



November 5, 2013

## ZAGG Inc Reports Financial Results for Third Quarter 2013

- **Net sales of \$49.9 million**
- **Adjusted EBITDA of \$10.2 million**
- **GAAP diluted EPS of \$0.10 and pro forma diluted EPS of \$0.19**
- **Cash flow from operations year-to-date of over \$25.0 million**
- **Paid down \$6.6 million on line of credit and term note during the quarter**
- **Revises 2013 revenue and Adjusted EBITDA guidance**

SALT LAKE CITY, Nov. 5, 2013 (GLOBE NEWSWIRE) -- [ZAGG Inc](#) (Nasdaq:ZAGG), a market leader in innovative mobile device accessories and technologies, today announced financial results for the third quarter ended September 30, 2013.

"For the second quarter in a row, we've demonstrated the ability to maximize profitability during a period of top line compression by focusing on expenses and implementing several disciplines for managing our cost structure," said Randy Hales, president and CEO. "Looking ahead, we will continue to maximize profitability and cash flow with a reorganized sales team under new leadership, a strong product management focus, and a renewed focus on growing distribution. We are making the necessary changes to improve shareholder value."

### Third Quarter Highlights (third quarter 2013 versus third quarter 2012)

- Net sales of \$49.9 million versus \$59.8 million
- Gross margins of 44.3% versus 44.5%
- GAAP diluted EPS of \$0.10 versus \$0.11
- Adjusted EBITDA of \$10.2 million versus \$12.0 million
- Generated over \$6.0 million in operating cash flow; over \$25.0 million year-to-date
- Paid down \$4.6 million on line of credit and \$2.0 million on term note
- invisibleSHIELD sales represented 47% of net sales versus 51%
- Keyboard sales represented 28% of net sales versus 19%
- iFrogz Audio represented 14% of net sales versus 15%

### Third Quarter Results

Net sales for the third quarter of 2013 decreased 17% to \$49.9 million from \$59.8 million in the same quarter last year. Revenue this quarter was impacted by the absence of meaningful expansion in our domestic and international distribution channels and as well as modest product expansion with existing customers.

Revenue by channel was 84% through indirect channels, 8% through [ZAGG.com](#) and [iFrogz.com](#) and 8% through the Company's mall cart and kiosk programs.

Gross profit for the third quarter was \$22.1 million or 44.3% of net sales, versus \$26.6 million or 44.5% of net sales in the prior year quarter.

Operating income for the third quarter of 2013 was \$6.4 million compared to operating income of \$7.1 million for the third quarter of 2012.

Net income for the third quarter of 2013 was \$3.2 million or \$0.10 per diluted share as compared to net income of \$3.4 million or \$0.11 per diluted share in the third quarter of 2012.

Pro forma net income for the third quarter of 2013 was \$5.9 million or \$0.19 per diluted share as compared to pro forma net income of \$7.0 million or \$0.22 per diluted share in the third quarter of 2012.

Adjusted EBITDA for the third quarter of 2013 was \$10.2 million versus \$12.0 million of Adjusted EBITDA in the third quarter of 2012.

### About Non-GAAP Financial Information

ZAGG considers earnings before stock-based compensation expense, depreciation and amortization, other income/expense, impairment of investment, and provision for income taxes ("Adjusted EBITDA") to be an important financial indicator of the Company's operational strength and the performance of its business.

In addition, ZAGG considers earnings before stock-based compensation expense, amortization, impairment of investment, and other income/expense (excluding cash interest expense), net of tax effects where applicable, ("pro forma net income") to be a valuable metric in respect of the operational performance of the Company.

These results should be considered in addition to results prepared in accordance with generally accepted accounting principles ("GAAP"), but should not be considered as a substitute for, or superior to, GAAP results.

A reconciliation of the differences between Adjusted EBITDA and pro forma net income, and the most comparable financial measure calculated and presented in accordance with GAAP, is presented under the heading "Reconciliation of Non-GAAP Financial Information to GAAP" immediately following the Condensed Consolidated Statements of Operations included below.

## **Outlook**

The Company is revising full year revenue guidance for 2013 down to a range of \$212.0 million - \$218.0 million from the previous range of \$245.0 million - \$252.0 million. The Company is also revising full year Adjusted EBITDA guidance to \$37.5 million - \$ 39.5 million from the previous range of \$41.0 million - \$42.2 million.

## **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: <http://investors.zagg.com>.

## **Non-GAAP Financial Disclosure**

Investors are cautioned that the Adjusted EBITDA (earnings before stock-based compensation expense, depreciation and amortization, other income/expense, impairment of investment, and provision for income taxes) and pro forma net income (earnings before stock-based compensation expense, amortization, impairment of investment, and other income/expense [excluding cash interest expense], net of tax effects where applicable) contained in this press release are not financial measures under generally accepted accounting principles. In addition, they should not be construed as alternatives to any other measures of performance determined in accordance with generally accepted accounting principles, or as indicators of our 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 38.25% to derive the pro forma net income and pro forma EPS. We present this financial information because we believe that it is helpful to some investors as a measure of our performance. 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 current results with our results from other reporting periods and with the results of other companies.

## **Safe Harbor Statement**

This release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. "Forward-looking statements" describe future expectations, plans, results, or strategies and are generally preceded by words such as "may," "future," "plan" or "planned," "will" or "should," "expected," "anticipates," "draft," "eventually" or "projected." You 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, including the risks that actual results may differ materially from those projected in the forward-looking statements as a result of various factors, and other risks identified in filings made by the company with the Securities and Exchange Commission.

## **About ZAGG Inc:**

ZAGG Inc and its subsidiaries (collectively, the "Company," or "ZAGG") design, produce, and distribute creative product solutions such as protective coverings, keyboards, keyboard cases, earbuds, portable batteries, and device cleaning accessories for mobile devices under the family of ZAGG brands. Within the family of the ZAGG brands are products sold under the following names: invisibleSHIELD®, ZAGGskins™, ZAGGbuds™, ZAGGsparq™, ZAGGfolio™, ZAGGmate™, ZAGGkeys™, ZAGGkeys PRO™, ZAGGkeys PRO Plus™, ZAGGkeys PROfolio, ZAGGkeys PROfolio+, and ZAGGkeys MI

In addition, the Company designs, produces, and distributes cases, Near-Field Audio™ amplifying speakers, earbuds, traditional headphones, and gaming headphones for mobile devices under the family of iFrogz brands in the value-priced

lifestyle sector. Within the iFrogz brand portfolio are products sold under the following names: iFrogz™, Earpollution™, Caliber™, and Animatone™.

**ZAGG INC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except par value)  
(Unaudited)

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 12,654	\$ 20,177
Accounts receivable, net of allowances of \$3,459 in 2013 and \$2,974 in 2012	32,475	54,561
Inventories	50,714	39,988
Prepaid expenses and other current assets	3,127	9,547
Deferred income tax assets	7,372	6,912
<b>Total current assets</b>	<b>106,342</b>	<b>131,185</b>
<b>Investment in HzO</b>	<b>177</b>	<b>2,013</b>
<b>Property and equipment</b> , net of accumulated depreciation at \$5,233 in 2013 and \$3,317 in 2012	<b>4,823</b>	<b>4,862</b>
<b>Goodwill</b>	<b>1,484</b>	<b>1,484</b>
<b>Intangible assets</b> , net of accumulated amortization at \$20,953 in 2013 and \$13,790 in 2012	<b>53,458</b>	<b>57,905</b>
<b>Deferred income tax assets</b>	<b>6,596</b>	<b>6,596</b>
<b>Note receivable</b>	<b>789</b>	<b>583</b>
<b>Other assets</b>	<b>687</b>	<b>1,457</b>
<b>Total assets</b>	<b>\$ 174,356</b>	<b>\$ 206,085</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 13,048	\$ 19,027
Income taxes payable	3,292	3,062
Accrued liabilities	2,452	3,754
Accrued wages and wage related expenses	1,149	2,554
Deferred revenue	174	722
Current portion of note payable	8,000	6,000
Sales returns liability	3,975	6,697
<b>Total current liabilities</b>	<b>32,090</b>	<b>41,816</b>
<b>Revolving line of credit</b>	<b>--</b>	<b>22,173</b>
<b>Noncurrent portion of note payable</b>	<b>12,000</b>	<b>18,000</b>
<b>Total liabilities</b>	<b>44,090</b>	<b>81,989</b>
<b>Stockholders' equity</b>		
Common stock, \$0.001 par value; 100,000 shares authorized; 32,119 and 31,215 shares issued in 2013 and 2012, respectively	32	31
Additional paid-in capital	82,270	77,234
Accumulated other comprehensive income	35	(57)

Note receivable collateralized by stock	(360)	(566)
Treasury stock, 797 and 0 common shares in 2013 and 2012 respectively, at cost	(5,999)	--
Retained earnings	54,288	47,454
<b>Total stockholders' equity</b>	<b>130,266</b>	<b>124,096</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 174,356</b>	<b>\$ 206,085</b>

**ZAGG INC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	<u>September 30, 2013</u>	<u>September 30, 2012</u>	<u>September 30, 2013</u>	<u>September 30, 2012</u>
<b>Net sales</b>	\$ 49,869	\$ 59,828	\$ 152,538	\$ 176,943
<b>Cost of sales</b>	27,768	33,203	89,904	94,980
<b>Gross profit</b>	22,101	26,625	62,634	81,963
<b>Operating expenses:</b>				
Advertising and marketing	2,340	3,378	6,593	8,181
Selling, general and administrative	10,904	13,707	35,014	38,237
Amortization of definite-lived intangibles	2,421	2,422	7,169	7,313
<b>Total operating expenses</b>	15,665	19,507	48,776	53,731
<b>Income from operations</b>	6,436	7,118	13,858	28,232
<b>Other expense:</b>				
Interest expense	(120)	(1,012)	(490)	(3,519)
Loss from equity method investment in HzO	(612)	(545)	(1,836)	(1,481)
Other expense	(89)	(215)	(136)	(237)
<b>Total other expense</b>	(821)	(1,772)	(2,462)	(5,237)
<b>Income before provision for income taxes</b>	5,615	5,346	11,396	22,995
<b>Income tax provision</b>	(2,431)	(1,958)	(4,562)	(8,684)
<b>Net income</b>	3,184	3,388	6,834	14,311
<b>Earnings per share:</b>				
Basic earnings per share	<u>\$ 0.10</u>	<u>\$ 0.11</u>	<u>\$ 0.22</u>	<u>\$ 0.47</u>
Diluted earnings per share	<u>\$ 0.10</u>	<u>\$ 0.11</u>	<u>\$ 0.22</u>	<u>\$ 0.45</u>

**RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION TO GAAP**

(in thousands, except per share amounts)

(Unaudited)

**Unaudited Supplemental Data**

The following information is not a financial measure under generally accepted accounting principals (GAAP). In addition, it should not be construed as an 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 one 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		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income attributable to stockholders in accordance with GAAP	\$ 3,184	\$ 3,388	\$ 6,834	\$ 14,311
<b>Adjustments:</b>				
a. Stock based compensation expense	793	2,087	3,162	4,922
b. Depreciation and amortization	2,947	2,823	9,160	8,506
c. Impairment of investment in private company	--	--	591	--
d. Provision for income taxes	2,431	1,958	4,562	8,684
e. Other (income) expense	821	1,772	2,462	5,237
<b>Adjusted EBITDA</b>	<b>\$ 10,176</b>	<b>\$ 12,028</b>	<b>\$ 26,771</b>	<b>\$ 41,660</b>
Pro forma Net Income Reconciliation	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income in accordance with GAAP	\$ 3,184	\$ 3,388	\$ 6,834	\$ 14,311
<b>Adjustments:</b>				
a. Stock based compensation expense	793	2,087	3,162	4,922
b. Amortization of intangibles	2,441	2,439	7,224	7,362
c. Impairment of investment in private company	--	--	591	--
d. Other (income) expense excluding cash interest expense and loss on equity method investment	119	371	46	834
e. Loss on equity method investment	612	545	1,836	1,481
f. Income tax effects	(1,283) *	(1,873)	(4,216) *	(5,018)
<b>Pro forma net income</b>	<b>\$ 5,866</b>	<b>\$ 6,957</b>	<b>\$ 15,477</b>	<b>\$ 23,892</b>
<b>Pro forma EPS</b>	<b>\$ 0.19</b>	<b>\$ 0.22</b>	<b>\$ 0.49</b>	<b>\$ 0.75</b>

**Weighted average number of shares outstanding - diluted**

31,466

31,734

31,493

31,647

**\* For comparative purposes, we applied an annualized statutory tax rate of 38.25%**

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