets:		
Deferred rent — building	**$ 165**	$ 124
Capital equipment lease	**114**	11
Accrued vacation	**647**	576
Inventory items	**2,008**	2,193
Allowance for doubtful accounts	**19**	259
Other accruals	**3,424**	3,102
Acquisition related items	**2,114**	2,321
Unrealized loss on securities	**189**	—
Total deferred tax assets	**8,680**	8,586
Deferred tax liabilities:		
Unrealized gain on securities	—	(1,717)
Depreciation	**(2,851)**	(1,672)
Total deferred tax liabilities	**(2,851)**	(3,389)
Net deferred tax asset	**$ 5,829**	$ 5,197

Note 10 Goodwill and Other Intangible Asset Data

During the first quarter of 2002, Zebra implemented SFAS No. 142, *Goodwill and Other Intangible Assets,* which replaces the requirements to amortize intangible assets with indefinite lives and goodwill with a requirement for an annual impairment test. SFAS No. 142 also establishes requirements for identifiable intangible assets. As a result, during the first quarter Zebra reclassified $21,720,000 of intangible assets into goodwill, as such assets, which included assembled workforce and customer lists, did not meet the criteria for recognition as an asset apart from goodwill under SFAS No. 142.

Intangible asset data are as follows (in thousands):

	As of December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets		
Current technology	$ 7,421	$ (3,865)
Unamortized intangible assets		
Goodwill	$54,455	
Aggregate amortization expense		
For the year ended December 31, 2002	$ 1,494	
Estimated amortization expense		
For the year ended December 31, 2003	1,494	
For the year ended December 31, 2004	1,494	
For the year ended December 31, 2005	568	

Operating income for 2001 and 2000 includes $3,835,000 and $2,876,000 respectively, of amortization of goodwill and other intangible assets that are not included in 2002 results, because of the implementation of SFAS No. 142. If adjusted for the impact of the implementation of SFAS No. 142 (i.e., if goodwill had not been amortized), net income, basic earnings per share, and diluted earnings per share would have been as follows:

Years Ended December 31,	2001	2000
Net income	$ 63,983	$ 73,463
Basic earnings per share	$ 2.09	$ 2.39
Diluted earning per share	$ 2.07	$ 2.36

Note 11 401(k) Savings and Profit Sharing Plans

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

The Company has a discretionary profit-sharing plan for qualified employees, to which it contributed 1.9% of eligible earnings for 2002, 1.9% for 2001 and 3.1% for 2000. 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):

	2002	2001	2000
401(k)	**$ 1,452**	$ 1,374	$ 1,287
Profit sharing	**1,146**	1,178	877
Total	**$ 2,598**	$ 2,552	$ 2,164

Note 12 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, 2002, 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, 2002, are as follows (in thousands):

	Capital Lease	Operating Leases
2003	$ 184	$ 4,198
2004	169	3,839
2005	169	3,331
2006	228	3,096
2007	28	3,031
Thereafter	97	21,352
Total minimum lease payments	$ 875	$ 38,847
Less amount representing interest	(125)	
Present value of minimum payments	750	
Less current portion of obligation under capital lease	(145)	
Long-term portion of obligation under capital lease	$ 605	

Rent expense for operating leases charged to operations for the years ended December 31, 2002, 2001, and 2000 was $5,699,000, $4,917,000, and $4,833,000, 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, 2002, is $700,000, which is the limit of the Company's guaranty throughout the term of the IRB.

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

The Company enters into foreign exchange forward contracts to manage exposure to fluctuations in foreign exchange rates to the funding of its United Kingdom operations. The Company accounts for such contracts by recording any unrealized gains or losses in income each reporting period. The notional principal amounts of outstanding forward contracts were €26,000,000 and £3,293,000 at December 31, 2002, and €16,391,000 and £6,019,000 at December 31, 2001. The realized losses, included in other, net expense, were $1,432,000 in 2002 and $661,000 in 2001.

Legal proceedings. On January 31, 2003, a Writ of Summons was filed in the Nantes Commercial Court, Nantes, France, by Printherm, a French corporation, and several of its shareholders (collectively, "Printherm"), against Zebra Technologies France, a French corporation and wholly-owned subsidiary of the Company. Printherm seeks damages in the amount €15,004,000 and additional unspecified damages in connection with Zebra France's termination of negotiations in December 2000 with respect to the proposed acquisition by the Company of the capital stock of Printherm. The Company believes that Printherm's claims are without merit, and the Company will vigorously defend the action.

Note 13 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, 2002, 2001, and 2000 is contained in the following table. These amounts (in thousands) are reported in the geographic area where the final sale originates.

		United States	United Kingdom	Other	Total
2002	Net sales	$341,941	$133,670	$ —	$475,611
	Long-lived assets	90,873	5,707	893	97,473
2001	Net sales	$325,003	$111,577	$13,428	$450,008
	Long-lived assets	93,345	5,755	1,070	100,170
2000	Net sales	$357,412	$100,988	$23,169	$481,569
	Long-lived assets	97,637	6,526	1,234	105,397

Note 14 Stockholders' 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 stockholders, 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 Deferred Compensation Plan

Beginning January 1, 2002, the Company offered a deferred compensation plan that permits management and highly compensated employees to defer portions of their compensation and to select a method of investing these funds. The salaries that have been deferred since the plan's inception have been accrued and the only expense, other than salaries, related to this plan is the unrealized gain/loss on the deferred amounts. Investment income includes an unrealized loss of $16,000 for 2002 related to this plan. The Company has included $1,008,000 in other long-term liabilities at December 31, 2002 to reflect its liability under this plan. To fund this plan, the Company purchases corporate-owned whole-life insurance contracts on the related employees, of which the Company is the beneficiary. Investments and marketable securities include the cash surrender value of these policies aggregating $914,000 as of December 31, 2002.

Note 16 Stock Option and Purchase Plans

As of December 31, 2002, the Company had three active stock option and stock purchase plans, described below.

The Board of Directors adopted the 1997 Stock Option Plan, effective February 11, 1997, and 4,250,000 shares of Class A Common Stock were reserved for issuance under the plan. The 1997 Stock Option Plan is a flexible plan that provides the committee that administers the Plan broad discretion to fashion the terms of the awards to provide eligible participants with stock-based incentives, including: (i) nonqualified and incentive stock options for the purchase of the Company's Class A Common Stock and (ii) dividend equivalents. The persons eligible to participate in the 1997 Stock Option Plan are directors, officers, and employees of the Company or any subsidiary of the Company who, in the opinion of the committee administering the plan, are in a position to make contributions to the growth, management, protection and success of the Company or its subsidiaries. As of December 31, 2002, 1,377,587 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 administers the plan.

The Company's Board of Directors adopted the 1997 Director Plan, effective February 11, 1997. The 1997 Director Plan provides for the issuance of options to purchase up to 77,000 shares of Class A Common Stock, which shares are reserved and available for purchase upon the exercise of options granted under the 1997 Director Plan. Only directors who are not employees or officers of the Company are eligible to participate in the 1997 Director Plan. Under the 1997 Director Plan, each non-employee director was granted, on the effective date of the plan, an option to purchase 15,000 shares

of Class A Common Stock, and each non-employee director subsequently elected to the Board will be granted an option to purchase shares of Class A Common Stock on the date of his or her election. Options granted under the 1997 Director Plan provide for the purchase of Class A Common Stock at a price equal to the fair market value on the date of grant. If there are not sufficient shares remaining and available to all non-employee directors eligible for an automatic grant at the time at which an automatic grant would otherwise be made, then each eligible non-employee director shall receive an option to purchase a pro rata number of shares. 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). A total of 52,500 shares were issued under this plan, which was terminated February 1, 2002. At December 31, 2002, 9,000 options issued under the 1997 Director Plan remained outstanding and unexercised.

The Board of Directors and stockholders adopted the 2001 Stock Purchase Plan and reserved 500,000 shares of Class A Common Stock for issuance thereunder. Under this plan, employees who work a minimum of 20 hours per week may elect to withhold up to 10% of their cash compensation through regular payroll deductions to purchase shares of Class A Common Stock from the Company over a period not to exceed 12 months at a purchase price per share equal to the lesser of: (1) 85% of the fair market value of the shares as of the date of the grant, or (2) 85% of the fair market value of the shares as of the date of purchase. As of December 31, 2002, 68,905 shares have been purchased under the plan.

The Company's Board of Directors adopted the 2002 Director Plan, effective February 1, 2002. The 2002 Director Plan provides for the issuance of options to purchase up to 160,000 shares of Class A Common Stock, which shares are reserved and available for purchase upon the exercise of options granted under the 2002 Director Plan. Only directors who are not employees or officers of the Company are eligible to participate in the 2002 Director Plan. Under the 2002 Director Plan, each non-employee director was granted, on the effective date of the plan, an option to purchase 20,000 shares of Class A Common Stock, and each non-employee director subsequently elected to the Board will be granted an option to purchase shares of Class A Common Stock on the date of his or her election. Options granted under the 2002 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, 2002, 100,000 shares were available under the plan. Unless otherwise provided in an option agreement, options granted under the 2002 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, (b) the first anniversary of the termination of the non-employee director's directorship for any reason other than those listed in clause (c) below, or (c) the termination of the non-employee director's directorship by the Company's stockholders for cause, or resignation for cause, in each case as defined in the option agreement.

For purposes of calculating the compensation cost consistent with SFAS No. 123, the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for stock option grants in 2002, 2001, and 2000, respectively: expected dividend yield of 0% for each period; expected volatility of 53%, 59%, and 58%; risk free interest rate of 4.55%, 4.38%, and 5.05%; and expected weighted-average life of six years, five years, and five years. The fair value of options granted was $35,234,000 in 2002, $11,930,000 in 2001 and $24,290,000 in 2000.

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 2002, 2001, and 2000, respectively: fair market value of $51.14, $38.18, and $44.62; option price of $43.47, $32.45, and $37.92; expected dividend yield of 0% for each period; expected volatility of 40%, 54%, and 71%; risk-free interest rate of 1.32%, 2.17%, and 5.85%; and expected lives of three months to one year.

Stock option activity for the years ended December 31, 2002, 2001, and 2000 was as follows:

	2002		2001		2000	
Fixed Options	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	**1,413,385**	**$38.38**	1,487,277	$36.08	1,390,588	$27.88
Granted	**718,750**	**49.02**	287,500	41.49	440,000	55.29
Exercised	**(342,001)**	**32.09**	(247,838)	28.38	(195,369)	23.76
Canceled	**(124,739)**	**48.45**	(113,554)	38.02	(147,942)	31.57
Outstanding at end of year	**1,665,395**	**43.51**	1,413,385	38.38	1,487,277	36.10
Options exercisable at end of year	**385,201**	**34.87**	477,385	31.22	417,570	27.82

The following table summarizes information about fixed stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number of Shares**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Number of Shares**	**Weighted-Average Exercise Price**
$ 4.31	4,500	1.52 years	$ 4.31	4,500	$ 4.31
$17.38 – $26.56	350,198	5.63 years	$26.02	214,567	$ 25.68
$29.25 – $40.88	298,959	7.46 years	$39.39	73,510	$ 36.47
$43.13 – $54.69	816,863	8.82 years	$48.64	30,397	$ 47.68
$60.63	194,875	7.13 years	$60.63	62,227	$ 60.63
	1,665,395			385,201	

Note 17 Quarterly Results of Operations (unaudited)

(Amounts in thousands, except per share data)	First Quarter(1)(2)	Second Quarter	Third Quarter	Fourth Quarter
2002				
Net sales	$ 110,185	$ 115,951	$ 123,151	$ 126,324
Gross profit	52,012	55,749	60,422	62,564
Operating expenses	32,474	30,783	31,538	34,147
Operating income	19,538	24,966	28,884	28,417
Net income	14,940	16,460	19,867	20,328
Basic earnings per share	$ 0.49	$ 0.53	$ 0.64	$ 0.65
Diluted earnings per share	$ 0.48	$ 0.53	$ 0.64	$ 0.65

(Amounts in thousands, except per share data)	First Quarter(2)	Second Quarter(2)	Third Quarter(2)	Fourth Quarter(2)
2001				
Net sales	$ 115,144	$ 112,935	$ 110,318	$ 111,611
Gross profit	54,022	52,334	52,037	51,500
Operating expenses	29,339	31,069	28,317	28,709
Operating income	24,683	21,265	23,720	22,791
Net income	16,930	14,471	14,882	15,246
Basic earnings per share	$ 0.55	$ 0.47	$ 0.49	$ 0.50
Diluted earnings per share	$ 0.55	$ 0.47	$ 0.48	$ 0.49

(1) First quarter 2002 includes $3,300 in operating expenses related to the terminated acquisition of Fargo Electronics, Inc.

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002	$ 73	$ 0	$ 0	$ 0
2001	$832	$532	$305	$169

Note 18 Major Customers

Sales to ScanSource, Inc., accounted for 13.6% of net sales in 2002. No customer accounted for 10% or more of net sales in 2001 or 2000.

Independent Auditors' Report

The Board of Directors and Stockholders
Zebra Technologies Corporation:

We have audited the accompanying consolidated balance sheets of Zebra Technologies Corporation and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2002. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule of valuation and qualifying accounts. These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zebra Technologies Corporation and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Chicago, Illinois
February 11, 2003

Stockholder

Stockholder Information

Corporate Headquarters

Zebra Technologies Corporation
333 Corporate Woods Parkway
Vernon Hills, Illinois 60061-3109 U.S.A.
Phone: 847-634-6700
Fax: 847-913-8766

Annual Meeting

Zebra's Annual Meeting of Stockholders will be held on May 20, 2003, 10:30 A.M. (Central Time), at the Hilton Northbrook, 2855 North Milwaukee Avenue, Northbrook, Illinois.

Independent Auditors

KPMG LLP
Chicago, Illinois

Corporate Counsel

Katten Muchin Zavis Rosenman
Chicago, Illinois

Transfer Agent and Registrar

Mellon Investor Services
85 Challenger Road
Ridgefield, New Jersey 07660
Phone: 877-870-2368
www.mellon-investor.com

Investor Relations

For corporate or product information, please contact the Corporate Headquarters.

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.zebra.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, 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 2002 and 2001, 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.

2002	High	Low
First Quarter	$58.99	$47.27
Second Quarter	60.15	47.37
Third Quarter	57.94	45.12
Fourth Quarter	68.60	48.50
2001	**High**	**Low**
First Quarter	$57.00	$35.50
Second Quarter	52.06	34.13
Third Quarter	49.95	35.15
Fourth Quarter	56.50	36.00

Source: The Nasdaq Stock Market

At February 25, 2003, the last reported price for the Class A Common Stock was $62.01 per share, and there were 412 registered stockholders of record for the Company's Class A Common Stock and 31 registered stockholders 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 2,000 associates as of February 28, 2003.

Zebra Technologies Corporation

Board of Directors

Edward Kaplan
Chairman and Chief Executive Officer
Zebra Technologies Corporation

Gerhard Cless
Executive Vice President and Secretary
Zebra Technologies Corporation

Christopher Knowles (1)(2)(3)
Retired Chief Executive Officer
Insurance Auto Auctions, Inc.

John Paxton
President, Bar Code Business Unit
Zebra Technologies Corporation

David Riley (1)(2)(3)
Retired President and Chief Executive Officer
The Middleby Corporation

Michael Smith (1)(3)
Chairman and Chief Executive Officer
FireVision, L.L.C.

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Nominating Committee

Officers

Edward Kaplan
Chairman and Chief Executive Officer

Gerhard Cless
Executive Vice President and Secretary

Veraje Anjargolian
Vice President, General Manager
Card Printer Business Unit

Michael Edicola
Vice President, Human Resources

Noel Elfant
Vice President and General Counsel

John Kindsvater
Senior Vice President, Corporate Development

Todd Naughton
Vice President, Controller

John Paxton
President, Bar Code Business Unit

Charles Whitchurch
Chief Financial Officer and Treasurer

Zebra Technologies Corporation

International Headquarters

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