

## Section 1: 10-Q (10-Q)

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

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### FORM 10-Q

(Mark one)

- Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2018, or
- Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

001-34528

(Commission  
File Number)

### ZAGG INC

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation)

20-2559624

(I.R.S. Employer  
Identification No.)

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

(Address of principal executive offices, including zip code)

(801) 263-0699

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

- Large Accelerated Filer
- Non-accelerated Filer
- Emerging Growth Company

- Accelerated Filer
- Smaller Reporting 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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-25 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 28,158,918 common shares as of July 31, 2018.

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**ZAGG INC AND SUBSIDIARIES**  
**FORM 10-Q**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements (Unaudited)**

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
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
<b>Total current assets</b>	<u>178,982</u>	<u>227,802</u>
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
<b>Total assets</b>	<u>\$ 265,176</u>	<u>\$ 320,591</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
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
<b>Total current liabilities</b>	<u>107,666</u>	<u>184,592</u>
Non-current portion of line of credit	20,000	—
<b>Total liabilities</b>	<u>127,666</u>	<u>184,592</u>
<b>Stockholders' equity:</b>		
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
<b>Total stockholders' equity</b>	<u>137,510</u>	<u>135,999</u>

**Total liabilities and stockholders' equity**

\$ 265,176 \$ 320,591

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>Net sales</b>	\$ 118,565	\$ 115,227	\$ 230,631	\$ 208,173
<b>Cost of sales</b>	80,908	79,403	155,381	143,743
<b>Gross profit</b>	37,657	35,824	75,250	64,430
<b>Operating expenses:</b>				
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
<b>Total operating expenses</b>	32,464	30,327	62,138	65,582
<b>Income (loss) from operations</b>	5,193	5,497	13,112	(1,152)
<b>Other income (expense):</b>				
Interest expense	(346)	(619)	(846)	(1,110)
Other (expense) income	(681)	67	(186)	48
<b>Total other expense</b>	(1,027)	(552)	(1,032)	(1,062)
<b>Income (loss) before provision for income taxes</b>	4,166	4,945	12,080	(2,214)
<b>Income tax provision</b>	(951)	(1,542)	(1,835)	(521)
<b>Net income (loss)</b>	\$ 3,215	\$ 3,403	\$ 10,245	\$ (2,735)
<b>Earnings (loss) per share attributable to stockholders:</b>				
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)

See accompanying notes to condensed consolidated financial statements.



**ZAGG INC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(in thousands)

(Unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>Net income (loss)</b>	\$ 3,215	\$ 3,403	\$ 10,245	\$ (2,735)
<b>Other comprehensive (loss) gain, net of tax</b>				
Foreign currency translation (loss) gain	(970)	556	(680)	844
<b>Total other comprehensive (loss) income</b>	(970)	556	(680)	844
<b>Total comprehensive income (loss)</b>	\$ 2,245	\$ 3,959	\$ 9,565	\$ (1,891)

See accompanying notes to condensed consolidated financial statements.

**ZAGG INC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(Unaudited)

	<b>Six Months Ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 10,245	\$ (2,735)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>		
Stock-based compensation	1,408	1,636
Depreciation and amortization	9,230	11,022
Deferred income tax expense	481	1,040
Loss on disposal of property and equipment	9	13
Loss on deferred loan costs with debt modification	243	—
Amortization of deferred loan costs	106	120
Impairment of intangible asset	—	1,959
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	37,318	11,350
Inventories	5,080	8,130
Prepaid expenses and other current assets	503	(298)
Other assets	(563)	912
Accounts payable	(34,480)	(23,116)
Income tax (payable) receivable	(3,512)	1,622
Accrued liabilities	(1,404)	1,073
Sales returns liability	(5,092)	(625)
Accrued wages and wage related expenses	153	(1,083)
Deferred revenue	—	(64)
Other	232	—
<b>Net cash provided by operating activities</b>	<b>19,957</b>	<b>10,956</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(2,701)	(3,065)
Proceeds from disposal of equipment	26	31
<b>Net cash used in investing activities</b>	<b>(2,675)</b>	<b>(3,034)</b>
<b>Cash flows from financing activities:</b>		
Payment of deferred loan costs	(294)	—
Proceeds from revolving credit facility	198,761	205,897
Payments on revolving credit facility	(214,215)	(206,521)
Payments on term loan facility	(2,084)	(3,125)
Purchase of treasury stock	(3,006)	(1,492)
Payment of withholdings on restricted stock units	(2,610)	(240)
Proceeds from issuance of stock under employee stock purchase plan	55	29
<b>Net cash used in financing activities</b>	<b>(23,393)</b>	<b>(5,452)</b>

Effect of foreign currency exchange rates on cash equivalents	(296)	256
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(6,407)</b>	<b>2,726</b>
<b>Cash and cash equivalents at beginning of the period</b>	<u>24,989</u>	<u>11,604</u>
<b>Cash and cash equivalents at end of the period</b>	<u>\$ 18,582</u>	<u>\$ 14,330</u>

See accompanying notes to condensed consolidated financial statements.

**ZAGG INC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(in thousands)

(Unaudited)

	Six Months Ended	
	June 30, 2018	June 30, 2017
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest	\$ 926	\$ 953
Cash paid (refunded) during the period for taxes, net	\$ 4,683	\$ (2,322)
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Purchase of fixed assets financed through accounts payable	\$ 541	\$ 560
Withholdings tax on restricted stock units recorded in accrued wages and wage related expenses	\$ 21	\$ —
Modification of debt that resulted in payment of existing term loan balance	\$ 11,991	\$ —

See accompanying notes to condensed consolidated financial statements.

**ZAGG INC AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars, units, & shares in thousands, except per share data)  
(Unaudited)

**(1) NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

ZAGG Inc and its subsidiaries (“we,” “us,” “our,” “ZAGG,” or the “Company”) are innovation leaders in mobile tech accessories for smartphones and tablets. For over 10 years, ZAGG has developed creative product solutions that enhance and protect mobile devices for consumers around the world. The Company has an award-winning product portfolio that includes screen protection, power cases, power management, wireless charging, personal audio, mobile keyboards, and cases, sold under the ZAGG®, InvisibleShield®, mophie®, and IFROGZ® brands.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the financial position, the results of operations, and cash flows of the Company for the periods presented. The Company suggests that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s 2017 Annual Report on Form 10-K. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Significant Accounting Policies***

The Company’s significant accounting policies are described in Note 1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

***Adoption of ASC Topic 606, “Revenue from Contracts with Customers”***

The Company adopted *ASC Topic 606, “Revenue from Contracts with Customers” (“Topic 606”)* with a date of initial application of January 1, 2018. As a result of this adoption, the Company has changed its accounting policy for revenue recognition as detailed below.

The Company applied Topic 606 on January 1, 2018, using the modified retrospective approach, with the cumulative effect of adopting the new standard being recognized in retained earnings at January 1, 2018. Therefore, the prior period comparative information has not been adjusted and continues to be reported under Topic 605. The adoption of Topic 606 resulted in an increase in accounts receivable of \$115; an increase in prepaid expenses and other current assets of \$1,255 for the recognition of the right of return assets; an increase in accrued liabilities of \$314; an increase in sales return liability of \$5,250 for the recognition of the sales return liability on a gross basis and for the change in estimating refund liabilities under Topic 606; a decrease in deferred revenue of \$314; and a decrease of \$3,880 in retained earnings as a cumulative effect of adoption. The largest driver of changes for the adoption of Topic 606 was the change in estimate for price concessions offered to end customers. Under Topic 605, price concessions to end customers were recognized when such incentives were explicitly offered to the end customer, whereas under Topic 606 such incentives are estimated and recorded at the time of the sale of products to the Company’s customers.

The accounts that changed under Topic 606 for the condensed consolidated balance sheet as of June 30, 2018 have been outlined as follows:

	<b>Reported as of June 30, 2018</b>	<b>Adjustments as of June 30, 2018</b>	<b>Balances Without Adoption of Topic 606 as of June 30, 2018</b>
<b>Condensed consolidated balance sheet changes:</b>			
Accounts receivable, net of allowances	\$ 83,990	\$ (384)	\$ 83,606
Prepaid expenses and other current assets	5,463	(1,140)	4,323
Accrued liabilities	6,838	(164)	6,674
Sales returns liability	34,620	(3,748)	30,872
Deferred revenue	—	164	164
Retained earnings	84,170	2,224	86,394

The accounts that changed under Topic 606 for the condensed consolidated statement of operations for the three months ended June 30, 2018 have been outlined as follows:

	<b>Reported for the Three Months Ended June 30, 2018</b>	<b>Adjustments for the Three Months Ended June 30, 2018</b>	<b>Amounts Without Adoption of Topic 606 for the Three Months Ended June 30, 2018</b>
<b>Condensed consolidated statements of operations changes:</b>			
Net sales	\$ 118,565	\$ 661	\$ 119,226
Cost of sales	80,908	(114)	80,794

The accounts that changed under Topic 606 for the condensed consolidated statement of operations for the six months ended June 30, 2018 have been outlined as follows:

	<b>Reported for the Six Months Ended June 30, 2018</b>	<b>Adjustments for the Six Months Ended June 30, 2018</b>	<b>Amounts Without Adoption of Topic 606 for the Six Months Ended June 30, 2018</b>
<b>Condensed consolidated statements of operations changes:</b>			
Net sales	\$ 230,631	\$ 2,050	\$ 232,681
Cost of sales	155,381	(174)	155,207

#### *Revenue recognition accounting policy*

The Company's revenue is derived from (1) sales of our products through our indirect channel, including retailers and distributors; (2) sales of our products through our direct channel, including [www.ZAGG.com](http://www.ZAGG.com) and [www.mophie.com](http://www.mophie.com) (The URLs are included here 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) and our corporate-owned ZAGG-branded store; and (3) from franchise fees derived from the on-boarding of new franchisees and the sales of our products to franchisees. The Company's revenue is measured based on the amount of consideration we expect to receive, reduced by estimates for sales returns, discounts, and other credits. The observable standalone selling prices of products sold are based on the prices charged to customers and are mutually agreed upon by both parties before any orders are authorized.

For substantially all of our sales, revenue is recognized at a point in time when control of the goods is transferred to the customer, which generally occurs upon delivery to the carrier or the customer. For franchise fees, revenue is derived from the sale of licenses, training, equipment and marketing, among other items. We recognize revenue for performance obligations on a straight-line basis over the franchise term.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

#### *Sales returns, discounts and other credits*

The nature of our contracts gives rise to several types of variable consideration, including sales returns, discounts, and other credits. Certain customers receive credit-based incentives or credits, which are accounted for as variable consideration in the form of credit memos off future purchases from the Company. We estimate these amounts based on the expected amount to be provided to customers and reduce revenue accordingly on the invoice date.

We estimate a reserve for sales returns, discounts, and other credits, and record the respective estimated reserve amounts, including a right to return asset when a product is expected to be returned and resold. Historical experience, actual claims, and customer return rights are the key factors used in determining the estimated sales returns, discounts, and other credits.

#### *Contract balances*

The following table provides information about receivables, right of return assets, contract liabilities, refund liabilities, and warranty liabilities from contracts with customers as of June 30, 2018:

	<b>June 30, 2018</b>
Receivables, which comprises the balance in accounts receivable, net of allowances	\$ 83,990
Right of return assets, which are included in prepaid expenses and other current assets	1,140
Contract liabilities, which are included in accrued liabilities	164
Refund liabilities, which are included in sales return liability	30,633
Warranty liabilities, which are included in sales return liability	3,987

The current balance of the right of return assets is the estimated amount of inventory to be returned that is expected to be resold. The current balance of contract liabilities primarily relates to the advance consideration received from customers for products for which transfer of control has not yet occurred, and therefore recognition of revenue is deferred until the transfer of control. The current balance of refund liabilities is the expected amount of sales returns, discounts and other credits from sales that have occurred.

#### *Practical expedients and policy elections*

The Company applies the following practical expedients in its application of Topic 606:

- The Company does not adjust the transaction price for significant financing components for periods less than one year.
- The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. These costs are included in selling, general, and administrative expenses.
- The Company recognizes the cost for shipping and handling as a fulfillment activity after control over products have transferred to the customer. For product sales, our standard shipping terms are FOB shipping point, and we record revenue when the product is shipped, net of estimated returns and discounts. Shipping and handling costs are included in cost of sales.
- The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

#### *Disaggregation of revenue from contracts with customers*

In the following tables, revenue from contracts with customers are disaggregated by key product lines, key distribution channels, and key geographic regions. These are disclosed below.





The percentage of net sales related to our key product lines for the three and six months ended June 30, 2018 and 2017, was approximately as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Screen Protection	54 %	51 %	52 %	49 %
Power Management	27 %	17 %	30 %	17 %
Power Cases	7 %	19 %	6 %	21 %
Keyboards	7 %	5 %	6 %	6 %
Audio	4 %	7 %	5 %	6 %
Other	1 %	1 %	1 %	1 %

The percentage of net sales related to our key distribution channels for the three and six months ended June 30, 2018 and 2017, was approximately as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Indirect channel	88 %	89 %	88 %	88 %
Website	8 %	7 %	8 %	9 %
Franchisees	4 %	4 %	4 %	3 %

The percentage of net sales related to our key geographic regions for the three and six months ended June 30, 2018 and 2017, was approximately as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
United States	85 %	87 %	83 %	86 %
Europe	10 %	8 %	10 %	8 %
Other	5 %	5 %	7 %	6 %

### ***Recent Accounting Pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize most leases, including operating leases, on-balance sheet via a right of use asset and lease liability. Lessees are allowed to account for short-term leases (i.e., leases with a term of 12 months or less) off-balance sheet, consistent with current operating lease accounting. A number of other significant changes to lease accounting have been effected through the issuance of this standard. The requirements of the new standard for leases shall be recognized and measured at the beginning of the earliest comparative period presented. When adopted, the Company will be required to adjust equity at the beginning of the earliest comparative period presented, and the other comparative amounts disclosed for each prior period presented in the financial statements, as if the requirements of the new standard had always been applied. The new standard also contains practical expedients which the Company may elect to follow. The new standard is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements, including whether to elect the practical expedients outlined in the new standard.



### ***Reclassification of Prior Year Presentation***

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on reported results of operations. A reclassification has been made with a \$2,347 reduction to accrued liabilities and a \$2,347 increase to sales returns liability.

### **(2) INVENTORIES**

At June 30, 2018 and December 31, 2017, inventories consisted of the following:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Finished goods	\$ 69,410	\$ 74,734
Raw materials	252	312
<b>Total inventories</b>	<b>\$ 69,662</b>	<b>\$ 75,046</b>

Included in prepaid expenses and other current assets were inventory deposits with third-party manufacturers at June 30, 2018 and December 31, 2017, of \$1,783 and \$1,906, respectively.

### **(3) INTANGIBLE ASSETS**

There were no additions to and no impairments of intangible assets for the three and six months ended June 30, 2018. There were also no additions to intangible assets for the three and six months ended June 30, 2017. Additionally, there were no impairments to intangible assets for the three months ended June 30, 2017. The following table summarizes the impairments of gross intangible assets for the six months ended June 30, 2017:

December 31, 2016	\$ 108,659
Impairment loss on patent	(2,777)
<b>June 30, 2017</b>	<b>\$ 105,882</b>

On April 11, 2017, the Company received a final court order stating that the claims of one of its patents were either not patentable or canceled. Accordingly, management determined that the patent's carrying value was not recoverable through future cash flows and was impaired as of March 31, 2017. Consequently, for the six months ended June 30, 2017, the Company recorded an impairment loss to intangible assets consisting of a reduction of gross carrying amount of \$2,777, accumulated amortization of \$818, and net carrying value of \$1,959 to reduce the net carrying value of the canceled patent to \$0.

Intangible assets, net of accumulated amortization as of June 30, 2018 and December 31, 2017, were as follows:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Customer relationships	\$ 6,921	\$ 9,259
Trade names	16,256	17,854
Patents and technology	9,486	10,981
Non-compete agreements	958	1,137
Other	9	13
<b>Total intangible assets, net of accumulated amortization</b>	<b>\$ 33,630</b>	<b>\$ 39,244</b>

The total weighted average useful lives of intangible assets as of June 30, 2018 and December 31, 2017, was 8.1 years and 8.2 years, respectively.



#### (4) INCOME TAXES

For interim periods, the tax provision is determined utilizing an estimate of the Company's annual effective tax rate adjusted for discrete items, if any. The Company's effective tax rate for the three and six months ended June 30, 2018 was 23% and 15%, respectively. The Company's effective tax rate for the three and six months ended June 30, 2017 was 31% and (24)%, respectively. The change in the effective tax rate for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was due to several factors including but not limited to a change in the federal statutory rate from 35% to 21% and an increase to income in foreign jurisdictions. The change in the effective tax rate for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was due to several factors including but not limited to a change in the federal statutory rate from 35% to 21%, a change to book income in the second quarter of 2018 compared to a book loss in the second quarter of 2017, and an increase to income from foreign jurisdictions. The Company's effective tax rate will generally differ from the U.S. Federal statutory rate of 21%, due to state taxes, permanent items, the Company's global tax strategy, and the inclusion of global intangible low taxed income and the corresponding foreign tax credit.

#### (5) DEBT AND LINE OF CREDIT

Long-term debt, net as of June 30, 2018 and December 31, 2017, was as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Line of credit	\$ 20,000	\$ 23,475
Long-term debt, net of deferred loan costs of \$0 and \$141	—	13,922
<b>Total debt outstanding</b>	<b>20,000</b>	<b>37,397</b>
Current portion of total debt outstanding, net of deferred loan costs of \$0 and \$141	—	37,397
<b>Total long-term debt outstanding</b>	<b>\$ 20,000</b>	<b>\$ —</b>

On April 12, 2018, the Company entered into an Amended and Restated Credit and Security Agreement (the "New Credit Agreement") with KeyBank National Association, as Administrative Agent, Swing Line Lender and Issuing Lender, KeyBanc Capital Markets Inc., as Sole Lead Arranger and Sole Book Runner, and other members of the lender group.

The New Credit Agreement consists of an \$85,000 secured revolving credit facility (the "Revolver"), which is not subject to borrowing base limitations. In addition, at the Company's option, up to \$40,000 of the Revolver may be made available for the issuance of letters of credit. Proceeds from the Revolver were used to fully retire the term loan and thus the Revolver is the only credit instrument effective April 12, 2018. The Company had a loss of \$243 of deferred loan costs that were written off as of the New Credit Agreement effective date, and the Company carried over \$522 of previously capitalized deferred loan costs with the modification of the existing debt. The Company capitalized \$294 in additional debt issuance costs, for a new beginning balance of \$815 of deferred loan costs, with \$780 remaining to be amortized which is included in other assets in the condensed consolidated balance sheet.

The Revolver initially bears interest at an annual rate, at the Company's option, of (i) the Base Rate (as defined in the Credit Agreement) plus a margin of 0.25% to 1.375% based on the prior quarter-end Leverage Ratio or (ii) the Eurodollar Rate (as defined in the Credit Agreement) plus a margin of 1.25% to 2.375% based on the prior quarter-end Leverage Ratio. The Revolver matures April 11, 2023, subject to early termination in the event of default.

In addition, the Company is required to pay a monthly Applicable Commitment Fee Rate (as defined in the New Credit Agreement) that can fluctuate between 0.175% and 0.275% based on the Leverage Ratio (as defined in the New Credit Agreement). The commitment fee is calculated monthly using the Maximum Revolving Amount (as defined in the New Credit Agreement) at the end of each calendar month, minus the Revolving Credit Exposure (exclusive of the Swing Line Exposure) (each as defined in the New Credit Agreement) at the end of such day, multiplied by the Applicable Commitment Fee Rate in effect on such day divided by three hundred sixty (360). The monthly commitment fee is payable quarterly in arrears, commencing on July 1, 2018 and continuing on each regularly scheduled payment date thereafter.

The New Credit Agreement contains customary representations and warranties and restrictive covenants. The New Credit Agreement also contains affirmative and negative covenants requiring, among other things, the Company to meet certain financial ratio tests and to provide certain information to the lenders. The New Credit Agreement also includes financial maintenance covenants that require compliance with a Leverage Ratio and a Fixed Charge Coverage Ratio (each as defined in the New Credit Agreement), tested at the end of each fiscal quarter commencing with the three months ended June 30, 2018.

The New Credit Agreement also contains customary events of default. If an event of default occurs, the lenders under the Credit Agreement would be entitled to take various actions, including the acceleration of amounts due thereunder and all other actions permitted to be taken by a secured creditor.

As part of the New Credit Agreement, the lockbox arrangement requirement in the prior agreement was terminated and thus the Company now has full dominion of cash upon receipt from customers. Because of the lockbox arrangement in the prior agreement, amounts outstanding under the Revolver were classified as a current liability because cash receipts were required to be automatically swept against the Revolver. Because the New Credit Agreement does not have a lockbox arrangement and the Revolver does not mature until 2023, the Revolver is classified as a non-current liability.

## **(6) STOCK-BASED COMPENSATION**

During the three and six months ended June 30, 2018, the Company granted 197 and 278 restricted stock units, respectively. During the three and six months ended June 30, 2017, the Company granted 123 and 434 restricted stock units, respectively. During the three and six months ended June 30, 2018, the restricted stock units granted were estimated to have a weighted-average fair value per share of \$11.65 and \$12.48, respectively. During the three and six months ended June 30, 2017, the restricted stock units granted were estimated to have a weighted-average fair value per share of \$6.35 and \$6.57, respectively. The fair value of the restricted stock units granted is based on the closing share price of the Company's common stock on the date of grant. The restricted stock units vest annually on a straight-line basis over a nine-month (annual board of directors' grant) to a three-year vesting term, depending on the terms of the individual grant.

As part of the 278 and 434 restricted stock units granted during the six months ended June 30, 2018 and 2017, the Company granted 167 and 372 restricted stock units, respectively, to certain executives and employees of the Company where vesting is linked to specific performance criterion. These performance-based restricted stock units only vest upon the (1) Company's achievement of specified thresholds of net sales, Adjusted EBITDA, or specific goals for the individual executive, and (2) continued employment through the applicable vesting date.

The estimated fair value of the restricted stock units is recognized on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the award. During the three and six months ended June 30, 2018, the Company recorded stock-based compensation expense related to restricted stock units of \$807 and \$1,408, respectively. During the three and six months ended June 30, 2017, the Company recorded stock-based compensation expense related to restricted stock units of \$966 and \$1,636, respectively. Stock-based compensation expense related to restricted stock is included as a component of selling, general, and administrative expense on the condensed consolidated statement of operations.

During the six months ended June 30, 2018 and 2017, certain ZAGG employees elected to receive a net amount of shares upon the vesting of restricted stock unit grants in exchange for the Company paying up to the maximum statutory withholding amount of the employees' tax liabilities for the fair value of the award on the vesting date. This resulted in the Company recording \$2,631 and \$240 reflected as a reduction of additional paid-in capital, respectively. Of the \$2,631 recorded as a reduction of additional paid-in capital, \$21 was included in accrued wages and wage related expenses as of June 30, 2018.

## **(7) EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per common share excludes dilution and is computed by dividing net earnings (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per common share reflects the potential dilution that could occur if stock options and restricted stock, or other common stock equivalents were exercised or converted into common stock. The dilutive effect of stock options or other common stock equivalents is calculated using the treasury stock method.

The following is a reconciliation of the numerator and denominator used to calculate basic earnings (loss) per share and diluted earnings (loss) per share for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<b>Net income (loss)</b>	\$ 3,215	\$ 3,403	\$ 10,245	\$ (2,735)
<b>Weighted average shares outstanding:</b>				
Basic	28,299	27,963	28,254	28,010
Dilutive effect of restricted stock units	367	250	425	—
<b>Diluted</b>	<b>28,666</b>	<b>28,213</b>	<b>28,679</b>	<b>28,010</b>
<b>Earnings (loss) per share:</b>				
Basic	\$ 0.11	\$ 0.12	\$ 0.36	\$ (0.10)
Diluted	\$ 0.11	\$ 0.12	\$ 0.36	\$ (0.10)

For the three and six months ended June 30, 2018, 114 restricted stock units were used to purchase shares of common stock that were not considered in calculating diluted earnings per share, respectively, as their effect would have been anti-dilutive. For the three and six months ended June 30, 2017, 0 and 980 restricted stock units were used to purchase shares of common stock that were not considered in calculating diluted earnings (loss) per share, respectively, as their effect would have been anti-dilutive.

#### (8) TREASURY STOCK

During the fourth quarter of 2015, the Company's board of directors authorized the repurchase of up to \$20,000 of the Company's outstanding common stock with no expiration date. As of June 30, 2018 and December 31, 2017, a total of \$14,552 and \$17,558 remained authorized under the stock repurchase program, respectively.

For the three and six months ended June 30, 2018, the Company repurchased 182 shares of the Company's common stock. Cash consideration paid for the noted share repurchases was \$3,006, which included commissions paid to brokers of \$7. For the three and six months ended June 30, 2018, the weighted average price per share repurchased was \$16.49. The consideration paid has been recorded within stockholders' equity in the condensed consolidated balance sheet.

For the three months ended June 30, 2017, no share repurchases occurred.

For the six months ended June 30, 2017, the Company repurchased 234 shares of the Company's common stock. Cash consideration paid for the noted share repurchases was \$1,492, which included commissions paid to brokers of \$9. For the six months ended June 30, 2017, the weighted average price per share was \$6.35. The consideration paid has been recorded within stockholders' equity in the condensed consolidated balance sheet.

## (9) COMMITMENTS AND CONTINGENCIES

### *Operating Leases*

The Company leases office and warehouse space, office equipment, and a retail store location under operating leases that expire through 2025. Future minimum rental payments required under the operating leases at June 30, 2018, were as follows:

Remaining 2018	\$	1,075
2019		2,880
2020		2,744
2021		2,448
2022		2,508
Thereafter		4,053
<b>Total operating lease commitments</b>	<b>\$</b>	<b>15,708</b>

For the three and six months ended June 30, 2018, rent expense was \$818 and \$1,546, respectively. For the three and six months ended June 30, 2017, rent expense was \$758 and \$1,443, respectively. Rent expense was recognized on a basis which approximates straight-line over the lease term and was recorded as a component of selling, general and administrative expense on the condensed consolidated statement of operations.

### *Commercial Litigation*

*ZAGG Inc and mophie, Inc. v. Anker Technology Co. Ltd. and Fantasia Trading LLC*, United States District Court for the Central District of California, Case No. 8:17-CV-2193-DOC-DFM (the “Anker Lawsuit”). On December 15, 2017, ZAGG and mophie filed the Anker Lawsuit alleging that Anker Technology Co. Ltd. (“Anker”) and Fantasia Trading LLC (“Fantasia”) infringe U.S. Patent Nos. 8,971,039, 9,077,013, 9,088,028, 9,088,029, 9,172,070, and 9,406,913 in connection with protective battery cases for smartphones. The Anker products accused of infringement include Anker’s Ultra Slim Extended Battery Case for iPhone 6 / 6s (4.7 inch) with 2850mAh capacity; Premium Extended Battery Case for iPhone 6 / 6s (4.7 inch) with 3100mAh Capacity; PowerCore Case for iPhone 7 (4.7 inch), 80% Extra Battery; and PowerCore Case for iPhone 7 (4.7 inch), 95% Extra Battery. The complaint filed by ZAGG and mophie seeks monetary damages and an injunction against Anker. On March 12, 2018, Anker and Fantasia filed answers and counterclaims in the lawsuit. In their answers, Anker and Fantasia denied infringement of any valid claim and asserted counterclaims for non-infringement and invalidity of the patents at issue.

The Company disputes Anker’s contentions and will defend the claims and otherwise respond to the allegations. The matter is scheduled for trial in November 2019. This matter is not expected to have a material adverse effect on the Company’s financial position, results of operations, or liquidity.

### *SEC Investigation*

In the fourth quarter of 2012, the Company received requests to provide documentation and information to the staff of the SEC in connection with an investigation being conducted by the SEC’s Salt Lake City office. The Company believes the investigation includes a review of the facts and circumstances surrounding former Chief Executive Officer Robert Pedersen’s pledge and subsequent sale of Company shares and the fact that such pledges and sales were not disclosed in the Company’s 2011 10-K filed on March 15, 2012, or 2012 Proxy filed on April 27, 2012. The Company responded to these requests and is cooperating with the staff although there has been no resolution to date.

### *Other Litigation*

The Company is not a party to any other material litigation or claims at this time. While the Company currently believes that the amount of any ultimate probable loss for known matters would not be material to the Company’s financial condition, the outcome of these actions is inherently difficult to predict. In the event of an adverse outcome, the ultimate potential loss could have a material adverse effect on the Company’s financial condition or results of operations in a particular period.

The Company establishes reserves when a particular contingency is probable and estimable. The Company has not accrued for any loss as of June 30, 2018, in the condensed consolidated financial statements as the Company does not consider a loss to be probable or estimable. The Company faces contingencies that are reasonably possible to occur; however, the reasonably possible exposure to losses cannot currently be estimated.





## (10) CONCENTRATIONS

### *Concentration of credit risk*

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company places its cash with high credit quality financial institutions. The Company maintains its cash in bank deposit accounts, which, at times, exceed federally insured limits. The Company has not experienced any losses in cash accounts for the six months ended June 30, 2018 and 2017.

At June 30, 2018 and December 31, 2017, two separate customers exceeded 10% of the balance of accounts receivable, as follows:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Superior Communications, Inc. (“Superior”)	43 %	31 %
Best Buy Co., Inc. (“Best Buy”)	14 %	18 %

No other customer account balances were more than 10% of accounts receivable at June 30, 2018 or December 31, 2017. If one or more of the Company’s significant customers were to become insolvent or were otherwise unable to pay for the products provided, it would have a material adverse effect on the Company’s financial condition and results of operations.

### *Concentration of suppliers*

We do not directly manufacture any of our products; rather, we employ various third party manufacturing partners in the United States and Asia to perform these services on our behalf. The services employed by these third parties include the selection of sub-suppliers that provide raw materials and other components used in the manufacturing process. We have endeavored to use common components and readily available raw materials in the design of our products that can be sourced from multiple sub-suppliers. However, raw film used in our InvisibleShield film and InvisibleShield On-Demand (“ISOD”) products has been produced by a single supplier for many years. Our film supplier has contractually agreed to not sell the raw materials to any of our competitors.

Below is a high-level summary by product category of the manufacturing sources used by the Company:

- *Screen Protection* – Our screen product line is comprised of sales of InvisibleShield glass products, InvisibleShield film products, and ISOD film blanks. InvisibleShield glass products are sourced from factories in Asia with protective glass expertise, each of which uses a number of sub-suppliers for raw materials and other components. Our InvisibleShield film and ISOD products are sourced through our third-party logistics partner, who purchases the raw film inventory from a single supplier (as discussed above).
- *Battery Cases and Power Management* – Our battery case and power management product lines consists of power products that are designed to provide on-the-go power and wireless charging for tablets, smartphones, laptops, cameras, and virtually all other electronic mobile devices. Our power products are sourced from factories in Asia with battery expertise, each of which uses a number of sub-suppliers for raw materials and other components.
- *Keyboards* – Our keyboard product line consists of (1) device specific keyboards designed to fit individual tablets produced by original equipment manufacturers and (2) keyboards that are designed to be device agnostic and can be used on virtually any mobile device. Our keyboard products are sourced from factories in Asia with keyboard expertise, each of which uses a number of sub-suppliers for raw materials and other components.
- *Audio* – Our audio product line consists of earbuds and headphones that are designed to be compatible with virtually all electronic mobile devices. Our audio products are sourced from factories in Asia with audio expertise, each of which uses a number of sub-suppliers for raw materials and other components.

Our product and operations teams work closely with suppliers from initial product development and throughout the manufacturing process to ensure that (1) the supplier understands, and will build according to, the product specifications, (2) appropriate quality is maintained for the finished goods and for all sub-components, and (3) the supplier can meet our supply needs.

### *Concentration of net sales*

For the three and six months ended June 30, 2018, Superior and Best Buy accounted for over 10% of net sales, and for the three months ended June 30, 2017, Superior accounted for over 10% of net sales, while for the six months ended June 30, 2017, Superior and GENCO accounted for over 10% of net sales, as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Superior	34 %	31 %	31 %	29 %
Best Buy	11 %	9 %	10 %	8 %
GENCO	3 %	8 %	4 %	10 %

For the three and six months ended June 30, 2018 and 2017, no other customers accounted for greater than 10% of net sales.

Although we have contracts in place governing our relationships with our retail distribution customers (“retailers”), the contracts are not long-term and all our retailers generally purchase from us on a purchase order basis. As a result, these retailers generally may, with little or no notice or penalty, cease ordering and selling our products, or materially reduce their orders. If any of these retailers cease selling our products, slow their rate of purchase of our products, or decrease the number of products they purchase, our results of operations could be adversely affected.

### *Concentration of region*

The percentage of net sales by geographic region for the three and six months ended June 30, 2018 and 2017, was approximately:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
United States	85 %	87 %	83 %	86 %
Europe	10 %	8 %	10 %	8 %
Other	5 %	5 %	7 %	6 %

## **(11) SUBSEQUENT EVENTS**

### *Acquisition of BRAVEN*

On July 20, 2018, the Company entered into and closed an asset purchase agreement to acquire the BRAVEN brand, inventory, intellectual property, accounts receivable, product and engineering team, and certain other assets and liabilities for \$5,000. BRAVEN products that include rugged Bluetooth® speakers and earbuds.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimates," "forecasts," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. We intend such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.*

### **Our Business**

ZAGG is an innovation leader in mobile tech accessories for smartphones and tablets. The Company is committed to enhance every aspect of performance, productivity and durability in mobile devices with creative product solutions. ZAGG was created from the concept of applying a clear film originally designed to protect military-helicopter blades in harsh desert conditions to protect consumers' mobile devices. Mobile devices are essential to modern living and ZAGG's mission is to ensure better performance in the real world.

In addition to its home-grown brands, ZAGG has created a platform to combine category-creating and innovative brands that address specific consumer needs to empower a mobile lifestyle. The Company has an award-winning product portfolio that includes screen protection, power cases, power management, wireless charging, personal audio, mobile keyboards, and cases sold under the ZAGG®, InvisibleShield®, mophie®, and IFROGZ® brands.

We maintain our corporate headquarters at 910 West Legacy Center Way, Suite 500, Midvale, Utah 84047. The telephone number of the Company is (801) 263-0699. Our website addresses are [www.ZAGG.com](http://www.ZAGG.com) and [www.mophie.com](http://www.mophie.com) (the URLs are included here in this report 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).

The Company has established four corporate objectives and seven core values to act as a foundation for ZAGG's corporate culture and guide ZAGG daily:



**Corporate Objectives**

**Core Values**

- The Preferred Brand
- Creative Product Solutions
- Targeted Global Distribution
- Operational Excellence

- Integrity
- Ownership
- Care for People
- Passion
- Continuous Improvement
- Performance
- Sense of Urgency

The corporate objectives are intended to align the Company’s functional teams’ goals and execution. Every ZAGG employee is trained to understand his or her role in executing to these objectives. Each core value acts as a key component in working toward ZAGG’s corporate objectives of providing creative product solutions, executing targeted global distribution, achieving operational excellence, and being the preferred brand for its customers.

**Our Products**

***InvisibleShield Products***

InvisibleShield products are designed to provide premium, lifetime protection for mobile device screens against shattering or scratching through military-grade solutions. Our products are designed to provide peace of mind by enabling consumers to fearlessly enjoy their mobile devices and never experience the inconvenience of a shattered or scratched screen.

InvisibleShield is focused on producing industry-leading screen and device protection. Our protective film and glass products offer consumers a wide array of protection types and features, all with a limited lifetime warranty.

Our InvisibleShield films were originally developed to protect the leading edge of rotary blades on military helicopters. Through constant innovation, we continue to formulate new films that are designed to offer the highest standards in self-healing scratch and impact protection. We also continue to drive innovation around simplifying the customer application experience like we’ve done with our EZ Apply® tabs, which are designed to help users align and apply InvisibleShield products. We also provide custom-fit screen protection for thousands of device types through our automated InvisibleShield On Demand (“ISOD”) solution. With ISOD, retailers can supply consumers with screen protection for nearly any device model, all without having to hold excess inventory.

Launched during the first quarter of 2014, InvisibleShield Glass is designed to provide premium screen protection and clarity, along with a superior feel and universally compatible touch sensitivity.



ZAGG has the leading market share in screen protection, and has maintained that leading position by consistently delivering innovative products to the market.

### ***mophie Products***

mophie is a leading battery case, mobile power, and wireless charging brand with award-winning products designed to liberate mobile users from the limitations of mobile devices by providing more time to rock, talk, watch, game, surf, save, and send. Notably, the original juice pack® is designed to provide device-specific protection as well as additional battery power to many of the most popular mobile phones. mophie products are recognized for style and engineered for performance, providing a seamless integration of hardware, software, and design.

The mophie ecosystem of mobile accessories is designed to provide both power and protection for virtually any mobile device. With groundbreaking battery cases, including extra data storage options, wireless charging, universal batteries, cables, adapters, and docks, mophie products represent innovation at the forefront of design and development.

During the third quarter of 2017, mophie launched an innovative new universal wireless charging pad that is designed to provide an optimized charging experience for the iPhone 8, iPhone 8 Plus and iPhone X; the mophie charging pad also includes latest Qi wireless charging technology for universal compatibility.

### ***IFROGZ Products***

IFROGZ products are strategically designed and positioned to bring personal audio to the value space by providing a product assortment that represents outstanding performance, active lifestyles, and dual-purpose designs that are on trend with consumers' needs. IFROGZ refines today's newest audio technology to deliver the features consumers want, while eliminating those that needlessly increase costs, so that everyone can participate in our increasingly mobile world.

In 2007, the IFROGZ EarPollution™ product line was released. The eclectic selection of earbuds and headphones specifically targeted a younger demographic while still appealing to a wide spectrum of consumers. We continue to innovate and expand our headphone and earbud product lines under the IFROGZ name to include offerings for all ages under both the EarPollution and IFROGZ brands.

### ***ZAGG Products***

Products under the ZAGG brand are designed to empower people to live their lives unleashed. Mobility is changing everything and ZAGG is driving the mobile lifestyle forward with products that are designed to allow consumers to be productive and connected at work, at play and at rest. ZAGG products which include keyboards, cases, and social tech are designed to free consumers from the confines of the traditional workplace. We believe "getting away" shouldn't mean being disconnected. We support the communicators, commuters, creators and closers who live a mobile lifestyle.

Our ZAGG products are designed to feature cutting-edge design and innovation to provide portability, style, and productivity that can keep up with even the most active mobile users. We believe that with the right mobile accessories, no one ever has to feel tethered or held back.

ZAGG keyboards are designed to offer consumers an enhanced and innovative productivity experience. Since entering this category in 2010, ZAGG has continually reinvented its line of keyboards while also providing timely, curated solutions for new devices released by Apple, Microsoft, and Samsung, as well as other leading mobile device manufacturers. In addition to device-specific keyboards and folio keyboard cases, ZAGG's line of universal full-size Bluetooth® keyboards are designed to be compatible with virtually any device and mobile operating system. We continue to innovate and expand our wireless keyboard product lines as end users' requirements evolve in this rapidly changing market segment.

### ***Critical Accounting Policies and Estimates***

The preparation of our financial statements requires that we make estimates and judgments. We base these on historical experience and on other assumptions that we believe to be reasonable. Our critical accounting policies are discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes to the critical accounting policies or estimates previously disclosed in that report except for the implementation of certain estimates for revenue recognition under Topic 606 as disclosed below.

### *Revenue recognition accounting policy*

The Company's revenue is derived from (1) sales of our products through our indirect channel, including retailers and distributors; (2) sales of our products through our direct channel, including www.ZAGG.com and www.mophie.com and our corporate-owned ZAGG-branded store; and (3) from franchise fees derived from the on-boarding of new franchisees. The Company's revenue is measured based on the amount of consideration we expect to receive, reduced by estimates for sales returns, discounts, and other credits. The observable standalone selling prices of products sold are based on the prices charged to customers and are mutually agreed upon by both parties before any orders are authorized.

For substantially all of our sales, revenue is recognized at a point in time when control of the goods is transferred to the customer, which generally occurs upon delivery to the carrier or the customer. For franchise fees, revenue is derived from the sale of licenses, training, inventory and equipment and marketing, among other items. We recognize revenue for performance obligations on a straight-line basis over the franchise term.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Topic 606 has required significant changes to how the Company's revenue is recognized. Updates to the Company's accounting policies have been made as part of adoption of this new standard. These changes to the Company's accounting policies and procedures under the new standard have most significantly impacted the estimates previously used to determine the company's sales returns, discounts and other credits. The new reserve calculations for these estimates apply assumptions allowable under Topic 606, which require judgment. In applying these new assumptions, and in the application of Topic 606, the Company has determined that the updated accounting policies to ensure compliance under Topic 606 continue to be critical accounting policies and estimates.

### *Sales returns, discounts and other credits*

The nature of our contracts gives rise to several types of variable consideration, including sales returns, discounts, and other credits. Certain customers receive credit-based incentives or credits, which are accounted for as variable consideration in the form of credit memos off future purchases from the Company. We estimate these amounts based on the expected amount to be provided to customers and reduce revenue accordingly on the invoice date.

We estimate a reserve for sales returns, discounts, and other credits, and record the respective estimated reserve amounts, including a right to return asset when a product is expected to be returned and resold. Historical experience, actual claims, and customer return rights are the key factors used in determining the estimated sales returns, discounts, and other credits.

### ***Recent Accounting Pronouncements***

Information regarding recent accounting pronouncements is contained in Note 1, "Nature of Operations and Basis of Presentation" of the Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

### **Results of Operations**

#### ***Three months ended June 30, 2018 and 2017 (in thousands, except per share data)***

##### ***Net sales***

Net sales for the three months ended June 30, 2018, were \$118,565, compared to net sales of \$115,227 for the three months ended June 30, 2017, an increase of \$3,338, or approximately 3%. The \$3,338 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.



The percentage of net sales related to our key product lines for the three months ended June 30, 2018 and 2017, was approximately as follows:

	<b>Three Months Ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Screen Protection	54 %	51 %
Power Management	27 %	17 %
Power Cases	7 %	19 %
Keyboards	7 %	5 %
Audio	4 %	7 %
Other	1 %	1 %

The percentage of net sales related to our key distribution channels for the three months ended June 30, 2018 and 2017, was approximately as follows:

	<b>Three Months Ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Indirect channel	88 %	89 %
Website	8 %	7 %
Franchisees	4 %	4 %

The percentage of net sales related to our key geographic regions for the three months ended June 30, 2018 and 2017, was approximately as follows:

	<b>Three Months Ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
United States	85 %	87 %
Europe	10 %	8 %
Other	5 %	5 %

### ***Gross profit***

Gross profit for the three months ended June 30, 2018, was \$37,657, or approximately 32% of net sales, compared to gross profit of \$35,824, 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 during the three months ended June 30, 2018, 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 \$32,464, compared to operating expenses of \$30,327 for the three months ended June 30, 2017, an increase of \$2,137, or approximately 7%. The \$2,137 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.

We recognized income from operations of \$5,193 for the three months ended June 30, 2018, compared to income from operations of \$5,497 for the three months ended June 30, 2017, a decrease of \$304.



### *Other expense, net*

For the three months ended June 30, 2018, other expense was \$1,027 compared to other expense of \$552 for the three months ended June 30, 2017. The increase in other expense is primarily attributable to a loss on foreign exchange transactions of approximately \$681.

### *Income tax provision*

We recognized an income tax provision of \$951 for the three months ended June 30, 2018, compared to an income tax provision of \$1,542 for the three months ended June 30, 2017. Our effective tax rate was 23% and 31% for the three months ended June 30, 2018 and 2017, respectively. The change in the effective tax rate was due to several factors including but not limited to a change in the federal statutory rate from 35% to 21% and an increase to income in foreign jurisdictions. The Company's effective tax rate will generally differ from the U.S. Federal statutory rate of 21%, due to state taxes, permanent items, the Company's global tax strategy, and the inclusion of global intangible low taxed income and the corresponding foreign tax credit.

### *Net income*

We recognized net income of \$3,215, with diluted earnings per share of \$0.11 for the three months ended June 30, 2018, compared to net income of \$3,403, with diluted earnings per share of \$0.12, for the three months ended June 30, 2017.

### Six months ended June 30, 2018 and 2017 (in thousands, except per share data)

#### *Net sales*

Net sales for the six months ended June 30, 2018, were \$230,631, compared to net sales of \$208,173 for the six months ended June 30, 2017, an increase of \$22,458, or approximately 11%. The \$22,458 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.

The percentage of net sales related to our key product lines for the six months ended June 30, 2018 and 2017, was approximately as follows:

	Six Months Ended	
	June 30, 2018	June 30, 2017
Screen Protection	52 %	49 %
Power Management	30 %	17 %
Power Cases	6 %	21 %
Audio	5 %	6 %
Keyboards	6 %	6 %
Other	1 %	1 %

The percentage of net sales related to our key distribution channels for the six months ended June 30, 2018 and 2017, was approximately as follows:

	Six Months Ended	
	June 30, 2018	June 30, 2017
Indirect channel	88 %	88 %
Website	8 %	9 %
Franchisees	4 %	3 %

The percentage of net sales related to our key geographic regions for the six months ended June 30, 2018 and 2017, was approximately as follows:

	<b>Six Months Ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
United States	83 %	86 %
Europe	10 %	8 %
Other	7 %	6 %

### ***Gross profit***

Gross profit for the six months ended June 30, 2018, was \$75,250, or approximately 33% of net sales, compared to gross profit of \$64,430, 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 during the six months ended June 30, 2018, to approximately 52% of net sales compared to approximately 49% of net sales during the six months ended June 30, 2017, and (2) improved margins on mophie-branded products.

### ***Operating expenses***

Operating expenses for the six months ended June 30, 2018, were \$62,138, compared to operating expenses of \$65,582 for the six months ended June 30, 2017, a decrease of \$3,444, or approximately 5%. The \$3,444 decrease in operating expenses was primarily attributable to (1) a \$1,959 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.

### ***Income (loss) from operations***

We recognized income from operations of \$13,112 for the six months ended June 30, 2018, compared to a loss from operations of \$1,152 for the six months ended June 30, 2017, an increase of \$14,264.

### ***Other expense, net***

For the six months ended June 30, 2018, other expense was \$1,032 compared to other expense of \$1,062 for the six months ended June 30, 2017. The decrease in other expense is primarily attributable to a reduction of interest expense due to lower carrying amounts for the Company's debt.

### ***Income tax provision***

We recognized an income tax provision of \$1,835 for the six months ended June 30, 2018, compared to an income tax provision of \$521 for the six months ended June 30, 2017. Our effective tax rate was 15% and (24)% for the six months ended June 30, 2018 and 2017, respectively. The change in the effective tax rate was due to several factors including but not limited to a change in the federal statutory rate from 35% to 21%, a change to book income in the second quarter of 2018 compared to a book loss in the second quarter of 2017, and an increase to income from foreign jurisdictions. The Company's effective tax rate will generally differ from the U.S. Federal statutory rate of 21%, due to state taxes, permanent items, the Company's global tax strategy, and the inclusion of global intangible low taxed income and the corresponding foreign tax credit.

### ***Net income (loss)***

We recognized net income of \$10,245, with diluted earnings per share of \$0.36 for the six months ended June 30, 2018, compared to a net loss of \$2,735, with diluted loss per share of \$0.10, for the six months ended June 30, 2017.

### **Liquidity and Capital Resources** (in thousands)

At June 30, 2018, our principal sources of liquidity were cash provided by operations, cash on hand, and the revolving credit facility. Our principal uses of cash have been for (1) payments on the term and revolving credit facilities, (2) purchases of treasury shares, (3) purchase of property and equipment, and (4) payments for the net share settlement of restricted stock.

Cash and cash equivalents on-hand decreased to \$18,582 on June 30, 2018, from \$24,989 on December 31, 2017, a decrease of \$6,407. The net decrease was primarily attributable to (1) \$17,538 net payments on the term and revolving credit facilities, (2) \$3,006 payments for treasury stock, (3) \$2,701 from property and equipment purchases, and (4) \$2,610 payments for the net share settlement of restricted stock. These expenditures are partially offset by \$19,957 generated from operating activities.

Accounts receivable, net of allowances, decreased to \$83,990 on June 30, 2018, from \$123,220 on December 31, 2017, a decrease of \$39,230. The net decrease was primarily attributable to comparatively lower sales for the second quarter of 2018 in comparison to the fourth quarter of 2017, as well as strong cash collections during the six months ended June 30, 2018.

Inventories decreased to \$69,662 on June 30, 2018, from \$75,046 on December 31, 2017, a decrease of \$5,384. The net decrease was primarily attributable to (1) improved operations management of inventory, and (2) seasonal fluctuations in inventory levels. These decreases were partially offset by an increase in inventory levels needed to support the wireless charging product line.

Accounts payable decreased to \$60,372 on June 30, 2018, from \$96,472 on December 31, 2017, a decrease of \$36,100. The net decrease was primarily attributable to comparatively lower sales for the second quarter of 2018 in comparison to the fourth quarter of 2017 with an associated reduction of expenditures during the six months ended June 30, 2018.

At June 30, 2018, the Company had a positive working capital of \$71,316 compared to positive working capital of \$43,210 as of December 31, 2017, an increase of \$28,106. The net increase in the working capital position was primarily attributable to reductions in accounts payable and the shift of debt from current liabilities to non-current liabilities.

Based on the current level of operations, we believe that cash to be generated from operations, cash on hand, and available borrowings under existing credit arrangements will be adequate to fund expected capital expenditures and working capital needs for the next 12 months.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to certain market risks in the ordinary course of our business. These risks result primarily from changes in foreign currency exchange rates and interest rates. In addition, our international operations are subject to risks related to differing economic conditions, changes in political climate, differing tax structures, and other regulations and restrictions.

To date we have not utilized derivative financial instruments or derivative commodity instruments. We do not expect to employ these or other strategies to hedge market risk in the foreseeable future.

### **Item 4. Controls and Procedures**

#### Evaluation of Disclosure Controls and Procedures

Our management has established and maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that it files or submits pursuant to the Securities Exchange Act of 1934, as amended, or Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow for timely decisions regarding required disclosures.

At the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures in accordance with the Exchange Act requirements. Based upon that evaluation, our principal executive officer and principal financial officer concluded that as of the end of the period of this report, our disclosure controls and procedures are not effective due to the material weakness described below.

- The Company's control environment was ineffective because we failed to establish appropriate authorities and responsibilities in alignment with the objectives of internal control over financial reporting to certain employees; and
- The Company's risk assessment process was ineffective because we failed to consider changes in the business operations and their impact on financial reporting and internal controls.

### Changes in Internal Control over Financial Reporting

To remediate this material weakness which resulted in an immaterial misstatement to net sales, accounts receivable, cost of goods sold, and inventory as of and for the year ended December 31, 2017 (which misstatement was corrected prior to issuance of the 2017 consolidated financial statements in the Annual Report on Form 10-K), management has continued to implement the following changes to its internal controls as of June 30, 2018:

- Test and evaluate the improved control environment related to the appropriateness of authorities and responsibilities of internal control over financial reporting;
- Test and evaluate the cross functional risk assessment process to identify and assess changes in the business that could significantly impact internal control over financial reporting;
- Test and evaluate improved control activities over the customer returns process;
- Test and evaluate improved control activities over the management of accounts receivable transactions due to the growth of the Company; and
- Continue evaluations whether control activities can be automated to replace manual processes.

As of June 30, 2018, the Company has implemented several new cross functional processes and controls to address the material weakness. In addition, others processes and controls are currently being implemented as part of the ongoing remediation.

### Inherent Limitations on the Effectiveness of Internal Controls

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Certain of the legal proceedings in which we are involved are discussed in Note 9, "Commitments and Contingencies," to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q, and are hereby incorporated by reference.

### Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K"), which could materially affect our business, financial condition or future results. These risk factors should be read carefully in connection with evaluating our business and in connection with the forward-looking statements contained in this Quarterly Report on Form 10-Q. Any of the risks described in the 2017 Form 10-K could materially adversely affect our business, financial condition or future results and the actual outcome of matters as to which forward-looking statements are made. These are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the fourth quarter of 2015, the Company's board of directors authorized the repurchase of up to \$20,000 of the Company's outstanding common stock with no expiration date. The Company's board of directors also authorized the use of a Rule 10b5-1 plan, which was put into place during the second quarter of 2018.

During the three and six months ended June 30, 2018, the Company repurchased 182 shares of ZAGG Inc common stock for a total consideration of \$3,006, which included commissions and processing fees totaling \$7. As of June 30, 2018, a total of \$14,552 remained authorized under the stock repurchase program.

The shares repurchased during the three months ended June 30, 2018 are as follows:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 - April 30, 2018	—	\$ —	—	\$ 17,558
May 1 - May 31, 2018	—	\$ —	—	\$ 17,558
June 1 - June 30, 2018	182	\$ 16.49	182	\$ 14,552

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.





## Item 5. Other Information

None.

## Item 6. Exhibits

a. Exhibits: The following Exhibits are filed with this Form 10-Q pursuant to Item 601(a) of Regulation S-K:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
<a href="#">10.1</a>	<a href="#">Amended and Restated Credit and Security Agreement dated as of April 12, 2018 by and among ZAGG Inc, KeyBank National Association, KeyBank Capital Markets Inc, and the other lenders party thereto (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 12, 2018 and incorporated herein by this reference)</a>
<a href="#">10.2</a>	<a href="#">\$40,000,000 Revolving Credit Note, dated April 12, 2018, by ZAGG Inc to KeyBank National Association (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 12, 2018 and incorporated herein by this reference)</a>
<a href="#">10.3</a>	<a href="#">\$30,000,000 Revolving Credit Note, dated April 12, 2018, by ZAGG Inc to ZB, N.A. d/b/a Zions First National Bank (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 12, 2018 and incorporated herein by this reference)</a>
<a href="#">10.4</a>	<a href="#">\$15,000,000 Revolving Credit Note, dated April 12, 2018, by ZAGG Inc to MUFG Union Bank, N.A. (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 12, 2018 and incorporated herein by this reference)</a>
<a href="#">10.5</a>	<a href="#">\$8,500,000 Swing Line Note, dated April 12, 2018, by ZAGG Inc to KeyBank National Association (previously filed as an exhibit to a Current Report on Form 8-K filed with the Commission on April 12, 2018 and incorporated herein by this reference)</a>
<a href="#">31.1</a>	<a href="#">Certification of Chief Executive Officer pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended</a>
<a href="#">31.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended</a>
<a href="#">32.1</a>	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
EX-101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase
EX-101.LAB	XBRL Taxonomy Extension Labels Linkbase
EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase

## 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.

Dated: August 1, 2018

**ZAGG INC**

**/s/ CHRIS AHERN**

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Chris Ahern  
Chief Executive Officer & Director  
(Principal executive officer)

Dated: August 1, 2018

**/s/ BRADLEY J. HOLIDAY**

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Bradley J. Holiday  
Chief Financial Officer  
(Principal financial officer)

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## Section 2: EX-31.1 (EXHIBIT 31.1)

**EXHIBIT 31.1**

### CERTIFICATION

I, Chris Ahern, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ZAGG Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 1, 2018

/s/ CHRIS AHERN

Chris Ahern

Chief Executive Officer & Director

(Principal executive officer)

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## Section 3: EX-31.2 (EXHIBIT 31.2)

**EXHIBIT 31.2**

### CERTIFICATION

I, Bradley J. Holiday, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ZAGG Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 1, 2018

/s/ BRADLEY J. HOLIDAY

Bradley J. Holiday

Chief Financial Officer

(Principal financial officer)

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## Section 4: EX-32.1 (EXHIBIT 32.1)

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of ZAGG Inc (the "Company") for the period ended June 30, 2018, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, Chris Ahern, Chief Executive Officer of the Company, and Bradley J. Holiday, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 1, 2018

/s/ CHRIS AHERN

Chris Ahern

Chief Executive Officer & Director  
(Principal executive officer)

Dated: August 1, 2018

/s/ BRADLEY J. HOLIDAY

Bradley J. Holiday

Chief Financial Officer

(Principal financial officer)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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