

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2018 AND DECEMBER 31, 2017

	March 31, 2018	December 31, 2017
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 171,226	\$ 54,712
Accounts receivable-trade, less allowance for doubtful accounts of \$70,000 – 2018 and 2017	1,395,737	1,978,936
Accounts receivable-other	313,572	338,618
Inventories, net	8,284,158	8,750,713
Restricted cash	—	500,000
Prepaid expenses	180,247	209,163
Total current assets	10,344,940	11,832,142
Furniture, fixtures and equipment, net	537,569	638,169
Restricted cash	498,683	497,180
Intangible assets, net	90,000	90,000
Other assets	151,063	115,043
Total assets	\$ 11,622,255	\$ 13,172,534
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 3,049,606	\$ 3,193,269
Accrued expenses	1,713,069	1,240,429
Derivative liabilities	15,927	16,816
Capital lease obligation-current	—	8,492
Contract liabilities-current	1,402,197	1,409,683
Subordinated and secured notes payable, net of discount of \$11,465-2018 and \$0-2017	1,247,035	1,008,500
Secured convertible debentures, at fair value	3,250,000	3,262,807
Income taxes payable	3,756	10,141
Total current liabilities	10,681,590	10,150,137
Long-term liabilities:		
Contract liabilities-long term	2,052,529	2,158,649
Total liabilities	12,734,119	12,308,786
Commitments and contingencies		
Stockholder's Equity (Deficit):		
Common stock, \$0.001 par value; 25,000,000 shares authorized; shares issued: 7,095,849 – 2018 and 7,037,799 – 2017	7,096	7,038
Additional paid in capital	65,464,853	64,923,735
Treasury stock, at cost (63,518 shares)	(2,157,226)	(2,157,226)
Accumulated deficit	(64,426,587)	(61,909,799)
Total stockholders' equity (deficit)	(1,111,864)	863,748

Total liabilities and stockholders' equity (deficit)

\$ 11,622,255 \$ 13,172,534

(FOR ADDITIONAL INFORMATION, PLEASE REFER TO THE COMPANY'S QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED MARCH 31, 2018 FILED WITH THE SEC)

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
MARCH 31, 2018 AND 2017
(Unaudited)

	Three Months ended March 31,	
	2018	2017
Revenue:		
Product	\$ 1,991,113	\$ 4,684,655
Service and other	480,400	545,205
	2,471,513	5,229,860
Total revenue		
Cost of revenue:		
Product	1,253,019	2,774,037
Service and other	109,100	178,974
	1,362,119	2,953,011
Total cost of revenue		
Gross profit	1,109,394	2,276,849
Selling, general and administrative expenses:		
Research and development	440,120	817,891
Selling, advertising and promotional	674,405	1,035,522
Stock-based compensation	493,519	387,033
General and administrative	1,474,666	1,838,616
	3,082,710	4,079,062
Total selling, general and administrative expenses		
Operating loss	(1,973,316)	(1,802,213)
Interest income	1,616	5,061
Change in warrant derivative liabilities	889	605
Change in fair value of secured convertible debentures	12,807	(155,857)
Loss on the extinguishment of secured convertible debentures	(500,000)	—
Interest expense	(130,228)	(80,551)
	(2,588,232)	(2,032,955)
Loss before income tax (benefit)		
Income tax (benefit)	—	—
	—	—
Net loss	\$ (2,588,232)	\$ (2,032,955)
Net loss per share information:		
Basic	\$ (0.37)	\$ (0.36)
Diluted	\$ (0.37)	\$ (0.36)
Weighted average shares outstanding:		
Basic	7,030,809	5,632,077
Diluted	7,030,809	5,632,077

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DIGITAL ALLY, INC.
RECONCILIATION OF NET LOSS TO NON-GAAP ADJUSTED NET LOSS
FOR THE THREE MONTHS ENDED
MARCH 31, 2018 AND 2017
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net loss	\$ (2,588,232)	\$ (2,032,955)
Non-GAAP adjustments:		
Stock-based compensation	493,519	387,033
Depreciation and amortization	145,906	158,636
Change in fair value of secured convertible notes payable	(12,807)	155,857
Change in warrant derivative liabilities	(889)	(605)
Loss on the extinguishment of secured convertible debentures	500,000	—
Interest (income) expense, net	128,612	75,490
Total Non-GAAP adjustments	1,254,341	776,411
Non-GAAP adjusted net loss	\$ (1,333,891)	\$ (1,256,544)
Non-GAAP adjusted net loss per share information:		
Basic	\$ (0.19)	\$ (0.22)
Diluted	\$ (0.19)	\$ (0.22)
GAAP basis net loss per share information:		
Basic	\$ (0.37)	\$ (0.36)
Diluted	\$ (0.37)	\$ (0.36)
Weighted average shares outstanding:		
Basic	7,030,809	5,632,077
Diluted	7,030,809	5,632,077

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DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017
(Unaudited)

	2018	2017
Cash Flows from Operating Activities:		
Net loss	\$ (2,588,232)	\$ (2,032,955)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	145,906	158,636
Change in fair value of warrant derivative liabilities	(889)	(605)
Amortization of discount on subordinated note payable	36,192	—
Change in fair value of secured convertible note payable	(12,807)	155,857
Stock based compensation	493,519	387,033

Provision for inventory obsolescence	(262,127)	319,364
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable – trade	583,199	(877,142)
Accounts receivable – other	25,046	(98,896)
Inventories	728,682	(440,449)
Prepaid expenses	100,360	(264,510)
Other assets	(36,020)	78,303
Increase (decrease) in:		
Accounts payable	(143,663)	(230,363)
Accrued expenses	472,640	(300,310)
Income taxes payable	(6,385)	(456)
Contract liabilities	(113,606)	254,220
Net cash used in operating activities	<u>(578,185)</u>	<u>(2,892,273)</u>
Cash Flows from Investing Activities:		
Purchases of furniture, fixtures and equipment	(15,950)	(32,625)
Additions to intangible assets	(30,859)	(39,225)
Release of cash in accordance with secured convertible note	500,000	—
Net cash provided by (used) in investing activities	<u>453,191</u>	<u>(71,850)</u>
Cash Flows from Financing Activities:		
Proceeds from subordinated notes payable	250,000	—
Principal payments on capital lease obligation	(8,492)	(8,024)
Net cash provided by (used in) in financing activities	<u>241,508</u>	<u>(8,024)</u>
Net decrease in cash and cash equivalents	116,514	(2,972,147)
Cash and cash equivalents, beginning of period	<u>54,712</u>	<u>3,883,124</u>
Cash and cash equivalents, end of period	<u>\$ 171,226</u>	<u>\$ 910,977</u>
Supplemental disclosures of cash flow information:		
Cash payments for interest	<u>\$ 72,082</u>	<u>\$ 551</u>
Cash payments for income taxes	<u>\$ 6,385</u>	<u>\$ 456</u>
Supplemental disclosures of non-cash investing and financing activities:		
Restricted common stock grant	<u>\$ 84</u>	<u>\$ 200</u>
Restricted common stock forfeitures	<u>\$ 26</u>	<u>\$ 9</u>
Amounts allocated to common stock purchase warrants in connection with proceeds from subordinated notes payable	<u>\$ 47,657</u>	<u>\$ —</u>

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