

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2016 AND DECEMBER 31, 2015

	June 30, 2016	December 31, 2015
Assets		
(Unaudited)		
Current assets:		
Cash and cash equivalents	\$ 4,142,490	\$ 6,924,079
Accounts receivable-trade, less allowance for doubtful accounts of \$67,776 – 2016 and \$74,997 – 2015	2,833,655	3,368,909
Accounts receivable-other	201,956	142,473
Inventories, net	9,706,182	10,661,766
Prepaid expenses	1,010,880	586,015
Total current assets	17,895,163	21,683,242
Furniture, fixtures and equipment	2,177,748	2,043,041
Less accumulated depreciation and amortization	1,253,744	978,855
	924,004	1,064,186
Intangible assets, net	450,148	410,261
Other assets	274,093	316,521
Total assets	\$ 19,543,408	\$ 23,474,210
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,432,727	\$ 1,374,160
Accrued expenses	1,035,215	936,327
Derivative liabilities	29,238	67,053
Capital lease obligations-current	31,872	34,828
Deferred revenue-current.....	731,436	568,988
Income taxes payable	3,044	10,139
Total current liabilities.....	3,263,532	2,991,495
Long-term liabilities:		
Capital lease obligations-less current portion	25,121	41,284
Deferred revenue- less current portion	1,896,358	1,685,891
Total liabilities	5,185,011	4,718,670
Commitments and contingencies.....		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000,000 common stock shares authorized; shares issued: 0 – 2016 and 2015;	—	—
Common stock, \$0.001 par value; 25,000,000 common stock shares authorized; shares issued: 5,441,999 – 2016 and 5,241,999 – 2015;.....	5,442	5,242
Additional paid in capital	58,635,044	57,854,178
Treasury stock, at cost (63,518 shares).....	(2,157,226)	(2,157,226)
Accumulated deficit	(42,124,863)	(36,946,654)
Total stockholders' equity	14,358,397	18,755,540
Total liabilities and stockholders' equity.....	\$ 19,543,408	\$ 23,474,210

**(FOR ADDITIONAL INFORMATION, PLEASE REFER TO THE COMPANY'S ANNUAL REPORT ON FORM
10-Q FOR THE PERIOD ENDED JUNE 30, 2016 FILED WITH THE SEC)**

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2016 AND 2015
(Unaudited)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Product revenue	\$4,131,905	\$5,459,214	\$ 8,307,980	\$ 9,557,198
Other revenue	252,506	175,023	481,374	325,803
Total revenue	<u>4,384,411</u>	<u>5,634,237</u>	<u>8,789,354</u>	<u>9,883,001</u>
Cost of revenue	<u>3,119,175</u>	<u>2,542,043</u>	<u>5,670,499</u>	<u>5,137,067</u>
Gross profit	1,265,236	3,092,194	3,118,855	4,745,934
Selling, general and administrative expenses:				
Research and development expense	813,150	783,880	1,622,004	1,527,223
Selling, advertising and promotional expense	1,003,507	932,407	1,926,499	1,776,293
Stock-based compensation expense	355,236	329,201	781,066	598,401
General and administrative expense	1,986,000	1,863,668	4,019,838	3,624,174
Total selling, general and administrative expenses	<u>4,157,893</u>	<u>3,909,156</u>	<u>8,349,407</u>	<u>7,526,091</u>
Operating loss	<u>(2,892,657)</u>	<u>(816,962)</u>	<u>(5,230,552)</u>	<u>(2,780,157)</u>
Interest income	7,198	2,828	16,190	8,143
Interest expense	(907)	(79,841)	(1,662)	(206,014)
Change in warrant derivative liabilities	21,282	116,061	37,815	281,783
Change in fair value of secured convertible notes payable	—	—	—	(4,434,383)
Secured convertible note payable issuance expenses	—	(14,474)	—	(74,350)
Other income (expense)	—	—	—	1,878
Loss before income tax expense	<u>(2,865,084)</u>	<u>(792,388)</u>	<u>(5,178,209)</u>	<u>(7,203,100)</u>
Income tax (expense) benefit	—	—	—	—
Net loss	<u><u>\$(2,865,084)</u></u>	<u><u>\$(792,388)</u></u>	<u><u>\$(5,178,209)</u></u>	<u><u>\$(7,203,100)</u></u>
Net loss per share information:				
Basic	\$ (0.54)	\$ (0.20)	\$ (0.98)	\$ (1.94)
Diluted	\$ (0.54)	\$ (0.20)	\$ (0.98)	\$ (1.94)
Weighted average shares outstanding:				
Basic	5,319,259	4,044,112	5,282,514	3,710,960
Diluted	5,319,259	4,044,112	5,282,514	3,710,960

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DIGITAL ALLY, INC.
RECONCILIATION OF NET LOSS TO NON-GAAP ADJUSTED EBITDA LOSS
FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2016 AND 2015
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net loss	\$ (2,865,084)	\$ (792,388)	\$(5,178,209)	\$(7,203,100)
Non-GAAP adjustments:				
Stock-based compensation	355,236	329,201	781,066	598,401
Depreciation and amortization	143,795	166,726	295,813	328,703
Change in fair value of secured convertible notes payable	—	—	—	4,434,383
Convertible note payable issuance expenses.....	—	14,474	—	74,350
Change in derivative liabilities.....	(21,282)	(116,061)	(37,815)	(281,783)
Interest (income) expense, net.....	(6,291)	79,841	(14,528)	206,014
Total Non-GAAP adjustments	<u>471,458</u>	<u>474,181</u>	<u>1,024,536</u>	<u>5,360,068</u>
Non-GAAP adjusted EBITDA loss.....	<u><u>\$ (2,393,626)</u></u>	<u><u>\$ (318,207)</u></u>	<u><u>\$(4,153,673)</u></u>	<u><u>\$(1,843,032)</u></u>
Non-GAAP adjusted EBITDA loss per share information:				
Basic	\$ (0.45)	\$ (0.08)	\$ (0.79)	\$ (0.50)
Diluted	\$ (0.45)	\$ (0.08)	\$ (0.79)	\$ (0.50)
GAAP basis EBITDA loss per share information:				
Basic	\$ (0.54)	\$ (0.20)	\$ (0.98)	\$ (1.94)
Diluted	\$ (0.54)	\$ (0.20)	\$ (0.98)	\$ (1.94)
Weighted average shares outstanding:				
Basic	5,319,259	4,044,112	5,282,514	3,710,960
Diluted	5,319,259	4,044,112	5,282,514	3,710,960

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DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(Unaudited)

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Net loss	\$ (5,178,209)	\$ (7,203,100)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	295,813	328,703
Secured convertible note payable issuance expenses	—	74,350
Stock-based compensation	781,066	598,401
Change in derivative liabilities	(37,815)	(281,783)
Change in fair value of secured convertible note payable	—	4,434,383
Interest expense related to stock conversion	—	33,020
Provision for inventory obsolescence.....	266,479	321,121
Provision for doubtful accounts receivable	(7,221)	9,020
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - trade	542,475	(703,355)
Accounts receivable - other.....	(59,483)	11,909
Inventories.....	689,105	(3,495,776)
Prepaid expenses	(424,865)	(605,868)
Other assets	42,428	(103,776)
Increase (decrease) in:		
Accounts payable	58,567	125,138
Accrued expenses.....	98,888	287,037
Income taxes payable	(7,095)	3
Deposits.....	—	2,523
Unearned income	372,915	543,036
Net cash used in operating activities	<u>(2,566,952)</u>	<u>(5,625,014)</u>
Cash Flows from Investing Activities:		
Purchases of furniture, fixtures and equipment	(134,707)	(224,237)
Additions to intangible assets.....	(60,811)	(36,108)
Release of restricted cash related to secured convertible note.....	—	1,500,000
Net cash provided by (used in) investing activities	<u>(195,518)</u>	<u>1,239,655</u>
Cash Flows from Financing Activities:		
Debt issuance expenses for secured convertible note payable	—	(74,350)
Principal payments on capital lease obligation	(19,119)	(52,958)
Proceeds from exercise of stock options and warrants.....	—	2,133,889
Net cash provided by (used in) financing activities.....	<u>(19,119)</u>	<u>2,006,581</u>
Net decrease in cash and cash equivalents.....	(2,781,589)	(2,378,778)
Cash and cash equivalents, beginning of period	6,924,079	3,049,716
Cash and cash equivalents, end of period	<u>\$ 4,142,490</u>	<u>\$ 670,938</u>
Supplemental disclosures of cash flow information:		
Cash payments for interest.....	<u>\$ 1,650</u>	<u>\$ 162,046</u>
Cash payments for income taxes	<u>\$ 7,095</u>	<u>\$ 8,197</u>
Supplemental disclosures of non-cash investing and financing activities:		
Restricted common stock grant.....	<u>\$ 200</u>	<u>\$ 139</u>
Capital expenditures financed by capital lease obligations	<u>\$ —</u>	<u>\$ 102,624</u>
Conversion of secured convertible note into common stock.....	<u>\$ —</u>	<u>\$ 7,740,834</u>

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