



NOVEMBER 27, 2007

INITIATING COVERAGE

MARC ROBINS, CFA
RUTHANNE ROUSSEL
503-445-2864

ZAGG INC. (OTC BB: ZAGG)

INDUSTRY: SPECIALTY RETAIL

DISCLOSURES: 1, 5, 10

RATING: BUY

RISK: HIGH

CLOSING PRICE 11/26/07	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR REV. GROWTH	PRICE TARGET
\$0.75	NM	17.6	\$13.2	N/A	\$2.50

ANNUAL DATA – DEC YEAR END			
	2007E	2008E	2009E
EPS	\$ (0.01)	\$ 0.05	\$ 0.15
P/E	N/M	15.0	5.0
REVENUE (MIL.)	\$4.8	\$8.0	\$12.9
P/S	2.8	1.7	1.0

EARNINGS					
	Q1	Q2	Q3	Q4	ANNUAL
2009E	N/A	N/A	N/A	N/A	\$ 0.15
2008E	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.05
2007E	\$ (0.02)	\$ 0.00	\$ 0.00	\$ 0.01	\$(0.01)
2006A	\$ (0.01)	\$ 0.00	\$ 0.00	\$ (0.02)	\$(0.02)

ZAGG, Inc. and *Silver Surfer Slickness*

Even as I approach my 54th year, I still get a big kick out of old comic book characters, particularly brought to new, panoramic and Technicolor life via the recent Marvel Entertainment (NYSE: MVL – Not Rated) theatrical releases. Let’s face it, they are incredible productions. (MVL’s Stan Lee came to the original *RedChip* offices prior to the release of the first *Spiderman* movie and it was a real treat. Although the movie release was a still a secret, the concept of commercializing the characters using new, computer animated theatrical releases made tremendous sense.) The new movies with their incredible digital animation, astonishing action scenes, absurd villains, and fantastic plots give me just as much a thrill as they do my 13-year-old. We can both hardly stay in our seats for all the excitement.

And as inane as these contrivances are, I was just as excited over Johnny Weissmuller and his wild Tarzan of the Jungle howl in the 1950’s, as I was with Schwarzenegger’s superhuman strength in his Conan and Terminator portrayals in the 1980’s. I can be swept away by these silly productions as easily as any ‘tweener’.

Why? Because electronics have helped our minds make the leap of faith between what once required real power of imagination and what our minds now accept as near reality in these productions. It has almost come to where the stark reality of horrific news events and the incredible fantasia of sci-fi thrillers are hardly discernible. It may be the reason why the news media has to work in overdrive to find stories to actually clench our emotions.

When *Toy Story* was released, audiences were presented with a very clever, computer-created animation, but it was still basically a cartoon. Then *Monsters* debuted, and the cleverness was punctuated with real digital advancements in the form of animated fur...fur not unlike any mink or lynx stole that actually invites a hug or touch. Although the colors were purple or puce, they could program pixels and algorithms to create visual ‘fur’. *Finding Nemo* produced water with currents, eddies and real ‘wetness’. *Cars* showed metal bending, crinkling, rusting and colliding: automobiles with expressions, personalities and facial expressions that were more than two-dimensional. With *Ratatouille*, our visual treat included ‘burnt fur.’

With MVL’s new film *The Fantastic Four: The Rise of the Silver Surfer*, we now have visual effects imitating molten metal but in human form. This is particularly fascinating since the *Silver Surfer’s* smooth metallic skin is reflective of the much of the fantastic consumer electronic exterior construction that we now see on the

This report was prepared from data and information believed reliable but not guaranteed by us as to its accuracy and does not purport to be complete. It is not to be considered as an offer to sell or a solicitation of an offer to buy the securities of the companies covered by this report. Opinions expressed are subject to change without notice. Catalyst Financial Research LLC, its affiliates and other associates may have positions and may effect transactions in securities of companies mentioned herein. ©Catalyst Financial Research LLC, Suite 201, 3220 SW 1st Ave. Portland, Or. 97239; (503)-241-1880.

shelves and can buy and own today. I'm not sure if it's art mimicking reality or the reverse, but the construction and packaging of the consumer digital devices upon which we have come to depend, are nearly as extraordinary and exciting as the electronic industries operating device capabilities themselves. For example, the style and slickness of Apple's (Nasdaq: AAPL – Not Rated) iPhone are as impressive as the versatility of the device's own electronic features.

Now that we have these advanced communicators, tri-corders and amusement devices, bought and enjoyed at premium prices, the last thing we want is to see is our new gadgets fail before their design lives permit or the next generation of advancements is introduced. Or worse, we really do not want to see or experience premature damage or marring of our newest gadgets especially because of our carelessness.

This last point is where ZAGG, Inc. currently comes in. Right now, ZAGG is in the business of preventing you from doing what you will undoubtedly do! You will drop, scratch, blight, tarnish, or mar your favorite electronic gadget prematurely thereby damaging its appearance.

INCREDIBLE HULK BULK of a growth story: Executive Summary

ZAGG is a rapidly growing, consumer products and services company focused on the personal electronics devices and accessories industry. Its gateway to this arena is by providing protective, transparent urethane film shields, called *invisibleSHIELD*, that can be applied to handheld electronic devices. Most notably, these nearly indestructible plastic 'force fields' are sold custom designed, patterned and specifically tailored to precisely fit iPods, iPhones, RAZRs, Blackberrys, Zunes and over 1,200 more gadgets: mobile phones, PDAs, electronic games, digital cameras, GPS units, laptops and the like.

Adding 30 new SKU's each week, ZAGG designs, markets and sells its flagship product, the *invisibleSHIELD*, for mobile phones, PDAs, watch faces, gaming devices, and digital cameras, among other devices, each cut to fit a specific product. Management believes that ZAGG is one of the largest, independent aftermarket providers of products for AAPL's handheld electronic devices.

The Company's competitive strategy is straightforward:

- Offer a branded product with superior consumer benefits at a premium price;
- Build on the momentum first mover advantage provides the Company;
- Earn customer loyalty through the high satisfaction the *invisibleSHIELD* provides the consumer and build on the loyalty with follow-on top-notch service and product sales.

Though others have since entered the market, ZAGG's *invisibleSHIELD* film coatings are distinguished from competing clear protective films not only by their superior quality, but also by the Company's lifetime replacement warranty. In addition, the Company's exceptional customer service further cements its relationship with *invisibleSHIELD* owners. Currently, nearly 70% of the Company's sales are driven via direct website-to-consumer sales, but ZAGG also prides itself on its follow-up customer service where "1st Ring" live client consultants are available to assist. ZAGG also offers a 30-day money-back guarantee on *invisibleSHIELDS* and other products sold as well as the free, lifetime replacement warranty.

Growth—Not a problem of how or where, but how best to capitalize. Not ready to rest on its laurels, ZAGG has an array of plans to further boost its growth. Just augmenting its own penetration into shielding the consumer electronic gadget marketplace, which can only be described today as infinitesimal compared to the total market opportunity, could multiply the size of ZAGG's revenues. For example, boosting its penetration of the cell phone market in units to a 1% position would represent a \$200 million revenue opportunity for ZAGG. A more attainable near-term achievement might be accessing Apple's market for iPods. Increasing ZAGG's current 0.18% share of sell-through to new iPod users to just 1% of new iPod sales would quadruple revenues from this market and would more than double ZAGG's quarterly top-line by \$1.5 million.

Currently, over 70% of ZAGG's sales are generated via its own web site. In the near future, management plans to realize greater sales either via their mall cart retail efforts—now producing about 12% of sales—or via its reseller sales network, which is producing roughly 18%. In 2008, we expect that big box electronic store outlets will be adding ZAGG product SKUs to their shelves. This should add substantially to overall performance in 2008. Geographic expansion of product sales was started in '07 both in Europe and in Asia. Although their impact is difficult to gauge, we expect significant announcements to be forthcoming.

One thing that we find intriguing as analysts is ZAGG's gathered intelligence about the electronics market place as it operates. Because it sells its *invisibleSHIELD* and its other products for nearly all devices, it has a direct understanding of what is happening in each market and how each product is "behaving" in that market. It can be thought of as a barometer of consumer sentiment. From the information divined, it is beginning to offer other adjunct products such as accessories for electronic products, as well as a few of its own electronic devices to augment revenues and benefit directly from the growth experienced by other mainline consumer products manufacturers, specifically the iPod and other MP3 players.

And lastly, expanding into many non-associated industries, where video screens are employed and the *invisibleSHIELD* film could add real value as a protective screen improving a product's or system's durability, is an opportunity which is being investigated. This may be a little tough to imagine at first, but think of the many electronic terminals, interface surfaces or even appearance surfaces where an everyday contact with humans may scratch or damage their operating effectiveness. Obvious industries where this feature could add benefits include bank ATMs, restaurant and retail check-out terminals, automotive electronics, sporting equipment industries and many others. The Company has also begun preliminary discussions with acquisition targets too further expand its sales.

Investment Case

With each new gizmo, ZAGG has a new technology companion that potentially needs shielding from everyday abuse. Whether the introduction is a RAZR, iPhone or Treo, the demand is spurred on by the willingness of buyers to protect their gadget with a \$25 investment.

Our model illustrates growth from the addition of more mall carts, greater distribution agreements and successes overseas, and the addition of two "Big Box" retailers to the mix. Based on these growth factors, we believe 2007 revenues should extend the trajectory established in the third quarter through the Christmas season. Sales for the year approach \$4.8 million with a (1¢) loss. The last quarter does end with a penny profit. We have not added to the mix either the contribution of a commercial customer or the effect of any new acquisitions.

Next year, we have tempered growth just a smidge. The "Big Box" retail business kicks in in the second quarter and this reduces gross margin. There is greater contribution from offshore distributors and carts as well as greater sell-through of web sales. For the year, revenues increase 67% and the company registers a \$0.05 profit.

For 2009, sales approach \$13 million and ZAGG produces \$0.15 in after tax net income. Based on our \$0.15 full-taxed per share net for 2009, and the growth rate this specialty retailer enjoys, we believe a 30 multiple could be awarded to the Company as we approach the later half of 2008. Discounting the \$4.50 target price for mid-2009 by two years, we calculate a \$2.50 price using a 35% discount rate for both years. The rate was determined due to the small market-cap nature of the business at this current juncture, the uneasiness in the market overall - particularly small-caps, and the high concentration of inside ownership by management. That said, the current target price provides investors over 200% appreciation potential from the current level.

Strategy: Surfing the iWave

When it comes to the *Fantastic Four*, my long-time favorite character has been the “The Thing,” the man that seems to be a living pile of stones. But in the recent release, other than just being amazed with the Silver Surfer’s molten-mirror exterior membrane, Reed Richardson’s, or Mr. Fantastic’s, stretching feat of holding London’s Ferris Wheel above the Thames, preventing its riders from certain doom, was pretty impressive for an animation effort.

But what is actually amazing for real life feats of elasticity and durability is the *invisibleSHIELD*. I don’t know how many times I’ve seen President Robert Peterson II perform this act during an investor presentation, but it’s still remarkable and impresses the crowd. Robert will have a member of the audience come up, hold a piece of SHIELDing, and Robert will try to force his pen or key through the film. Robert’s no “Mini-Me” of a guy. So, the force behind the sharp object is something to be reckoned with and the live participant is obviously affected by the exertion. During the same demonstration, Robert will also take a key or knife and strike at his own, brand new iPhone trying to mar or scratch the device just to show how durable the *invisibleSHIELD* is. I ask you, would you do this to yours?

Although *invisibleSHIELD* is invisible, although it is there protecting your device 24/7, it is applied directly to an electronic gadget, preserving its new, sophisticated appearance.

The film uses technology originally developed for the U.S. military to protect helicopter rotor blades from abrasion caused by dust, dirt and debris as the blades rotate at operating speeds. From its aeronautical heritage, the film:

- is thin, pliable, and durable;
- adheres to both surface and shape; and
- permits touch sensitivity.

This last point is particularly important since it means it can be applied to a touch-screen interface, such as that of the iPhone, and still transmit input instructions, but more on that below.

Another factor that differentiates ZAGG’s *invisibleSHIELD* film from cheap stick-on appliqué is that the Company engineers custom design a pattern for the film for each electronic device. That means every brand and model of device requires a separate pattern. The cut-out patterns are developed internally and owned exclusively by ZAGG. ZAGG designs new shield patterns on the basis of new gadgets that it receives from stores, from customers and even sometimes from OEMs. A barrier to entry is created with the ever-expanding inventory of film designs that are augmented with new and released film patterns each week, with the catalogue well in excess of 1,200 designs.

We mentioned how the *invisibleSHIELD* film does not subtract from the versatility of the most practical and desirable touch screens because it allows for the transmission of finger control instructions to be imparted to the device. This generated a bit of a surprise at the Company when the iPhone was introduced. Our understanding is that a new form of finger-touch communication was employed with that model’s design and it was not known at ZAGG if the *invisibleSHIELD* material would work when deployed on the iPhone.

Fortunately, ZAGG has really benefited from *invisibleSHIELD* allowing the touch sensitivity feature. This favored feature among most device users has turned out to be a pivotal attribute with Apple devices. Because Apple electronics consumers tend to be even more design- and style-conscious than your average electronics consumers and willing to pay a price premium, ZAGG’s *invisibleSHIELD* sales have been driven forward by users of AAPL’s iPods and, more recently, iPhones.

This also tends to be indicative of the overall trend. Consumers who choose more elaborate, sophisticated, elegantly designed and expensive electronic devices also tend to be more protective of them, and are therefore willing to spend more money on materials that will protect them from the potential of damage. It is these consumers that are targeted prospects for *invisibleSHIELD*. And, *InvisibleSHIELD* fits this consumer cycle to a “T”! It protects the most elegant of electronic gadgets without encumbering or subtracting from their design stylishness. Conversely, we think this is precisely the trend that ZAGG is going to be able to both nurture and benefit from in the future.

For instance, ZAGG strives to be first with its shields into every major new AAPL product, design variation and market. ZAGG began selling *invisibleSHIELDS* for the latest generation of iPod designs immediately after Apple announced them, making it first into that market. It dispatched staffers to stand in line at a local Apple store to buy the very first iPhones available and then rushed to adapt new *invisibleSHIELD* appliqués to greet demand. The maneuver worked: The Company’s third quarter was handsomely bolstered by sales of iPhone *invisibleSHIELDS*. ZAGG intends to continue building its brand and extend it to new products using its first-mover advantage.

Some follow-on operating details ZAGG acquires raw materials from third-party sources, including one critical supplier of the film, and also outsources high-volume precision-cutting of the materials. ZAGG considers that its relationship with the distributor of the raw material is excellent.

The pre-cut shield kits are delivered to ZAGG’s facilities, where ZAGG configures and packages the shield kits, together with a moisture adhesive-activating solution, a squeegee, and device-specific instructions for application. The contents are combined and packaged for shipment. In the most recent quarter, some major changes to the packaging approach were made and finished. This is in preparation to ship about a dozen different of the most popular *invisibleSHIELD* designs to new retail outlets (see below), which should greatly expand the Company’s reach as well as revenues. On average, ZAGG processes and ships over 15,000 to 20,000 of these shield packages per month.

Currently, the full *invisibleSHIELD* retails at \$24.95 on the Web site. For certain electronic gadgets including the iPod, screen-only *invisibleSHIELDS* are also available for \$9.95. The *invisibleSHIELD* for the iPod (both full shields and screen-only covers) make up about 35% of ZAGG’s sales. At present, some 75% of customers apply the shield themselves, although this might be expected to change as the customer base broadens beyond early adopters and more retail outlets come available.

Customers display loyalty to the *invisibleSHIELD*; the challenge will be transferring that loyalty to the new ZAGG brands or its new allied products or services the Company envisions expanding into. That said, given the marketing savvy of the management so far and if the new endeavors are of equal caliber, consumer loyalty is something that has been transferred before.

We witnessed an example of this top-of-mind brand equity loyalty at the “flagship store” adjoining the corporate offices and central operations. One needs a description of the store to get an idea of the scenario: I don’t want readers to think they are approaching a Bass ProShop outlet with a Canoe “U” Campus. (In fact, this is the kind of consumer operation you want to invest in given the Spartan accommodations and proletariat operating environment our field trip uncovered...no unnecessary luxuries!) ZAGG’s offices are in a nondescript, one-story, industrial park that’s shunted off a freeway and considerably South of Salt Lake City proper. They opened the “flagship store” in response to customer demand to have a direct retail outlet to sell *invisibleSHIELD* appliqués, and to help service those customers needing real help. We saw a customer walk in off the street to have his *invisibleSHIELD* professionally applied by ZAGG for a fee of about \$10. He expressed his enthusiasm for the product and provided an example of how the mall carts can augment their sales revenues by providing this application service.

Distribution Channels: As we described above, direct-to-consumer sales via the Internet represents the largest proportion of ZAGG's sales running at about 70%. It is currently the only marketing avenue that the Company has that the entire catalogue is offered in one place. The use of demonstration videos, testimonials, monthly gadget giveaways and affiliated marketing efforts all work to help produce an average of almost 150,000 visitors a month. Sell-through amounts to roughly 8% which is considered a strong showing by management. These sales via the website also contribute the most generous margins, which in the most recent quarter was running in the mid-70% range. One additional benefit to the operation of the entire firm is that Web sales generate revenues that are also most quickly turned into cash.

ZAGG also sells through distributors, through kiosk vendors (mall cart operators) in shopping malls, out of its own storefront at its headquarters, and through electronics retailers, who are primarily independently-owned resellers of Apple products and accessories. ZAGG currently has agreements with approximately 70 of these retailers, mostly in the United States. College bookstores typically buy the *invisibleSHIELD* at 50% of the retail price.

There are eighteen mall kiosks, five corporately owned and thirteen licensed locations. Each cart typically stocks 100 *invisibleSHIELD* SKU's and averages about \$15,000 per month in retail sales. The mall carts are located in five western states, concentrated now in the larger cities of Utah. Although the *invisibleSHIELD* comes with instructions for do-it-yourself application, almost 80% of the kiosk customers opt for application of their newly purchased SHIELD by the kiosk staff. The retail service adds an additional \$10-\$15 per device. Of course, this activity adds service revenue and helps to boost operating contribution.

One more thought on the retail mall carts. Mr. Petersen, one of the co-founders and CEO of the Company, founded and operated another retail business named Del Sol, LLC. prior to joining ZAGG. The Del Sol operation sells clothing that changes color in the sun (it is made with applied light activated dyes and paints) and is primarily sold in tropical areas, specifically tourist towns and destination areas. He successfully employed the retail cart concept to help launch and establish the business which now runs about \$40 million in annual sales. It appears that the mall cart business is a sound generator of incremental revenues and cash for ZAGG as the company ramps the institution of other more time-honored networks. It is certainly helping to build brand, initial sales and introduce the product to consumers as they shop for the very devices that *invisibleSHIELD* helps protect.

International sales are a new and growing aspect to ZAGG's operations. Nearly 10% of the Company's online revenue is already derived from European customers. To accommodate the demand, during this past third quarter, in response to AAPL's iPhone launches in Europe and the United Kingdom, ZAGG has begun operations and fulfillment from a centralized location in the UK. We understand that ZAGG has also turned East but no announcements have yet been reported.

New Products--Accessories and the RockStic: The Company receives all sorts of sales data via the information generated when selling *invisibleSHIELD* appliqués. It learns not only what devices are hot, but also shortcomings and consumers needs. So, ZAGG has put that information together to produce a line of iPod and MP3 player accessories that are the most wanted trimmings asked for when customers are live and on the phone or web. It's providing customers what they want because they've already asked for it. These accessories are made available on the web-store, the mall carts and select resellers and include things like "AppleSauce" Polish (Scratch removing polish for iPods), chargers, AV cables, ear buds and power supplies for many of the more popular MP3 units.

Based on the same intelligence of what iPod users need and want, ZAGG designed a portable speaker system that is designed specifically for an iPod. Named the RockStic, it is a hollow aluminum tube with built-in

speakers available in three different colors (silver, black or pink), with a chrome volume control with an iPod port on the top that fits both full-size and nano iPods. The fidelity is impressive particularly for a small package.

Although the full retail price of the RockStic is \$59.95, an introductory special of \$39.95 is being offered. Most speakers near the \$50 price point connect to the iPod's headphone port, so RockStic's connection to the main port offers better sound quality than the more expensive units. RockStic can be connected to non-iPod audio devices with an included cable and includes a remote control, also unusual at this price point.

Advertising and Marketing: ZAGG currently advertises on the internet and at point of sale, as well as on regional and local television networks. ZAGG has been developing a short infomercial but the progress of that is unknown. It produces online podcast ads, ads with sports Web site tie-ins, and a program targeting college campuses. ZAGG is also in talks to create strategic partnerships with the manufacturers of electronic accessories, including the iPod.

Now that the Company is public, its revenues have broached the million dollar level and it is about to launch into the Big Box retail arena, greater supervision over the entire marketing effort is required. To that end, a Vice President of Marketing has just been hired and we would expect not only a continuation of the trend realized 3Q07 versus 2Q07, but certainly an increase in the actual dollar spend. Over time, we would envision dollars to continue to climb but spending as a percent to level out as it relates to the top line.

Here at Catalyst Financial Resources we are split in our interpretation of ZAGG's future fortunes. One of us believes that the Company's destiny is largely, but not exclusively, tied to those of AAPL's handheld products. Some 50% of ZAGG's sales currently come from its top 15% of products, including shields for the Motorola (NYSE: MOT – Not Rated) Razr and Palm (Nasdaq: PALM – Not Rated) Treo in addition to the iPod. The other opinion is that new, leading-edge gadgets that are introduced—whether they be from Microsoft, Sony or LG—that catch the consumers fancy, should help diversify ZAGG's fortunes and build, like additional layers of cake to the growing stories of prosperity. To that end, we believe that the iPhone proves to the other manufactures that new, more feature-packed, valuable devices can be successful and it paves the way for greater innovation and more introductions. The more the merrier...and the more need for the *invisibleSHIELD*.

Competition: Although numerous companies sell protective devices for handheld consumer electronics, most of these are bulkier, heavier, and visually distracting, obscuring the design and features of the electronic device.

Particularly for the AAPL consumer, the device's design plays a large role in the consumer's decision to purchase the device. With them, *invisibleSHIELD* enjoys an edge over cases and skins since it leaves the design of the device on display, as well as permitting functionality.

The main direct competitors to the *invisibleSHIELD* with protective film shields are both from small, privately-held companies: NLU's BodyGuardz and Best Skins Ever. Best Skins Ever competes on the basis of price – at only \$8.99, it asks customers to provide their own squeegee (or credit card) and soapy water to apply the shield to the device, and does not offer application services.

NLU provides a thicker shield, and they also provide two to a box in case one has to be removed. It is a later entrant to the market and lacks a conclusive competitive advantage over *invisibleSHIELD*. If ZAGG's pending patent is granted, then NLU may find it has to withdraw its product. However, the patent application is not scheduled for review until October, 2008.

Flame-On!: Growth going forward

If one considers ZAGG's market approach and its ultimate customer, the Company has sold nearly a half-million *invisibleSHIELDS* in just over two years to what may be considered early adopters. Sales have been

through ZAGG's web site, resellers, college bookstores, independent Apple Macintosh retailers, and mall kiosks. If anything, this kind of selling channel confirms my thesis. Think about it. ZAGG's success has been via the technology risk takers. The next step—one might also consider it a developmental step—is for ZAGG to ride the AAPL (or Palm, Razr, Blackberry, Zune, etc.) wave across Moore's proverbial chasm, and introduce the *invisibleSHIELD* product to the "early majority" of mainstream consumers worldwide. These customers typically wait until initial bugs are worked out and prices drop before purchasing a new technology. ZAGG hopes to find them via the more established channels and particularly with the help of the big-box electronic retailers.

As we mentioned above, growth for ZAGG can come from a variety of directions: specifically, it can come from doing better of what they already do (more carts, web sales, and reseller activity). Growth can come from the introduction of new electronic products—products from outside manufacturers such as the iPhone that adds a quantum lift to the top-line -- or from ZAGG's own creations such as another RockStic offering. Growth can come from outside of the traditional channel approaches: Opening overseas markets. Wholly new endeavors. Acquiring businesses.

2008 should produce some elements from each aspect of development.

Already, there are plans to add four more carts to the stable of mall kiosks. Our understanding is that these mini-operations will be added in the first quarter in Arizona, Idaho, Nevada and another cart in California. We know that ZAGG's growth in this area is somewhat limited by dollar and human capital restraints. The rate of expansion could be increased by a more rapid licensing rate of operators.

We learned during the third quarter conference call that the entrance into the big box retailing arena was a first quarter event. It was not released how many possible retailers would adopt the *invisibleSHIELD* opportunity. We think a potential of three retail chains stand poised to run with the line. The packaging is finalized and optimized to minimize the cost between outlets. The new marketing manager and retailers have been at that for some time. Regarding operating details, we would expect about a dozen SKUs to be offered in each store, but store advertising to promote the site should help expand the actual offering available to the customer. It's going to be an expensive proposition for ZAGG since we believe that the gross margin will be trimmed to at least 35% to 40% and this new opportunity comes with up-front costs associated with slotting fees, co-marketing costs and inventory costs that are paid up front.

Financial History and Current Position

Just prior to our publishing this research report, ZAGG's management announced third quarter results and presented the Company's financials since it became a publicly traded entity.

- Year-over-year growth of 74% and sequential growth of 79% took a sharp increase, bolstered by an increase in advertising and marketing and aided by the introduction of the Apple iPhone.
- An \$800,000 charge was taken in the third quarter as it related to "Compensation expense related to stock issuance" associated with the reverse merger and going public of the entity. We do not consider this either a usual or on-going operating expense considered to be part of the normal business of the operation. Although we represent the figures in the interim performance table below and in our income projection chart, we exclude the charge from our calculations.

Below is a recap of the Income Statement for the third quarters and the nine-month periods ending both 2006 and 2007. Figures are in thousands, except per share numbers.

	QIII'06	QIII'07		9 Mo, '06	9 Mo, '07	
	<u>9/30/2006</u>	<u>9/30/2007</u>	<u>Δy/y</u>	<u>9/30/2006</u>	<u>9/30/2007</u>	<u>Δy/y</u>
Net Sales	\$ 816.00	\$ 1,437.41	76.15%	\$ 1,978.53	\$ 3,034.71	53.38%
Cost of Sales	\$ 193.00	\$ 299.03	54.94%	\$ 537.38	\$ 689.86	28.37%
Gross Profit	\$ 623.00	\$ 1,138.38	82.73%	\$ 1,441.15	\$ 2,344.85	62.71%
Expenses:						
S, G & A	\$ 480.05	\$ 860.72	79.30%	\$ 1,156.48	\$ 2,121.95	83.48%
Advertising & Marketing	\$ 108.39	\$ 227.62	110.00%	\$ 269.69	\$ 467.41	73.31%
(Comp Expense due to stock*)	\$ -	\$ 800.00	nm	\$ -	\$ 800.00	nm
Total Expenses	\$ 588.44	\$ 1,088.34	84.95%	\$ 1,426.17	\$ 2,589.36	81.56%
Income from operations	\$ 34.56	\$ 50.04	44.79%	\$ 14.98	\$ (244.51)	nm
Total other income (expense)	\$ (18.70)	\$ 16.77	-189.68%	\$ (11.74)	\$ (5.24)	-55.37%
Net Income before taxes	\$ 15.86	\$ 66.81	321.24%	\$ 3.24	\$ (249.75)	nm
Income tax (expense) benefit	\$ -	\$ (0.23)		\$ 13.46	\$ (2.54)	
Net Income	\$ 15.86	\$ 66.58	319.79%	\$ 16.70	\$ (252.29)	nm
Basic & Diluted EPS/ (loss) per share	\$ 0.00	\$ 0.00	nm	\$ 0.00	\$ (0.01)	nm
Weighted shares outstanding	10,000	17,631	76.31%	10,033	17,631	75.73%
Gross margin	76.35%	79.20%		72.84%	77.27%	
Operation Mrgn	4.24%	3.48%		0.76%	-8.06%	
Ad/Mrkt as %	13.28%	15.84%		13.63%	15.40%	
Tax Rate	0%	0%		415%	1%	
Net Income Mrgn	1.94%	4.63%		0.84%	-8.31%	

1. As noted above, sales were up 74% in the quarter due to several factors. Not only were they aided by the introduction of Apple's iPhone, which we understand *invisibleSHIELD* sales crested \$300,000 for the quarter, but also because of increased advertising, which boosted overall device sales for the *invisibleSHIELD* but also the incremental contribution of the additional mall carts. Carts increased from fifteen in the second quarter to eighteen in the third.
2. Gross margin was a whopping 79+% for the latest period. This measure of profitability was directly the result of the high degree of margin-rich sales produced from ZAGG's web site, which contributed over 70% of revenues in the quarter. The contribution by lower margined sales sources, specifically distributor sales, "big box" sales and mall cart revenue contributions, will dilute gross margin over the next couple of years.
3. Operating expenses rose dramatically both in a year-over-year sense, up 145+%, and sequentially. This reflects the added expense of operating ZAGG as a public company— incremental legal, IR, and other accounting and auditing expenses. (Please note, we have stated the \$800,000 item "Compensation expense due to stock distribution" in our financial review and the projections included later in the report, but we do not include them in our analysis or projections given the one-time cost they represent and the non-operating nature of their occurrence.) Other than that, advertising and marketing have increased due to management's willingness to push for more rapid growth and to capitalize on the first quarter success of iPhone sales.
4. The increased number of shares for the quarter reflects the reverse merger and the raising of additional capital.

Another detail of the Company's financial condition is ZAGG's Balance Sheet fortified with more equity and higher cash levels now registered after the reverse and financing. Below is a recap of the Balance Sheet for period ending September 30, 2007 and December 31, 2006—Figures are in thousands.

	As of 9/30/2007	As of 12/31/2006
Current assets	\$ 3,118.88	\$ 791.32
Long-term assets	\$ 359.22	\$ 235.93
Total assets	<u>\$ 3,478.09</u>	<u>\$ 1,027.25</u>
Current liabilities	\$ 517.77	\$ 870.79
long-term liabilities	\$ 1,237.00	\$ 12.09
Stockholders' equity	<u>\$ 2,947.96</u>	<u>\$ 144.37</u>
Total liabilities and equity	<u>\$ 3,478.09</u>	<u>\$ 1,027.25</u>

Lastly due to the reverse and the associated equity "raise," the balance sheet is much fortified with a much stronger current asset position (a stated "\$2 million in cash") and stock holders equity that is 21-times higher at nearly \$3 million. The Company has little long-term debt.

ZAGG Incorporated was incorporated in the State of Utah on March 24, 2005 as Protective Solutions, Inc. On January 30, 2006, the Company changed its name to ShieldZone Corporation. On March 1, 2007, ShieldZone's operating subsidiary was merged into Amerasia Khan Enterprises Ltd, a public shell, in a reverse merger. In connection with the merger, the name of Amerasia Khan Enterprises Ltd. was changed to ZAGG Incorporated. ZAGG continues to operate the historical business of ShieldZone Corporation.

Stock

Because ZAGG recently became a public company, it has little trading history.

ZAGG's thinly traded public float and lack of history as a public company could lead to wide fluctuations in its share price. The market price for its common stock may be volatile.

38.0% of the outstanding shares of common stock is owned and controlled by ZAGG's Chief Executive Officer and Chief Financial Officer. Such concentrated control of the company may adversely affect the price of the common stock. On the other hand, investors may take comfort that management has money on the table alongside them.

Risks

Some risks associated with an investment in ZAGG include, among others:

ZAGG is capital-constrained and may incur debt in the future on less than favorable terms, straining its cash flows. The markets for ZAGG's products are subject to continuing change. ZAGG is dependent on a third party source for raw materials and acquires substantially all of its raw materials from a single third-party distributor.

It depends on two key executive officers, Mr. Pedersen and Mr. O'Brien.

ZAGG may fail to attract, train and retain sufficient numbers of qualified personnel. Because ZAGG has limited protection on the intellectual property underlying its products, ZAGG may not be able to protect its products from the infringement of others and may be prevented from marketing its products.

ZAGG may issue additional securities, and shareholders are subject to dilution of their ownership. ZAGG may fail to maintain proper inventory levels. ZAGG faces intense competition, including competition from companies with significantly greater resources. ZAGG may be unable to effectively manage its growth.

The investor is referred also to ZAGG's most recent Form 10-K filed with the Securities and Exchange Commission.

Management

The company has provided these biographies of management:

Robert G. Pedersen II. Mr. Pedersen has more than 20 years' experience in executive management, sales and marketing, communications, as well as owning and managing several start-up businesses and enterprises. Since 1998, Mr. Pedersen was a co-owner and executive manager for Del Sol, LC, a Utah-based international specialty retailer of apparel and accessories, where he implemented the in-line retail store model. Del Sol now has more than 80 stores world-wide. Additionally, Mr. Pedersen created and was the director of DelSol.com, Del Sol LC's Internet presence. In 2002 Mr. Pedersen founded PayTeck, Inc., a Utah provider of Internet-based payment processing services, which was later sold to Zion's Bank, a public company, in 2005. Mr. Pedersen joined ZAGG in October 2005 as a consultant and then in January 2006 joined the company as a full partner in a full time capacity and has served as its Chief Executive Officer and Chairman since that time. Mr. Pedersen is also the Company's largest shareholder. Mr. Pedersen earned a bachelor's degree in business administration (BSBA) from the University of Phoenix and a Masters Degree (MBA) from Brigham Young University in Business Administration, with an emphasis in marketing, finance and organizational communications. Mr. Pedersen and his wife and six children reside in Holladay, Utah.

Brandon T. O'Brien. Mr. O'Brien became ZAGG's Chief Financial Officer on February 12, 2007. Prior to assuming his position as the Chief Financial Officer, Mr. O'Brien served as the Vice President of Finance at Fonix Corporation, a speech recognition software company, from January 2003 to January 2007, and as an independent financial consultant from September 2001 to January 2003. Mr. O'Brien has extensive experience in mergers and acquisitions, accounting for financial transactions with foreign subsidiaries and the application of financial accounting standards and principles. Mr. O'Brien has broad experience with both small micro-cap public companies and with large multinational public companies. Mr. O'Brien is a licensed Certified Public Accountant and has attained the Certified Management Accountant and Certified Financial Manager designations. Mr. O'Brien earned a Bachelor of Science degree in Accounting from Utah State University in 1995 and a Masters of Business Administration from the University of Utah in 1996. Mr. O'Brien resides with his wife and five children in Farmington, Utah.

Derek Smith - Derek relocated from Australia to join ZAGG in August 2007. Derek was the General Manager and Director for Queensland Olives Management Ltd., where he recruited and trained a national sales force and worked closely with the Australian Securities and Investments Commission (ASIC). He was also the Business Development Manager for Covidian Healthcare. He was in the Army National Guard from 1986 to 2000 and is a veteran of the Gulf War, where he served as staff sergeant before gaining his commission and being promoted to second lieutenant. Mr. Smith graduated with his Masters of Business Administration (MBA) from Brigham Young University in 2000 with an emphasis in marketing, business strategy and organizational communications.

Introductory Report

He received a Bachelor of Science (BS) in business administration, with a major in finance and minor in the Cebuano language from Utah State University. Derek, his wife and five children live in Cedar Hills, Utah.

Forecast and Valuation

We have modeled growth from the addition of more mall carts, greater distribution agreements and successes overseas and the addition of two “Big Box” retailers. We believe this year’s revenues should extend the trajectory established in the third quarter, aided by the Christmas season, more mature cart operations, and the effect of some distribution sales. Sales for the year approach \$4.8 million with a \$(0.01) loss. The last quarter does end with a penny profit. We have not added to the mix either the contribution of a commercial customer or the effect of any new acquisitions.

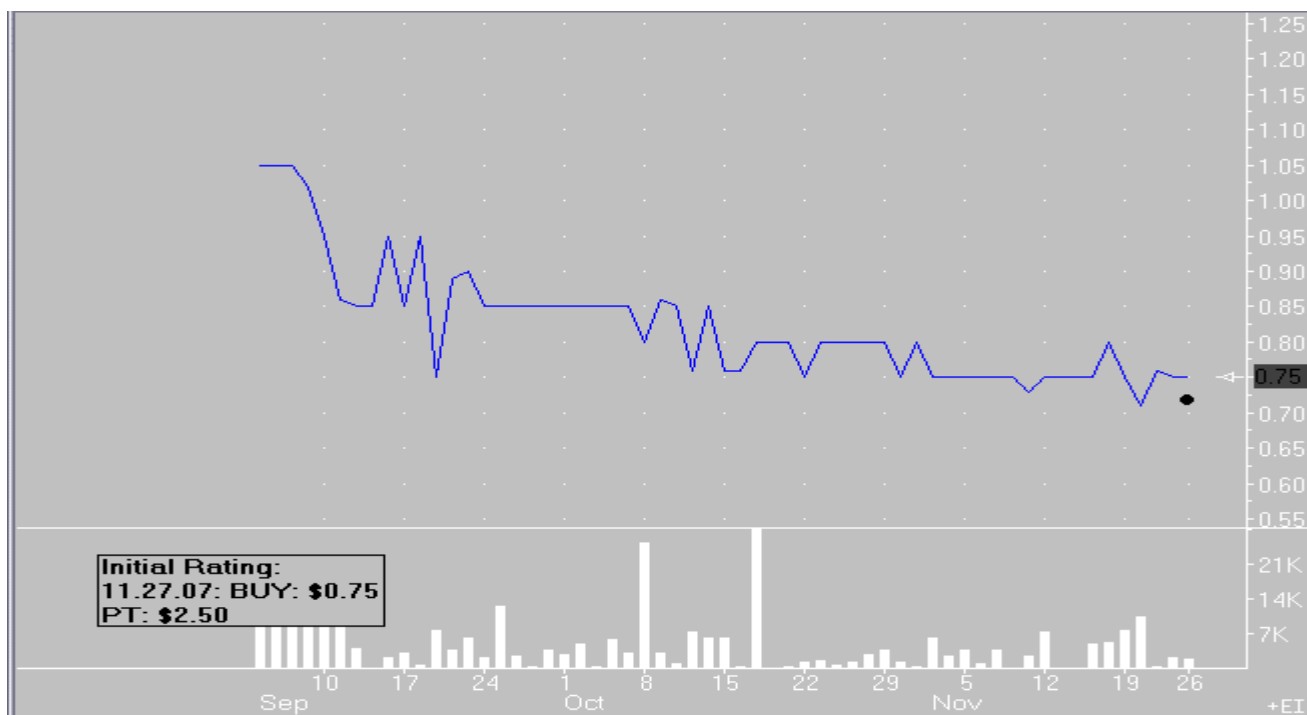
Next year, we have tempered growth just a smidge. The “Big Box” retail business kicks off in the second quarter and this has an effect on gross margin. There is greater contribution from offshore distributors and carts as well as greater sell-through of web sales. For the year, revenues increase 67% and the company registers a \$0.05 profit.

For the year 2009, sales approach \$13 million and ZAGG produces \$0.15 in after-tax net income.

Based on our \$0.15 full-taxed per share net for 2009, and the growth rate this specialty retailer enjoys, we believe a 30 multiple could be awarded to the company as we approach the later half of 2008. Discounting the \$4.50 target price for mid-2009 by two years, we calculate a \$2.50 price using a 35% discount rate for both years. The discount rate reflects the small market cap of the business, unease in the market overall for stocks – particularly small-caps -- and the high concentration of management ownership.

Recommendation

We believe the shares are attractive for investors looking for long-term capital appreciation and who have tolerance for a degree of risk. We rate the shares as a “BUY” at this time with a projected price target of \$2.50.



This report was prepared from data and information believed reliable but not guaranteed by us as to its accuracy and does not purport to be complete. It is not to be considered as an offer to sell or a solicitation of an offer to buy the securities of the companies covered by this report. Opinions expressed are subject to change without notice. Catalyst Financial Resources LLC, its affiliates and other associates may have positions and may effect transactions in securities of companies mentioned herein. ©Catalyst Financial Resources LLC. Suite 201, 3220 SW 1st Ave. Portland, Or. 97239; (503) 241-1880.

DISCLOSURES:

This report has been commissioned by Zagg, Inc. (the Company) as part of an on-going research and awareness program contracted between Catalyst Financial Resources, LLC (CFR), and the Company. CFR has been paid or promised payment for the production and editorial content of this report. The Company is paying CFR \$7,500 per month for 12 months and warrants for services rendered. However, the opinions, forecasts and price targets are based on our examination of company fundamentals, conversations with management, independent analysis of markets, economic conditions, and other publicly available information.

This report has been written in accordance with current SEC regulations and the Standards of Practice developed by the Association of Investment Management & Research (AIMR). Our research has been conducted by employing analytical practices generally accepted as standard within the analytical industry. Our conclusions are, by the very nature of forecasting, speculative, but are also reasonable, supportable and consistent.

Key to disclosures:

- (1) Catalyst Financial Resources LLC (CFR) does not make markets in any securities and has not managed or co-managed a public offering of securities for the subject company within the past 12 months.
- (2) CFR received compensation for investment banking services from the Subject Company within the past 12 months.
- (3) CFR expects to receive or intends to seek compensation for investment banking services from the Subject Company within the next 3 months.
- (4) The research analyst or a member of the research analyst's household has a financial interest in the securities of the Subject Company in the form of a (a) long position (b) short position (c) right (d) warrant (e) future or (f) call option in such securities.
- (5) CFR and/or its officers or affiliates may either hold a position in this company's share or own options, rights or warrants to purchase any of the securities of the subject company.
- (6) The research analyst principally responsible for preparing this research report received compensation based upon various factors, including CFR total revenue, a portion of which was generated by CFR's investment banking services.
- (7) The research analyst or a member of the analyst's household serves as an officer, director, or advisory board member of the subject company;
- (8) An affiliate of CFR may have a different view from the views expressed herein.
- (9) CFR and/or its affiliates beneficially own 1% or more of the subject company.
- (10) The Subject Company is a client of CFR or one of its affiliates.
- (11) CFR is a client of the Subject Company or one of its affiliates.

The analyst hereby certifies that the research conclusions and recommendation contained herein accurately reflects his/her personal views about the industry, company and shares and also hereby certifies that no part of his/her research compensation was or will be directly or indirectly related to the earnings estimates, target price or recommendation about the security.

The research provided herein should not be considered a complete analysis of every material fact regarding the companies, industries or securities named above. The opinions expressed herein reflect the analysis and judgment of the author on the date of publication and are subject to change without notice. Facts have been obtained from sources considered reliable but should not be construed as complete and are not guaranteed to be accurate. Catalyst Financial Research LLC; its members; employees and their families may have positions in the securities covered within the research material above and may make purchases or sales while this report is in circulation. Additional information on the subject companies is available upon request.

EQUITY RECOMMENDATION SYSTEM:

Buy	Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months.
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.

EQUITY RISK SYSTEM:

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.

DISTRIBUTION OF RECOMMENDATIONS:

At this time, there are an insufficient number of companies under coverage to generate usable distribution information or draw any conclusions regarding bias about the research methodology. Prospective companies are screened and evaluated by sales personnel and research analysts with the investment thesis and overall research recommendation developed before the commission is established.