February 24, 2015

ZAGG Inc Reports Financial Results for Fourth Quarter and Fiscal Year 2014

Fourth Quarter 2014 Highlights:

- ***Net sales increased 53% percent to a fourth quarter record $102.4 million***
- ***Record screen protection and tablet keyboard sales***
- ***Gross margin of 39%***
- ***Net income totaled $13.0 million, or $0.43 per diluted share***
- ***Adjusted EBITDA of $24.3 million***

Fiscal Year 2014 Highlights:

- ***Net sales increased 19% to $261.6 million***
- ***Annual gross margin of 32%***
- ***Net income totaled $10.5 million, or $0.34 per diluted share***
- ***Introduces 2015 net sales, gross margin and Adjusted EBITDA guidance***

SALT LAKE CITY, Feb. 24, 2015 (GLOBE NEWSWIRE) -- ZAGG Inc (Nasdaq:ZAGG), a leading mobile device accessories company with a brand portfolio that includes ZAGG® and iFrogz®, today announced fourth quarter ended December 31, 2014 and fiscal year 2014 financial results.

"ZAGG finished 2014 with strong sales momentum in our leading product categories, and our entire team executed throughout the year at a impressive level to deliver these outstanding results," said Randy Hales, president and CEO of ZAGG Inc. "Record fourth quarter revenue demonstrates that the strategies we have put in place over the past year and a half are working. We have seen expanded distribution, very successful products launched as evidenced by the record fourth quarter sales in screen protection and tablet keyboards, and effective in-store marketing to allow consumers to discover the distinct benefits of our products."

Fourth Quarter Highlights (fourth quarter 2014 versus fourth quarter 2013)

- Net sales of $102.4 million versus $66.8 million
- Gross margins of 39% versus 37%
- GAAP diluted EPS of $0.43 versus $(0.07)
- Adjusted EBITDA of $24.3 million versus $12.3 million
- Generated over $10.0 million in operating cash flow
- Record screen protection sales of $56.7 million
- Record keyboard sales $26.0 million

Fourth Quarter Results

Net sales for the quarter increased 53% to $102.4 million from $66.8 million in the same quarter the previous year. The increase was due to high attachment of our accessory products designed for the iPhone 6 and iPhone 6 Plus, increased placement and improved point of sale marketing for the keyboard product line at key retailers, increased sales of mobile power solutions, and increased international sales. Power management grew in the quarter and has been the highest percentage growth category in 2014. Audio and case sales declined year-over-year.

Net sales by channel were 91% through indirect channels, 5% through www.ZAGG.com and www.iFrogz.com and 4% through the Company's mall cart and kiosk franchise program. International sales were 8% of net sales, versus 10% in the same quarter last year.

Gross profit was $39.6 million, or 39% of net sales versus $24.5 million, or 37% of net sales, in the prior year quarter. The increase in gross profit was largely due to the sales mix with screen protection products making up over 55% of nets sales compared to 40% in the prior year. Higher screen protection sales are beneficial to our gross margin.

Operating income was $20.1 million compared to an operating loss of $(2.9) million for the fourth quarter of 2013. 2013 fourth quarter operating income was impacted by an $11.2 million non-cash charge for the impairment of goodwill and an intangible asset.

Net income was $13.0 million, or $0.43 per diluted share, as compared to net loss of $(2.0) million, or ($0.07) per diluted share, in the fourth quarter of 2013.

Pro forma net income was $14.9, or $0.49 per diluted share, compared to pro forma net income of $7.1 million, or $0.23 per diluted share for the same period last year in 2013.

Adjusted EBITDA was $24.3 million versus $12.3 million of Adjusted EBITDA in the prior year period.

2014 Highlights (Fiscal year 2014 versus fiscal year 2013)

- Net sales of $261.6 million versus $219.4 million
- Gross margins of 32% versus 40%
- Operating income of $17.0 million versus $10.9 million
- Adjusted EBITDA of $32.1 versus $39.1 million
- Paid down $17.5 million on the line of credit to zero balance
- Repurchased 1.8 million shares of ZAGG common stock
- Record annual screen protection sales of $119.9 million
- Record keyboard sales of $80.1 million

Fiscal Year 2014 Results

Net sales increased 19% to $261.6 million from $219.4 million in the previous year. Net sales by channel were 90% through indirect channels, 5% through www.ZAGG.com and www.iFrogz.com and 5% through the company's mall cart and kiosk franchise program.

Gross profit was $83.3 or 32% of net sales, versus $87.1 million or 40% of net sales in 2013. The decline in gross margin was primarily linked to inventory write-downs recorded during 2014 for product expected to be sold below the carrying value. This negative impact on gross profit margin was partially offset by an increase in the overall sales mix of our screen protection products, which have the highest gross margin contribution of our different product lines.

Operating income was $17.0 million compared to $10.9 million for fiscal 2013. Cost containment and expense management throughout the year benefited operating margins. 2013 operating income was impacted by an $11.2 million non-cash charge for the impairment of goodwill and an intangible asset recorded during the fourth quarter of that year.

Net income was $10.5 million or $0.34 per diluted share, as compared to net income of $4.8 million, or $0.15 per diluted share, in fiscal year 2013.

Pro forma net income was $17.8 million, or $0.58 per diluted share, compared to pro forma net income of $22.9 million, or $0.73 per diluted share, in fiscal year 2013.

Adjusted EBITDA was $32.1 million versus $39.1 million in the fiscal year 2013.

About Non-GAAP Financial Information

Readers are cautioned that the Adjusted EBITDA (earnings/loss before stock-based compensation expense, depreciation and amortization, impairment of goodwill and intangibles, impairment of an investment in a private company, other income/expense, and provision for income taxes) and pro forma net income/loss (earnings/loss before stock-based compensation expense, amortization, impairment of goodwill and intangibles, impairment of an investment in a private company and other income/expense [excluding cash interest expense], net of tax effects where applicable) contained in this commentary are not financial measures under US generally accepted accounting principles (GAAP). In addition, this financial information should not be construed as alternatives to any other measures of performance determined in accordance with GAAP, or as indicators of operating performance, liquidity or cash flows generated by operating, investing and financing activities, as there may be significant factors or trends that they fail to address. For comparative purposes, we applied an annualized statutory tax rate of 39.23% in 2014 and 38.25% in 2013, which reflects the Company's statutory tax rate in each respective period, to derive the pro forma net income/loss and pro forma earnings per share. We present this financial information because we believe that it is helpful to some investors as a measure of performance. We caution readers that non-GAAP financial information, by its nature, departs from traditional accounting conventions. Accordingly, its use can make it difficult to compare current results with results from other reporting periods and with the financial results of other companies.

Outlook

The Company is forecasting 2015 revenue in a range of $260 million - $270 million. We anticipate growth of about 50% in Western Europe, but do not anticipate significant growth in our current key retailers in the U.S. We anticipate incremental gains with new product placements being offset by sales for screen protection normalizing from the high levels seen with the launch of the iPhone 6 and 6 Plus. There are numerous device launches planned in 2015, but they are not anticipated to replicate the levels seen of the iPhone 6s. We are monitoring potential revenue headwinds from foreign exchange pressures, as well as the developing port situation at the Long Beach Port that could negatively impact our revenue guidance for 2015. We expect to gain new distribution into new and prospective retail channels in 2015, but we are uncertain of the load-in timings, with many having resets in the second half of 2015.

We anticipate corporate gross margin to increase to the mid-30's in 2015. We are working to take costs out of the supply chain and lower transportation cost, however the timing of the impact of these cost savings is likely to be in the second half of the year.

Adjusted EBITDA is anticipated to be in a range of $38 million to $41 million. The biggest driver for the improvement in Adjusted EBITDA is gross margin. We are forecasting the improvement in cost of goods sold and flat operating expenses throughout 2015 to allow Adjusted EBITDA to grow year-over-year in a range of 18% to 28%.

Conference Call

A conference call will be held today at 5:00 p.m. EST to review these results. Interested parties may access via the Internet on the Company's website at: investors.zagg.com.

Safe Harbor Statement

In addition to the historical information contained in this press release, this release contains (and oral communications made by ZAGG may contain) statements that relate to future events and expectations and, as such, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, outlook, assumptions, or future events or performance, often, but not always, through the use of words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "targets," or similar expressions, are not statements of historical facts and may be forward-looking. Readers are cautioned that such statements are subject to a multitude of risks and uncertainties that could cause future circumstances, events, or results to differ materially from those projected in the forward-looking statements. In addition to any assumptions and other factors and matters referred to specifically in connection with such forward-looking statements, factors that could cause actual results or outcomes to differ materially from those contained in forward-looking statements include the following: (a) the ability to design, produce, and distribute the creative product solutions required to retain existing customers and to attract new customers; (b) building and maintaining marketing and distribution functions sufficient to gain meaningful international market share for ZAGG's products; (c) the ability to respond quickly with appropriate products after the adoption and introduction of new mobile devices by major manufacturers like Samsung and Apple; (d) changes or delays in announced launch schedules for new mobile devices by major manufacturers like Samsung and Apple; (e) the impact of inconsistent quality or reliability of new product offerings; (f) the impact of lower profit margins in certain new and existing product categories; (g) the impacts of changes in economic conditions, including on customer demand; (h) the impact of lower profit margins in certain new and existing product categories; (i) managing inventory in light of constantly shifting consumer demand; (j) the failure of information systems or technology solutions or the failure to secure information system data, failure to comply with privacy laws, security breaches, or the effect on the company from cyber attacks, terrorist incidents, or the threat of terrorist incidents; and (k) adoption of or changes in accounting policies, principles, or estimates. Any forward-looking statement speaks only as of the date on which such statement is made. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Readers should also review the risks and uncertainties listed in ZAGG's most recent Annual Report on Form 10-K and other reports the company files with the U.S. Securities and Exchange Commission, including (but not limited to) Item 1A - "Risk Factors" in the Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations and the risks described therein from time to time. ZAGG disclaims any obligation to update publicly any forward-looking information, whether in response to new information, future events, or otherwise, except as required by applicable law.

Supporting Resources

- ZAGG products
- ZAGG investor relations
- ZAGG on Facebook
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About ZAGG Inc:

ZAGG Inc (Nasdaq:ZAGG) and its subsidiaries (the "company") design, produce and distribute creative mobile accessory solutions. The company's three distinct brands -- ZAGG, iFrogz and invisibleSHIELD® -- offer solutions such as keyboards, cases, screen protection, audio, power management and gaming products. ZAGG serves as the professional, work-hard technology-based product line; iFrogz is the fun, trend-driven, clever and colorful product line; and invisibleSHIELD is the durable, scientifically-formulated, protective product line. ZAGG Inc distinguishes itself by offering industry-leading products through targeted global distribution channels, with the broadest product offering in its sector. More information about the company and its brands is available at ZAGG.com.

ZAGG INC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

(Unaudited)

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 9,461	$ 15,031
Accounts receivable, net of allowances of $1,910 in 2014 and $2,540 in 2013	75,729	46,591
Inventories	48,378	44,539
Prepaid expenses and other current assets	2,681	2,403
Deferred income tax assets	10,774	7,917
Total current assets	147,023	116,481
Property and equipment, net of accumulated depreciation at $7,659 in 2014 and $5,778 in 2013	7,300	5,004
Intangible assets, net of accumulated amortization at $33,242 in 2014 and $23,431 in 2013	31,408	41,219
Deferred income tax assets	14,290	11,377
Note receivable	801	801
Other assets	457	588
Total assets	$ 201,279	$ 175,470
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 49,379	$ 15,207
Income taxes payable	6,464	6,359
Accrued liabilities	6,910	2,608
Accrued wages and wage related expenses	2,600	891
Deferred revenue	179	159
Sales returns liability	8,674	7,872

Total current liabilities	74,206	33,096
Revolving line of credit	--	17,543
Total liabilities	74,206	50,639
Stockholders' equity		
Common stock, $0.001 par value; 100,000 shares authorized; 32,686 and 32,331 shares issued in 2014 and 2013, respectively	33	32
Additional paid-in capital	85,154	82,807
Accumulated other comprehensive income (loss)	(895)	93
Note receivable collateralized by stock	(348)	(348)
Treasury stock, 3,569 and 1,756 common shares in 2014 and 2013 respectively, at cost	(19,576)	(9,997)
Retained earnings	62,705	52,244
Total stockholders' equity	127,073	124,831
Total liabilities and stockholders' equity	$ 201,279	$ 175,470

ZAGG INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		**Twelve Months Ended**	
	December 31, 2014	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Net sales	$ 102,415	$ 66,818	$ 261,585	$ 219,356
Cost of sales	62,800	42,332	178,241	132,236
Gross profit	39,615	24,486	83,344	87,120
Operating expenses:				
Advertising and marketing	2,779	2,359	7,542	8,952
Selling, general and administrative	14,335	11,342	49,110	46,356
Impairment of goodwill and intangibles	--	11,246	--	11,246
Amortization of definite-lived intangibles	2,427	2,451	9,709	9,620
Total operating expenses	19,541	27,398	66,361	76,174
Income (loss) from operations	20,074	(2,912)	16,983	10,946
Other income (expense):				
Interest expense	(47)	(85)	(170)	(575)
Loss from equity method investment in HzO	--	(177)	--	(2,013)
Other income and (expense)	(82)	264	121	127

Total other income (expense)	(129)	2	(49)	(2,461)
Income (loss) before provision for income taxes	19,945	(2,910)	16,934	8,485
Income tax benefit (provision)	(6,946)	866	(6,473)	(3,695)
Net income (loss)	$ 12,999	(2,044)	10,461	4,790
Earnings (loss) per share:				
Basic earnings (loss) per share	$ 0.44	$ (0.07)	$ 0.35	$ 0.16
Diluted earnings (loss) per share	$ 0.43	$ (0.07)	$ 0.34	$ 0.15

ZAGG INC AND SUBSIDIARIES

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION TO GAAP

(Unaudited)

Unaudited Supplemental Data

The following are not financial measures under U.S. generally accepted accounting principals (GAAP). In addition, they should not be construed as alternative to any other measures of performance determined in accordance with GAAP, or as an indicator of our operating performance, liquidity or cash flows generated by operating, investing and financing activities as there may be significant factors or trends that it fails to address. We present this financial information because we believe that it is helpful to some investors as a measure of our operations. We caution investors that non-GAAP financial information, by its nature, departs from traditional accounting conventions; accordingly, its use can make it difficult to compare our results with our results from other reporting periods and with the results of other companies.

Adjusted EBITDA Reconciliation	**Three Months Ended**		**Twelve Months Ended**	
	December 31, 2014	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Net income (loss) in accordance with GAAP	$ 12,999	$ (2,044)	$ 10,461	$ 4,790
Adjustments:				
a. Stock-based compensation expense	572	964	2,249	4,126
b. Depreciation and amortization	3,684	3,036	12,879	12,196
c. Impairment of goodwill and intangibles	--	11,246		11,246
d. Impairment of investment in private company	--	--	--	591
e. Other (income) expense	129	(2)	49	2,461
f. Provision for income taxes	6,946	(866)	6,473	3,695
Adjusted EBITDA	$ 24,330	$ 12,334	$ 32,111	$ 39,105

Pro forma Net Income Reconciliation	**Three Months Ended**		**Twelve Months Ended**	
	December 31,	**December 31,**	**December 31,**	**December 31,**

	2014	2013	2014	2013
Net income (loss) in accordance with GAAP	$ 12,999	$ (2,044)	$ 10,461	$ 4,790
Adjustments:				
a. Stock based compensation expense	572	964	2,249	4,126
b. Amortization of intangibles	2,457	2,478	9,804	9,701
c. Impairment of goodwill and intangibles	--	11,246	--	11,246
d. Impairment of investment in private company	--	--	--	591
e. Other (income) expense excluding cash interest expense and loss on equity method investment	99	(207)	(56)	20
f. Loss on equity method investment	--	177	--	2,013
g. Income tax effects	(1,227)*	(5,539)*	(4,706)*	(9,598)*
Pro forma net income	$ 14,900	$ 7,075	$ 17,752	$ 22,889
Pro forma diluted earnings per share	$ 0.49	$ 0.23	$ 0.58	$ 0.73
Weighted average number of shares outstanding - diluted	30,288	31,358	30,610	31,459

* For comparative purposes, we applied an annualized statutory tax rate of 39.23% in 2014 and 38.25% in 2013, which reflects the Company's statutory rate in each respective period.

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