DIGITAL ALLY INC
Form 10-Q
May 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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Form 10-Q

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

For the quarterly period ended March 31, 2010

¨ 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.)

7311 W. 130th, Suite 170, Overland Park, KS 66213
(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 x   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 x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ¨   No x

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, 2010
Common Stock, $0.001 par value	16,321,998

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MARCH 31, 2010

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS.

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2010 AND DECEMBER 31, 2009
(Unaudited)

	March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$834,018	$ 183,150
Accounts receivable-trade, less allowance for doubtful accounts of $110,000 - 2010 and $110,000 – 2009	7,105,648	8,398,353
Accounts receivable-other	406,932	476,049
Inventories	8,021,322	7,370,505
Prepaid expenses	314,248	224,923
Deferred taxes	1,950,000	1,695,000
Total current assets	18,632,168	18,347,980
Furniture, fixtures and equipment	3,060,034	3,010,977
Less accumulated depreciation and amortization	1,780,135	1,592,874
	1,279,899	1,418,103
Deferred taxes	1,235,000	1,160,000
Intangible assets, net	320,732	336,182
Other assets	119,691	135,674
Total assets	$21,587,490	$ 21,397,939
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$2,161,600	$ 2,000,541
Accrued expenses	1,650,465	1,781,969
Income taxes payable	23,497	9,171
Customer deposits	3,380	39,924
Total current liabilities	3,838,942	3,831,605
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.001 par value; 75,000,000 shares authorized; Shares issued: 16,570,608 – 2010 and 16,169,739 – 2009	16,571	16,170
Additional paid in capital	20,545,410	20,007,430
Treasury stock, at cost (shares: 248,610 – 2010 and 248,610 - 2009)	(1,687,465)	(1,687,465)
Retained earnings (deficit)	(1,125,968)	(769,801)
Total stockholders' equity	17,748,548	17,566,334
Total liabilities and stockholders' equity	$21,587,490	$ 21,397,939

See Notes to Condensed Consolidated Financial Statements.

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DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED
MARCH 31, 2010 AND 2009
(Unaudited)

	2010	2009
Product revenue	$6,149,232	$4,043,204
Other revenue	160,655	345,980
Total revenue	6,309,887	4,389,184
Cost of revenue	2,868,061	2,529,644
Gross profit	3,441,826	1,859,540
Selling, general and administrative expenses:		
Research and development expense	915,264	1,285,538
Selling, advertising and promotional expense	693,230	401,722
Stock-based compensation expense	541,481	355,819
General and administrative expense	1,922,266	1,784,086
Total selling, general and administrative expenses	4,072,241	3,827,165
Operating loss	(630,415)	(1,967,625)
Interest income	9,248	9,131
Loss before income tax benefit	(621,167)	(1,958,494)
Income tax benefit	265,000	658,000
Net loss	$(356,167)	$(1,300,494)
Net loss per share information:		
Basic	$(0.02)	$(0.08)
Diluted	$(0.02)	$(0.08)
Weighted average shares outstanding:		
Basic	16,303,317	15,716,200
Diluted	16,303,317	15,716,200

See Notes to Condensed Consolidated Financial Statements.

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DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2010
(Unaudited)

| | Common Stock | | Additional Paid In | Treasury | Retained earnings | |
	Shares	Amount	Capital	stock	(deficit)	Total
Balance, January 1, 2010	16,169,739	$16,170	$20,007,430	$(1,687,465)	$(769,801)	$17,566,334
Stock-based compensation	—	—	541,481	—	—	541,481
Excess in tax benefits related to stock-based compensation	—	—	35,000	—	—	35,000
Stock options exercised at:						
$1.00 per share	180,000	180	179,820	—	—	180,000
$1.60 per share	50,000	50	79,950	—	—	80,000
$2.15 per share	100,000	100	214,900	—	—	215,000
Common stock surrendered as consideration for cashless exercise of stock options	(180,000)	(180)	(512,920)	—	—	(513,100)
Restricted common stock grant	250,869	251	(251)	—	—	—
Net loss	—	—	—	—	(356,167)	(356,167)
Balance, March 31, 2010	16,570,608	$16,571	$20,545,410	$(1,687,465)	$(1,125,968)	$17,748,548

See Notes to Condensed Consolidated Financial Statements.

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DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

	2010	2009
Cash Flows From Operating Activities:		
Net loss	$(356,167)	$(1,300,494)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	208,511	220,912
Stock based compensation	541,481	355,819
Reserve for inventory obsolescence	(26,046)	164,166
Reserve for bad debt allowance	—	20,000
Deferred tax (benefit) provision	(330,000)	(675,000)
Change in operating assets and liabilities:		
Accounts receivable - trade	1,292,705	1,748,399
Accounts receivable - other	69,117	(96,581)
Inventories	(624,771)	78,280
Prepaid income taxes	—	10,000
Prepaid expenses	(89,325)	16,912
Other assets	15,983	46,232
Accounts payable	161,059	(1,190,347)
Accrued expenses		