

CORPORATE GOVERNANCE

Board of Directors and Committee Meetings

Our Board of Directors held four regular and two telephonic meetings during the fiscal year ended December 31, 2008. Each of our directors attended at least 75% of the meetings of the Board of Directors and the committees on which he served in the fiscal year ended December 31, 2008. Our directors are expected, absent exceptional circumstances, to attend all Board meetings and meetings of committees on which they serve, and are also expected to attend our Annual Meeting of Stockholders. All directors then in office attended the 2008 Annual Meeting of Stockholders.

Our Board of Directors currently has three committees: an Audit Committee, a Compensation Committee and a Nominating Committee. Each committee has a written charter approved by the Board of Directors outlining the principal responsibilities of the committee. These charters are also available on the Investor Relations page of our website. All of our directors, other than our Chief Executive Officer, plan to meet in executive sessions without management present on a regular basis in 2009, as they did in 2008.

Audit Committee

Our Audit Committee appoints the Company's independent auditors, reviews audit reports and plans, accounting policies, financial statements, internal controls, audit fees, and certain other expenses and oversees our accounting and financial reporting process. Specific responsibilities include selecting, hiring and terminating our independent auditors; evaluating the qualifications, independence and performance of our independent auditors; approving the audit and non-audit services to be performed by our auditors; reviewing the design, implementation, adequacy and effectiveness of our internal controls and critical accounting policies; overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters; reviewing any earnings announcements and other public announcements regarding our results of operations, in conjunction with management and our public auditors; and preparing the report that the Securities and Exchange Commission requires in our annual proxy statement. The report of the Audit Committee for the year-ended December 31, 2008 is included in this proxy statement.

The Audit Committee is comprised of four Directors, each of whom is independent, as defined by the rules and regulations of the Securities and Exchange Commission. The Audit Committee held four meetings during the year-ended December 31, 2008. On September 22, 2005, the Company created the Audit Committee and adopted a written charter for it. The members of our Audit Committee are Daniel F. Hutchins, Leroy C. Richie, Elliot M. Kaplan and Edward Juchniewicz. Mr. Hutchins was the Chairman of the Committee during the fiscal year ended December 31, 2008. The Board of Directors determined that Mr. Hutchins qualifies as an "audit committee financial expert," as defined under the rules and regulations of the Securities and Exchange Commission, and is independent as noted above.

Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by the Company's independent accountants must be approved in advance by the Audit Committee to assure that such services do not impair the accountants' independence from the Company. Accordingly, the Audit Committee has adopted an Audit and Non-Audit Services Pre-Approval Policy (the "Policy") that sets forth the procedures and the conditions pursuant to which services to be performed by the independent accountants are to be pre-approved. Pursuant to the Policy, certain services described in detail in the Policy may be pre-approved on an annual basis together with pre-approved maximum fee levels for such services. The services eligible for annual pre-approval consist of services that would be included under the categories of Audit Fees, Audit-Related Fees and Tax Fees in the above table, as well as services for limited review of actuarial reports and calculations. If not pre-approved on an annual basis, proposed services must otherwise be separately approved prior to being performed by the independent accountants. In addition, any services that receive annual pre-approval but exceed the pre-approved maximum fee level also will require separate approval by the Audit Committee prior to being performed. The Audit Committee may delegate authority to pre-approve audit and non-audit services to any member of the Audit Committee, but may not delegate such authority to management.

Compensation Committee

Our Compensation Committee assists our Board of Directors in determining the development plans and compensation of our officers, directors and employees. Specific responsibilities include approving the compensation and benefits of our executive officers; reviewing the performance objectives and actual performance of our officers; administering our stock option and other equity compensation plans; and reviewing and discussing with management the compensation discussion and analysis that the Securities and Exchange Commission requires in our future Form 10-Ks and proxy statements. The report of the Compensation Committee for the year-ended December 31, 2008 is included in this proxy statement.

Our Compensation Committee is comprised of four Directors, whom the Board considers to be independent under the rules of the Securities and Exchange Commission. The Compensation Committee held two meetings during the year-ended December 31, 2008. On September 22, 2007, the Board of Directors adopted a written charter. The members of our Compensation Committee are Elliot M. Kaplan, Chairman, Leroy C. Richie, Daniel F. Hutchins and Edward Juchniewicz.

Nominating Committee

Our Nominating Committee assists our Board of Directors by identifying and recommending individuals qualified to become members of our Board of Directors, reviewing correspondence from our stockholders, and establishing, evaluating and overseeing our corporate governance guidelines. Specific responsibilities include the following: evaluating the composition, size and governance of our Board of Directors and its committees and making recommendations regarding future planning and appointing directors to our committees; establishing a policy for considering stockholder nominees for election to our Board of Directors; and evaluating and recommending candidates for election to our Board of Directors.

Our Nominating Committee is comprised of four Directors, whom the Board considers to be independent under the rules of the Securities and Exchange Commission. The Nominating Committee held one meeting during the year-ended December 31, 2008. The members of our Nominating Committee are Edward Juchniewicz, Chairman, Elliot M. Kaplan, Daniel F. Hutchins and Leroy C. Richie. The Nominating Committee was created by our Board of Directors on December 27, 2007, when the Board of Directors adopted a written charter.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is made up of four independent, non-employee directors, Messrs. Richie, Kaplan, Hutchins and Juchniewicz. No interlocking relationship exists between the members of our Compensation Committee and the board of directors or compensation committee of any other company.

Director Independence

In accordance with the Nasdaq listing standards, our Board of Directors undertook its annual review of the independence of the directors and considered whether any director had a material relationship with Digital or its management that could compromise his ability to exercise independent judgment in carrying out his responsibilities. As a result of this review, the Board affirmatively determined that the current board members, other than Mr. Ross, our President and Chief Executive Officer, are “independent directors” under the Nasdaq Rules. Additionally, the members of our three standing committees are required to be, and the Board of Directors has determined that each member is, independent in accordance with the Nasdaq and SEC rules.

Stockholder Communications with the Board of Directors

Stockholders may communicate with the Board of Directors by writing to us at Digital Ally, Inc., Attention: Corporate Secretary, 7311 West 130th Street, Suite 170, Overland Park, KS 66213. Stockholders who would like their submission directed to a particular member of the Board of Directors may so specify and the communication will be forwarded as appropriate.

Policy for Director Recommendations and Nominations

Our Nominating Committee of the Board will consider candidates for Board membership suggested by Board members, management and our stockholders. It is the policy for our Nominating Committee to consider recommendations for candidates to the Board of Directors from any stockholder of record in accordance with our bylaws. A director candidate recommended by our stockholders will be considered in the same manner as a nominee recommended by a Board member, management or other sources. In addition, a stockholder may nominate a person directly for election to the Board of Directors at an Annual Meeting of Stockholders, provided the stockholder meets the requirements set forth in our bylaws.

When the Nominating Committee has either identified a prospective nominee or determined that an additional or replacement director is required, the Nominating Committee may take such measures as it considers appropriate in connection with its evaluation of a director candidate, including candidate interviews, inquiry of the person or persons making the recommendation or nomination, engagement of an outside search firm to gather additional information, or reliance on the knowledge of the members of the Board of Directors or management. In its evaluation of director candidates, including the members of the Board eligible for re-election, the Nominating Committee considers a number of factors, including: the current size and composition of the Board of Directors, the needs of the Board of Directors and the respective committees of the Board, and such factors as judgment, independence, character and integrity, age, area of expertise, diversity of experience, length of service, and potential conflicts of interest.

The Nominating Committee of the Board selects director nominees. In relation to such nomination process, the Nominating Committee:

- determines the criteria for the selection of prospective directors and committee members;
- reviews the composition and size of the Board and its committees to ensure proper expertise and diversity among its members;
- evaluates the performance and contributions of directors eligible for re-election;
- determine the desired qualifications for individual directors and desired skills and characteristics for the Board;
- identifies persons who can provide needed skills and characteristics;
- screens possible candidates for Board membership;
- reviews any potential conflicts of interests between such candidates and the Company's interests; and
- shares information concerning the candidates with the Board, and solicit input from other directors.

The Nominating Committee has specified the following minimum qualifications that it believes must be met by a nominee for a position on the Board: the highest personal and professional ethics and integrity; proven achievement and competence in the nominee's field and the ability to exercise sound business judgment; skills that are complementary to those of the existing Board; the ability to assist and support management and make significant contributions to our success; an understanding of the fiduciary responsibilities that are required of a member of the Board of Directors; and the commitment of time and energy necessary to diligently carry out those responsibilities.

After completing its evaluation, the Nominating Committee makes a recommendation to the full Board of Directors as to the persons who should be nominated to the Board, and the Board of Directors determines the nominees after considering the recommendation and report of the Nominating Committee.

Code of Ethics and Conduct

Our Board of Directors has adopted a *Code of Ethics and Conduct* that is applicable to all of our employees, officers and directors. Our *Code of Ethics and Conduct* is intended to ensure that our employees act in accordance with the highest ethical standards. The *Code of Ethics and Conduct* is available on the Investor Relations page of our website at <http://www.digitalally.com>. and the *Code of Ethics and Conduct* has been filed as an exhibit to our Annual Report on Form 10-K.

Director Compensation

The non-employee directors received the stock option grants noted in the section below entitled "Compensation of Directors and Advisory Board Members" for agreeing to serve on our Board, including on the Audit and Compensation Committees. Our Directors and members of our Advisory Board, who are neither

employees nor our affiliates, receive options upon their appointment as Directors and as members of our Advisory Board. Each member of our Advisory Board receives a grant of 10,000 options upon appointment to a one-year term on our Advisory Board and has received 2,000 options upon reappointment in succeeding years. The options are exercisable at the closing price of our common stock on the day of the grant of such options. The grants to such Directors are set forth in the Section entitled "Compensation of Directors and Advisory Board Members." In 2008, we paid each of our non-employee directors an annual fee of \$30,000 and a meeting fee of \$4,000 for their services as a Board member. We paid Leroy C. Richie an additional annual fee of \$10,000 as our lead director. Daniel F. Hutchins received an annual fee of \$10,000 as Chairman of the Audit Committee and members of such Committee were paid \$4,000 annually. Elliot M. Kaplan was paid an annual fee of \$5,000 as Chairman of the Compensation Committee and members of such Committee were paid \$1,000 annually. Edward Juchniewicz received an annual fee of \$5,000 as Chairman of the Nominating Committee and members of such Committee were paid \$1,000 annually. We also compensated non-employee directors at the rate of \$500 per telephonic meeting. In 2009, our compensation of Directors will remain the same as 2008. Our directors and officers have agreed to defer 25% of their 2009 monetary compensation until our year-to-date sales reach a threshold of \$50 million in 2009.

In addition, in 2008 we have granted to each of our non-employee directors options to purchase 50,000 shares of our Common Stock, vesting 5,000 shares on January 2, 2009; 10,000 shares on January 2, 2010; 15,000 shares on January 2, 2011; and 20,000 shares on January 2, 2012. All of the foregoing options were approved as part of the 2008 Stock Option and Restricted Stock Plan by the shareholders at the 2008 Annual Meeting.

Director Compensation

The following table summarizes the compensation earned by our directors for the fiscal year ended December 31, 2008:

Name	Fees earned or paid in cash (\$)	Stock awards (\$)	Option awards (\$)(2)	Total (\$)
Stanton E. Ross (1)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Leroy C. Richie	\$46,000	\$ -0-	\$93,162	\$139,162
Edward Juchniewicz	\$44,000	\$ -0-	\$93,162	\$137,162
Elliot M. Kaplan	\$44,000	\$ -0-	\$93,162	\$137,162
Daniel F. Hutchins	\$46,000	\$ -0-	\$93,162	\$139,162

- (1) Mr. Ross' compensation and option awards are noted in the Executive Compensation table because he did not receive compensation or stock options for his services as a director.
- (2) Option awards noted represent the amount of stock option expense recorded by the Company as determined under Statement of Financial Accounting Standards No. 123 (revised 2004) "Share Based Payment" during 2008. Please refer to Note 10 to the financial statements for further description of the awards and the underlying assumptions utilized to determine the amount of expense related to such grants.