

DIGITAL ALLY INC
Form 10-Q
May 15, 2017

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 March 31, 2017.

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)

Nevada

20-0064269

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

9705 Loiret Blvd, Lenexa, KS 66219

(Address of principal executive offices) (Zip Code)

(913) 814-7774

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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 May 12, 2017
Common Stock, \$0.001 par value	5,679,731

FORM 10-Q

DIGITAL ALLY, INC.

MARCH 31, 2017

TABLE OF CONTENTS	Page(s)
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements.</u>	
<u>Condensed Consolidated Balance Sheets – March 31, 2017 (Unaudited) and December 31, 2016</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2017 and 2016 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Stockholders’ Equity for the Three Months Ended March 31, 2017 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2016 (Unaudited)</u>	6
<u>Notes to the Condensed Consolidated Financial Statements (Unaudited)</u>	7-24
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	43
<u>Item 4T. Controls and Procedures.</u>	43
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings.</u>	44-46
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	47
<u>Item 3. Defaults Upon Senior Securities</u>	47
<u>Item 4. Mine Safety Disclosures</u>	47
<u>Item 5. Other Information.</u>	47
<u>Item 6. Exhibits.</u>	47
<u>SIGNATURES</u>	48

EXHIBITS

CERTIFICATIONS

2

PART I – FINANCIAL INFORMATION**Item 1 – Financial Statements.****DIGITAL ALLY, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****MARCH 31, 2017 AND DECEMBER 31, 2016**

	(Unaudited) March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$910,977	\$3,883,124
Accounts receivable-trade, less allowance for doubtful accounts of \$70,000 – 2017 and 2016	3,396,326	2,519,184
Accounts receivable-other	440,222	341,326
Inventories, net	9,707,396	9,586,311
Restricted cash	500,000	—
Prepaid expenses	666,668	402,158
Total current assets	15,621,589	16,732,103
Furniture, fixtures and equipment, net	779,731	873,902
Restricted cash	—	500,000
Intangible assets, net	474,561	467,176
Other assets	183,612	261,915
Total assets	\$17,059,493	\$18,835,096
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$2,225,216	\$2,455,579
Accrued expenses	1,242,419	1,542,729
Derivative liabilities	32,471	33,076
Capital lease obligation-current	33,260	32,792
Deferred revenue-current	1,100,805	925,932
Secured convertible debentures, at fair value	4,155,857	—
Income taxes payable	6,592	7,048

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Total current liabilities	8,796,620	4,997,156
Long-term liabilities:		
Secured convertible debentures, at fair value	—	4,000,000
Capital lease obligation-less current portion	—	8,492
Deferred revenue-long term	2,152,523	2,073,176
Total liabilities	10,949,143	11,078,824
Commitments and contingencies		
Stockholder's Equity:		
Common stock, \$0.001 par value; 25,000,000 shares authorized; shares issued: 5,743,249 – 2017 and 5,552,449 – 2016	5,743	5,552
Additional paid in capital	59,952,130	59,565,288
Treasury stock, at cost (63,518 shares)	(2,157,226)	(2,157,226)
Accumulated deficit	(51,690,297)	(49,657,342)
Total stockholders' equity	6,110,350	7,756,272
Total liabilities and stockholders' equity	\$17,059,493	\$18,835,096

See Notes to Condensed Consolidated Financial Statements.

DIGITAL ALLY, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE MONTHS ENDED****MARCH 31, 2017 AND 2016****(Unaudited)**

	Three Months ended	
	March 31, 2017	2016
Revenue:		
Product	\$4,684,655	\$4,086,914
Service and other	545,205	318,029
Total revenue	5,229,860	4,404,943
Cost of revenue:		
Product	\$2,774,037	\$2,426,045
Service and other	178,974	125,279
Total cost of revenue	2,953,011	2,551,324
Gross profit	2,276,849	1,853,619
Selling, general and administrative expenses:		
Research and development	817,891	808,854
Selling, advertising and promotional	1,035,522	922,992
Stock-based compensation	387,033	425,830
General and administrative	1,838,616	2,033,838
Total selling, general and administrative expenses	4,079,062	4,191,514
Operating loss	(1,802,213)	(2,337,895)
Interest income	5,061	8,992
Change in warrant derivative liabilities	605	16,533
Change in fair value of secured convertible debentures	(155,857)	—
Interest expense	(80,551)	(755)
Loss before income tax (benefit)	(2,032,955)	(2,313,125)
Income tax (benefit)	—	—

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Net loss			
		\$(2,032,955)	\$(2,313,125)

Net loss per share information:

Basic		\$(0.36)	\$(0.44)
Diluted		\$(0.36)	\$(0.44)

Weighted average shares outstanding:

Basic		5,632,077		5,246,148
Diluted		5,632,077		5,246,148

See Notes to Condensed Consolidated Financial Statements.

DIGITAL ALLY, INC.**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****FOR THE THREE MONTHS ENDED MARCH 31, 2017****(Unaudited)**

	Common Stock		Additional Paid in Capital	Treasury stock	Accumulated deficit	Total
	Shares	Amount				
Balance, December 31, 2016	5,552,449	\$ 5,552	\$59,565,288	\$(2,157,226)	\$(49,657,342)	\$7,756,272
Stock-based compensation	—	—	387,033	—	—	387,033
Restricted common stock grant	200,000	200	(200)	—	—	—
Restricted common stock forfeitures	(9,200)	(9)	9	—	—	—
Net loss	—	—	—	—	(2,032,955)	(2,032,955)
Balance, March 31, 2017	5,743,249	\$ 5,743	\$59,952,130	\$(2,157,226)	\$(51,690,297)	\$6,110,350

See Notes to Condensed Consolidated Financial Statements.

DIGITAL ALLY, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016****(Unaudited)**

	2017	2016
Cash Flows from Operating Activities:		
Net loss	\$(2,032,955)	\$(2,313,125)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	158,636	152,018
Change in derivative liabilities	(605)	(16,533)
Change in fair value of secured convertible debentures	155,857	—
Stock based compensation	387,033	425,830
Provision for inventory obsolescence	319,364	137,989
Provision for doubtful accounts receivable	—	(7,221)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - trade	(877,142)	488,702
Accounts receivable - other	(98,896)	(932)
Inventories	(440,449)	215,650
Prepaid expenses	(264,510)	(293,077)
Other assets	78,303	35,123
Increase (decrease) in:		
Accounts payable	(230,363)	48,677
Accrued expenses	(300,310)	49,866
Income taxes payable	(456)	(4,450)
Deferred revenue	254,220	120,849
Net cash used in operating activities	(2,892,273)	(960,634)
Cash Flows from Investing Activities:		
Purchases of furniture, fixtures and equipment	(32,625)	(46,690)
Additions to intangible assets	(39,225)	(26,072)
Net cash provided by (used) in investing activities	(71,850)	(72,762)
Cash Flows from Financing Activities:		
Principal payments on capital lease obligation	(8,024)	(9,866)
Net cash provided by (used in) in financing activities	(8,024)	(9,866)
Net decrease in cash and cash equivalents	(2,972,147)	(1,043,262)
Cash and cash equivalents, beginning of period	3,883,124	6,924,079
Cash and cash equivalents, end of period	\$910,977	\$5,880,817
Supplemental disclosures of cash flow information:		
Cash payments for interest	\$551	\$755
Cash payments for income taxes	\$456	\$4,450
Supplemental disclosures of non-cash investing and financing activities:		
Restricted common stock grant	\$200	\$70

Restricted common stock forfeitures	\$9	\$—
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See Notes to Condensed Consolidated Financial Statements.

DIGITAL ALLY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)