

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

	<u>(Unaudited)</u> <u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,815,699	\$ 6,924,079
Accounts receivable-trade, less allowance for doubtful accounts of \$70,000 – 2016 and \$74,997 – 2015	2,517,518	3,368,909
Accounts receivable-other	289,520	142,473
Inventories, net	10,412,276	10,661,766
Prepaid expenses	<u>633,761</u>	<u>586,015</u>
Total current assets	<u>15,668,774</u>	<u>21,683,242</u>
Furniture, fixtures and equipment	2,327,686	2,043,041
Less accumulated depreciation and amortization	<u>1,378,805</u>	<u>978,855</u>
	<u>948,881</u>	<u>1,064,186</u>
Intangible assets, net	468,936	410,261
Other assets	<u>291,994</u>	<u>316,521</u>
Total assets	<u>\$ 17,378,585</u>	<u>\$ 23,474,210</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,777,767	\$ 1,374,160
Accrued expenses	1,247,993	936,327
Derivative liabilities	48,313	67,053
Capital lease obligations-current	32,329	34,828
Deferred revenue-current.....	811,318	568,988
Income taxes payable	<u>7,048</u>	<u>10,139</u>
Total current liabilities.....	<u>3,924,768</u>	<u>2,991,495</u>
Long-term liabilities:		
Capital lease obligations-less current portion	16,866	41,284
Deferred revenue- less current portion	<u>1,892,832</u>	<u>1,685,891</u>
Total liabilities	<u>5,834,466</u>	<u>4,718,670</u>
Commitments and contingencies.....		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000,000 common stock shares authorized; shares issued and outstanding: 0 – 2016 and 2015	—	—
Common stock, \$0.001 par value; 25,000,000 common stock shares authorized; shares issued: 5,447,049 – 2016 and 5,241,999 – 2015.....	5,447	5,242
Additional paid in capital	59,076,340	57,854,178
Treasury stock, at cost (63,518 shares).....	(2,157,226)	(2,157,226)
Accumulated deficit	<u>(45,380,442)</u>	<u>(36,946,654)</u>
Total stockholders' equity	<u>11,544,119</u>	<u>18,755,540</u>
Total liabilities and stockholders' equity.....	<u>\$ 17,378,585</u>	<u>\$ 23,474,210</u>

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

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

	Three months ended September 30,		Nine months ended September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Product revenue	\$ 3,918,167	\$ 4,914,411	\$ 12,226,147	\$ 14,471,609
Other revenue	421,360	181,677	902,734	507,480
Total revenue	4,339,527	5,096,088	13,128,881	14,979,089
Cost of revenue	2,305,956	3,056,314	7,976,455	8,193,381
Gross profit	2,033,571	2,039,774	5,152,426	6,785,708
Selling, general and administrative expenses:				
Research and development expense	731,077	720,640	2,353,081	2,247,863
Selling, advertising and promotional expense	1,369,244	1,175,498	3,295,743	2,951,791
Stock-based compensation expense	422,246	479,084	1,203,312	1,077,485
General and administrative expense	2,752,645	1,805,337	6,772,483	5,429,511
Total selling, general and administrative expenses.....	5,275,212	4,180,559	13,624,619	11,706,650
Operating loss	(3,241,641)	(2,140,785)	(8,472,193)	(4,920,942)
Interest income	5,913	4,430	22,103	12,573
Change in warrant derivative liabilities	(19,075)	89,645	18,740	371,428
Change in fair value of secured convertible notes payable	—	—	—	(4,434,383)
Senior secured convertible notes payable issuance expenses	—	(19,495)	—	(93,845)
Other income (expense).....	—	—	—	1,878
Interest expense	(776)	(74,958)	(2,438)	(280,972)
Loss before income tax expense	(3,255,579)	(2,141,163)	(8,433,788)	(9,344,263)
Income tax (expense) benefit.....	—	—	—	—
Net loss	<u>\$ (3,255,579)</u>	<u>\$ (2,141,163)</u>	<u>\$ (8,433,788)</u>	<u>\$ (9,344,263)</u>
Net loss per share information:				
Basic	\$ (0.61)	\$ (0.45)	\$ (1.59)	\$ (2.29)
Diluted	\$ (0.61)	\$ (0.45)	\$ (1.59)	\$ (2.29)
Weighted average shares outstanding:				
Basic	5,380,855	4,799,126	5,315,646	4,076,493
Diluted	5,380,855	4,799,126	5,315,646	4,076,493

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net loss	\$ (3,255,579)	\$ (2,141,163)	\$(8,433,788)	\$(9,344,263)
Non-GAAP adjustments:				
Stock-based compensation	422,246	479,084	1,203,312	1,077,485
Depreciation and amortization	134,724	144,082	430,537	472,785
Change in fair value of secured convertible notes payable	—	—	—	4,434,383
Convertible note payable issuance expenses	—	19,495	—	93,845
Change in derivative liabilities	19,075	(89,645)	(18,740)	(371,428)
Interest (income) expense, net	(5,137)	74,958	(19,665)	280,972
Total Non-GAAP adjustments	<u>570,908</u>	<u>627,974</u>	<u>1,595,444</u>	<u>5,988,042</u>
Non-GAAP adjusted EBITDA loss	<u>\$ (2,684,671)</u>	<u>\$ (1,513,189)</u>	<u>\$(6,838,344)</u>	<u>\$(3,356,221)</u>
Non-GAAP adjusted EBITDA loss per share information:				
Basic	\$ (0.50)	\$ (0.32)	\$ (1.29)	\$ (0.82)
Diluted	\$ (0.50)	\$ (0.32)	\$ (1.29)	\$ (0.82)
GAAP basis EBITDA loss per share information:				
Basic	\$ (0.61)	\$ (0.45)	\$ (1.59)	\$ (2.29)
Diluted	\$ (0.61)	\$ (0.45)	\$ (1.59)	\$ (2.29)
Weighted average shares outstanding:				
Basic	5,380,855	4,799,126	5,315,646	4,076,793
Diluted	5,380,855	4,799,126	5,315,646	4,076,793

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

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

	Nine Months Ended September 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net loss	\$(8,433,788)	\$(9,344,263)
Adjustments to reconcile net loss to net cash flows (used in) operating activities:		
Depreciation and amortization	430,537	472,785
Secured convertible note payable expenses	—	93,845
Stock-based compensation	1,203,312	1,077,485
Change in derivative liabilities	(18,740)	(371,428)
Change in fair value of secured convertible note payable	—	4,434,383
Interest expense related to stock conversion and note extension	—	93,244
Provision for inventory obsolescence	253,048	411,357
Provision for doubtful accounts receivable	(4,997)	9,020
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - trade	856,388	(146,007)
Accounts receivable - other	(147,047)	10,616
Inventories	(3,558)	(3,803,303)
Prepaid expenses	(47,746)	(193,667)
Other assets	24,527	(98,149)
Increase(decrease) in:		
Accounts payable	403,607	(602,767)
Accrued expenses	311,666	66,698
Income taxes payable	(3,091)	3
Deposits	—	(1,878)
Deferred revenue	449,271	860,070
Net cash (used in) operating activities	(4,726,611)	(7,031,956)
Cash Flows from Investing Activities:		
Purchases of furniture, fixtures and equipment	(284,644)	(247,335)
Additions to intangible assets	(89,263)	(147,439)
Release of restricted cash related to secured convertible note	—	1,500,000
Net cash provided by (used in) investing activities	(373,907)	1,105,226
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock and warrants, net of issuance costs	—	11,223,285
Payment of notes payable	—	(2,500,000)
Debt issuance expense for secured convertible notes payable	—	(93,845)
Proceeds from exercise of stock options and warrants	19,055	2,133,889
Principal payments on capital lease obligation	(26,917)	(73,554)
Net cash provided by (used in) financing activities	(7,862)	10,689,775
Net increase (decrease) in cash and cash equivalents	(5,108,380)	4,763,045
Cash and cash equivalents, beginning of period	6,924,079	3,049,716
Cash and cash equivalents, end of period	\$ 1,815,699	\$ 7,812,761
Supplemental disclosures of cash flow information:		
Cash payments for interest	\$ 2,425	\$ 176,769
Cash payments for income taxes	\$ 10,591	\$ 8,197
Supplemental disclosures of non-cash investing and financing activities:		
Restricted common stock grant	\$ 200	\$ 139
Capital expenditures financed by capital lease obligations	\$ —	\$ 94,367
Conversion of secured convertible note into common stock	\$ —	\$ 7,740,834

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