

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 000-19406

Zebra Technologies Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2675536
(I.R.S. Employer
Identification No.)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of October 31, 2017, there were 53,189,104 shares of Class A Common Stock, \$.01 par value, outstanding.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
QUARTER ENDED SEPTEMBER 30, 2017
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PART I - FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements

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

	September 30, 2017	December 31, 2016
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 88	\$ 156
Accounts receivable, net of allowances for doubtful accounts of \$4	596	625
Inventories, net	492	345
Income tax receivable	60	32
Prepaid expenses and other current assets	30	64
Total Current assets	1,266	1,222
Property, plant and equipment, net	267	292
Goodwill	2,465	2,458
Other intangibles, net	332	480
Long-term deferred income taxes	125	113
Other long-term assets	71	67
Total Assets	\$ 4,526	\$ 4,632
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 34	\$ —
Accounts payable	426	413
Accrued liabilities	343	323
Deferred revenue	213	191
Income taxes payable	23	22
Total Current liabilities	1,039	949
Long-term debt	2,451	2,648
Long-term deferred income taxes	1	3
Long-term deferred revenue	128	124
Other long-term liabilities	93	116
Total Liabilities	3,712	3,840
Stockholders' Equity:		
Preferred stock, \$.01 par value; authorized 10,000,000 shares; none issued	—	—
Class A common stock, \$.01 par value; authorized 150,000,000 shares; issued 72,151,857 shares	1	1
Additional paid-in capital	245	210
Treasury stock at cost, 18,961,090 and 19,267,269 shares at September 30, 2017 and December 31, 2016, respectively	(621)	(614)
Retained earnings	1,244	1,240
Accumulated other comprehensive loss	(55)	(45)
Total Stockholders' Equity	814	792
Total Liabilities and Stockholders' Equity	\$ 4,526	\$ 4,632

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net sales:				
Net sales of tangible products	\$ 810	\$ 772	\$ 2,324	\$ 2,241
Revenue from services and software	125	132	372	391
Total Net sales	935	904	2,696	2,632
Cost of sales:				
Cost of sales of tangible products	420	402	1,207	1,164
Cost of services and software	86	88	248	258
Total Cost of sales	506	490	1,455	1,422
Gross profit	429	414	1,241	1,210
Operating expenses:				
Selling and marketing	113	112	336	337
Research and development	96	96	291	284
General and administrative	71	74	214	225
Amortization of intangible assets	49	59	151	178
Acquisition and integration costs	4	28	50	98
Impairment of goodwill and other intangibles	—	62	—	62
Exit and restructuring costs	5	7	10	17
Total Operating expenses	338	438	1,052	1,201
Operating income (loss)	91	(24)	189	9
Other (expenses) income:				
Foreign exchange gain (loss)	1	(1)	2	(4)
Interest expense, net	(95)	(46)	(176)	(145)
Other, net	(4)	(6)	(5)	(9)
Total Other expenses, net	(98)	(53)	(179)	(158)
(Loss) income before income taxes	(7)	(77)	10	(149)
Income tax expense (benefit)	5	6	(3)	5
Net (loss) income	\$ (12)	\$ (83)	\$ 13	\$ (154)
Basic (loss) earnings per share	\$ (0.23)	\$ (1.61)	\$ 0.25	\$ (2.99)
Diluted (loss) earnings per share	\$ (0.23)	\$ (1.61)	\$ 0.25	\$ (2.99)
Basic weighted average shares outstanding	52,220,868	51,690,204	52,964,066	51,499,447
Diluted weighted average and equivalent shares outstanding	52,220,868	51,690,204	53,631,499	51,499,447

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net (loss) income	\$ (12)	\$ (83)	\$ 13	\$ (154)
Other comprehensive income (loss), net of tax:				
Unrealized loss on anticipated sales hedging transactions	(1)	(1)	(15)	(5)
Unrealized gain (loss) on forward interest rate swaps hedging transactions	1	3	3	(7)
Foreign currency translation adjustment	2	—	2	(1)
Comprehensive (loss) income	<u>\$ (10)</u>	<u>\$ (81)</u>	<u>\$ 3</u>	<u>\$ (167)</u>

See accompanying Notes to Consolidated Financial Statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine months ended	
	September 30, 2017	October 1, 2016
Cash flows from operating activities:		
Net income (loss)	\$ 13	\$ (154)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	209	234
Impairment of goodwill, intangibles and other assets	—	67
Amortization of debt issuance costs and discounts	30	16
Share-based compensation	25	20
Debt extinguishment costs	49	—
Deferred income taxes	(19)	(4)
Unrealized gain on forward interest rate swaps	(2)	(2)
Other, net	3	5
Changes in operating assets and liabilities:		
Accounts receivable, net	38	46
Inventories, net	(145)	38
Other assets	19	20
Accounts payable	9	63
Accrued liabilities	(1)	(23)
Deferred revenue	25	(2)
Income taxes	(37)	(69)
Other operating activities	(6)	(3)
Net cash provided by operating activities	210	252
Cash flows from investing activities:		
Purchases of property, plant and equipment	(36)	(49)
Purchases of long-term investments	(1)	(1)
Net cash used in investing activities	(37)	(50)
Cash flows from financing activities:		
Payment of debt issuance costs and discounts	(5)	(5)
Payments of long-term debt	(1,373)	(303)
Proceeds from issuance of long-term debt	1,186	68
Payments of debt extinguishment costs	(49)	—
Proceeds from exercise of stock options and stock purchase plan purchases	9	8
Taxes paid related to net share settlement of equity awards	(5)	(6)
Net cash used in financing activities	(237)	(238)
Effect of exchange rate changes on cash	(4)	7
Net decrease in cash and cash equivalents	(68)	(29)
Cash and cash equivalents at beginning of period	156	192
Cash and cash equivalents at end of period	\$ 88	\$ 163
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 54	\$ 70
Interest paid	\$ 148	\$ 121

See accompanying Notes to Consolidated Financial Statements.

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Description of Business and Basis of Presentation

Zebra Technologies Corporation and its wholly-owned subsidiaries (“Zebra” or the “Company”) is a global leader providing innovative Enterprise Asset Intelligence (“EAI”) solutions in the automatic identification and data capture solutions industry. We design, manufacture, and sell a broad range of products that capture and move data. We also provide a full range of services, including maintenance, technical support, repair, and managed services, including cloud-based subscriptions. End-users of our products and services include those in retail, transportation and logistics, manufacturing, healthcare, hospitality, warehouse and distribution, energy and utilities, and education industries around the world. We provide our products and services globally through a direct sales force and an extensive network of partners.

Management prepared these unaudited interim consolidated financial statements according to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information and notes. These consolidated financial statements do not include all of the information and notes required by United States generally accepted accounting principles (“GAAP”) for complete financial statements, although management believes that the disclosures are adequate to make the information presented not misleading. Therefore, these consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

In the opinion of the Company, these interim financial statements include all adjustments (of a normal, recurring nature) necessary to present fairly its Consolidated Balance Sheet as of September 30, 2017 and the Consolidated Statements of Operations and Comprehensive (Loss) Income for the three and nine months ended September 30, 2017 and October 1, 2016, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and October 1, 2016. These results, however, are not necessarily indicative of the results expected for the full year.

Note 2 Significant Accounting Policies

Income Taxes

The Company’s interim period tax provision is determined as follows:

- At the end of each fiscal quarter, the Company estimates the income tax provision that will be provided for the fiscal year.
- The forecasted annual effective tax rate is applied to the year-to-date ordinary income (loss) at the end of each quarter to compute the year-to-date tax applicable to ordinary income (loss). The term ordinary income (loss) refers to income (loss) from continuing operations, before income taxes, excluding significant, unusual, or infrequently occurring items.
- The tax effects of significant, unusual, or infrequently occurring items are recognized as discrete items in the interim periods in which the events occur. The impact of changes in tax laws or rates on deferred tax amounts, the effects of changes in judgment about valuation allowances established in prior years, and changes in tax reserves resulting from the finalization of tax audits or reviews are examples of significant, unusual, or infrequently occurring items.

The determination of the forecasted annual effective tax rate is based upon a number of significant estimates and judgments, including the forecasted annual income (loss) before income taxes of the Company in each tax jurisdiction in which it operates, the development of tax planning strategies during the year, and the need for a valuation allowance. In addition, the Company’s tax expense can be impacted by changes in tax rates or laws, the finalization of tax audits and reviews, as well as other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

Recently Adopted Accounting Pronouncement

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-04, “*Intangibles - Goodwill and Other (Topic 350)*.” The amendments in this ASU simplify goodwill impairment testing by removing the requirement of Step 2 to determine the implied fair value of goodwill of a reporting unit which fails Step 1. The implication of this update results in the amount by which a carrying amount exceeds the reporting unit’s fair value to be recognized as an impairment charge in the interim or annual period identified. The standard is effective for public companies in the first calendar quarter of 2020 with early adoption permitted on a prospective basis. The Company has adopted this ASU on

a prospective basis effective as of January 1, 2017 and has concluded that this pronouncement has no material impact on its consolidated financial statements or existing accounting policies.

In January 2017, the FASB issued ASU 2017-01, “*Business Combinations (Topic 805)*,” which clarifies the definition of a business when considering whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The clarified definition requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This definition reduces the number of transactions that need to be further evaluated as to be considered a business, an asset must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. The standard will be effective for public companies in the first calendar quarter of 2018, with early adoption permitted on a prospective basis. The Company has adopted this ASU effective as of January 1, 2017 on a prospective basis and has concluded that this pronouncement has no material impact on its consolidated financial statements or existing accounting policies.

In October 2016, the FASB issued ASU 2016-16, “*Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other Than Inventory*.” This ASU allows for an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this ASU eliminate the exception for an intra-entity transfer of an asset other than inventory. The standard will be effective for public companies in the first calendar quarter of 2018, with early adoption permitted and on a modified retrospective basis as of the beginning of the period of adoption. The Company has adopted this ASU effective January 1, 2017. The Company recorded a reduction to retained earnings for the prior period catch-up of approximately \$9 million for the unamortized prepaid tax on an intra-entity transfer of workforce in place. In the first quarter, the Company also recorded \$12 million benefit related to an intercompany transfer of intellectual property as a result of newly adopted accounting standards. The Company recognized no additional tax benefit in the quarter and in the nine-month period ended September 30, 2017.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*.” This pronouncement provides clarification guidance on eight specific cash flow presentation issues that have developed due to diversity in practice. The issues include, but are not limited to, debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and cash receipts from payments on beneficial interests in securitization transactions. The amendments in this ASU where practicable will be applied retrospectively. The Company has retrospectively adopted this ASU effective for the third quarter 2017. The Company reclassified prior year cash paid for debt issuance costs and discounts of \$5 million on the Statement of Cash flows from operating activities to financing activities. There is no impact to the current year Statement of Cash flows as a result of this adoption.

In March 2016, the FASB issued ASU 2016-09, “*Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*.” This ASU requires that entities recognize excess tax benefits and deficiencies related to employee share-based payment transactions as income tax expense and benefit versus additional paid in capital. This ASU also eliminates the requirement to reclassify excess tax benefits and deficiencies from operating activities to financing activities within the statement of cash flows. The Company has adopted recognition of excess tax benefits and deficiencies within income tax expense effective January 1, 2017 on a prospective basis. The Company has adopted presentation of excess tax benefits and deficiencies within operating activities in the Statement of Cash flows effective January 1, 2017 on a retrospective basis. The Company has reflected a tax benefit of \$2 million and \$6 million for the three and nine month periods ending September 30, 2017, respectively, as a discrete item under the new ASU.

In July 2015, the FASB issued ASU 2015-11, “*Inventory (Topic 330): Simplifying the Measurement of Inventory*,” which changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value for entities that measure inventory using first-in, first-out (FIFO) or average cost. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company has adopted this ASU effective January 1, 2017 on a prospective basis. There are no material impacts to the Company's consolidated financial statements or disclosures resulting from the adoption of this ASU.

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, “*Revenue from Contracts with Customers (Topic 606)*.” The core principle is that a company should recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. There are two transition methods available under the new standard, either modified retrospective (cumulative effect to retained earnings) or retrospective. Certain costs to obtain a contract, which have generally been expensed as incurred under the current guidance, would be capitalized and amortized in a pattern consistent with the transfer to the customer of the goods or services to which the asset relates. This

standard will be effective for the Company in the first quarter of 2018. Earlier adoption is permitted only for annual periods after December 15, 2016.

We completed the assessment phase of ASU 2014-09 in 2016 and developed a project plan to guide the implementation phase. We are in the process of updating our accounting policy around revenue recognition, evaluating new disclosure requirements, and identifying and implementing appropriate changes to our business processes, systems, and controls to support recognition and disclosure under the new standard. Observations from the implementation phase indicate that certain contractual provisions in some of our agreements could result in a different number of performance obligations and therefore different revenue recognition timing patterns under the new standard as compared to the current standard. Further, the new disclosure requirements are expected to generate changes to the content and presentation of the financial statement footnotes. The Company plans to apply the modified retrospective approach when adopting the standard in the first quarter of 2018.

In June 2016, the FASB issued ASU 2016-13, “*Financial Instruments-Credit Losses (Topic 326) -Measurement of Credit Losses on Financial Instruments*.” The new standard requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. It replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. There are two transition methods available under the new standard dependent upon the type of financial instrument, either cumulative effect or prospective. The standard will be effective for the Company in the first quarter of 2020. Earlier adoption is permitted only for annual periods after December 15, 2018. Management is currently assessing the impact of adoption on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “*Leases (Subtopic 842)*.” This ASU increases the transparency and comparability of organizations by recognizing lease assets and liabilities on the consolidated balance sheet and disclosing key quantitative and qualitative information about leasing arrangements. The principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases were not previously recognized in the consolidated balance sheet. The recognition, measurement, presentation, and cash flows arising from a lease by a lessee have not significantly changed. This standard will be effective for the Company in the first quarter of 2019, with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. Management is currently assessing the impact of adoption on its consolidated financial statements. The impact of this ASU is non-cash in nature and will not affect the Company’s cash position.

In January 2016, the FASB issued ASU 2016-01, “*Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*.” ASU 2016-01 amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. This ASU requires updates to the presentation of other comprehensive income resulting from a change in instrument-specific credit risk. This standard will be effective for the Company in the first quarter of 2018. Early adoption is prohibited for those provisions that apply to the Company. Amendments should be applied by means of cumulative effect adjustment to the consolidated balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values including disclosure requirements should be applied prospectively to equity investments that exist as of the date of adoption of the ASU. Management is currently assessing the impact of adoption on its consolidated financial statements.

Note 3 Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Manufactured inventory cost includes materials, labor, and manufacturing overhead. Purchased inventory cost also includes internal purchasing overhead costs.

Provisions are made to reduce excess and obsolete inventories to their estimated net realizable values. Inventory provisions are based on forecasted demand, past experience with specific customers, the age and nature of the inventory, and the ability to redistribute inventory to other programs or to rework into other consumable inventory.

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

	September 30, 2017	December 31, 2016
Raw material	\$ 111	\$ 111
Work in process	2	1
Finished goods	379	233
Total	<u>\$ 492</u>	<u>\$ 345</u>

Note 4 Business Divestiture

On September 13, 2016, the Company entered into an Asset Purchase Agreement with Extreme Networks, Inc. to dispose of the Company's wireless LAN ("WLAN") business ("Divestiture Group") for a gross purchase price of \$55 million. On October 28, 2016, the Company completed the disposition of the Divestiture Group and recorded net proceeds of \$39 million. In the third quarter 2017, the Company and Extreme Networks, Inc. finalized the net working capital amount for the Divestiture Group. The finalized amount did not differ materially from the original estimate.

The Company incurred a non-cash pre-tax charge related to the disposal group during the third quarter of 2016. This charge, which totaled \$62 million, consisted of impairments of goodwill for \$32 million and other intangibles for \$30 million and is shown separately on the Consolidated Statements of Operations for the three and nine months ended October 1, 2016.

WLAN operating results are reported in the Enterprise segment through the closing date of the WLAN divestiture of October 28, 2016. Within the Consolidated Statements of Operations for the quarter ended October 1, 2016, the Company generated revenue and gross profit from these assets of \$34 million and \$16 million, respectively. In the Consolidated Statements of Operations, for the nine month period ended October 1, 2016, the Company generated revenue and gross profit from these assets of \$99 million and \$45 million, respectively.

Note 5 Costs Associated with Exit and Restructuring Activities

In the first quarter 2017, the Company's executive leadership approved an initiative to continue the company's efforts to increase operational efficiency (the "Productivity Plan"). The Company expects the Productivity Plan to build upon the exit and restructuring initiatives specific to the acquisition of the Enterprise business ("Enterprise") from Motorola Solutions, Inc. in October 2014, (the "Acquisition Plan" or the "Acquisition"). Expected actions under the Productivity Plan may include actions related to organizational design changes, process improvements and automation. Implementation of actions identified through the Productivity Plan is expected to be substantially complete by December 2018 with the first full year of financial benefits realized in 2019. The Company has not finalized its estimate of one-time implementation costs, exit and restructuring charges, or expected benefits that may result from these efforts and will provide updates on these items in future periodic filings. Exit and restructuring costs are not included in the operating results of our segments as they are not deemed to impact the specific segment measures as reviewed by our Chief Operating Decision Maker and therefore are reported as a component of Corporate, eliminations. See Note 13 Segment Information.

Total exit and restructuring charges of \$6 million life-to-date specific to the Productivity Plan have been recorded through September 30, 2017 and relate to severance and related benefits, lease exit costs and other expenses. Exit and restructuring charges of \$1 million were recorded in the current quarter.

Total exit and restructuring charges of \$69 million life-to-date specific to the Acquisition Plan have been recorded through September 30, 2017 and include severance and related benefits, lease exit costs and other expenses. Charges related to the Acquisition Plan for the current quarter and nine -month period ended September 30, 2017 were \$4 million, respectively. The Company expects to complete the actions of the Acquisition Plan by the first quarter of 2018. Total remaining charges associated with this plan are expected to be in the range of \$3 million to \$4 million.

The Company incurred total exit and restructuring costs as follows (in millions):

	Cumulative costs incurred through December 31, 2016	Costs incurred for the nine-months ended September 30, 2017	Cumulative costs incurred through September 30, 2017
Severance, related benefits and, other expenses	\$ 54	\$ 9	\$ 63
Obligations for future non-cancellable lease payments	11	1	12
Total	<u>\$ 65</u>	<u>\$ 10</u>	<u>\$ 75</u>

A rollforward of the exit and restructuring accruals is as follows (in millions):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Balance at the beginning of the period	\$ 7	\$ 13	\$ 10	\$ 15
Charged to earnings, net	5	7	10	17
Cash paid	(4)	(4)	(12)	(16)
WLAN divestiture	—	(2)	—	(2)
Balance at the end of the period	<u>\$ 8</u>	<u>\$ 14</u>	<u>\$ 8</u>	<u>\$ 14</u>

Liabilities related to exit and restructuring activities are included in the following balance sheet captions in the Company's Consolidated Balance Sheets (in millions):

	September 30, 2017	December 31, 2016
Accrued liabilities	\$ 6	\$ 7
Other long-term liabilities	2	3
Total liabilities related to exit and restructuring activities	<u>\$ 8</u>	<u>\$ 10</u>

Settlement of the specified long-term balance will be completed by October 2023 due to the remaining obligation of non-cancellable lease payments associated with exited facilities.

Note 6 Fair Value Measurements

Financial assets and liabilities are to be measured using inputs from three levels of the fair value hierarchy in accordance with ASC Topic 820, "*Fair Value Measurements*." Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into the following three broad levels:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs (e.g. U.S. Treasuries & money market funds).

Level 2: Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. In addition, the Company considers counterparty credit risk in the assessment of fair value.

Financial assets and liabilities carried at fair value as of September 30, 2017, are classified below (in millions):

	Level 1	Level 2	Level 3	Total
Assets:				
Money market investments related to the deferred compensation plan	\$ 14	\$ —	\$ —	\$ 14
Total Assets at fair value	\$ 14	\$ —	\$ —	\$ 14
Liabilities:				
Forward interest rate swap contracts ⁽²⁾	\$ —	\$ 23	\$ —	\$ 23
Foreign exchange contracts ⁽¹⁾	6	7	—	13
Liabilities related to the deferred compensation plan	14	—	—	14
Total Liabilities at fair value	\$ 20	\$ 30	\$ —	\$ 50

Financial assets and liabilities carried at fair value as of December 31, 2016, are classified below (in millions):

	Level 1	Level 2	Level 3	Total
Assets:				
Foreign exchange contracts ⁽¹⁾	\$ 11	\$ 12	\$ —	\$ 23
Money market investments related to the deferred compensation plan	11	—	—	11
Total Assets at fair value	\$ 22	\$ 12	\$ —	\$ 34
Liabilities:				
Forward interest rate swap contracts ⁽²⁾	\$ —	\$ 27	\$ —	\$ 27
Liabilities related to the deferred compensation plan	11	—	—	11
Total Liabilities at fair value	\$ 11	\$ 27	\$ —	\$ 38

(1) The fair value of the derivative contracts is calculated as follows:

- Fair value of a put option contract associated with forecasted sales hedges is calculated using bid and ask rates for similar contracts.
- Fair value of regular forward contracts associated with forecasted sales hedges is calculated using the period-end exchange rate adjusted for current forward points.
- Fair value of hedges against net assets is calculated at the period-end exchange rate adjusted for current forward points (Level 2). If the hedge has been traded but not settled at period-end, the fair value is calculated at the rate at which the hedge is being settled (Level 1). As a result, transfers from Level 2 to Level 1 of the fair value hierarchy totaled \$6 million and \$11 million as of September 30, 2017 and December 31, 2016, respectively.

(2) The fair value of forward interest rate swaps is based upon a valuation model that uses relevant observable market inputs at the quoted intervals, such as forward yield curves, and is adjusted for the Company's credit risk and the interest rate swap terms. See gross balance reporting in Note 7, *Derivative Instruments*.

Note 7 Derivative Instruments

In the normal course of business, the Company is exposed to global market risks, including the effects of changes in foreign currency exchange rates and interest rates. The Company uses derivative instruments to manage its exposure to such risks and may elect to designate certain derivatives as hedging instruments under ASC 815, "*Derivatives and Hedging*." The Company formally documents all relationships between designated hedging instruments and hedged items as well as its risk management objectives and strategies for undertaking hedge transactions. The Company does not hold or issue derivatives for trading or speculative purposes.

In accordance with ASC 815, the Company recognizes derivative instruments as either assets or liabilities on the consolidated balance sheets and measures them at fair value. The following table presents the fair value of its derivative instruments (in

millions):

		Asset (Liability) Derivatives	
		Fair Value	
	Balance Sheet Classification	September 30, 2017	December 31, 2016
Derivative instruments designated as hedges:			
Foreign exchange contracts	Prepaid expenses and other current assets	\$ —	\$ 12
Foreign exchange contracts	Accrued liabilities	(7)	—
Forward interest rate swaps	Accrued liabilities	(4)	(3)
Forward interest rate swaps	Other long-term liabilities	(11)	(13)
Total derivative instruments designated as hedges		\$ (22)	\$ (4)
Derivative instruments not designated as hedges:			
Foreign exchange contracts	Prepaid expenses and other current assets	\$ —	\$ 11
Foreign exchange contracts	Accrued liabilities	(6)	—
Forward interest rate swaps	Accrued liabilities	(2)	(1)
Forward interest rate swaps	Other long-term liabilities	(6)	(10)
Total derivative instruments not designated as hedges		(14)	—
Total Net Derivative Liability		\$ (36)	\$ (4)

See also Note 6, *Fair Value Measurements*.

The following table presents the (losses) gains from changes in fair values of derivatives that are not designated as hedges (in millions):

		(Loss) Gain Recognized in Income			
		Three Months Ended		Nine Months Ended	
	Statements of Operations Classification	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Derivative instruments not designated as hedges:					
Foreign exchange contracts	Foreign exchange loss	\$ (6)	\$ (3)	\$ (22)	\$ (6)
Forward interest rate swaps	Interest expense, net	1	—	2	2
Total loss recognized in income		\$ (5)	\$ (3)	\$ (20)	\$ (4)

Credit and Market Risk Management

Financial instruments, including derivatives, expose the Company to counterparty credit risk of nonperformance and to market risk related to currency exchange rate and interest rate fluctuations. The Company manages its exposure to counterparty credit risk by establishing minimum credit standards, diversifying its counterparties, and monitoring its concentrations of credit. The Company's credit risk counterparties are commercial banks with expertise in derivative financial instruments. The Company evaluates the impact of market risk on the fair value and cash flows of its derivative and other financial instruments by considering reasonably possible changes in interest rates and currency exchange rates. The Company continually monitors the creditworthiness of the customers to which it grants credit terms in the normal course of business. The terms and conditions of the Company's credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer.

Foreign Currency Exchange Risk Management

The Company conducts business on a multinational basis in a wide variety of foreign currencies. Exposure to market risk for changes in foreign currency exchange rates arises from euro denominated external revenues, cross-border financing activities between subsidiaries, and foreign currency denominated monetary assets and liabilities. The Company realizes its objective of preserving the economic value of non-functional currency denominated cash flows by initially hedging transaction exposures

with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign exchange forward and option contracts.

The Company manages the exchange rate risk of anticipated euro denominated sales using put options, forward contracts, and participating forwards, all of which typically mature within twelve months of execution. The Company designates these derivative contracts as cash flow hedges. Gains and losses on these contracts are deferred in Accumulated Other Comprehensive loss on the Company's Consolidated Balance Sheets until the contract is settled and the hedged sale is realized. The gain or loss is then reported as an increase or decrease to net sales. As of September 30, 2017 and December 31, 2016, the notional amounts of the Company's foreign exchange cash flow hedges were €382 million and €341 million, respectively. The Company has reviewed cash flow hedges for effectiveness and determined they are highly effective.

The Company uses forward contracts, which are not designated as hedging instruments, to manage its exposures related to its Brazilian real, British pound, Canadian dollar, Czech koruna, Euro, Australian dollar, Swedish krona, Japanese yen, and Singapore dollars denominated net assets. These forward contracts typically mature within three -months after execution. Monetary gains and losses on these forward contracts are recorded in income each quarter and are generally offset by the transaction gains and losses related to their net asset positions. The notional values and the net fair value of these outstanding contracts are as follow (in millions):

	September 30, 2017		December 31, 2016	
Notional balance of outstanding contracts:				
British Pound/U.S. dollar	£	10	£	3
Euro/U.S. dollar	€	93	€	148
British Pound/Euro	£	5	£	8
Canadian Dollar/U.S. dollar	\$	14	\$	13
Czech Koruna/U.S. dollar	Kč	417	Kč	147
Brazilian Real/U.S. dollar	R\$	56	R\$	56
Malaysian Ringgit/U.S. dollar	RM	—	RM	16
Australian Dollar/U.S. dollar	\$	16	\$	50
Swedish Krona/U.S. dollar	kr	11	kr	7
Japanese yen/U.S. dollar	¥	461	¥	48
Singapore dollar/U.S. dollar	S\$	5	S\$	15
Net fair value (liability) asset of outstanding contracts	\$	(6)	\$	11

Interest Rate Risk Management

On July 26, 2017, the Company entered into an Amended and Restated Credit Agreement (the "A&R Credit Agreement"), which amends, modifies and adds provisions to the Company's previous credit agreement and provided for an additional term loan of \$688 million ("Term Loan A") and increased the existing revolving credit facility ("Revolving Credit Facility") from \$250 million to \$500 million. See Note 8, *Long-Term Debt*. Borrowings under the existing term loan ("Term Loan B") and the new Term Loan A bear interest at a variable rate plus an applicable margin. As a result, the Company is exposed to market risk associated with the variable interest rate payments on both term loans. The Company has entered into forward interest rate swaps to hedge a portion of this interest rate risk.

Upon receiving a commitment in June 2014 for the Term Loan B, the Company entered into floating-to-fixed forward interest rate swaps. In July 2014, these swaps were designated as cash flow hedges of interest rate exposure associated with variability in future cash flows on this variable rate loan commitment. Upon funding in October 2014, the Company terminated these swaps and discontinued hedge accounting treatment. The change in fair value of the terminated swaps which had been included in other comprehensive loss up to termination will continue to be amortized to interest expense, net as the interest payments under the Term Loan affect earnings. The Company then issued new floating-to-fixed forward interest rate swaps to a syndicated group of commercial banks. These swaps were not designated as hedges and the changes in fair value are recognized in Interest expense, net on the Company's Consolidated Statements of Operations. To offset this impact to earnings, the Company, in November 2014, entered into fixed-to-floating forward interest rate swaps, which were also not designated in a hedging relationship and thus the changes in the fair value are recognized in interest expense, net. At the same time, the

Company entered into additional floating-to-fixed interest rate swaps and designated them as cash flow hedges for hedge accounting treatment.

The changes in fair value of the swaps designated as cash flow hedges are recognized in accumulated other comprehensive loss, with any ineffectiveness immediately recognized in earnings. At September 30, 2017, the Company estimated that approximately \$7 million in losses on the forward interest rate swaps designated as cash flow hedges will be reclassified from accumulated other comprehensive loss into earnings during the next four quarters.

The Company's master netting and other similar arrangements with the respective counterparties allow for net settlement under certain conditions, which are designed to reduce credit risk by permitting net settlement with the same counterparty. The following table presents the gross fair values and related offsetting counterparty fair values as well as the net fair value amounts at September 30, 2017 (in millions):

	Gross Fair Value	Counterparty Offsetting	Net Fair Value in the Consolidated Balance Sheets
Counterparty A	\$ 10	\$ 6	\$ 4
Counterparty B	4	2	2
Counterparty C	3	1	2
Counterparty D	7	3	4
Counterparty E	4	1	3
Counterparty F	4	1	3
Counterparty G	5	—	5
Total	\$ 37	\$ 14	\$ 23

The notional amount of the designated interest rate swaps effective in each year of the cash flow hedge relationships does not exceed the principal amount of Term Loan B, which is hedged. The Company has reviewed the interest rate swap hedges for effectiveness and determined they are 100% effective.

The interest rate swaps have future maturities consisting of the following notional amounts per year (in millions):

Year 2017	\$ —
Year 2018	544
Year 2019	544
Year 2020	272
Year 2021	272
Notional balance of outstanding contracts	\$ 1,632

Note 8 Long-Term Debt

The following table summarizes the carrying value of the Company's long-term debt (in millions):

	September 30, 2017	December 31, 2016
Senior Notes	\$ 300	\$ 1,050
Term Loan B	1,293	1,653
Term Loan A	688	—
Revolving Credit Facility	235	—
Total debt	2,516	2,703
Less: Debt Issuance Costs	(12)	(22)
Less: Unamortized Discounts	(19)	(33)
Less: Current portion of long-term debt	(34)	—
Total long-term debt	\$ 2,451	\$ 2,648

At September 30, 2017, the future maturities of debt, excluding debt discounts and issuance costs, consisted of the following (in millions):

2017	\$ 9
2018	39
2019	52
2020	58
2021	2,058
Thereafter	300
Total future maturities of long-term debt	\$ 2,516

The estimated fair value of the Company's long-term debt approximated \$2.3 billion at September 30, 2017 and \$2.8 billion at December 31, 2016. These fair value amounts exclude the Revolving Credit Facility and represent the estimated value at which the Company's lenders could trade its debt within the financial markets and does not represent the settlement value of these long-term debt liabilities to the Company. The fair value of the long-term debt will continue to vary each period based on fluctuations in market interest rates, as well as changes to the Company's credit ratings. This methodology resulted in a Level 2 classification in the fair value hierarchy.

Credit Facilities

On July 26, 2017, the Company entered into the A&R Credit Agreement, which amended, modified and added provisions to the Company's previous credit agreement, which was entered into on October 27, 2014. The A&R Credit Agreement, provides for a Term Loan A of \$688 million and increased the existing Revolving Credit Facility from \$250 million to \$500 million. The Company incurred debt issuance costs of \$5 million related to Term Loan A and the increased Revolving Credit Facility under the A&R Credit Agreement which were capitalized.

In addition, as part of the A&R Credit Agreement, the Company partially paid down and repriced its Term Loan B. The A&R Credit Agreement also lowered the index rate spread for LIBOR loan from LIBOR + 250 bp to LIBOR + 200 bp.

In accounting for the early termination and repricing of Term Loan B, the Company applied the provisions of ASC 470-50, *Modifications and Extinguishments* ("ASC 470-50"). The evaluation of the accounting under ASC 470-50 was done on a creditor by creditor basis in order to determine if the terms of the debt were substantially different and, as a result, whether to apply modification or extinguishment accounting. The Company determined that the terms of the debt were not substantially different for approximately 80.4% of the lenders, and applied modification accounting. For the remaining 19.6% of the lenders, extinguishment accounting was applied. Certain lenders elected not to participate in the debt repricing, which resulted in a debt principal prepayment of \$75 million of the Company's outstanding debt balance. The debt repricing transaction also resulted in one-time pre-tax charges including third-party fees for arranger, legal and other services and accelerated discount and amortization of debt issuance costs on the debt principal prepayment of approximately \$6 million. These costs are reflected as non-operating expenses on the Company's Consolidated Statements of Operations.

As of September 30, 2017, the Term Loan A interest rate was 3.23%, and the Term Loan B interest rate was 3.31%. Borrowings under the Term Loan B, as amended, bear interest at a variable rate subject to a floor of 2.75%. Interest payments are payable monthly or quarterly on Term Loan A and the Revolving Credit Facility and quarterly on Term Loan B. The Company has

entered into interest rate swaps to manage interest rate risk on its long-term debt on Term Loan B. See Note 7, *Derivative Instruments*.

The A&R Credit Agreement also requires the Company to prepay certain amounts in the event of certain circumstances or transactions, as defined in the A&R Credit Agreement. The Company may make prepayments against the Term Loans, in whole or in part, without premium or penalty. Under Term Loan B, the Company made debt principal prepayments of \$120 million during the current quarter ended September 30, 2017 and \$360 million during the nine months ended September 30, 2017. The Term Loan A, unless amended, modified, or extended, will mature on July 27, 2021 (the “Term Loan A Maturity Date”). The Term Loan B, unless amended, modified, or extended, will mature on October 27, 2021 (the “Term Loan B Maturity Date”). To the extent not previously paid, the Term Loans are due and payable on, respectively, the Term Loan A Maturity Date and Term Loan B Maturity Date. At such time, the Company will be required to repay all outstanding principal, accrued and unpaid interest and other charges in accordance with the A&R Credit Agreement. Assuming the Company makes no further optional debt principal prepayments on Term Loan A, the outstanding principal as of the Term Loan A Maturity Date will be approximately \$498 million. Assuming the Company makes no further optional debt principal prepayments on the Term Loan B, the outstanding principal as of the Term Loan B Maturity Date will be approximately \$1.3 billion.

The Revolving Credit Facility is available for working capital and other general corporate purposes including letters of credit. The amount (including letters of credit) cannot exceed \$500 million. As of September 30, 2017, the Company had letters of credit totaling \$5 million, which reduced funds available for other borrowings under the Revolving Credit Facility to \$495 million. The Revolving Credit Facility will mature and the related commitments will terminate on July 27, 2021.

Borrowings under the Revolving Credit Facility bear interest at a variable rate plus an applicable margin. As of September 30, 2017, the Revolving Credit Facility had an average interest rate of 3.23%. Interest payments are payable monthly or quarterly for the Revolving Credit Facility. As of September 30, 2017, the Company had borrowings of \$235 million against the Revolving Credit Facility. There were no borrowings against the Revolving Credit Facility in the prior year comparable period.

Senior Notes

On August 7, 2017, proceeds from the Term Loan A and Revolving Credit Facility were primarily used to redeem \$750 million in principal of the 7.25% Senior Notes, maturing October 2022. In accounting for the early termination of Senior Notes, the Company applied the provisions of ASC 470-50, *Modifications and Extinguishments* (“ASC 470-50”). Based on the terms of the debt, the Company concluded extinguishment accounting was appropriate to apply. This partial early termination included a \$49 million make whole premium, which was recorded as Interest expense, net on the Company’s Consolidated Statements of Operations. The Company also recognized non-cash accelerated discount and debt issuance costs charges of \$13 million which were recorded as Interest expense, net on the Company’s Consolidated Statement of Operations.

On November 3, 2017, the Company provided notice of a conditional redemption to the holders of its \$300 million aggregate principal amount of 7.25% Senior Notes (the “Notes”) due 2022 pursuant to the Indenture, dated as of October 15, 2014, by and between the Company and U.S. Bank National Association, as trustee.

Summary of third-quarter and year-to-date actions

The actions taken during the third quarter of 2017 resulted in net borrowings of \$53 million and included the following:

- Term Loan A borrowings of \$688 million,
- Revolving Credit Facility borrowings of \$235 million,
- Senior Note debt principal prepayments of \$750 million, and
- Term Loan B debt principal prepayments of \$120 million

During the first two quarters of fiscal 2017, the Company made additional debt principal prepayments of Term Loan B of \$240 million. For the period ending September 30, 2017, the Company has made debt principal prepayments of \$187 million, net.

On September 30, 2017, the Company was in compliance with all covenants.

Note 9 Commitments and Contingencies

Warranties

In general, the Company provides warranty coverage of 1 year on mobile computers. Advanced data capture products are warrantied from 1 to 5 years, depending on the product. Printers are warrantied for 1 year against defects in material and workmanship. Thermal printheads are warrantied for 6 months and batteries are warrantied for 1 year. Battery-based products,

such as location tags, are covered by a 90 -day warranty. The provision for warranty expense is adjusted quarterly based on historical warranty experience.

The following table is a summary of the Company’s accrued warranty obligation (in millions):

	Nine Months Ended	
	September 30, 2017	October 1, 2016
Balance at the beginning of the period	\$ 21	\$ 22
Warranty expense	21	20
Warranty payments	(23)	(22)
Balance at the end of the period	<u>\$ 19</u>	<u>\$ 20</u>

Contingencies

The Company is subject to a variety of investigations, claims, suits, and other legal proceedings that arise from time to time in the ordinary course of business, including but not limited to, intellectual property, employment, tort, and breach of contract matters. The Company currently believes that the outcomes of such proceedings, individually and in the aggregate, will not have a material adverse impact on its business, cash flows, financial position, or results of operations. Any legal proceedings are subject to inherent uncertainties, and the Company’s view of these matters and its potential effects may change in the future.

In connection with the acquisition of the Enterprise business from Motorola Solutions, Inc., the Company acquired Symbol Technologies, Inc., a subsidiary of Motorola Solutions (“Symbol”). A putative federal class action lawsuit, Waring v. Symbol Technologies, Inc., et al., was filed on August 16, 2005 against Symbol Technologies, Inc. and two of its former officers in the United States District Court for the Eastern District of New York by Robert Waring. After the filing of the Waring action, several additional purported class actions were filed against Symbol and the same former officers making substantially similar allegations (collectively, the “New Class Actions”). The Waring action and the New Class Actions were consolidated for all purposes and on April 26, 2006, the Court appointed the Iron Workers Local # 580 Pension Fund as lead plaintiff and approved its retention of lead counsel on behalf of the putative class. On August 30, 2006, the lead plaintiff filed a Consolidated Amended Class Action Complaint (the “Amended Complaint”), and named additional former officers and directors of Symbol as defendants. The lead plaintiff alleges that the defendants misrepresented the effectiveness of Symbol’s internal controls and forecasting processes, and that, as a result, all of the defendants violated Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and the individual defendants violated Section 20(a) of the Exchange Act. The lead plaintiff alleges that it was damaged by the decline in the price of Symbol’s stock following certain purported corrective disclosures and seeks unspecified damages. The court has certified a class of investors that includes those that purchased Symbol common stock between March 12, 2004 and August 1, 2005. The parties have substantially completed fact and expert discovery. However, there is one (1) discovery motion pending that could, if granted, reopen fact discovery. The court has held in abeyance all other deadlines, including the deadline for the filing of dispositive motions, and has not set a date for trial. The current lead Directors and Officers (“D&O”) insurer continues to maintain its position of not agreeing to reimburse defense costs incurred by the Company in connection with this matter, and the Company disputes the position taken by the current D&O insurer.

The Company establishes an accrued liability for loss contingencies related to legal matters when the loss is both probable and estimable. In addition, for some matters for which a loss is probable or reasonably possible, an estimate of the amount of loss or range of loss is not possible, and we may be unable to estimate the possible loss or range of losses that could potentially result from the application of non-monetary remedies. Currently, the Company is unable to reasonably estimate the amount of reasonably possible losses for the above mentioned matter.

Note 10 Income Taxes

The Company’s effective tax rates for the nine month periods ended September 30, 2017 and October 1, 2016 were (30.0)% and (3.4)% , respectively. The variance from the federal statutory rate of 35% for the nine months ended September 30, 2017 is attributable to 1) the impact of the Enterprise acquisition, unbenefited foreign losses, and an increase in liabilities related to uncertain tax benefits, and 2) reductions related to benefits of foreign tax rates, increased deferred tax assets and credits against U.S. income tax. For the nine month period ended October 1, 2016, the Company’s effective tax rates differed from the U.S. federal income tax rate of 35% primarily due to the taxation of foreign earnings at lower rates and increases to valuation allowances in certain foreign jurisdictions that the Company was not able to benefit from due to uncertainty as to the realization of those losses, which accounted for approximately a 32% reduction in the rate in 2016. Additionally, the effective tax rate in

2016 was impacted by discrete items including the impact of the impairment of goodwill and intangible assets from the WLAN disposition.

Quarterly, Management evaluates all jurisdictions based on historical pre-tax earnings and taxable income to determine the need for valuation allowances. Based on this analysis, a valuation allowance has been recorded for any jurisdictions where, in the Company's judgement, tax benefits will not be realized.

Pre-tax earnings outside the United States are primarily generated in the United Kingdom, Singapore, and Luxembourg, with statutory rates of 19% , 17% , and 27% , respectively. During 2017, the Company received approval from the Singapore Economic Development Board for a tax rate of 10% with the Company's commitment to make increased investments in Singapore.

The Company's effective tax rates for the three-month periods ended September 30, 2017 and October 1, 2016 were (71.4)% and (7.8)% respectively. The Company's current quarter effective tax rate was lower than the federal statutory rate of 35% primarily attributable to unbenefited foreign losses, pre-tax losses in the United States, and the rate differential between U.S. and foreign jurisdictions. Additionally, the provision for income taxes recorded in the current period was impacted by benefits related to changes in estimates on the impact of the Enterprise acquisition, equity compensation, and expenses related to uncertain tax positions and changes in estimates related to prior year tax credits. The Company's prior year quarter effective tax rate was lower than the federal statutory rate of 35% and was primarily attributable to the reduction of U.S. sourced income and the reduction of discrete expense items.

The Company is currently undergoing audits of the 2013 through 2015 U.S. federal income tax returns and 2012 and 2014 UK income tax returns. The tax years 2004 through 2016 remain open to examination by multiple foreign and U.S. state taxing jurisdictions. The Company has unrecognized tax benefits of \$50 million and \$42 million and interest and penalties of \$6 million and \$4 million as of September 30, 2017 and December 31, 2016, respectively. Through September 30, 2017, the Company increased its liability for uncertain tax benefits related to prior years by \$10 million , which was partially offset by settlement payments of \$2 million . The Company recognized \$2 million of interest and/or penalties related to income tax matters as part of income tax expense for the period ended September 30, 2017. The Company continues to believe its positions are supportable, however, the Company anticipates that \$20 million of uncertain tax benefits may be paid within the next twelve months and, as such, is reflected as a current liability within the Company's Consolidated Balance Sheets. Due to uncertainties in any tax audit or litigation outcome, the Company's estimates of the ultimate settlement of uncertain tax positions may change and the actual tax benefits may differ significantly from the estimates.

Note 11 (Loss) Earnings per Share

Basic net (loss) earnings per share is calculated by dividing net (loss) income by the weighted average number of common shares outstanding for the period. Diluted (loss) earnings per share is computed by dividing net (loss) income by the weighted average number of shares assuming dilution. Dilutive common shares outstanding is computed using the Treasury Stock method and in periods of income, reflects the additional shares that would be outstanding if dilutive stock options were exercised for common shares during the period.

(Loss) earnings per share (in millions, except share data):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Basic:				
Net (loss) income attributable to the Company	\$ (12)	\$ (83)	\$ 13	\$ (154)
Weighted-average shares outstanding ⁽¹⁾	52,220,868	51,690,204	52,964,066	51,499,447
Basic (loss) earnings per share	<u>\$ (0.23)</u>	<u>\$ (1.61)</u>	<u>\$ 0.25</u>	<u>\$ (2.99)</u>
Diluted:				
Net (loss) income attributable to the Company	\$ (12)	\$ (83)	\$ 13	\$ (154)
Weighted-average shares outstanding ⁽¹⁾	52,220,868	51,690,204	52,964,066	51,499,447
Dilutive shares ⁽²⁾	—	—	667,433	—
Diluted weighted-average shares outstanding	52,220,868	51,690,204	53,631,499	51,499,447
Diluted (loss) earnings per share	<u>\$ (0.23)</u>	<u>\$ (1.61)</u>	<u>\$ 0.25</u>	<u>\$ (2.99)</u>

(1) In periods of net loss, restricted stock awards that are classified as participating securities are excluded from the weighted-average shares outstanding computation.

(2) In periods of net loss, options were anti-dilutive and therefore excluded from the earnings per share calculation.

There were 914,183 outstanding options to purchase common shares that were anti-dilutive and excluded from the third quarter earnings per share calculation as of September 30, 2017 compared to 1,340,123 as of October 1, 2016. There were 687,831 outstanding options to purchase common shares that were anti-dilutive and excluded from the nine months ended earnings per share calculation as of September 30, 2017 compared to 1,366,130 as of October 1, 2016. Anti-dilutive securities consist primarily of stock appreciation rights (“SARs”) with an exercise price greater than the average market closing price of the Class A common stock.

Note 12 Accumulated Other Comprehensive Loss

Stockholders’ equity includes certain items classified as accumulated other comprehensive loss, including:

- **Unrealized (loss) gain on anticipated sales hedging transactions** relates to derivative instruments used to hedge the exposure related to currency exchange rates for forecasted Euro sales. These hedges are designated as cash flow hedges, and the Company defers income statement recognition of gains and losses until the hedged transaction occurs. See Note 7, *Derivative Instruments* for more details.
- **Unrealized (loss) gain on forward interest rate swaps hedging transactions** refers to the hedging of the interest rate risk exposure associated with the variable rate commitment entered into for the Acquisition. See Note 7, *Derivative Instruments* for more details.
- **Foreign currency translation adjustment** relates to the Company’s non-U.S. subsidiary companies that have designated a functional currency other than the U.S. dollar. The Company is required to translate the subsidiary functional currency financial statements to dollars using a combination of historical, period-end, and average foreign exchange rates. This combination of rates creates the foreign currency translation adjustment component of accumulated other comprehensive loss.

The components of accumulated other comprehensive loss (“AOCI”) for the nine -months ended September 30, 2017 and October 1, 2016 are as follows (in millions):

	Unrealized (loss) gain on sales hedging	Unrealized (loss)/ gain on forward interest rate swaps	Currency translation adjustments	Total
Balance at December 31, 2015	\$ (1)	\$ (15)	\$ (32)	\$ (48)
Other comprehensive loss before reclassifications	(16)	(12)	(1)	(29)
Amounts reclassified from AOCI ⁽¹⁾	10	2	—	12
Tax benefit	1	3	—	4
Other comprehensive loss	(5)	(7)	(1)	(13)
Balance at October 1, 2016	\$ (6)	\$ (22)	\$ (33)	\$ (61)
Balance at December 31, 2016	\$ 6	\$ (15)	\$ (36)	\$ (45)
Other comprehensive (loss) income before reclassifications	(22)	(2)	2	(22)
Amounts reclassified from AOCI ⁽¹⁾	4	6	—	10
Tax benefit (expense)	3	(1)	—	2
Other comprehensive (loss) income	(15)	3	2	(10)
Balance at September 30, 2017	\$ (9)	\$ (12)	\$ (34)	\$ (55)

(1) See Note 7, *Derivative Instruments* regarding timing of reclassifications on forward interest rate swaps.

Note 13 Segment Information

The Company has two reportable segments: Legacy Zebra and Enterprise. The operating segments have been identified based on the financial data utilized by the Company's Chief Executive Officer (the chief operating decision maker) to assess segment performance and allocate resources among the Company's segments. The chief operating decision maker uses adjusted operating income to assess segment profitability. Adjusted operating income excludes purchase accounting adjustments, amortization, acquisition, integration and exit and restructuring costs. Segment assets are not reviewed by the Company's chief operating decision maker and therefore are not disclosed below.

Financial information by segment is presented as follows (in millions):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net sales:				
Legacy Zebra	\$ 325	\$ 301	\$ 960	\$ 920
Enterprise	611	605	1,739	1,720
Total segment	936	906	2,699	2,640
Corporate, eliminations ⁽¹⁾	(1)	(2)	(3)	(8)
Total	\$ 935	\$ 904	\$ 2,696	\$ 2,632
Operating income (loss):				
Legacy Zebra	\$ 61	\$ 50	\$ 191	\$ 178
Enterprise	89	89	212	200
Total segment	150	139	403	378
Corporate, eliminations ⁽²⁾	(59)	(163)	(214)	(369)
Total	\$ 91	\$ (24)	\$ 189	\$ 9

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

- (2) Amounts included in Corporate, eliminations consist of purchase accounting adjustments not reported in segments, amortization expense, acquisition and integration expenses, impairment of goodwill and other intangibles and exit and restructuring costs.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Zebra Technologies Corporation and its subsidiaries ("Zebra" or "Company") is a global leader respected for innovative Enterprise Asset Intelligence ("EAI") solutions in the automatic identification and data capture industry. We design, manufacture, and sell a broad range of products that capture and move data, including: mobile computers; barcode scanners and imagers; radio frequency identification device ("RFID") readers; specialty printers for barcode labeling and personal identification; real-time location systems ("RTLS"); related accessories and supplies, such as self-adhesive labels and other consumables; and utilities and application software. We also provide a full range of services, including maintenance, technical support, repair, and managed services, including cloud-based subscriptions. End-users of our products and services include those in the retail, transportation and logistics, manufacturing, healthcare, hospitality, warehouse and distribution, energy and utilities, and education industries around the world.

Our customers have traditionally benefited from proven solutions that increase productivity and improve efficiency and asset utilization. The Company is poised to drive and capitalize on the evolution of the data capture industry into the broader EAI industry, based on important technology trends like the Internet of Things ("IoT"), ubiquitous mobility, and cloud computing. EAI solutions offer additional benefits to our customers including real-time, data-driven insights that improve operational visibility and drive workflow optimization.

On September 13, 2016, the Company entered into an Asset Purchase Agreement with Extreme Networks, Inc. to divest of its wireless LAN ("WLAN") business ("Divestiture Group"). WLAN operating results are reported in the Enterprise segment through the closing date of the WLAN divestiture on October 28, 2016. See Note 4, *Business Divestiture* for additional information.

Segments

The Company's operations consist of two reportable segments: Legacy Zebra and Enterprise. Industries served by both segments include retail, transportation and logistics, manufacturing, healthcare, and other end markets within the following regions: North America; Latin America; Asia-Pacific; and Europe, Middle East, and Africa. The Legacy Zebra segment is an industry leader in barcode printing and asset tracking technologies. Its major product lines include barcode and card printers, location solutions, supplies, and services. The Enterprise segment is an industry leader in automatic identification and data capture solutions. Its major product lines include mobile computing, data capture, RFID, and services.

Geographic Information. For the nine months ended September 30, 2017, the Company recorded \$2,696 million of net sales in its Consolidated Statements of Operations, of which approximately 48.4% were attributable to North America; approximately 32.3% were attributable to Europe, Middle East, and Africa ("EMEA"); and other foreign locations accounted for the remaining 19.3%.

Restructuring Programs

In the first quarter 2017, the Company's executive leadership approved an initiative to continue the company's efforts to increase operational efficiency (the "Productivity Plan"). The Company expects the Productivity Plan to build upon the exit and restructuring initiatives specific to the Acquisition that the Company previously announced and began implementing during the first quarter 2015. Expected actions under the Productivity Plan may include actions related to organizational design changes, process improvements and automation. Implementation of actions identified through the Productivity Plan is expected to be substantially complete by December 2018 with the first full year of financial benefits realized in 2019. The Company has not finalized its estimate of one-time implementation costs, exit and restructuring charges, or expected benefits that may result from these efforts and will provide updates on these items in future periodic filings. Exit and restructuring costs are not included in the operating results of our segments as they are not deemed to impact the specific segment measures as reviewed by our Chief Operating Decision Maker and therefore are reported as a component of corporate eliminations.

Total exit and restructuring charges of \$6 million life-to-date specific to the Productivity Plan have been recorded through September 30, 2017 and relate to severance and related benefits, lease exit costs and other expenses. Exit and restructuring charges of \$1 million were recorded in the current quarter.

Total exit and restructuring charges of \$69 million life-to-date specific to the Acquisition Plan have been recorded through September 30, 2017 and include severance and related benefits, lease exit costs and other expenses. Charges related to the Acquisition Plan for the current quarter and nine -month period ended September 30, 2017 were \$4 million, respectively. The

Company expects to complete the actions of the Acquisition Plan by the first quarter of 2018. Total remaining charges associated with this plan are expected to be in the range of \$3 million to \$4 million .

See Note 5, *Costs Associated with Exit and Restructuring Activities* for further information.

Results of Operations

Consolidated Results of Operations

The following tables present key statistics for the Company's operations for the three and nine months ended September 30, 2017 and October 1, 2016 , respectively (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	September 30, 2017	October 1, 2016	\$ Change	% Change	September 30, 2017	October 1, 2016	\$ Change	% Change
Net sales	\$ 935	\$ 904	\$ 31	3.4 %	\$ 2,696	\$ 2,632	\$ 64	2.4 %
Gross profit	429	414	15	3.6 %	1,241	1,210	31	2.6 %
Operating expenses	338	438	(100)	(22.8)%	1,052	1,201	(149)	(12.4)%
Operating income (loss)	\$ 91	\$ (24)	115	NMF	\$ 189	\$ 9	180	NMF
Gross margin	45.9%	45.8%			46.0%	46.0%		

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

	Three Months Ended				Nine Months Ended			
	September 30, 2017	October 1, 2016	\$ Change	% Change	September 30, 2017	October 1, 2016	\$ Change	% Change
Europe, Middle East and Africa	\$ 306	\$ 282	\$ 24	8.5 %	\$ 872	\$ 839	\$ 33	3.9 %
Latin America	58	54	4	7.4 %	168	153	15	9.8 %
Asia-Pacific	119	122	(3)	(2.5)%	350	365	(15)	(4.1)%
Total International	483	458	25	5.5 %	1,390	1,357	33	2.4 %
North America	452	446	6	1.3 %	1,306	1,275	31	2.4 %
Total net sales	\$ 935	\$ 904	\$ 31	3.4 %	\$ 2,696	\$ 2,632	\$ 64	2.4 %

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

	Three Months Ended				Nine Months Ended			
	September 30, 2017	October 1, 2016	\$ Change	% Change	September 30, 2017	October 1, 2016	\$ Change	% Change
Selling and marketing	\$ 113	\$ 112	\$ 1	0.9 %	\$ 336	\$ 337	\$ (1)	(0.3)%
Research and development	96	96	—	— %	291	284	7	2.5 %
General and administrative	71	74	(3)	(4.1)%	214	225	(11)	(4.9)%
Amortization of intangible assets	49	59	(10)	(16.9)%	151	178	(27)	(15.2)%
Acquisition and integration costs	4	28	(24)	(85.7)%	50	98	(48)	(49.0)%
Impairment of goodwill and other intangibles	—	62	(62)	(100.0)%	—	62	(62)	(100.0)%
Exit and restructuring costs	5	7	(2)	(28.6)%	10	17	(7)	(41.2)%
Total operating expenses	<u>\$ 338</u>	<u>\$ 438</u>	<u>\$ (100)</u>	<u>(22.8)%</u>	<u>\$ 1,052</u>	<u>\$ 1,201</u>	<u>\$ (149)</u>	<u>(12.4)%</u>

Consolidated Organic Net sales growth:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Reported GAAP Consolidated Net sales growth	3.4 %	2.4 %
Adjustments:		
Impact of Wireless LAN Net sales ⁽¹⁾	4.0 %	4.0 %
Impact of foreign currency translation ⁽²⁾	(1.3)%	(0.1)%
Corporate, eliminations ⁽³⁾	(0.2)%	(0.2)%
Consolidated Organic Net sales growth	<u>5.9 %</u>	<u>6.1 %</u>

(1) The Company sold the wireless LAN business in October 2016. The Company excludes the impact of the net sales of this business in the prior year period when computing organic net sales growth.

(2) Operating results reported in U.S. dollars are affected by foreign currency exchange rate fluctuations. Foreign currency translation impact represents the difference in results that are attributable to fluctuations in the currency exchange rates used to convert the results for businesses where the functional currency is not the U.S. dollar. This impact is calculated by translating, for certain currencies, the current period results at the currency exchange rates used in the comparable prior year period, rather than the exchange rates in effect during the current period. In addition, we exclude the impact of the company's foreign currency hedging program in both the current and prior year periods.

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

Third quarter 2017 compared to third quarter 2016

Net sales increased by \$31 million or 3.4% compared with the prior year quarter. The increase in net sales is due primarily to increased hardware sales in EMEA and North America. The increase in hardware sales is largely attributable to higher sales of mobile computing, data capture, and barcode printing products partially offset by the impact of the divestiture of the WLAN business in October 2016. Services sales were also lower due to the impact of the WLAN divestiture. Consolidated Organic Net Sales growth was 5.9% , reflecting growth across all regions, most notably Latin America, EMEA, and North America.

Gross margin was 45.9% compared to the prior year quarter of 45.8% . Enterprise segment gross margin improved compared to the prior year quarter primarily due to changes in business mix. Legacy Zebra segment gross margin was lower than the prior year quarter due primarily to higher overhead and services costs, and increased customer sales incentives.

Operating expenses for the quarter ended September 30, 2017 and October 1, 2016, were \$338 million and \$438 million, or 36.1% and 48.5% of net sales, respectively. The reduction in operating expenses was primarily due to impairment charges related to the disposal of the Company's WLAN business in the prior year quarter and lower Acquisition and integration costs. The Company has substantially completed its integration activities associated with the Acquisition, including implementation of its common enterprise resource planning system during the second quarter, and has exited the transition services agreements with Motorola Solutions. Research and development costs were comparable to the prior year period, reflecting increased incentive compensation expense associated with improved financial performance and a reduction associated with the impact of the divestiture of the WLAN business. General and administrative expenses were lower compared to the prior year period due primarily to reduced employee benefits costs, IT expenses, and the impact of the divestiture of the WLAN business partially offset by increased incentive compensation expense associated with improved financial performance.

Operating income increased \$115 million compared to the prior year quarter. The increase was primarily due to higher sales and gross profit and lower operating expenses.

Interest expense was \$95 million for the quarter ended September 30, 2017, as compared to \$46 million in the prior year quarter. The increase over the prior year was driven by the payments for early debt extinguishment of \$49 million and accelerated amortization of debt discounts and debt issuance costs related to the debt restructuring and repricing under the A&R Credit Agreement totaling \$13 million offset, in part, by the impact of early repayments of debt and lower interest rates.

In the quarter ending September 30, 2017, the Company recognized income tax expense of \$5 million compared to \$6 million for the prior year quarter. The Company's effective tax rates were (71.4)% and (7.8)% for the quarter ending September 30, 2017 and October 1, 2016, respectively. The Company's current period effective tax rate was lower than the federal statutory rate of 35% primarily attributable to unbenefited foreign losses, pre-tax losses in the United States, and the rate differential between U.S. and foreign jurisdictions. Additionally, the provision for income taxes recorded in the current period was impacted by benefits related to changes in estimates on the impact of the Enterprise acquisition, equity compensation, and expenses related to uncertain tax positions and changes in estimates related to prior year tax credits. The Company's prior year quarter effective tax rate was lower than the federal statutory rate of 35% and was primarily attributable due to the reduction of U.S. sourced income and the reduction of discrete expense items.

Year to date 2017 compared to year to date 2016

Net sales increased by \$64 million or 2.4% compared with the prior year period. The increase in net sales is due primarily to increased hardware sales in North America, EMEA, and Latin America partially offset by lower hardware sales in Asia-Pacific. The increase in hardware sales is largely attributable to higher sales of mobile computing, data capture, and barcode printing products, partially offset by the impact of the divestiture of the WLAN business in October 2016. Services sales were also lower due to the impact of the WLAN divestiture. Consolidated Organic Net Sales growth was 6.1%, reflecting growth across all regions, most notably Latin America, EMEA and North America.

Gross margin was 46.0% in both the current and prior year periods. This reflects an increase in gross margin in the Enterprise segment primarily due to changes in business mix and improved product costs, offset by lower Legacy Zebra segment gross margin driven by primarily higher overhead and services costs, and increased customer sales incentives.

Operating expenses for the period ended September 30, 2017 and October 1, 2016, were \$1,052 million and \$1,201 million, or 39.0% and 45.6% of net sales, respectively. The reduction in operating expenses was primarily due to impairment charges related to the disposal of the Company's WLAN business in the prior year period and lower acquisition and integration costs. Research and development costs were higher primarily due to increased incentive compensation expense associated with improved financial performance partially offset by the impact of the divestiture of the WLAN business. General and administrative expenses were lower compared to the prior year period due primarily to reduced employee benefits costs, facility and IT expenses, and professional fees, as well as the impact of the divestiture of the WLAN business, offset partially by increased incentive compensation expense associated with improved financial performance.

Operating income increased \$180 million compared to the prior year. The increase was primarily due to higher sales and gross profit and lower operating expenses.

Interest expense was \$176 million for the period ended September 30, 2017, as compared to \$145 million in the prior year. The increase over the prior year was driven by the payments for early debt extinguishment of \$49 million and accelerated amortization of debt discounts and debt issuance costs related to the debt restructuring and repricing under the A&R Credit Agreement of \$13 million offset, in part by the impact of early repayments of debt and lower interest rates.

The Company's effective tax rates for the nine month periods ended September 30, 2017 and October 1, 2016 were (30.0)% and (3.4)% . The current and prior period variances from the federal statutory rate of 35% for the nine months ended September 30, 2017 is primarily attributable to unbenefited foreign losses, pre-tax losses in the United States, and the rate differential between U.S. and foreign jurisdictions. Additionally, the provision for income taxes recorded in the current period was impacted by benefits related to changes in estimates on the impact of the Enterprise acquisition, equity compensation, and expenses related to uncertain tax positions and changes in estimates related to prior year tax credits. The Company's prior year period effective tax rate was lower than the federal statutory rate of 35% primarily attributable to the reduction of U.S. sourced income and the reduction of discrete expense items.

Primary pre-tax earnings outside the United States are generated in the United Kingdom, Singapore, and Luxembourg, with statutory rates of 19% , 17% , and 27% , respectively. During 2017, the Company received approval from the Singapore Economic Development Board for a tax rate of 10% with the Company's commitment to make increased investments in Singapore. The Company believes that the recorded tax impacts in these non-U.S. jurisdictions will be realized.

Results of Operations by Segment

The following commentary should be read in conjunction with the financial results of each operating business segment as detailed in Note 13, *Segment Information* in the Notes to the Consolidated Financial Statements. The segment results exclude purchase accounting adjustments, amortization, acquisition, integration, impairment of goodwill and other intangibles, and exit and restructuring costs.

Legacy Zebra

(in millions, except percentages)

	Three Months Ended				Nine Months Ended			
	September 30, 2017	October 1, 2016	\$ Change	% Change	September 30, 2017	October 1, 2016	\$ Change	% Change
Net sales	\$ 325	\$ 301	\$ 24	8.0 %	\$ 960	\$ 920	\$ 40	4.3 %
Gross profit	154	145	9	6.2 %	471	463	8	1.7 %
Operating expenses	93	95	(2)	(2.1)%	280	285	(5)	(1.8)%
Operating income	\$ 61	\$ 50	11	22.0 %	\$ 191	\$ 178	13	7.3 %
Gross margin	47.4%	48.2%			49.1%	50.3%		

Legacy Zebra Organic Net sales growth:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Legacy Zebra Reported GAAP Net sales growth	8.0 %	4.3%
Adjustments:		
Impact of foreign currency translations ⁽¹⁾	(1.4)%	0.1%
Legacy Zebra Organic Net sales growth	6.6 %	4.4%

(1) Operating results reported in U.S. dollars are affected by foreign currency exchange rate fluctuations. Foreign currency translation impact represents the difference in results that are attributable to fluctuations in the currency exchange rates used to convert the results for businesses where the functional currency is not the U.S. dollar. This impact is calculated by translating, for certain currencies, the current period results at the currency exchange rates used in the comparable prior year period, rather than the exchange rates in effect during the current period. In addition, we exclude the impact of the company's foreign currency hedging program in both the current and prior year periods.

Third quarter 2017 compared to third quarter 2016

Net sales for the quarter ended September 30, 2017 within Legacy Zebra increased \$24 million or 8.0% compared to prior year quarter. The increase in net sales was primarily due to higher sales of barcode printing products, supplies and services. The

year-over-year growth results also reflect the one-time price concession to distributors of barcode printer products imported into China which was provided for in the third quarter 2016. No provisions were required in the third quarter 2017 due to a change in import classification for barcode printers. Legacy Zebra Organic Net Sales growth for the quarter ended September 30, 2017 was 6.6% .

Gross margin was 47.4% for the quarter ended September 30, 2017 compared to 48.2% for the prior year quarter. The decrease in gross margin reflects higher overhead costs, including freight and costs associated with our regional distribution center transitions, higher services costs and increased customer sales incentives offset partially by the elimination of price concessions to distributors of barcode printer products imported into China which impacted third quarter 2016 results.

Operating income for the quarter ended September 30, 2017 , increased 22.0% as the impact of higher sales and lower operating expenses was offset partially by the decline in gross margin.

Year to date 2017 compared to year to date 2016

Net sales for the period ended September 30, 2017 within Legacy Zebra increased \$40 million or 4.3% compared to prior year period. The increase in net sales was primarily due to higher sales of barcode printing products, services, and supplies. The current year results also reflect price concession to distributors of barcode printer products imported into China in the third quarter of 2016. In the first nine months of 2017, no additional price concession provisions were required and a reduction of the 2016 provision was recorded due to a change in import classification for barcode printers. Legacy Zebra Organic Net Sales growth for the period ended September 30, 2017 was 4.4% .

Gross margin was 49.1% for the period ended September 30, 2017 compared to 50.3% for the prior year period. The decrease in gross margin reflects higher overhead costs, including freight and costs associated with our regional distribution center transitions, higher services costs and increased customer sales incentives offset partially by the reduction of provisions for price concessions to distributors of barcode printer products imported into China.

Operating income for the period ended September 30, 2017 increased 7.3% compared to the prior year period as the impact of higher sales and lower operating expenses was offset partially by the decline in gross margin.

Enterprise

(in millions, except percentages)

	Three Months Ended				Nine Months Ended			
	September 30, 2017	October 1, 2016	\$ Change	% Change	September 30, 2017	October 1, 2016	\$ Change	% Change
Net sales	\$ 611	\$ 605	\$ 6	1.0%	\$ 1,739	\$ 1,720	\$ 19	1.1%
Gross profit	276	271	5	1.8%	773	756	17	2.2%
Operating expenses	187	182	5	2.7%	561	556	5	0.9%
Operating income	\$ 89	\$ 89	—	—%	\$ 212	\$ 200	12	6.0%
Gross margin	45.2%	44.8%			44.5%	44.0%		

Enterprise Organic Net sales growth:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Enterprise Reported GAAP Net sales growth	1.0 %	1.1 %
Adjustments:		
Impact of Wireless LAN Net sales ⁽¹⁾	6.0 %	6.2 %
Impact of foreign currency translation ⁽²⁾	(1.5)%	(0.2)%
Enterprise Organic Net sales growth	5.5 %	7.1 %

(1) The Company sold the wireless LAN business in October 2016. The Company excludes the impact of the net sales of this business in the prior year period when computing organic net sales growth.

(2) Operating results reported in U.S. dollars are affected by foreign currency exchange rate fluctuations. Foreign currency translation impact represents the difference in results that are attributable to fluctuations in the currency exchange rates used to convert the results for businesses where the functional currency is not the U.S. dollar. This impact is calculated by translating, for certain currencies, the current period results at the currency exchange rates used in the comparable prior year period, rather than the exchange rates in effect during the current period. In addition, the Company excludes the impact of the company's foreign currency hedging program in both the current and prior year periods.

Third quarter 2017 compared to third quarter 2016

Net sales for the quarter ending September 30, 2017 within Enterprise increased \$6 million or 1.0% compared to prior year quarter. The increase in net sales was primarily driven by higher sales of mobile computing and data capture products, partially offset by the impact of the divestiture of the WLAN business in October 2016. Enterprise Organic Net Sales growth for the quarter ended September 30, 2017 was 5.5% .

Gross margin for the quarter ended September 30, 2017 was 45.2% compared to 44.8% in the prior year period. The increase in gross margin was due primarily to changes in business mix.

Operating income unchanged from the prior year period, with higher gross profit offset by an increase in operating expenses.

Year to date 2017 compared to year to date 2016

Net sales for the period ending September 30, 2017 within Enterprise increased \$19 million or 1.1% compared to prior year period. The increase in net sales was primarily driven by higher sales of mobile computing and data capture products, partially offset by impact of the divestiture of the WLAN business in October 2016. Enterprise Organic Net Sales growth for the period ended September 30, 2017 was 7.1% .

Gross margin for the period ended September 30, 2017 was 44.5% compared to 44.0% in the prior year period. The increase in gross margin was due primarily to changes in business mix, and improvements in product costs.

Operating income increased 6.0% primarily due to the increase in sales and gross profit.

Liquidity and Capital Resources

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

	Nine Months Ended			
	September 30, 2017	October 1, 2016	\$ Change	% Change
Cash flow from:				
Operating activities	\$ 210	\$ 252	\$ (42)	(16.7)%
Investing activities	(37)	(50)	13	(26.0)%
Financing activities	(237)	(238)	1	(0.4)%
Effect of exchange rates on cash	(4)	7	(11)	(157.1)%
Net decrease in cash and cash equivalents	<u>\$ (68)</u>	<u>\$ (29)</u>	<u>\$ (39)</u>	<u>134.5 %</u>

The change in the Company's cash and cash equivalents balance as of September 30, 2017 is reflective of the following:

- The decline in cash flow provided by operating activities was driven by an outflow of working capital of \$168 million , primarily related to higher inventory levels and lower outstanding accounts payable. Net inventory increased primarily as a result of growth in the business and changes in product mix, an increased backlog level as we entered the fourth quarter compared to the prior year quarter, and our recent transition to a new distribution model for our European operations. In addition, the Company had significant non-cash drivers of impairment charges of \$67 million taken in 2016 primarily related to the WLAN divestiture. This was offset somewhat by net income of \$13 million in the current period compared to net loss of \$154 million in the prior year period.

- The decline in net cash used in investing activities is driven by lower capital expenditures.
- Net cash used in financing activities during 2017 consisted of proceeds related to the A&R Credit agreement for Term Loan A of \$688 million and a draw on the Revolving Credit Facility of \$235 million . These proceeds were primarily used to redeem \$750 million in principal of the 7.25% Senior Notes, maturing October 2022. The Company also had debt principal prepayments on Term Loan B of \$360 million . As part of the repricing of Term Loan B, a portion of the debt was deemed to be modified and therefore, the Company included \$263 million in proceeds from the issuance of long-term debt, offset by \$263 million in payments of long-term debt within the Consolidated Statements of Cash Flows.

The following table shows the Company's level of long-term debt and other information as of September 30, 2017 (in millions):

	September 30, 2017	December 31, 2016
Senior Notes	\$ 300	\$ 1,050
Term Loan B	1,293	1,653
Term Loan A	688	—
Revolving Credit Facility	235	—
Total debt	2,516	2,703
Less: debt issuance costs	(12)	(22)
Less: unamortized discounts	(19)	(33)
Less: Current portion of long-term debt	(34)	—
Total long-term debt	\$ 2,451	\$ 2,648

Credit Facilities

On July 26, 2017, the Company entered into the A&R Credit Agreement, which amended, modified and added provisions to the Company's previous credit agreement, which was entered into on October 27, 2014. The A&R Credit Agreement, provides for a Term Loan A of \$688 million and increased the existing Revolving Credit Facility from \$250 million to \$500 million . The Company incurred debt issuance costs of \$5 million related to Term Loan A and the increased Revolving Credit Facility under the A&R Credit Agreement which were capitalized.

In addition, as part of the A&R Credit Agreement, the Company partially paid down and repriced its Term Loan B. The A&R Credit Agreement also lowered the index rate spread for LIBOR loan from LIBOR + 250 bp to LIBOR + 200 bp.

In accounting for the early termination and repricing of Term Loan B, the Company applied the provisions of ASC 470-50, *Modifications and Extinguishments* ("ASC 470-50"). The evaluation of the accounting under ASC 470-50 was done on a creditor by creditor basis in order to determine if the terms of the debt were substantially different and, as a result, whether to apply modification or extinguishment accounting. The Company determined that the terms of the debt were not substantially different for approximately 80.4% of the lenders, and applied modification accounting. For the remaining 19.6% of the lenders, extinguishment accounting was applied. Certain lenders elected not to participate in the debt repricing, which resulted in a debt principal prepayment of \$75 million of the Company's outstanding debt balance. The debt repricing transaction also resulted in one-time pre-tax charges including third-party fees for arranger, legal and other services and accelerated discount and amortization of debt issuance costs on the debt principal prepayment of approximately \$6 million . These costs are reflected as non-operating expenses on the Company's Consolidated Statements of Operations.

As of September 30, 2017 , the Term Loan A interest rate was 3.23% , and the Term Loan B interest rate was 3.31% . Borrowings under the Term Loan B, as amended, bear interest at a variable rate subject to a floor of 2.75% . Interest payments are payable monthly or quarterly on Term Loan A and the Revolving Credit Facility and quarterly on Term Loan B. The Company has entered into interest rate swaps to manage interest rate risk on its long-term debt on Term Loan B. See Note 7, *Derivative Instruments* .

The A&R Credit Agreement also requires the Company to prepay certain amounts in the event of certain circumstances or transactions, as defined in the A&R Credit Agreement. The Company may make prepayments against the Term Loans, in whole or in part, without premium or penalty. Under Term Loan B, the Company made debt principal prepayments of \$120

million during the current quarter ended September 30, 2017 and \$360 million during the nine months ended September 30, 2017. The Term Loan A, unless amended, modified, or extended, will mature on July 27, 2021 (the “Term Loan A Maturity Date”). The Term Loan B, unless amended, modified, or extended, will mature on October 27, 2021 (the “Term Loan B Maturity Date”). To the extent not previously paid, the Term Loans are due and payable on, respectively, the Term Loan A Maturity Date and Term Loan B Maturity Date. At such time, the Company will be required to repay all outstanding principal, accrued and unpaid interest and other charges in accordance with the A&R Credit Agreement. Assuming the Company makes no further optional debt principal prepayments on Term Loan A, the outstanding principal as of the Term Loan A Maturity Date will be approximately \$498 million. Assuming the Company makes no further optional debt principal prepayments on the Term Loan B, the outstanding principal as of the Term Loan B Maturity Date will be approximately \$1.3 billion.

The Revolving Credit Facility is available for working capital and other general corporate purposes including letters of credit. The amount (including letters of credit) cannot exceed \$500 million. As of September 30, 2017, the Company had letters of credit totaling \$5 million, which reduced funds available for other borrowings under the Revolving Credit Facility to \$495 million. The Revolving Credit Facility will mature and the related commitments will terminate on July 27, 2021.

Borrowings under the Revolving Credit Facility bear interest at a variable rate plus an applicable margin. As of September 30, 2017, the Revolving Credit Facility had an average interest rate of 3.23%. Interest payments are payable monthly or quarterly for the Revolving Credit Facility. As of September 30, 2017, the Company had borrowings of \$235 million against the Revolving Credit Facility. There were no borrowings against the Revolving Credit Facility in the prior year comparable period.

Senior Notes

On August 7, 2017, proceeds from the Term Loan A and Revolving Credit Facility were primarily used to redeem \$750 million in principal of the 7.25% Senior Notes, maturing October 2022. In accounting for the early termination of Senior Notes, the Company applied the provisions of ASC 470-50, *Modifications and Extinguishments* (“ASC 470-50”). Based on the terms of the debt, the Company concluded extinguishment accounting was appropriate to apply. This partial early termination included a \$49 million make whole premium, which was recorded as Interest expense, net on the Company’s Consolidated Statements of Operations. The Company also recognized non-cash accelerated discount and debt issuance costs charges of \$13 million which were recorded as Interest expense, net on the Company’s Consolidated Statement of Operations.

On November 3, 2017, the Company provided notice of a conditional redemption to the holders of its \$300 million aggregate principal amount of 7.25% Senior Notes (the “Notes”) due 2022 pursuant to the Indenture, dated as of October 15, 2014, by and between the Company and U.S. Bank National Association, as trustee.

Summary of third-quarter and year-to-date actions

The actions taken during the third quarter of 2017 resulted in net borrowings of \$53 million and included the following:

- Term Loan A borrowings of \$688 million,
- Revolving Credit Facility borrowings of \$235 million,
- Senior Note debt principal prepayments of \$750 million, and
- Term Loan B debt principal prepayments of \$120 million

During the first two quarters of fiscal 2017, the Company made additional debt principal prepayments of Term Loan B of \$240 million. For the period ending September 30, 2017, the Company has made debt principal prepayments of \$187 million, net.

On September 30, 2017, the Company was in compliance with all covenants.

Certain domestic subsidiaries of the Company (the “Guarantor Subsidiaries”) guarantee the Notes, the Term Loan and the Revolving Credit Facility on a senior basis: For the period ended September 30, 2017, the non-Guarantor Subsidiaries would have (a) accounted for 61.1% of our total revenue and (b) held 86.1% or \$3.9 billion of our total assets and approximately 92.4% or \$3.4 billion of our total liabilities including trade payables but excluding intercompany liabilities.

As of September 30, 2017, the Company’s cash position of \$88 million included foreign cash and investments of \$66 million.

Management believes that existing capital resources and funds generated from operations are sufficient to finance anticipated capital requirements.

Significant Customers

The net sales to significant customers as a percentage of total net sales were as follows:

	Nine Months Ended					
	September 30, 2017			Oct 1, 2016		
	Zebra	Enterprise	Total	Zebra	Enterprise	Total
Customer A	6.5%	14.8%	21.3%	5.9%	14.2%	20.1%
Customer B	6.3%	6.8%	13.1%	5.4%	7.2%	12.6%
Customer C	5.2%	8.5%	13.7%	4.9%	8.2%	13.1%

At September 30, 2017, the Company has three customers that each accounted for more than 10% of outstanding accounts receivable. The largest customers accounted for 21.9%, 12.5%, and 11.2% of outstanding accounts receivable. No other customer accounted for 10% or more of total net sales during these periods. The customers disclosed above are distributors (i.e. not end users) of the Company's products.

Safe Harbor

Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors, which could cause actual results to differ materially from those expressed or implied in such forward-looking statements. When used in this document and documents referenced, the words "anticipate," "believe," "intend," "estimate," "will" and "expect" and similar expressions as they relate to Zebra or its management are intended to identify such forward-looking statements, but are not the exclusive means of identifying these statements. The forward-looking statements include, but are not limited to, Zebra's financial outlook for the full year of 2017. These forward-looking statements are based on current expectations, forecasts and assumptions and are subject to the risks and uncertainties inherent in Zebra's industry, market conditions, general domestic and international economic conditions, and other factors. These factors include:

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

We encourage readers of this report to review Item 1A, "Risk Factors," in the Annual Report on Form 10-K for the year ended December 31, 2016 and in this Form 10-Q, for further discussion of issues that could affect Zebra's future results. Zebra undertakes no obligation, other than as may be required by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances, or any other reason after the date of this report.

Non-GAAP measures

The Company has provided reconciliations of the supplemental non-GAAP financial measures, as defined under the rules of the Securities and Exchange Commission, presented herein to the most directly comparable financial measures calculated and presented in accordance with GAAP.

These supplemental non-GAAP financial measures, Consolidated Organic Net Sales Growth, Legacy Zebra Organic Net Sales Growth, and Enterprise Organic Net Sales Growth, are presented because our management has evaluated our financial results both including and excluding the adjusted items or the effects of foreign currency translation, as applicable, and believe that the supplemental non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of our business from period to period and trends in our historical operating results. These supplemental non-GAAP financial measures should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in the Company's market risk during the quarter ended September 30, 2017. For additional information on market risk, refer to the "Quantitative and Qualitative Disclosures About Market Risk" section of the Form 10-K for the year ended December 31, 2016.

In the normal course of business, portions of the Company's operations are subject to fluctuations in currency values. The Company manages these risks using derivative financial instruments. See Note 7, *Derivative Instruments* to the Consolidated Financial Statements included in this report for further discussion of derivative instruments.

Item 4. Controls and Procedures

Management's Report on Disclosure Controls

Our management is responsible for establishing and maintaining adequate disclosure controls as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management assessed the effectiveness of our disclosure controls as of September 30, 2017. Based on this assessment and those criteria, our management believes that, as of September 30, 2017, our disclosure controls are effective.

Changes in Internal Controls over Financial Reporting

During the quarter covered by this report, there have been no changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Inherent Limitations on the Effectiveness of Controls

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the disclosure controls and procedures or the internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 9, *Commitments and Contingencies* to the Consolidated Financial Statements included in this report.

Item 1A. Risk Factors

There have been no material changes to the risk factors included in our Annual Report for the year ended December 31, 2016 and Form 10-Q for the period ended April 1, 2017. In addition to the other information included in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Annual Report on Form 10-K for the year ended December 31, 2016 and in Part II, “Item 1A. Risk Factors” in the Form 10-Q for the period ended April 1, 2017, and the factors identified under “Safe Harbor” at the end of Item 2 of Part I of the Quarterly Report on Form 10-Q, which could materially affect our business, financial condition, cash flows, or results of operations. The risks described in the Annual Report and Form 10-Q for the period ended April 1, 2017 are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently considers immaterial also may materially adversely affect its business, financial condition, and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Treasury Shares

We did not purchase shares of Zebra Class A common stock during the period ending September 30, 2017 as part of the purchase plan program.

In November 2011, our Board authorized the purchase of up to an additional 3,000,000 shares under the purchase plan program and the maximum number of shares that may yet be purchased under the program is 665,475 . The November 2011 authorization does not have an expiration date.

Item 6. Exhibits

31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification](#)

31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification](#)

32.1 [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

32.2 [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

101 The following financial information from Zebra Technologies Corporation Quarterly Report on Form 10-Q, for the quarter ended September 30, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the consolidated balance sheets; (ii) the consolidated statements of operations; (iii) the consolidated statements of comprehensive (loss) income; (iv) the consolidated statements of cash flows; and (v) notes to consolidated financial statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZEBRA TECHNOLOGIES CORPORATION

Date: November 7, 2017

By: /s/ Anders Gustafsson
Anders Gustafsson
Chief Executive Officer

Date: November 7, 2017

By: /s/ Olivier Leonetti
Olivier Leonetti
Chief Financial Officer

CERTIFICATION

I, Anders Gustafsson, certify that:

1. I have reviewed this report on Form 10-Q of Zebra Technologies Corporation (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and the internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially effect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2017 By: /s/ Anders Gustafsson

Anders Gustafsson
Chief Executive Officer

CERTIFICATION

I, Olivier Leonetti, certify that:

1. I have reviewed this report on Form 10-Q of Zebra Technologies Corporation (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and the internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially effect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2017 By: /s/ Olivier Leonetti

Olivier Leonetti
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Zebra Technologies Corporation (the “Company”) on Form 10-Q for the period that ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof, I, Anders Gustafsson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2017 By: /s/ Anders Gustafsson

Anders Gustafsson
Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Zebra Technologies Corporation (the “Company”) on Form 10-Q for the period that ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof, I, Olivier Leonetti, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2017 By: /s/ Olivier Leonetti

Olivier Leonetti
Chief Financial Officer