

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016

	(Unaudited) September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 316,174	\$ 3,883,124
Accounts receivable-trade, less allowance for doubtful accounts of \$70,000 – 2017 and 2016	1,861,009	2,519,184
Accounts receivable-other	434,891	341,326
Inventories, net	10,061,991	9,586,311
Restricted cash	500,000	—
Prepaid expenses	451,787	402,158
Total current assets	13,625,852	16,732,103
Furniture, fixtures and equipment, net	778,095	873,902
Restricted cash	—	500,000
Intangible assets, net	511,141	467,176
Other assets	141,853	261,915
Total assets	\$ 15,056,941	\$ 18,835,096
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,732,336	\$ 2,455,579
Accrued expenses	1,161,985	1,542,729
Derivative liabilities	15,729	33,076
Capital lease obligation-current	16,866	32,792
Deferred revenue-current	1,258,226	925,932
Subordinated notes payable-current, net of discount of \$117,000-2017 and \$0-2016	533,000	—
Secured convertible debentures, at fair value	3,183,210	—
Income taxes payable	10,143	7,048
Total current liabilities	8,911,495	4,997,156
Long-term liabilities:		
Secured convertible debentures, at fair value	—	4,000,000
Capital lease obligation-less current portion	—	8,492
Deferred revenue-long term	2,077,479	2,073,176
Total liabilities	10,988,974	11,078,824
Commitments and contingencies		
Stockholders' Equity:		
Common stock, \$0.001 par value; 25,000,000 shares authorized; shares issued: 7,065,249 – 2017 and 5,552,449 – 2016	7,065	5,552
Additional paid in capital	63,728,254	59,565,288
Treasury stock, at cost (63,518 shares)	(2,157,226)	(2,157,226)
Accumulated deficit	(57,510,126)	(49,657,342)
Total stockholders' equity	4,067,967	7,756,272
Total liabilities and stockholders' equity	\$ 15,056,941	\$ 18,835,096

(FOR ADDITIONAL INFORMATION, PLEASE REFER TO THE COMPANY'S QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2017 FILED WITH THE SEC)

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2017 AND 2016
(Unaudited)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue:				
Product	\$2,521,663	\$3,836,691	\$ 10,263,833	\$ 11,946,100
Service and other	461,914	502,836	1,436,106	1,182,781
Total revenue	<u>2,983,577</u>	<u>4,339,527</u>	<u>11,699,939</u>	<u>13,128,881</u>
Cost of revenue:				
Product	\$1,709,046	\$2,235,489	\$ 6,450,570	\$ 7,487,747
Service and other	265,918	70,467	790,691	488,708
Total cost of revenue.....	<u>1,974,964</u>	<u>2,305,956</u>	<u>7,241,261</u>	<u>7,976,455</u>
Gross profit	1,008,613	2,033,571	4,458,678	5,152,426
Selling, general and administrative expenses:				
Research and development	831,573	731,077	2,495,924	2,353,081
Selling, advertising and promotional	1,048,334	1,369,244	3,036,168	3,295,743
Stock-based compensation.....	478,863	422,246	981,652	1,203,312
General and administrative	1,766,538	2,752,645	5,356,439	6,772,483
Total selling, general and administrative expenses...	<u>4,125,308</u>	<u>5,275,212</u>	<u>11,870,183</u>	<u>13,624,619</u>
Operating loss	<u>(3,116,695)</u>	<u>(3,241,641)</u>	<u>(7,411,505)</u>	<u>(8,472,193)</u>
Interest income	1,761	5,913	10,619	22,103
Interest expense	(375,048)	(776)	(536,035)	(2,438)
Change in warrant derivative liabilities	3,628	(19,075)	17,347	18,740
Change in fair value of secured convertible notes payable	(6,952)	—	66,790	—
Loss before income tax (benefit)	<u>(3,493,306)</u>	<u>(3,255,579)</u>	<u>(7,852,784)</u>	<u>(8,433,788)</u>
Income tax (benefit).....	—	—	—	—
Net loss	<u><u>\$(3,493,306)</u></u>	<u><u>\$(3,255,579)</u></u>	<u><u>\$(7,852,784)</u></u>	<u><u>\$(8,433,788)</u></u>
Net loss per share information:				
Basic	\$ (0.56)	\$ (0.61)	\$ (1.34)	\$ (1.59)
Diluted	\$ (0.56)	\$ (0.61)	\$ (1.34)	\$ (1.59)
Weighted average shares outstanding:				
Basic.....	6,249,116	5,380,855	5,851,428	5,315,646
Diluted	6,249,116	5,380,855	5,851,428	5,315,646

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DIGITAL ALLY, INC.
RECONCILIATION OF NET LOSS TO NON-GAAP ADJUSTED NET LOSS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2017 AND 2016
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net loss	\$(3,493,306)	\$(3,255,579)	\$(7,852,784)	\$(8,433,788)
Non-GAAP adjustments:				
Stock-based compensation	478,863	422,246	981,652	1,203,312
Depreciation and amortization	181,741	134,724	507,358	430,537
Change in fair value of secured convertible notes payable	6,952	—	(66,790)	—
Change in warrant derivative liabilities	(3,628)	19,075	(17,347)	(18,740)
Interest (income) expense, net	373,287	(5,137)	525,416	(19,665)
Total Non-GAAP adjustments	<u>1,037,215</u>	<u>570,908</u>	<u>1,930,289</u>	<u>1,595,444</u>
Non-GAAP adjusted net loss	<u><u>\$(2,456,091)</u></u>	<u><u>\$(2,684,671)</u></u>	<u><u>\$(5,922,495)</u></u>	<u><u>\$(6,838,344)</u></u>
Non-GAAP adjusted net loss per share information:				
Basic	\$ (0.39)	\$ (0.50)	\$ (1.01)	\$ (1.29)
Diluted	\$ (0.39)	\$ (0.50)	\$ (1.01)	\$ (1.29)
GAAP basis net loss per share information:				
Basic	\$ (0.56)	\$ (0.61)	\$ (1.34)	\$ (1.59)
Diluted	\$ (0.56)	\$ (0.61)	\$ (1.34)	\$ (1.59)
Weighted average shares outstanding:				
Basic	6,249,116	5,380,855	5,851,428	5,315,646
Diluted	6,249,116	5,380,855	5,851,428	5,315,646

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DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(Unaudited)

	2017	2016
Cash Flows from Operating Activities:		
Net loss	\$ (7,852,784)	\$ (8,433,788)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	507,358	430,537
Stock based compensation	981,652	1,203,312
Change in derivative liabilities.....	(17,347)	(18,740)
Change in fair value of secured convertible debentures.....	(66,790)	—
Provision for inventory obsolescence	417,732	253,048
Amortization of discount on subordinated note payable	288,895	—
Provision for doubtful accounts receivable.....	—	(4,997)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - trade.....	658,175	856,388
Accounts receivable - other.....	(93,565)	(147,047)
Inventories	(893,412)	(3,558)
Prepaid expenses.....	(49,629)	(47,746)
Other assets.....	120,062	24,527
Increase (decrease) in:		
Accounts payable.....	276,757	403,607
Accrued expenses	(380,744)	311,666
Income taxes payable.....	3,095	(3,091)
Deferred revenue.....	336,597	449,271
Net cash used in operating activities.....	(5,763,948)	(4,726,611)
Cash Flows from Investing Activities:		
Purchases of furniture, fixtures and equipment.....	(316,751)	(284,644)
Additions to intangible assets	(138,765)	(89,263)
Net cash used in investing activities	(455,516)	(373,907)
Cash Flows from Financing Activities:		
Proceeds from issuance of subordinated notes payable	1,000,000	—
Proceeds from issuance of common stock and warrants, net of issuance costs	2,776,332	—
Principal payment on secured convertible debentures.....	(750,000)	—
Principal payment on subordinated notes payable.....	(350,000)	—
Proceeds from exercise of stock options and warrants	600	19,055
Principal payments on capital lease obligation.....	(24,418)	(26,917)
Net cash provided by (used in) in financing activities	2,652,514	(7,862)
Net decrease in cash and cash equivalents	(3,566,950)	(5,108,380)
Cash and cash equivalents, beginning of period.....	3,883,124	6,924,079
Cash and cash equivalents, end of period.....	\$ 316,174	\$1,815,699
Supplemental disclosures of cash flow information:		
Cash payments for interest.....	\$ 166,138	\$ 2,425
Cash payments for income taxes.....	\$ 6,906	\$ 10,591
Supplemental disclosures of non-cash investing and financing activities:		
Restricted common stock grant	\$ 522	\$ 200
Restricted common stock forfeitures	\$ 9	\$ —

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