ZEBRA TECHNOLOGIES CORP/DE
Form 10-Q
October 31, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 27, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number: 000-19406

Zebra Technologies Corporation

(Exact name of registrant as specified in its charter)

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

333 Corporate Woods Parkway, Vernon Hills, IL 60061

(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 x No ¨

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

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

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

As of October 24, 2008, there were the following shares outstanding:

Class A Common Stock, $.01 par value	63,389,519

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ZEBRA TECHNOLOGIES CORPORATION

QUARTER ENDED SEPTEMBER 27, 2008

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	September 27, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 46,877	$ 38,211
Restricted cash	1,763	2,497
Investments and marketable securities	81,646	98,438
Accounts receivable, net	171,928	150,775
Inventories, net	106,261	85,038
Deferred income taxes	14,953	14,772
Prepaid expenses and other current assets	12,910	31,101
Total current assets	436,338	420,832
Property and equipment at cost, less accumulated depreciation and amortization	70,700	67,686
Long-term deferred income taxes	29,688	28,407
Goodwill	264,647	246,510
Other intangibles, net	114,615	119,424
Long-term investments and marketable securities	116,571	142,033
Other assets	5,269	9,386
Total assets	$ 1,037,828	$ 1,034,278
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 46,744	$ 42,351
Accrued liabilities	63,064	69,437
Deferred revenue	21,906	9,633
Income taxes payable	2,594	751
Total current liabilities	134,308	122,172
Deferred rent	5,143	961
Other long-term liabilities	9,251	8,452
Total liabilities	148,702	131,585
Stockholders equity:		
Preferred Stock		
Class A Common Stock	722	722
Additional paid-in capital	143,727	141,522

Treasury stock	(299,757)	(205,058)
Retained earnings	1,039,452	960,512
Accumulated other comprehensive income	4,982	4,995
Total stockholders equity	889,126	902,693
Total liabilities and stockholders equity	$ 1,037,828	$ 1,034,278

See accompanying notes to consolidated financial statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 27, 2008	**September 29, 2007**	**September 27, 2008**	**September 29, 2007**
Net sales	$ 244,073	$ 217,218	$ 744,132	$ 634,706
Cost of sales	126,287	112,590	375,716	330,886
Gross profit	117,786	104,628	368,416	303,820
Operating expenses (income):				
Selling and marketing	33,148	29,080	98,331	86,313
Research and development	21,711	13,904	64,467	41,958
General and administrative	18,534	21,694	67,795	59,502
Amortization of intangible assets	4,711	2,928	13,904	7,871
Claim settlement	(5,302)		(5,302)	
Exit costs	2,570		10,484	
Acquisition integration expenses	1,734		1,734	
Acquired in-process research and development				1,853
Total operating expenses	77,106	67,606	251,413	197,497
Operating income	40,680	37,022	117,003	106,323
Other income (expense):				
Investment income (loss)	(5,140)	4,393	(14)	15,421
Foreign exchange loss	247	(23)	878	(30)
Other, net	(185)	(230)	(1,089)	(530)
Total other income (expense)	(5,078)	4,140	(225)	14,861
Income before income taxes	35,602	41,162	116,778	121,184
Income taxes	9,832	14,201	37,838	41,874
Net income	$ 25,770	$ 26,961	$ 78,940	$ 79,310
Basic earnings per share	$ 0.40	$ 0.39	$ 1.21	$ 1.15
Diluted earnings per share	$ 0.40	$ 0.39	$ 1.20	$ 1.15
Basic weighted average shares outstanding	64,328	68,580	65,190	68,814
Diluted weighted average and equivalent shares outstanding	64,653	69,005	65,550	69,259

See accompanying notes to consolidated financial statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net income	$ 25,770	$ 26,961	$ 78,940	$ 79,310
Other comprehensive income (loss):				
Foreign currency translation adjustment	(6,242)	1,132	(4,670)	2,578
Changes in unrealized gains/(losses) on hedging transactions, net of tax (benefit)	5,710	(3,217)	5,070	(3,102)
Changes in unrealized gains/(losses) on investments, net of tax benefit	(257)	1,144	(413)	729
Comprehensive income	$ 24,981	$ 26,020	$ 78,927	$ 79,515

See accompanying notes to consolidated financial statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended	
	September 27, 2008	**September 29, 2007**
Cash flows from operating activities:		
Net income	$ 78,940	$ 79,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,418	19,184
Stock-based compensation	10,780	11,333
Excess tax benefit from share-based compensation	(187)	(797)
Gain on sale of asset	(1,121)	
Acquired in-process research and development		1,853
Deferred income taxes	(4,624)	(4,862)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(29,654)	(1,050)
Inventories	(22,575)	257
Other assets	930	111
Accounts payable	7,573	(6,016)
Accrued liabilities	(6,009)	12,190
Deferred revenue	13,279	1,788
Income taxes payable	2,295	(1,614)
Other operating activities	2,461	(2,001)
Net cash provided by operating activities	80,506	109,686
Cash flows from investing activities:		
Purchases of property and equipment	(28,534)	(15,702)
Proceeds from sale of assets	14,796	
Acquisition of businesses acquired, net of cash acquired	(18,570)	(141,277)
Acquisition of intangible assets	(1,100)	(2,800)
Purchases of investments and marketable securities	(502,699)	(645,843)
Maturities of investments and marketable securities	388,362	538,025
Sales of investments and marketable securities	178,104	190,393
Net cash provided by (used in) investing activities	30,359	(77,204)
Cash flows from financing activities:		
Purchase of treasury stock	(107,504)	(48,913)
Proceeds from exercise of stock options and stock purchase plan purchases	4,343	7,593
Excess tax benefit from share-based compensation	187	797
Net cash used in financing activities	(102,974)	(40,523)
Effect of exchange rate changes on cash	775	(79)
Net increase (decrease) in cash and cash equivalents	8,666	(8,120)
Cash and cash equivalents at beginning of period	38,211	39,648

Cash and cash equivalents at end of period	$ 46,877	$ 31,528
Supplemental disclosures of cash flow information:		
Income taxes paid	40,682	30,101

See accompanying notes to consolidated financial statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation

Management prepared these unaudited interim consolidated financial statements for Zebra Technologies Corporation and subsidiaries (Zebra) according to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles (GAAP) for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in Zebra s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

The consolidated balance sheet as of December 31, 2007, in this Form 10-Q is taken from the audited consolidated balance sheet in our Form 10-K. These interim financial statements include all adjustments (of a normal, recurring nature) necessary to present fairly Zebra s consolidated financial position as of September 27, 2008, the consolidated results of operations for the three and nine months ended September 27, 2008 and September 29, 2007, and cash flows for the nine months ended September 27, 2008 and September 29, 2007. These results, however, are not necessarily indicative of results for the full year.

Note 2 Fair Value Measurements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 was effective for Zebra on January 1, 2008. We have currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with accounting principles generally accepted in the United States. The adoption of SFAS No. 159 did not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 was effective for our Company on January 1, 2008. However, in February 2008, the FASB released FASB Staff Position (FSP FAS 157-2 Effective Date of FASB Statement No. 157), which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 for our financial assets and liabilities did not have a material impact on our consolidated financial statements. We do not believe the adoption of SFAS No. 157 for our non-financial assets and liabilities, effective January 1, 2009, will have a material impact on our consolidated financial statements.

As defined in SFAS No. 157, fair value is based on 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. In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

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, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in the assessment of fair value.

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Included in our investment portfolio are four auction rate security instruments, which are classified as available for sale securities and are reflected at fair value. However, due to recent events in credit markets, the auction events for the instruments held by Zebra as of September 27, 2008, have failed. Therefore, the fair values of these securities are estimated utilizing broker quotations, discounted cash flow analysis or other types of valuation adjustment methodologies as of September 27, 2008. These analyses consider, among other items, the collateralization underlying the security instruments, the credit worthiness of the counterparty, the timing of expected future cash flows, estimates of the next time the security is expected to have a successful auction, and Zebra s intent and ability to hold such securities until credit markets improve. These securities were also compared, when possible, to other securities with similar characteristics.

Of the four auction rate security instruments, Zebra deemed one item to be other than temporarily impaired. Therefore, we have recorded the market value decline in the amount of $4,374,000 for that security as an investment loss in the income statement. The decline in the market value of the other securities is considered temporary and was recorded in accumulated other comprehensive income (loss) on the balance sheet. Since Zebra believes we will hold these securities until they are sold at auction, redeemed at carrying value or reach maturity, we have classified them as long term investments in the balance sheet.

Financial assets and liabilities carried at fair value as of September 27, 2008 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Restricted cash	$ 1,763	$	$	$ 1,763
Available-for-sale securities	190,546		7,671	198,217
Money market investments related to the deferred compensation plan	3,961			3,961
Total assets at fair value	$ 196,270	$	$ 7,671	$ 203,941
Liabilities:				
Forward contracts (1)	$ (541)	$ 846	$	$ 305
Liabilities related to the deferred compensation plan	3,859			3,859
Total liabilities at fair value	$ 3,318	$ 846	$	$ 4,164

1) The fair value of forward contracts are calculated as follows:
   a. Fair value of forward collar contract associated with forecasted sales hedges are calculated using the midpoint of ask and bid rates for similar contracts.
   b. Fair value of regular forward contracts associated with forecasted sales hedges are calculated using the month-end exchange rate adjusted for the discount rate (3 month LIBOR rate).
   c. Fair value of balance sheet hedges are calculated at the month end exchange rate adjusted for current forward points unless the hedge has been traded but not settled at month end. If this is the case, the fair value is calculated at the rate at which the hedge is being settled.

Based on changed conditions in the credit markets, Zebra changed our valuation methodology for auction rate security instruments as noted above during the third quarter of 2008. Accordingly, these securities changed from Level 1 to Level 3 within SFAS No. 157 s hierarchy since Zebra s initial adoption of SFAS No. 157 at January 1, 2008.

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The following table presents Zebra s activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS No. 157, for the nine months ended September 27, 2008 (in thousands):

	Auction Rate Securities
Balance at December 31, 2007	$
Transfers to Level 3	12,350
Total losses (realized or unrealized):	
Included in earnings	(4,374)
Included in other comprehensive income (loss)	(305)
Purchases and settlements (net)	
Balance at September 27, 2008	$ 7,671
Total gains and (losses) for the period included in earnings attributable to the change in unrealized losses relating to assets still held at September 27, 2008	$

Note 3 Stock-Based Compensation

As of September 27, 2008, Zebra had a stock option plan and a stock purchase plan available for future grants. We accounted for these plans in accordance with SFAS No. 123(R), *Share-Based Payments*. Zebra recognizes compensation costs over the vesting period of 1 month to 5 years.

The compensation expense and the related tax benefit for share-based payments were included in the Consolidated Statement of Earnings as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Cost of sales	$ 311	$ 385	$ 896	$ 1,228
Selling and marketing	731	732	2,087	1,847
Research and development	622	510	1,636	1,701
General and administrative	2,182	3,149	5,763	6,557
Acquisition integration expenses	398		398	
Total compensation	4,244	4,776	10,780	11,333
Income tax benefit	$ 1,464	$ 1,648	$ 3,719	$ 3,910

SFAS No. 123(R) requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized (excess tax benefits) to be classified as financing cash flows in the statement of cash flows. As a result, $187,000 of excess tax benefits for the nine months ended September 27, 2008, have been classified as financing cash flows. The excess tax benefits for the nine months ended September 29, 2007 was $797,000.

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For purposes of calculating the compensation cost consistent with SFAS No. 123(R), the fair value is estimated on the date of grant using a binomial model. Volatility is based on an average of the implied volatility in the open market and the annualized volatility of Zebra s stock prices over our entire stock history. The following table shows the weighted-average assumptions used for stock option grants as well as the fair value of the options granted based on those assumptions:

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Expected dividend yield	0%	0%
Forfeiture rate	8.99%	7.69%
Volatility	37.79%	34.73%
Risk free interest rate	3.17%	4.55%
- Range of interest rates	0.81% - 3.87%	4.55% - 5.03%
Expected weighted-average life	5.09 years	4.88 years
Fair value of options granted	$ 7,465,000	$ 8,859,000
Weighted-average grant date fair value of options granted	$ 13.50	$ 13.97

The fair value of the purchase rights of all Zebra employees issued under the Stock Purchase Plan is estimated using the following weighted-average assumptions for purchase rights granted. Expected lives of three months to one year have been used along with these assumptions.

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Fair market value	$ 27.85	$ 36.49
Option price	$ 23.67	$ 31.02
Expected dividend yield	0%	0%
Expected volatility	38%	25%
Risk free interest rate	1.87%	4.83%

Stock option activity for the nine-month period ended September 27, 2008, was as follows:

	2008	
Fixed Options	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	3,024,956	$ 34.70
Granted	553,054	36.18
Exercised	(168,316)	17.27
Forfeited	(170,918)	36.62
Expired	(22,042)	43.98
Outstanding at end of period	3,216,734	$ 35.70
Options exercisable at end of period	1,727,472	$ 33.03
Intrinsic value of options exercised	$ 2,899,000	

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The following table summarizes information about fixed stock options outstanding at September 27, 2008:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$ 1.29-$21.62	563,516	3.79 years	$ 17.94	495,160	$ 18.26
$ 21.62-$35.75	651,336	5.15 years	29.55	449,310	27.40
$ 35.75-$41.25	922,998	8.92 years	38.44	137,158	40.13
$ 41.25-$46.18	638,775	7.27 years	44.27	356,827	44.90
$ 46.18-$53.92	440,109	5.54 years	49.40	289,017	49.04
	3,216,734			1,727,472	

	Options Outstanding	Options Exercisable
Aggregate intrinsic value	$ 7,377,000	$ 6,433,000
Weighted-average remaining contractual term	6.5 years	4.7 years

As of September 27, 2008, there was $24,806,000 of unearned compensation cost related to stock options granted under the plans. That cost is expected to be recognized over a weighted-average period of 2.8 years.

Note 4 Inventories

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

	September 27, 2008	December 31, 2007
Raw materials	$ 52,989	$ 46,572
Work in process	1,498	1,103
Deferred costs of long-term contracts	4,762	1,469
Finished goods	47,012	35,894
Total inventories	$ 106,261	$ 85,038

Note 5 Business Combinations

Multispectral Solutions Inc. On April 1, 2008, Zebra acquired all of the outstanding stock of Multispectral Solutions Inc. (MSSI) for $18,348,000, which is net of cash acquired and includes transaction costs. Headquartered in Germantown, Maryland, MSSI is a global provider of ultra wideband (UWB) real-time locating systems and other UWB-based wireless technology. Zebra acquired this company to further extend our range of solutions to help our customers identify, track and manage a broader range of assets. The consolidated statements of earnings reflect the results of operations of MSSI since the effective date of the purchase. The pro forma impact of this acquisition was not significant.

The following table (in thousands) summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition.

	At December 14, 2007
Current assets	$ 1,424
Property and equipment	70

Intangible assets		8,000
Goodwill		12,805
Total assets acquired	$	22,299
Deferred tax liability		(3,011)
Current liabilities		(940)
Net assets acquired	$	18,348

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On a preliminary basis pending the receipt of final valuations, the purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of $12,805,000. The intangible assets of $8,000,000 consist of the following (in thousands):

	Amount	Useful life
Customer relationships	1,000	10 years
Developed technology	7,000	8 years

The goodwill is not deductible for tax purposes.

Navis, LLC. On December 14, 2007, Zebra acquired all of the outstanding stock of Navis Holdings, LLC (Navis) for $144,067,000, which is net of cash acquired and includes transaction costs. Headquartered in Oakland, California, Navis provides solutions to optimize the flow of goods through marine terminals and other operations managing cargo in the supply chain. Zebra acquired this company to further extend our range of solutions to help our customers identify, track and manage a broader range of assets. The consolidated statements of earnings reflect the results of operations of Navis since the effective date of the purchase. The pro forma impact of this acquisition was not significant.

The following table (in thousands) summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition.

	At December 14, 2007
Current assets	$ 26,253
Property and equipment	2,601
Intangible assets	58,400
Goodwill	76,340
Total assets acquired	$ 163,594
Current liabilities	(19,527)
Net assets acquired	$ 144,067

On a preliminary basis pending the receipt of final valuations, the purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values resulting in goodwill of $76,340,000. Of this amount, $1,531,000 was added to goodwill as a result of purchase accounting adjustments during 2008. The intangible assets of $58,400,000 consist of the following (in thousands):

	Amount	Useful life
Trade names	$ 2,300	2 years
Customer relationships	39,000	15 years
Developed technology	17,100	6 years

The goodwill is deductible for tax purposes.

proveo AG. On July 2, 2007, Zebra acquired all of the outstanding stock of proveo AG for approximately $15,000,000, which is net of cash acquired and transaction costs. This transaction called for potential payments of $5,100,000 in addition to the initial purchase price payment. These payments were contingent upon gross profit of specific products shipped for the first eighteen months after the acquisition. During the third quarter of 2008, the first of these payments was made for $3,738,000 and added to Zebra s goodwill. One additional and final payment may be made in the fourth quarter of 2008 and would be added to goodwill at that time.

Note 6 Investments and Marketable Securities

We classify our investments in marketable debt securities as available-for-sale in accordance with the classifications defined in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* As of September 27, 2008, all of our investments in marketable debt securities with maturities greater than one year are classified as long-term investments on the balance sheet due to our ability and intent to hold them until maturity.

SFAS No. 115 requires that changes in the market value of available-for-sale securities are reflected in the accumulated other comprehensive income caption of stockholders equity in the balance sheet, until we dispose of the securities. Once these securities are disposed of, either by sale or maturity, the accumulated changes in market value are transferred to investment income. On the cash flow statements, changes in the balances of *available-for-sale* securities are shown as purchases, sales and maturities of investments and marketable securities under investing activities.

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Changes in market value of *trading* securities would be recorded in investment income as they occur, and the related cash flow statement would include changes in the balances of trading securities as operating cash flows.

Change in unrealized gains and losses on available-for-sale securities are included in these financial statements as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Changes in unrealized gains and losses on available- for-sale securities, net of tax, recorded in accumulated other comprehensive income	$ (257)	$ 1,144	$ (413)	$ 729

During the third quarter of 2008, Zebra recorded losses on an auction rate security instrument in the amount of $4,374,000 and on a separate long-term equity investment which was included in other assets in the amount of $2,897,000. These losses were included in investment income. See Note 2 for further information regarding the auction rate security valuations.

Note 7 Stockholders Equity

Share count and par value data related to stockholders equity are as follows:

	September 27, 2008	December 31, 2007
Preferred Stock		
Par value per share	$ 0.01	$ 0.01
Shares authorized	10,000,000	10,000,000
Shares outstanding		
Common Stock - Class A		
Par value per share	$ 0.01	$ 0.01
Shares authorized	150,000,000	150,000,000
Shares issued	72,151,857	72,151,857
Shares outstanding	63,336,069	66,370,248
Treasury stock		
Shares held	8,815,788	5,781,609

During the nine months ended September 27, 2008, Zebra purchased 3,380,700 shares of Zebra Class A Common Stock for $107,504,000. We reissued 346,521 treasury shares upon exercise of stock options and purchases under the stock purchase plan during the first nine months of 2008.

Note 8 Other Comprehensive Income (Loss)

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

Foreign currency translation adjustment relates to our non-U.S. subsidiary companies that have designated a functional currency other than the U.S. dollar. We are required to translate the subsidiary functional currency financial statements to dollars using a combination of historical, month-end, and average foreign exchange rates. This combination of rates creates the foreign currency translation adjustment component of other comprehensive income.

Unrealized gains (losses) on foreign currency hedging activities relate to derivative instruments used to hedge the currency exchange rates for forecasted euro sales. These hedges are designated as cash flow hedges, and we have deferred income statement recognition of gains and losses until the hedged transaction occurs. See Note 11 for more details.

Unrealized gains (losses) on investments classified as available-for-sale are deferred from income statement recognition until the gains or losses are realized. See Note 6 above for more details.

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The components of other comprehensive income included in the Consolidated Statements of Comprehensive Income are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Foreign currency translation adjustments	$ (6,242)	$ 1,132	$ (4,670)	$ 2,578
Changes in unrealized gains and losses on foreign currency hedging activities:				
Gross	$ 9,157	$ (5,159)	$ 8,130	$ (4,974)
Income tax (benefit)	3,447	(1,942)	3,060	(1,872)
Net	$ 5,710	$ (3,217)	$ 5,070	$ (3,102)
Changes in unrealized gains and losses on investments classified as available-for-sale:				
Gross	$ (412)	$ 1,835	$ (662)	$ 1,169
Income tax (benefit)	(155)	691	(249)	440
Net	$ (257)	$ 1,144	$ (413)	$ 729

The components of accumulated other comprehensive income (loss) included in the Consolidated Balance Sheets are as follows (in thousands):

	As of	
	September 27, 2008	December 31, 2007
Foreign currency translation adjustments	$ 6,007	$ 10,677
Unrealized losses on foreign currency hedging activities:		
Gross	$ (1,122)	$ (9,252)
Income tax benefit	(422)	(3,482)
Net	$ (700)	$ (5,770)
Unrealized gains and losses on investments classified as available-for-sale:		
Gross	$ (521)	$ 141
Income tax (benefit)	(196)	53
Net	$ (325)	$ 88

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Note 9 Earnings Per Share

Earnings per share were computed as follows (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Basic earnings per share:				
Net income	$ 25,770	$ 26,961	$ 78,940	$ 79,310
Weighted average common shares outstanding	64,328	68,580	65,190	68,814
Per share amount	$ 0.40	$ 0.39	$ 1.21	$ 1.15
Diluted earnings per share:				
Net income	$ 25,770	$ 26,961	$ 78,940	$ 79,310
Weighted average common shares outstanding	64,328	68,580	65,190	68,814
Add: Effect of dilutive securities stock options	325	425	360	445
Diluted weighted average and equivalent shares outstanding	64,653	69,005	65,550	69,259
Per share amount	$ 0.40	$ 0.39	$ 1.20	$ 1.15

Potentially dilutive securities that were excluded from the earnings per share calculation consist of stock options with an exercise price greater than the average market closing price of the Class A common stock. These options were as follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Potentially dilutive shares	2,268,000	1,614,000	2,251,000	1,608,000

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Note 10 Goodwill and Other Intangible Asset Data

Intangible asset data are as follows (in thousands):

	September 27, 2008		December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Current technology	$ 58,655	$ (19,289)	$ 51,700	$ (13,526)
Patent and patent rights	32,526	(9,592)	31,697	(6,468)
Customer relationships	61,944	(9,629)	60,685	(4,664)
Total	$ 153,125	$ (38,510)	$ 144,082	$ (24,658)
Unamortized intangible assets				
Goodwill	$ 264,647		$ 246,510	
Aggregate amortization expense				
For the year ended December 31, 2007			$ 11,128	
For the three months ended September 27, 2008	$ 4,711			
For the nine months ended September 27, 2008	13,904			
Estimated amortization expense				
For the year ended December 31, 2008	18,553			
For the year ended December 31, 2009	18,520			
For the year ended December 31, 2010	16,550			
For the year ended December 31, 2011	16,170			
For the year ended December 31, 2012	15,280			
Thereafter	43,446			

We test the impairment of goodwill each year or between annual impairment dates whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last assessment during June 2008. At that time, no adjustment to goodwill was necessary due to impairment.

We evaluate the impairment of identifiable intangibles and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors considered that may trigger an impairment review consist of:

Significant underperformance relative to expected historical or projected future operating results,

Significant changes in the manner of use of the acquired assets or the strategy for the overall business,

Significant negative industry or economic trends,

Significant decline in Zebra s stock price for a sustained period, and

Significant decline in market capitalization relative to net book value.

If we believe that one or more of the above indicators of impairment have occurred, we compare the carrying value to the undiscounted cash flows of the asset to determine if the carrying value is recoverable. If the carrying value is not determined to be recoverable, we measure impairment based on a projected discounted cash flow using a discount rate that incorporates the risk inherent in the cash flows.

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Note 11 Derivative Instruments

In the normal course of business, portions of Zebra s operations are subject to fluctuations in currency values. We manage these risks using derivative financial instruments.

Hedging of Net Assets

We use forward contracts and options to manage exposure related to our pound and euro denominated net assets. We record gains and losses on these contracts and options in income each quarter along with the transaction gains and losses related to our net euro asset position, which would ordinarily offset each other. Summary financial information related to these activities follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Change in gains and losses from foreign exchange derivatives	$ 114	$ (1,770)	$ (3,813)	$ (1,877)
Gain on net foreign currency assets	133	1,747	4,691	1,847
Net foreign exchange gain/(loss)	$ 247	$ (23)	$ 878	$ (30)

	As of	
	September 27, 2008	December 31, 2007
Notional balance of outstanding contracts:		
Pound/US dollar	£ 4,000	£ 3,000
Euro/US dollar	7,000	14,000
Euro/Pound	23,000	20,500
Net fair value of outstanding contracts	$ (494)	$ (104)

Hedging of Anticipated Sales

We manage the exchange rate risk of anticipated euro denominated sales using forward contracts and option collars. We designate these contracts as cash flow hedges. Gains and losses on these contracts are deferred in other comprehensive income until the contracts are settled and the hedged sales are realized, at which time the deferred gains or losses will be reported as an increase or decrease to sales. Summary financial information related to the cash flow hedges of future revenues follows (in thousands, except percentages):

	As of	
	September 27, 2008	December 31, 2007
Net unrealized losses deferred in other comprehensive income:		
Gross	$ (1,122)	$ (9,252)
Income tax benefit	(422)	(3,482)
Net	$ (700)	$ (5,770)
Notional balance of outstanding contracts	24,000	108,500
Hedge effectiveness	100%	100%

	September 27, 2008	September 29, 2007
Net losses included in revenue for the:		
Three months ended	$ (5,090)	$ (705)
Nine months ended	(12,886)	(1,795)

The duration of our forecasted sales hedge contracts is less than three months.

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Note 12 Segment Information

As a result of the acquisitions of WhereNet Corp., proveo AG, Navis Holdings, LLC, and Multispectral Solutions Inc., Zebra now has two reportable segments: Specialty Printing Group (SPG) and Enterprise Solutions Group (ESG).

SPG includes direct thermal and thermal transfer label and receipt printers, passive radio frequency identification (RFID) printer/encoders, dye sublimation card printers and digital photo printers. Also included in this group is a comprehensive range of specialty supplies consisting of self-adhesive labels, thermal transfer ribbons, thermal printheads, batteries and other accessories, including software for label design and printer network management.

ESG has evolved since the beginning of 2007 with the acquisitions of WhereNet Corp., proveo AG, Navis Holdings, LLC, and Multispectral Solutions Inc. The solutions that these companies provide are sold on a contract basis and are typically installed over several quarters. These contracts cover a range of services, including design, installation and ongoing maintenance services.

Segment information is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales:				
SPG	$ 218,452	$ 211,117	$ 671,965	$ 615,806
ESG	25,621	6,101	72,167	18,900
Total	$ 244,073	$ 217,218	$ 744,132	$ 634,706
Operating income (loss):				
SPG	$ 54,494	$ 57,060	$ 175,663	$ 159,850
ESG	(1,637)	(3,703)	(16,340)	(10,253)
Corporate and other	(12,177)	(16,335)	(42,320)	(43,274)
Total	$ 40,680	$ 37,022	$ 117,003	$ 106,323

	September 27, 2008	December 31, 2007
Identifiable assets:		
SPG	$ 405,279	$ 370,786
ESG	345,624	320,689
Corporate and other	286,925	342,803
Total	$ 1,037,828	$ 1,034,278

Corporate and other includes corporate administration costs or assets that support both reporting segments.

Prior period amounts have been restated to conform to requirements of SFAS No. 131, *Disclosures about Segments of and Enterprise and Related Information.*

Note 13 Costs associated with Exit or Disposal Activities

During the first quarter of 2008, we initiated two different plans to close facilities. These plans are being accounted for under SFAS No. 146, *Accounting for Cost Associated with Exit or Disposal Activities.* All exit costs associated with these activities are identified on a separate line of our Consolidated Statement of Earnings, as part of operating expenses. These plans are intended to reduce costs and improve manufacturing efficiency.

In January 2008, we initiated a plan to close our supplies manufacturing plant in Warwick, Rhode Island. This plant s operations were transferred to a new facility in Flowery Branch, Georgia, which is now our East Coast supplies manufacturing facility. This transition was completed during the second quarter. We do not expect to incur any further costs associated with this plan. Costs incurred through September 27, 2008 were (in thousands):

Type of Cost	
Severance, stay bonuses, and other employee-related expenses	$ 341
Other exit costs	223
Total	$ 564

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In February 2008, we announced plans to establish regional distribution and configuration centers, consolidate our supplier base, and transfer final assembly of thermal printers to Jabil Circuit, Inc., a global third-party electronics manufacturer. These actions are intended to optimize our global printer product supply chain by improving responsiveness to customer needs and increasing Zebra s flexibility to meet emerging business opportunities. As a result, all printer manufacturing in our Vernon Hills, Illinois and Camarillo, California will be transferred to Jabil s facility in Guangzhou, China. This transition is expected to take 18 to 24 months to complete. As of September 27, 2008, we expect to incur the following exit costs (in thousands):

Type of Cost	Cost incurred as of September 27, 2008	Additional cost expected	Total costs expected to be incurred
Severance, stay bonuses, and other employee-related expenses	$ 3,201	$ 2,799	$ 6,000
Professional services	4,294	671	4,965
Relocation and transition costs	2,425	11,696	14,121
Total	$ 9,920	$ 15,166	$ 25,086

Liabilities and expenses related to exit activities for the nine months ended September 27, 2008, were as follows (in thousands):

	Severance, stay bonuses, and other employee-related expenses	Professional services	Relocation and transition costs	Other exit costs	Total
Accrued liabilities related to exit activities at December 31, 2007	$	$	$	$	$
Expenses incurred for the six months ended June 28, 2008	3,172	3,194	1,321	227	7,914
Expenses incurred for the three months ended September 27, 2008	370	1,100	1,104	(4)	2,570
Expenses incurred for the nine months ended September 27, 2008	3,542	4,294	2,425	223	10,484
Less: Amounts paid for the nine months ended September 27, 2008	(429)	(4,294)	(2,425)	(88)	(7,236)
Accrued liabilities related to exit activities at September 27, 2008	$ 3,113	$	$	$ 135	$ 3,248

All current exit costs are included in operating expenses for the Specialty Printing Group.

Note 14 Acquisition Integration Expenses

During 2008, Zebra began an integration project to combine our most recent acquisitions of WhereNet Corp., proveo AG, Navis, LLC, and Multispectral Solutions, Inc., to form the Enterprise Solutions Group. As a result, Zebra incurred $1,734,000 in acquisition integration expenses, primarily severance costs, which are included in operating expenses as a separate line item.

Note 15 Contingencies

During January, 2007, Zebra acquired WhereNet Corp. As part of the closing of this acquisition, an escrow balance of approximately $13,600,000 was established against the total purchase price. On January 24, 2008, Zebra made an indemnification claim against the sellers of WhereNet for the entire escrow balance, alleging that Zebra was entitled to indemnification from the former shareholders of WhereNet as a result of, among other things, breaches of the representations and warranties in the acquisition agreement and potential third party claims.

Representatives of the former shareholders disputed the allegations and filed a declaratory action to obtain the escrowed funds. The dispute was settled and the complaint was dismissed in September 2008. In accordance with the settlement agreement, Zebra received $7 million of the escrowed funds, and the remainder was distributed to the former shareholders and vested option holders of WhereNet pursuant to the terms of the acquisition agreement.

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After Zebra made its indemnification claim and before the settlement agreement was reached, Zebra agreed to make whole its current employees that had been shareholders and vested option holders of WhereNet by paying them the amount that would have been due to them as former shareholders or vested option holders under the acquisition agreement if Zebra was not paid any of the escrowed funds. In addition, Zebra agreed to gross up those payments to cover the differential between what the employees would have owed in taxes had they received the payments directly out of the escrow and the amount the employees would now owe as a result of receiving part of those funds from Zebra as ordinary income. We recorded expense in the amount of $1,698,000 related to these payments. This expense was netted against the $7,000,000 received from the escrow settlement and is shown on the consolidated statement of earnings on a separate line called claim settlement.

On January 31, 2003, a Writ of Summons was filed in the Nantes Commercial Court, Nantes, France, by Printherm, a French corporation, and several of its shareholders (collectively, Printherm), against Zebra Technologies France (ZTF), a French corporation and wholly-owned subsidiary of Zebra. Printherm seeks damages in the amount of 15,304,000 and additional unspecified damages in connection with ZTF s termination of negotiations in December 2000 respecting the proposed acquisition by Zebra of the capital stock of Printherm. The negotiation was terminated based on unsatisfactory results of the ongoing due diligence. We believe that Printherm s claims are without merit and that a loss is not likely to occur. We will vigorously defend the action.

Printherm filed bankruptcy proceedings on August 30, 2004, and the Commercial Court ordered its liquidation on November 30, 2004. The case was put on hold until the Court-appointed liquidator filed a submission in August 2005, which started the proceedings again. ZTF filed its answer on November 19, 2005, in anticipation of a Court-ordered December 19, 2005, hearing date. In response to a request by Printherm s liquidator, the Court postponed the hearing date until March 27, 2008 to provide time for Printherm to respond to ZTF s answer. The Printherm liquidator filed its response to ZTF s answer shortly before the March 27 hearing date. ZTF argued that the filing date provided ZTF with insufficient time to prepare for the hearing, and the Court struck the case from the docket as a sanction against Printherm. Printherm s liquidator was required to reinstate the case before the Court. A final hearing to consider statute of limitations and substantive arguments is scheduled for December 11, 2008.

On April 9, 2008, a complaint was filed in the U.S. District Court for the Northern District of Illinois by Barcode Informatica, Ltd. (Barcode), a former Brazilian reseller, against Zebra. The complaint alleges that Zebra wrongfully terminated Barcode s reseller status and tortiously interfered with Barcode s alleged bid for the sale of printers to Brazilian Post. Barcode s claim seeks an unspecified amount of damages. We believe that Barcode s claims are without merit and we will vigorously defend the action.

Note 16 Warranty. In general, Zebra provides warranty coverage of one year on printers against defects in material and workmanship. Printheads are warranted for six months and batteries are warranted for three months. A provision for warranty expense is recorded at the time of shipment and adjusted quarterly based on historical warranty experience. The following is a summary of Zebra s accrued warranty obligation (in thousands).

	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Balance at the beginning of the year	$ 3,411	$ 2,250
Warranty expense year-to-date	3,999	4,863
Warranty payments made year-to-date	(3,396)	(4,025)
Balance at the end of the period	$ 4,014	$ 3,088

During 2005, Zebra began providing for environmental recycling reserves similar to warranty reserves. In the European Union, we have an obligation in the future to recycle printers. This reserve is based on all new printers sold after August 13, 2005, and printers sold prior to that date that are returned to us upon our sale of a new printer to a customer. The following is a summary of Zebra s accrued recycling obligation (in thousands).

	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007
Balance at the beginning of the year	$ 3,706	$ 2,115
Recycling expense year-to-date	(2,410)	1,357
Recycling payments made year-to-date	(10)	
Exchange rate impact	(128)	94
Balance at the end of the period	$ 1,158	$ 3,566

We reexamined the environmental recycling reserves based on our three years of experience of providing for such reserves and determined the reserve to be higher than necessary. Therefore, we released $3,757,000 from the reserve during the second quarter of 2008.

Note 17 Income Taxes

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*. According to FIN No. 48, we identified, evaluated, and measured the amount of income tax benefits to be recognized for all of our income tax positions. The net income tax assets recognized under FIN No. 48 did not differ from the net assets recognized before adoption, and, therefore, we did not record an adjustment related to the adoption of FIN No. 48. Zebra did not have any unrecognized tax benefits as of September 27, 2008. Zebra s continuing practice is to recognize interest and/or penalties related to income tax matters as part of income tax expense.

Zebra concluded U.S. federal income tax audits for years 2005 and 2006 during the 3rd quarter. The 2007 tax year remains open. As a result of the audits, additional income tax expense in the amount of $758,949 was incurred. In addition, interest expense in the amount of $146,937, net of tax benefits, was incurred. These amounts are included as part of current quarter income tax expense. The tax years 2004 through 2007 remain open to examination by various state taxing jurisdictions.

The effective income tax rate for the third quarter of 2008 was 27.2% compared with 34.5% for the corresponding period in 2007. For the year to-date, the effective income tax rate was 32.4% for 2008 and 34.6% for 2007. The 2008 rates were affected by the $7,000,000 payment we received from the WhereNet escrow claim settlement discussed in Note 15, which is not taxable.

Note 18 Sale Leaseback Accounting

In conjunction with our transition of printer manufacturing to a third-party manufacturer, we entered into a sale and leaseback transaction during the third quarter of 2008 for our manufacturing facility located in Camarillo, California. Zebra received net proceeds of $14,796,000 against a net book value of $10,669,000. Of the $4,127,000 gain, $3,006,000 was deferred and will be applied against future rental payments, and $1,121,000 was a reduction to the general and administrative expenses.

Note 19 Revolving Credit Agreement

On August 14, 2008, Zebra entered into a revolving credit agreement for a five-year $100 million revolving credit facility. This revolving credit facility has a $100 million accordion feature that allows Zebra to increase the facility up to a total of $200 million subject to obtaining commitments for the incremental capacity from existing or new lenders. The loans under this credit facility will be available for general corporate purposes of Zebra and its subsidiaries in the ordinary course of business and other purposes permitted by the agreement.

This credit agreement is guaranteed by certain of Zebra s domestic subsidiaries. Loans under the agreement shall bear interest at a rate equal to the prime rate or a spread over the applicable LIBOR rate, as selected by Zebra. This spread for LIBOR-based loans is dependent on our ratio of Total Debt to EBITDA, as defined in the agreement, and ranges from 0.50% to 1.25%. The spread in effect at closing for LIBOR-based loans was .50%.

The credit agreement includes customary representations, warranties, affirmative and negative covenants (including, among others, restrictions on the payment of cash dividends) and events of default (and related remedies, including acceleration and increased interest rates following an event of default). It also contains financial covenants tied to Zebra s leverage ratio and fixed charge coverage ratio. As of September 27, 2008, we had established letters of credit amounting to $2,580,000, which reduce the funds available for borrowing under the agreement.

Note 20 New Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133.* This Statement requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, to create greater consistency in the accounting and financial reporting of business combinations. SFAS No. 141(R) establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement applies to fiscal years beginning after December 15, 2008 and will generally affect accounting for acquisitions going forward.

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

Consolidated Results of Operations

Net sales for the third quarter of 2008 increased 12.4% with growth in all regions, compared with the third quarter of 2007. Sales from recent acquisitions supplemented continued sales growth of our established specialty printing lines. Gross profit margin for the third quarter of 2008 increased slightly from the same period a year ago as a result of higher margins of acquired companies offset by lower than normal margins in our North American supplies business.

Higher operating expenses resulted from increases in payroll costs, advertising costs and market development costs, and travel and entertainment expenses. Recent acquisitions contributed to the increases in operating expenses by increasing third quarter selling and marketing expenses by $2,800,000, research and development expenses by $5,163,000, general and administrative expenses by $2,126,000, and amortization of intangibles by $2,028,000. Operating expenses were decreased by income recorded as a result of the sale of our Camarillo facility in the amount of $1,121,000 included in general and administrative expenses and the WhereNet escrow claim settlement in the amount of $5,302,000 included on a separate line. We also incurred exit costs during the quarter of $2,570,000 related to the transfer of our printer manufacturing to a third-party manufacturer and the closure of our Warwick, Rhode Island, supplies manufacturing facility and integration costs in our Enterprise Solutions group of $1,734,000. For the third quarter of 2007, operating expenses included $3,979,000 in one-time charges to general and administrative expenses related to the retirement of former CEO Ed Kaplan and Board of Director project activity related to the search and hiring of a new chief executive officer.

For the year-to-date, exit costs were $10,484,000. The 2008 year-to-date increases related to recent acquisitions were $10,092,000 for selling and marketing expenses, $15,059,000 for research and development expenses, $5,506,000 for general and administrative expenses, and $5,805,000 for amortization of intangibles.

	Three Months Ended				
	September 27, 2008	September 29, 2007	Percent Change	Percent of Total Sales - 2008	Percent of Total Sales - 2007
Net sales	$ 244,073	$ 217,218	12.4	100.0	100.0
Cost of sales	126,287	112,590	12.2	51.7	51.8
Gross profit	117,786	104,628	12.6	48.3	48.2
Operating expenses	77,106	67,606	14.1	31.6	31.2
Operating income	40,680	37,022	9.9	16.7	17.0
Other income (loss)	(5,078)	4,140	NM	(2.1)	1.9
Income before income taxes	35,602	41,162	(13.5)	14.6	18.9
Income taxes	9,832	14,201	(30.8)	4.0	6.5
Net income	$ 25,770	$ 26,961	(4.4)	10.6	12.4
Diluted earnings per share	$ 0.40	$ 0.39			

	Nine Months Ended				
	September 27, 2008	September 29, 2007	Percent Change	Percent of Total Sales - 2008	Percent of Total Sales - 2007
Net sales	$ 744,132	$ 634,706	17.2	100.0	100.0
Cost of sales	375,716	330,886	13.5	50.5	52.1
Gross profit	368,416	303,820	21.3	49.5	47.9
Operating expenses	251,413	197,497	27.3	33.8	31.1
Operating income	117,003	106,323	10.0	15.7	16.8

Other income (loss)	(225)	14,861	NM	(0.0)	2.3
Income before income taxes	116,778	121,184	(3.6)	15.7	19.1
Income taxes	37,838	41,874	(9.6)	5.1	6.6
Net income	$ 78,940	$ 79,310	(0.5)	10.6	12.5
Diluted earnings per share	$ 1.20	$ 1.15			

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Sales by product category, percent change, and percent of total sales for the three and nine months ended September 27, 2008, and September 29, 2007, were (in thousands, except percentages):

Product Category	Three Months Ended September 27, 2008	Three Months Ended September 29, 2007	Percent Change	Percent of Total Sales - 2008	Percent of Total Sales - 2007
Hardware	$ 175,663	$ 164,756	6.6	72.0	75.8
Supplies	45,530	41,731	9.1	18.7	19.2
Service and software	26,260	9,728	169.9	10.8	4.5
Shipping and handling	1,710	1,708	0.1	0.6	0.8
Cash flow hedging activities	(5,090)	(705)	NM	(2.1)	(0.3)
Total sales	$ 244,073	$ 217,218	12.4	100.0	100.0

Product Category	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007	Percent Change	Percent of Total Sales - 2008	Percent of Total Sales - 2007
Hardware	$ 541,483	$ 482,640	12.2	72.8	76.1
Supplies	131,236	120,098	9.3	17.6	18.9
Service and software	78,955	28,681	175.3	10.6	4.5
Shipping and handling	5,344	5,082	5.2	0.7	0.8
Cash flow hedging activities	(12,886)	(1,795)	NM	(1.7)	(0.3)
Total sales	$ 744,132	$ 634,706	17.2	100.0	100.0

Sales to customers by geographic region, percent changes and percent of total sales for the three and nine months ended September 27, 2008, and September 29, 2007, were (in thousands, except percentages):

Geographic Region	Three Months Ended September 27, 2008	Three Months Ended September 29, 2007	Percent Change	Percent of Total Sales - 2008	Percent of Total Sales - 2007
Europe, Middle East and Africa	$ 85,381	$ 74,200	15.1	35.0	34.2
Latin America	21,268	16,703	27.3	8.7	7.7
Asia-Pacific	26,560	21,221	25.2	10.9	9.8
Total International	133,209	112,124	18.8	54.6	51.7
North America	110,864	105,094	5.5	45.4	48.3
Total sales	$ 244,073	$ 217,218	12.4	100.0	100.0

Geographic Region	Nine Months Ended September 27, 2008	Nine Months Ended September 29, 2007	Percent Change	Percent of Total Sales - 2008	Percent of Total Sales - 2007
Europe, Middle East and Africa	$ 276,538	$ 226,330	22.2	37.2	35.7
Latin America	58,618	44,638	31.3	7.9	7.0
Asia-Pacific	76,694	55,771	37.5	10.3	