

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2016 AND DECEMBER 31, 2015

	(Unaudited)	
	March 31,	December 31,
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,880,817	\$ 6,924,079
Accounts receivable-trade, less allowance for doubtful accounts of \$67,776 – 2016 and \$74,997 – 2015	2,887,428	3,368,909
Accounts receivable-other	143,405	142,473
Inventories, net.....	10,308,127	10,661,766
Prepaid expenses.....	879,092	586,015
Total current assets	20,098,869	21,683,242
Furniture, fixtures and equipment	2,089,731	2,043,041
Less accumulated depreciation and amortization.....	1,120,624	978,855
	969,107	1,064,186
Intangible assets, net	426,084	410,261
Other assets	281,398	316,521
Total assets	\$ 21,775,458	\$ 23,474,210
 Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,422,837	\$ 1,374,160
Accrued expenses.....	986,193	936,327
Derivative liabilities	50,520	67,053
Capital lease obligation-current	32,986	34,828
Deferred revenue-current	623,453	568,988
Income taxes payable.....	5,689	10,139
Total current liabilities	3,121,678	2,991,495
Long-term liabilities:		
Capital lease obligation-long term.....	33,260	41,284
Deferred revenue-long term.....	1,752,275	1,685,891
Total liabilities	4,907,213	4,718,670
Commitments and contingencies		
Common stock, \$0.001 par value; 25,000,000 shares authorized; shares issued: 5,311,999 – 2016 and 5,241,999 – 2015.....	5,312	5,242
Additional paid in capital.....	58,279,938	57,854,178
Treasury stock, at cost (shares: 63,518 – 2016 and 63,518 - 2015).....	(2,157,226)	(2,157,226)
Accumulated deficit.....	(39,259,779)	(36,946,654)
Total stockholders' equity	16,868,245	18,755,540
Total liabilities and stockholders' equity	\$ 21,775,458	\$ 23,474,210

(FOR ADDITIONAL INFORMATION, PLEASE REFER TO THE COMPANY'S ANNUAL REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2016 FILED WITH THE SEC)

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
MARCH 31, 2016 AND 2015
(Unaudited)

	Three Months ended March 31,	
	<u>2016</u>	<u>2015</u>
Product revenue	\$ 4,203,595	\$ 4,057,000
Other revenue	201,348	191,764
Total revenue	4,404,943	4,248,764
Cost of revenue	2,551,324	2,595,024
Gross profit	1,853,619	1,653,740
Selling, general and administrative expenses:		
Research and development expense	808,854	743,343
Selling, advertising and promotional expense	922,992	843,886
Stock-based compensation expense	425,830	269,200
General and administrative expense	2,033,838	1,760,506
Total selling, general and administrative expenses	4,191,514	3,616,935
Operating loss	(2,337,895)	(1,963,195)
Interest income	8,992	5,315
Change in warrant derivative liabilities	16,533	165,722
Change in fair value of secured convertible notes payable	—	(4,434,383)
Secured convertible note payable issuance expenses	—	(59,876)
Other income (expense)	—	1,878
Interest expense	(755)	(126,173)
Loss before income tax expense	(2,313,125)	(6,410,712)
Income tax expense	—	—
Net loss	\$ (2,313,125)	\$ (6,410,712)
Net loss per share information:		
Basic	\$ (0.44)	\$ (1.90)
Diluted	\$ (0.44)	\$ (1.90)
Weighted average shares outstanding:		
Basic	5,246,148	3,371,008
Diluted	5,246,148	3,371,008

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DIGITAL ALLY, INC.
RECONCILIATION OF NET LOSS TO NON-GAAP ADJUSTED NET LOSS
FOR THE THREE MONTHS ENDED
MARCH 31, 2016 AND 2015
(unaudited)

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Net loss	\$ (2,313,125)	\$ (6,410,712)
Non-GAAP adjustments:		
Stock-based compensation	425,830	269,200
Depreciation and amortization	152,018	161,977
Convertible note payable issuance expenses.....	—	59,876
Change in fair value of secured convertible notes payable	—	4,434,383
Change in derivative liabilities	(16,533)	(165,722)
Interest (income) expense, net.....	(8,237)	120,858
	553,078	4,880,572
Total Non-GAAP adjustments		
	\$ (1,760,047)	\$ (1,530,140)
Non-GAAP adjusted net loss	\$ (1,760,047)	\$ (1,530,140)
Non-GAAP adjusted net income (loss) per share information:		
Basic.....	\$ (0.34)	\$ (0.45)
Diluted	\$ (0.34)	\$ (0.45)
GAAP basis net loss per share information:		
Basic.....	\$ (0.44)	\$ (1.90)
Diluted	\$ (0.44)	\$ (1.90)
Weighted average shares outstanding:		
Basic.....	5,246,148	3,371,008
Diluted	5,246,148	3,371,008

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DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Unaudited)

	2016	2015
Cash Flows From Operating Activities:		
Net loss.....	\$(2,313,125)	\$(6,410,712)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	152,018	161,977
Change in derivative liabilities	(16,533)	(165,722)
Change in fair value of secured convertible notes payable	—	4,434,383
Interest expense related to stock conversion	—	33,020
Stock based compensation	425,830	269,200
Provision for inventory obsolescence	137,989	189,003
Provision for doubtful accounts receivable	(7,221)	—
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - trade.....	488,702	(108,877)
Accounts receivable - other.....	(932)	50,967
Inventories.....	215,650	(1,551,340)
Prepaid expenses.....	(293,077)	(277,687)
Other assets.....	35,123	(43,171)
Increase (decrease) in:		
Accounts payable	48,677	(474,681)
Accrued expenses.....	49,866	27,209
Income taxes payable.....	(4,450)	3
Deposits	—	(1,878)
Unearned income	120,849	195,148
Net cash used in operating activities	(960,634)	(3,673,158)
Cash Flows from Investing Activities:		
Purchases of furniture, fixtures and equipment	(46,690)	(121,418)
Additions to intangible assets	(26,072)	(13,440)
Release of restricted cash related to secured convertible note	—	1,500,000
Net cash provided by (used) in investing activities	(72,762)	1,365,142
Cash Flows from Financing Activities::		
Proceeds from exercise of stock options and warrants.....	—	1,554,662
Payments on capital lease obligation	(9,866)	(24,074)
Net cash provided by (used in) in financing activities	(9,866)	1,530,588
Net decrease in cash and cash equivalents	(1,043,262)	(777,428)
Cash and cash equivalents, beginning of period	6,924,079	3,049,716
Cash and cash equivalents, end of period	\$5,880,817	\$2,272,288
Supplemental disclosures of cash flow information:		
Cash payments for interest	\$ 755	\$ 111,285
Cash payments for income taxes	\$ 4,450	\$ 8,197
Supplemental disclosures of non-cash investing and financing		
Restricted common stock grant	\$ 70	\$ 87
Conversion of secured convertible note into common stock	\$ —	\$7,740,179

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