ZEBRA TECHNOLOGIES CORP
Form 10-Q
November 15, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 1, 2016
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 incorporation or organization)	(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 ý 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 ý 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 ý	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 ý
As of November 8, 2016, there were 52,785,730 shares of Class A Common Stock, $.01 par value, outstanding.

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QUARTER ENDED OCTOBER 1, 2016
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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)

	October 1, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 163	$ 192
Accounts receivable, net of allowances for doubtful accounts of $6	599	671
Inventories, net	345	397
Prepaid expenses and other current assets	90	74
Assets held for sale	68	—
Total Current assets	1,265	1,334
Property and equipment, net	292	298
Goodwill	2,460	2,490
Other intangibles, net of accumulated amortization of $500 and $342, respectively	533	757
Long-term deferred income taxes	83	70
Other long-term assets	65	91
Total Assets	$ 4,698	$ 5,040
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$ 360	$ 289
Accrued liabilities	347	367
Deferred revenue	204	197
Income taxes payable	—	42
Liabilities held for sale	21	—
Total Current liabilities	932	895
Long-term debt	2,788	3,012
Long-term deferred revenue	101	125
Other long-term liabilities	129	115
Total Liabilities	3,950	4,147
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	199	194
Treasury stock at cost, 19,335,780 and 19,990,006 shares at October 1, 2016 and December 31, 2015, respectively	(614)	(631)
Retained earnings	1,223	1,377
Accumulated other comprehensive loss	(61)	(48)
Total Stockholders’ Equity	748	893
Total Liabilities and Stockholders’ Equity	$ 4,698	$ 5,040

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net sales:				
Net sales of tangible products	$772	$ 788	$2,241	$ 2,305
Revenue from services and software	132	128	391	394
Total Net sales	904	916	2,632	2,699
Cost of sales:				
Cost of sales of tangible products	402	403	1,164	1,196
Cost of services and software	88	99	258	287
Total Cost of sales	490	502	1,422	1,483
Gross profit	414	414	1,210	1,216
Operating expenses:				
Selling and marketing	112	120	337	367
Research and development	96	100	284	296
General and administrative	74	67	225	203
Amortization of intangible assets	59	59	178	190
Acquisition and integration costs	28	37	98	94
Impairment of goodwill and other intangibles	62	—	62	—
Exit and restructuring costs	7	6	17	35
Total Operating expenses	438	389	1,201	1,185
Operating (loss) income	(24)	25	9	31
Other (expense) income:				
Foreign exchange loss	(1)	(5)	(4)	(21)
Interest expense, net	(46)	(46)	(145)	(145)
Other, net	(6)	1	(9)	(1)
Total Other expenses	(53)	(50)	(158)	(167)
Loss before income taxes	(77)	(25)	(149)	(136)
Income tax expense (benefit)	6	4	5	(5)
Net loss	$(83)	$ (29)	$(154)	$ (131)
Basic loss per share	$(1.61)	$ (0.57)	$(2.99)	$ (2.56)
Diluted loss per share	$(1.61)	$ (0.57)	$(2.99)	$ (2.56)
Basic weighted average shares outstanding	51,690,204	51,151,541	51,499,447	50,925,976
Diluted weighted average and equivalent shares outstanding	51,690,204	51,151,541	51,499,447	50,925,976

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net loss	$(83)	$ (29)	$(154)	$ (131)
Other comprehensive income (loss), net of tax:				
Unrealized loss on anticipated sales hedging transactions	(1)	(2)	(5)	(5)
Unrealized gain (loss) on forward interest rate swaps hedging transactions	3	(6)	(7)	(10)
Foreign currency translation adjustment	—	(12)	(1)	(22)
Comprehensive loss	$(81)	$ (49)	$(167)	$ (168)

See accompanying Notes to Consolidated Financial Statements.

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ZEBRA TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended	
	October 1, 2016	October 3, 2015
Cash flows from operating activities:		
Net loss	$(154)	$ (131)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	234	240
Impairment of goodwill, intangibles and other assets	67	—
Amortization of debt issuance costs and discount	16	13
Share-based compensation	20	25
Excess tax benefit from equity-based compensation	(2)	(11)
Deferred income taxes	(4)	(38)
Unrealized gain on forward interest rate swaps	(2)	(3)
All other, net	5	12
Changes in assets and liabilities, net of businesses acquired:		
Accounts receivable	46	41
Inventories	38	(26)
Other assets	20	(33)
Accounts payable	63	8
Accrued liabilities	(23)	2
Deferred revenue	(2)	8
Income taxes	(69)	13
Other operating activities	(8)	(4)
Net cash provided by operating activities	245	116
Cash flows from investing activities:		
Purchases of property and equipment	(49)	(87)
Acquisition of businesses, net of cash acquired	—	(52)
Proceeds from sale of long-term investments	—	3
Purchases of long-term investments	(1)	—
Purchases of investments and marketable securities	—	(1)
Proceeds from sales of investments and marketable securities	—	25
Net cash used in investing activities	(50)	(112)
Cash flows from financing activities:		
Payment of long-term debt	(303)	(130)
Proceeds from issuance of long-term debt	68	—
Proceeds from exercise of stock options and stock purchase plan purchases	8	14
Taxes paid related to net share settlement of equity awards	(6)	(13)
Excess tax benefit from share-based compensation	2	11
Net cash used in financing activities	(231)	(118)
Effect of exchange rate changes on cash	7	(22)
Net decrease in cash and cash equivalents	(29)	(136)
Cash and cash equivalents at beginning of period	192	394
Cash and cash equivalents at end of period	$163	$ 258
Supplemental disclosures of cash flow information:		

Income taxes paid, net	$70	$ 32
Interest paid	121	118

See accompanying Notes to Consolidated Financial Statements.

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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 subsidiaries ("Zebra" or "Company") is a global leader respected for innovative solutions in the automatic information 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; wireless LAN (“WLAN”) solutions and software; 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 software and services that are associated with these products. End-users of our products 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 Enterprise Asset Intelligence ("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.

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/A for the fiscal year ended December 31, 2015.
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 October 1, 2016 and the consolidated statements of operations and comprehensive loss for the three and nine months ended October 1, 2016 and October 3, 2015 and the consolidated statements of cash flows for the nine months ended October 1, 2016 and October 3, 2015. 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.

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Recently Adopted Accounting Pronouncement

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This update provides guidance to customers about whether a cloud computing arrangement includes a software license or should be accounted for differently. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance does not change generally accepted accounting principles for a customer's accounting for service contracts. This update is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The Company has prospectively adopted this new standard as of January 1, 2016 and concluded that it does not have a material impact on its consolidated financial statements.

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. In March 2016, the FASB issued ASU 2016-08, "Principal versus Agent Considerations (Reporting revenue gross versus net)," which clarifies gross versus net revenue reporting when another party is involved in the transaction. In April 2016, the FASB issued ASU 2016-10, "Identifying Performance Obligations and Licensing," which amends the revenue guidance on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU 2016-11, "Rescission of SEC Guidance Because of ASU 2014-09 Pursuant to Staff Announcement at March 3, 2016 EITF Meeting," which rescinds certain SEC Staff Observer comments upon adoption of Topic 606. In May 2016, the FASB also issued ASU 2016-12, "Narrow-Scope Improvements and Practical Expedients," which provides certain improvements and practical expedients in the interpretation and application of this topic. There are two transition methods available under the new standard, either cumulative effect or retrospective. These standards will be effective for the Company in the first quarter of 2018. Earlier adoption is permitted only for annual periods after December 15, 2016. Management is still assessing the impact of adoption on its consolidated financial statements.

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. This ASU is effective for the Company in the first quarter of 2017. Earlier adoption is permitted and the guidance must be applied prospectively after the date of adoption. Management is still assessing the impact of adoption on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09,"Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," which provides for simplification of certain aspects of employee share-based payment accounting including income taxes, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard will be effective for the Company in the first quarter of 2017 and will be applied either prospectively, retrospectively or using a modified retrospective transition approach depending on the area covered in this update. Earlier adoption is permitted. Management is still assessing the impact of adoption on its consolidated financial statements.

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. With respect to the Company's consolidated financial statements, the most significant impact relates to the accounting for equity investments. 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 still assessing the impact of adoption on its consolidated financial statements.

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

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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 standard will be effective for the Company in the first quarter of 2018. Earlier adoption is permitted. Management does not believe this pronouncement will have a material impact 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.

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.

Note 3 Business Divestiture

On September 13, 2016, the Company entered into an Asset Purchase Agreement with Extreme Networks, Inc. to dispose of its wireless LAN (“WLAN”) business (“disposal group”) for $55 million in cash, subject to working capital and other adjustments.

Management has determined that the disposal group does not qualify to be reported as discontinued operations and will therefore continue to be reported as part of continuing operations in its consolidated statements of operations. The assets and liabilities of the disposal group do qualify for assets held for sale accounting treatment and have been reclassified as assets and liabilities held for sale within the consolidated balance sheet at fair value less cost to sell.

As reported on Form 8-K filed on September 20, 2016, 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, consists 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. The sale price of the disposal group was used as fair value in determining the impairment of the assets held for sale. Since the sales price of the disposal group was less than its carrying value, the resulting loss was recorded as an impairment.

WLAN operating results are reported in the Enterprise segment. For the nine months ended October 1, 2016, the Company generated revenue and gross profit from these assets of $76 million and $37 million, respectively.

The assets and liabilities classified as held for sale reflected in the consolidated balance sheets related to the WLAN business are as follows (in millions):

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	October 1, 2016
Accounts receivable, net	$ 27
Inventories, net	14
Prepaid expenses and other current assets	2
Current assets held for sale	43
Property and equipment, net	3
Goodwill	—
Other intangibles, net	18
Other long-term assets	4
Total assets held for sale	$ 68
Accrued liabilities	$ 5
Current liabilities held for sale	5
Deferred revenue	15
Other long-term liabilities	1
Total liabilities held for sale	$ 21

On October 28, 2016, the Company completed the disposition of the disposal group. The finalization of the closing balance sheet is expected to be completed no later than the first quarter of 2017.

Note 4 Fair Value Measurements

Financial assets and liabilities are to be measured using inputs from 3 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 3 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.

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 October 1, 2016, are classified below (in millions):

	Level 1	Level 2	Level 3	Total
Assets:				
Investments related to the deferred compensation plan	$ 11	$ —	$ —	$ 11
Total Assets at fair value	$ 11	$ —	$ —	$ 11
Liabilities:				
Forward interest rate swap contracts (2)	$ —	$ 37	$ —	$ 37
Derivative contracts-foreign currency (1)	3	5	—	8
Liabilities related to the deferred compensation plan	11	—	—	11
Total Liabilities at fair value	$ 14	$ 42	$ —	$ 56

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Financial assets and liabilities carried at fair value as of December 31, 2015, are classified below (in millions):

	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts-foreign currency (1)	$ 6	$ 1	$ —	$ 7
Investments related to the deferred compensation plan	9	—	—	9
Total Assets at fair value	$ 15	$ 1	$ —	$ 16
Liabilities:				
Forward interest rate swap contracts (2)	$ —	$ 26	$ —	$ 26
Liabilities related to the deferred compensation plan	9	—	—	9
Total Liabilities at fair value	$ 9	$ 26	$ —	$ 35

(1) The fair value of the derivative contracts is calculated as follows:
a. Fair value of a put option contract associated with forecasted sales hedges is calculated using bid and ask rates for similar contracts.
b. Fair value of regular forward contracts associated with forecasted sales hedges is calculated using the period-end exchange rate adjusted for current forward points.
c. 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 $3 million and $6 million as of October 1, 2016 and December 31, 2015, 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 9 Derivative Instruments.

The estimated fair value of the Company’s long-term debt approximated $3.0 billion and $3.1 billion at October 1, 2016 and December 31, 2015, respectively. These fair value amounts represent the estimated value at which the Company’s lenders could trade its debt within the financial markets and do 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.

Note 5 Inventories

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

	October 1, 2016	December 31, 2015
Raw material	$ 164	$ 178
Finished goods	249	274
Inventories, gross	413	452
Inventory reserves	(68)	(55)
Inventories, net	$ 345	$ 397

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Note 6 Other Long-Term Assets

Other long-term assets consist of the following (in millions):

	October 1, 2016	December 31, 2015
Long-term investments	$ 26	$ 31
Long-term notes receivable	14	14
Other long-term assets	11	24
Investments related to the deferred compensation plan	11	9
Long-term trade receivables	—	11
Deposits	3	2
Total other long-term assets	$ 65	$ 91

The long-term investments, which are accounted for using the cost method of accounting, are primarily in venture-capital backed technology companies, and the Company's ownership interest is between 0.4% to 10.3%. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, certain distributions and additional investments.

For the three and nine month periods ended October 1, 2016, the Company determined there was an other-than-temporary impairment on one of its cost method investments and wrote down the investment by $5 million to its fair value of approximately $1 million. This charge is included in other, net on the consolidated statements of operations.

Note 7 Accrued Liabilities

The components of accrued liabilities are as follows (in millions):

	October 1, 2016	December 31, 2015
Accrued other expenses	$ 110	$ 131
Accrued compensation and related benefits	63	49
Accrued incentive compensation	42	68
Interest payable	42	36
Customer reserves	41	38
Accrued warranty	20	22
Restructuring liability	10	10
Foreign exchange contracts	8	—
Interest rate swap liability	7	3
Accrued other taxes	4	10
Total accrued liabilities	$ 347	$ 367

Note 8 Costs Associated with Exit and Restructuring Activities

Total exit and restructuring charges relate to the Company's acquisition of the Enterprise business from Motorola Solutions, Inc. ("Acquisition") in October 2014, which includes organizational design changes and operating efficiencies, and the sale of the Company's WLAN business.

Total life-to-date costs for these projects of $63 million have been recorded through October 1, 2016: $13 million in the Legacy Zebra segment and $50 million in the Enterprise segment.

During the first nine months of 2016, the Company incurred exit and restructuring costs for these projects as follows (in millions):

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	Cumulative costs incurred through December 31, 2015	Costs incurred for the nine months ended October 1, 2016	Cumulative costs incurred through October 1, 2016
Severance, stay bonus, and other employee-related expenses	$ 37	$ 14	$ 51
Obligations for future non-cancellable lease payments	9	3	12
Total	$ 46	$ 17	$ 63

Exit and restructuring charges were $1 million and $6 million for the Legacy Zebra and Enterprise segments, respectively, for the three month period ended October 1, 2016 and $4 million and $13 million, respectively, for the nine month period ended October 1, 2016. Included in the charges for the three and nine month periods ended October 1, 2016 was $4 million specific to the sale of the WLAN business. The Company expects total charges for the year ended December 31, 2016 to be in the range of $20 million to $30 million.

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

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Balance at the beginning of the period	$13	$ 18	$15	$ 7
Charged to earnings	7	6	17	35
Cash paid	(4)	(8)	(16)	(26)
Reclassification to held for sale liabilities	(2)	—	(2)	—
Balance at the end of the period	$14	$ 16	$14	$ 16

Liabilities related to exit and restructuring activities are included in the following accounts in the consolidated balance sheets (in millions):

	October 1, 2016	December 31, 2015
Accrued liabilities	$ 10	$ 10
Other long-term liabilities	4	5
Total liabilities related to exit and restructuring activities	$ 14	$ 15

Payments of the related long-term liabilities will be completed by October 2024.

Note 9 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, “Derivative and Hedging,” the Company recognizes derivative instruments as either assets or liabilities on the consolidated balance sheet and measures them at fair value. The following table presents the fair value of its derivative instruments (in millions):

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	Asset (Liability) Derivatives		
	Balance Sheet Classification	Fair Value	
		October 1, 2016	December 31, 2015
Derivative instruments designated as hedges:			
Foreign exchange contracts	Prepaid expenses and other current assets	$—	$ 2
Foreign exchange contracts	Accrued liabilities	(5)	—
Forward interest rate swaps	Accrued liabilities	(4)	(1)
Forward interest rate swaps	Other long-term liabilities	(23)	(14)
Total derivative instruments designated as hedges		$(32)	$ (13)
Derivative instruments not designated as hedges:			
Foreign exchange contracts	Prepaid expenses and other current assets	$—	$ 5
Foreign exchange contracts	Accrued liabilities	(3)	—
Forward interest rate swaps	Accrued liabilities	(3)	(2)
Forward interest rate swaps	Other long-term liabilities	(7)	(9)
Total derivative instruments not designated as hedges		(13)	(6)
Total Net Derivative Liability		$(45)	$ (19)

See also Note 4 - Fair Value Measurements.

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

	Gain (Loss) Recognized in Income				
		Three Months Ended		Nine Months Ended	
	Statement of Operations Classification	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Derivative instruments not designated as hedges:					
Foreign exchange contracts	Foreign exchange (loss) gain	$(3)	$ 3	$(6)	$ 6
Forward interest rate swaps	Interest expense, net	—	3	2	3
Total (loss) gain recognized in income		$(3)	$ 6	$(4)	$ 9

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.

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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 until the contract is settled and the hedged sale is realized. The deferred gain or loss is then reported as an increase or decrease to net sales. As of October 1, 2016 and December 31, 2015, the notional amounts of the Company’s foreign exchange cash flow hedges were €409 million and €193 million, respectively. At the end of the fourth quarter of 2015, the Company expanded its hedging activities to manage the exposure from the Enterprise segment related to fluctuations of foreign currency exchange rates. The impact is reflected in the consolidated statements of comprehensive loss.

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, Malaysian Ringgit, Australian Dollar and Swedish Krona 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 of these outstanding contracts are as follow:

	October 1, 2016		December 31, 2015	
Notional balance of outstanding contracts (in millions):				
British Pound/US dollar	£	4	£	5
Euro/US dollar	€	128	€	133
British Pound/Euro	£	7	£	7
Canadian Dollar/US dollar	$	7	$	5
Czech Koruna/US dollar	Kč	181	Kč	140
Brazilian Real/US dollar	R$	39	R$	28
Malaysian Ringgit/US dollar	RM	110	RM	13
Australian Dollar/US dollar	$	25	$	—
Swedish Krona/US dollar	kr	16	kr	—
Net fair value of outstanding contracts (in millions)	$	—	$	1

Interest Rate Risk Management

In October 2014, the Company entered into a credit agreement, which provides for a term loan (“Term Loan”) of $2.2 billion and a revolving credit facility (“Revolving Credit Facility”) of $250.0 million. See Note 11 Long-Term Debt. Borrowings under the Term Loan 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 the Term Loan. The Company has entered into forward interest rate swaps to hedge a portion of this interest rate risk.

Certain of the forward interest rate swaps, each with a term of 1 year, are designated as cash flow hedges. The notional amount of these designated swaps effective in each year of the cash flow hedge does not exceed the principal amount of the Term Loan which is hedged. 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 October 1, 2016, the Company estimated that approximately $16 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 4 quarters.

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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 October 1, 2016 (in millions):

	Gross Fair Value	Counterparty Offsetting	Net Fair Value in the Consolidated Balance Sheets
Counterparty A	$ 18	$ 11	$ 7
Counterparty B	7	3	4
Counterparty C	7	3	4
Counterparty D	13	6	7
Counterparty E	6	2	4
Counterparty F	7	3	4
Counterparty G	7	—	7
Total	$ 65	$ 28	$ 37

Note 10 Warranty

In general, the Company provides warranty coverage of 1 year on mobile computers and WLAN products. 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	
	October 1, 2016	October 3, 2015
Balance at the beginning of the period	$22	$ 25
Warranty expense	20	23
Warranty payments	(22)	(24)
Balance at the end of the period	$20	$ 24

Note 11 Long-Term Debt

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

	October 1, 2016	December 31, 2015
7.25% Senior Notes due 2022	$ 1,050	$ 1,050
4.00% Term Loan due 2021	1,800	2,035
3.25% Revolving Credit Facility	—	—
Less: debt issuance costs	(23)	(26)
Less: unamortized discounts	(39)	(47)
Long-term debt	$ 2,788	$ 3,012

During 2014, the Company entered into a credit agreement which provides for a term loan of $2.2 billion and a revolving credit facility of $250.0 million. Borrowings under this agreement bear interest at a variable rate subject to a floor of 4.00%. As of October 1, 2016, the Term Loan interest rate was 4.09%. Interest payments are payable quarterly. The Company has also entered into interest rate swaps to manage interest rate risk on its long-term debt. The Company is required to make a final

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scheduled principal payment of $1.8 billion due on October 27, 2021. Additionally, the Company may make optional prepayments of the Term Loan, in whole or in part, without premium or penalty. The Company made optional principal prepayments of $235 million during the nine months ended October 1, 2016. On November 4, 2016, the Company made an additional principal prepayment of $42 million.

Borrowings under the Revolving Credit Facility bear interest at a variable rate plus an applicable margin. As of October 1, 2016, the Revolving Credit Facility interest rate was 3.25%. Interest payments are payable quarterly. As of October 1, 2016, the Company had established letters of credit amounting to $4 million, which reduced funds available for other borrowings under the agreement to $246 million.

On June 2, 2016 (the "Closing Date"), the Company entered into the first amendment to our existing Term Loan credit agreement dated as of October 27, 2014 (the "Refinancing Amendment"). The Refinancing Amendment lowered the index rate spread for LIBOR loans from LIBOR + 400 bp to LIBOR + 325 bp. In accounting for the Refinancing Amendment, the Company applied the provisions of ASC Subtopic 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. It was determined that the terms of the debt were not substantially different for approximately 96.6% of the lenders, and applied modification accounting. For the remaining 3.4% of the lenders, extinguishment accounting was applied. During the second quarter of 2016, the Company recorded a $2.7 million charge to other expense, primarily related to costs incurred with third parties for arranger, legal and other services and the unamortized fees related to the extinguished debt. Additionally, the Company paid $4.9 million to the creditors in exchange for the modification and reported it as a debt discount which is being amortized over the life of the modified debt using the interest method.

Note 12 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 are certain discovery motions 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 insurer continues to maintain its position of not agreeing to

reimburse defense costs incurred by the Company in connection with this matter.

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.

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Note 13 Loss per Share

Loss per share were computed as follows (in millions, except share data):

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Weighted average shares:				
Basic weighted average shares outstanding	51,690,264	51,151,541	51,499,457	50,925,976
Effect of dilutive securities outstanding	—	—	—	—
Diluted weighted average and equivalent shares outstanding	51,690,264	51,151,541	51,499,457	50,925,976
Net loss	$(83)	$ (29)	$(154)	$ (131)
Basic per share amounts:				
Basic weighted average shares outstanding	51,690,264	51,151,541	51,499,457	50,925,976
Per share amount	$(1.61)	$ (0.57)	$(2.99)	$ (2.56)
Diluted per share amounts:				
Diluted weighted average shares outstanding	51,690,264	51,151,541	51,499,457	50,925,976
Per share amount	$(1.61)	$ (0.57)	$(2.99)	$ (2.56)

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.

Due to net losses in both the third quarter and first nine months of 2016 and 2015, options, awards and warrants were anti-dilutive and therefore excluded from the earnings per share calculation. These excluded outstanding options, awards and warrants are as follows:

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Potentially dilutive shares	1,340,123	1,435,155	1,366,130	1,492,882

Note 14 Share-Based Compensation

The Company has share-based compensation and employee stock purchase plans under which shares of the Company's Class A common stock are available for future grants and sales.

Pre-tax share-based compensation expense recognized in the statements of operations was $21 million and $26 million for the nine month periods ended October 1, 2016 and October 3, 2015, respectively. Tax related benefits of $7 million and $9 million were also recognized for the nine month periods ended October 1, 2016 and October 3, 2015, respectively.

The fair value of share-based compensation 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 the Company's stock price over its entire stock history. Stock option grants in the table below include both stock options, all of which were non-qualified, and stock appreciation rights ("SARs") that will be settled in the Class A common stock or cash. Restricted stock grants are valued at the market closing price on the grant date.

The following table shows the weighted-average assumptions used for grants of SARs as well as the fair value based on those assumptions:

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	Nine Months Ended	
	October 1, 2016	October 3, 2015
Expected dividend yield	0%	0%
Forfeiture rate	9.01%	10.24%
Volatility	43.14%	33.98%
Risk free interest rate	1.29%	1.53%
Range of interest rates	0.25% - 1.75%	0.03% - 2.14%
Expected weighted-average life	5.33 years	5.32 years
Fair value of SARs granted (in millions)	$12	$ 12
Weighted-average grant date fair value of SARs granted (per underlying share)	$20.06	$ 35.25

The following table summarizes the stock awards activity:

	Nine Months Ended October 1, 2016	
Stock Awards	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	[illegible]	[illegible]
Granted	[illegible]	[illegible]
Exercised	[illegible]	[illegible]
Forfeited	(52,858)	