Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 31, 2018

ZAGG INC

(Exact name of registrant as specified in its charter)

Delaware	001-34528	20-2559624
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

910 West Legacy Center Way, Suite 500
Midvale, Utah 84047

(Address of principal executive offices; zip code)

(801) 263-0699

(Registrant's telephone number, including area code)

Not applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition.

On July 31, 2018, ZAGG Inc (the “Company”) issued a press release announcing the results of operations for the three and six months ended June 30, 2018, and made publicly available certain supplemental financial information, including commentary on results of operations from Bradley J. Holiday, Chief Financial Officer (“CFO”). The supplemental financial information - financial tables is furnished with this report as Exhibit 99.1, the press release is furnished with this report as Exhibit 99.2, and the supplemental financial information - CFO commentary is furnished with this report as Exhibit 99.3.

The Company will also hold its earnings conference call on July 31, 2018. The conference call will be available to interested parties through a live audio Internet broadcast accessible at investors.zagg.com under the events tab. A podcast of the conference call will be archived at investors.zagg.com for one year. The URLs are included here as inactive textual references. Information contained on, or accessible through, our websites is not a part of, and is not incorporated by reference into this report.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

The following are filed as Exhibits to this Current Report on Form 8-K:

Exhibit No.	Description
99.1	Supplemental Financial Information - Financial Tables for the Three and Six Months Ended June 30, 2018
99.2	Results of Operations Press Release dated July 31, 2018
99.3	Supplemental Financial Information - CFO Commentary on the Second Quarter 2018 Financial Results

The information contained in Item 2.02 and Item 9.01 of this Current Report on Form 8-K, including Exhibits 99.1, 99.2, and 99.3 shall not be deemed to be “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall they be deemed incorporated by reference in any registration statement or other filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in any such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ZAGG INC

Dated: July 31, 2018

/s/ BRADLEY J. HOLIDAY

Bradley J. Holiday

Chief Financial Officer

(Principal financial officer)

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Section 2: EX-99.1 (EXHIBIT 99.1)

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

		June 30, 2018		December 31, 2017
ASSETS				
Current assets:				
Cash and cash equivalents	$	18,582	$	24,989
Accounts receivable, net of allowances of $431 and $734		83,990		123,220
Inventories		69,662		75,046
Income tax receivable		1,285		—
Prepaid expenses and other current assets		5,463		4,547
Total current assets		178,982		227,802
Property and equipment, net of accumulated depreciation of $14,212 and $12,540		12,532		13,444
Goodwill		12,272		12,272
Intangible assets, net of accumulated amortization of $72,253 and $66,639		33,630		39,244
Deferred income tax assets		23,914		24,403
Other assets		3,846		3,426
Total assets	$	265,176	$	320,591
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	60,372	$	96,472
Income tax payable		—		2,052
Accrued liabilities		6,838		8,168
Sales returns liability		34,620		34,536
Accrued wages and wage related expenses		5,836		5,652
Deferred revenue		—		315
Current portion of line of credit		—		23,475
Current portion of long-term debt, net of deferred loan costs of $0 and $141		—		13,922
Total current liabilities		107,666		184,592
Non-current portion of line of credit		20,000		—
Total liabilities		127,666		184,592
Stockholders' equity:				
Common stock, $0.001 par value; 100,000 shares authorized; 34,423 and 34,104 shares issued		34		34
Additional paid-in capital		94,977		96,145
Accumulated other comprehensive loss		(1,028)		(348)
Treasury stock, 6,247 and 6,065 common shares at cost		(40,643)		(37,637)
Retained earnings		84,170		77,805
Total stockholders' equity		137,510		135,999
Total liabilities and stockholders' equity	$	265,176	$	320,591

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Net sales	$ 118,565	$ 115,227	$ 230,631	$ 208,173
Cost of sales	80,908	79,403	155,381	143,743
Gross profit	37,657	35,824	75,250	64,430
Operating expenses:				
Advertising and marketing	2,638	2,070	5,233	5,076
Selling, general and administrative	27,035	24,952	51,342	52,006
Transaction costs	18	300	18	515
Impairment of intangible asset	—	—	—	1,959
Amortization of intangible assets	2,773	3,005	5,545	6,026
Total operating expenses	32,464	30,327	62,138	65,582
Income (loss) from operations	5,193	5,497	13,112	(1,152)
Other income (expense):				
Interest expense	(346)	(619)	(846)	(1,110)
Other (expense) income	(681)	67	(186)	48
Total other expense	(1,027)	(552)	(1,032)	(1,062)
Income (loss) before provision for income taxes	4,166	4,945	12,080	(2,214)
Income tax provision	(951)	(1,542)	(1,835)	(521)
Net income (loss)	$ 3,215	$ 3,403	$ 10,245	$ (2,735)
Earnings (loss) per share attributable to stockholders:				
Basic earnings (loss) per share	$ 0.11	$ 0.12	$ 0.36	$ (0.10)
Diluted earnings (loss) per share	$ 0.11	$ 0.12	$ 0.36	$ (0.10)

ZAGG INC AND SUBSIDIARIES
RECONCILIATION OF NON-U.S. GAAP FINANCIAL INFORMATION TO U.S. GAAP
(in thousands)
(Unaudited)

UNAUDITED SUPPLEMENTAL DATA

The following information is not a financial measure under generally accepted accounting principles (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 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.

	Three Months Ended		Six Months Ended	
Adjusted EBITDA Reconciliation	**June 30, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Net income (loss) in accordance with U.S. GAAP	$ 3,215	$ 3,403	$ 10,245	$ (2,735)
Adjustments:				
a. Stock-based compensation expense	807	966	1,408	1,636
b. Depreciation and amortization	4,200	5,233	9,230	11,022
c. Impairment of intangible asset	—	—	—	1,959
d. Other expense, net	1,027	552	1,032	1,062
e. Transaction expenses	18	300	18	515
f. mophie restructuring charges	—	23	—	437
g. mophie employee retention bonus	—	46	—	346
h. Consulting fee to former CEO	700	—	700	—
i. Income tax provision	951	1,542	1,835	521
Adjusted EBITDA	$ 10,918	$ 12,065	$ 24,468	$ 14,763

	Years Ended	
Adjusted EBITDA Reconciliation	**Guidance* December 31, 2018**	**Actual December 31, 2017**
Net income in accordance with U.S. GAAP	$ 40,200	$ 15,100
Adjustments:		
a. Stock-based compensation expense	3,667	3,602
b. Depreciation and amortization	18,358	21,888
c. Impairment of intangible asset	—	1,959
d. Other expense	1,375	1,383
e. mophie restructuring charges	—	437
f. mophie employee retention bonus	—	346
g. Income tax provision	14,900	28,252
Adjusted EBITDA	$ 78,500	$ 72,967

*Midpoint of 2018 guidance

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Section 3: EX-99.2 (EXHIBIT 99.2)

July 31, 2018

ZAGG Reports Record Second Quarter 2018 Results
Announces Acquisition of BRAVEN Audio Brand

SALT LAKE CITY, July 31, 2018 (GLOBE NEWSWIRE) – ZAGG Inc (Nasdaq: ZAGG), a leading global mobile lifestyle company, today announced financial results for the second quarter ended June 30, 2018.

Second Quarter 2018 Highlights (Comparisons versus Second Quarter 2017)
- *Net sales of $118.6 million, an increase of 3% compared to $115.2 million*
- *Gross profit of 32% compared to 31%*
- *Net income of $3.2 million compared to $3.4 million*
- *Diluted earnings per share of $0.11 compared to $0.12*
- *Adjusted EBITDA of $10.9 million compared to $12.1 million*

Year-to-Date 2018 Highlights (Comparisons versus Year-to-Date 2017)
- *Net sales of $230.6 million, an increase of 11% compared to $208.2 million*
- *Gross profit of 33% compared to 31%*
- *Net income of $10.2 million compared to a net loss of $2.7 million*
- *Diluted earnings per share of $0.36 compared to a diluted loss per share of $0.10*
- *Adjusted EBITDA of $24.5 million compared to $14.8 million*

"Our solid second quarter performance contributed to a very strong first half of 2018," commented Chris Ahern, Chief Executive Officer. "We continue to execute the product, distribution and brand building strategies that have produced market leading positions for our InvisibleShield and mophie businesses. With our focus on driving operational excellence throughout our organization combined with current industry trends, we believe there is a long runway for global growth within the mobile lifestyle market. This includes our more established categories such as screen protection and power cases as well as power management where I believe we are just starting to scratch the surface of our potential in wireless charging. Looking ahead, I am excited about our prospects for continued growth for the remainder of this year and beyond."

“Additionally, we’re excited about the acquisition of the BRAVEN audio brand,” continue Mr. Ahern. “BRAVEN is a category creator and leader in technology, and expands our house of brands into new segments of the large and growing audio category while leveraging our global distribution to rapidly scale the company. Together, we look forward to continuing the BRAVEN brand heritage of developing intelligently designed products with cutting-edge innovation and craftsmanship.”

Second Quarter Results (in millions, except per share amounts)

	Three Months Ended	
	June 30, 2018	**June 30, 2017**
Net sales	$ 118.6	$ 115.2
Gross profit	$ 37.7	$ 35.8
Gross profit margin	32 %	31 %
Net income	$ 3.2	$ 3.4
Diluted earnings per share	$ 0.11	$ 0.12
Adjusted EBITDA	$ 10.9	$ 12.1

Net sales increased $3.4 million or 3% to $118.6 million, the highest second quarter sales result in ZAGG's history, compared to $115.2 million. The increase in net sales was primarily attributable to (1) the increase in sales of our power management products, specifically related to wireless charging accessories, and (2) increased sales of screen protection products in key wireless and retail accounts, particularly in international markets. These increases were partially offset by a decrease in sales of power cases.

Gross profit increased $1.9 million or 5% to $37.7 million (32% of net sales) compared to $35.8 million (31% of net sales). The increase in gross profit margin was primarily attributable to (1) the mix of screen protection products, our highest margin product category, which increased to approximately 54% of net sales compared to approximately 51% of net sales, and (2) improved margins on mophie-branded products.

Operating expenses increased $2.2 million or 7% to $32.5 million (27% of net sales) compared to $30.3 million (26% of net sales). The increase in operating expenses was primarily attributable to (1) increases in headcount to support additional growth of the Company, and (2) increases in advertising and marketing spend.

Net income decreased $0.2 million to $3.2 million compared to $3.4 million. Diluted earnings per share was $0.11 (on 28.7 million shares) compared to $0.12 (on 28.2 million shares).

Adjusted EBITDA decreased $1.2 million or 10% to $10.9 million compared to $12.1 million.

Year-to-Date Results (in millions, except per share amounts)

	Six Months Ended	
	June 30, 2018	**June 30, 2017**
Net sales	$ 230.6	$ 208.2
Gross profit	$ 75.3	$ 64.4
Gross profit margin	33 %	31 %
Net income (loss)	$ 10.2	$ (2.7)
Diluted earnings (loss) per share	$ 0.36	$ (0.10)
Adjusted EBITDA	$ 24.5	$ 14.8

Net sales increased $22.4 million or 11% to $230.6 million, the highest second quarter year-to-date sales result in ZAGG's history, compared to $208.2 million. The increase in net sales was primarily attributable to (1) the increase in sales of our power management products, specifically related to wireless charging accessories, and (2) increases in screen protection products in key wireless and retail accounts, particularly in international markets. These increases were partially offset by a decrease in sales of power cases.

Gross profit increased $10.9 million or 17% to $75.3 million (33% of net sales) compared to $64.4 million (31% of net sales). The increase in gross profit margin was primarily attributable to (1) the mix of screen protection products, our highest margin product category, which increased to approximately 52% of net sales compared to approximately 49% of net sales, and (2) improved margins on mophie-branded products.

Operating expenses decreased $3.5 million or 5% to $62.1 million (27% of net sales) compared to $65.6 million (32% of net sales). The decrease in operating expenses was primarily attributable to (1) a $2.0 million charge in 2017 related to the impairment of a patent that did not recur in 2018, and (2) operating expense synergies realized related to the mophie integration. These decreases in operating expense were partially offset by (1) increases in headcount to support additional growth of the Company and (2) increases in advertising and marketing spend.

Net income increased $12.9 million to $10.2 million compared to a net loss of $2.7 million. Diluted earnings per share was $0.36 (on 28.7 million shares) compared to a diluted loss per share of $0.10 (on 28.0 million shares).

Adjusted EBITDA increased $9.7 million or 66% to $24.5 million compared to $14.8 million.

2018 Business Outlook

The Company updated its annual guidance for 2018 to reflect a lower projected annual effective tax rate:

- Net sales of $550 million to $570 million
- Gross profit margin as a percentage of net sales in the low to mid 30's range
- Adjusted EBITDA of $77 million to $80 million
- Diluted earnings per share of $1.30 to $1.50
- Annual effective tax rate of approximately 25% compared to approximately 27% in the last annual business outlook

Conference Call

A conference call will be held today, July 31, 2018, 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 (the URLs are included here in this exhibit as inactive textual references and information contained on, or accessible through, our websites is not a part of, and is not incorporated by reference into, this report).

About Non-GAAP Financial Information

This press release includes Adjusted EBITDA as a non-GAAP financial measure. Readers are cautioned that Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, stock-based compensation expense, other income (expense), transaction expenses, mophie restructuring charges, mophie employee retention bonus, consulting fee to former CEO, and impairment of intangible asset) is not a financial measure under US generally accepted accounting principles (GAAP). In addition, this financial information should not be construed as an alternative to any other measure of performance determined in accordance with GAAP, or as an indicator of operating performance, liquidity or cash flows generated by operating, investing and financing activities, is as there may be significant factors or trends that it fails to address. As such, it should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. We present Adjusted EBITDA 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. We have provided a reconciliation of Adjusted EBITDA to the most directly comparable GAAP measures in the supplemental financial information attached to this press release.

Cautionary Note Regarding Forward-Looking Statements

This press release contains (and oral communications made by us may contain) ““forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “predict,” “project,” “target,” “future,” “seek,” “likely,” “strategy,” “may,” “should,” “will” and similar references to future periods. Examples of forward-looking statements include, among others, statements we make regarding our outlook for the Company and statements that estimate or project future results of operations or the performance of the Company.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, 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 our products;
c. the ability to respond quickly with appropriate products after the adoption and introduction of new mobile devices by major manufacturers like Apple, Samsung, and Google;
d. changes or delays in announced launch schedules for (or recalls or withdrawals of) new mobile devices by major manufacturers like Apple, Samsung, and Google;
e. the ability to successfully integrate new operations or acquisitions;
f. the impact of inconsistent quality or reliability of new product offerings;
g. the impact of lower profit margins in certain new and existing product categories, including certain mophie products;
h. the impacts of changes in economic conditions, including on customer demand;
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;
k. adoption of or changes in accounting policies, principles, or estimates; and
l. changes in tax laws and regulations.

Any forward-looking statement made by us in this press release 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 our most recent Annual Report on Form 10-K and other reports we file 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. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. The forward-looking statements contained in this press release are intended to qualify for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

About ZAGG Inc

ZAGG Inc (NASDAQ:ZAGG) is a global leader in accessories and technologies that empower mobile lifestyles. The Company has an award-winning product portfolio that includes screen protection, mobile keyboards, power management solutions, social tech, and personal audio sold under the ZAGG®, mophie®, InvisibleShield®, and IFROGZ® brands. ZAGG has operations in the United States, Ireland, and China. ZAGG products are available worldwide, and can be found at leading retailers including Best Buy, Verizon, AT&T, Sprint, Walmart, Target, Walgreens and Amazon.com. For more information, please visit the company’s websites at www.zagg.com and www.mophie.com and follow us on Facebook, Twitter and Instagram.

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Section 4: EX-99.3 (EXHIBIT 99.3)

July 31, 2018

ZAGG Supplemental Financial Information - CFO Commentary

Document reference information

The commentary in this document can be referenced in the financial information found in the press release announcing the results of operations for the three and six months ended June 30, 2018, including certain supplemental financial information, issued earlier today. The release can be found at investors.ZAGG.com, or in the Form 8-K furnished to the Securities and Exchange Commission website at sec.gov (the URLs are included here in this exhibit as inactive textual references and information contained on, or accessible through, our websites is not a part of, and is not incorporated by reference into, this report).

Three months ended June 30, 2018, and 2017 Summary Results
(In millions, except per share amounts)

Second quarter results

	Three Months Ended	
	June 30, 2018	June 30, 2017
Net sales	$ 118.6	$ 115.2
Gross profit	$ 37.7	$ 35.8
Gross profit margin	32 %	31 %
Net income	$ 3.2	$ 3.4
Diluted earnings per share	$ 0.11	$ 0.12
Adjusted EBITDA	$ 10.9	$ 12.1

Net sales by category

	Three Months Ended			
	June 30, 2018		June 30, 2017	
	(%)	($)	(%)	($)
Screen Protection	54 %	$ 64.8	51 %	$ 58.9
Power Management	27 %	$ 31.9	17 %	$ 19.9
Power Cases	7 %	$ 8.1	19 %	$ 21.5
Keyboards	7 %	$ 8.0	5 %	$ 6.0
Audio	4 %	$ 4.8	7 %	$ 7.7
Other	1 %	$ 1.0	1 %	$ 1.2

Net sales by channel

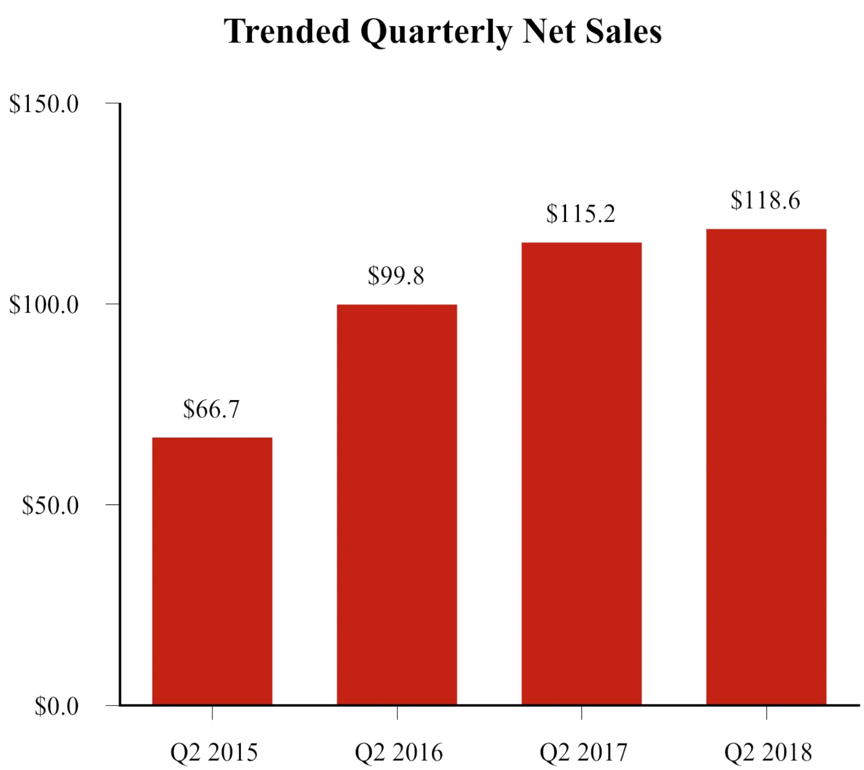
	Three Months Ended			
	June 30, 2018		June 30, 2017	
	(%)	($)	(%)	($)
Indirect channel	88 %	$ 104.3	89 %	$ 103.0
Website	8 %	$ 9.6	7 %	$ 8.5
Franchisees	4 %	$ 4.7	4 %	$ 3.7

Net sales by region

	Three Months Ended			
	June 30, 2018		June 30, 2017	
	(%)	($)	(%)	($)
United States	85 %	$ 100.5	87 %	$ 100.2
Europe	10 %	$ 12.0	8 %	$ 9.4
Other	5 %	$ 6.1	5 %	$ 5.6

<u>2018 Second Quarter Results Discussion</u>
(All comparisons are 2018 consolidated versus 2017 consolidated, unless otherwise noted)

Net sales



Net sales for the three months ended June 30, 2018, were $118.6 million, compared to net sales of $115.2 million for the three months ended June 30, 2017, an increase of $3.4 million, or approximately 3%. The $3.4 million increase in net sales was primarily attributable to (1) the increase in sales of our power management products, specifically related to wireless charging accessories, and (2) increased sales of screen protection products in key wireless and retail accounts, particularly in international markets. These increases were partially offset by a decrease in sales of power cases.

Gross profit

Gross profit for the three months ended June 30, 2018, was $37.7 million, or approximately 32% of net sales, an increase of $1.9 million or 5%, compared to gross profit of $35.8 million, or approximately 31% of net sales for the three months ended June 30, 2017. The increase in gross profit margin was primarily attributable to (1) the mix of screen protection products, our highest margin product category, which increased to approximately 54% of net sales compared to approximately 51% of net sales during the three months ended June 30, 2017, and (2) improved margins on mophie-branded products.

Operating expenses

Operating expenses for the three months ended June 30, 2018, were $32.5 million, compared to operating expenses of $30.3 million for the three months ended June 30, 2017, an increase of $2.2 million, or approximately 7%. The $2.2 million increase was primarily attributable to (1) increases in headcount to support additional growth of the Company, and (2) increases in advertising and marketing spend.

Net income

As a result of the factors noted above, we reported net income of $3.2 million, or diluted earnings per share of $0.11, for the three months ended June 30, 2018, compared to net income of $3.4 million, or diluted earnings per share of $0.12, for the three months ended June 30, 2017.

Adjusted EBITDA

Adjusted EBITDA was $10.9 million compared to $12.1 million.

Six Months Ended June 30, 2018, and 2017 Summary Results

(In millions, except per share amounts)

Year-to-date results

	Six Months Ended	
	June 30, 2018	**June 30, 2017**
Net sales	$ 230.6	$ 208.2
Gross profit	$ 75.3	$ 64.4
Gross profit margin	33 %	31 %
Net income (loss)	$ 10.2	$ (2.7)
Diluted earnings (loss) per share	$ 0.36	$ (0.10)
Adjusted EBITDA	$ 24.5	$ 14.8

Net sales by category

	Six Months Ended			
	June 30, 2018		**June 30, 2017**	
	(%)	**($)**	**(%)**	**($)**
Screen Protection	52 %	$ 120.4	49 %	$ 101.4
Power Management	30 %	$ 68.5	17 %	$ 35.6
Power Cases	6 %	$ 15.4	21 %	$ 43.9
Keyboards	6 %	$ 13.2	6 %	$ 12.2
Audio	5 %	$ 11.1	6 %	$ 13.6
Other	1 %	$ 2.0	1 %	$ 1.5

Net sales by channel

	Six Months Ended			
	June 30, 2018		June 30, 2017	
	(%)	($)	(%)	($)
Indirect channel	88 %	$ 203.0	88 %	$ 182.7
Website	8 %	$ 18.9	9 %	$ 18.5
Franchisees	4 %	$ 8.7	3 %	$ 7.0

Net sales by region

	Six Months Ended			
	June 30, 2018		June 30, 2017	
	(%)	($)	(%)	($)
United States	83 %	$ 191.8	86 %	$ 179.4
Europe	10 %	$ 21.8	8 %	$ 16.9
Other	7 %	$ 17.0	6 %	$ 11.9

2018 Year-to-Date Results Discussion
(All comparisons are 2018 consolidated versus 2017 consolidated, unless otherwise noted)

Net sales

Net sales for the six months ended June 30, 2018, were $230.6 million, compared to net sales of $208.2 million for the six months ended June 30, 2017, an increase of $22.4 million, or approximately 11%. The $22.4 million increase in net sales was primarily attributable to (1) the increase in sales of our power management products, specifically related to wireless charging accessories, and (2) increases in screen protection products in key wireless and retail accounts, particularly in international markets. These increases were partially offset by a decrease in sales of power cases.

Gross profit

Gross profit for the six months ended June 30, 2018, was $75.3 million, or approximately 33% of net sales, an increase of $10.9 million or 17%, compared to gross profit of $64.4 million, or approximately 31% of net sales for the six months ended June 30, 2017. The increase in gross profit margin was primarily attributable to (1) the mix of screen protection products, our highest margin product category, which increased to approximately 52% of net sales compared to approximately 49% of net sales for the six months ended June 30, 2017, and (2) improved margins on mophie-branded products.

Operating expenses for the six months ended June 30, 2018, were $62.1 million, compared to operating expenses of $65.6 million for the six months ended June 30, 2017, a decrease of $3.5 million, or approximately 5%. The $3.5 million decrease was primarily attributable to (1) a $2.0 million charge in 2017 related to the impairment of a patent that did not recur in 2018, and (2) operating expense synergies realized related to the mophie integration. These decreases in operating expense were partially offset by (1) increases in headcount to support additional growth of the Company and (2) increases in advertising and marketing spend.

Net income (loss)

As a result of the factors noted above, we reported net income of $10.2 million, or diluted earnings per share of $0.36, for the six months ended June 30, 2018, compared to a net loss of $2.7 million, or diluted loss per share of $0.10, for the six months ended June 30, 2017.

Adjusted EBITDA

Adjusted EBITDA was $24.5 million compared to $14.8 million.

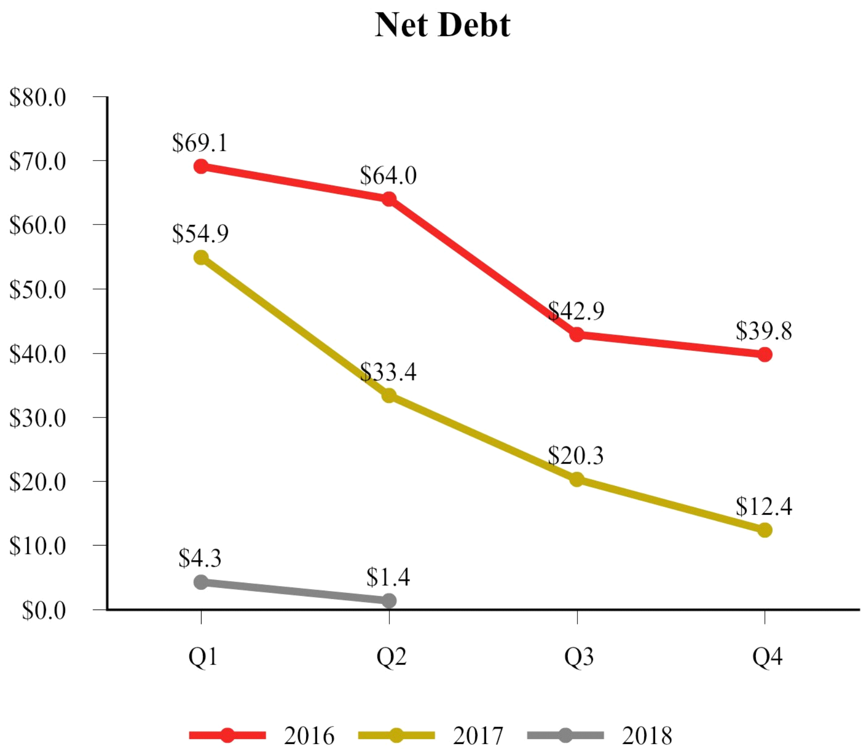
<u>Balance Sheet Highlights (as of June 30, 2018, December 31, 2017, and June 30, 2017)</u>

	June 30, 2018	December 31, 2017	June 30, 2017
Cash and cash equivalents	$ 18.6	$ 25.0	$ 14.3
Accounts receivable, net of allowances	$ 84.0	$ 123.2	$ 73.0
Inventories	$ 69.7	$ 75.0	$ 65.4
Total debt outstanding	$ 20.0	$ 37.4	$ 47.7
Line of credit	$ 20.0	$ 23.5	$ 30.7
Long-term debt	$ —	$ 13.9	$ 17.0
Net debt (Total debt less cash)	$ 1.4	$ 12.4	$ 33.4
Days sales outstanding (DSOs)	65	64	58
Inventory turns*	7.8x	6.9x	6.8x

* Inventory turns defined as trailing 12-month sales divided by period-end inventory.

Debt

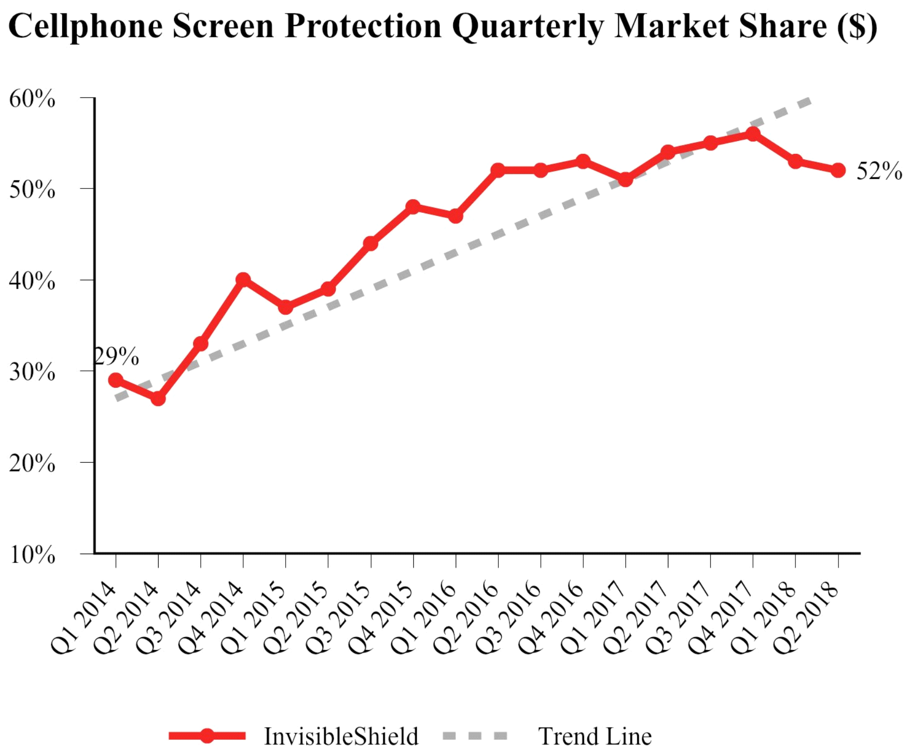
The Company has effectively managed its outstanding debt balance. At June 30, 2018, the net debt balance (total debt less cash) decreased to $1.4 million from $12.4 million at December 31, 2017.



Market Share Information

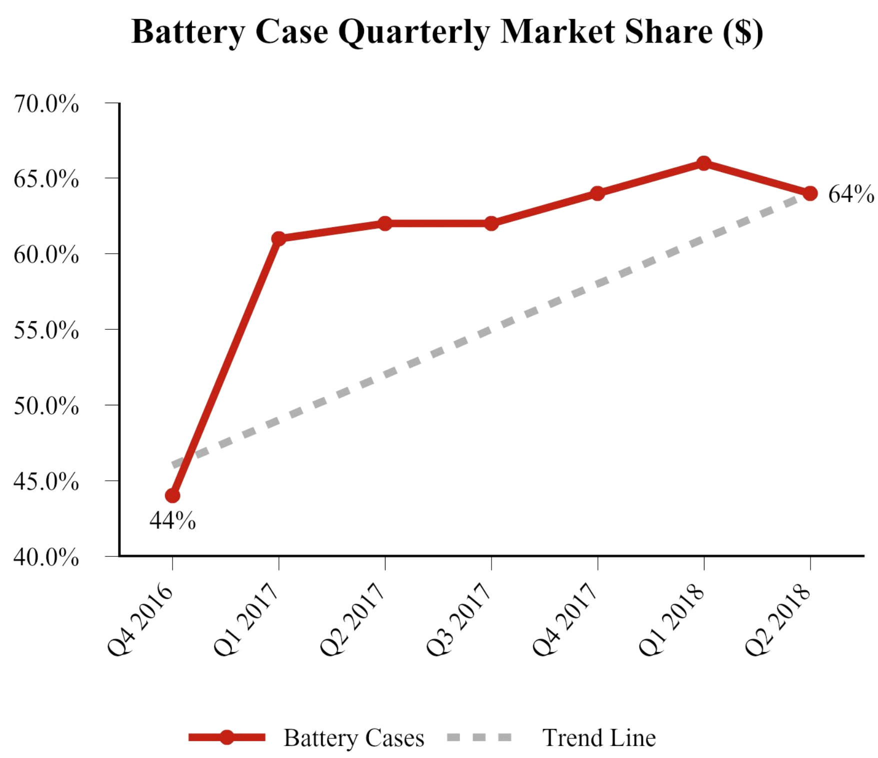
Screen Protection

The Company continues to see strong and consistent growth in cellphone screen protection market share. From the first quarter of 2014 to the second quarter of 2018, InvisibleShield cellphone screen protection quarterly dollar market share has increased from 29% to 52%.



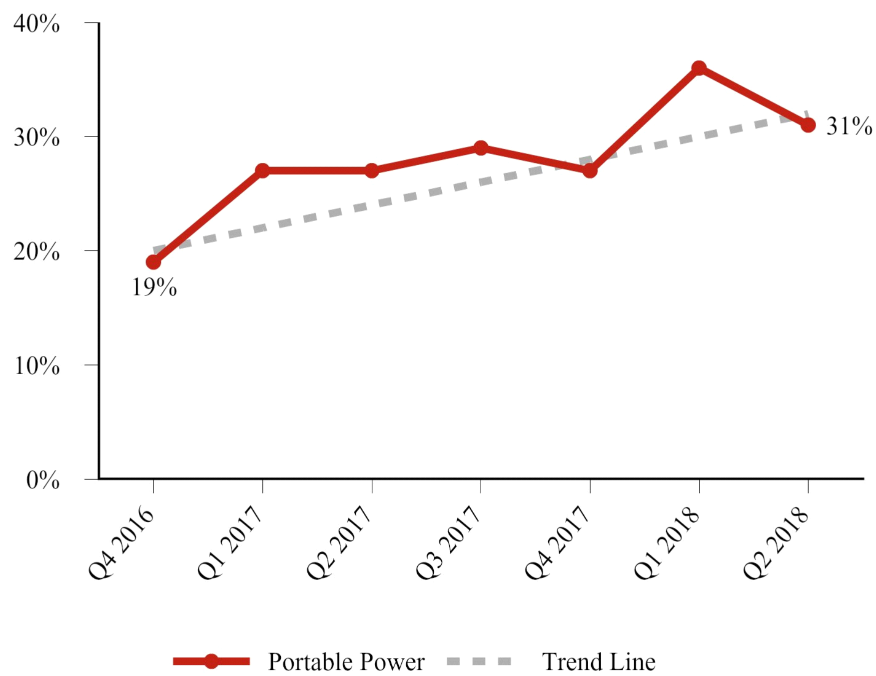
__Battery Cases & Power Management__

Since the fourth quarter of 2016, mophie branded battery cases and portable power packs have experienced significant growth in dollar market share due to a combination of (1) new and innovative product launches and (2) an unconstrained mophie supply chain. Quarterly battery case dollar market share increased from 44% to 64% from fourth quarter 2016 to second quarter 2018.



Portable power dollar market share increased from 19% to 31% from fourth quarter 2016 to second quarter 2018.

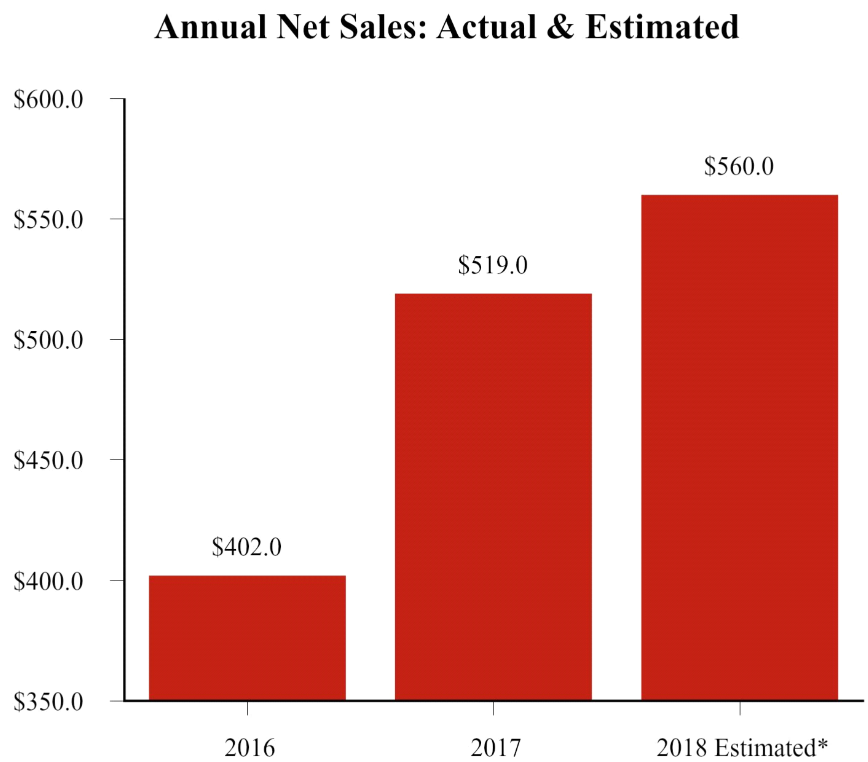
Portable Power Quarterly Market Share ($)



2018 Business Outlook

The Company updated its annual guidance for 2018 to reflect a lower projected annual effective tax rate:

- Net sales of $550 million to $570 million
- Gross profit margin as a percentage of net sales in the low to mid 30's range
- Adjusted EBITDA of $77 million to $80 million
- Diluted earnings per share of $1.30 to $1.50
- Annual effective tax rate of approximately 25% compared to approximately 27% in the last annual business outlook



* Represents the midpoint of guidance of $550 million to $570 million

About Non-GAAP Financial Information

This Supplemental Financial Information - CFO Commentary ("CFO Commentary") includes Adjusted EBITDA as a non-GAAP financial measure. Readers are cautioned that Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, stock-based compensation expense, other income (expense), transaction expenses, mophie restructuring charges, mophie employee retention bonus, consulting fee to former CEO, and impairment of intangible asset) is not a financial measure under US generally accepted accounting principles (GAAP). In addition, this financial information should not be construed as an alternative to any other measure of performance determined in accordance with GAAP, or as an indicator of operating performance, liquidity or cash flows generated by operating, investing and financing activities, is as there may be significant factors or trends that it fails to address. As such, it should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. We present Adjusted EBITDA 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. We have provided a reconciliation of Adjusted EBITDA to the most directly comparable GAAP measures in the supplemental financial information attached to the press release to which this CFO Commentary is also attached.

Cautionary Note Regarding Forward-Looking Statements

This CFO Commentary contains (and oral communications made by us may contain) ““forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “predict,” “project,” “target,” “future,” “seek,” “likely,” “strategy,” “may,” “should,” “will” and similar references to future periods. Examples of forward-looking statements include, among others, statements we make regarding our outlook for the Company and statements that estimate or project future results of operations or the performance of the Company.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, 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 our products;
c. the ability to respond quickly with appropriate products after the adoption and introduction of new mobile devices by major manufacturers like Apple, Samsung, and Google;
d. changes or delays in announced launch schedules for (or recalls or withdrawals of) new mobile devices by major manufacturers like Apple, Samsung, and Google;
e. the ability to successfully integrate new operations or acquisitions;
f. the impact of inconsistent quality or reliability of new product offerings;
g. the impact of lower profit margins in certain new and existing product categories, including certain mophie products;
h. the impacts of changes in economic conditions, including on customer demand;
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;
k. adoption of or changes in accounting policies, principles, or estimates; and
l. changes in tax laws and regulations.

Any forward-looking statement made by us in this CFO Commentary 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 our most recent Annual Report on Form 10-K and other reports we file 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. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. The forward-looking statements contained in this CFO Commentary are intended to qualify for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

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