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MORNING NOTE

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**ZAGG, INC.**

(OTC-BB: ZAGG: \$0.75)

INDUSTRY: TRANSPORTATION

**Disclosures: 1, 5, 10**

FY: Dec	2006A	2007E	2008E
EPS	(\$0.42)	(\$0.01)	\$0.05

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On December 24, ZAGG announced that its fourth quarter sales during the holiday period have exceeded management's expectations. "We have been adapting very quickly to keep up," said CEO and President Robert G. Petersen II.

We believe these sales to have been driven in part by strong sales of Apple's (Nasdaq: AAPL) iPod and iPhone in the December quarter, outside estimates of which have been widely reported although not officially endorsed by AAPL.

iPod, which sold 52 million units in AAPL's fiscal year ending September 29, 2007, had a consensus estimate among analysts of about 23 million units for the December quarter, and some thought it could go even higher. iPhone sales were thought to be at or near expectations of just over 2 million units.

Some 100 independent Mac Stores carry ZAGG product. Our visit to a crowded Mac Store in Beaverton, Oregon found Invisible Shields for various iPod models and the iPhone on prominent display. While many silicone, leather and hinged hard plastic cases were on offer, ZAGG products were the only protective films. The salesperson spoke highly of the Invisible Shield, saying that he had one himself on his phone, and said that it was easy to apply.

ZAGG rolled out international distribution in 4Q07 with resellers in Austria, Canada, Switzerland, Costa Rica, Czech Republic, France, Sweden and in the U.K. In a weak-dollar environment, international revenues should enhance profitability, and because devices are often different from those in the U.S., ZAGG believes its quickness to design new shields is an advantage. We expect more international markets to be announced in the coming weeks.

Negotiations with a big-box retailer continue. If and when ZAGG penetrates a big-box retailer, we consider that this would be a catalyst. ZAGG's margin on sales to big-box retailers through distributors would be about 35% to 40%. Slotting fees, co-marketing costs and inventory are all paid up front.

The company has also begun to resell the ezGear line of accessories for Nintendo's popular Wii gaming system, including boxing and sparring gloves in several colors; a pool cue; various stands, cases and cables; a sword and shield set; steering wheels; and a shotgun. These are available for sale through ZAGG's Web site. Nintendo reportedly sold one million Wii units just during Thanksgiving week, which should drive demand for a lot of accessories such as those ZAGG is offering.

Having spoken with management, all of the above gives us greater confidence in our 4Q07 estimated sales of \$1.7 million. We maintain our BUY rating.

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