

## INITIATING COVERAGE

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**ZAGG INC. (OTC BB: ZAGG)**

INDUSTRY: SPECIALTY RETAIL

DISCLOSURES: 5A, 6A, 6D, 9

RATING: BUY

RISK: HIGH

CLOSING PRICE 09/16/08	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR REV. GROWTH	PRICE TARGET
\$1.06	NM	18.97	\$20.11	N/A	\$5.00

ANNUAL DATA – DEC YEAR END			
	2007A	2008E	2009E
EPS	\$ (0.05)	\$0.05	\$ 0.20
P/E	N/M	21.2	5.3
REVENUE (MIL.)	\$5.1	\$17.8	\$36.3
P/S	2.8	1.1	0.6

EARNINGS					
	Q1	Q2	Q3	Q4	ANNUAL
2009E	\$ 0.04	\$ 0.03	\$ 0.07	\$ 0.06	\$ 0.20
2008E	\$ (0.01)	\$ 0.01	\$ 0.03	\$ 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)

**“Why Zigg, When you can ‘ZAGG’”**

“ZAGG” means “Zany About Great Gadgets!”

OK, We’ve heard all the cutesy sayings about the Company’s name.

But, what we also have heard—from another broker (which is the very definition of one who knows the price of everything and the value of nothing!) is that ZAGG’s product, the **InvisibleSHIELD**, is a “CLASSY” product. It is presented in attention-grabbing, attractive packaging. It has a plethora of handy aids and materials that support the buyer’s success when installing the main protective coating on his or her gadget. The finished effect, the **InvisibleSHIELD**, encases your personal electronic device in a see-through, plastic case that protects the instrument from scratches, harm from dropping, moisture, misuse, etc. In sum, your device is protected by a classy coating that shields the gadget from normal, everyday wear ‘n tear.

Probably what you are not aware of is the Company’s meteoric rate of growth and improving profitability during a difficult economic climate that has challenged the last cycle’s stellar operating stars. This report serves three purposes: 1) To recommend ZAGG shares as a “BUY” to investors looking for both intermediate- and long-term capital appreciation and who can tolerate above normal stock market and operating risks associated with “micro-cap” stocks; 2) To point out the growth story of ZAGG as it continues to enjoy the roll-out of its main product, the **InvisibleSHIELD** (We invite readers to refer to the Catalyst Financial Resources report written in November, 2007 for a complete background on the Company.); and finally 3) ZAGG’s approach of using its retail customer base—as well as its knowledge of the consumer electronic gadget marketplace—to broaden its ZAGG brand by introducing new and exciting accessories and services to meet the retail voids it discovers by distributing the **InvisibleSHIELD**.

**Economy Worse: ZAGG to Strength**

To this point as a public Company, ZAGG has been an interesting “story stock” but has suffered from relatively weak, **reported operating results**, which did not support fundamentals that entirely backed-up the story. Essentially, it was a company very much on the come.

The earnings report announced for ZAGG's 2008 Second Quarter, the period ending June, 2008, solidly launched its operating record firmly into the black. Not only did sales of \$2.739 million grow well above trend-line, the Company's reported 240% increase in year-over-year top-line numbers—despite it being their seasonally second weakest period—was established against the backdrop of a puny overall US economic climate. Furthermore, ZAGG announced a \$0.01 bottom-line profit in what was to be another marginal performance quarter. This happens to be a real operating accomplishment given the recent added cost burden of being public. There were no provisos to the profit or exceptions to the statements: it was a profit.

Our excitement regarding the period's results stems from the fact that that the ramp in top-line was really due to one major factor aided by some additional very preliminary sales of various initiatives. The power behind QII2008's advance in sales was almost entirely due to the Company's strong Website sales. More frequent and better web advertising, a larger and broader customer base, recurring customers who were just returning to buy and install the **InvisibleSHIELD** on their most recent gadget or broaden the protection afforded by the **InvisibleSHIELD** to more of their personal electronics (watches, Auto GPS devices, etc.), and so forth just helped to push overall sales. This advance was also aided by the Company attending and exhibiting their goods with a booth at both the CES and Apple MacWorld conventions held during the first quarter. The second quarter was nominally boosted by the addition of a few, new shopping mall carts, better international sales, and the initial ramp of the Big Box stores...BUT, all of these last factors just acted as a prelude to QIII2008.

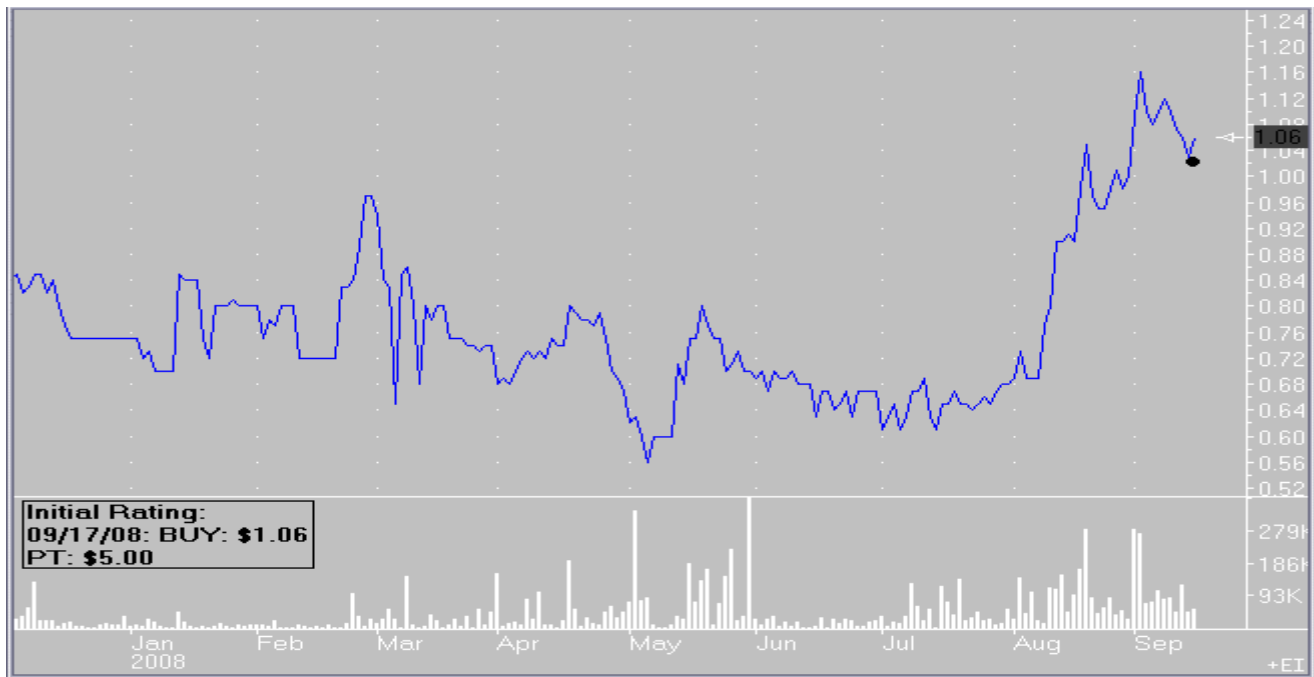
### Now for Something You'll Really Enjoy

If the second quarter was impressive, we're betting that the comparative results for this next two quarters—both year-over-year and sequentially—should be even more dramatic. Laid on the foundation that internet sales continue to advance at this 200+% clip, add the following growth factors:

- 1) Both big box retailer Best Buy (NYSE: BBY: \$42.40 – Not Rated) and Wal-Mart's Internet website (NYSE: WMT: \$62.14 – Not Rated) sales began to carry and sell-through a handful of ZAGG's SKUs. Yes, this activity was started in the waning weeks of second quarter, but you make the decision if the top-line effect is really going to have 2nd or 3rd quarter impact. With Best Buy, they only added a handful (3 of 2,500 different Company offerings) of **InvisibleSHIELD** phone models. And, this occurred in 300 stores. Same is true for the Wal-Mart website. We understand that as the **InvisibleSHIELD** was introduced into other departments (those offering PDAs, MP3 players, GPS units, watches, etc.), the "high-end" was often an easy-sell accessory. Many Best Buy stores began to expand their ZAGG offerings. Separately, we understand that Wal-Mart plans to expand their offerings beyond the website to the stores. Remember, one of the real problems with ZAGG and its expansion into the big box retailers is the working capital needs: inventory demand is substantial and receivables are real and long!!!!
- 2) If there's been a success, it's how the **InvisibleSHIELD** been adopted at Carphone Warehouse. Again starting in the waning weeks of the second quarter, ZAGG began supplying a selection of **InvisibleSHIELDS** to launch "sell-through" of this retailer's first 300 stores in Great Britain. Customer acceptance must have been so strong that between the end of the second and third quarters, Carphone Warehouse has essentially increased the roll-out of ZAGG's **InvisibleSHIELD** from 300 outlets to 600 stores and the Retailer is now in the process of increasing the total number of outlets to 1,300 stores. The best news is that not only does the number of stores help ZAGG's overall gross revenue number, but as new gadget are introduced—more on that later—the number of SKUs increase as well. So, the Company's top line has a chance to grow multi-dimensionally and exponentially.
- 3) We understand that a new, Greek retailer with 600 outlets has been added late in the third quarter. Little information has been forthcoming about details. We'll have more in our next report.

- 4) Possibly the largest single factor bolstering the expected revenue bounce in the third quarter was the introduction of Apple's (Nasdaq: AAPL: \$139.88 – Not Rated) new, iPhone 3G. True, Apple enthusiasts are probably a little more fanatical about their gadgets, their appearance and their attraction to the new introductions. This all foments greater market enthusiasm for new products, retail demand when the goods hit the shelf and it certainly encourages the willingness of buying case protectors and accessories for the new Apple gadgets, specifically **InvisibleSHIELDS**. There seems to be no better product that stimulates enthusiasm for ZAGG's gadget shielding than the new iPhones. The iPhone 3G was introduced in the very latest hours of QIII and sales of the **InvisibleSHIELD** didn't begin until the Company was well into the new quarter. Now this brings out two more very important points!
- a) The new iPhone is going to be sold via Best Buy and with the **InvisibleSHIELD** already introduced and established in the Best Buy stores, it will be a mere matter of time before the new iPhone **SHIELD** accessory will be made readily available for sale via the Chain....Cah—Ching!!!
- b) As we tried to imply above, with the description surrounding the introduction of new Apple personal handheld electronic devices, it should stimulate real tangible demand for **InvisibleSHIELD**. Guess what? Not only is there a plethora of competitors' iPhone "killer" products, but Apple has just announced a new iPod design, Blackberry a new PDA, etc. All in all, this bodes particularly well for a strong fourth quarter and New Year for the Company. Get a load of the list of new gadgets that appear to be on the horizon for introduction; Here is a list of manufacturers and products that we've become aware and categorized not according to device type:
- Blackberry—**Bold, Thunder**
  - LG—**Dare, Vu, Secrete**
  - Samsung—**Instinct, Glyde**
  - Nokia—**SGO**, and a "concept"
  - HTC— *Touch*

Although it's easy to get tied-up in all the excitement regarding what is "new", we should not forget that ZAGG management continues to push on the operating fundamentals that the company was founded on. Mall-carts continue to be added though-out the year, now expected to reach 40 units before the Christmas seasonal hiatus. This is up from our original write-up that came out just after the 2007 Thanksgiving holiday. Management has stated publicly that it expects to add another 40 carts via licensed operators between now and the holiday hiatus in 2009. Although the outlets may be considered hokey by some, the carts are an important source of cash, incremental sales and brand awareness to the firm. It also allows the Company to experiment with service offerings. Now, we don't know what this really means, but management made a special point of mentioning "service" during the preparation of our report....we are waiting anxiously to learn as to what ZAGG is planning.



<b>Zagg, Inc.</b>																				
\$ in thousands, except EPS																				
	QI 2007	% MRGN	QII 2007	% MRGN	QIII 2007	% MRGN	QIV 2007	% MRGN	Year 2007	% MRGN	QI 2008	% MRGN	QII 2008	% MRGN	QIII2008	% MRGN	QIV 2008	% MRGN	Year 2008	% MRGN
Sales	\$793	100.0%	\$804	100.0%	\$1,437	100.0%	\$2,101	100.0%	\$5,135	100.0%	\$2,845	100.0%	\$2,739	100.0%	\$5,460	100.0%	\$6,706	100.0%	\$17,750	100.0%
Cost of Sales	\$187	23.6%	\$204	25.4%	\$299	20.8%	\$651	31.0%	\$1,341	26.1%	\$778	27.3%	\$712	26.0%	\$1,745	32.0%	\$2,145	32.0%	\$5,380	30.3%
Gross profit	\$606	76.4%	\$600	74.6%	\$1,138	79.2%	\$1,450	69.0%	\$3,794	73.9%	\$2,067	72.7%	\$2,027	74.0%	\$3,715	68.0%	\$4,561	68.0%	\$12,370	69.7%
SG&A	\$706	89.0%	\$555	69.0%	\$861	59.9%	\$1,701	81.0%	\$3,823	74.4%	\$1,505	52.9%	\$1,344	49.1%	\$2,115	38.7%	\$2,645	39.4%	\$7,609	42.9%
Advertising & Mktg	\$161	20.3%	\$79	9.8%	\$228	15.9%	\$477	22.7%	\$945	18.4%	\$790	27.8%	\$485	17.7%	\$865	15.8%	\$1,415	21.1%	\$3,555	20.0%
(Comp Expense due to stock)	\$0	0.0%	\$0	0.0%	\$0	0.0%	-\$58	-2.8%	-\$58	-1.1%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%
Operating Expenses	\$867	109.3%	\$634	78.9%	\$1,089	75.8%	\$2,120	100.9%	\$4,710	91.7%	\$2,295	80.7%	\$1,829	66.8%	\$2,980	54.6%	\$4,060	60.5%	\$11,164	62.9%
Income from operations	(\$261)	-32.9%	(\$34)	-4.2%	\$49	3.4%	(\$670)	-31.9%	(\$916)	-17.8%	(\$228)	-8.0%	\$198	7.2%	\$735	13.5%	\$501	7.5%	\$1,206	6.8%
Total other income (expense)	(\$6)	-0.8%	(\$16)	-2.0%	\$17	1.2%	\$34	1.6%	\$29	0.6%	\$46	1.6%	\$80	2.9%	\$95	1.7%	\$100	1.5%	\$321	1.8%
Net income before taxes	(\$267)	-33.7%	(\$50)	-6.2%	\$66	4.6%	(\$636)	-30.3%	(\$887)	-17.3%	(\$182)	-6.4%	\$278	10.1%	\$830	15.2%	\$601	9.0%	\$1,527	8.6%
Income tax (expense) benefit	(\$3)	1.1%	\$0	0.0%	\$0	0.0%	\$0	0.0%	-\$3	0.3%	(\$67)	36.8%	\$104	37.4%	\$310	37.4%	\$225	37.4%	\$572	37.5%
Net Income	(\$270)	-34.0%	(\$50)	-6.2%	\$66	4.6%	(\$636)	-30.3%	(\$884)	-17.2%	(\$115)	-4.0%	\$174	6.4%	\$520	9.5%	\$376	5.6%	\$955	5.4%
EPS	(\$0.02)	na	(\$0.00)	na	\$0.00	na	(\$0.04)	na	(\$0.06)	na	(\$0.01)	na	\$0.01	na	\$0.03	na	\$0.02	na	\$0.05	na
Weighted shares outstanding	12,696		15,168		17,631		18,150		15,911		18,864		18,936		18,936		18,936		18,918	
% Δ Sales											258.8%		240.7%		280.0%		219.2%		245.7%	
% Δ Gross MRG.											241.1%		237.8%		226.4%		214.6%		226.0%	
% Δ Op. MRG.											N/M		N/M		1400.0%		N/M		N/M	
% Δ Pre-tax MRG.											N/M		N/M		1157.6%		N/M		N/M	
	QI 2009	% MRGN	QII 2009	% MRGN	QIII2009	% MRGN	QIV 2009	% MRGN	Year 2009	% MRGN										
Sales	\$5,965	100.0%	\$5,465	100.0%	\$10,885	100.0%	\$13,935	100.0%	\$36,250	100.0%										
Cost of Sales	\$1,905	31.9%	\$1,750	32.0%	\$3,455	31.7%	\$4,390	31.5%	\$11,500	31.7%										
Gross profit	\$4,060	68.1%	\$3,715	68.0%	\$7,430	68.3%	\$9,545	68.5%	\$24,750	68.3%										
SG&A	\$2,475	41.5%	\$2,265	41.4%	\$4,285	39.4%	\$5,150	37.0%	\$14,175	39.1%										
Advertising & Mktg	\$900	15.1%	\$820	15.0%	\$1,600	14.7%	\$1,965	14.1%	\$5,285	14.6%										
(Comp Expense due to stock)	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%										
Operating Expenses	\$3,375	56.6%	\$3,085	56.5%	\$5,885	54.1%	\$7,115	51.1%	\$19,460	53.7%										
Income from operations	\$685	11.5%	\$630	11.5%	\$1,545	14.2%	\$2,430	17.4%	\$5,290	14.6%										
Total other income (expense)	\$120	2.0%	\$135	2.5%	\$175	1.6%	\$200	1.4%	\$630	1.7%										
Net income before taxes	\$805	13.5%	\$765	14.0%	\$1,720	15.8%	\$2,630	18.9%	\$5,920	16.3%										
Income tax (expense) benefit	\$301	37.4%	\$286	37.4%	\$636	37.0%	\$984	37.4%	\$2,207	37.3%										
Net Income	\$504	8.4%	\$479	8.8%	\$1,084	10.0%	\$1,646	11.8%	\$3,713	10.2%										
EPS	\$0.03	na	\$0.03	na	\$0.06	na	\$0.09	na	\$0.20	na										
Weighted shares outstanding	18,864		18,936		18,936		18,936		18,918											
% Δ Sales	109.7%		99.5%		99.4%		107.8%		104.2%											
% Δ Gross MRG.	96.4%		83.3%		100.0%		109.3%		100.1%											
% Δ Op. MRG.	-400.4%		218.2%		110.2%		385.0%		338.6%											
% Δ Pre-tax MRG.	-542.3%		175.2%		107.2%		337.6%		287.7%											

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Rating	% of covered companies with this rating	% For which IB services have been provided	Rating Description
<b>Strong Buy</b>	0.0%	0.0%	Immediate purchase is recommended. We anticipate at least 35% annual, risk-adjusted appreciation potential.
<b>Buy</b>	54.5%	8.3%	Purchase is recommended. The security is expected to outperform the general market over the next 12-18 months.
<b>Neutral</b>	40.9%	0.0%	The share price has moved above the specific 'Buy' range and appreciation potential is less than or equal to the market.
<b>Sell</b>	4.5%	0.0%	The stock has reached the target price and/or conditions have changed sufficiently to alter the outlook for the stock.
<b>N/R</b>	0.0%	0.0%	No investment rating has been assigned at the present time.

NOTE: TRG changed its institutional ratings scale on 10/4/04. Previously, TRG used Buy, Hold, Sell

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- High** The security is more volatile than the market and/or the company is more leveraged than its peer group.
- Moderate** The security has about the same volatility as the market and/or the company carries a level of leverage in line with its peer group.
- Low** The security is less volatile than the market and/or the company is less leveraged than its peer group.

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