

ZAGG INC. (OTC BB: ZAGG)

INDUSTRY: SPECIALTY RETAIL

DISCLOSURES: 1, 5, 10

RATING: BUY

RISK: HIGH

CLOSING PRICE 04/04/08	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR REV. GROWTH	PRICE TARGET
\$0.70	NM	18.15	\$12.7	N/A	\$2.50

ANNUAL DATA – DEC YEAR END			
	2007A	2008E	2009E
EPS	\$ (0.05)	\$ 0.05	\$ 0.14
P/E	N/M	14.0	5.0
REVENUE (MIL.)	\$5.1	\$8.7	\$12.9
P/S	2.5	1.5	1.0

EARNINGS					
	Q1	Q2	Q3	Q4	ANNUAL
2009E	N/A	N/A	N/A	N/A	\$ 0.14
2008E	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.05
2007A	\$ (0.02)	\$ 0.00	\$ 0.00	\$ (0.03)	\$(0.05)
2006A	\$ (0.01)	\$ 0.00	\$ 0.00	\$ (0.02)	\$(0.02)

Strong 2007 For ZAGG: Maintaining BUY Rating

ZAGG continues to build its brand, cross-posting ten videos featuring the invisibleSHIELD to its Web site and to YouTube. The videos have been well received, generating comments, favorites and views. A search at YouTube for “invisible shield” pulls them up, along with half a dozen or so tributes created by fans.

Bulking Up Social Brand Equity At The Gym

One of the most popular of these videos is set in a gym. It shows a frame across which invisibleSHIELD has been stretched being loaded down with 1,000 lbs of free weights. The film sags but does not tear, and when the weights are removed, springs back almost to its original shape. According to YouTube, this video has been watched over 850,000 times (not necessarily by unique visitors), favorited 372 times, and received over 600 comments, as well as two video responses.

Now that’s not quite as many views as Barack Obama’s recent speech “A More Perfect Union,” fourth most popular video of the month with 3.9 million views, or, uh, Rick Astley’s “Never Gonna Give You Up” music video from 1988, with 9.4 million lifetime views, of which 6.9 million have been in the last month (there has been an ongoing prank misdirecting people to it). But as a point of reference, the 100th most viewed video of the month has about 930,000 views. So 850,000 views is pretty darn good. There are currently 82.2 million videos on YouTube, and the number grows by perhaps several hundred thousand per day.

ZAGG describes this effort as “social branding” of the YouTube audience. ZAGG has a marketing employee dedicated to this type of “social networking.”

ZAGG Aims To Become As Famous As Gardol Shield

This week, at the CTIA Wireless 2008 worldwide cellular industry trade show, ZAGG caught the eye of TheStreet.com’s senior technology correspondent Gary Krakow, who not only mentioned the company in his column – saying, “I saw an amazing demonstration of a new product that will protect your cell phone or laptop unlike any product I’ve seen. It’s a clear-plastic, stick-on cover that reminds me of Colgate’s legendary Gardol Shield (ask your parents)” – but also posted a three-minute demonstration video on TheStreet.com.

Finally, a novel development is that on March 11, 2008 ZAGG announced that it was partnering with Brighton Partners, LLC of Utah by means of making a bridge loan of up to \$500,000 to fund the development of a superhero series created by Stan Lee, creator of Spider-Man and other classic Marvel (NYSE: MVL – Not Rated) superheroes, and his latest media venture POW! Entertainment, Inc., in partnership with Brighton. ZAGG intends to receive marketing exposure of the ZAGG brand in this endeavor, which may include film, television, DVD or other projects.

Brighton's note to ZAGG comes with a 3% origination fee and bearing 10% interest for a 90-day term, and is collateralized by 100% of the ownership of Brighton. ZAGG has agreed to license its trademarks in exchange for marketing and promotion rights to any property developed under the Brighton-POW! collaboration that includes ZAGG's intellectual property. ZAGG also acquired a 10% membership interest in Brighton.

2007 Results Beat Estimate

Net sales for 4Q07 were \$2.1 million, a year-over-year increase of 163%, and a sequential increase of 46% over \$1.4 in sales in 3Q07. This beat our estimate for revenues of \$1.7 million and EPS of \$0.01.

For the full year 2007, ZAGG reported net sales of \$5.1 million, an increase of 85% over net sales of \$2.8 million for 2006 and in line with management's targets. This compares favorably with our revenues estimate of \$4.8 million. Gross profit was \$3.8 million, or 73.9% of sales, compared to gross profit of \$2.0 million, or 73.8% of sales, in 2006.

Net loss of (\$0.8) million or (\$0.05) per share for 2007 was unfavorable to 2006's net loss of (\$0.1) million or (\$0.01) per share and our estimate of \$(0.01) per share. This reflects non-cash expenses related to the issuance of stock to employees and key consultants of the company and settlement expense related to the issuance of warrants to certain shareholders. Net of these charges, net income for the year would have been \$0.02.

Balance Sheet Improves

At December 31, 2007, ZAGG had a cash balance of \$2.1 million, up from \$0.5 million at December 31, 2006.

ZAGG's working capital increased to \$2.5 million at December 31, 2007, up from a working capital deficit of (\$0.8) million at December 31, 2006. This largely reflected ZAGG's sale of \$2.8 million in stock, which increased cash and paid down debt.

Sales Channels

The mall cart channel has grown to 13% of ZAGG's sales, and looks set to double its sales from last year to this year. Owners are asking for multiple carts.

Discussions proceed with at least one big-box retailer. ZAGG envisions selling via the retailer's Web site first to test the waters.

ZAGG's patent on the invisibleSHIELD is still pending.

Valuation and Recommendation

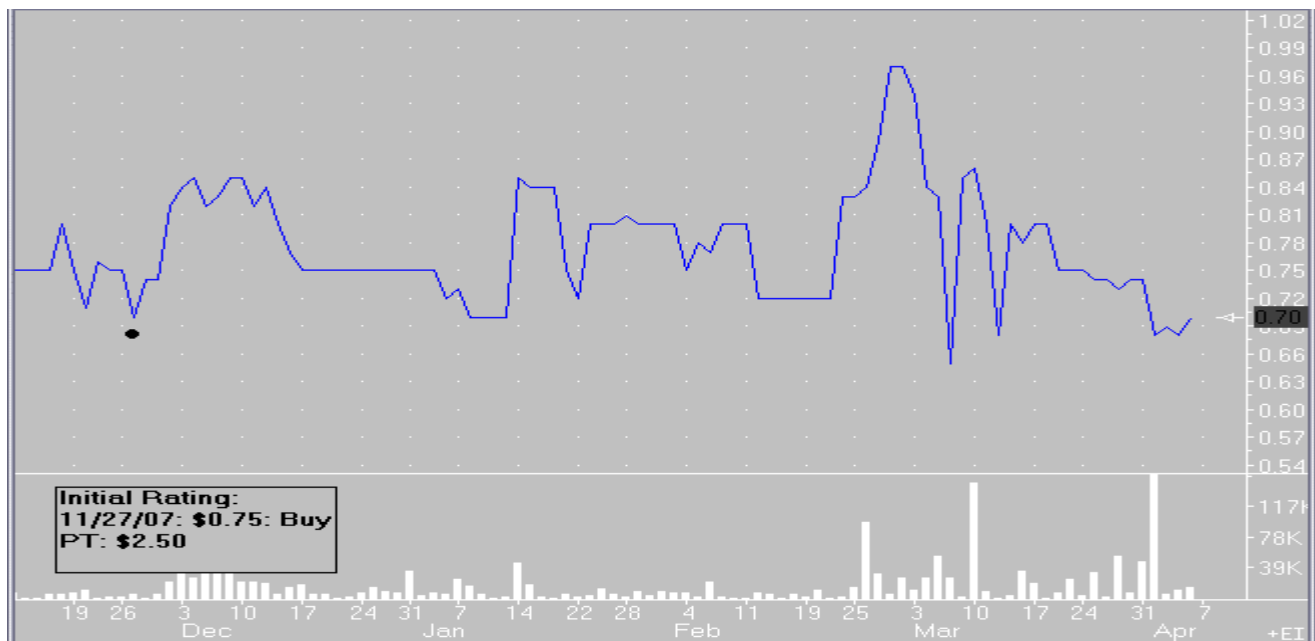
For 2008, management hopes to double revenues and remain operationally profitable. The 4Q07 call was held near the end of March, that is, near the end of 1Q08, and on this call President and CEO Robert G. Pedersen II expressed confidence that the company was on track so far toward this goal.

Our projections are more restrained, but we raise our 2008 revenues target from \$7.9 million to \$8.7 million. We have modeled growth assuming the addition of more mall carts, greater distribution agreements and successes overseas and the addition of two “Big Box” retailers in the second quarter, which also dampens gross margin. We expect greater contribution from offshore distributors and mall carts, as well as greater sell-through of web sales. For the year 2008, we continue to project a \$0.05 profit.

Bearing in mind the small market cap of the business, unease in the market over all stocks – particularly small-caps -- and the high concentration of management ownership (approximately 39% of the outstanding shares of common stock is owned and controlled by ZAGG’s Chief Executive Officer and Chief Financial Officer), we believe the shares are attractive for investors looking for long-term capital appreciation and who have tolerance for higher-than-average risk.

If and when ZAGG penetrates a big-box retailer, we consider that this would be a catalyst for the stock price. We maintain our BUY rating and our price target of \$2.50, representing 5.5 times 2008 projected sales of \$8.7 million or 3.8 times 2009 projected sales of \$12.8 million.

ZAGG designs, manufactures, and distributes protective coverings for consumer electronic and hand-held devices under the brand name invisibleSHIELD. The patent-pending invisibleSHIELD is a protective, high-tech film covering, designed for iPods, laptops, cell phones, digital cameras, PDAs, watch faces, GPS systems, gaming devices, and other items. The invisibleSHIELD is made from a protective, film-like covering that was developed originally to protect the leading edges of rotary blades of military helicopters. The film also permits touch sensitivity, meaning it can be used on devices that have a touch-screen interface. The invisibleSHIELD film material is highly reliable and durable, since it was originally developed for use in a high friction, high velocity, aerospace context. Currently, ZAGG offers over 2,000 precision pre-cut designs with a lifetime replacement warranty through online channels, resellers, college bookstores, Mac Stores and mall kiosks.



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Accumulate	Purchase of the stock is recommended for above average appreciation over the next 12 to 18 months, but the buyer may have an opportunity to acquire the stock within a 10% trading range.
Hold	Holding the stock is recommended because the share price has moved above the specific "Buy" range and, therefore, appreciation potential is less than or equal to the market.
Sell	The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

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