

DIGITAL ALLY INC
Form 10-Q
May 01, 2009
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, 2009

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.)

7311 W. 130th, Suite 170, Overland Park, KS 66213
(Address of principal executive offices) (Zip Code)

(913) 814-7774
(Issuer's telephone number)

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer Do not check if a smaller reporting company

Smaller reporting company

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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 equity, as of the latest practicable date:

Class	Outstanding at April 30, 2009
Common Stock, \$0.001 par value	15,718,617

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 MARCH 31, 2009

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS.

DIGITAL ALLY, INC.
CONDENSED BALANCE SHEETS
MARCH 31, 2009 AND DECEMBER 31, 2008

Assets	2009 (unaudited)	2008
Current assets:		
Cash and cash equivalents	\$ 288,504	\$ 1,205,947
Accounts receivable-trade, less allowance for doubtful accounts of \$110,000 - 2009 and \$90,000 – 2008	4,473,907	6,242,306
Accounts receivable-other	510,757	414,176
Inventories	8,117,515	8,359,961
Prepaid income taxes	75,943	85,943
Prepaid expenses	201,004	217,916
Deferred taxes	2,060,000	1,345,000
Total current assets	15,727,630	17,871,249
Furniture, fixtures and equipment	2,646,105	2,471,205
Less accumulated depreciation and amortization	954,466	738,554
	1,691,639	1,732,651
Deferred taxes	935,000	975,000
Intangible assets, net	411,255	365,643
Other assets	102,834	149,066
Total assets	\$ 18,868,358	\$ 21,093,609
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,601,218	\$ 2,791,565
Accrued expenses	930,128	1,053,624
Customer deposits	170,518	84,039
Total current liabilities	2,701,864	3,929,228
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 75,000,000 shares authorized; Shares issued: 15,967,227 – 2009 and 15,926,077 – 2008	15,968	15,926
Additional paid in capital	18,793,969	18,428,292
Treasury stock, at cost (shares: 248,610 – 2009 and 210,360 - 2008)	(1,687,465)	(1,624,353)
Retained earnings (deficit)	(955,978)	344,516
Total stockholders' equity	16,166,494	17,164,381
Total liabilities and stockholders' equity	\$ 18,868,358	\$ 21,093,609

See Notes to Condensed Financial Statements.

DIGITAL ALLY, INC.
CONDENSED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
MARCH 31, 2009 AND 2008

	Three months ended	
	March 31, 2009 (unaudited)	March 31, 2008 (unaudited)
Revenue	\$ 4,389,184	\$ 8,601,923
Cost of revenue	2,529,644	3,281,029
Gross profit	1,859,540	5,320,894
Operating expenses	3,827,165	2,825,054
Operating income (loss)	(1,967,625)	2,495,840
Interest income	9,131	26,947
Income (loss) before income tax provision	(1,958,494)	2,522,787
Income tax benefit (provision)	658,000	(846,000)
Net income (loss)	\$ (1,300,494)	\$ 1,676,787
Net income (loss) per share information:		
Basic	\$ (0.08)	\$ 0.12
Diluted	\$ (0.08)	\$ 0.10
Weighted average shares outstanding:		
Basic	15,716,200	14,474,062
Diluted	15,716,200	17,280,460

See Notes to Condensed Financial Statements.

DIGITAL ALLY, INC.
CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2009 (Unaudited)

	Common Stock		Additional Paid In Capital	Treasury stock	Retained earnings (deficit)	Total
	Shares	Amount				
Balance, January 1, 2009	15,926,077	\$ 15,926	\$ 18,428,292	\$ (1,624,353)	\$ 344,516	\$ 17,164,381
Stock-based compensation	—	—	355,819	—	—	355,819
Excess tax benefits related to stock-based compensation	—	—	7,000	—	—	7,000
Stock options exercised at \$1.00 per share	100,000	100	99,900	—	—	100,000
Common stock surrendered as consideration for cashless exercise of stock options	(58,850)	(58)	(97,042)	—	—	(97,100)
Purchase of 38,250 common shares for treasury	—	—	—	(63,112)	—	(63,112)
Net (loss)	—	—	—	—	(1,300,494)	(1,300,494)
Balance, March 31, 2009	15,967,227	\$ 15,968	\$ 18,793,969	\$ (1,687,465)	\$ (955,978)	\$ 16,166,494

See Notes to Condensed Financial Statements.

DIGITAL ALLY, INC.
CONDENSED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008

	Three Months Ended	
	March 31 2009 (Unaudited)	March 31, 2008 (Unaudited)
Cash Flows From Operating Activities:		
Net income (loss)	\$ (1,300,494)	\$ 1,676,787
Adjustments to reconcile net income (loss) to net cash flows (used in) operating activities:		
Depreciation and amortization	220,912	82,324
Stock based compensation	355,819	173,402
Reserve for inventory obsolescence	164,166	70,309
Reserve for bad debt allowance	20,000	1,776
Deferred tax (benefit) provision	(675,000)	315,000
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - trade	1,748,399	(2,496,569)
Accounts receivable - other	(96,581)	(47,906)
Inventories	78,280	(345,625)
Prepaid income taxes	10,000	—
Prepaid expenses	16,912	