ZAGG Inc
Form 10-Q
August 08, 2013

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

FORM 10-Q

(Mark one)

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2013, or

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______________ to _____________.

Commission File No. 000-52211
ZAGG INC
(Exact name of registrant as specified in its charter)

Nevada	20-2559624
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3855 South 500 West, Suite J
Salt Lake City, Utah 84115
(Address of principal executive offices with zip code)

(801) 263-0699
(Registrant's telephone number, including area code)

Check whether the issuer (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 [X] No[ ].

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

[ ] Large Accelerated Filer [X] Accelerated Filer

[ ] Non-accelerated Filer (do not check if a smaller reporting company) [ ] Smaller Reporting Company

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 30,786,274 common shares as of August 5, 2013.

Table of Contents

ZAGG INC AND SUBSIDIARIES
FORM 10-Q

TABLE OF CONTENTS

2

Table of Contents

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

	June 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$13,557	$20,177
Accounts receivable, net of allowances of $3,154 in 2013 and $2,974 in 2012	31,285	54,561
Inventories	46,835	39,988
Prepaid expenses and other current assets	5,336	9,547
Deferred income tax assets	7,510	6,912
Total current assets	104,523	131,185
Investment in HzO	789	2,013
Property and equipment, net of accumulated depreciation at $4,751 in 2013 and $3,317 in 2012	4,291	4,862
Goodwill	1,484	1,484
Intangible assets, net of accumulated amortization at $18,511 in 2013 and $13,790 in 2012	53,123	57,905
Deferred income tax assets	6,596	6,596
Note receivable	720	583
Other assets	767	1,457
Total assets	$172,293	$206,085
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$12,305	$19,027
Income taxes payable	2,030	3,062
Accrued liabilities	2,309	3,754
Accrued wages and wage related expenses	921	2,554
Deferred revenue	186	722
Current portion of note payable	8,000	6,000
Sales returns liability	3,862	6,697

Total current liabilities	29,613	41,816
Revolving line of credit	4,648	22,173
Noncurrent portion of note payable	14,000	18,000
Total liabilities	48,261	81,989
Stockholders' equity		
Common stock, $0.001 par value; 100,000 shares authorized;		
31,574 and 31,215 shares issued in 2013 and 2012, respectively	32	31
Additional paid-in capital	79,659	77,234
Accumulated other comprehensive income	(337)	(57)
Note receivable collateralized by stock	(428)	(566)
Treasury stock, 797 and 0 common shares in 2013 and 2012 respectively, at cost	(5,999)	-
Retained earnings	51,105	47,454
Total stockholders' equity	124,032	124,096
Total liabilities and stockholders' equity	$172,293	$206,085

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net sales	$51,198	$61,636	$102,669	$117,115
Cost of sales	29,663	33,231	62,135	61,777
Gross profit	21,535	28,405	40,534	55,338
Operating expenses:				
Advertising and marketing	1,914	2,301	4,253	4,743
Selling, general and administrative	11,831	12,848	24,110	24,590
Amortization of definite-lived intangibles	2,374	2,469	4,748	4,891
Total operating expenses	16,119	17,618	33,111	34,224
Income from operations	5,416	10,787	7,423	21,114
Other income (expense):				
Interest expense	(144)	(986)	(371)	(2,507)
Loss from equity method investment in HzO	(617)	(473)	(1,224)	(936)
Other income and (expense)	(27)	224	(47)	(22)
Total other expense	(788)	(1,235)	(1,642)	(3,465)
Income before provision for income taxes	4,628	9,552	5,781	17,649
Income tax provision	(1,854)	(3,740)	(2,130)	(6,726)
Net income	2,774	5,812	3,651	10,923
Earnings per share:				
Basic earnings per share	$0.09	$0.19	$0.12	$0.36
Diluted earnings per share	$0.09	$0.18	$0.12	$0.35

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

ZAGG INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net income	$2,774	$5,812	$3,651	$10,923
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	(66)	(347)	(280)	(368)
Total other comprehensive income (loss)	(66)	(347)	(280)	(368)
Comprehensive income	$2,708	$5,465	$3,371	$10,555

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ZAGG INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Note Receivable Collateralized By Stock	Treasury Stock	Retained Earnings	Cumulative Translation Adjustment	Total Stockholders' Equity
Balances, December 31, 2012	31,215	$31	$ 77,234	$ (566)	$-	$47,454	$ (57)	$ 124,096
Net income	-	-	-	-	-	3,651	-	3,651
Other comprehensive loss	-	-	-	-	-	-	(280)	(280)
Purchase of 797 shares of treasury stock	-	-	-	-	(5,999)	-	-	(5,999)
Reclassification of note receivable to other asset	-	-	-	138	-	-	-	138
Option exercises	97	-	185	-	-	-	-	185
Restricted stock release	262	1	-	-	-	-	-	1
Option expense	-	-	162	-	-	-	-	162
Restricted stock expense	-	-	2,206	-	-	-	-	2,206
Tax shortfall related to share-based payments	-	-	(128)	-	-	-	-	(128)
Balances, June 30, 2013	31,574	$32	$ 79,659	$ (428)	$(5,999)	$51,105	$ (337)	$ 124,032

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities		
Net income	$3,651	$10,923
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	2,368	2,525
Excess tax benefits related to share-based payments	(48)	(485)
Depreciation and amortization	6,218	5,684
Loss from equity method investment in HzO	1,224	936
Loss on disposal of equipment	-	279
Deferred income taxes	(598)	(771)
Amortization of deferred loan costs	60	441
Expense related to issuance of warrants	-	311
Impairment of investment	591	-
Changes in operating assets and liabilities, net of acquisition		
Accounts receivable	23,241	4,947
Inventories	(6,906)	(4,623)
Prepaid expenses and other current assets	4,236	(4,009)
Other assets	-	(218)
Accounts payable	(6,717)	323
Income taxes payable	(1,159)	(2,901)
Accrued liabilities	(1,478)	(1,676)
Accrued wages and wage related expenses	(1,584)	(156)
Deferred revenues	(536)	26
Sales return liability	(2,830)	148
Net cash provided by operating activities	19,733	11,704
Cash flows from investing activities		
Deposits on and purchase of intangible assets	-	(71)
Purchase of property and equipment	(869)	(1,631)
Net cash used in investing activities	(869)	(1,702)
Cash flows from financing activities		
Proceeds from revolving credit facilities	35,860	2,280
Payments on revolving credit facilities	(53,385)	(23,000)
Payments on term loan	(2,000)	(4,000)
Purchase of treasury stock	(5,999)	-
Proceeds from exercise of warrants and options	186	628
Excess tax benefits related to share-based payments	48	485

Net cash used in financing activities	(25,290)	(23,607)
Effect of foreign currency exchange rates on cash and cash equivalents	(194)	(348)
Net decrease in cash and cash equivalents	(6,620)	(13,953)
Cash and cash equivalents at beginning of the period	20,177	26,433
Cash and cash equivalents at end of the period	$13,557	$12,480
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$241	$2,219
Cash paid during the period for taxes	$3,759	$10,350

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ZAGG INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars and shares in thousands)
(Unaudited)

Supplemental schedule of noncash investing and financing activities

For the Six Months Ended June 30, 2013:

Reclassification of $138 from note receivable collateralized by stock to note receivable.

For the Six Months Ended June 30, 2012:

Foreclosure on real property valued at $250 that served as collateral to a note receivable (foreclosed property recorded as a component of other noncurrent assets in the condensed consolidated balance sheet).

Foreclosure on private company stock and warrants of $516 that served as collateral to a note receivable (foreclosed property recorded as a component of other noncurrent assets in the condensed consolidated balance sheet).

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

(1) NATURE OF OPERATIONS AND BASIS OF PRESENTATION INVENTORIES

ZAGG Inc and subsidiaries (collectively, the "Company" or "ZAGG") design, produce, and distribute creative product solutions such as protective coverings, keyboards, keyboard cases, headphones, earbuds, mobile power solutions, and device cleaning accessories for mobile devices under the family of ZAGG brands. Within the family of the ZAGG brand are products sold under the following brand names: invisibleSHIELD®, ZAGGbuds™, ZAGGsparq™, ZAGGfolio™, ZAGGmate™, ZAGGkeys™, ZAGGkeys PRO™, ZAGGkeys PRO Plus™, ZAGGkeys PROfolio, ZAGGkeys PROfolio+, ZAGGkeys MINI 7, and ZAGGkeys MINI 9.

In addition, the Company designs, produces, and distributes cases, Near-Field Audio™ amplifying speakers, earbuds, traditional headphones, and gaming headphones for mobile devices under the family of iFrogz brands in the value-priced lifestyle sector. Within the iFrogz brand are products sold under the following brand names: iFrogz™, Earpollution™, Caliber™, and Animatone™.

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 ("US 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 2012 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 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.

The consolidated financial statements include the accounts of ZAGG Inc and its wholly owned subsidiaries ZAGG International Distribution Limited; Patriot Corporation; ZAGG Intellectual Property Holding Co, Inc.; ZAGG Retail, Inc.; iFrogz, Inc.; and iFrogz Europe SAS. All intercompany transactions and balances have been eliminated in consolidation.

(2) INVENTORIES

At June 30, 2013, and December 31, 2012, inventories consisted of the following:

	June 30, 2013	December 31, 2012

Finished goods	$41,973	$34,690
Raw materials	4,862	5,298
Total inventory	$46,835	$39,988

In addition, included in prepaid expenses and other current assets were inventory deposits with third-party manufacturers at June 30, 2013 and December 31, 2012 of $2,479 and $8,034, respectively.

(3) ASSET PURCHASE CREDITS

The Company entered into a nonmonetary exchange transaction with Argent Trading Inc. (“Argent”) during the second quarter of 2011 whereby the Company transferred inventory with a carrying value of $986 to Argent in exchange for asset purchase credits with a face value of $1,350. The credits can be used for the purchase of goods or services from certain vendors until March 1, 2016, when the unused asset purchase credits expire.

Table of Contents

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

The Company accounted for this nonmonetary transaction based on the fair value of the inventory transferred as the inventory's fair value was more clearly evident than fair value of the asset purchase credits. The Company determined that the inventory had a fair value of $785 at the date of the transfer and thus recorded an impairment loss on the inventory of $202, which was recorded as a component of cost of sales in the accompanying condensed consolidated statement of operations.

On May 2, 2012, management assigned these credits to a supplier in exchange for discounts on future purchases of products from the supplier. Management expects the discounts received to at least equal the value of the asset purchase credits assigned and will be realized over approximately a three-year period. Despite the change in character, management continues to classify these assets within prepaid expenses and other current assets, and noncurrent other assets on the condensed consolidated balance sheet based on when the discounts are expected to be realized. During the three and six months ended June 30, 2013, management utilized $80 and $130, respectively, of the asset purchase credits. The current balance of $606 is included as a component of prepaid expenses and other current assets, and other noncurrent assets in the condensed consolidated balance sheet.

(4) INVESTMENT IN HzO

HzO, Inc. ("HzO") is a private company engaged in the development of water-blocking technologies for consumer and industrial applications. Management accounts for its investment in HzO under the equity method of accounting by recognizing ZAGG's share of the earnings or losses of HzO in the periods in which they are reported by HzO in its separate financial statements, adjusted for the amortization of the basis difference between the Company's investment in HzO and the Company's underlying share in the net assets of HzO.

For the three months ended June 30, 2013 and 2012, amortization of $57 and $82, respectively, was recorded. For the six months ended June 30, 2013 and 2012, amortization of $125 and $163, respectively, was recorded. This amortization reduced the basis difference from $1,076 at December 31, 2012 to $951 at June 30, 2013.

For the three months ended June 30, 2013 and 2012, the Company recorded a loss from investment in HzO of $617 and $473, respectively. For the six months ended June 30, 2013 and 2012, the Company recorded a loss from investment in HzO of $1,224 and $936, respectively. The loss from investment in HzO was recorded as a component of other income and (expense) in the consolidated statement of operations in each respective period.

As of June 30, 2013 and December 31, 2012, the Company held an ownership interest in the equity of HzO of 22.7% and 30.7%, respectively, consisting of 18,361 Series A Preferred Shares. The decrease in the Company's ownership interest from December 31, 2012 to June 30, 2013, was due to an equity raise by HzO during the second quarter of 2013 when HzO issued 20,978 shares of Series B Preferred Stock to third party investors for net cash of $5,314. Neither ZAGG nor ZAGG executives participated in the equity raise.

(5) INTANGIBLE ASSETS

Impairment of Goodwill and Intangible Assets

For the year ended December 31, 2012, the Company recorded an impairment of goodwill in the amount of $5,441 when it was determined that the carrying value of goodwill exceeded its fair value, which was determined during an impairment analysis performed during the fourth quarter of 2012. In conjunction with the impairment test, the Company considered factors such as the overall decline in the market price of the company's stock and decline in market capitalization for a sustained period as indicators for potential goodwill impairment. In determining the amount of impairment within the analysis, we considered both the income approach, utilizing a discounted cash flow analysis, and market approach, which considers what other purchasers and sellers in the market have paid for companies reasonably similar to the reporting unit.

The goodwill impairment of $5,441 was included as a component of impairment of goodwill and intangibles in the consolidated statement of operations during the fourth quarter of 2012 and reduced the carrying value of goodwill from $6,925 to $1,484 at December 31, 2012. There were no adjustments to goodwill during the three and six months ended June 30, 2013.

In addition, during the fourth quarter of 2012, the Company made an important brand strategy adjustment to place greater emphasis on the promotion of our core brands, ZAGG and iFrogz. As a result of this decision, we determined that future cash flows under the EarPollution trademark likely would be less than previously estimated and that the trademark should be considered a definite-lived intangible asset. Management performed an impairment analysis during the fourth quarter of 2012, relying on a discounted cash flow analysis and market approach. At that time, management determined that the carrying amount of the trademark exceeded the fair value and an impairment charge of $5,917 was recorded at December 31, 2012 as a component of the impairment line in the consolidated statement of operations. As the trademark is now considered a definite-lived intangible, management commenced amortizing the trademark over an eight-year period on an accelerated basis consistent with our projected future cash flows from the trademark. Future amortization of this trademark is included in the estimated future amortization table below in this Note.

Table of Contents

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

At December 31, 2012, the Company also wrote-off $139 in internally developed software acquired in the iFrogz acquisition as the software was abandoned. The charge was included as a component of the goodwill and impairment line in the consolidated statement of operations at December 31, 2012.

Definite-lived Intangibles

Definite-lived intangibles as of June 30, 2013, and December 31, 2012, were as follows:

	As of June 30, 2013					
	Gross Carrying Amount	Accumulated Amortization	Write-off of Fully Amortized Intangible	Transfers from Indefinite-life Classification	Net Carrying Amount	Weighted Average Amortization Period
Customer relationships	$41,500	$ (13,914)	$—	$ —	$27,586	8.0 years
Non-compete agreements	4,100	(1,779)	—	—	2,321	4.8 years
Other Trademarks	3,500	(1,412)	—	—	2,088	9.7 years
EarPollution Trademark	2,383	(277)	—	—	2,106	8.0 years
Other	661	(436)	(61)	—	164	5.0 years
Acquired technology	564	(117)	—	—	447	7.0 years
Internet address	124	(59)	—	—	65	10.0 years
Patents	2,063	(517)	—	—	1,546	14.0 years
Total amortizable assets	$54,895	$ (18,511)	$(61)	$ —	$36,323	8.0 years

	As of December 31, 2012					
	Gross Carrying Amount	Accumulated Amortization	Write-off	Transfers from Indefinite-life Classification	Net Carrying Amount	Weighted Average Amortization Period
Customer relationships	$41,500	$ (10,291)	$—	$ —	$31,209	8.0 years
Non-compete agreements	4,100	(1,389)	—	—	2,711	4.8 years
Other Trademarks	3,500	(1,105)	—	—	2,395	9.7 years
EarPollution Trademark	—	—	—	2,383	2,383	8.0 years
Other	800	(446)	(139)	—	215	5.0 years
Acquired technology	564	(83)	—	—	481	7.0 years
Internet address	124	(53)	—	—	71	10.0 years
Patents	2,063	(423)	—	—	1,640	14.0 years
Total amortizable assets	$52,651	$ (13,790)	$(139)	$ 2,383	$41,105	8.0 years

11

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

Customer relationships, trademarks, and other intangibles are amortized on an accelerated basis consistent with their expected future cash flows over their estimated useful life, which results in accelerated amortization. The remaining definite-lived intangible assets are amortized using the straight line method over their estimated useful life. For the three and six months ended June 30, 2013, amortization expense was $2,394 and $4,782, respectively. Of the total amortization expense for the three and six months ended June 30, 2013, $20 and $34, respectively, is classified within cost of goods sold.

For the three and six months ended June 30, 2012, amortization expense was $2,488 and $4,923, respectively. Of the total amortization expense for the three and six months ended June 30, 2012, $19 and $32, respectively, is classified within cost of goods sold.

Estimated future amortization expense is as follows:

Remaining 2013	$4,808
2014	8,422
2015	7,233
2016	5,868
2017 and thereafter	9,992
Total	$36,323

Indefinite-lived Intangibles

The gross carrying amount of indefinite-lived intangibles as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	December 31, 2012
iFrogz Trademark	$16,800	$16,800

(6) DEBT AND LETTERS OF CREDIT

Wells Fargo Term Loan and Revolving Line of Credit Facility

On December 7, 2012, the Company and Wells Fargo Bank, National Association (“Wells Fargo”), entered into a two-year, $84,000 credit facility (“Credit Agreement”) consisting of a $24,000 term loan (“Term Loan”) and a $60,000 revolving line of credit (“Line of Credit”), which Line of Credit includes a letter of credit sub-feature that allows the Company to issue standby commercial letters of credit against the Line of Credit, not to exceed at any time an aggregate of $10,000. The Company’s obligations under the Credit Agreement were secured by all or substantially all of the Company’s domestic assets and over 50% of the equity in foreign subsidiaries. As of June 30, 2013 and December 31, 2012, the Company had an outstanding balance of $22,000 and $24,000, respectively, on the Term Loan; an outstanding balance of $4,648 and $22,173, respectively, on the Line of Credit; and no letters of credit had been issued.

The Term Loan requires quarterly payments of $2,000 payable on the first day of each quarter commencing on April 1, 2013, and continuing up to and including October 1, 2014. A final installment payment consisting of the remaining unpaid balance is due on December 1, 2014. A mandatory additional principal payment of $500 is required for each fiscal quarter in which total liabilities to tangible net worth (as those terms are defined in the Credit Agreement) exceeds 1.50 to 1.00, commencing with the Company's fiscal quarter ending December 31, 2012. At June 30, 2013, no mandatory principal payment was required.

The outstanding principal balance of the Term Note bears interest (computed on the basis of a 360-day year, actual days elapsed) at a fixed rate per annum determined by the Bank to be the sum of the (1) LIBOR margin (with the initial LIBOR margin being set at 1.25%) and (2) LIBOR in effect on the first day of each Fixed Rate Term (as defined in the Credit Agreement).

Borrowings and repayments under the Line of Credit may occur from time to time in the Company's ordinary course of business from December 7, 2012, through December 1, 2014. Any outstanding borrowings under the Line of Credit mature and are due on December 1, 2014.

The outstanding principal balance under the Line of Credit bears interest (computed on the basis of a 360-day year, actual days elapsed) at a fluctuating rate per annum determined to be the sum of the (1) LIBOR margin (with the initial LIBOR margin being set at 1.25%) and (2) Daily Three Month LIBOR (as defined in the Credit Agreement) in effect from time to time.

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

Pursuant to the terms of the Credit Agreement, Wells Fargo will adjust the LIBOR margin used to determine the rate of interest under the Line of Credit on a quarterly basis, commencing with the Company's fiscal quarter ending December 31, 2012. The Applicable Libor Margin is calculated based on the Company's ratio of Total Liabilities to Tangible Net Worth (as these terms are defined in the Credit Agreement) in accordance with the following table:

Total Liabilities to Tangible Net Worth	Applicable LIBOR Margin
1.50 or greater	1.75%
1.00 or greater, but less than 1.50	1.25%
Less than 1.00	0.75%

Under the Line of Credit Note, each such adjustment will be effective on the first business day of the Company's fiscal quarter following the quarter during which the Bank receives and reviews the Company's most current fiscal quarter-end financial statements in accordance with the requirements established by the Bank for the preparation and delivery thereof.

In addition, the Company agreed to pay Wells Fargo a quarterly fee based on the average unused amount of the Line of Credit depending on the Company's Leverage Ratio (which term is defined in the Credit Agreement as Total Liabilities divided by Tangible Net Worth) based on the following table:

Leverage Ratio	Applicable Unused Commitment Fee (per annum)
1.50 or greater	0.20%
1.00 or greater, but less than 1.50	0.15%
Less than 1.00	0.10%

For the three and six months ended June 30, 2013, $21 and $35, respectively, in unused line fees had been incurred and were included as a component of interest expense in the consolidated statement of operations.

The weighted average interest rate on all outstanding borrowings at June 30, 2013, was 1.63%, and the effective interest rate was 2.31%.

The Company incurred and capitalized $238 of direct costs related to the issuance of the Term Loan and Line of Credit. The Company amortizes these deferred loan costs under the effective interest rate method. For the three and six months ended June 30, 2013, the Company amortized $30 and $60, respectively, of these loan costs, which is included as a component of interest expense in the consolidated statement of operations. The carrying value of deferred loan costs at June 30, 2013 and December 31, 2012, was $170 and $230, respectively, and is included as a component of noncurrent other assets in the consolidated balance sheet.

Attached to the Credit Agreement are a number of financial and non-financial debt covenants. At June 30, 2013, the Company was in compliance with all covenants associated with the Credit Agreement.

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

Mandatory payments under the Credit Agreement are presented in the following table:

	Mandatory Payments
Remaining 2013	$4,000
2014	22,648
Total	$26,648

PNC & Cerberus Term Loan and Revolving Credit Facility

On June 21, 2011, and in conjunction with the acquisition of iFrogz, the Company entered into a financing agreement (the "Financing Agreement") led by Cerberus Business Finance, LLC ("Cerberus") and PNC Bank National Association ("PNC"), which was acting as the administrative bank. The Financing Agreement consisted of a $45,000 term loan ("Cerberus Term Loan"), a $45,000 revolving credit facility ("Revolving Credit Facility"), and a $5,000 letters of credit facility, which was a subset of the $45,000 Revolving Credit Facility. The Company's obligations under the Financing Agreement were secured by all or substantially all of the Company's assets. The Cerberus Term Loan would have matured on June 20, 2016, and the Revolving Credit Facility and letters of credit would have matured on June 20, 2014.

As of June 30, 2012, $41,000 of the Term Loan was outstanding after a payment of $4,000 was made in March 2012; $2,612 of the Revolving Credit Facility was outstanding after payments totaling $23,000 were made in March 2012; and no letters of credit were outstanding. These payments were made although no scheduled payments on either the Cerberus Term Loan or Revolving Credit Facility were required prior to maturity.

At the election of the Company, borrowings under the Financing Agreement bore interest at either the Reference Rate plus an applicable margin or the Eurodollar Rate plus an applicable margin, both as defined in the Financing Agreement. All borrowings were made under the Reference Rate, which was calculated as the greater of (1) 2.75%, (2) the Federal Funds Effective Rate plus 0.50%, (3) the Eurodollar Rate plus 1.00%, or (4) the rate of interest publicly announced by PNC Financial Service Group, Inc. as its reference rate, base rate, or prime rate. The applicable margin for the Reference Rate was 4.00%. At June 30, 2012, the weighted average interest rate on all outstanding borrowings was 7.25%. At June 30, 2012, the effective interest rate was 8.17%.

Starting July 1, 2011, the Company began paying a commitment fee of 0.375% of the unused portion of the borrowing capacity under the Revolving Credit Facility based on the average principal amount outstanding for the month compared to $45,000. For the three and six months ended June 30, 2012, the Company incurred $41 and $62, respectively in commitment fees, which is included as a component of interest expense in the condensed consolidated statement of operations.

The Company incurred and capitalized $2,538 of direct costs related to the issuance of the Cerberus Term Loan and Revolving Credit Facility. Of the total amount incurred, $1,699 was directly related to the Cerberus Term Loan and $839 was directly related to the Revolving Credit Facility. As neither debt instrument had a mandatory payment schedule and the entire balance of each is due at maturity, the Company amortized these deferred loan costs on a straight-line basis over the respective terms of the loan: the Term Loan was being amortized through June 20, 2016, and the Revolving Credit Facility through June 20, 2014. For the three and six months ended June 30, 2012, the Company amortized $154 and $309, respectively, of these loan costs. The amortization of deferred loan costs is included as a component of interest expense in the condensed consolidated statement of operations. In addition, during the six months ended June 30, 2012, the Company recorded additional amortization of $132 through interest expense due to the $4.0 million payment on the Cerberus Term Loan prior to maturity.

On December 7, 2012, the Company paid off the entire outstanding balance on the Cerberus Term Loan and Revolving Credit Facility, and the Financing Agreement with PNC and Cerberus was terminated. As this agreement was terminated, the Company wrote-off the remaining $1,509 balance of deferred loan costs during the fourth quarter of 2012.

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

(7) STOCK-BASED COMPENSATION

Common Stock Options – For the three and six months ended June 30, 2013 and 2012, the Company granted zero stock option awards, though stock options awards were granted in periods prior to June 30, 2012.

The Company records share-based compensation expense only for those options that are expected to vest. The estimated fair value of the stock options 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, 2013, the Company recorded equity-based compensation expense related to stock options of $66 and $162, respectively. During the three and six months ended June 30, 2012, the Company recorded equity-based compensation expense related to stock options of $230 and $501, respectively.

Warrants – For the three and six months ended June 30, 2013, the Company issued zero warrants. During the three and six months ended June 30, 2012, the Company issued warrants for investor relations consulting services for zero and 50 common shares, respectively. Warrants granted during the six months ended June 30, 2012, are exercisable at $9.02 per share, expire five years after issuance, and vested upon issuance.

The warrant grants were valued using the Black-Scholes option pricing model based on the fair value of the Company's common stock on the date of grant, expected term equal to the contractual term, expected volatility weighted between the Company's historical volatility and the average historical volatility of similar entities with publicly traded shares over the expected term, and risk-free rate for the expected term based on the U.S. Treasury yield curve on the grant date. For warrants granted during the six months ended June 30, 2012, the Company recorded expense of $311.

For the six months ended June 30, 2012, the following assumptions were used in determining the fair value of warrants granted:

	Six Months Ended June 30, 2012
Expected dividend yield	0.0%
Risk-free interest rate	0.81%
Expected term (years)	5.0 years
Expected volatility	89.50%

Restricted Stock – During the three and six months ended June 30, 2013, the Company granted 7 and 265 shares of restricted stock, respectively. During the three and six months ended June 30, 2012, the Company granted 133 and 426 shares of restricted stock, respectively. The shares of restricted stock granted during the three and six months ended June 30, 2013, were estimated to have a weighted-average fair value per share of $5.28 and $7.24, respectively. The shares of restricted stock granted during the three and six months ended June 30, 2012, were estimated to have a weighted-average fair value per share of $10.68 and $9.78, respectively. The fair value of the restricted stock granted is based on the closing share price of the Company's common stock on the date of grant. The shares of restricted stock typically vest annually on a straight-line basis over a vesting period of up to three years, depending on the terms of the individual grant.

The Company recorded share-based compensation expense only for those shares of restricted stock that are expected to vest. The estimated fair value of the restricted stock 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, 2013, the Company recorded equity-based compensation expense related to restricted stock of $1,264 and $2,206, respectively. During the three and six months ended June 30, 2012, the Company recorded equity-based compensation expense related to restricted stock of $1,264 and $2,024, respectively. Stock compensation expense is included as a component of selling, general and administrative expense in the condensed consolidated statement of operations.

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

During the second quarter of 2012, a ZAGG employee received a grant of restricted stock and elected to file an Internal Revenue Code Section 83(b) election and elected to receive a net amount of shares in exchange for the Company incurring the tax liability for the grant date fair value of the award. This resulted in the Company recording an additional $44 in compensation expense, with the offset being recorded to accrued wages and wage related expenses on the condensed consolidated balance sheet.

(8) INCOME TAXES

For the three and six months ended June 30, 2013, the Company's effective tax rate was 40.1% and 36.8% respectively. For the three and six months ended June 30, 2012, the Company's effective tax rate was 39.2% and 38.1% respectively. The Company's effective tax rate will generally differ from the U.S. Federal Statutory rate of 35%, due to state taxes, permanent items, favorable tax rates associated with certain earnings from the Company's operations in Ireland, and the Company's global tax strategy. All earnings at foreign locations are considered to be permanently reinvested for tax purposes.

(9) EARNINGS PER SHARE

Basic earnings per common share excludes dilution and is computed by dividing net income attributable to stockholders by weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share reflect the potential dilution that could occur if stock options 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 per share and diluted earnings per share for the three and six months ended June 30, 2013 and 2012:

	Three months ended	
	June 30, 2013	June 30, 2012
Net income attributable to stockholders	$2,774	$5,812
Weighted average shares outstanding	30,739	30,277
Dilutive effect of warrants, restricted stock and stock options	479	1,461
Diluted shares	31,218	31,738
Earnings per share attributable to stockholders:		
Basic	$0.09	$0.19
Dilutive	$0.09	$0.18

	Six months ended	
	June 30, 2013	June 30, 2012
Net income attributable to stockholders	$3,651	$10,923

Weighted average shares outstanding	30,895	30,101
Dilutive effect of warrants, restricted stock and stock options	576	1,476
Diluted shares	31,471	31,577
Earnings per share attributable to stockholders:		
Basic	$0.12	$0.36
Dilutive	$0.12	$0.35

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

For the three months ended June 30, 2013 and 2012, warrants, restricted stock, and stock options to acquire 459 and zero common shares, respectively, were not considered in calculating diluted earnings per share because the warrant or stock option exercise prices or the total expected proceeds under the treasury stock method for the warrants, restricted stock, or stock options was greater than the average market price of common shares during the period and, therefore, the effect would be anti-dilutive.

For the six months ended June 30, 2013 and 2012, warrants, restricted stock, and stock options to acquire 459 and 55 common shares, respectively, were not considered in calculating diluted earnings per share because the warrant or stock option exercise prices or the total expected proceeds under the treasury stock method for the warrants, restricted stock, or stock options was greater than the average market price of common shares during the period and, therefore, the effect would be anti-dilutive.

(10) TREASURY STOCK

On December 13, 2012, the Company's board of directors authorized the repurchase of up to $10,000 of the Company's outstanding common stock. Under the approved repurchase plan, the share repurchases were to be made from time to time over the twelve-month period following the approval of the plan at the Company's discretion. The Company's board of directors also authorized the Company to enter into a Rule 10b5-1 plan when appropriate.

During March 2013, the Company entered into a Rule 10b5-1 plan under which 797 shares of ZAGG Inc common stock were purchased in the open market for total cash consideration of $5,999, which includes fees of $21, from March 1, 2013 to March 14, 2013 at a weighted average price per share of $7.50. The consideration paid of $5,999 has been recorded within stockholders' equity in the condensed consolidated balance sheet.

No repurchases occurred during the second quarter of 2013.

(11) NOTE RECEIVABLE

In June 2008, Lorence Harmer became a member of the Company's board of directors and in December 2009, was appointed as the chairman of the Audit Committee. Mr. Harmer introduced the Company to a consumer electronics product, which became known as the ZAGGbox. The ZAGGbox was intended to aggregate digital content such as music, pictures, videos, and movies into a single location so that users could share the content with most other networked media players, including mobile devices. After investigating the market opportunity for the ZAGGbox, the Company determined in June 2009 that it wished to obtain certain rights for the development and sale of the ZAGGbox in North America. The Company entered into negotiations with Teleportall, LLC ("Teleportall"), the owner of the technology used in the ZAGGbox, regarding production and distribution of the ZAGGbox. On June 17, 2009, the Company issued its initial purchase order for ZAGGbox units in the amount of $3,500 and advanced to Teleportall a total of $1,153 representing a $200 non-recurring engineering (NRE) fee and $953 in payment of 30% of the total purchase price for the units ordered by the Company. Mr. Harmer participated in the negotiations between the Company and Teleportall, and continued to represent the Company throughout 2009 and 2010 concerning the ZAGGbox. In May 2010, the Company entered into a Distribution and License Agreement with Teleportall, which memorialized Teleportall's agreement to manufacture and deliver ZAGGboxes to the Company and appointed the Company as the exclusive distributor for the ZAGGbox in North American. Additionally, in May 2010, the Company entered into an agreement with Harmer Holdings, LLC, an affiliate of Mr. Harmer, under which Harmer Holdings, LLC agreed to repurchase unsold ZAGGboxes under certain circumstances.

Teleportall proceeded to develop the ZAGGbox and provided periodic progress reports to the Company. However, Teleportall did not deliver the product in time for the 2009 Christmas selling season. Subsequently, during the December 1, 2009, meeting of the Board of Directors of the Company, Mr. Harmer disclosed to the other members of the Board that he owned an interest in Teleportall. After a discussion about his financial interest in Teleportall during that meeting, Mr. Harmer stated he was willing to divest himself of any ownership in Teleportall, and the Board of Directors voted unanimously to accept Mr. Harmer’s proposal that he would do so, and assumed thereafter that Mr. Harmer had completed his divestiture.

Table of Contents

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

The development of the product continued in 2010 with the expectation that the product would be delivered in time for the 2010 Christmas selling season. The Company made additional payments for long lead-time parts to Teleportall in the aggregate amount of $2,747. When it became obvious to the Company that the product would not be ready to market and sell during the 2010 Christmas season, the Company commenced discussions to restructure the Distribution and License Agreement with Teleportall. During the course of those discussions, the Company learned in January 2011 that Mr. Harmer did not divest himself of any interest in Teleportall following the December 2009 meeting of the Board of Directors of the Company where he agreed to do so, but retained an indirect ownership interest of 25% in Teleportall as well as other entities potentially affiliated with the ZAGGbox. As a result of the foregoing, the Company entered into an agreement with Teleportall, Mr. Harmer and several entities owned or controlled by Mr. Harmer (the "Harmer Agreement"), dated March 23, 2011, but subject to further negotiations and ratification through April 5, 2011. Pursuant to the Harmer Agreement, the parties agreed to terminate the Distribution and License Agreement on the following terms:

- Mr. Harmer, Teleportall, and certain of their affiliates delivered a promissory note (the "Note") dated March 23, 2011, to the Company in the original principal amount of $4,126 which accrues interest at the rate of LIBOR plus 4% per annum (adjusted quarterly) payable as follows: (i) interest only payments (a) on September 23, 2011, and (b) thereafter on or before the last day of each calendar quarter, (ii) 50% of the net profits of each ZAGGbox sale by Teleportall and its affiliates to be applied, first, to accrued interest and, second, to the principal balance of the Note, and (iii) the unpaid balance of principal and interest due in full on March 23, 2013. The principal amount of the Note is equal to the aggregate amount of the payments made by the Company to Teleportall plus the internal cost of the ZAGGbox project incurred by the Company. The Note is secured by certain real property, interests in entities that own real property and restricted and free-trading securities.

- Teleportall and the Company entered into a License Agreement on March 23, 2011 under which the Company licensed to Teleportall the use of certain ZAGG names and trademarks to sell and distribute the ZAGGbox product. Teleportall will pay ZAGG a 10% royalty on net sales of ZAGGboxes per calendar quarter as a license fee.

- Teleportall and ZAGG entered into a non-exclusive, two year Commission Agreement on March 23, 2011, under which Teleportall could make introductions of many ZAGG products in all countries where ZAGG did not then have exclusive dealing agreements in respect of the marketing, distribution or sale of its products. The Commission Agreement provided that (a) it would automatically terminate concurrent with any uncured default under the Note, and (b) the term could be extended for an additional time period on reasonable terms if Teleportall's introductions during the initial two year term result in the purchase of no less than $25,000 of ZAGG products during the initial term. Payment terms of the Commission Agreement are as follows:

- 10.0% commission payments on orders received by the Company from retailers and distributors first introduced to the Company by Teleportall during the first 60 days after the introduction is made (the "Load-in Period") to be split 50/50 between cash to Teleportall and principal payments on the Note. However, all commission payments will be paid to ZAGG if Teleportall is in breach of the terms of the Note or any other agreements between the parties;

- 3.0% commission on all orders within the first 24 months after the Load-in Period, and 2.0% thereafter, from retailers and distributors first introduced to the Company as described under the terms set forth in the preceding bullet point. The 3.0% and 2.0% commissions will be split 50/50 between cash to Teleportall and principal payments on the Note; and

- 3.0% commission on all orders generated in countries where Teleportall is paid commission under the terms of the preceding two bullet points (excluding the United States), regardless of Teleportall’s involvement in ZAGG’s receipt of the order until the first to occur of (i) payment in full of the Note, (ii) termination of the Commission Agreement or (iii) 24 months after the applicable Load-in Period.

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

No revenue has been recognized from Teleportall.

As part of the Harmer Agreement, the Company modified a previously granted stock option award to Mr. Harmer, which resulted in a charge of $1,560 that was recorded in the second quarter of 2011. The charge was recorded in the second quarter of 2011 due to further negotiations and ratification on April 5, 2011. The further negotiations concerned the restricted legend placed on 80 shares of stock subject to repayment of the Note.

The Note was originally accounted for under the cost recovery method and was originally included in the consolidated balance sheet at $3,900 which was the value of the ZAGGbox inventory advances. The original face value of the Note of $4,126 was for reimbursement of the inventory advances and other costs associated with the ZAGGbox and approximated fair value at March 23, 2011, as the variable interest rate on the Note approximated market rates.

On September 20, 2011, and prior to the due date of the first interest-only payment due on the Note, Mr. Harmer and two of his affiliates, Harmer Holdings, LLC, ("Holdings") and Teleportall, filed a lawsuit in Utah state court against the Company, Robert G. Pedersen, II (ZAGG's now-former CEO), Brandon T. O'Brien (ZAGG's CFO) and KPMG LLP (ZAGG's independent registered public accounting firm). KPMG was subsequently dismissed from the lawsuit. In their lawsuit, the plaintiffs allege that the defendants defamed Mr. Harmer, breached the Harmer Agreement and interfered with other rights of the plaintiffs. The Company has responded to the plaintiffs' claims, denying all of the material allegations made by the plaintiffs. The Company believes the plaintiffs' claims to be without merit and intends to vigorously defend against them.

Subsequently, Mr. Harmer failed to make the required interest-only payment to the Company due on September 23, 2011. Mr. Harmer failed to cure the default and ZAGG commenced foreclosure on the collateral securing the loan, which consists of real property, interests in entities that own real property, and restricted and free-trading securities, which included 45 shares of ZAGG common stock. In addition to the collateral, Mr. Harmer had also agreed that he would not sell 80 shares of ZAGG common stock until two months after the Note was paid in full. Given the Note is full recourse, and the shares have a restrictive legend associated with repayment of the Note, the Company believes it can recover the 80 shares.

Following Mr. Harmer's default on the loan, management determined that it was probable that the Company would be unable to collect all amounts due from Mr. Harmer according to the terms of the Note. As the Note became collateral-dependent upon Mr. Harmer's default, management engaged various third-party certified valuation specialists to assist management in its determination of the fair value of the collateral and whether it is sufficient to recover the Note balance. As of June 30, 2013, management noted that the estimated fair value of the underlying collateral was between $1,415 and $1,551. As management has not been able to ascertain whether Mr. Harmer owns 50% or 100% of Holdings, management used the low end of the above range ($1,415) and compared it to the carrying amount of the note of $1,149. The remaining note balance of $1,149 appears to be collectable given management's best estimate of the cash recovery on the collateral securing the Note (fair value, less cost to sell) of $1,415. Additionally, the Company classified $428 of the Note as an offset to equity, representing the collateral secured by ZAGG common stock, which management has taken steps to recover to repay the Note, as noted below. If a decrease in the amount of the Note classified as an offset to equity occurs as a result of a decrease in the stock price, the Company reclassifies the difference back to the Note to the extent that there is sufficient underlying collateral in excess of the book value. During the three months ended June 30, 2013, the Company reclassified $138 from equity to the Note to reflect the decrease in the Company's stock price. Ultimately, any recovery in excess of the carrying value of the Note will be recognized when realized.

The Company determined the fair values of the collateral of the note receivable, which required significant estimates and assumptions. Management determined the value of the 80 shares of ZAGG common stock held by Mr. Harmer based on quoted market prices. The real estate holdings were valued primarily based on the sales comparison approach as sales of comparable properties were utilized. The investments in real estate companies were valued utilizing comparable market sales, a discounted cash flow analysis, and other appropriate valuation methodologies.

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

Since the Note became collateral dependent in October 2011, management has (1) foreclosed and sold 45 shares of ZAGG common stock for $496 (December 2011); (2) foreclosed on real property valued at $250 (January 2012); and (3) foreclosed on stock and warrants in a private company of $516 (May 2012). These foreclosures were recorded as a reduction to the note receivable in the period in which the foreclosure occurred. Management continues to actively pursue the foreclosure of all remaining collateral.

At June 30, 2013, the total unpaid principle balance, including accrued interest, late fees and costs incurred in collection, totaled $3,664.

(12) FAIR VALUE MEASURES

Fair Value of Financial Instruments

At June 30, 2013, and December 31, 2012, the Company's financial instruments included cash and cash equivalents, accounts receivable, accounts payable, a note receivable, a line of credit, and a term loan. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximates fair value due to the short-term maturities of these financial instruments. The carrying value of the debt balances approximate fair value because the variable interest rates reflect current market rates.

In addition, as discussed in Note 11, management records an impairment on the note receivable if the fair value of the underlying collateral is less than the carrying amount. Management determined the fair value of assets that collateralize the note receivable, which includes real property, interests in entities that own real property, and 80 shares of the Company's stock that carry a restrictive legend until two months after the note receivable is paid in full. Management determined that the fair value of the collateral exceeded the carrying value of the note receivable at June 30, 2013.

Fair Value Measurements

The Company measures at fair value certain financial and non-financial assets by using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price, based on the highest and best use of the asset or liability. The levels of the fair value hierarchy are:

Level 1 — Quoted market prices in active markets for identical assets or liabilities;

Level 2 — Significant other observable inputs (e.g., quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves, and market-corroborated inputs); and

Level 3 — Unobservable inputs in which there is little or no market data, which require the reporting unit to develop its own assumptions.

At June 30, 2013, and December 31, 2012, the following assets and liabilities were measured at fair value on a recurring basis using the level of inputs shown:

		Fair Value Measurements Using:		
	June 30, 2013	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	$74	$74	—	—

20

Table of Contents

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

		Fair Value Measurements Using:		
	December 31, 2012	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	$452	$452	—	—

Non-Recurring Fair Value Measurements

The Company also measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include goodwill, intangible assets, property and equipment, asset purchase credits, and collateral securing the note receivable.

There were no assets held at June 30, 2013, measured at fair value on a non-recurring basis that resulted in a change in carrying value during the period.

The following table presents assets held as of December 31, 2012, measured at fair value on a non-recurring basis using the level of inputs shown at the time of impairment.

		Fair Value Measurements Using:		
	December 31, 2012	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Goodwill	$1,484	—	—	$1,484
EarPollution trademark	$2,383	—	—	$2,383

As discussed in Note 5, at December 31, 2012, management performed an impairment analysis over each asset and ultimately recorded a $5,441 goodwill impairment and an impairment of $5,917 on the EarPollution trademark. Thus, the balances in the table reflect the fair value at December 31, 2012. The fair value of goodwill and the EarPollution trademark were determined using various valuation methods, including the income and market approaches. Under the income approach, the estimate of the present value of expected future cash flows was based on discount rates which incorporate a risk premium to take into account the risks inherent in those expected cash flows. The expected cash flows were estimated using available historical operating data projected into the future based on the Company's current expectations. Various market approaches were utilized to determine appropriate royalty rates applicable to the valuation of the EarPollution trademark, to determine appropriate comparable company market multiples to estimate the value of the iFrogz reporting unit, and to estimate the overall value of the consolidated entity. The fair value for these assets was updated at June 30, 2013, noting no further impairment.

(13) 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 such accounts through June 30, 2013.

At June 30, 2013, approximately 56% of the balance of accounts receivable was due from two customers, each with a balance greater than 10% of the total accounts receivable balance. No other customer account balances were more that 10% of accounts receivable. At December 31, 2012, approximately 56% of the balance of accounts receivable was due from one customer. No other customer account balances were more that 10% of accounts receivable. 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.

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

Concentration of supplier

The Company purchases its raw materials related to the invisibleSHIELD product line primarily from one source. Management is aware of similar raw materials that would be available from other sources if required and has current plans to immediately engage such resources if necessary. A change in supplier, however, could cause a delay in manufacturing and a possible loss of sales, which could adversely affect operating results.

In addition, the Company purchases all inventory from Asia through one third party sourcing company. Management is aware of other manufacturing sources that it could utilize if there was a disruption in the operations of the third party sourcing Company. A change in the sourcing Company, however, could cause a delay in manufacturing and a possible loss of sales, which could adversely affect operating results.

Concentration of sales

For the three months ended June 30, 2013, two customers individually accounted for over 10% of the quarterly revenues at 24% and 19%. No other customer account balances were more that 10% of sales. For the three months ended June 30, 2012, one customer accounted for over 10% of the quarterly revenues at 31%. No other customer account balances were more that 10% of sales. If the Company loses one or more of the Company's significant customers, it would have a material adverse effect on the Company's financial condition and results of operations.

The percentage of sales by geographic region for the three months ended June 30, 2013 and 2012, was approximately:

	Three months ended June 30, 2013	Three months ended June 30, 2012
United States	90%	88%
Europe	5%	5%
Other	5%	7%

For the six months ended June 30, 2013, two customers individually accounted for over 10% of the quarterly revenues at 23% and 17%. No other customer account balances were more that 10% of sales. For the six months ended June 30, 2012, two customers individually accounted for over 10% of the quarterly revenues at 30% and 11%. No other customer account balances were more that 10% of sales. If the Company loses one or more of the Company's significant customers, it would have a material adverse effect on the Company's financial condition and results of operations.

The percentage of sales by geographic region for the six months ended June 30, 2013 and 2012, was approximately:

	Six months ended June 30, 2013	Six months ended June 30, 2012
United States	90%	88%
Europe	5%	6%

Other	5%	6%

(14) COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases office and warehouse space, office equipment, and mall cart locations under operating leases that expire through 2017. Future minimum rental payments required under the operating leases at June 30, 2013 are as follows:

Remaining 2013	$608
2014	953
2015	661
2016	617
2017 and thereafter	302
Total	$3,141

Table of Contents

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

For the three and six months ended June 30, 2013, rent expense was $425 and $836, respectively. For the three and six months ended June 30, 2012, rent expense was $485 and $843, respectively. Rent expense is recognized on a basis which approximates straight line over the lease term.

Commercial Litigation

Ricks v. Scott Huskinson et al., Third Judicial District Court, Salt Lake County, State of Utah, Civil No. 120907697. On November 15, 2012, Craig Ricks ("Ricks") filed a lawsuit in Utah state court against the Company, its wholly owned subsidiary iFrogz, Inc., and others. Ricks subsequently abandoned his claims. On May 20, 2013, the court entered an order confirming the dismissal, with prejudice, of all claims asserted in the lawsuit.

Lorence A. Harmer, et al v ZAGG Inc et al, Third Judicial District Court, Salt Lake County, State of Utah, Civil No. 110917687. On September 20, 2011, Lorence A. Harmer, a former director of ZAGG and two of his affiliates, Harmer Holdings, LLC, and Teleportal, LLC, filed a lawsuit in Utah state court against the Company, Robert G. Pedersen II ("Pedersen"), Brandon T. O'Brien ("O'Brien") and KPMG LLP. KPMG has subsequently been dismissed from the lawsuit. This case is discussed in greater detail in Note 11, Note Receivable. In their lawsuit, the plaintiffs allege that the defendants defamed Mr. Harmer, breached a Settlement Agreement and other agreements between the plaintiffs and the Company, and interfered with other rights of the plaintiffs. The Company has denied all of the material allegations made by the plaintiffs. On October 29, 2012, the Company filed a Counterclaim and Third-Party Complaint against Harmer, Holdings, Teleportall and third-party Global Industrial Services Limited asserting claims for breach of contract, deficiency, indemnity and attorneys' fees, breach of the implied covenant of good faith and fair dealing, quasi contract, unjust enrichment, quantum meruit and declaratory judgment. On June 10, 2013, the court dismissed the plaintiffs' claims for defamation, negligence, tortious interference, and interference with prospective economic relations and all claims against Pedersen and O'Brien. The Company believes the plaintiffs' remaining claims of breach of contract, breach of the covenant of good faith and fair dealing, and declaratory relief to be without merit and intends to continue to vigorously defend against them. The plaintiffs have not yet made a specific damages claim.

ZAGG Inc v. Joseph Ramelli, Third Judicial District Court, Salt Lake County, State of Utah, Civil No. 120903188. On May 10, 2012, ZAGG filed a lawsuit in Utah State Court against Joseph Ramelli ("Ramelli"). The complaint alleges causes of action for defamation and false light, based on Ramelli's authoring and causing to be published at least 15 articles relating to ZAGG that contain false and defamatory statements. Ramelli, who appeared in the lawsuit pro se, moved to dismiss for lack of personal jurisdiction. The Company opposed the motion, and the court denied the motion to dismiss. Fact discovery has commenced. The Company intends to pursue its case vigorously against Ramelli.

Patent Litigation

ZAGG Intellectual Property Holding Co. Inc. v. NLU Products et al, U.S. District Court, District of Utah, 2:11-cv-00517. The Company is the plaintiff in patent infringement litigation pending in Utah that seeks to enforce rights under United States Patent No. 7,957,524. The defendants in this case have raised defenses and, in some cases, asserted counterclaims against the Company, that seek declarations of unenforceability or non-infringement of the patent. These counterclaims do not assert any claims for affirmative relief, including claims for damages, against the Company, apart from a request for an award of costs and attorney's fees to the prevailing party. Several of the defendants have settled with the Company. Litigation of this action has been stayed pending a reexamination of United States Patent No. 7,957,524 by the United States Patent and Trademark Office. This reexamination has led to the amendments to the claims of the patent, and the United States Patent and Trademark Office is expected to issue a Reexamination Certificate soon. In the opinion of management, the ultimate disposition of these patent infringement claims, including disposition of the counterclaims, will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

ZAGG v. Trekstor, Regional Court, Dusseldorf, Germany. The Company brought suit in Dusseldorf, Germany against Trekstor for infringement of ZAGG design registrations for ZAGGmate keyboard case. The Company also brought claims for unfair competition. After the Company completed briefing of its claims against TrekStor and presented its case at oral argument, TrekStor filed a separate proceeding alleging that it is the owner of the ZAGGmate keyboard case design. This action was then stayed pending the resolution of TrekStor's case against the Company. On July 23, 2013, Trekstor's claims were dismissed and the Company was awarded its costs in that action. With this decision, the stay on this action should be lifted and the court should proceed to issue a decision regarding the Company's claims.

Patent Acquisition

On August 31, 2010, Andrew Mason ("Mason") filed a complaint against the Company claiming infringement of United States Patent Nos. 7,389,869 and 7,784,610 as a result of the Company's invisibleSHIELD installation kits. On November 9, 2010, the Company, Mason and his company, eShields LLC ("eShields") entered into an Asset Purchase Agreement ("Purchase Agreement") under which a wholly owned subsidiary of the Company, ZAGG Intellectual Property Holding Company, Inc. ("ZAGG IP"), acquired all of the rights of Mason in (i) the patents (United States Patent Nos. 7,389,869 and 7,784,610) which were the subject of the litigation, (ii) the patent application filed on August 13, 2010 (the "CIP Application") and (iii) rights to sue for infringement of the patents.

In consideration for the conveyance of Mason's assets described above, the Company agreed to pay or convey to Mason the following:

(a) a first payment of $200 by November 11, 2010, and a second payment of $150 after December 31, 2010;
(b) issue to Mason five-year warrants (the "Warrant") to purchase 750 shares of the Company's restricted Common Stock at an exercise price equal to the closing bid price on November 9, 2010 ($8.53); provided that 500 of the 750 warrant shares are exercisable only upon the issuance of a patent from the CIP Application with at least one claim that satisfies the Claim Conditions (as defined below);
(c) issue to Mason 70 shares of the Company's restricted Common Stock; and
(d) grant eShields a fully paid-up, perpetual, non-exclusive license, with limited rights to transfer or sublicense, for the patents, and CIP Application, and any related patent applications.

The Company also agreed to dismiss the claims asserted against Mason and eShields, and to make additional payments to Mason if the United States Patent and Trademark Office ("USPTO") issues a U.S. patent on the CIP Application that includes at least a claim (i) with no limitations in addition to those in the original version of claim 1 of the CIP Application, (ii) that lacks any limitations regarding a solution, (iii) that lacks any requirement that any of the elements be "secured" within a package and (iv) any other specific structural or functional limitations on the package, other than a functional language, if required by the USPTO, that the package is configured to hold the other physical elements of the claimed package (the "Claim Conditions"). There can be no assurance that the USPTO will issue a patent that meets the Claim Conditions. If the Claim Conditions are met, the Company will:

(a) pay Mason the sum of $500; and
(b) issue to Mason 430 shares of the Company's restricted Common Stock.

If the Claim Conditions are not met, the Company has no obligation to make the payment or issue the shares described in the preceding paragraph and Mason will not be able to exercise 500 of the Warrants (the "Contingent Obligations").

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

On June 25, 2013, the USPTO allowed the CIP Application, but as of June 30, 2013, no applicable patent had been issued by the USPTO. The Company has informed Mason and eShields that it does not believe that any allowed claim of the CIP Application meets the Claim Conditions. Mason and eShields initiated an arbitration proceeding on July 17, 2013 in which they have alleged that the Company has committed an anticipatory breach of the Contingent Obligations of the Purchase Agreement. The Company believes that Mason and eShields initiated the arbitration proceeding prematurely in breach of the terms of the Purchase Agreement, and will pursue its dismissal. The Company intends to defend itself vigorously against Mason and eShields.

Class Action Lawsuits

James H. Apple, et al. v. ZAGG Inc, et al., U.S. District Court, District of Utah, 2:12-cv-00852; Ryan Draayer, et al. v. Zagg Inc, et al., U.S. District Court, District of Utah, 2:12-cv-00859. On September 6 and 10, 2012, two putative class action lawsuits were filed by purported Company shareholders against the Company, Randall Hales, Brandon O'Brien, Edward Ekstrom, and Cheryl Larabee, as well as Robert G. Pedersen II, our former Chairman and CEO, and Shuichiro Ueyama, a former member of our Board of Directors. These lawsuits were subsequently amended by a complaint filed on May 6, 2013. The plaintiffs seek certification of a class of purchasers of our stock between October 15, 2010 and August 17, 2012. The plaintiffs claim that as a result of Mr. Pedersen's alleged December 2011 margin account sales, the defendants initiated a succession plan to replace Mr. Pedersen as our CEO with Mr. Hales, but failed to disclose either the succession plan or Mr. Pedersen's margin account sales, in violation of Sections 10(b), 14(a), and 20(a), and SEC Rules 10b-5 and 14a-9, under the Securities Exchange Act of 1934 (the "Exchange Act"). On March 7, 2013, the U.S. District Court for the District of Utah consolidated the Apple and Draayer actions and assigned the caption In re: Zagg, Inc. Securities Litigation, and on May 6, 2013, plaintiffs filed a consolidated complaint. On July 5, 2013, the defendants moved to dismiss the consolidated complaint. The Company intends to vigorously defend against the lawsuit.

Arthur Morganstern v. Robert G. Pedersen II et al., Third Judicial District Court, Salt Lake County, State of Utah, Civil No. 120908452; Albert Pikk v. Robert G. Pedersen II et al., U.S. District Court, District of Utah, Case No. 2:12-cv-1188; Rosenberg v. Robert G. Pedersen II et al., U.S. District Court, District of Utah, Case No. 2:12-cv-1216. On December 14, 2012, the first of three shareholder derivative complaints were filed against several of our current and former officers and directors. These complaints make allegations similar to those presented in the consolidated class action lawsuits, but they also assert various state law causes of action, including claims for breach of fiduciary duty, waste of corporate assets, unjust enrichment, and insider trading. Each of these derivative complaints seek unspecified damages on behalf of the Company, which is named solely as a nominal defendant against whom no recovery is sought. On February 26, 2013, the U.S. District Court for the District of Utah consolidated the Pikk and Rosenberg actions and assigned the caption In re ZAGG Inc. Shareholder Derivative Litigation, and on June 5, 2013, plaintiffs filed a consolidated complaint. The Company has not yet responded to these complaints.

In the fourth quarter of 2012, the Company received requests to provide documentation and information to the staff of the SEC in connection with a non-public 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 some of the same issues raised by the plaintiffs in the above lawsuits; specifically, whether the Company failed to disclose Mr. Pedersen's margin account sales or the alleged existence of a plan to have Mr. Hales succeed Mr. Pedersen as our CEO. The Company responded to these requests and is cooperating fully with the staff. We have chosen to disclose this non-public investigation due to the highly public nature of the lawsuits described above, which the Company intends to defend vigorously.

The Company is not a party to any other litigation or other claims at this time. While the Company currently believes that the amount of any ultimate potential 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.

We establish liabilities when a particular contingency is probable and estimable. We have not accrued for any loss at June 30, 2013 in our consolidated financial statements as we do not consider a loss to be probable nor estimable. We have contingencies which are reasonably possible; however, the reasonably possible exposure to losses cannot currently be estimated.

Table of Contents

ZAGG INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars, units and shares in thousands, except per share data)
(Unaudited)

(15) SEGMENT REPORTING

As of December 31, 2012, the Company reported financial information on the following three reportable segments: ZAGG, iFrogz, and HzO. During the first quarter of 2013, management consolidated a number of ZAGG/iFrogz processes and functions, which resulted in the announcement of the closure of the iFrogz office in Logan, Utah and the lay-off of a number of iFrogz employees during the first quarter of 2013. Ultimately, it was decided that the two offices would be consolidated and that all teams that had previously operated independently, would now be combined. These teams include marketing, product development, product management, customer service, sales, accounting, and IT.

In addition, as the Company has continued to evolve as a mobile device accessories company, financial information reviewed and evaluated by the chief operating decision maker is at the consolidated company level, including budget and sales reviews. Further, due to the decrease in size and significance of the HzO investment, management determined it to be a corporate asset rather than a separate operating segment.

Ultimately, management concludes that the Company should be considered a single reportable segment.

(16) SUBSEQUENT EVENTS

During July 2013, management received a notice from the chairman of the board of directors of a private company in which the Company held an investment of $591. The investment was acquired by the Company during 2012 during foreclosure proceedings and had previously served as collateral to the note receivable (see Note 11). The chairman indicated that the private company had been unable to raise the additional funds needed to continue operations, and that the private company's assets would be liquidated and the proceeds would be used to pay down a portion of the company's outstanding debt obligation. Additionally, the chairman indicated that the sale of the private company's assets would not be sufficient to pay off the entire outstanding debt obligation and thus there would be no return to shareholders. Although this communication occurred after the conclusion of the second quarter, management determined that it should be recorded as a second quarter event as the communication from the chairman provided additional information that existed as of the balance sheet date of June 30, 2013. Management wrote-off the $591 investment during the second quarter of 2013.

Table of Contents

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 affect 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 Inc, headquartered in Salt Lake City, Utah, with an office in Shannon, Ireland, designs, produces, and distributes creative product solutions such as protective coverings, keyboards, keyboard cases, earbuds, mobile power solutions, and device cleaning accessories for mobile devices under the family of ZAGG brands. Within the family of ZAGG brand are products sold under the following brand names: invisibleSHIELD®, ZAGGbuds™, ZAGGsparq™, ZAGGfolio™, ZAGGmate™, ZAGGkeys™, ZAGGkeys PRO™, ZAGGkeys PRO Plus™, ZAGGkeys PROfolio, ZAGGkeys PROfolio+, ZAGGkeys MINI 7, and ZAGGkeys MINI 9.

In addition, the Company designs, produces, and distributes cases, Near-Field Audio™ amplifying speakers, earbuds, traditional headphones, and gaming headphones for mobile devices under the family of iFrogz brands in the value-priced lifestyle sector. Within the iFrogz brand are products sold under the following brand names: iFrogz™, Earpollution™, Caliber™, and Animatone™.

We maintain our headquarters at 3855 South 500 West, Suites B, C, D, I, J, K, L, M, N, O, P, Q, R and S, Salt Lake City, Utah, 84115. The telephone number of the Company is 801-263-0699. Our website addresses are www.zagg.com and www.ifrogz.com. Information contained on, or accessible through, our websites is not a part of, and is not incorporated by reference into, this report.

Family of ZAGG Branded Products

ZAGG invisibleSHIELD Products

The invisibleSHIELD is made from a protective film covering that was developed originally to protect the leading edges of rotary blades of military helicopters. We determined that a variation of this film product could be configured to fit onto the surface of electronic devices and marketed to consumers for use in protecting such devices from every day wear and tear, including scratches, scrapes, debris and other surface blemishes. The film also permits touch sensitivity, meaning it can be used on devices that have a touch-screen interface. The invisibleSHIELD film material is highly reliable and durable because it was originally developed for use in a high friction, high velocity context within the military aerospace industry. The film provides long lasting protection for the surface of electronic devices subject to normal wear and tear. The film has a polyurethane base with properties that have enabled us to develop a very thin, pliable, flexible, and durable clear plastic that adheres to the surface and shape of the object it is applied to.

The invisibleSHIELD is designed specifically for iPhones®, iPads®, iPods®, smartphones, cell phones, tablets, MP3 players, laptops, digital cameras, watch faces, GPS systems, gaming devices, and other mobile devices. The product is "cut" to fit specific devices and packaged together with a moisture activating solution which makes the invisibleSHIELD adhere to the surface of the device, literally "like a second skin," and virtually invisible to the eye. The patented invisibleSHIELD was the first scratch protection solution of its kind on the market. The invisibleSHIELD is not ornamental, but rather provides a long lasting barrier to preserve the brand new look of the surface of an electronic device.

Table of Contents

In early 2010, we introduced the invisibleSHIELD DRY through retail partners, which is a protective film made from the same material as the original invisibleSHIELD, and engineered to be clearer, smoother to the touch, and applied without the need of the moisture activating solution. In the beginning of 2011, we added the invisibleSHIELD Smudge-Proof to our line, which also incorporates the invisibleSHIELD film with added features that eliminate smudges, fingerprints, and glare from the device display.

In January 2012, we introduced the invisibleSHIELD HD, a new, premium version of the invisibleSHIELD that offers industry-leading clarity and finish. In June 2012, we introduced ZAGGprivacy, a protective film that provides visual data security for handheld electronics. In September 2012, the Company introduced a new version of the invisibleSHIELD line, the invisibleSHIELD EXTREME. The invisibleSHIELD EXTREME differs from other products in the invisibleSHIELD portfolio by offering advanced shock absorption and superior break protection. By installing the EXTREME on a compatible mobile device, consumers can worry less about broken screens as a result of dropping their smartphone, tablet, or other device.

Currently, ZAGG offers over 5,900 precision, pre-cut invisibleSHIELD designs with a lifetime replacement warranty through online channels, big-box retailers, electronics specialty stores, resellers, college bookstores, independent Mac stores, and mall kiosks. We plan to continue to innovate and expand the array of invisibleSHIELD products in future periods.

ZAGGaudio

The ZAGGaudio brand of electronics accessories and products were first released in late 2008, and continue to focus on innovation and superior value. The flagship product within ZAGGaudio is the award winning ZAGGsmartbuds™ line, which includes ZAGGaquabuds, a water-resistant earbud introduced in late 2010. A previous winner of the CES Design and Innovation award, the ZAGGsmartbuds line has been well received by professional reviewers, experts, and the consumer base.

On January 12, 2010, we were awarded patent number US D 607,875 by the U.S. Patent and Trademark Office, covering design elements of ZAGGsmartbuds in-ear headphones.

During January 2013 at the International Consumer Electronics Show (“CES”), the Company launched the ZR-NC noise-cancelling headphones and the ZR-SIX ear buds. In addition, in January 2013, the Company launched the Origin desktop speaker. The Origin desktop speaker is an innovative 2-in-1 desktop and portable Bluetooth® speaker system, the first of its kind on the market. The small, portable speaker provides users with crisp, high fidelity sound on the go and seamlessly transfers music to the large desktop speaker when docked. The combination of the two speakers produces big, room-filling sound with prominent bass. The small portable speaker also receives a charge to its battery when docked in the desktop speaker. Powerful audio drivers let listeners turn up the volume as loud as they like without losing sound clarity or quality. It is expected the Origin will be available in the fourth quarter of 2013.

ZAGG Power Products

In early 2009, we introduced the original ZAGGsparq, a small, powerful, portable battery that can recharge a power-hungry smartphone up to four times before the ZAGGsparq itself needs to be recharged. Featuring a 6000ma lithium polymer cell, the ZAGGsparq plugs into a wall outlet and provides two USB ports for charging mobile devices. An adapter is also included that fits many international standards. The ZAGGsparq is compatible with any USB-charged device, including smartphones, tablets, handheld gaming systems, and digital cameras.

Table of Contents

In September 2012, the Company released a complete lineup of ZAGGsparq products to provide reliable power solutions for jetsetters, students, professionals and other consumers who are always on the go. Available in three size and charging options, the new family includes the ZAGGsparq 1220, ZAGGsparq 3100, and ZAGGsparq 6000. As before, the new ZAGGsparq portable batteries will charge any device that utilizes a USB. Different from other portable batteries on the market, the ZAGGsparq family has been constructed with built-in prongs that allow the device to double as a wall charger, eliminating the need for an extra power adapter. All three new models contain Lithium Polymer batteries and are made out of polycarbonate to protect the device from wear and tear. In addition, the ZAGGsparq 3100 and 6000 feature the company's Hypercharge Technology™, a proprietary technology that enables a mobile device to receive a full charge up to four times faster than when utilizing a standard USB charger.

ZAGG Keyboard Products

We introduced the ZAGGmate in November 2010. The ZAGGmate, made from aircraft-grade aluminum, is a protective and functional companion to the Apple iPad, iPad 2, iPad 3, and iPad 4, which accentuates both the appearance and utility of Apple's innovative devices. The ZAGGmate line features two models, one with a simple, innovative stand and built-in wireless Bluetooth® keyboard that allows for fast, responsive typing, and interaction with the iPad's features. The second model replaces the keyboard with a more versatile stand that provides multiple angles for use. The ZAGGmate was the recipient of several prestigious industry awards, including the Macworld Expo 2011 Best of Show and recognition as a CES Innovations Design and Engineering Honoree. On April 7, 2011, we partnered with Logitech on the ZAGGmate product and renamed it the Logitech Keyboard Case by ZAGG. Under the partnership with Logitech, we receive royalty payments for all units sold by Logitech. On May 9, 2012, we were awarded patent number US D 659,139 by the U.S. Patent and Trademark Office, covering design elements of the ZAGGmate case and keyboard accessory for tablets.

As a follow up to the ZAGGmate, we launched the ZAGGfolio in July 2011. The ZAGGfolio is a stylish and functional case for the iPad 2, iPad 3, iPad 4, Samsung Galaxy Tablet, and Galaxy Tablet 2.0 that not only offers full protection, but increases productivity through a removable Bluetooth keyboard. Operating with Bluetooth 3.0, the integrated battery will last for months between charges. A true 3-in-1 solution with a keyboard, stand and full protective cover, the patent-pending ZAGGfolio is the winner of multiple awards including the 2012 CES Innovations Design and Engineering Showcase Honors. In fall of 2011, we expanded the ZAGGfolio family to include 11 different colors, textures and patterns, including genuine leather. In November 2012, the ZAGGfolio was named a gold winner of the Consumer Product of the Year at the Best in Biz Awards 2012

In November 2011, ZAGG launched the ZAGGkeys FLEX, a portable Bluetooth keyboard and stand. As implied by its name, the FLEX offers flexible function for the two most popular tablet and smartphone operating systems; a switch on the keyboard toggles between the Apple iOS and Android®. The ZAGGkeys FLEX utilizes the same keyboard layout as our award-winning Logitech Keyboard Case by ZAGG and ZAGGfolio, ensuring a true typing experience. The ZAGGkeys FLEX includes a unique keyboard cover that easily converts into a stable stand compatible with nearly any tablet or smartphone. The ZAGGkeys FLEX was named an honoree at the 2012 CES Innovations Design and Engineering Showcase.

In August 2012, ZAGG debuted the ZAGGkeys PRO™ and ZAGGkeys PRO Plus™ at IFA 2012 in Berlin, Germany. The ZAGGkeys Pro™ and ZAGGkeys Pro Plus™ are ultra-thin Bluetooth®keyboard accessories that accentuate the utility and convenience of the Apple iPad. Different from the original ZAGGkeys accessory, the ZAGGkeys PRO and PRO Plus utilize an innovative magnetic closure to secure the iPad, and protect the screen from scratches and smudges. The patented keyboard design of both new products provides a natural typing experience in a compact layout, with dedicated function keys to operate specific iPad features. In addition, the ZAGGkeys PRO Plus features optional backlighting for full keyboard use without the need for another light.

In October 2012, we launched the ZAGGkeys MINI 7 and ZAGGkeys MINI 9, which features a durable folio designed specifically around the iPad® mini and highlighted with ZAGG's award-winning keyboard technology. The Bluetooth 3.0 keyboard of the ZAGGkeys MINI 7 is custom designed to fit the iPad mini, providing a feature-rich keyboard while maintaining the small, compact size. The ZAGGkeys MINI 9 offers a similar keyboard with a carefully engineered layout to provide the same spacing as ZAGG's traditional tablet keyboard. Both accessories in the ZAGGkeys MINI line feature built-in stands to hold the tablet at an ideal viewing angle and special function keys to operate essential iPad mini features directly from the keyboard.

In November 2012, ZAGG debuted the ZAGGkeys PROfolio and ZAGGkeys PROfolio+. The ZAGGkeys PROfolio and PROfolio+ offer a complete mobile experience for the iPad 2, iPad 3, or iPad 4. The durable exterior provides a stylish case that protects both the device and the keyboard from dings and scratches. A clever magnetic closure secures the iPad to the ZAGGkeys PROfolio and PROfolio+, which features the same innovative keyboard technology, including the special function keys and carefully engineered spacing as ZAGG’s traditional keyboard tablet. In addition, the ZAGGkeys PROfolio+ features optional backlighting for full keyboard use without the need for another light. Three levels of backlighting are available in seven colors: blue, dark blue, green, purple, red, yellow and white.

Table of Contents

In May 2013 at the CTIA show, ZAGG introduced two new keyboard accessories for the Apple iPad mini. The ZAGGkeys Cover and ZAGGkeys Folio are ultra-thin Bluetooth keyboard accessories built with a unique, patent-pending hinge system that enhances the iPad mini user experience with a full range of viewing angles up to 135 degrees. The ZAGGkeys Cover received several awards at the CTIA show. Both keyboards will be available during the third quarter of 2013.

Family of iFrogz Branded Products

iFrogz Cases

iFrogz began in 2006 by creating protective cases for Apple iPods with a unique combination of fashion and quality that was received well by the marketplace. Initially, all sales were online. However, in early 2007, iFrogz began distributing its case products through large retailers and began more firmly establishing itself as a youth- and fashion-oriented brand. Since 2007, the iFrogz case offerings have expanded to include a wide array of sleek and stylish cases for each new generation of Apple iPod, iPhone, and iPad. During 2012, iFrogz cases became available for the Samsung Galaxy III S.

In November 2012, ZAGG launched the iFrogz Vue Case for the Apple iPhone line. The iFrogz Vue is a customizable case for the iPhone that lets users combine their favorite pictures, prints or designs to create a unique, personalized, scrapbook-style case. Its clear, durable case will not collect dust or lint going in and out of a purse or pocket. The Vue includes the case itself, a camera hole-punch and template for creating individual designs, and sample patterns to help creative iPhone owners show off their individual styles.

In December 2012, ZAGG launched the iFrogz Glaze Case for the Apple iPhone 5. The iFrogz Glaze is a protective case for iPhone that combines stylish color and design with a handy mirror, while leaving the camera and ports open and accessible. Similar to a compact, this new case is ideal for a quick hair or makeup check. The mirror of the Glaze is located on a slim, hinged door that locks to the case, for a streamlined look when not in use.

iFrogz Audio

In the summer of 2007, iFrogz released its first line of audio products under the Earpollution brand. The eclectic selection of Earpollution™ earbuds and headphones specifically targets a younger audience, but still appeals to a wide demographic of consumers. Since the initial launch of the Earpollution™ audio products, iFrogz has continued to innovate and expanded its headphone and earbud product lines to include a large number of product offerings for all ages under both the Earpollution and iFrogz brands.

In February 2012, ZAGG launched the iFrogz Boost speaker under the iFrogz brand. The iFrogz Boost speaker allows users to amplify their device's sound by simply placing their smartphone, or other device equipped with an external speaker, on top of the Boost. The Boost features patent-pending audio technology to sync the external audio signal and then amplify the sound through two high-quality 2W x 2RMS speakers. No wires, cords, Bluetooth or pairing configuration is needed.

In October 2012, ZAGG introduced the Boost Plus under the iFrogz brand, a new iteration of its portable, external wireless speaker for smartphones and MP3 players. The Boost Plus allows consumers to fill living spaces and outdoor entertainment areas with music by simply placing a sound-producing mobile device on top of the speaker. Powered by Near-Field Audio Technology™, the Boost Plus picks up the audio from a consumer's mobile device and pumps it out of three high-quality 2W x 2RMS speakers, eliminating the need for wires, cords or pairing configurations. The Boost Plus was an Innovations Design and Engineering Awards Honoree at the 2013 International Consumer Electronics Show.

In November 2012, ZAGG introduced the Animatone line of accessories designed for young children. The initial Animatone line offering includes headphones and earbuds with playful styling and audio limiting to protect developing ears. The Animatone line features child-friendly designs, and animal-inspired images in a variety of bright colors including blue, red and green. Both versions of these first Animatone audio accessories feature built-in volume boundaries to prevent the sound from being turned louder than 85 decibels, which is equivalent to the level of an average telephone dial tone.

Table of Contents

iFrogz Gaming

In August 2012, ZAGG released the Caliber brand of headset for gamers under the iFrogz brand at IFA 2012 in Berlin, Germany. The Caliber line provides outstanding design and sound quality for a premium mobile, desktop or console gaming experience. The Caliber Stealth gaming headset was created specifically for mobile devices, while the Caliber Axiom works with the most popular systems, including Xbox®, PC, Mac, and PS3®. Both include in-line controls and accessories needed for voice connections. Last in the Caliber series is the Vanguard, which has been designed to include 7.1 channel audio, a retractable microphone, and an optional bass vibration feature for fully immersive gaming. Viewing movies with Vanguard's 7.1 channel audio and bass vibration feature provides listeners with an authentic theater experience.

In January 2013 at CES, the Company introduced the Caliber Advantage game controller. It provides gamers with an enhanced console-style gaming experience that attaches directly to their Apple iPhone 5 or iPod touch. The Caliber Advantage controls the action via the device's Bluetooth® connection, providing the lightning-fast response needed for today's mobile gaming. The dual slide-out analog controls of the gaming handset feature tactile, responsive keys, for a tight and accurate gaming experience. The Caliber Advantage incorporates the accelerometer features of the iPhone while adding all of the benefits of a traditional gaming controller. The Caliber Advantage will also feature an integrated lithium polymer battery offering 10-12 hours of continuous play without the need for a charge. The Caliber Advantage was originally scheduled for release in the second quarter of 2013; however, the Company delayed the launch of the controller to ensure that the controller is fully compatible with iOS 7. Given this, it is expected the Caliber Advantage will be available in the first quarter of 2014. The Caliber Advantage was an Innovative Design and Engineering Honoree at the 2013 CES.

Despite the delay in the launch of the Caliber Advantage, the Company expects to launch its first generation Caliber game controller during the fourth quarter of 2013. This controller will attach directly to the Apple iPhone 5 or iPod touch.

iFrogz continues to innovate its product lines allowing it to remain ahead of the curve in the electronic device accessory fashion market.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Significant estimates include the allowance for doubtful accounts, inventory reserve, sales returns liability, the useful life of property and equipment, the useful life of intangible assets, the recoverability of goodwill and indefinite-lived intangible assets, the fair value of the investment in HzO, stock-based compensation, and income taxes.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably may have been used, or if changes in the estimate that are reasonably likely to occur may materially impact the financial statements. Management believes the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Table of Contents

Revenue recognition

The Company records revenue when persuasive evidence of an arrangement exists, product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The Company's revenue is derived from sales of our products through our indirect channel, including retailers and distributors; through our direct channel including www.ZAGG.com, www.iFrogz.com, and our corporate-owned and third-party-owned mall kiosks; and from the fees derived from the sale of exclusive independent distributor licenses related to the kiosk program. For sales of product, our standard shipping terms are FOB shipping point, and we record revenue when the product is shipped, net of estimated returns and discounts. For some customers, the contractual shipping terms are FOB destination. For these shipments, we record revenue when the product is delivered, net of estimated returns and discounts. For license fees, we recognize revenue on a straight-line basis over the life of the license term. The Company records revenue from royalty agreements in the period in which the royalty is earned.

Promotional products given to customers or potential customers are recognized as a cost of sales. Cash incentives provided to our customers are recognized as a reduction of the related sale price, and, therefore, are a reduction in sales.

Reserve for sales returns and warranty liability

For product sales, the Company records revenue, net of estimated returns and discounts, when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Our return policy allows its end users and retailers rights to return purchased products. In addition, the Company generally provides the ultimate consumer a warranty with each product. Due to the nature of the invisibleSHIELD product line, returns for the invisibleSHIELD are generally not salvageable and are not included in inventory. We estimate a reserve for sales returns and warranty and record the estimated reserve amount as a reduction of sales, and as a sales return reserve liability. The estimate for sales returns and warranty requires management to make significant estimates regarding return rates for sales and warranty returns. Historical experience, actual claims, and customer return rights are the key factors used in determining the estimated sales return and warranty reserve.

Allowance for Doubtful Accounts

We provide customary credit terms to our customers. We perform ongoing credit evaluations of the financial condition of our customers and maintain an allowance for doubtful accounts based upon historical collections experience and judgments as to expected collectability of accounts. Our actual bad debts may differ from our estimates.

Valuation of Note Receivable

We engaged independent third-party appraisal firms to assist us in determining the fair values of collateral of the note receivable. Such valuations require significant estimates and assumptions. Management determined the value of the 80 shares of ZAGG common stock held by Mr. Harmer based on quoted market prices. The real estate holdings securing the note receivable were valued primarily based on the sales comparison approach as sales of comparable properties were utilized. The investments in real estate companies were valued utilizing comparable market sales, a discounted cash flow analysis, and other appropriate valuation methodologies.

Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Inventories

In assessing the realization of inventories, we are required to make judgments as to future demand requirements and to compare these with current inventory levels. When the market value of inventory is less than the carrying value, the inventory cost is written down to the estimated net realizable value thereby establishing a new cost basis. Our inventory requirements may change based on our projected customer demand, market conditions, technological and product life cycle changes, longer or shorter than expected usage periods, and other factors that could affect the valuation of our inventories.

Table of Contents

Income taxes

Deferred income tax assets are reviewed for recoverability, and valuation allowances are provided, when necessary, to reduce deferred income tax assets to the amounts that are more likely than not to be realized based on our estimate of future taxable income. Should our expectations of taxable income change in future periods, it may be necessary to establish a valuation allowance, which could affect our results of operations in the period such a determination is made. We record income tax provision or benefit during interim periods at a rate that is based on expected results for the full year. If future changes in market conditions cause actual results for the year to be more or less favorable than those expected, adjustments to the effective income tax rate could be required.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. The determination of the realization of certain income tax positions is subject to significant estimates based upon the facts and circumstances of each position.

Long-lived Assets

We have significant long-lived tangible and intangible assets consisting of property and equipment, definite-lived intangibles, indefinite-lived intangibles, an investment in HzO (an entity engaged in the development of water-blocking technologies for consumer and industrial applications), and goodwill. We review these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In addition, we perform an impairment test related to indefinite-lived intangibles and goodwill at least annually. Our goodwill and intangible assets are largely attributable to our acquisition of iFrogz.

At least annually and when events and circumstances warrant an evaluation, we perform our impairment assessment of goodwill. This assessment initially permits an entity to perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity can support the conclusion that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not need to perform the two-step impairment test for the reporting unit.

However, if it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the two step analysis is performed, which incorporates a fair-value based approach. We determine the fair value of our reporting unit based on discounted cash flows and market approach analyses as considered necessary, and consider factors such as a weakened economy, reduced expectations for future cash flows coupled with a decline in the market price of our stock and market capitalization for a sustained period as indicators for potential goodwill impairment. If the reporting unit's carrying amount exceeds its estimated fair value, a second step must be performed to measure the amount of the goodwill impairment loss, if any. The second step compares the implied fair value of the reporting unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Indefinite-lived intangible assets are tested for impairment annually, or, more frequently upon the occurrence of a triggering event. This assessment initially permits an entity to perform a qualitative assessment of whether it is more likely than not that an indefinite-lived intangible asset is impaired before applying a quantitative impairment test. If an entity can support the conclusion that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than the carrying value, it would not need to perform a quantitative impairment test. However, if it is determined that it is more likely than not that the fair value of an indefinite-lived intangible assets is less than the carrying value, a quantitative impairment test is performed, which incorporates a fair-value based approach. The fair value for indefinite-lived intangible assets is determined by performing cash flow analysis and other market evaluations as considered necessary. If the fair value of the indefinite-lived intangible assets is less than book value, the difference is recognized as an impairment loss.

We test our investments each reporting period to determine whether the operations of the investments or other factors indicate that the investment is impaired. When indicators of impairment exist, we measure the fair value of our investments and compare the fair value to the carrying value. The determination of the amount of impairment, if any, is based upon the difference between the investment's carrying value and estimated fair value. Fair value is determined through various valuation techniques, including market and income approaches as considered necessary.

Table of Contents

We assess other long-lived assets, specifically definite-lived intangibles and property, plant and equipment, for potential impairment based on similar impairment indicators. When indicators of impairment exist related to our long-lived tangible assets and definite-lived intangible assets, we use an estimate of the undiscounted net cash flows in measuring whether the carrying amount of the assets is recoverable. Measurement of the amount of impairment, if any, is based upon the difference between the asset's carrying value and estimated fair value. Fair value is determined through various valuation techniques, including market and income approaches as considered necessary.

If forecasts and assumptions used to support the realizability of our goodwill and other long-lived assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition.

Stock-based compensation

The Company recognizes stock-based compensation expense in its consolidated financial statements for awards granted to employees and non-employees under its stock incentive plan, which include restricted stock and stock options. Equity-classified awards are measured at the grant date fair value of the award. The fair value of stock options is measured on the grant date using the Black-Scholes option pricing model (BSM), which involves the use of assumptions such as expected volatility, expected term, dividend rate, and risk-free rate. Volatility is a key factor used to determine the fair value of stock options in the BSM. Based on the expected term of the award, if the Company does not have sufficient historical data or implied volatility information to determine volatility based upon its own information, the Company uses significant judgment to identify a peer group and determine the appropriate weighting in order to estimate a volatility rate for use in the BSM.

Results of Operations

THREE MONTHS ENDED JUNE 30, 2013 AND 2012 (amounts in thousands, except per share data)

Net sales

Net sales for the quarter ended June 30, 2013, were $51,198 as compared to net sales of $61,636 for the quarter ended June 30, 2012, a decrease of $10,438 or 17%.

For the quarter ended June 30, 2013, sales of our invisibleSHIELD product line accounted for approximately 38% of our revenues, compared to 41% for the three months ended June 30, 2012. For the quarter ended June 30, 2013, sales of our keyboard product line accounted for approximately 25% of our revenues, compared to 28% for the three months ended June 30, 2012. For the quarter ended June 30, 2013, sales of our audio product line accounted for approximately 21% of our revenues, compared to 16% for the three months ended June 30, 2012.

For the quarter ended June 30, 2013, approximately 86% of our overall net sales were through our indirect channel, 9% was through our website, and 5% was through our mall cart and kiosk programs. For the quarter ended June 30, 2012, approximately 79% of our overall net sales were through our indirect channel, 15% was through our website, and 6% was through our mall cart and kiosk programs.

The decrease in revenue comparing the three months ended June 30, 2013 to 2012 was primarily related to the following factors: (1) The Company's sales are impacted significantly by original equipment manufacturer (OEM) device launches, particularly by launches of Apple products. During the first quarter of 2012, Apple launched the iPad 3, which significantly impacted our sales for both the first and second quarter of 2012, while during the first six months of 2013, there was no comparable device launch. (2) The Company implemented a strategy to align ourselves with a limited number of key distributors in an effort to better manage channel pricing. As a result, this caused us to end our relationship with some of our distributors who we did not believe were aligned with our pricing strategy. While we signed on new strategic distributors during the first quarter, the revenue generated by these new distributors combined with revenue from our previous distributors was below our internal forecast.

Table of Contents

Gross profit

Cost of sales includes raw materials, finished goods purchased from manufacturers, packing materials, and shipping and fulfillment costs. Gross profit for the quarter ended June 30, 2013, was $21,535 or approximately 42% of net sales, as compared to $28,405 or approximately 46% of net sales for the quarter ended June 30, 2012. The decrease in gross profit percentage is due to the following factors: (1) The product mix shift continued, as the percentage of invisibleSHIELD sales decreased from 41% as a percentage of sales in the second quarter of 2012 to 38% in the second quarter of 2013, which is our highest margin product. At the same time, sales of lower margin products, such as audio increased from 16% of total sales to 21% over the same period. (2) Online sales, which are typically at a higher gross profit than sales through other channels, decreased as a percent of revenue from 15% to 9% comparing the second quarter of 2012 to the second quarter of 2013.

There are no assurances that we will continue to recognize similar gross profit margins in the future.

Operating expenses

Total operating expenses for the quarter ended June 30, 2013, were $16,119, a decrease of $1,499 from total operating expenses for the quarter ended June 30, 2012, of $17,618. The $1,499 decrease in operating expenses was primarily attributable to the overall decreases in advertising and marketing expenses, and selling, general and administrative expenses. Specifically, the decrease operating expenses related to (1) an overall decrease in headcount compared to the first six months of 2012, and (2) cost control initiatives instituted by the Company during the second quarter of 2013. These decreases were partially offset by a charge of $591 incurred during the second quarter of 2013 related to the impairment of an investment in a private company (see Note 16 in the condensed consolidated financial statements) that was originally acquired by the Company as part of the foreclosure of collateral securing the note receivable.

Income from operations

We reported income from operations of $5,416 for the quarter ended June 30, 2013 as compared to income from operations of $10,787 for the quarter ended June 30, 2012, a decrease of $5,371. The decrease in income from operations for the quarter ended June 30, 2013 as compared to the quarter ended June 30, 2012 is primarily attributable to lower sales as described above coupled with margin compression discussed in detail above.

Other expense

For the quarter ended June 30, 2013, total other expense was $788 compared to other expense of $1,235 for the quarter ended June 30, 2012. The decrease is primarily attributable to a significant reduction in interest expense from the Company's new debt agreement with Wells Fargo entered into during the fourth quarter of 2012. This decrease in expense was partially offset by an increase in the loss from investment in HzO.

Income taxes

We recognized income tax expense of $1,854 for the quarter ended June 30, 2013, compared to income tax expense of $3,740 for the quarter ended June 30, 2012.

Our effective tax rate was 40.1% and 39.2% for the three months ended June 30, 2013 and 2012, respectively. Our effective tax rate will generally differ from the U.S. Federal Statutory rate of 35%, due to state taxes, permanent items, favorable tax rates associated with certain earnings from our operations in Ireland, and our global tax strategy.

35

Table of Contents

Net income

As a result of these factors, we reported net income of $2,774 or $0.09 per share on a fully diluted basis for the quarter ended June 30, 2013 as compared to net income of $5,812 or $0.18 per share on a fully diluted basis for the quarter ended June 30, 2012.

SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (amounts in thousands, except per share data)

Net sales

Net sales for the six months ended June 30, 2013, were $102,669 as compared to net sales of $117,115 for the six months ended June 30, 2012, a decrease of $14,446 or 12%.

For the six months ended June 30, 2013, sales of our invisibleSHIELD product line accounted for approximately 41% of our revenues, compared to 45% for the six months ended June 30, 2012. For the six months ended June 30, 2013, sales of our keyboard product line accounted for approximately 29% of our revenues, compared to 25% for the six months ended June 30, 2012.

For the six months ended June 30, 2013, approximately 84% of our overall net sales were through our indirect channel, 10% was through our website, and 6% was through our mall cart and kiosk programs. For the six months ended June 30, 2012, approximately 80% of our overall net sales were through our indirect channel, 14% was through our website, and 6% was through our mall cart and kiosk programs.

The decrease in revenue comparing the six months ended June 30, 2013 to 2012 was primarily related to the following: (1) The Company's sales are impacted significantly by original equipment manufacturer (OEM) device launches, particularly by launches of Apple products. During the first quarter of 2012, Apple launched the iPad 3, which significantly impacted our sales for both the first and second quarter of 2012, while during the first six months of 2013, there was no comparable device launch. (2) The Company implemented a strategy to align ourselves with a limited number of key distributors in an effort to better manage channel pricing. As a result, this caused us to end our relationship with some of our distributors who we did not believe were aligned with our pricing strategy. While we signed on new strategic distributors during the first quarter, the revenue generated by these new distributors combined with revenue from our previous distributors was below our internal forecast.

Gross profit

Cost of sales includes raw materials, finished goods purchased from manufacturers, packing materials, and shipping and fulfillment costs. Gross profit for the six months ended June 30, 2013, was $40,534 or approximately 39% of net sales, as compared to $55,338 or approximately 47% of net sales for the six months ended June 30, 2012. The decrease in gross profit percentage is due to the following factors: (1) The product mix shift continued, as the percentage of invisibleSHIELD sales decreased from 45% as a percentage of sales in the first six months of 2012 to 41% in the first six months of 2013, which is our highest margin product. At the same time, sales of lower margin products, such as keyboards increased from 25% of total sales to 29% over the same period. (2) Online sales, which are typically at a higher gross profit than sales through other channels, decreased as a percent of revenue from 14% to 10% comparing the first six months of 2012 to the first six months of 2013

There are no assurances that we will continue to recognize similar gross profit margins in the future.

Operating expenses

Total operating expenses for the six months ended June 30, 2013, were $33,111, a decrease of $1,113 from total operating expenses for the six months ended June 30, 2012, of $34,224. The $1,113 decrease in operating expenses was primarily attributable to the overall decreases in advertising and marketing expenses, and selling, general and administrative expenses. Specifically, the decrease operating expenses related to (1) an overall decrease in headcount compared to the first six months of 2012, and (2) cost control initiatives instituted by the Company during the second quarter of 2013. These decreases were partially offset by a charge of $591 incurred during the second quarter of 2013 related to the impairment of an investment in a private company (see Note 16 in the condensed consolidated financial statements) that was originally acquired by the Company as part of the foreclosure of collateral securing the note receivable.

Table of Contents

Income from operations

We reported income from operations of $7,423 for the six months ended June 30, 2013 as compared to income from operations of $21,114 for the six months ended June 30, 2012, a decrease of $13,691. The decrease in income from operations for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012 is primarily attributable to lower sales as described above coupled with margin compression discussed in detail above.

Other expense

For the six months ended June 30, 2013, total other expense was $1,642 compared to other expense of $3,465 for the six months ended June 30, 2012. The decrease is primarily attributable to a significant reduction in interest expense from the Company's new debt agreement with Wells Fargo entered into during the fourth quarter of 2012. This decrease in expense was partially offset by an increase in the loss from investment in HzO.

Income taxes

We recognized income tax expense of $2,130 for the six months ended June 30, 2013, compared to income tax expense of $6,726 for the six months ended June 30, 2012. Our effective tax rate was 36.8% and 38.1% for the six months ended June 30, 2013 and 2012, respectively. Our effective tax rate will generally differ from the U.S. Federal Statutory rate of 35%, due to state taxes, permanent items, and favorable tax rates associated with certain earnings from our operations in Ireland and our global tax strategy.

Net income

As a result of these factors, we reported net income of $3,651 or $0.12 per share on a fully diluted basis for the six months ended June 30, 2013 as compared to net income of $10,923 or $0.35 per share on a fully diluted basis for the six months ended June 30, 2012.

Liquidity and Capital Resources (amounts in thousands)

At June 30, 2013, our principle sources of liquidity were cash generated by operations, cash on-hand, and the issuance of a Term Loan and Line of Credit with Wells Fargo. Our principle uses of cash have been to fund working capital requirements, make payments on outstanding debt, and purchase shares of ZAGG Inc common stock.

Cash and cash equivalents on-hand decreased to $13,557 on June 30, 2013, from $20,177 on December 31, 2012, a decrease of $6,620. The decrease in cash is largely the result of positive cash from operations during the first six months of 2013, offset by $17,525 in net payments on the Line of Credit, $2,000 in payment on the Term Loan, and $5,999 in cash used to purchase treasury stock during the first quarter of 2013. The amount available to the Company on the $60,000 Line of Credit at June 30, 2013 totaled $55,352. Earnings from foreign operations are considered permanently re-invested and of the $13,557 cash balance on June 30, 2013, cash from foreign entities totaled $2,377, which constituted 17.5% of the total cash and cash equivalents balance.

At June 30, 2013, we had working capital of $74,910 compared to $89,369 as of December 31, 2012. The decrease is primarily attributable to the $17,525 in net payments on the Line of Credit, $2,000 in payment on the Term Loan, and $5,999 in cash used to purchase treasury stock during the first quarter of 2013.

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

Debt and Letters of Credit

On December 7, 2012, the Company and Wells Fargo Bank, National Association (“Wells Fargo”), entered into a two-year, $84,000 credit facility (“Credit Agreement”) consisting of a $24,000 term loan (“Term Loan”) and a $60,000 revolving line of credit (“Line of Credit”), which Line of Credit includes a letter of credit sub-feature that allows the Company to issue standby commercial letters of credit against the Line of Credit, not to exceed at any time an aggregate of $10,000. The Company’s obligations under the Credit Agreement were secured by all or substantially all of the Company’s domestic assets and over 50% of the equity in foreign subsidiaries. As of June 30, 2013 and December 31, 2012, the Company had an outstanding balance of $22,000 and $24,000, respectively, on the Term Loan; an outstanding balance of $4,648 and $22,173, respectively, on the Line of Credit; and no letters of credit had been issued.

Table of Contents

The Term Loan requires quarterly payments of $2,000 payable on the first day of each quarter commencing on April 1, 2013, and continuing up to and including October 1, 2014. A final installment payment consisting of the remaining unpaid balance is due on December 1, 2014. A mandatory additional principal payment of $500 is required for each fiscal quarter in which total liabilities to tangible net worth (as those terms are defined in the Credit Agreement) exceeds 1.50 to 1.00, commencing with the Company’s fiscal quarter ending December 31, 2012. At June 30, 2013, no mandatory principal payment was required.

The outstanding principal balance of the Term Note bears interest (computed on the basis of a 360-day year, actual days elapsed) at a fixed rate per annum determined by the Bank to be the sum of the (1) LIBOR margin (with the initial LIBOR margin being set at 1.25%) and (2) LIBOR in effect on the first day of each Fixed Rate Term (as defined in the Credit Agreement).

Borrowings and repayments under the Line of Credit may occur from time to time in the Company’s ordinary course of business from December 7, 2012, through December 1, 2014. Any outstanding borrowings under the Line of Credit mature and are due on December 1, 2014.

The outstanding principal balance under the Line of Credit bears interest (computed on the basis of a 360-day year, actual days elapsed) at a fluctuating rate per annum determined to be the sum of the (1) LIBOR margin (with the initial LIBOR margin being set at 1.25%) and (2) Daily Three Month LIBOR (as defined in the Credit Agreement) in effect from time to time.

Pursuant to the terms of the Credit Agreement, Wells Fargo will adjust the LIBOR margin used to determine the rate of interest under the Line of Credit on a quarterly basis, commencing with the Company’s fiscal quarter ending December 31, 2012. The Applicable Libor Margin is calculated based on the Company's ratio of Total Liabilities to Tangible Net Worth (as these terms are defined in the Credit Agreement) in accordance with the following table:

Total Liabilities to Tangible Net Worth	Applicable LIBOR Margin
1.50 or greater	1.75%
1.00 or greater, but less than 1.50	1.25%
Less than 1.00	0.75%

Under the Line of Credit Note, each such adjustment will be effective on the first business day of the Company’s fiscal quarter following the quarter during which the Bank receives and reviews the Company’s most current fiscal quarter-end financial statements in accordance with the requirements established by the Bank for the preparation and delivery thereof.

In addition, the Company agreed to pay Wells Fargo a quarterly fee based on the average unused amount of the Line of Credit depending on the Company’s Leverage Ratio (which term is defined in the Credit Agreement as Total Liabilities divided by Tangible Net Worth) based on the following table:

Leverage Ratio	Applicable Unused Commitment Fee (per annum)
1.50 or greater	0.20%
1.00 or greater, but less than 1.50	0.15%
Less than 1.00	0.10%

For the three and six months ended June 30, 2013, $21 and $35, respectively, in unused line fees had been incurred and were included as a component of interest expense in the consolidated statement of operations.

Table of Contents

The weighted average interest rate on all outstanding borrowings at June 30, 2013, was 1.63%, and the effective interest rate was 2.31%.

The Company incurred and capitalized $238 of direct costs related to the issuance of the Term Loan and Line of Credit. The Company amortizes these deferred loan costs under the effective interest rate method. For the three and six months ended June 30, 2013, the Company amortized $30 and $60, respectively, of these loan costs, which is included as a component of interest expense in the consolidated statement of operations. The carrying value of deferred loan costs at June 30, 2013 and December 31, 2012, was $170 and $230, respectively, and is included as a component of noncurrent other assets in the consolidated balance sheet.

Attached to the Credit Agreement are a number of financial and non-financial debt covenants. At June 30, 2013, the Company was in compliance with all covenants associated with the Credit Agreement.

Contractual Obligations and Commitments

The following table provides information on our contractual obligations as of June 30, 2013:

	Payments on Debt	Interest on Debt	Operating Leases	Total contractual obligations
Remaining 2013	$4,000	$200	$608	$4,808
2014	22,648	303	953	23,904
2015	-	-	661	661
2016	-	-	617	617
2017 and thereafter	-	-	302	302
Total	$26,648	$503	$3,141	$30,292

(1) Unrecognized uncertain tax benefits of $152 are not included in the table above as we are not sure when the amount will be paid.

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. We invest our cash in money market funds, which are subject to minimal credit and market risk. We believe that the market risks associated with these financial instruments are immaterial, although there can be no guarantee that these market risks will be immaterial to us.

Item 4. Controls and Procedures

Our principal executive officer and principal financial officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15b under the Securities Exchange Act of 1934 as of the end of the period covered by this Report. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of the end of the period covered by this Report, our disclosure controls and procedures were effective and were designed to provide reasonable assurance that information required to be included in our reports filed or submitted under the Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported as specified in the SEC's rules and forms.

Table of Contents

Changes in Internal Controls over Financial Reporting

During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Internal Controls

An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings (dollars and shares in thousands)

Commercial Litigation

Ricks v. Scott Huskinson et al., Third Judicial District Court, Salt Lake County, State of Utah, Civil No. 120907697. On November 15, 2012, Craig Ricks ("Ricks") filed a lawsuit in Utah state court against the Company, its wholly owned subsidiary iFrogz, Inc., and others. Ricks subsequently abandoned his claims. On May 20, 2013, the court entered an order confirming the dismissal, with prejudice, of all claims asserted in the lawsuit.

Lorence A. Harmer, et al v ZAGG Inc et al, Third Judicial District Court, Salt Lake County, State of Utah, Civil No. 110917687. On September 20, 2011, Lorence A. Harmer, a former director of ZAGG and two of his affiliates, Harmer Holdings, LLC, and Teleportal, LLC, filed a lawsuit in Utah state court against the Company, Robert G. Pedersen II ("Pedersen"), Brandon T. O'Brien ("O'Brien") and KPMG LLP. KPMG has subsequently been dismissed from the lawsuit. This case is discussed in greater detail in Note 11, Note Receivable. In their lawsuit, the plaintiffs allege that the defendants defamed Mr. Harmer, breached a Settlement Agreement and other agreements between the plaintiffs and the Company, and interfered with other rights of the plaintiffs. The Company has denied all of the material allegations made by the plaintiffs. On October 29, 2012, the Company filed a Counterclaim and Third-Party Complaint against Harmer, Holdings, Teleportall and third-party Global Industrial Services Limited asserting claims for breach of contract, deficiency, indemnity and attorneys' fees, breach of the implied covenant of good faith and fair dealing, quasi contract, unjust enrichment, quantum meruit and declaratory judgment. On June 10, 2013, the court dismissed the plaintiffs' claims for defamation, negligence, tortious interference, and interference with prospective economic relations and all claims against Pedersen and O'Brien. The Company believes the plaintiffs' remaining claims of breach of contract, breach of the covenant of good faith and fair dealing, and declaratory relief to be without merit and intends to continue to vigorously defend against them. The plaintiffs have not yet made a specific damages claim.

ZAGG Inc v. Joseph Ramelli, Third Judicial District Court, Salt Lake County, State of Utah, Civil No. 120903188. On May 10, 2012, ZAGG filed a lawsuit in Utah State Court against Joseph Ramelli ("Ramelli"). The complaint alleges causes of action for defamation and false light, based on Ramelli's authoring and causing to be published at least 15 articles relating to ZAGG that contain false and defamatory statements. Ramelli, who appeared in the lawsuit pro se, moved to dismiss for lack of personal jurisdiction. The Company opposed the motion, and the court denied the motion to dismiss. Fact discovery has commenced. The Company intends to pursue its case vigorously against Ramelli.

Table of Contents

Patent Litigation

ZAGG Intellectual Property Holding Co. Inc. v. NLU Products et al, U.S. District Court, District of Utah, 2:11-cv-00517. The Company is the plaintiff in patent infringement litigation pending in Utah that seeks to enforce rights under United States Patent No. 7,957,524. The defendants in this case have raised defenses and, in some cases, asserted counterclaims against the Company, that seek declarations of unenforceability or non-infringement of the patent. These counterclaims do not assert any claims for affirmative relief, including claims for damages, against the Company, apart from a request for an award of costs and attorney's fees to the prevailing party. Several of the defendants have settled with the Company. Litigation of this action has been stayed pending a reexamination of United States Patent No. 7,957,524 by the United States Patent and Trademark Office. This reexamination has led to the amendments to the claims of the patent, and the United States Patent and Trademark Office is expected to issue a Reexamination Certificate soon. In the opinion of management, the ultimate disposition of these patent infringement claims, including disposition of the counterclaims, will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

ZAGG v. Trekstor, Regional Court, Dusseldorf, Germany. The Company brought suit in Dusseldorf, Germany against Trekstor for infringement of ZAGG design registrations for ZAGGmate keyboard case. The Company also brought claims for unfair competition. After the Company completed briefing of its claims against TrekStor and presented its case at oral argument, TrekStor filed a separate proceeding alleging that it is the owner of the ZAGGmate keyboard case design. This action was then stayed pending the resolution of TrekStor's case against the Company. On July 23, 2013, Trekstor's claims were dismissed and the Company was awarded its costs in that action. With this decision, the stay on this action should be lifted and the court should proceed to issue a decision regarding the Company's claims.

Patent Acquisition

On August 31, 2010, Andrew Mason ("Mason") filed a complaint against the Company claiming infringement of United States Patent Nos. 7,389,869 and 7,784,610 as a result of the Company's invisibleSHIELD installation kits. On November 9, 2010, the Company, Mason and his company, eShields LLC ("eShields") entered into an Asset Purchase Agreement ("Purchase Agreement") under which a wholly owned subsidiary of the Company, ZAGG Intellectual Property Holding Company, Inc. ("ZAGG IP"), acquired all of the rights of Mason in (i) the patents (United States Patent Nos. 7,389,869 and 7,784,610) which were the subject of the litigation, (ii) the patent application filed on August 13, 2010 (the "CIP Application") and (iii) rights to sue for infringement of the patents.

In consideration for the conveyance of Mason's assets described above, the Company agreed to pay or convey to Mason the following:

(a) a first payment of $200 by November 11, 2010, and a second payment of $150 after December 31, 2010;
(b) issue to Mason five-year warrants (the "Warrant") to purchase 750 shares of the Company's restricted Common Stock at an exercise price equal to the closing bid price on November 9, 2010 ($8.53); provided that 500 of the 750 warrant shares are exercisable only upon the issuance of a patent from the CIP Application with at least one claim that satisfies the Claim Conditions (as defined below);
(c) issue to Mason 70 shares of the Company's restricted Common Stock; and
(d) grant eShields a fully paid-up, perpetual, non-exclusive license, with limited rights to transfer or sublicense, for the patents, and CIP Application, and any related patent applications.

The Company also agreed to dismiss the claims asserted against Mason and eShields, and to make additional payments to Mason if the United States Patent and Trademark Office ("USPTO") issues a U.S. patent on the CIP Application that includes at least a claim (i) with no limitations in addition to those in the original version of claim 1 of the CIP Application, (ii) that lacks any limitations regarding a solution, (iii) that lacks any requirement that any of the elements be "secured" within a package and (iv) any other specific structural or functional limitations on the package, other than a functional language, if required by the USPTO, that the package is configured to hold the other physical elements of the claimed package (the "Claim Conditions"). There can be no assurance that the USPTO will issue a patent that meets the Claim Conditions. If the Claim Conditions are met, the Company will:

(a) pay Mason the sum of $500; and
(b) issue to Mason 430 shares of the Company's restricted Common Stock.

Table of Contents

If the Claim Conditions are not met, the Company has no obligation to make the payment or issue the shares described in the preceding paragraph and Mason will not be able to exercise 500 of the Warrants (the “Contingent Obligations”).

On June 25, 2013, the USPTO allowed the CIP Application, but as of June 30, 2013, no applicable patent had been issued by the USPTO. The Company has informed Mason and eShields that it does not believe that any allowed claim of the CIP Application meets the Claim Conditions. Mason and eShields initiated an arbitration proceeding on July 17, 2013 in which they have alleged that the Company has committed an anticipatory breach of the Contingent Obligations of the Purchase Agreement. The Company believes that Mason and eShields initiated the arbitration proceeding prematurely in breach of the terms of the Purchase Agreement, and will pursue its dismissal. The Company intends to defend itself vigorously against Mason and eShields.

Class Action Lawsuits

James H. Apple, et al. v. ZAGG Inc, et al., U.S. District Court, District of Utah, 2:12-cv-00852; Ryan Draayer, et al. v. Zagg Inc, et al., U.S. District Court, District of Utah, 2:12-cv-00859. On September 6 and 10, 2012, two putative class action lawsuits were filed by purported Company shareholders against the Company, Randall Hales, Brandon O’Brien, Edward Ekstrom, and Cheryl Larabee, as well as Robert G. Pedersen II, our former Chairman and CEO, and Shuichiro Ueyama, a former member of our Board of Directors. These lawsuits were subsequently amended by a complaint filed on May 6, 2013. The plaintiffs seek certification of a class of purchasers of our stock between October 15, 2010 and August 17, 2012. The plaintiffs claim that as a result of Mr. Pedersen's alleged December 2011 margin account sales, the defendants initiated a succession plan to replace Mr. Pedersen as our CEO with Mr. Hales, but failed to disclose either the succession plan or Mr. Pedersen's margin account sales, in violation of Sections 10(b), 14(a), and 20(a), and SEC Rules 10b-5 and 14a-9, under the Securities Exchange Act of 1934 (the “Exchange Act”). On March 7, 2013, the U.S. District Court for the District of Utah consolidated the Apple and Draayer actions and assigned the caption In re: Zagg, Inc. Securities Litigation, and on May 6, 2013, plaintiffs filed a consolidated complaint. On July 5, 2013, the defendants moved to dismiss the consolidated complaint. The Company intends to vigorously defend against the lawsuit.

Arthur Morganstern v. Robert G. Pedersen II et al., Third Judicial District Court, Salt Lake County, State of Utah, Civil No. 120908452; Albert Pikk v. Robert G. Pedersen II et al., U.S. District Court, District of Utah, Case No. 2:12-cv-1188; Rosenberg v. Robert G. Pedersen II et al., U.S. District Court, District of Utah, Case No. 2:12-cv-1216. On December 14, 2012, the first of three shareholder derivative complaints were filed against several of our current and former officers and directors. These complaints make allegations similar to those presented in the consolidated class action lawsuits, but they also assert various state law causes of action, including claims for breach of fiduciary duty, waste of corporate assets, unjust enrichment, and insider trading. Each of these derivative complaints seek unspecified damages on behalf of the Company, which is named solely as a nominal defendant against whom no recovery is sought. On February 26, 2013, the U.S. District Court for the District of Utah consolidated the Pikk and Rosenberg actions and assigned the caption In re ZAGG Inc. Shareholder Derivative Litigation, and on June 5, 2013, plaintiffs filed a consolidated complaint. The Company has not yet responded to these complaints.

In the fourth quarter of 2012, the Company received requests to provide documentation and information to the staff of the SEC in connection with a non-public 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 some of the same issues raised by the plaintiffs in the above lawsuits; specifically, whether the Company failed to disclose Mr. Pedersen's margin account sales or the alleged existence of a plan to have Mr. Hales succeed Mr. Pedersen as our CEO. The Company responded to these requests and is cooperating fully with the staff. We have chosen to disclose this non-public investigation due to the highly public nature of the lawsuits described above, which the Company intends to defend vigorously.

The Company is not a party to any other litigation or other claims at this time. While the Company currently believes that the amount of any ultimate potential 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.

We establish liabilities when a particular contingency is probable and estimable. We have not accrued for any loss at June 30, 2013 in our consolidated financial statements as we do not consider a loss to be probable nor estimable. We have contingencies which are reasonably possible; however, the reasonably possible exposure to losses cannot currently be estimated.

Item 1A. Risk Factors

In addition to the other information set forth in this report, 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, 2012 (the "2012 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 2012 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 (dollars and shares in thousands)

There were no sales of unregistered securities during the six months ended June 30, 2013.

During the six months ended June 30, 2012, we issued the following securities:

We issued 182 shares of common stock upon the exercise of warrants to purchase 191 shares. We received proceeds of $199 related to the exercise of the warrants.

On December 13, 2012, the Company's board of directors authorized the repurchase of up to $10,000 of the Company's outstanding common stock. Under the approved repurchase plan, the share repurchases were to be made from time to time over the twelve-month period following the approval of the plan at the Company's discretion. The Company's board of directors also authorized the Company to enter into a Rule 10b5-1 plan when appropriate.

During March 2013, the Company entered into a Rule 10b5-1 plan under which 797 shares of ZAGG Inc common stock were purchased for total cash consideration of $5,999 as detailed in the table below.

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) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1 – January 31, 2013	-	-	-	-
February 1 – February 28, 2013	-	-	-	-
March 1 – March 31, 2013	797	$7.50	797	868
Total	797	$7.50	797	868

(1) The maximum number of shares that may yet be purchased under the repurchase plan has been determined based on the $4,001 remaining amount that is authorized for the purchase of ZAGG Inc common stock under the repurchase plan and the closing stock price on July 29, 2013 of $4.61. The actual number of shares that may be

repurchased is dependent on the price of ZAGG Inc common stock.

There were no re-purchases of ZAGG Inc common stock by the Company during the second quarter of 2013 pursuant to the Rule 10b5-1 plan.

Table of Contents

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:

Exhibit No.	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended.
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
EX-101.INS	XBRL Instance 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

Table of Contents

SIGNATURES

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

	ZAGG INC	
Date: August 8, 2013	By:	/s/ RANDALL L. HALES Randall L. Hales, Chief Executive Officer, President, & Director (Principal executive officer)
Date: August 8, 2013	By:	/s/ BRANDON T. O’BRIEN Brandon T. O’Brien, Chief Financial Officer (Principal financial officer)