

DIGITAL ALLY INC
Form 10-Q
April 30, 2013

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, 2013.

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

(State or other jurisdiction of incorporation
or organization)

20-0064269

(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.

Edgar Filing: DIGITAL ALLY INC - Form 10-Q

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a 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 April 29, 2013
Common Stock, \$0.001 par value	2,075,564

FORM 10-Q
DIGITAL ALLY, INC.
MARCH 31, 2013

TABLE OF CONTENTS

		Page(s)
<u>PART I – FINANCIAL INFORMATION</u>		
<u>Item 1.</u>	<u>Financial Statements.</u>	3
	<u>Condensed Consolidated Balance Sheets – March 31, 2013 and December 31, 2012 (Unaudited)</u>	3
	<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2013 and 2012 (Unaudited)</u>	4
	<u>Condensed Consolidated Statements of Stockholders’ Equity for the Three Months Ended March 31, 2013 (Unaudited)</u>	5
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013 and 2012 (Unaudited)</u>	6
	<u>Notes to the Condensed Consolidated Financial Statements (Unaudited)</u>	7-19
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	20
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk.</u>	36
<u>Item 4T.</u>	<u>Controls and Procedures.</u>	36
<u>PART II - OTHER INFORMATION</u>		
<u>Item 1.</u>	<u>Legal Proceedings.</u>	37
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	37
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	37
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	37
<u>Item 5.</u>	<u>Other Information.</u>	38
<u>Item 6.</u>	<u>Exhibits.</u>	38
	<u>SIGNATURES</u>	39

EXHIBITS

CERTIFICATIONS

2

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DIGITAL ALLY, INC.

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2013 AND DECEMBER 31, 2012
(Unaudited)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 394,745	\$ 703,172
Accounts receivable-trade, less allowance for doubtful accounts of \$60,033 – 2013 and \$70,193 – 2012	2,247,017	2,956,654
Accounts receivable-other	109,639	71,148
Notes receivable-current	65,000	-
Inventories	7,655,514	7,294,721
Prepaid expenses	450,707	258,642
Total current assets	10,922,622	11,284,337
Furniture, fixtures and equipment	4,533,342	4,392,880
Less accumulated depreciation and amortization	3,513,753	3,454,087
	1,019,589	938,793
Restricted cash	662,500	662,500
Intangible assets, net	218,037	217,660
Other assets	252,182	241,446
Total assets	\$ 13,074,930	\$ 13,344,736
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 945,797	\$ 1,520,207
Accrued expenses	881,068	793,524
Capital lease obligation-current	68,117	66,087
Income taxes payable	5,817	6,717
Customer deposits	1,878	1,878
Total current liabilities	1,902,677	2,388,413
Long-term liabilities:		
Subordinated note payable-long-term, net of discount of \$79,370 and \$96,378	2,420,630	2,403,622
Litigation accrual-long term	530,000	530,000

Edgar Filing: DIGITAL ALLY INC - Form 10-Q

Capital lease obligation-long term	102,723	120,988
Total long term liabilities	3,053,353	3,054,610
Commitments and contingencies		
Common stock, \$0.001 par value; 9,375,000 shares authorized; shares issued: 2,139,082 – 2013 and 2,099,082 – 2012		
	2,139	2,099
Additional paid in capital	23,407,853	23,304,401
Treasury stock, at cost (shares: 63,518 – 2013 and 63,518 - 2012)	(2,157,226)	(2,157,226)
Accumulated deficit	(13,133,866)	(13,247,561)
Total stockholders' equity	8,118,900	7,901,713
Total liabilities and stockholders' equity	\$ 13,074,930	\$ 13,344,736

See Notes to Consolidated Financial Statements.

TABLE OF CONTENTS

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
MARCH 31, 2013 AND 2012
(Unaudited)

	Three Months ended March 31,	
	2013	2012
Product revenue	\$4,513,792	\$3,588,553
Other revenue	266,757	193,903
Total revenue	4,780,549	3,782,456
Cost of revenue	1,884,622	1,785,839
Gross profit	2,895,927	1,996,617
Selling, general and administrative expenses:		
Research and development expense	794,162	602,903
Selling, advertising and promotional expense	574,439	581,661
Stock-based compensation expense	103,492	120,641
General and administrative expense	1,242,417	1,423,592
Total selling, general and administrative expenses	2,714,510	2,728,797
Operating income (loss)	181,417	(732,180)
Interest income	3,183	2,636
Interest expense	(70,905)	(75,185)
Income (loss) before income tax expense	113,695	(804,729)
Income tax expense	—	—
Net income (loss)	\$113,695	\$(804,729)
Net income (loss) per share information:		
Basic	\$.06	\$(0.40)
Diluted	\$.05	\$(0.40)
Weighted average shares outstanding:		
Basic	2,064,328	2,019,259
Diluted	2,073,708	2,019,259

See Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2013
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Treasury stock	Accumulated deficit	Total
Balance, January 1, 2013	2,099,082	\$ 2,099	\$ 23,304,401	\$ (2,157,226)	\$ (13,247,561)	\$ 7,901,713
Stock-based compensation	—	—	103,492	—	—	103,492
Restricted common stock grant	40,000	40	(40)	—	—	—
Net Income	—	—	—	—	113,695	113,695
Balance, March 31, 2013	2,139,082	\$ 2,139	\$ 23,407,853	\$ (2,157,226)	\$ (13,133,866)	\$ 8,118,900

See Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(Unaudited)

	2013	2012
Cash Flows From Operating Activities:		
Net income (loss)	\$ 113,695	\$(804,729)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	105,460	194,231
Stock based compensation	103,492	120,641
Provision for inventory obsolescence	(53,212)	1,710
Provision for doubtful accounts receivable	(10,160)	—
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - trade	719,797	682,140
Accounts receivable - other	(38,491)	17,629
Inventories	(307,581)	(508,474)
Notes receivable - current	(65,000)	—
Prepaid expenses	(196,904)	48,970
Other assets	(10,736)	8,183
Increase (decrease) in:		
Accounts payable	(574,410)	156,435
Accrued expenses	87,544	(282,149)
Income taxes payable	(900)	(17,000)
Customer deposits	—	(30,021)
Net cash used in operating activities	(127,406)	(412,434)
Cash Flows from Investing Activities:		
Purchases of furniture, fixtures and equipment	(162,180)	(68,509)
Additions to intangible assets	(2,605)	—
Net cash used in investing activities	(164,785)	(68,509)
Cash Flows from Financing Activities:		
Payments on capital lease obligations	(16,236)	—
Net cash used in financing activities	(16,236)	—
Net decrease in cash and cash equivalents	(308,427)	(480,943)
Cash and cash equivalents, beginning of period	703,172	2,270,393
Cash and cash equivalents, end of period	\$ 394,745	\$ 1,789,450
Supplemental disclosures of cash flow information:		
Cash payments for interest	\$ 53,896	\$ 50,000
Cash payments for income taxes	\$ 1,175	\$ 17,000

See Notes to Condensed Consolidated Financial Statements.

6

TABLE OF CONTENTS

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

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES