

DIGITAL ALLY INC
Form 10-Q
August 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended June 30, 2014.

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from _____ to _____.

Commission File Number: 001-33899

Digital Ally, Inc.

(Exact name of registrant as specified in its charter)

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at August 14, 2014
Common Stock, \$0.001 par value	2,706,791

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DIGITAL ALLY, INC.

JUNE 30, 2014

(Unaudited)

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PART I – FINANCIAL INFORMATION**Item 1 – Financial Statements.****DIGITAL ALLY, INC.****CONSOLIDATED BALANCE SHEETS****JUNE 30, 2014 AND DECEMBER 31, 2013**

	June 30, 2014	December 31, 2013
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$676,634	\$454,978
Accounts receivable-trade, less allowance for doubtful accounts of \$65,977 – 2014 and \$55,033 – 2013	1,919,785	1,835,780
Accounts receivable-other	120,030	153,563
Inventories, net	8,527,668	8,046,471
Prepaid expenses	368,123	402,823
Restricted cash	662,500	—
 Total current assets	 12,274,740	 10,893,615
 Furniture, fixtures and equipment	 4,212,543	 4,559,504
Less accumulated depreciation and amortization	3,314,123	3,621,432
	898,420	938,072
 Restricted cash	 —	 662,500
Intangible assets, net	314,049	267,281
Other assets	249,671	245,045
 Total assets	 \$13,736,880	 \$13,006,513
 Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$1,530,070	\$1,441,151
Accrued expenses	1,392,574	1,471,458
Senior secured convertible note payable-current	1,000,000	—
Subordinated note payable-short-term, net of discount of \$121,411 – 2014 and \$0 – 2013	2,378,589	—

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Derivative liabilities	258,731	—
Capital lease obligation-current	92,317	91,279
Deferred revenue-current	40,778	6,000
Income taxes payable	8,585	8,615
Litigation accrual	530,000	—
Customer deposits	1,878	1,878
Total current liabilities	7,233,522	3,020,381
Long-term liabilities:		
Subordinated note payable-long-term, net of discount of \$0 – 2014 and \$187,634 – 2013	—	2,312,366
Senior secured convertible note payable-long-term, at fair value	649,170	—
Litigation accrual-long term	—	530,000
Deferred revenue-long term	323,600	24,000
Capital lease obligation-long term	19,294	64,989
Total long term liabilities	992,064	2,931,355
Commitments and contingencies		
Stockholder's equity:		
Common stock, \$0.001 par value; 9,375,000 shares authorized; shares issued: 2,470,381 – 2014 and 2,284,048 – 2013	2,470	2,284
Additional paid in capital	25,271,139	24,955,220
Treasury stock, at cost (shares: 63,518 – 2014 and 63,518 - 2013)	(2,157,226)	(2,157,226)
Accumulated deficit	(17,605,089)	(15,745,501)
Total stockholders' equity	5,511,294	7,054,777
Total liabilities and stockholders' equity	\$ 13,736,880	\$ 13,006,513

See Notes to Consolidated Financial Statements.

DIGITAL ALLY, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND SIX MONTHS ENDED****JUNE 30, 2014 AND 2013****(Unaudited)**

	Three months ended		Six months ended June	
	June 30,		30,	
	2014	2013	2014	2013
Product revenue	\$3,329,876	\$4,801,499	\$7,104,572	\$9,393,622
Other revenue	119,878	250,396	253,523	438,822
Total revenue	3,449,754	5,051,895	7,358,095	9,832,444
Cost of revenue	1,521,365	2,014,080	3,108,767	3,898,702
Gross profit	1,928,389	3,037,815	4,249,328	5,933,742
Selling, general and administrative expenses:				
Research and development expense	695,101	921,937	1,550,350	1,716,099
Selling, advertising and promotional expense	664,077	715,051	1,271,221	1,289,490
Stock-based compensation expense	183,419	191,521	314,266	295,013
General and administrative expense	1,351,442	1,230,545	2,625,293	2,472,962
Total selling, general and administrative expenses	2,894,039	3,059,054	5,761,130	5,773,564
Operating income (loss)	(965,650)	(21,239)	(1,511,802)	160,178
Interest income	7,510	3,637	10,024	6,820
Interest expense	(127,249)	(70,768)	(227,061)	(141,673)
Income (loss) from derivative valuation	97,142	—	97,142	—