

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

Form 10-K

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

For the fiscal year ended December 31, 2023

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.)

14001 Marshall Drive, Lenexa, KS

(Address of principal executive offices)

66215

(Zip Code)

Registrant's telephone number, including area code: (913) 814-7774

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.001 par value

(Title of class)

DGLY

(Trading Symbol)

Nasdaq Capital Market

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Exchange Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

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

As of June 30, 2023, the aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant's most recently completed second fiscal quarter, computed by reference to the closing price (\$4.05), was: \$10,255,337, which have been adjusted for the Reverse Split (as defined below).

The number of shares of our common stock outstanding as of April 1, 2024 was: 2,800,752 as adjusted for the Company's 1-for-20 reverse stock split, which was effective on February 6, 2023 (the "Reverse Split"). All share and price per share information in this Annual Report on Form 10-K has been retroactively adjusted to reflect the Reverse Split.

Documents Incorporated by Reference: None.

FORM 10-K
DIGITAL ALLY, INC.
DECEMBER 31, 2023

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PART I

Item 1. Business.

Overview

We were incorporated in Nevada on December 13, 2000 as Vegas Petra, Inc. From that date until November 30, 2004, when we entered into a Plan of Merger with Digital Ally, Inc., a Nevada corporation which was formerly known as Trophy Tech Corporation (the “Predecessor Registrant”), we had not conducted any operations and were a closely-held company. In conjunction with the merger, we were renamed Digital Ally, Inc.

On January 2, 2008, we commenced trading on the Nasdaq Capital Market under the symbol “DGLY.” We conduct our business from 14001 Marshall Drive, Lenexa, Kansas 66215. Our telephone number is (913) 814-7774. Our website address is www.digitalallyinc.com. The contents of, or information accessible through, our website are not part of this Annual Report on Form 10-K. We make our filings with the SEC, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports, as well as beneficial ownership filings available free of charge on our website as soon as reasonably practicable after we file such reports with, or furnish such reports to, the SEC. Our filings with the SEC are available to the public through the SEC’s website at www.sec.gov.

On August 23, 2022 (the “Effective Time”), the Predecessor Registrant merged with and into its wholly owned subsidiary, DGLY Subsidiary Inc., a Nevada corporation (the “Registrant”), pursuant to an agreement and plan of merger, dated as of August 23, 2022 (the “Merger Agreement”), between the Predecessor Registrant and the Registrant, with the Registrant as the surviving corporation in the merger (such transaction, the “Merger”). At the Effective Time, Articles of Merger were filed with the Secretary of State of the State of Nevada, pursuant to which the Registrant was renamed “Digital Ally, Inc.” and, by operation of law, succeeded to the assets, continued the business and assumed the rights and obligations of the Predecessor Registrant immediately prior to the Merger. Under the Nevada Revised Statutes, shareholder approval was not required in connection with the Merger Agreement or the transactions contemplated thereby.

At the Effective Time, pursuant to the Merger Agreement, (i) each outstanding share of Predecessor Registrant’s common stock, par value \$0.001 per share (the “Predecessor Common Stock”) automatically converted into one share of common stock, par value \$0.001 per share, of the Registrant (“Registrant Common Stock”), (ii) each outstanding option, right or warrant to acquire shares of Predecessor Common Stock converted into an option, right or warrant, as applicable, to acquire an equal number of shares of Registrant Common Stock under the same terms and conditions as the original options, rights or warrants, and (iii) the directors and executive officers of the Predecessor Registrant were appointed as directors and executive officers, as applicable, of the Registrant, each to serve in the same capacity and for the same term as such person served with the Predecessor Registrant immediately before the Merger.

For the purposes of this Annual Report on Form 10-K, unless the context otherwise requires, (i) the term “our,” or “us” refers to the Predecessor Registrant and its subsidiaries with respect to the period prior to the Effective Time and to the Registrant and its subsidiaries with respect to the period on and after the Effective Time; (ii) as of any period prior to the Effective Time, references to the “directors” mean the directors of the Predecessor Registrant, and, as of any period at and after the Effective Time, the directors of the Registrant, (iii) as of any period prior to the Effective Time, references to “stockholders” mean the holders of Predecessor Common Stock, and, as of any period at and after the Effective Time, the holders of Registrant Common Stock, and (iv) as of any period prior to the Effective Time, references to “Common Stock” means the Predecessor Common Stock, and, as of any period at and after the Effective Time, Registrant Common Stock.

The business of the Registrant, Digital Ally, Inc. (with its wholly-owned subsidiaries, Digital Ally International, Inc., Shield Products, LLC, Digital Ally Healthcare, LLC (“Digital Ally Healthcare”), TicketSmarter, Inc. (“TicketSmarter”), Worldwide Reinsurance, Ltd., Digital Connect, Inc., BirdVu Jets, Inc., Kustom 440 (“Kustom 440”), Inc., Kustom Entertainment, Inc. (“Kustom”), and its majority-owned subsidiary Nobility Healthcare, LLC, collectively, “Digital Ally,” “Digital,” and the “Company”), is divided into three reportable operating segments: 1) the Video Solutions Segment, 2) the Revenue Cycle Management Segment and 3) the Entertainment Segment. The Video Solutions Segment is our legacy business that produces digital video imaging, storage products, disinfectant and related safety products for use in law enforcement, security and commercial applications. This segment includes both service and product revenues through our subscription models offering cloud and warranty solutions, and hardware sales for video and health safety solutions. The Revenue Cycle Management Segment provides working capital and back-office services to a variety of healthcare organizations throughout the country, as a monthly service fee. The Entertainment Segment acts as an intermediary between ticket buyers and sellers within our secondary ticketing platform, ticketSmarter.com, and we also acquire tickets from primary sellers to then sell through various platforms. The accounting guidance on Segment Reporting establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in financial statements. The following table sets forth the Company’s total revenue and the revenue derived from each reportable operating segment:

	Years Ended December 31,	
	2023	2022
Net Revenues:		
Video Solutions	\$ 7,471,285	\$ 8,252,288
Revenue Cycle Management	6,713,678	7,886,107
Entertainment	14,063,381	20,871,500
Total Net Revenues	\$ 28,248,344	\$ 37,009,895

Additional information regarding each reportable operating segment is also included in Note 23 entitled Segment Data of “Notes to Consolidated Financial Statements”.

Video Solutions Operating Segment

Within our video solutions operating segment we supply technology-based products utilizing our portable digital video and audio recording capabilities for the law enforcement and security industries and for the commercial fleet and mass transit markets. We have the ability to integrate electronic, radio, computer, mechanical, and multi-media technologies to create positive solutions to our customers’ requests. Our products include: the EVO-HD, DVM-800 and DVM-800 Lite, which are in-car digital video systems for law enforcement and commercial markets; the FirstVu body-worn camera line, consisting of the FirstVu Pro, FirstVu II, and the FirstVu HD; our patented and revolutionary VuLink product which integrates our body-worn cameras with our in-car systems by providing hands-free automatic activation for both law enforcement and commercial markets; the FLT-250, DVM-250, and DVM-250 Plus, which are our commercial line of digital video mirrors that serve as “event recorders” for the commercial fleet and mass transit markets; and FleetVu and VuLink, which are our cloud-based evidence management systems. We further diversified and broadened our product offerings in 2020, by introducing two new lines of branded products: (1) the ThermoVu® which is a line of self-contained temperature monitoring stations that provides alerts and controls facility access when an individual’s temperature exceeds a pre-set threshold and (2) our Shield™ disinfectants and cleansers which are for use against viruses and bacteria.

Our video solutions segment revenue encompasses video recording products and services for our law enforcement and commercial customers and the sale of Shield™ disinfectant and personal protective products. This segment generates revenues through our subscription models offering cloud and warranty solutions, and hardware sales for video and personal protective safety products and solutions. Revenues for product sales are recognized upon delivery of the product, and revenues from our cloud and warranty subscription plans are deferred over the term of the subscription, typically 3 or 5 years.

Revenue Cycle Management Operating Segment

We entered the revenue cycle management business late in the second quarter of 2021 with the formation of our wholly owned subsidiary, Digital Ally Healthcare, Inc. and its majority-owned subsidiary Nobility Healthcare, LLC (“Nobility Healthcare”). Nobility Healthcare completed its first acquisition on June 30, 2021, when it acquired a private medical billing company, and has since completed three more acquisitions of private medical billing companies, in which we assist in providing working capital and back-office services to healthcare organizations throughout the country. Our assistance consists of insurance and benefit verification, medical treatment documentation and coding, and collections. Through our expertise and experience in this field, we aim to maximize our customers’ service revenues collected, leading to substantial improvements in their operating margins and cash flows.

Our revenue cycle management segment consists of our medical billing subsidiaries. Revenues of this segment are recognized after we perform the obligations of our revenue cycle management services. Our revenue cycle management services are services, performed and charged monthly, generally based on a contractual percentage of total customer collections, for which we recognize our net service fees.

Entertainment Operating Segment

We also provide live entertainment and events ticketing services through the formation of our wholly owned subsidiary, TicketSmarter, Inc. (“TicketSmarter”) and its completed acquisitions of Goody Tickets, LLC and TicketSmarter, LLC, on September 1, 2021. TicketSmarter provides ticket sales, partnerships, and mainly, ticket resale services through its online ticketing marketplace for live events, TicketSmarter.com. TicketSmarter offers tickets for over 125,000 live events through its platform, for a wide range of events, including concerts, sporting events, theatres, and performing arts, throughout the country.

Our entertainment operating segment consists of entertainment services provided through TicketSmarter and its online platform, TicketSmarter.com. Revenues of this segment include ticketing service charges generally determined as a percentage of the face value of the underlying ticket and ticket sales from our ticket inventory which are recognized when the underlying tickets are sold. Entertainment direct expenses include the cost of tickets purchased for resale by the Company and held as inventory, credit card fees, ticketing platform expenses, website maintenance fees, along with other administrative costs.

Business Combination

On June 1, 2023, the Company, entered into an Agreement and Plan of Merger (the “CLOE Merger Agreement”) with Clover Leaf Capital Corp., a Delaware corporation (“Clover Leaf”), CL Merger Sub, Inc., a Nevada corporation and a wholly owned subsidiary of Clover Leaf (“Merger Sub”), Yntegra Capital Investments LLC, a Delaware limited liability company (“Yntegra”), in the capacity as the representative from and after the effective time for the stockholders of Clover Leaf in accordance with the terms and conditions of the CLOE Merger Agreement (the “Sponsor” or the “Purchaser Representative”), and Kustom, with a focus and mission to own and produce events, festivals, and entertainment alongside its evolving primary and secondary ticketing technologies.

Pursuant to the CLOE Merger Agreement, subject to the terms and conditions set forth therein upon the consummation of the transactions contemplated by the CLOE Merger Agreement (the “Closing”), Merger Sub will merge with and into Kustom (the “Merger” and, together with the other transactions contemplated by the Merger Agreement, the “Business Combination”), with Kustom continuing as the surviving corporation in the Merger and a wholly owned subsidiary of Clover Leaf. In the Merger, all of the issued and outstanding capital stock of Kustom immediately prior to the effective time shall no longer be outstanding and shall automatically be cancelled and shall cease to exist in exchange for the right for the Company to receive the Merger Consideration (as defined below). Upon consummation of the Business Combination, Clover Leaf will change its name to “Kustom Entertainment, Inc.”

The aggregate merger consideration to be paid pursuant to the CLOE Merger Agreement to the Company as of immediately prior to the effective time will be an amount equal to (the “Merger Consideration”) (i) \$125 million, minus (ii) the estimated consolidated indebtedness of Kustom as of the Closing (“Closing Indebtedness”). The Merger Consideration to be paid to the Company will be paid solely by the delivery of new shares of Clover Leaf Class A Common Stock, each valued at \$11.14 per share (the “Merger Consideration Shares”). The Closing Indebtedness (and the resulting Merger Consideration) is based solely on estimates determined shortly prior to the Closing and is not subject to any post-Closing true-up or adjustment.

Kustom is comprised of TicketSmarter and Kustom 440, both currently wholly owned subsidiaries. Both TicketSmarter and Kustom 440 will combine their management teams and focus on concerts, entertainment and garnering additional ticketing partnerships in 2024 and beyond. Kustom 440 and TicketSmarter will use their existing sponsorships and sports property partnerships to develop alternative entertainment options for consumers.

The combined company will be known as Kustom Entertainment and will operate under the same management team as Kustom which is currently led by Stanton E. Ross, the current CEO of the Company. The transaction contemplates an equity value of \$125 million for Kustom. The combined company is expected to have an implied initial pro forma equity value of approximately \$222.2 million, with the proposed Business Combination expected to provide approximately \$18.1 million in gross proceeds from the cash held in trust by Clover Leaf, assuming no redemptions. Additionally, the Company will distribute to its shareholders 20% of the Merger Consideration Shares obtained in Kustom immediately following the closing of the Merger and intends to distribute the balance of such Merger Consideration Shares following a six-month lock-up period.

The transaction has been approved by the board of directors of the Company (the “Board” or “Board of Directors”) and the board of directors of Clover Leaf and is subject to approval by the stockholders of Clover Leaf and other customary closing conditions. The Company, as the sole holder of Kustom common stock, has approved the transaction.

Due to the plan to consummate the Business Combination, the Company no longer expects to pursue a separation of Kustom into its own independent publicly traded company via spin-off, as announced on December 8, 2022.

In October 2023, Kustom Entertainment and Clover Leaf announced the filing of a Registration Statement on Form S-4 by Clover Leaf with the Securities and Exchange Commission (the “SEC”) on October 4, 2023, relating to the previously announced proposed Business Combination.

In December 2023, Kustom Entertainment and Clover Leaf announced the filing of the Amendment No. 1 to the Registration Statement on Form S-4 by Clover Leaf with the SEC on December 8, 2023, relating to the previously announced proposed Business Combination.

In February 2024, Kustom Entertainment and Clover Leaf announced the filing of the Amendment No. 2 to the Registration Statement on Form S-4 by Clover Leaf with the SEC on February 5, 2024, relating to the previously announced proposed Business Combination.

Our Video Solutions Operating Segment Products and Services

Through our video solutions operating segment we supply technology-based products utilizing our portable digital video and audio recording capabilities for the law enforcement and security industries and for the commercial fleet and mass transit markets. We have the ability to integrate electronic, radio, computer, mechanical, and multi-media technologies to create positive solutions to our customers’ requests. Our products include: the EVO-HD, DVM-800 and DVM-800 Lite, which are in-car digital video systems for law enforcement and commercial markets; the FirstVu body-worn camera line, consisting of the FirstVu Pro, FirstVu, and the FirstVu HD; our patented and revolutionary VuLink product integrates our body-worn cameras

with our in-car systems by providing hands-free automatic activation for both law enforcement and commercial markets; the EVO Fleet, FLT-250, DVM-250, and DVM-250 Plus, which are our commercial line of digital video products that serve as “event recorders” for the commercial fleet and mass transit markets; and FleetVu and VuLink, which are our cloud-based evidence management systems. We further diversified and broadened our product offerings in 2020, by introducing two new lines of branded products: (1) the ThermoVu® which is a line of self-contained temperature monitoring stations that provides alerts and controls facility access when an individual’s temperature exceeds a pre-set threshold and (2) our Shield™ disinfectants and cleansers which are for use against viruses and bacteria.

In-Car Digital Video Mirror System for Law Enforcement – EVO-HD, DVM-800 and DVM-800 Lite

In-car video systems for patrol cars are a necessity and have generally become standard. Current systems are primarily digital based systems with cameras mounted on the windshield and the recording device generally in the trunk, headliner, dashboard, console or under the seat of the vehicle.

The Company launched its in-car digital video platform under the name EVO-HD during the second quarter of 2019. The EVO-HD is a revolutionary in-car system that delivers versatility and reliability for law enforcement.

With built-in, patented auto-activation technology, EVO-HD captures multiple recording angles in sync from a FirstVu PRO or FirstVu HD body-worn camera and up to four HD in-car cameras – all from a single trigger. The EVO-HD maximizes space and offers top-end reliability when paired with remote service capabilities. An internal cell modem will allow for connectivity to the VuVault.net cloud, powered by Amazon Web Services (“AWS”) and real time metadata when in the field.

The Company offers the DVM-800, a continuation in the family of highly successful digital video mirrored (DVM) systems developed by the Company. The DVM-800 is a time-tested, compact, powerful and easy-to-use solution designed for law enforcement. The DVM-800 system has built-in road and driver facing cameras and can record up to two external HD cameras. The DVM-800 is compatible with the patented VuLink® auto-activation technology and can be paired with a FirstVu HD body-worn camera.

The Company also offers the DVM-800 Lite, an entry level system is a self-contained video recorder, microphone and digital storage system that is integrated into a rear-view mirror and is designed for law enforcement. The system can record up to two internal HD cameras.

In-Car Digital Video “Event Recorder” System – EVO Fleet, DVM-250 Plus and FLT-250 for Commercial Fleets

Digital Ally provides commercial fleets and commercial fleet managers with the digital video tools that they need to increase driver safety, track assets in real-time and minimize the company’s liability risk while enabling fleet managers to operate the fleet at an optimal level. We market a product designed to address these commercial fleet markets with our EVO Fleet, DVM-250 Plus and FLT-250 event recorders that provide various types of commercial fleets with features and capabilities that are fully-customizable and consistent with their specific application and inherent risks.

The DVM-250 Plus is a part of the DVM family and is designed for commercial fleets featuring built-in digital audio and video recording technology and other features to provide commercial fleet managers unmatched driver and asset management – all while aiming to deliver the return on investment that matters most: the safety and security of drivers and passengers. The DVM-250 Plus is designed to capture events, such as wrecks and erratic driving or other abnormal occurrences, for evidentiary or training purposes. The commercial fleet markets may find our units attractive from both a feature and a cost perspective compared to other providers. Due to our marketing efforts, commercial fleets are beginning to adopt this technology, and in particular, the ambulance and taxi-cab markets.

The FLT-250 offers the same great features of the DVM-250 Plus in a new compact, non-mirrored form factor that allows for multiple mounting options in any vehicle type for commercial fleets. The non-mirror-based aspect of this product, allowed the FLT-250 to become more attractive for our potential customers, as it is a much simpler plug and play option compared to mirror-based products.

In the fourth quarter of 2022, Digital Ally released the EVO Fleet, offering a full-featured solution utilizing the latest in telematics technology, including immediate driver-assist feedback by recognizing pedestrians, distracted or drowsy driving, and lane shifting. We believe that, due to the new technology, including the A.I. interface, live tracking capabilities, up to four streams of video, and video on command, this product will become a very prominent product in the market and for our current and potential customers.

Digital Ally offers a suite of data management web-based tools to assist fleet managers in the organization, archival, and management of videos and telematics information. Within the suite, there are powerful mapping and reporting tools that are intended to optimize efficiency, serve as training tools for teams on safety, and, ultimately, generate a significant return on investment for the organization.

The EVO-HD has become the platform for a new family of in-car video solution products for the commercial markets. The innovative EVO-HD technology replaces the current in-car mirror-based systems with a miniaturized system that can be custom-mounted in the vehicle, while offering numerous hardware configurations to meet the varied needs and requirements of our commercial customers. In its commercial market application, the EVO-HD can support up to four HD cameras, with two cameras having pre-event and ECA capabilities to allow customers to review entire shifts. An internal cell modem will allow for connectivity to the FleetVu Manager cloud-based system for commercial fleet tracking and monitoring, which is powered by AWS and real time metadata when in the field.

Body-Worn Digital Video System – FirstVu Pro, FirstVu II, and FirstVu HD for Law Enforcement and Private Security

Digital Ally launched two next generation body-worn cameras and docking stations, refreshing the Company's complete ecosystem of evidence recording devices. The latest body worn camera launched by the Company is the FirstVu Pro, the Company's flagship product in its family of next generation of technology. The light weight, one-piece unit captures full HD video and audio, while offering industry leading features such as live streaming, a full-color touchscreen display, an advanced image sensor with IR LEDs, proprietary image distortion reduction, IP67 rated resisting dust and wind and is water submersible for 30 minutes at a depth of 3 feet. It is also MIL-STD-810G compliant capable of handling drops, shock, and vibration, and will function flawlessly in a wide temperature range.

In addition to the FirstVu Pro, Digital Ally also added the FirstVu II to its family of next generation technology. The FirstVu II is a one-piece device offering industry leading technology such as an articulating camera head, a full-color display, an advanced image sensor, and GPS. It can be used in law enforcement, private and event security and commercial segments.

Digital Ally still carries the FirstVu HD, the two-piece body-worn camera which allows for multiple mounting options while minimizing space and weight. It can be used in law enforcement, private and event security and commercial segments. This system is also a derivative of our in-car video systems, but is much smaller and lighter and more rugged and water-resistant to handle a hostile outdoor environment. The FirstVu HD can be used in many applications in addition to law enforcement and private security and is designed specifically to be clipped to an individual's pocket or other outer clothing. The unit is self-contained and requires no external battery or storage devices. Our FirstVu HD integrates with our in-car video systems through our patented VuLink system allowing for automatic activation of both systems.

With the newly introduced body-worn cameras, Digital Ally also introduced two new QuickVu docking stations compatible with the FirstVu PRO and FirstVu II body-worn cameras. The QuickVu docking stations provide a comprehensive and elegant solution for storing and charging body cameras while uploading video evidence to the cloud. QuickVu also allows for rapid reviewing of footage right from the interactive touchscreen display, and is available in eight or twenty-four individual docking bays. For docking with the FirstVu HD body-worn cameras, Digital Ally offers a 12-bay docking station and Mini-Docks. The 12-bay docking station includes a 1TB local memory hard drive which simultaneously upload 4 hours of video from 12 FirstVu HD cameras within a 15-minute shift change and push configuration updates. The Mini-Dock is a single unit, portable smart dock that uploads video evidence to VuVault from a FirstVu HD body camera.

Auto-activation and Interconnectivity Between In-car Video Systems and Body-worn Camera Products – VuLink for Law Enforcement

Recognizing a critical limitation in law enforcement camera technology, we pioneered the development of our VuLink ecosystem that provides intuitive auto-activation functionality as well as coordination between multiple recording devices. The United States Patent and Trademark Office (the "USPTO") has recognized these pioneering efforts by granting us multiple patents with claims covering a variety of triggers, including emergency lights and sirens, extreme acceleration or braking, g-force or any 12-volt relay. Additionally, the awarded patent claims cover automatic coordination between multiple recording devices. Prior to our VuLink ecosystem, officers had to manually activate each device while responding to emergency scenarios, a requirement that both decreased the usefulness of the existing camera systems and diverted officers' attention during critical moments.

EVO Web and FleetVu Manager

EVO Web is a web-based software, powered by and hosted on the AWS GovCloud platform, that enables police departments and security agencies to manage digital video evidence quickly and easily. EVO Web is capable of playing back, reviewing, downloading, archiving, unit configuration and management, running customizable reports and maintaining a chain of custody logs. AWS is the most secure cloud platform on the market with features that go beyond simply storing and reviewing video evidence. AWS GovCloud platform is trusted by the Department of Justice, Defense Digital Services for the US Air Force, U.S. Department of Treasury, and U.S. Department of Homeland Security. Our products that are compatible with EVO Web include: FirstVu Pro, FirstVu II, FirstVu HD, QuickVu, EVO-HD, DVM-800 and DVM-800 Lite.

FleetVu Manager is a web-based software that provides commercial fleet managers with the tools to increase driver safety, track assets in real-time and minimize their companies' liability risks. FleetVu Manager is able to generate driver reports, identify at risk behaviors before an incident takes place, and enable commercial fleet managers to manage the entire fleet through a single, easy to use platform. Our products compatible with FleetVu Manager include: EVO Fleet, DVM-250 Plus and FLT-250.

Shield™ Health Protection Products

The Company's Shield™ brand offers a variety of products to help keep you safe, including; Shield Cleansers, ThermoVu, Shied Disinfectant, and a variety of personal protection equipment including masks, gloves and sanitizer wipes.

Shield Cleansers is a full line of safe and effective hypochlorous acid (HOCl) based products - and is free of toxic bleach, ammonia, methanol, ethanol, and alcohol ingredients. Shield Disinfectant is EPA approved and has shown effectiveness against SARS-COV-2, the virus that causes the novel COVID-19 disease. Other products in the Shield brand include animal wellness products, wound care, and household cleaning solutions.

ThermoVu is a non-contact temperature-screening instrument that measures temperature through the wrist and controls entry to facilities when temperature measurements exceed pre-determined parameters. ThermoVu has optional features such as facial recognition to improve facility security by restricting access based on temperature and/or facial recognition reasons. ThermoVu provides an instant pass/fail audible tone with its temperature display and controls access to facilities based on such results.

The Company has been distributing other personal protective equipment and supplies, since the second quarter of 2021, such as masks and gloves to supplement its Shield brand of products to health care workers as well as other consumers, consisting of vinyl and nitrile gloves, level 3 and N95 NIOSH certified face masks, and disposable wipes.

Our Revenue Cycle Management Operating Segment Products and Services

Through our revenue cycle management segment, we provide assistance in providing working capital and back-office services to healthcare organizations throughout the country. Our RCM operating segment services consist of insurance and benefit verification, medical treatment documentation and coding, and collections. Through our expertise and experience in this field, we maximize our customers' service revenues collected, leading to substantial improvements in their operating margins and cash flows. We generally receive a service fee based on a percentage of the service revenues collected by our customers.

Our Entertainment Operating Segment Products and Services

Through our entertainment segment, we provide customers with access to the online live event ticketing marketplace through our online platform - **TicketSmarter.com**. Offering over 48 million tickets for sale for over 125,000 live events, TicketSmarter is a national ticket marketplace offering tickets for live events featuring sports, concerts and theatre. TicketSmarter is the official ticket resale partner of more than 35 collegiate conferences, over 300 universities, and hundreds of events and venues.

Established in late 2022, Kustom 440 is another piece of the entertainment segment of the Company, whose mission it is to attract, manage and promote concerts, sports and private events. Kustom 440 offers the production and promotion of live music events in third-party venues throughout the country. These services begin with the logistical matters of an event, including artist booking and research, ticketing, staging, on-site operations, vendor sourcing, and day of production. These events range in size from small corporate events to full stadium multi-day events.

Our entertainment operating segment primarily receives compensation for its services generally determined as a percentage of the face-value of the tickets being purchased. Our entertainment operating segment also provides customers with access to tickets which it has purchased or received in return for its sponsorship or partnership from the venue, event or owner.

Market and Industry Overview – Video Solutions Operating Segment

Our video solutions segment has historically had a primary market of domestic and international law enforcement agencies. We have since expanded our scope by pursuing the commercial fleet vehicle and mass transit markets. Additionally, we have expanded into event security services where we provide the hardware and software to supplement private security for NASCAR races, football and other sporting events, concerts and other events where people gather. We continue to further expand our focus on private security, homeland security, mass transit, healthcare, general retail, educational, general consumer and other commercial markets. In that regard, we have several installations involving private security on cruise ships and similar markets. We believe there are many potential private uses of our product offerings. We continue to have sales in the commercial fleet and ambulance service provider market, confirming that our EVO Fleet, DVM-250 Plus and FLT-250 products and FleetVu Manager can become a significant revenue producer for us. Additionally, our body-worn cameras have applications in law enforcement, along with private and event security, as well as commercial segments. With the recent acquisitions we completed in 2021 and 2022, we hope to utilize the connections we now have to live events, stadiums, and arenas, as well as new medical connections.

Market and Industry Overview – Revenue Cycle Management Operating Segment

Our revenue cycle management segment consists of end-to-end revenue cycle management services that focuses on claim reimbursement billing, verification, and related services to medical providers throughout the country. We offer agreements with customers in which we provide our services and bill the customers monthly for our services. The healthcare industry in the United States represents a strong portion of the United States' economy, offering a robust market for these services. Our current market includes many diverse specialties, including radiology, oncology, orthopedics, pediatrics, internal medicine, and cardiology. We continue to investigate ways to expand our market reach, although can make no assurances in that regard.

Market and Industry Overview – Entertainment Operating Segment

Our entertainment segment refers to the sale of event tickets primarily through our online and mobile platforms. We will buy inventory of event tickets to then sell tickets through various platforms, including our own. Our resale services refer to the sale of tickets by a holder, who originally obtained the tickets directly from a venue or entity, through our platform in which we then collect services fees on the transaction. This is commonly referred to as secondary ticketing. We work directly with consumers looking to buy or sell event tickets for particular shows, concerts, games, and other events, allowing a simple and effective platform to move tickets. We also offer production and promotion of live music events in third-party venues throughout the country. These services begin with the logistical matters of an event, including artist booking and research, ticketing, staging, on-site operations, vendor sourcing, and day of production.

Competition - Video Solutions Operating Segment

Our video solutions segment, consisting of law enforcement and security surveillance markets, is extremely competitive. Competitive factors in these industries include ease of use, quality, portability, versatility, reliability, accuracy and cost. There are direct competitors with technology and products in the law enforcement and surveillance markets for all of our products, including those that are in development. Many of these competitors have significant advantages over us, including greater financial, technical, marketing and manufacturing resources, more extensive distribution channels, larger customer bases and faster response times to adapt new or emerging technologies and changes in customer requirements. Our primary competitors in the in-car video systems market include L-3 Mobile-Vision, Inc., Coban Technologies, Inc., Enforcement Video, LLC d/b/a WatchGuard Video ("WatchGuard"), Kustom Signals, Panasonic System Communications Company, International Police Technologies, Inc. and a number of other competitors who sell, or may in the future sell, in-car video systems to law enforcement agencies. Our primary competitors in the body-worn camera market include Axon Enterprises, Inc. ("Axon"), Reveal Media, WatchGuard, and VieVU, Inc., which was acquired by Axon in 2018. We face similar and intense competitive factors for our event recorders in the commercial fleet and private security markets as we do in the law enforcement and security surveillance markets. There can be no assurance that we will be able to compete successfully in these markets. Further, there can be no assurance that new and existing companies will not enter the law enforcement and security surveillance markets in the future. The commercial fleet security and surveillance markets likewise are also very competitive. There are direct competitors for our FLT-250 and DVM-250 Plus "event recorders," which may have greater financial, technical marketing, and manufacturing resources than we do. Our primary competitors in the commercial fleet sector include Lytx, Inc. (previously DriveCam, Inc.) and SmartDrive Systems, among others.

Competition – Revenue Cycle Management Operating Segment

Our revenue cycle management segment is a highly competitive market that is only intensifying as the market continues to grow. We face competition from a variety of sources, including internal revenue cycle management departments within healthcare organizations, as these organizations are beginning to make internal investments in these departments to keep these services in-house. Additionally, other revenue cycle management providers exist and offer similar services through software vendors, traditional consultants, and information technology sources.

Competition – Entertainment Operating Segment

Our entertainment segment faces robust competition from several sources throughout the industry. As the online and mobile ticketing market continues to increase, it has allowed for more technology-based companies to offer ticketing services and systems. The online environment consists of numerous other websites and platforms for all markets. With the market continuing to grow, resale marketplaces and websites can reach a vastly larger audience with more convenient access to tickets for a wide variety of events. We continue to build our brand and recognition, through numerous partnerships and sponsorships throughout the country, in attempt to become a preferred platform for consumers. The event production portion of this segment faces strong competition ranging from small festival production companies to large concert production companies and venues.

Worldwide Reinsurance Ltd.

In December 2021, the Company formed a wholly-owned subsidiary, Worldwide Reinsurance Ltd. (“Worldwide Re”), a Bermuda incorporated captive insurance company that provided primarily liability insurance coverage to the Company for which insurance may not be currently available or economically feasible in today’s insurance marketplace.

Worldwide Re is subject to capital and other regulatory requirements imposed by the Bermuda Monetary Authority (“BMA”). Although these capital requirements are generally less constraining than U.S. capital requirements, failure to satisfy these requirements could result in regulatory actions from the BMA or loss of or modification of Worldwide Re’s Class 1 insurer license, which could adversely impact our ability to support our insurance needs and to grow this business into another line of business for our holding company. To date, our captive’s relatively immature claims history limits the predictive value of estimating the costs of incurred and future claims. Accordingly, the captive could continue to incur significant fluctuations in financial results as the captive provides insurance coverage to Digital Ally and its affiliated businesses and seeks to expand beyond our affiliated companies to offer coverage for third parties.

Intellectual Property – Video Solutions Operating Segment

Our video solutions operating segment’s ability to compete effectively will depend on our success in protecting our proprietary technology, both in the United States and abroad. We have filed for patent protection in the United States and certain other countries to cover certain design aspects of our products.

Some of our patent applications are still under review by the USPTO and, therefore, we have not yet been issued all the patents that we applied for in the United States. We were issued several patents in recent years, including a patent on our VuLink product that provides automatic triggering of our body-worn camera and our in-car video systems. No assurance can be given which, or any, of the patents relating to our existing technology will be issued from the United States or any foreign patent offices. Additionally, no assurance can be given that we will receive any patents in the future based on our continued development of our technology, or that our patent protection within and/or outside of the United States will be sufficient to deter others, legally or otherwise, from developing or marketing competitive products utilizing our technologies.

We have entered into supply and distribution agreements with several companies that produce certain of our products, including our FirstVu Pro & FirstVu II body cameras, QuickVu docking stations, EVO Fleet, DVM-250 and DVM-800 products. These supply and distribution agreements contain certain confidentiality provisions that protect our proprietary technology, as well as that of the third-party manufacturers.

In addition to seeking patent protection, we rely on trade secrets, know-how and continuing technological advancement to seek to achieve and thereafter maintain a competitive advantage. Although we have entered into or intend to enter into confidentiality and invention agreements with our employees, consultants and advisors, no assurance can be given that such agreements will be honored or that we will be able to effectively protect our rights to our unpatented trade secrets and know-how. Moreover, no assurance can be given that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets and know-how.

Intellectual Property – Revenue Cycle Management Operating Segment

Our revenue cycle management’s operating segment’s ability to compete effectively primarily depends on our trade secrets and know-how and does not depend heavily on any proprietary technology or patents.

Intellectual Property – Entertainment Operating Segment

Our entertainment operating segment’s ability to compete effectively primarily depends on our trade secrets and know-how and does not depend heavily on any proprietary technology or patents.

Human Capital

As of December 31, 2023, Digital Ally, and its subsidiaries, had approximately 170 full-time employees spread throughout the country, representing the core values and objectives of the Company. These employees are spread amongst our operating segments as follows:

	As of December 31, 2023
Employee headcount:	
Video Solutions	98
Revenue Cycle Management [1]	60
Entertainment	12
Total Employee Headcount	170

[1] Our revenue cycle management operating segment has no direct employees. Nobility Healthcare, our minority interest partner provides all human capital resources to manage and operate the Company’s revenue cycle management operating segment.

Our employees are our most important assets and they set the foundation for our ability to achieve our strategic objectives. All of our employees contribute to Digital Ally's success and, in particular, the employees in our manufacturing, sales, research and development, and quality assurance departments are instrumental in driving operational execution and strong financial performance, advancing innovation and maintaining a strong quality and compliance program.

Our employees are not covered by any collective bargaining agreement, and we have never experienced a work stoppage. We strive to create a culture and work environment that enables us to attract, train, promote, and retain a diverse group of talented employees who together can help us gain a competitive advantage. Our key programs and initiatives that are focused to attract, develop and retain our diverse workforce include:

- **Compensation Programs and Employee Benefits:** the main objective of Digital Ally's compensation program is to provide a compensation package that will attract, retain, motivate and reward superior employees who must operate in a highly competitive and technologically challenging environment. We seek to do this by linking annual changes in compensation to overall Company performance, as well as each individual's contribution to the results achieved. The emphasis on overall Company performance is intended to align the employee's financial interests with the interests of shareholders. Digital Ally also seeks fairness in total compensation with reference to external comparisons, internal comparisons and the relationship between management and non-management remuneration. The structure of our compensation programs balances incentive earnings for both short-term and long-term performance. Specifically:
 - We provide employee wages that are competitive and consistent with employee positions, skill levels, experience, knowledge and geographic location.
 - We align our executives' long-term equity compensation with our shareholders' interests by linking realizable pay with stock performance.
 - Annual increases and incentive compensation are based on merit, which is communicated to employees at the time of hiring and documented through our talent management process as part of our annual review procedures and upon internal transfer and/or promotion.
 - All employees are eligible for health insurance, paid and unpaid leaves, short-term disability, worker's compensation, long-term disability, a retirement plan and life and disability/accident coverage. We also offer a variety of voluntary benefits that allow employees to select the options that meet their needs.

Item 1A. Risk Factors.

Not applicable.

Item 1B. Unresolved Staff Comments.

None.

Item 1C. Cybersecurity.

Risk management and strategy

We assess material risks from cybersecurity threats on an ongoing basis, including any potential unauthorized occurrence on or conducted through our information systems that may result in adverse effects on the confidentiality, integrity, or availability of our information systems or any information residing therein. As our Company grows, we plan to develop a more robust and detailed strategy for cybersecurity in alignment with nationally accepted standards. We have not encountered cybersecurity challenges that have materially impaired our operations or financial standing.

Governance

Our management and the Board recognize the critical importance of maintaining the trust and confidence of our business partners and employees, including the importance of managing cybersecurity risks as part of our larger risk management program. While all of our personnel play a part in managing cybersecurity risks, one of the key functions of our Board is informed oversight of our risk management process, including risks from cybersecurity threats. Our Board is responsible for monitoring and assessing strategic risk exposure, and our executive officers are responsible for the day-to-day management of the material risks that we face. In general, we seek to address cybersecurity risks through a cross-functional approach that is focused on preserving the confidentiality, integrity, and availability of the information that we collect and store by identifying, preventing, and mitigating cybersecurity threats and effectively responding to cybersecurity incidents when they occur.

Item 2. Properties.

On May 13, 2020, the Company entered into an operating lease for new warehouse and office space which had served as its principal executive office and primary business location, prior to the completed building purchase. The Company plans to relocate the entertainment operating segment operations to this existing leased facility in 2023. This facility contains approximately 16,531 square feet and is located at 15612 College Blvd, Lenexa, Kansas 66219. The lease terms, as amended, include no base rent for the first nine months and monthly payments ranging from \$12,398 to \$14,741 thereafter, with a termination date of December 31, 2026.

On April 30, 2021, the Company closed on the purchase and sale agreement to acquire a 71,361 square feet commercial office building located in Lenexa, Kansas which is intended to serve as the Company's future office and warehouse needs for executive offices and for management and warehouse operations for the video solutions operating segment. The building contains approximately 30,000 square feet of office space and the remainder warehouse space. The total purchase price was approximately \$5.3 million. The Company funded the purchase price with cash on hand, without the addition of external debt or other financing.

On October 26, 2023, the Company entered into a Loan and Security Agreement (the "Kompass Loan Agreement") by and between the Company, Digital Ally Healthcare, and Kompass Kapital Funding, LLC, a Kansas limited liability company ("Kompass"). In connection with the Kompass Loan Agreement, on October 26, 2023, the Company entered into a Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing by and between the Company, as grantor, and Kompass, as grantee, and mortgaged its real property having an address of 14001 Marshall Drive, Lenexa, KS 66215.

On June 30, 2021, the Company completed the acquisition of a private medical billing company, through Nobility Healthcare, a majority owned subsidiary. Upon completion of this acquisition, Nobility Healthcare became responsible for the operating lease for the seller's office space. The lease terms include monthly payments ranging from \$2,648 to \$2,774 and terminate in July 2024. The Company plans to relocate the revenue cycle management operating segment acquired operations to existing owned or leased facilities upon termination of this operating lease.

On August 31, 2021, the Company completed the acquisition of another private medical billing company, through Nobility Healthcare. Upon completion of this acquisition, Nobility Healthcare became responsible for the operating lease for the seller's office space. The lease was renewed in April 2023 with favorable terms and payments ranging from 7,436 to 8,877 thereafter, and with a termination date in March 2030.

On September 1, 2021, the Company completed the acquisition of Goody Tickets, LLC and TicketSmarter, LLC, through TicketSmarter. Upon completion of this acquisition, the Company became responsible for the operating lease for the TicketSmarter office space. The lease terms included monthly payments ranging from \$7,211 to \$7,364 and the lease was originally going to expire in December 2022. The Company signed a six-month extension through June 2023 and is currently on a month-to-month lease with plans to relocate the entertainment operating segment.

On January 1, 2022, the Company completed the acquisition of another private medical billing company, through Nobility Healthcare. Upon completion of this acquisition, Nobility Healthcare became responsible for the operating lease for the seller's office space. The lease terms include monthly payments ranging from \$4,233 to \$4,626 and terminate in June 2025. The Company plans to relocate the revenue cycle management operating segment acquired operations to existing owned or leased facilities upon termination of this operating lease.

Item 3. Legal Proceedings.

From time to time, we are notified that we may be a party to a lawsuit or that a claim is being made against us. It is our policy to not disclose the specifics of any claim or threatened lawsuit until the summons and complaint are actually served on us. After carefully assessing the claim, and assuming we determine that we are not at fault or we disagree with the damages or relief demanded, we vigorously defend any lawsuit filed against us. We record a liability when losses are deemed probable and reasonably estimable. When losses are deemed reasonably possible but not probable, we determine whether it is possible to provide an estimate of the amount of the loss or range of possible losses for the claim, if material for disclosure. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, the availability of insurance, and the severity of any potential loss. We reevaluate and update accruals as matters progress over time.

While the ultimate resolution is unknown, we do not expect that these lawsuits will individually, or in the aggregate, have a material adverse effect to our results of operations, financial condition or cash flows. However, the outcome of any litigation is inherently uncertain and there can be no assurance that any expense, liability or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts recognized or provided by insurance coverage and will not have a material adverse effect on our operating results, financial condition or cash flows.

Culp McCauley

On May 31, 2022, the Company filed a lawsuit against Culp McCauley, Inc. ("defendant") in the United States District Court for the District of Kansas. The lawsuit arises from the defendant's multiple breaches of its obligations to the Company. The Company seeks monetary damages and injunctive relief based on certain conduct by the defendant. On July 18, 2022, the defendant filed its Answer to the Company's Verified Complaint and included Counterclaims alleging breach of contract and seeking monetary damages. On August 8, 2022, the Company filed its Reply and Affirmative Defenses to the Counterclaims by, among other things, denying the allegations and any and all liability. During the second quarter of 2023, we concluded that a \$1.8 million loss related to the allegations is probable, with no conclusion on the remaining \$2.2 million being a probable loss related to these claims. Although we believe a further loss could be reasonably possible (as defined in ASC 450), we do not have sufficient information to determine the amount or range of reasonably possible loss with respect to the potential damages given that the dispute is yet to enter the discovery process. We will continue to vigorously pursue these claims, and we continue to believe that we have valid grounds for recovery of the disputed deliverables. However, there can be no assurances as to the outcome of the dispute.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our Common Stock trades on the Nasdaq Capital Market under the symbol “DGLY”.

Holders of Common Stock

As of April 1, 2024, we had approximately 164 shareholders of record for our Common Stock.

Dividend Policy

To date, we have not declared or paid cash dividends on our shares of Common Stock. The holders of our Common Stock will be entitled to non-cumulative dividends on the shares of Common Stock, when and as declared by the Board in its discretion. We intend to retain all future earnings, if any, for our business and do not anticipate paying cash dividends in the foreseeable future.

Any future determination to pay cash dividends will be at the discretion of our Board and will be dependent upon our financial condition, results of operations, capital requirements, general business conditions and such other factors as our Board may deem relevant.

Recent Sales of Unregistered Securities

Except as previously reported by the Company on its Quarterly Reports on Form 10-Q or its Current Reports on Form 8-K, as applicable, we did not sell any securities during the period covered by this Annual Report on Form 10-K that were not registered under the Securities Act.

Item 6. [Reserved].

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation.

This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “may,” “should,” “could,” “will,” “plan,” “future,” “continue,” and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. These forward-looking statements are based largely on our expectations or forecasts of future events, can be affected by inaccurate assumptions, and are subject to various business risks and known and unknown uncertainties, a number of which are beyond our control. Therefore, actual results could differ materially from the forward-looking statements contained in this document, and readers are cautioned not to place undue reliance on such forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. A wide variety of factors could cause or contribute to such differences and could adversely impact revenues, profitability, cash flows and capital needs. There can be no assurance that the forward-looking statements contained in this document will, in fact, transpire or prove to be accurate.

Factors that could cause or contribute to our actual results differing materially from those discussed herein or for our stock price to be adversely affected include, but are not limited to: (1) our losses in recent years, including fiscal years 2023 and 2022; (2) economic and other risks for our business from the effects of the COVID-19 pandemic, including the impacts on our law-enforcement and commercial customers, suppliers and employees and on our ability to raise capital as required; (3) our ability to increase revenues, increase our margins and return to consistent profitability in the current economic and competitive environment; (4) our operation in developing markets and uncertainty as to market acceptance of our technology and new products; (5) the availability of funding from federal, state and local governments to facilitate the budgets of law enforcement agencies, including the timing, amount and restrictions on such funding; (6) our ability to maintain or expand our share of the market for our products in the domestic and international markets in which we compete, including increasing our international revenues; (7) our ability to produce our products in a cost-effective manner; (8) competition from larger, more established companies with far greater economic and human resources; (9) our ability to attract and retain quality employees; (10) risks related to dealing with governmental entities as customers; (11) our expenditure of significant resources in anticipation of sales due to our lengthy sales cycle and the potential to receive no revenue in return; (12) characterization of our market by new products and rapid technological change; (13) our dependence on sales of our EVO-HD, DVM-800, DVM-250 and FirstVU products; (14) that stockholders may lose all or part of their investment if we are unable to compete in our markets and return to profitability; (15) defects in our products that could impair our ability to sell our products or could result in litigation and other significant costs; (16) our dependence on a few manufacturers and suppliers for components of our products and our dependence on domestic and foreign manufacturers for certain of our products; (17) our ability to protect technology through patents and to protect our proprietary technology and information, such as trade secrets, through other similar means; (18) our ability to generate more recurring cloud and service revenues; (19) risks related to our license arrangements; (20) the fluctuation of our operation results from quarter to quarter; (21) sufficient voting power by coalitions of a few of our larger stockholders, including directors and officers, to make corporate governance decisions that could have a significant effect on us and the other stockholders; (22) the issuance or sale of substantial amounts of our Common Stock, or the perception that such sales may occur in the future, which may have a depressive effect on the market price of our securities; (23) potential dilution from the issuance of Common Stock underlying outstanding options and warrants; (24) our additional securities available for issuance, which, if issued, could adversely affect the rights of the holders of our Common Stock; (25) the volatility of our stock price due to a number of factors, including, but not limited to, a relatively limited public float; (26) our ability to integrate and realize the anticipated benefits from acquisitions; (27) our ability to maintain the listing of our Common Stock on the Nasdaq Capital Market.

Current Trends and Recent Developments for the Company

Overview

Video Solutions Operating Segment – Within our video solutions operating segment we supply technology-based products utilizing our portable digital video and audio recording capabilities for the law enforcement and security industries and for the commercial fleet and mass transit markets. We have the ability to integrate electronic, radio, computer, mechanical, and multi-media technologies to create positive solutions to our customers’ requests. Our products include: the EVO-HD, DVM-800 and DVM-800 Lite, which are in-car digital video systems for law enforcement and commercial markets; the FirstVU body-worn camera line, consisting of the FirstVu Pro, FirstVu, and the FirstVU HD; our patented and revolutionary VuLink product integrates our body-worn cameras with our in-car systems by providing hands-free automatic activation for both law enforcement and commercial markets; the FLT-250, DVM-250, and DVM-250 Plus, which are our commercial line of digital video mirrors that serve as “event recorders” for the commercial fleet and mass transit markets; and FleetVu and VuLink, which are our cloud-based evidence management systems. We further diversified and broadened our product offerings in 2020, by introducing two new lines of branded products: (1) the ThermoVu® which is a line of self-contained temperature monitoring stations that provides alerts and controls facility access when an individual’s temperature exceeds a pre-set threshold and (2) our Shield™ disinfectants and cleansers which are for use against viruses and bacteria.

Revenue Cycle Management Operating Segment - We entered the revenue cycle management business late in the second quarter of 2021 with the formation of our wholly owned subsidiary, Digital Ally Healthcare, Inc. and its majority-owned subsidiary Nobility Healthcare. Nobility Healthcare completed its first acquisition in June 2021, when it acquired a private medical billing company, and have since completed three additional acquisitions of private medical billing companies, in which we will assist in providing working capital and back-office services to healthcare organizations throughout the country. Our assistance consists of insurance and benefit verification, medical treatment documentation and coding, and collections. Through our expertise and experience in this field, we maximize our customers’ service revenues collected, leading to substantial improvements in their operating margins and cash flows.

Entertainment Operating Segment - We also entered into live entertainment and events ticketing services through the formation of our wholly owned subsidiary, TicketSmarter and its completed acquisitions of Goody Tickets, LLC and TicketSmarter, LLC, on September 1, 2021. TicketSmarter provides ticket sales, partnerships, and mainly, ticket resale services through its online ticketing marketplace for live events, TicketSmarter.com. TicketSmarter offers tickets for over 125,000 live events through its platform, for a wide range of events, including concerts, sporting events, theatres, and performing arts, throughout the country. We also offer production and promotion of live music events in third-party venues throughout the country. These services begin with the logistical matters of an event, including artist booking and research, ticketing, staging, on-site operations, vendor sourcing, and day of production.

Business Combination

In June 2023, the Company, entered into the Merger Agreement with Clover Leaf, Merger Sub, Yntegra Capital Investments LLC, a Delaware limited liability company, in the capacity as the representative from and after the Effective Time (as defined in the Merger Agreement) for the stockholders of Clover Leaf in accordance with the terms and conditions of the Merger Agreement, and Kustom Entertainment. Pursuant to the Merger Agreement, subject to the terms and conditions set forth therein upon the consummation of the transactions contemplated by the Merger Agreement, Merger Sub will merge with and into Kustom, with Kustom continuing as the surviving corporation in the Merger and a wholly owned subsidiary of Clover Leaf. Upon the Closing which is subject to the approval of Clover Leaf's shareholders and the satisfaction or waiver of certain other customary closing conditions, the common stock of the combined company is expected to be listed on the Nasdaq under a mutually agreed new ticker symbol that reflects the name "Kustom Entertainment".

Segment Overview

Our reportable segments are: 1) video solutions, 2) revenue cycle management, and 3) entertainment.

Video Solutions Operating Segment

Our video solutions segment revenue encompasses video recording products and services for our law enforcement and commercial customers and the sale of Shield disinfectant and personal protective products. This segment generates revenues our subscription models offering cloud and warranty solutions, and hardware sales for video and personal protective safety products and solutions. Revenues for product sales are recognized upon delivery of the product, and revenues from our cloud and warranty subscription plans are deferred over the term of the subscription, typically 3 or 5 years.

To judge the health of our video solutions segment, we review the current active subscriptions and deferred service revenues, along with the quantity and gross margins generated by our video solutions hardware sales.

Revenue Cycle Management Operating Segment

Our revenue cycle management segment consists of our medical billing subsidiaries. Revenues of this segment are recognized after we perform our obligations of our revenue cycle management services. Our revenue cycle management segment is services performed and such services are charged monthly, generally based on a contractual percentage of total customer collections, for which we recognize our net service fees.

To judge the health of our revenue cycle management segment, we review the collection success rate and collection timing. In addition, we review the associated costs incurred to assist our customers, and any changes in operating margins and cash flows.

Entertainment Operating Segment

Our entertainment operating segment consists of ticketing services provided through TicketSmarter and its online platform, TicketSmarter.com. Revenues of this segment include ticketing service charges generally determined as a percentage of the face value of the underlying ticket and ticket sales from our ticket inventory which are recognized when the underlying tickets are sold along with tickets, concession, merchandise, and other sales from the live events produced by this segment. Direct expenses include the cost of tickets purchased for resale by the Company and holds as inventory, artist costs, staging costs, credit card fees, ticketing platform expenses, website maintenance fees, along with other administrative costs.

To judge the health of our entertainment operating segment, we review the gross transaction value, which represents the total value related to a ticket sale and includes the face value of the ticket as well as the service charge. In addition, we review the number of visits to our websites, cost of customer acquisition, the purchase conversion rate, the overall number of customers in our database, and the number and percentage of tickets sold via the website and mobile app.

Summary Financial Data

Summarized financial information for the Company's reportable business segments is provided for the years ended December 31, 2023, and 2022:

	Years Ended December 31,	
	2023	2022
Net Revenues:		
Video Solutions	\$ 7,471,285	\$ 8,252,288
Revenue Cycle Management	6,713,678	7,886,107
Entertainment	14,063,381	20,871,500
Total Net Revenues	<u>\$ 28,248,344</u>	<u>\$ 37,009,895</u>
Gross Profit (loss):		
Video Solutions	\$ 1,290,509	\$ (1,250,277)
Revenue Cycle Management	2,772,271	3,303,477
Entertainment	1,699,704	268,741
Total Gross Profit	<u>\$ 5,762,484</u>	<u>\$ 2,321,941</u>
Operating Income (loss):		
Video Solutions	\$ (7,135,584)	\$ (9,278,721)
Revenue Cycle Management	292,543	357,705
Entertainment	(3,646,770)	(7,369,241)
Corporate	(11,750,742)	(13,443,001)
Total Operating Income (Loss)	<u>\$ (22,240,553)</u>	<u>\$ (29,733,258)</u>
Depreciation and Amortization:		
Video Solutions	\$ 836,699	\$ 769,228
Revenue Cycle Management	104,352	128,082
Entertainment	1,277,186	1,279,369
Total Depreciation and Amortization	<u>\$ 2,218,237</u>	<u>\$ 2,176,679</u>
Assets (net of eliminations):		
Video Solutions	\$ 26,396,559	\$ 28,509,706
Revenue Cycle Management	2,260,376	2,201,570
Entertainment	6,324,211	11,190,491
Corporate	12,047,663	14,766,295
Total Identifiable Assets	<u>\$ 47,028,809</u>	<u>\$ 56,668,062</u>

Segment net revenues reported above represent only sales to external customers. Segment gross profit represents net revenues less cost of revenues. Segment operating income (loss), which is used in management's evaluation of segment performance, represents net revenues, less cost of revenues, less all operating expenses. Identifiable assets are those assets used by each segment in its operations. Corporate assets primarily consist of cash, property, plant and equipment, accounts receivable, inventories, and other assets.

Consolidated Results of Operations

We experienced operating losses for all quarters during 2023 and 2022. The following is a summary of our recent operating results on a quarterly basis:

	For the Three Months Ended:							
	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Total revenue	\$ 6,228,351	\$ 6,337,699	\$ 8,062,097	\$ 7,620,197	\$ 8,879,504	\$ 8,484,153	\$ 9,351,457	\$ 10,294,781
Gross profit	549,031	1,226,149	2,519,505	1,467,799	(1,932,256)	595,500	1,719,078	1,939,619
Gross profit margin percentage	8.8%	19.3%	31.3%	19.3%	(21.8)%	7.0%	18.4%	18.8%
Total selling, general and administrative expenses	6,528,031	6,374,192	7,460,209	7,640,605	7,769,389	7,162,523	8,380,330	8,742,957
Operating loss	(5,979,000)	(5,148,043)	(4,940,704)	(6,172,806)	(9,701,645)	(6,567,023)	(6,661,252)	(6,803,338)
Operating loss percentage	(96.0)%	(81.2)%	(61.3)%	(81.0)%	(109.3)%	(77.4)%	(71.2)%	(66.1)%
Net income/(loss)	\$ (7,484,778)	\$ (3,679,043)	\$ (8,320,549)	\$ (5,979,579)	\$ (9,574,258)	\$ (1,919,071)	\$ (682,187)	\$ (6,698,242)

Our business is subject to substantial fluctuations on a quarterly basis as reflected in the significant variations in revenues and operating results in the above table. These variations result from various factors, including but not limited to: (1) the timing of large individual orders; (2) the traction gained by products, such as the recently released FirstVu Pro, FirstVu II, FLT-250, EVO HD, the ThermoVu™ and the Shield™ lines; (3) production, quality and other supply chain issues affecting our cost of goods sold; (4) unusual increases in operating expenses, such as the timing of trade shows and stock-based and bonus compensation; (5) the timing of patent infringement litigation settlements (6) ongoing patent and other litigation and related expenses respecting outstanding lawsuits; and (7) the completion of corporate acquisitions including the recent purchases in the revenue cycle management and entertainment operating segments. We reported net loss of \$7,484,778 on revenues of \$6,228,351 for the fourth quarter of 2023.

The factors and trends affecting our recent performance include:

- The Company formed two new operating segments in 2021 and continued to make acquisitions within these segments in 2021 and 2022 resulting in increased revenues and costs. The Company has since focused on the profitability of these segments and resulting in fluctuating revenues and costs on a quarterly basis. The entertainment operating segment generated \$14,063,381 and \$20,871,500 in revenue during the years ended December 31, 2023 and 2022, respectively, a decrease of \$6,808,119 (33%). The revenue cycle management operating segment generated \$6,713,678 and \$7,886,107 in revenue for the years ended December 31, 2023 and 2022, respectively, a decrease of \$1,172,429 (15%). We expect to continue to experience improved results from our two new operating segments and their recent acquisitions, along with improved results from the video solutions segment as the recurring revenue model expands.
- Our objective is to expand our video solutions segment's recurring service revenue to help stabilize our revenues on a quarterly basis. Revenues from cloud storages have been increasing in recent quarters and reached approximately \$572,892 in the fourth quarter of 2023, an increase of \$141,725 (33%) over the fourth quarter of 2022. Overall, cloud revenues increased to approximately \$1,994,066 for the year ended December 31, 2023 compared to approximately \$1,471,860 for the year ended December 31, 2022, an increase of \$522,206, or 35%. We are pursuing several new market channels outside of our traditional law enforcement and private security customers, similar to our NASCAR and event security customers, which we believe will help expand the appeal of our products and service capabilities to new commercial markets. If successful, we believe that these new market channels could yield recurring service revenues for us in the future.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet debt, nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have a material current or future effect on financial conditions, changes in the financial conditions, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses.

We are a party to operating leases and license agreements that represent commitments for future payments (described in Note 15, "Commitments and Contingencies," to our consolidated financial statements) and we have issued purchase orders in the ordinary course of business that represent commitments to future payments for goods and services.

For the Years Ended December 31, 2023 and 2022

Results of Operations

Summarized immediately below and discussed in more detail in the subsequent sub-sections is an analysis of our operating results for the years ended December 31, 2023 and 2022, represented as a percentage of total revenues for each respective year:

	Years Ended December 31,	
	2023	2022
Revenue	100%	100%
Cost of revenue	80%	94%
Gross profit	20%	6%
Selling, general and administrative expenses:		
Research and development expense	9%	6%
Selling, advertising and promotional expense	25%	25%
General and administrative expense	65%	55%
Total selling, general and administrative expenses	99%	86%
Operating loss	(79)%	(80)%
Change in fair value of derivative liabilities	7%	18%
Change in fair value of contingent consideration promissory notes and earn-out agreements	1%	1%
Gain on extinguishment of warrant derivative liability	—%	10%
Loss on accrual for legal settlement	(6)%	—%
Loss on extinguishment of convertible debt	(4)%	—%
Gain on extinguishment of debt	2%	—%
Gain on sale of property, plant and equipment	—%	1%
Interest expense	(11)%	—%
Interest income and other income, net	1%	(1)%
Loss before income tax benefit	(89)%	(51)%
Income tax expense (benefit)	—%	—%
Net loss	(89)%	(51)%
Net loss attributable to noncontrolling interests of consolidated subsidiary	(1)%	(1)%
Loss on redemption – Series A & B convertible redeemable preferred stock	—%	(6)%
Net loss attributable to common stockholders	(90)%	(58)%
Net loss per share information:		
Basic	\$ (9.22)	\$ (8.50)
Diluted	\$ (9.22)	\$ (8.50)

Revenues

Revenues by Type and by Operating Segment

Our operating segments generate two types of revenues:

Product revenues primarily includes video solutions operating segment hardware sales of in-car and body-worn cameras, along with sales of our ThermoVu™ units, disinfectants, and personal protective equipment. Additionally, product revenues also include the sale of tickets by our entertainment operating segment that have been purchased or received through our sponsorships and partnerships and held in inventory by our entertainment segment until their sale.

Service and other revenues consist of cloud and warranty services revenues from our subscription plan and storage offerings of our video solutions segment. Our entertainment operating segments' secondary ticketing marketplace revenues are included in service revenue. We recognize service revenue from sales generated through its secondary ticketing marketplace as we collect net services fees on secondary ticketing marketplace transactions. Lastly, our revenue cycle management segment revenues are included in the service revenues for services provided to medical providers throughout the country.

The following table presents revenues by type and segment:

	Year Ended December 31,		
	2023	% Change	2022
Product revenues:			
Video solutions	\$ 4,303,369	(20.3)%	\$ 5,401,089
Entertainment	5,044,576	(9.9)%	5,598,803
Total product revenues	9,347,945	(15.0)%	10,999,892
Service and other revenues:			
Video solutions	3,167,916	11.1%	2,851,199
Entertainment	9,018,805	(40.9)%	15,272,697
Revenue cycle management	6,713,678	(14.9)%	7,886,107
Total service and other revenues	18,900,399	(27.3)%	26,010,003
Total revenues	\$ 28,248,344	(23.7)%	\$ 37,009,895

Our video solutions operating segment sells our products and services to customers in the following manner:

- Sales to domestic customers are made directly to the end customer (typically a law enforcement agency or a commercial customer) through our sales force, comprised of our employees. Revenue is recorded when the product is shipped to the end customer.
- Sales to international customers are made through independent distributors who purchase products from us at a wholesale price and sell to the end user (typically law enforcement agencies or a commercial customer) at a retail price. The distributor retains the margin as compensation for its role in the transaction. The distributor generally maintains product inventory, customer receivables and all related risks and rewards of ownership. Revenue is recorded when the product is shipped to the distributor consistent with the terms of the distribution agreement.
- Repair parts and services for domestic and international customers are generally handled by our inside customer service employees. Revenue is recognized upon shipment of the repair parts and acceptance of the service or materials by the end customer.

Our revenue cycle management operating segment sells its services to customers in the following manner:

- Our revenue cycle management operating segment generates service revenues through relationships with medium to large healthcare organizations, in which the underlying service revenue is recognized upon execution of services. Service revenues are generally determined as a percentage of the dollar amount of medical billings collected by the customer.

Our entertainment operating segment sells our products and services to customers in the following manner:

- Our entertainment operating segment generates product revenues from the sale of tickets directly to consumers for a particular event that the entertainment operating segment has previously purchased and held in inventory for ultimate resale to the end consumer. Service sales through TicketSmarter, are driven largely in part to the usage of the TicketSmarter.com marketplace by buyers and sellers, in which the Company collects service fees for each transaction completed through this platform.

We may discount our prices on specific orders based upon the size of the order, the specific customer and the competitive landscape.

Product revenues by operating segment is as follows:

	Years ended December 31,	
	2023	2022
Product Revenues:		
Video Solutions	\$ 4,303,369	\$ 5,401,089
Revenue Cycle Management	—	—
Entertainment	5,044,576	5,598,803
Total Product Revenues	\$ 9,347,495	\$ 10,999,892

Product revenues for the years ended December 31, 2023 and 2022 were \$9,347,495 and \$10,999,892, respectively, a decrease of \$1,651,947 (15%), due to the following factors:

- Revenues generated by the entertainment operating segment began with the Company's acquisition of TicketSmarter on September 1, 2021. The entertainment operating segment generated \$5,044,576 in product revenues for the year ended December 31, 2023, compared to \$5,598,803 for the fiscal year ended December 31, 2022. This largely relates to the Company focusing on right sizing and reducing costs and working towards profitability.
- The Company's video solutions operating segment generated product revenues totaling \$4,303,369 during the year ended December 31, 2023 compared to \$5,401,089 for the year ended December 31, 2022. In general, our video solutions operating segment has experienced pressure on its product revenues as our in-car and body-worn systems are facing increased competition because our competitors have released new products with advanced features. Additionally, our law enforcement revenues declined over the year ended December 31, 2023 and 2022 due to price-cutting and competitive actions by our competitors, adverse marketplace effects related to our patent litigation proceedings and our recent financial condition.
- Our video solutions operating segment management has continued to focus on migrating commercial customers, from a hardware sale to a service fee model. Therefore, we expect a reduction in commercial hardware sales (principally DVM-250's, FLT-250's, and a portion of our body-worn camera line) as we convert these customers to a service model under which we provide the hardware as part of a recurring monthly service fee. In that respect, we introduced a monthly subscription agreement plan for our body worn cameras and related equipment during the second quarter of 2020 that allowed law enforcement agencies to pay a monthly service fee to obtain body worn cameras without incurring a significant upfront capital outlay. This program has gained some traction, resulting in decreased product revenues and increasing our service revenues. We expect this program to continue to hold traction, resulting in recurring revenues over a span of three to five years.

Service and other revenues by operating segment is as follows:

	Years ended December 31,	
	2023	2022
Service and Other Revenues:		
Video Solutions	\$ 3,167,916	\$ 2,851,199
Revenue Cycle Management	6,713,678	7,886,107
Entertainment	9,018,805	15,272,697
Total Service and Other Revenues	\$ 18,900,399	\$ 26,010,003

Service and other revenues for the years ended December 31, 2023 and 2022 were \$18,900,399 and \$26,010,003, respectively, a decrease of \$7,109,604 (27%), due to the following factors:

- Cloud revenues generated by the video solutions operating segment were \$1,994,066 and \$1,471,860 for the years ended December 31, 2023 and 2022, respectively, an increase of \$522,206 (35%). We continue to experience increased interest in our cloud solutions for law enforcement primarily due to the deployment of our cloud-based EVO-HD in-car system and our next generation body-worn camera products, which contributed to our increased cloud revenues in the year ended December 31, 2023. We expect this trend to continue for 2024 as the migration from local storage to cloud storage continues in our customer base.
- Video solutions operating segment revenues from extended warranty services were \$860,337 and \$692,017 for the years ended December 31, 2023 and 2022, respectively, an increase of \$168,320 (24%). This correlates with consistent sales of hardware and additional extended warranties sold during the year.
- Our entertainment operating segment generated service revenues totaling \$9,018,805 and \$15,272,697 for the years ended December 31, 2023 and 2022, respectively, a decrease of \$6,253,892 (41%). The Company completed the acquisitions of Goody Tickets, LLC and TicketSmarter, LLC in the third quarter of 2021, thus resulting in the new revenue stream for the Company during the last fourth months of 2021 and twelve months ended December 31, 2022. TicketSmarter collects fees on transactions administered through the TicketSmarter.com platform for the buying and selling of tickets for live events throughout the country. We expect our entertainment operating segment to continue to fluctuate as we look right-size this segment and work towards profitability.
- Our revenue cycle management operating segment generated service revenues totaling \$6,713,678 and \$7,886,107 for the years ended December 31, 2023 and 2022, respectively, a decrease of \$1,172,429 (15%). Our revenue cycle management operating segment has completed four acquisitions since formation in June 2021, thus resulting in the new service revenue stream added in the twelve months ended December 31, 2022. Our revenue cycle management operating segment provides revenue cycle management solutions and back-office services to healthcare organizations throughout the country. The decrease in revenue is due to refinement within one of the recent acquisitions, as they strive to maximize profitability rather than focus on top line revenue.

Total revenues for the years ended December 31, 2023, and 2022 were \$28,248,344 and \$37,009,895, respectively, a decrease of \$8,761,551 (24%), due to the reasons noted above.

Cost of Product Revenue

Overall cost of product revenue sold for the years ended December 31, 2023, and 2022 was \$9,974,890 and \$14,372,115, respectively, a decrease of \$4,397,225 (31%). Overall cost of goods sold for products as a percentage of product revenues for the years ended December 31, 2023, and 2022 were 107% and 131%, respectively. Cost of products sold by operating segment is as follows:

	Years Ended December 31,	
	2023	2022
Cost of Product Revenues:		
Video Solutions	\$ 4,824,967	\$ 8,332,484
Revenue Cycle Management	—	—
Entertainment	5,149,923	6,039,631
Total Cost of Product Revenues	<u>\$ 9,974,890</u>	<u>\$ 14,372,115</u>

The decrease in cost of goods sold for our video solutions segment products is due to numerous factors including a sizeable increase in the allowance for excess and obsolete inventory in 2022, mostly surrounding the personal protective equipment product line. Cost of product sold as a percentage of product revenues for the video solutions segment decreased to 112% for the year ended December 31, 2023 as compared to 154% for the year ended December 31, 2022.

The decrease in entertainment operating segment cost of product sold directly correlates to the lower product revenues for the year ended December 31, 2023. Cost of Product Revenues were \$5,149,923 and \$6,039,631 for the year ended December 31, 2023 and 2022, a decrease of \$889,708 (15%). Cost of product sold as a percentage of product revenues for the entertainment segment decreased to 102% for the year ended December 31, 2023 as compared to 108% for the year ended December 31, 2022.

We recorded \$4,542,461 and \$5,489,541 in reserves for obsolete and excess inventories for the years ended December 31, 2023 and 2022, respectively. Total raw materials and component parts were \$3,044,653 and \$4,509,165 for the years ended December 31, 2023 and 2022, respectively, a decrease of \$1,464,512 (32%). Finished goods balances were \$5,322,693 and \$7,816,618 for the years ended December 31, 2023 and December 31, 2022, respectively, a decrease of \$2,493,925 (32%) which was attributable to a reduction in inventory for the video solutions product lines and a large decrease in ticket inventory for the newly acquired entertainment segment. The decrease in the inventory reserve is primarily due to the disposal of obsolete inventory that was included in the reserves during 2022. Additionally, the Company determined a reasonable reserve for inventory held at the ticket operating segment, in which some inventory items sell below cost or go unsold, thus having to be fully written-off following the event date. We believe the reserves are appropriate given our inventory levels as of December 31, 2023.

Cost of Service Revenue

Overall cost of service revenue sold for the years ended December 31, 2023, and 2022 was \$12,510,970 and \$20,315,839, respectively, a decrease of \$7,804,869 (38%). Overall cost of goods sold for services as a percentage of service revenues for the years ended December 31, 2023, and 2022 were 66% and 78%, respectively. Cost of service revenues by operating segment is as follows:

	Years Ended December 31,	
	2023	2022
Cost of Service Revenues:		
Video Solutions	\$ 1,355,809	\$ 1,170,081
Revenue Cycle Management	3,941,407	4,582,630
Entertainment	7,213,754	14,563,128
Total Cost of Service Revenues	<u>\$ 12,510,970</u>	<u>\$ 20,315,839</u>

The increase in cost of service revenues for our video solutions segment is commensurate with the increase in service revenues in the year ended December 31, 2023 compared to the year ended December 31, 2022. Cost of service revenues as a percentage of service revenues for the video solutions segment increased to 43% for the year ended December 31, 2023 as compared to 41% for the year ended December 31, 2022.

The decrease in revenue cycle management operating segment cost of service revenue is commensurate with the decline in revenues due certain loss generating services being eliminated during the year. Cost of service revenues as a percentage of product revenues for the revenue cycle management operating segment increased to 59% for the year ended December 31, 2023 as compared to 58% for the year ended December 31, 2022.

The decrease in entertainment operating segment cost of service revenues is due to management right sizing the business working towards profitability. The Entertainment cost of service revenue was \$7,213,754 for the year ended December 31, 2023, compared to \$14,563,128 for the year ended December 31, 2022. Cost of service revenues as a percentage of service revenues for the entertainment segment decreased to 80% for the year ended December 31, 2023 as compared to 95% for the year ended December 31, 2022.

Gross Profit

Overall gross profit for the years ended December 31, 2023 and 2022 was \$5,762,484 and \$2,321,941, respectively, an increase of \$3,440,543 (148%). Gross profit by operating segment was as follows:

	Years Ended December 31,	
	2023	2022
Gross Profit:		
Video Solutions	\$ 1,290,509	\$ (1,250,278)
Revenue Cycle Management	2,772,271	3,303,477
Entertainment	1,699,704	268,742
Total Gross Profit	\$ 5,762,484	\$ 2,321,941

The increase is attributable to the decrease in cost of goods sold across our video and entertainment segments for the year ended December 31, 2023, as there was an overall decrease in the cost of sales as a percentage of overall revenues to 80% for the year ended December 31, 2023 from 94% for the year ended December 31, 2022. This is primarily driven by large inventory reserve being established in 2022, a focus on right sizing recent acquisitions to increase profitability and a transition to a service subscription-based model in our video solutions segment. Our goal is to improve our margins over the longer term based on the expected margins generated by our new recent revenue cycle management and entertainment operating segments together with our video solutions operating segment and its expected margins from our EVO-HD, DVM-800, VuLink, FirstVu Pro, FirstVu II, Shield™ disinfectants and our cloud evidence storage and management offering, provided that they gain traction in the marketplace. We plan to continue our initiative to more efficient management of our supply chain through outsourcing production, quantity purchases and more effective purchasing practices.

Selling, General and Administrative Expenses

Overall selling, general and administrative expenses were \$28,003,037 and \$32,055,199 for the years ended December 31, 2023 and 2022, respectively, a decrease of \$4,052,162 (13%). The decrease is primarily attributable to a focus on right-sizing the business with a reduction in administrative headcount coupled with a reduction in sponsorships and advertising where costs outweighed the returns. Our selling, general and administrative expenses as a percentage of sales increased to 99% for 2023 compared to 87% in the same period in 2022.

The significant components of selling, general and administrative expenses are as follows:

	Year ended December 31,	
	2023	2022
Research and development expense	\$ 2,618,746	\$ 2,290,293
Selling, advertising and promotional expense	7,137,529	9,312,204
General and administrative expense	18,246,762	20,452,702
Total	\$ 28,003,037	\$ 32,055,199

Research and development expense. Our video solutions operating segment continues to focus on bringing new products to market, including updates and improvements to current products. Our research and development expenses totaled \$2,618,746 and \$2,290,293 for the years ended December 31, 2023 and 2022, respectively, an increase of \$328,453 (14%). We employed 21 engineers at December 31, 2023 compared to 21 engineers at December 31, 2022. Most of our engineers are dedicated to research and development activities for new products, primarily the new generation of body-worn cameras, EVO-HD and EVO Fleet that can be located in multiple places in a vehicle. We expect our research and development activities will continue to trend higher in future quarters as we continue to expand our product offerings based on our new body-worn camera and EVO-HD product platform and as we outsource more development projects. We consider our research and development capabilities and new product focus to be a competitive advantage and will continue to invest in this area on a prudent basis and consistent with our financial resources.

Selling, advertising and promotional expenses. Selling, advertising and promotional expenses totaled \$7,137,529 and \$9,312,204 for the years ended December 31, 2023 and 2022, respectively, a decrease of \$2,174,675 (23%). The decrease is primarily attributable to a reduction in promotional and advertising sponsorships and expenses.

Promotional and advertising expenses totaled \$5,479,437 during the year ended December 31, 2023 compared to \$7,668,641 during the year ended December 31, 2022, a decrease of \$2,189,204 (29%). The overall decrease is primarily attributable to TicketSmarter's very active approach to sponsorship and advertising in 2022 as they were aggressively building a brand and gaining recognition. TicketSmarter accounted for \$2,328,759 and \$4,024,748 of the total promotional and advertising expense for the year ended December 31, 2023 and 2022, respectively.

General and administrative expenses. General and administrative expenses totaled \$18,246,762 and \$20,452,702 for the years ended December 31, 2023 and 2022, respectively. The decrease in general and administrative expenses for the year ended December 31, 2023 compared to the same period in 2022 is primarily attributable to a decrease in administrative salaries, as payroll begins to adjust from the new acquisitions completed by the Company. General and administrative expenses also decreased due to a decline in rent expenses, and legal and professional expenses for the years ended December 31, 2023 compared to the same period in 2022.

Operating Loss

For the reasons previously stated, our operating loss was \$22,240,553 and \$29,733,258 for the years ended December 31, 2023 and 2022, respectively, a decrease of \$7,492,705 (25%). Operating loss as a percentage of revenues improved to 78% in 2023 from 80% in 2022.

Interest Income

Interest income decreased to \$95,717 for the year ended December 31, 2023, from \$131,025 in 2022, which reflects our overall decline in our cash and cash equivalent levels in 2023 compared to 2022.

Interest Expense

We incurred interest expenses of \$3,134,253 and \$37,196 during the years ended December 31, 2023 and 2022, respectively. The increase is attributable to the amortization of debt discounts associated with the convertible debt, revolving loan agreements and merchant advances.

Loss on Accrual for Legal Settlement

The Company recognized a loss on accrual for legal settlement of \$1,792,308 and \$-0- during the years ended December 31, 2023 and 2022, respectively. This is in connection with the ongoing lawsuit with Culp McCauley, Inc.

Loss on Conversion of Convertible Debt

The Company recognized a loss on conversion of convertible debt of \$1,112,705 and \$-0- during the year ended December 31, 2023 and 2022, respectively. This is in connection with the convertible notes issued during the year ended December 31, 2023, the conversion from debt to equity and cash settlement of debt during the period.

Change in Fair Value of Short-Term Investments

We recognized a loss on change in fair value of short-term investments totaling \$-0- and \$84,818 during the years ended December 31, 2023 and 2022, respectively. Such short-term investments are included in cash and cash equivalents as they contain original maturities of ninety (90) days or less. The decrease reflects our overall lower cash and cash equivalent levels in 2023 compared to 2022.

Change in Fair Value of Warrant Derivative Liabilities

During the second quarter of 2023, the Company issued detachable warrants to purchase a total of 1,125,000 shares of Common Stock in association with the two secured convertible notes previously described. The underlying warrant agreement terms provide for net cash settlement outside the control of the Company in the event of tender offers under certain circumstances. As such, the Company is required to treat these warrants as derivative liabilities which are valued at their estimated fair value at their issuance date and at each reporting date with any subsequent changes reported in the consolidated statement of operations as the change in fair value of warrant derivative liabilities. The change in fair value of the warrant derivative liabilities during year ended December 31, 2023 totaled \$1,846,642, compared to \$6,726,638 for the year ended December 31, 2022, which was recognized as a gain on the Consolidated Statements of Operations.

Change in Fair Value of Contingent Consideration Promissory Notes and Earn-Out Agreements

On June 30, 2021, Nobility Healthcare, a subsidiary of the Company, issued a contingent consideration promissory note (the "June Contingent Note") in connection with a stock purchase agreement between Nobility Healthcare and a private company (the "June Seller") of \$350,000. Principal payments, since its inception, on this contingent consideration promissory note totaled \$232,134. The estimated fair value of the June Contingent Note at December 31, 2023 is \$58,819, representing a decrease in its estimated fair value of \$117,637 as compared to its estimated fair value as of December 31, 2022. This reduction only relates to the principal payments made for the year ended December 31, 2023. Therefore, the Company recorded a gain of \$-0- and \$27,139 in the Consolidated Statements of Operations for the years ended December 31, 2023 and December 31, 2022, respectively.

On August 31, 2021, Nobility Healthcare, issued another contingent consideration promissory note (the "August Contingent Payment Note") in connection with a stock purchase agreement between Nobility Healthcare and a private company (the "August Sellers") of \$650,000. Principal payments, since its inception, on this contingent consideration promissory note totaled \$552,256. The estimated fair value of the August Contingent Note at December 31, 2023 is \$129,651, representing a decrease in its estimated fair value of \$259,303 as compared to its estimated fair value as of December 31, 2022. This reduction only relates to the principal payments made for the year ended December 31, 2023. Therefore, the Company recorded a loss of \$-0- and \$31,907 in the Consolidated Statements of Operations for the years ended December 31, 2023 and December 31, 2022, respectively.

On January 1, 2022, Nobility Healthcare issued another contingent consideration promissory note (the “January Contingent Payment Note”) in connection with a stock purchase agreement between Nobility Healthcare and a private company (the “January Sellers”) of \$750,000. Principal payments, since its inception, on this contingent consideration promissory note totaled \$153,769. The estimated fair value of the January Contingent Note at December 31, 2023 is \$-0-, representing a decrease in its estimated fair value of \$208,083 as compared to its estimated fair value as of December 31, 2022, of which \$32,936 represents payments made during the year ended December 31, 2023. Therefore, the Company recorded a gain of \$175,146 and \$421,085 in the Consolidated Statements of Operations for the years ended December 31, 2023 and December 31, 2022, respectively.

On February 1, 2022, Nobility Healthcare issued another contingent consideration promissory note (the “February Contingent Payment Note”) in connection with an asset purchase agreement between Nobility Healthcare and a private company (the “February Sellers”) of \$105,000. The estimated fair value of the February Contingent Note at December 31, 2023 is \$-0-, representing a decrease in its estimated fair value of \$4,347 as compared to its estimated fair value as of December 31, 2022, of which \$1,584 represents payments made during the year ended December 31, 2023. Therefore, the Company recorded a gain of \$2,763 and \$100,654 in the Consolidated Statements of Operations for the years ended December 31, 2023 and 2022, respectively.

Gain on Extinguishment of Warrant Derivative Liabilities

We recognized a gain on the extinguishment of warrant derivative liabilities of \$-0- and \$3,624,794 during the year ended December 31, 2023 and December 31, 2022, respectively. This is in connection with the Warrant Exchange Agreements executed by the Company on August 23, 2022.

Gain on Extinguishment of Liabilities

Gain on extinguishment of liabilities increased to \$550,867 for the year ended December 31, 2023, from \$-0- during the year ended December 31, 2022, which reflects income related to the entertainment segment’s ability to negotiate down payables and contract liabilities during the period. This gain relates to the TicketSmarter Related Party Note payable for the entertainment segment, as a trust, the beneficiaries of which are TicketSmarter’s Chief Executive Officer and his spouse, contributed cash in the amount of \$2,700,000 to TicketSmarter. Those funds were then utilized to resolve numerous outstanding payables at a discounted rate, the discount received is recognized as a gain on extinguishment of liabilities on the statement of operations. Additionally, these negotiations relieved TicketSmarter of numerous future obligations following fiscal year 2023, which will result in much more significant savings over the next several years.

Other income

Other income increased to \$144,735 for the year ended December 31, 2023, from \$-0- during the year ended December 31, 2022, which largely reflects income related to a warehouse lease within the corporate headquarters.

Other expense

Other expense was \$-0- for the year ended December 31, 2023, a decrease from \$230,744 during the year ended December 31, 2022, which reflects expense related to a note receivable adjustment.

Income/(Loss) before Income Tax Benefit

As a result of the above, we reported a net income/(loss) before income tax benefit of (\$25,463,949) and (\$18,873,758) for the years ended December 31, 2023 and 2022, respectively, a decline of \$6,590,191 (35%).

Income Tax Benefit

We recorded an income tax benefit of \$-0- for the years ended December 31, 2023 and 2022, respectively. The effective tax rate for both 2023 and 2022 varied from the expected statutory rate due to our continuing to provide a 100% valuation allowance on net deferred tax assets. We determined that it was appropriate to continue the full valuation allowance on net deferred tax assets as of December 31, 2023 and 2022 primarily because of the recurring operating losses.

We have further determined to continue providing a full valuation reserve on our net deferred tax assets as of December 31, 2023. During 2023, we decreased our valuation reserve on deferred tax assets by \$7,870,000 whereby our deferred tax assets continue to be fully reserved due to our recent operating losses.

We had approximately \$145,035,000 of federal net operating loss carryforwards and \$1,795,000 of research and development tax credit carryforwards as of December 31, 2023 available to offset future net taxable income.

Net Loss

As a result of the above, we reported a net income/(loss) of (\$25,463,949) and (\$18,873,758) for the years ended December 31, 2023 and 2022, respectively, a decline of \$6,590,191 (35%).

Net Income Attributable to Noncontrolling Interests of Consolidated Subsidiary

The Company owns a 51% equity interest in its consolidated subsidiary, Nobility Healthcare. As a result, the noncontrolling shareholders or minority interest is allocated 49% of the income/loss of Nobility Healthcare which is reflected in the statement of income (loss) as "net income (loss) attributable to noncontrolling interests of consolidated subsidiary". We reported net income (loss) attributable to noncontrolling interests of consolidated subsidiary of \$224,598 and \$407,933 for the years ended December 31, 2023 and 2022, respectively.

Loss on Redemption – Series A & B Convertible Redeemable Preferred Stock

During the year ended December 31, 2022, the Company redeemed 1,400,000 shares of Series A & 100,000 shares of Series B Preferred Stock, for a redemption price of \$15,750,000, with a \$13,365,000 carrying amount, resulting in a \$2,385,000 loss on redemption.

Net Loss Attributable to Common Stockholders

As a result of the above, we reported a net loss of \$25,688,547 and \$21,666,691 for the years ended December 31, 2023 and 2022, respectively, a decline of \$4,021,856 (19%).

Basic and Diluted Income/(Loss) per Share

The basic and diluted income/(loss) per share was (\$9.22) and (\$8.50) for the years ended December 31, 2023 and 2022, respectively, for the reasons previously noted. All outstanding stock options and common stock purchase warrants were considered antidilutive and therefore excluded from the calculation of diluted loss per share for the years ended December 31, 2023 and 2022 because all potentially dilutive securities during 2023 had exercise prices in excess of the market value of the company's common stock and because of the net loss reported for 2023.

Liquidity and Capital Resources

Overall:

Management's Liquidity Plan - We have experienced net losses and cash outflows from operating activities since inception. Based upon our current operating forecast, we anticipate that we will need to restore positive operating cash flows and/or raise additional capital in the short-term to fund operations, meet our customary payment obligations and otherwise execute our business plan over the next 12 months. We are continuously in discussions to raise additional capital, which may include a variety of equity and debt instruments; however, there can be no assurance that our capital raising initiatives will be successful. Our recurring losses and level of cash used in operations, along with uncertainties concerning our ability to raise additional capital, raise substantial doubt about our ability to continue as a going concern.

Our Common Stock is currently listed on The Nasdaq Capital Market. In order to maintain our listing, we must satisfy minimum financial and other continued listing requirements and standards, including those regarding director independence and independent committee requirements, minimum stockholders' equity, minimum share price, and certain corporate governance requirements. There can be no assurances that we will be able to comply with the applicable listing standards. See "Nasdaq Listing" below.

We had \$778,149 of available cash, equivalents and restricted cash and net negative working capital of \$6,963,943 as of December 31, 2023. Net working capital as of December 31, 2023, included approximately \$4.7 million of accounts receivable and other receivables and \$3.8 million of current inventory.

Cash, cash equivalents and restricted cash: As of December 31, 2023, we had cash, cash equivalents and restricted cash with an aggregate balance of \$778,149, a decrease from a balance of \$3,532,199 for the year December 31, 2022. Summarized immediately below and discussed in more detail in the subsequent subsections are the main elements of the \$2,754,050 net decrease in cash during the year ended December 31, 2023:

- **Operating activities:** **\$9,893,838 of net cash used in** operating activities. Net cash used in operating activities was \$9,893,838 and \$18,580,385 for the years ended December 31, 2023 and 2022, respectively, an improvement of \$8,686,547. The improvement is attributable to a significant decrease in the non-cash gain attributable to the change in value of the warrant derivative liability in 2023 compared to 2022, as well as the decline in the usage of cash to increase inventories, prepaid expenses, and other operating assets along with the increase in operating liabilities during the year ended December 31, 2023 compared to 2022.
- **Investing activities:** **\$240,706 of net cash used in** investing activities. Cash used in investing activities was \$240,706 and \$2,940,591 for the years ended December 31, 2023 and 2022 respectively. During the year ended December 31, 2023, we made capital expenditures for: (i) building improvements of the newly purchased office and warehouse building; and (ii) patent applications on our proprietary technology utilized in our new products and included in intangible assets. The improvement in cash used in investing activities was due to several large investing activities in 2022 including cost for the purchase of an aircraft for our BirdVu Jets subsidiary and the closing of one business acquisition and one asset acquisition that did not recur in 2023.
- **Financing activities:** **\$7,380,494 of net cash provided by** financing activities. Cash provided by financing activities was \$7,380,494 for the year ended December 31, 2023, compared to cash used in financing activities of \$6,954,617 for the year ended December 31, 2022. In 2023, we completed a convertible note agreement, a related party note payable, a revolving loan agreement and a merchant advance for our video solution segment, received a Commercial Extension of Credit for our Entertainment Segment, receiving net proceeds of \$12.5 million. We also made principal payments on the extension of credit, merchant advance and contingent consideration promissory notes and paid off the convertible loan totaling \$5.2 million in principal payments. In 2022, we utilized over \$4.0 million on the stock repurchase program, \$2.4 million for completion of the preferred stock transaction, as well as over \$0.5 million on payments of contingent consideration promissory notes related to the revenue cycle management segment.

The net result of these activities was a decrease in cash of \$2,754,050 to \$778,149 for the year ended December 31, 2023.

Commitments:

We had \$778,149 of cash, and cash equivalents, including restricted cash of \$97,600 and net negative working capital \$6,963,943 as of December 31, 2023. Accounts receivable and other receivable balances represented \$4,692,296 of our net working capital as of December 31, 2023. We intend to collect our outstanding receivables on a timely basis and reduce the overall level during 2024, which would help to provide positive cash flow to support our operations during 2024. Inventory represented \$3,845,281 of our net working capital as of December 31, 2023. We are actively managing the level of inventory and our goal is to reduce such level during 2024 by our sales activities, the increase of which should provide additional cash flow to help support our operations during 2024.

Capital Expenditures. On December 6, 2021, the Board authorized the repurchase of up to \$10.0 million of the Company's outstanding common stock under the specified terms of a share repurchase program (the "Program"). During the year ended December 31, 2022, the Company repurchased 186,299 shares of its common stock for \$4,026,523, in accordance with the Program.

On June 30, 2022, the Board elected to terminate the Program, effective immediately. The Program began in December 2021, with the Company purchasing a total of 273,041 shares at a cost of \$6,001,602 through its termination on June 30, 2022.

The Company's revenue cycle management segment completed its third medical billing company acquisition using approximately \$1.4 million in cash for the portion of the purchase price during 2022. The acquisition of the medical billing company included a contingent consideration promissory note payable to the sellers of \$750,000 at closing, which management estimated its fair value of \$-0- and \$208,083 as of December 31, 2023 and 2022.

In addition, the Company's revenue cycle management segment completed its fourth medical billing asset acquisition using approximately \$230,000 in cash for a portion of the total purchase price. The acquisition of the fourth medical billing asset purchase price included a contingent consideration promissory note payable to the sellers with an estimated fair value of \$105,000 at closing which management estimated its fair value of \$-0- and \$4,346 as of December 31, 2023 and 2022.

Lease commitments. On May 13, 2020, the Company entered into an operating lease for new warehouse and office space, which served as its new principal executive office and primary business location prior to the April 30 purchase and sale agreement. The original lease agreement was amended on August 28, 2020 to correct the footage under lease and monthly payment amounts resulting from such correction. The lease terms, as amended include no base rent for the first nine months and monthly payments ranging from \$12,398 to \$14,741 thereafter, with a termination date of December 31, 2026. The Company is responsible for property taxes, utilities, insurance and its proportionate share of common area costs related to its new location. The Company took possession of the leased facilities on June 15, 2020. The remaining lease term for the Company's office and warehouse operating lease as of December 31, 2023 was thirty-six months.

The Company entered into an operating lease with a third party in October 2019 for copiers used for office and warehouse purposes. The terms of the lease include 48 monthly payments of \$1,598 with a maturity date of October 2023. The Company has the option to purchase such equipment at maturity for its estimated fair market value at that point in time. The lease for the Company's copier operating lease expired was renewed in October 2023.

The Company entered into an operating lease with a third party in October 2023 for copiers used for office and warehouse purposes. The terms of the lease include 48 monthly payments of \$1,786 with a maturity date of October 2027. The Company has the option to purchase such equipment at maturity for its estimated fair market value at that point in time. The remaining lease term for the Company's copier operating lease as of December 31, 2023 was forty-six months.

On June 30, 2021, the Company completed the acquisition of its first medical billing company, through Nobility Healthcare. Upon completion of this acquisition, Nobility Healthcare became responsible for the operating lease for the seller's office space. The lease terms include monthly payments ranging from \$2,648 to \$2,774 thereafter, with a termination date in July 2024. The Company is responsible for property taxes, utilities, insurance and its proportionate share of common area costs related to this location. The remaining lease term for the Company's office operating lease as of December 31, 2023 was seven months.

On August 31, 2021, the Company completed the acquisition of its second acquired medical billing company, through Nobility Healthcare. Upon completion of this acquisition, Nobility Healthcare became responsible for the operating lease for the seller's office space. The lease was renewed in April 2023 with favorable terms and payments ranging from \$7,436 to \$8,877 thereafter, with a termination date in March 2030. The Company is responsible for property taxes, utilities, insurance and its proportionate share of common area costs related to this location. The remaining term for the Company's office operating lease was seventy-five months as of December 31, 2023.

On September 1, 2021, the Company completed the acquisition of Goody Tickets, LLC and TicketSmarter, LLC through TicketSmarter. Upon completion of this acquisition, the Company became responsible for the operating lease for TicketSmarter's office space. The lease terms include monthly payments ranging from \$7,211 to \$7,364 thereafter, with a termination date of December 2022. The Company is responsible for property taxes, utilities, insurance and its proportionate share of common area costs related to this location. The Company took possession of the leased facilities on September 1, 2021. The Company currently rents this space on a month-to-month basis with the intention to relocate upon the identification of suitable space.

On January 1, 2022, the Company completed the acquisition of a private medical billing company, through its revenue cycle management segment. Upon completion of this acquisition, the Company became responsible for the operating lease for the seller's office space. The lease terms include monthly payments ranging from \$4,233 to \$4,626, with a termination date of June 2025. The Company is responsible for property taxes, utilities, insurance and its proportionate share of common area costs related to this location. The Company took possession of the leased facilities on January 1, 2022. The remaining lease term for the Company's office and warehouse operating lease as of December 31, 2023, was seventeen months.

Lease expense related to the office spaces and copier operating leases was recorded on a straight-line basis over the lease term. Total lease expense under the five operating leases was approximately \$534,830 for the year ended December 31, 2023 and included in selling, general and administrative expenses.

The weighted-average remaining lease term related to the Company's lease liabilities as of December 31, 2023 and December 31, 2022 was 4.5 years and 3.3 years, respectively.

The discount rate implicit within the Company's operating leases was not generally determinable, and therefore, the Company determined the discount rate based on its incremental borrowing rate on the information available at commencement date. As of commencement date, the operating lease liabilities reflect a weighted average discount rate of 8%.

The following sets forth the operating lease right of use assets and liabilities as of December 31, 2023:

Assets:	
Operating lease right of use assets	\$ 1,053,159
Liabilities:	
Operating lease obligations-current portion	\$ 279,538
Operating lease obligations-less current portion	\$ 827,836
Total operating lease obligations	\$ 1,107,374

Following are the minimum lease payments for each year and in total.

Year ending December 31:	
2024	\$ 358,424
2025	311,849
2026	293,300
2027	117,492
Thereafter	235,020
Total undiscounted minimum future lease payments	1,316,085
Imputed interest	(208,711)
Total operating lease liability	\$ 1,107,374

Debt obligations is comprised of the following:

	December 31, 2023	December 31, 2022
Economic injury disaster loan (EIDL)	\$ 147,781	\$ 150,000
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	129,651	388,955
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	58,819	176,456
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	—	208,083
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	—	4,346
Revolving Loan Agreement	4,880,000	—
Commercial Extension of Credit – Entertainment Segment	87,928	—
Unamortized debt issuance costs	(540,429)	—
Merchant Advances	1,350,000	—
Debt obligations	<u>6,113,750</u>	<u>927,840</u>
Less: current maturities of debt obligations	<u>1,260,513</u>	<u>485,373</u>
Debt obligations, long-term	<u>\$ 4,853,237</u>	<u>\$ 442,467</u>

Debt obligations mature as follows as of December 31, 2023:

	December 31, 2023
2024	\$ 1,260,513
2025	4,712,154
2026	3,542
2027	3,677
2028 and thereafter	<u>133,864</u>
Total	<u>\$ 6,113,750</u>

Litigation.

From time to time, we are notified that we may be a party to a lawsuit or that a claim is being made against us. It is our policy to not disclose the specifics of any claim or threatened lawsuit until the summons and complaint are actually served on us. After carefully assessing the claim, and assuming we determine that we are not at fault or we disagree with the damages or relief demanded, we vigorously defend any lawsuit filed against us. We record a liability when losses are deemed probable and reasonably estimable. When losses are deemed reasonably possible but not probable, we determine whether it is possible to provide an estimate of the amount of the loss or range of possible losses for the claim, if material for disclosure. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, the availability of insurance, and the severity of any potential loss. We re-evaluate and update accruals as matters progress over time.

While the ultimate resolution is unknown, we do not expect that these lawsuits will individually, or in the aggregate, have a material adverse effect to our results of operations, financial condition or cash flows. However, the outcome of any litigation is inherently uncertain and there can be no assurance that any expense, liability or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts recognized or provided by insurance coverage and will not have a material adverse effect on our operating results, financial condition or cash flows. See Item 3, “Legal Proceedings,” of this Annual Report on Form 10-K for information on our litigation.

401 (k) Plan. The Company sponsors a 401(k) retirement savings plan for the benefit of its employees. The plan, as amended, requires the Company to provide 100% matching contributions for employees, who elect to contribute up to 3% of their compensation to the plan and 50% matching contributions for employee's elective deferrals on the next 2% of their contributions. The Company made matching contributions totaling \$207,463 and \$223,084 for the years ended December 31, 2023 and 2022, respectively. Each participant is 100% vested at all times in employee and employer matching contributions.

Critical Accounting Estimates

Our significant accounting policies are summarized in **Note 1, "Nature of Business and Summary of Significant Accounting Policies,"** to our consolidated financial statements. While the selection and application of any accounting policy may involve some level of subjective judgments and estimates, we believe the following accounting policies are the most critical to our financial statements, potentially involve the most subjective judgments in their selection and application, and are the most susceptible to uncertainties and changing conditions:

- Revenue Recognition / Allowance for Doubtful Accounts;
- Allowance for Excess and Obsolete Inventory;
- Goodwill and other intangible assets;
- Warranty Reserves;
- Stock-based Compensation Expense;
- Fair value of warrants;
- Fair value of assets and liabilities acquired in business combinations;
- Accounting for Income Taxes; and
- Redeemable Preferred Stock.

Revenue Recognition / Allowances for Doubtful Accounts. Revenue is recognized for the shipment of products or delivery of service when all five of the following conditions are met:

- (i) Identify the contract with the customer;
- (ii) Identify the performance obligations in the contract;
- (iii) Determine the transaction price;
- (iv) Allocate the transaction price to the performance obligations in the contract; and
- (v) Recognize revenue when a performance obligation is satisfied.

We consider the terms and conditions of the contract and our customary business practices in identifying our contracts under ASC 606. We determine we have a contract when the customer order is approved, we can identify each party's rights regarding the services to be transferred, we can identify the payment terms for the services, we have determined the customer has the ability and intent to pay and the contract has commercial substance. At contract inception we evaluate whether the contract includes more than one performance obligation. We apply judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer.

Performance obligations promised in a contract are identified based on the services and the products that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the services and the products is separately identifiable from other promises in the contract. Our performance obligations consist of (i) products, (ii) professional services, and (iii) extended warranties.

The transaction price is determined based on the consideration to which we expect to be entitled in exchange for transferring services to the customer. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. None of our contracts contain a significant financing component.

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on the relative standalone selling price (“SSP”).

Revenue for our video solutions segment is recognized at the time the related performance obligation is satisfied by transferring the control of the promised service to a customer. Revenue is recognized when control of the service is transferred to the customer, in an amount that reflects the consideration that we expect to receive in exchange for our services. We generate all our revenue from contracts with customers.

Revenue for our revenue cycle management segment is recorded on a net basis, as its primary source of revenue is its end-to-end service fees. These service fees are reported as revenue monthly upon completion of our performance obligation to provide the agreed upon services.

Revenue for our entertainment segment is recorded on a gross or net basis based on management’s assessment of whether we are acting as a principal or agent in the transaction. The determination is based upon the evaluation of control over the event ticket, including the right to sell the ticket, prior to its transfer to the ticket buyer.

We sell our tickets held in inventory, which consists of one performance obligation, being to transfer control of an event ticket to the buyer upon confirmation of the order. We act as the principal in these transactions as we own the ticket at the time of sale, therefore we control the ticket prior to transferring to the customer. In these transactions, revenue is recorded on a gross basis based on the value of the ticket and is recognized when an order is confirmed. Payment is typically due upon delivery of the ticket.

We also act as an intermediary between buyers and sellers through the online secondary marketplace. Revenues derived from this marketplace primarily consist of service fees from entertainment operations, and consists of one primary performance obligation, which is facilitating the transaction between the buyer and seller, being satisfied at the time the order has been confirmed. As we do not control the ticket prior to the transfer, we act as an agent in these transactions. Revenue is recognized on a net basis, net of the amount due to the seller when an order is confirmed, the seller is then obligated to deliver the tickets to the buyer per the seller’s listing. Payment is due at the time of sale.

We review all significant, unusual, or nonstandard shipments of products or delivery of services as a routine part of our accounting and financial reporting process to determine compliance with these requirements. Extended warranties are offered on selected products, and when a customer purchases an extended warranty, the associated proceeds are treated as contract liability and recognized over the term of the extended warranty.

For our video solutions segment, our principal customers are state, local, and federal law enforcement agencies, which historically have been low risks for uncollectible accounts. However, we have commercial customers and international distributors that present a greater risk for uncollectible accounts than such law enforcement customers and we consider a specific reserve for bad debts based on their individual circumstances. As of December 31, 2023, our historical bad debts have been negligible, with less than \$323,000 charged off as uncollectible on cumulative revenues of \$284.8 million since we commenced deliveries in 2006.

For our entertainment segment, our customers are mainly online visitors that pay at the time of the transaction, and we collect the service fees charged with the transaction. Thus, leading to minimal risk for uncollectible accounts, to which we then consider a specific reserve for bad debts based on their individual circumstances. As we continue to learn more about the collectability related to this recent acquisition, we will track historical bad debts and continue to assess appropriate reserves.

For our revenue cycle management segment, our customers are mainly medium to large healthcare organizations that are charged monthly upon the execution of our services. Being these customers are healthcare organizations with minimal risk for uncollectible accounts, we consider a specific reserve for bad debts based on their individual circumstances. As we continue to learn more about the collectability related to this recently added segment, we will track historical bad debts and continue to assess appropriate reserves.

As of December 31, 2023, and 2022, we had provided a reserve for doubtful accounts of \$200,668 and \$152,736, respectively.

We periodically perform a specific review of significant individual receivables outstanding for risk of loss due to uncollectability. Based on such review, we consider our reserve for doubtful accounts to be adequate as of December 31, 2023. However, should the balance due from any significant customer ultimately become uncollectible then our allowance for bad debts will not be sufficient to cover the charge-off and we will be required to record additional bad debt expense in our statement of operations.

Allowance for Excess and Obsolete Inventory. We record valuation reserves on our inventory for estimated excess or obsolete inventory items. The amount of the reserve is equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions. On a quarterly basis, management performs an analysis of the underlying inventory to identify reserves needed for excess and obsolescence. Management uses its best judgment to estimate appropriate reserves based on this analysis. In addition, we adjust the carrying value of inventory if the current market value of that inventory is below its cost.

Inventories consisted of the following as of December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Raw material and component parts	\$ 3,044,653	\$ 4,509,165
Work-in-process	20,396	3,164
Finished goods – video solutions	4,623,489	6,846,091
Finished goods – entertainment	699,204	970,527
Subtotal	<u>8,387,742</u>	<u>12,328,947</u>
Reserve for excess and obsolete inventory – video solutions	(4,355,666)	(5,230,261)
Reserve for excess and obsolete inventory – entertainment	(186,795)	(259,280)
Total inventories	<u>\$ 3,845,281</u>	<u>\$ 6,839,406</u>

We balance the need to maintain strategic inventory levels to ensure competitive delivery performance to our customers against the risk of inventory obsolescence due to changing technology and customer requirements. As reflected above, our inventory reserves represented 54.2% of the gross inventory balance as of December 31, 2023, compared to 44.5% of the gross inventory balance as of December 31, 2022. We had \$4,542,461 and \$5,489,541 in reserves for obsolete and excess inventories as of December 31, 2023 and 2022, respectively. Total raw materials and work-in-process was \$3,065,049 and \$4,512,329 as of December 31, 2023 and 2022, respectively, a decrease of \$1,447,280 (32%). Finished goods balances were \$5,322,693 and \$7,816,618 as of December 31, 2023 and 2022, respectively, a decrease of \$2,493,925 (32%). The decrease in finished goods was primarily attributable to declining inventory for the new Shield product line, our new body-worn cameras and docking stations, along with a decline in inventory from our entertainment segment, acquired in September 2021. The decrease in the inventory reserve is primarily due to disposal of obsolete inventory previously reserved.

If actual future demand or market conditions are less favorable than those projected by management or significant engineering changes to our products that are not anticipated and appropriately managed, additional inventory write-downs may be required in excess of the inventory reserves already established.

Goodwill and other intangible assets. When we acquire a business, we determine the fair value of the assets acquired and liabilities assumed on the date of acquisition, which may include a significant amount of intangible assets such as customer relationships, software and content, as well as goodwill. When determining the fair values of the acquired intangible assets, we consider, among other factors, analyses of historical financial performance and an estimate of the future performance of the acquired business. The fair values of the acquired intangible assets are primarily calculated using an income approach that relies on discounted cash flows. This method starts with a forecast of the expected future net cash flows for the asset and then adjusts the forecast to present value by applying a discount rate that reflects the risk factors associated with the cash flow streams. We consider this approach to be the most appropriate valuation technique because the inherent value of an acquired intangible asset is its ability to generate future income. In a typical acquisition, we engage a third-party valuation expert to assist us with the fair value analyses for acquired intangible assets.

Determining the fair values of acquired intangible assets requires us to exercise significant judgment. We select reasonable estimates and assumptions based on evaluating a number of factors, including, but not limited to, marketplace participants, consumer awareness and brand history. Additionally, there are significant judgments inherent in discounted cash flows such as estimating the amount and timing of projected future cash flows, the selection of discount rates, hypothetical royalty rates and contributory asset capital charges. Specifically, the selected discount rates are intended to reflect the risk inherent in the projected future cash flows generated by the underlying acquired intangible assets.

Determining an acquired intangible asset's useful life also requires significant judgment and is based on evaluating a number of factors, including, but not limited to, the expected use of the asset, historical client retention rates, consumer awareness and trade name history, as well as any contractual provisions that could limit or extend an asset's useful life.

The Company's goodwill is evaluated in accordance with FASB ASC Topic 350, which requires goodwill to be assessed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. In addition, an impairment evaluation of our amortizable intangible assets may also be performed if events or circumstances indicate potential impairment. Among the factors that could trigger an impairment review are current operating results that do not align with our annual plan or historical performance; changes in our strategic plans or the use of our assets; restructuring charges or other changes in our business segments; competitive pressures and changes in the general economy or in the markets in which we operate; and a significant decline in our stock price and our market capitalization relative to our net book value.

When performing our annual assessment of the recoverability of goodwill, we initially perform a qualitative analysis evaluating whether any events or circumstances occurred or exist that provide evidence that it is more likely than not that the fair value of any of our reporting units is less than the related carrying amount. If we do not believe that it is more likely than not that the fair value of any of our reporting units is less than the related carrying amount, then no quantitative impairment test is performed. However, if the results of our qualitative assessment indicate that it is more likely than not that the fair value of a reporting unit is less than its respective carrying amount, then we perform a two-step quantitative impairment test.

Evaluating the recoverability of goodwill requires judgments and assumptions regarding future trends and events. As a result, both the precision and reliability of our estimates are subject to uncertainty. Among the factors that we consider in our qualitative assessment are general economic conditions and the competitive environment; actual and projected reporting unit financial performance; forward-looking business measurements; and external market assessments. To determine the fair values of our reporting units for a quantitative analysis, we typically utilize detailed financial projections, which include significant variables, such as projected rates of revenue growth, profitability and cash flows, as well as assumptions regarding discount rates, the Company's weighted average cost of capital and other data.

Our most recent annual impairment test of goodwill conducted as of December 31, 2023, indicated no impairment. Subsequent to completing our 2023 annual impairment test, no events or changes in circumstances were noted that required an interim goodwill impairment test. Note 1 — Nature of Business and Summary of Significant Accounting Policies and Note 8 — Goodwill and Other Intangible Assets in the Notes to Consolidated Financial Statements provide additional information regarding the Company’s goodwill and other intangible assets.

Warranty Reserves. We generally provide up to a two-year parts and labor standard warranty on our products to our customers. Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of claims. We actively study trends of claims and take action to improve product quality and minimize claims. Our warranty reserves were increased to \$17,699 as of December 31, 2023 compared to \$15,964 as of December 31, 2022 as we begin to slow our warranty exposures through the roll-off of DVM-750 and DVM-800 units from warranty coverage. Standard warranty exposure on the DVM-800 and DVM-250plus are the responsibility of the contract manufacturers, which reduced our overall warranty exposure as these are very popular products in our line. There is a risk that we will have higher warranty claim frequency rates and average cost of claims than our history has indicated on our legacy mirror products on our new products for which we have limited experience. Actual experience could differ from the amounts estimated requiring adjustments to these liabilities in future periods.

Stock-based Compensation Expense. We grant stock options to our employees and directors and such benefits provided are share-based payment awards which require us to make significant estimates related to determining the value of our share-based compensation. Our expected stock-price volatility assumption is based on historical volatilities of the underlying stock that are obtained from public data sources and there were no stock options granted during the year ended December 31, 2023.

If factors change and we develop different assumptions in future periods, the compensation expense that we record in the future may differ significantly from what we have recorded in the current period. There is a high degree of subjectivity involved when using option pricing models to estimate share-based compensation. Changes in the subjective input assumptions can materially affect our estimates of the fair value of our share-based compensation. Certain share-based payment awards, such as employee stock options, may expire worthlessly or otherwise result in zero intrinsic value compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, values may be realized from these instruments that are significantly in excess of the fair values originally estimated on the grant date and reported in our financial statements. Although the fair value of employee share-based awards is determined using an established option pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction. In addition, we account for forfeitures as they occur.

Warrant derivative liabilities. On April 5, 2023, the Company issued warrants to purchase a total of 1,125,000 shares of Common Stock. The warrant terms provide for net cash settlement outside the control of the Company under certain circumstances in the event of tender offers. As such, the Company is required to treat these warrants as derivative liabilities which are valued at their estimated fair value at their issuance date and at each reporting date with any subsequent changes reported in the consolidated statements of operations as the change in fair value of warrant derivative liabilities.

The Company has utilized the following assumptions in its Black-Scholes option valuation model to calculate the estimated fair value of the warrant derivative liabilities as of their date of issuance and as of December 31, 2023:

	Issuance date assumptions	December 31, 2023 assumptions
Volatility - range	106.0%	105.4%
Risk-free rate	3.36%	3.84%
Dividend	0%	0%
Remaining contractual term	5.0 years	4.3 years
Exercise price	\$ 5.50 - 7.50	\$ 5.50 - 7.50
Common stock issuable under the warrants	1,125,000	1,125,000

Accounting for Income Taxes. Accounting for income taxes requires significant estimates and judgments on the part of management. Such estimates and judgments include, but are not limited to, the effective tax rate anticipated to apply to tax differences that are expected to reverse in the future, the sufficiency of taxable income in future periods to realize the benefits of net deferred tax assets and net operating losses currently recorded and the likelihood that tax positions taken in tax returns will be sustained on audit.

As required by authoritative guidance, we record deferred tax assets or liabilities based on differences between financial reporting and tax bases of assets and liabilities using currently enacted rates that will be in effect when the differences are expected to reverse. Authoritative guidance also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax asset will not be realized. As of December 31, 2023, cumulative valuation allowances in the amount of \$42,070,000 were recorded in connection with the net deferred income tax assets. Based on a review of our deferred tax assets and recent operating performance, we determined that our valuation allowance should be increased by \$7,870,000 to a balance of \$42,070,000 to fully reserve our deferred tax assets at December 31, 2023. We determined that it was appropriate to continue to provide a full valuation reserve on our net deferred tax assets as of December 31, 2023, because of the overall net operating loss carryforwards available. We expect to continue to maintain a full valuation allowance until we determine that we can sustain a level of profitability that demonstrates our ability to realize these assets. To the extent we determine that the realization of some or all of these benefits is more likely than not based upon expected future taxable income, a portion or all of the valuation allowance will be reversed. Such a reversal would be recorded as an income tax benefit and, for some portion related to deductions for stock option exercises, an increase in shareholders' equity.

As required by authoritative guidance, we have performed a comprehensive review of our portfolio of uncertain tax positions in accordance with recognition standards established by the FASB, an uncertain tax position represents our expected treatment of a tax position taken in a filed tax return or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. We have no recorded liability as of December 31, 2023, representing uncertain tax positions.

We have generated substantial deferred income tax assets related to our operations primarily from the charge to compensation expense taken for stock options, certain tax credit carryforwards and net operating loss carryforwards. For us to realize the income tax benefit of these assets, we must generate sufficient taxable income in future periods when such deductions are allowed for income tax purposes. In some cases where deferred taxes were the result of compensation expense recognized on stock options, our ability to realize the income tax benefit of these assets is also dependent on our share price increasing to a point where these options have intrinsic value at least equal to the grant date fair value and are exercised. In assessing whether a valuation allowance is needed in connection with our deferred income tax assets, we have evaluated our ability to generate sufficient taxable income in future periods to utilize the benefit of the deferred income tax assets. We continue to evaluate our ability to use recorded deferred income tax asset balances. If we fail to generate taxable income for financial reporting in future years, no additional tax benefit would be recognized for those losses, since we will not have accumulated enough positive evidence to support our ability to utilize net operating loss carryforwards in the future. Therefore, we may be required to increase our valuation allowance in future periods should our assumptions regarding the generation of future taxable income not be realized.

Redeemable Preferred Stock. Preferred stock may be classified as a liability, temporary equity (i.e., mezzanine equity) or permanent equity. In order to determine the appropriate classification, an evaluation of the cash redemption features is required. Where there exists an absolute right of redemption presently or in the future, the preferred stock would be classified as a liability. If redemption is contingently redeemable upon the occurrence of an event that is outside of the issuer's control, it should be classified as mezzanine equity. The probability that the redemption event will occur is irrelevant. If no redemption features exist, or if a contingent redemption feature is within the Company's control, the preferred stock would be considered equity.

Inflation and Seasonality

Inflation has not materially affected us during the past fiscal year; however, we believe that it is likely to have significant impact to all of our operating segments in 2024 and beyond. We do not believe that our business is seasonal in nature; however, we generally generate higher revenues during the second half of the calendar year compared to the first half.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

Our financial statements are included in this Annual Report on Form 10-K commencing on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures to provide reasonable assurance of achieving the control objectives, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on their evaluation as of December 31, 2023, the end of the period covered by this Annual Report on Form 10-K, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level to ensure that the information required to be disclosed in reports filed or submitted under the Exchange Act, including this Annual Report on Form 10-K, was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and was accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

- Provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the filing of this Annual Report on Form 10-K, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2023. In making this assessment, our management used the criteria set forth by 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment using the framework in 2013 Internal Control – Integrated Framework, management believes that, as of December 31, 2023, our internal control over financial reporting is not effective.

Material Weakness

In connection with the audit of our consolidated financial statements as of December 31, 2023 and 2022, we identified a material weakness in our internal control over financial reporting related to timely review and detection of potential accounting misstatements, which in the aggregate, constitute a material weakness.

Remediation Activities

As part of our plan to remediate this material weakness, we are performing a full review of our internal control procedures. We have implemented, and plan to continue to implement, new controls and new processes. We have hired and plan to continue to hire additional qualified personnel and establish more robust processes to support our internal control over financial reporting, including clearly defined roles and responsibilities. The Company anticipates time being required to complete the implementation and to assess and ensure the sustainability of these controls. The material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control Over Financial Reporting

We have completed the process of integrating our recent business acquisition, which was acquired at the beginning of 2022, into our overall internal control over the financial reporting process. Other than this integration, there have been no changes in our internal control over financial reporting during the year ended December 31, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We are continually monitoring and assessing our internal controls to ensure the appropriate design and operating effectiveness.

Item 9B. Other Information.

None of the Company's directors or officers adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the Company's fiscal quarter ended December 31, 2023.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors

The names of the members of our Board of Directors and certain information about them as of the date of this Annual Report on Form 10-K are set forth below:

Name of Board of Director Member (4)	Positions	Age	Director Since
Stanton E. Ross	Chairman and Chief Executive Officer	62	2005
Leroy C. Richie (1)(2)(3)	Lead Independent Director, Chairman of the Nominating Committee and Compensation Committee and attorney	82	2005
D. Duke Daughtery (1)	Independent Director; Chairman of Audit Committee	59	2023

(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of Nominating Committee

(4) The address of each executive officer and director listed is 14001 Marshall Drive, Lenexa, Kansas 66215.

The Board has determined that Messrs. Richie, and Daughtery are “independent directors,” as defined by the rules and listing standards of The Nasdaq Stock Market LLC (“Nasdaq”). In making this determination, the Board considered the transactions and relationships disclosed under “Certain Relationships and Related Transactions” below.

Stanton E. Ross has served as Chairman and Chief Executive Officer (“CEO”) since September 2005. From March 1992 to June 2005, Mr. Ross was the Chairman and President of American Noble Gas Inc. (formerly known as Infinity Energy Resources, Inc.), a publicly held oil and gas exploration and development company (“AMGAS”) and served as an officer and director of each of AMGAS’s subsidiaries. He resigned from all his positions with AMGAS in June 2005, except Chairman, but was reappointed President in October 2006. From 1991 until March 1992, he founded and served as President of Midwest Financial, a financial services corporation involved in mergers, acquisitions, and financing for corporations in the Midwest. From 1990 to 1991, Mr. Ross was employed by Duggan Securities, Inc., an investment banking firm in Lenexa, Kansas, where he primarily worked in corporate finance. From 1989 to 1990, he was employed by Stifel, Nicolaus & Co., a member of the New York Stock Exchange, where he was an investment executive. From 1987 to 1989, Mr. Ross was self-employed as a business consultant. From 1985 to 1987, Mr. Ross was President and founder of Kansas Microwave, Inc., which developed a radar detector product. From 1981 to 1985, he was employed by Birdview Satellite Communications, Inc., which manufactured and marketed home satellite television systems, initially as a salesman and later as National Sales Manager. Mr. Ross estimates he devoted most of his time to Digital Ally and the balance to AMGAS in 2020. In late 2007, AMGAS sold a substantial portion of its operating assets and has not required a substantial amount of his time since such point. Mr. Ross holds no public company directorships other than with the Company and AMGAS and has not held any others during the previous five years. The Company believes that Mr. Ross’s broad entrepreneurial, financial, and business expertise and his experience with micro-cap public companies and his role as President and Chief Executive Officer give him the qualifications and skills to serve as a Director.

Leroy C. Richie has been the Lead Independent Director of Digital Ally since September 2005. He is also the Chairman of the Compensation Committee and Nominating Committee and a member of the Audit Committee. Since June 1, 1999, Mr. Richie has been a director of AMGAS. Additionally, until 2017, Mr. Richie served as a member of the board of directors of Columbia Mutual Funds, (or mutual fund companies acquired by or merged with Columbia Mutual Funds), a family of investment companies managed by Ameriprise Financial, Inc. From 2004 to 2015, he was of counsel to the Detroit law firm of Lewis & Munday, P.C. From 2007 to 2014, Mr. Richie served as a member of the board of directors of OGE Energy Corp. He holds no other public directorships and has not held any others during the previous five years. Until 2019, Mr. Richie served as the Vice-Chairman of the Board of Trustees and Chairman of the Compensation Committee for the Henry Ford Health System, in Detroit. Mr. Richie was formerly Vice President of Chrysler Corporation and General Counsel for automotive legal affairs, where he directed all legal affairs for its automotive operations from 1986 until his retirement in 1997. Before joining Chrysler, he was an associate with the New York law firm of White & Case (1973-1978) and served as director of the New York office of the Federal Trade Commission (1978-1983). Mr. Richie received a B.A. from City College of New York, where he was valedictorian, and a J.D. from the New York University School of Law, where he was awarded an Arthur Garfield Hays Civil Liberties Fellowship. The Company believes that Mr. Richie’s extensive experience as a lawyer and as an officer or director of public companies gives him the qualifications and skills to serve as a Director.

D. Duke Daughtery joined the board of directors of Digital Ally in October 2023. He serves as Chairman of the Audit Committee and is the Board’s financial expert. From 1987 to 2019, Mr. Daughtery was an assurance partner and audit practice leader with Grant Thornton and Deloitte & Touche in Kansas City. Mr. Daughtery was instrumental in the significant growth of Grant Thornton’s Kansas City audit practice. Mr. Daughtery served numerous companies ranging from high growth private equity backed clients, to multi-billion revenue private companies to public companies ranging from smaller public companies to the Fortune 500. Mr. Daughtery brings to the board of directors many years of leadership experience as an assurance partner at major accounting firms and extensive experience in developing and executing growth strategies, acquisitions and capital transactions. Digital Ally considers Mr. Daughtery to be an audit committee financial expert. Mr. Daughtery obtained his Bachelor of Arts in Accounting and in Management and Business Administration from Saint Ambrose University. Mr. Daughtery holds no public company directorships other than with the Company and has only held the forementioned position in Digital Ally during the previous five years. From 2019 to 2023 Mr. Daughtery was not employed by any company. The Company believes that Mr. Daughtery’s extensive experience as an accountant of public companies gives him the qualifications and skills to serve as a director.

Our Directors are elected annually and hold office until the next annual meeting of our stockholders or until their successors are elected and qualified. Officers are elected annually and serve at the discretion of the Board of Directors. There is no family relationship between any of our directors, director nominees and executive officers. Board vacancies are filled by a majority vote of the Board.

Board of Directors and Committee Meetings

Our Board of Directors held four meetings and acted a number of times by unanimous consent resolutions during the fiscal year ended December 31, 2023. Each of our directors attended at least 75% of the meetings of the Board of Directors and the committees on which he was appointed and served in the fiscal year ended December 31, 2023. Our directors are expected, absent exceptional circumstances, to attend all Board meetings and meetings of committees on which they serve and are also expected to attend our annual meeting of stockholders. All directors then in office attended the 2023 annual meeting of stockholders.

Committees of the Board of Directors

Our Board of Directors currently has three committees: an Audit Committee, a Compensation Committee and a Nominating Committee. Each committee has a written charter approved by the Board of Directors outlining the principal responsibilities of the committee. These charters are also available on the Investor Relations page of our website. All of our directors, other than our Chairman and Chief Executive Officer, have met in executive sessions without management present on a regular basis in 2023 and year-to-date 2024.

Audit Committee

Our Audit Committee appoints the Company's independent auditors, reviews audit reports and plans, accounting policies, financial statements, internal controls, audit fees, and certain other expenses and oversees our accounting and financial reporting process. Specific responsibilities include selecting, hiring and terminating our independent auditors; evaluating the qualifications, independence and performance of our independent auditors; approving the audit and non-audit services to be performed by our auditors; reviewing the design, implementation, adequacy and effectiveness of our internal controls and critical accounting policies; overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters; reviewing any earnings announcements and other public announcements regarding our results of operations in conjunction with management and our public auditors; conferring with management and the independent auditors regarding the effectiveness of internal controls, financial reporting processes and disclosure controls; consulting with management and the independent auditors regarding Company policies governing financial risk management; reviewing and discussing reports from the independent auditors on critical accounting policies used by the Company; establishing procedures, as required under applicable law, for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; reviewing and approving related-person transactions in accordance with the Company's policies and procedures with respect to related-person transactions and applicable rules; reviewing the financial statements to be included in our Annual Report on Form 10-K; discussing with management and the independent auditors the results of the annual audit and the results of quarterly reviews and any significant changes in our accounting principles; and preparing the report that the SEC requires in our annual proxy statement.

The Audit Committee is comprised of two Directors, each of whom is independent, as defined by the rules and regulations of the SEC and Nasdaq Rule 5605(a)(2). The Audit Committee held four meetings during the year ended December 31, 2023. The members of our Audit Committee are D. Duke Daughtery (Chairman), and Leroy C. Richie. The Board of Directors determined that Mr. Daughtery qualifies as an "audit committee financial expert," as defined under the applicable rules and listing standards of Nasdaq and SEC rules and regulations and is independent as noted above.

Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by the Company's independent registered public accounting firm must be approved in advance by the Audit Committee to assure that such services do not impair the auditor's independence from the Company. Accordingly, the Audit Committee has adopted an Audit and Non-Audit Services Pre-Approval Policy (the "Policy") that sets forth the procedures and the conditions pursuant to which services to be performed by the independent auditors are to be pre-approved. Pursuant to the Policy, certain services described in detail in the Policy may be pre-approved on an annual basis together with pre-approved maximum fee levels for such services. The services eligible for annual pre-approval consist of services that would be included under the categories of Audit Fees, Audit-Related Fees and Tax Fees in the table, as well as services for limited review of actuarial reports and calculations. If not pre-approved on an annual basis, proposed services must otherwise be separately approved prior to being performed by the independent registered public accounting firm. In addition, any services that receive annual pre-approval but exceed the pre-approved maximum fee level also will require separate approval by the Audit Committee prior to being performed. The Audit Committee may delegate authority to pre-approve audit and non-audit services to any member of the Audit Committee but may not delegate such authority to management.

Compensation Committee

Our Compensation Committee assists our Board of Directors in determining the development plans and compensation of our officers, directors and employees. Specific responsibilities include approving the compensation and benefits of our executive officers; reviewing the performance objectives and actual performance of our officers; administering our stock option and other equity compensation plans; and reviewing and discussing with management the compensation discussion and analysis that the SEC requires in our future Form 10-Ks and proxy statements.

Our Compensation Committee is comprised of two Directors, whom the Board considers to be independent under the applicable rules and listing standards of Nasdaq and SEC rules and regulations. The members of our Compensation Committee are Leroy C. Richie (Chairman) and D. Duke Daughtery. The Compensation Committee held two meetings and acted several times by unanimous written consent resolutions during the year ended December 31, 2023. Mr. Ross, our Chief Executive Officer, does not participate in the determination of his own compensation or the compensation of directors. However, he makes recommendations to the Compensation Committee regarding the amount and form of the compensation of the other executive officers and key employees, and he often participates in the Compensation Committee's deliberations about such persons' compensation. Thomas J. Heckman, our Chief Financial Officer ("CFO"), also assists the Compensation Committee in its deliberations regarding executive officer, director and employee compensation. No other executive officers participate in the determination of the amount or the form of the compensation of executive officers or directors. The Compensation Committee does not utilize the services of an independent compensation consultant to assist in its oversight of executive and director compensation.

Nominating Committee

Our Nominating Committee assists our Board of Directors by identifying and recommending individuals qualified to become members of our Board of Directors, reviewing correspondence from our stockholders, and establishing, evaluating, and overseeing our corporate governance guidelines. Specific responsibilities include the following: evaluating the composition, size and governance of our Board of Directors and its committees and making recommendations regarding future planning and appointing directors to our committees; establishing a policy for considering stockholder nominees for election to our Board of Directors; and evaluating and recommending candidates for election to our Board of Directors.

Our Nominating Committee strives for a Board composed of individuals who bring a variety of complementary skills, expertise, or background and who, as a group, will possess the appropriate skills and experience to oversee our business. The diversity of the members of the Board relates to the selection of its nominees. While the Committee considers diversity and variety of experiences and viewpoints to be important factors, it does not believe that a director nominee should be chosen or excluded solely or largely because of race, color, gender, national origin or sexual orientation or identity. In selecting a director nominee for recommendation to our Board, our Nominating Committee focuses on skills, expertise or background that would complement the existing members on the Board. Accordingly, although diversity may be a consideration in the Committee's process, the Committee and the Board of Directors do not have a formal policy regarding the consideration of diversity in identifying director nominees.

When the Nominating Committee has either identified a prospective nominee or determined that an additional or replacement director is required, the Nominating Committee may take such measures as it considers appropriate in connection with its evaluation of a director candidate, including candidate interviews, inquiry of the person or persons making the recommendation or nomination, engagement of an outside search firm to gather additional information, or reliance on the knowledge of the members of the Board of Directors or management. In its evaluation of director candidates, including the members of the Board eligible for re-election, the Nominating Committee considers a number of factors, including: the current size and composition of the Board of Directors, the needs of the Board of Directors and the respective committees of the Board, and such factors as judgment, independence, character and integrity, age, area of expertise, diversity of experience, length of service and potential conflicts of interest.

The Nominating Committee of the Board selects director nominees and recommends them to the full Board of Directors. In relation to such nomination process, the Nominating Committee:

- determines the criteria for the selection of prospective directors and committee members;
- reviews the composition and size of the Board and its committees to ensure proper expertise and diversity among its members;
- evaluates the performance and contributions of directors eligible for re-election;
- determines the desired qualifications for individual directors and desired skills and characteristics for the Board;
- identifies persons who can provide needed skills and characteristics;
- screens possible candidates for Board membership;
- reviews any potential conflicts of interests between such candidates and the Company's interests; and
- shares information concerning the candidates with the Board and solicits input from other directors.

The Nominating Committee has specified the following minimum qualifications that it believes must be met by a nominee for a position on the Board: the highest personal and professional ethics and integrity; proven achievement and competence in the nominee's field and the ability to exercise sound business judgment; skills that are complementary to those of the existing Board; the ability to assist and support management and make significant contributions to our success; the ability to work well with the other directors; the extent of the person's familiarity with the issues affecting our business; an understanding of the fiduciary responsibilities that are required of a member of the Board of Directors; and the commitment of time and energy necessary to diligently carry out those responsibilities. A candidate for director must agree to abide by our Code of Ethics and Conduct.

After completing its evaluation, the Nominating Committee makes a recommendation to the full Board of Directors as to the persons who should be nominated to the Board, and the Board of Directors determines the nominees after considering the recommendation and report of the Committee.

Our Nominating Committee is comprised of two Directors, whom the Board considers to be independent under the applicable rules and listing standards of Nasdaq and SEC rules and regulations. The Nominating Committee held one meeting during the year ended December 31, 2023. The members of our Nominating Committee are Leroy C. Richie (Chairman) and D. Duke Daughtery.

Board of Directors' Role in the Oversight of Risk Management

We face a variety of risks, including credit, liquidity, and operational risks. In fulfilling its risk oversight role, our Board of Directors focuses on the adequacy of our risk management process and overall risk management system. Our Board of Directors believes that an effective risk management system will (i) adequately identify the material risks that we face in a timely manner; (ii) implement appropriate risk management strategies that are responsive to our risk profile and specific material risk exposures; (iii) integrate consideration of risk and risk management into our business decision-making; and (iv) include policies and procedures that adequately transmit necessary information regarding material risks to senior executives and, as appropriate, to the Board or relevant committee.

The Board of Directors has designated the Audit Committee to take the lead in overseeing risk management at the Board of Directors level. Accordingly, the Audit Committee schedules time for periodic review of risk management, in addition to its other duties. In this role, the Audit Committee receives reports from management, independent registered public accounting firm, outside legal counsel, and other advisors, and strives to generate serious and thoughtful attention to our risk management process and system, the nature of the material risks we face, and the adequacy of our policies and procedures designed to respond to and mitigate these risks.

Although the Board of Directors has assigned the primary risk oversight to the Audit Committee, it also periodically receives information about our risk management system and the most significant risks that we face. This is principally accomplished through Audit Committee reports to the Board of Directors and summary versions of the briefings provided by management and advisors to the Audit Committee.

In addition to the formal compliance program, our Board of Directors and the Audit Committee encourage management to promote a corporate culture that understands risk management and incorporates it into our overall corporate strategy and day-to-day business operations. Our risk management structure also includes an ongoing effort to assess and analyze the most likely areas of future risk for us. As a result, the Board of Directors and the Audit Committee periodically ask our executives to discuss the most likely sources of material future risks and how we are addressing any significant potential vulnerability.

Board Leadership Structure

Our Board of Directors does not have a policy on whether the roles of Chief Executive Officer and Chairman of the Board of Directors should be separate and, if they are to be separate, whether the Chairman of the Board should be selected from the non-employee directors or be an employee. Our Board of Directors believes that it should be free to make a choice from time to time in any manner that is in the best interest of us and our stockholders. The Board of Directors believes that Mr. Ross's service as both Chief Executive Officer and Chairman of the Board is in the best interest of us and our stockholders. Mr. Ross possesses detailed and in-depth knowledge of the issues, opportunities and challenges we face and is thus best positioned to develop agendas, with the input of Mr. Richie, the lead independent director, to ensure that the Board's time and attention are focused on the most critical matters. His combined role enables decisive leadership, ensures clear accountability, and enhances our ability to communicate our message and strategy clearly and consistently to our stockholders, employees, customers, and suppliers, particularly during times of turbulent economic and industry conditions.

Our Board of Directors also believes that a lead independent director is part of an effective Board leadership structure. To this end, the Board has appointed Mr. Richie as the lead independent director. The independent directors meet regularly in executive sessions at which only they are present, and the lead independent director chairs those sessions. As the lead independent director, Mr. Richie calls meetings of the independent directors as needed; sets the agenda for meetings of the independent directors; presides at meetings of the independent directors; is the principal liaison on Board issues between the independent directors and the Chairman and between the independent directors and management; provides feedback to the Chairman and management on the quality, quantity and timeliness of information sent to the Board; is a member of the Compensation Committee that evaluates the CEO's performance; and oversees the directors' evaluation of the Board's overall performance. The Nominating Committee and the Board believe that its leadership structure, which includes the appointment of a lead independent director, is appropriate because it, among other things, provides for an independent director who gives board member leadership and each of the directors, other than Mr. Ross, is independent. Our Board of Directors believes that independent directors provide effective oversight of management.

Stockholder Communications with the Board of Directors

Stockholders may communicate with the Board of Directors by writing to us as follows: Digital Ally, Inc., attention: Corporate Secretary, 14001 Marshall Drive, Lenexa, Kansas 66215. Stockholders who would like their submission directed to a member of the Board of Directors may specify and the communication will be forwarded as appropriate.

Policy for Director Recommendations and Nominations

Our Nominating Committee will consider candidates for Board membership suggested by Board members, management and our stockholders. The policy of our Nominating Committee is to consider recommendations for candidates to the Board of Directors from any stockholder of record in accordance with our Bylaws. A director candidate recommended by our stockholders will be considered in the same manner as a nominee recommended by a Board member, management or other sources. In addition, a stockholder may nominate a person directly for election to the Board of Directors at an annual meeting of stockholders, provided the stockholder meets the requirements set forth in our Bylaws. We do not pay a fee to any third party to identify or evaluate or assist in identifying or evaluating potential nominees.

Stockholder Recommendations for Director Nominations. Stockholder recommendations for director nominations may be submitted to the Company at the following address: Digital Ally, Inc., Attention: Corporate Secretary, 14001 Marshall Drive, Lenexa, Kansas 66215. Such recommendations will be forwarded to the Nominating Committee for consideration, provided that they are accompanied by sufficient information to permit the Board to evaluate the qualifications and experience of the nominees, and they are in time for the Nominating Committee to do an adequate evaluation of the candidate before the Annual Meeting. The submission must be accompanied by a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected and to cooperate with a background check.

Stockholder Nominations of Directors. Our Bylaws provide that, in order for a stockholder to nominate a director at an annual meeting of stockholders, the stockholder must give timely written notice to our Secretary and such notice must be received at our principal executive offices not less than one-hundred-and-twenty (120) days before the date of our release of the proxy statement to stockholders in connection with our previous year’s annual meeting of stockholders. Such stockholder’s notice shall include, with respect to each person whom the stockholder proposes to nominate for election as a director, all information relating to such nominee that is required under the Exchange Act, including such person’s written consent to being named in the proxy statement as a nominee and serving as a director, and cooperating with a background investigation. In addition, the stockholder must include in such notice the name and address, as they appear on our records, of the stockholder proposing the nomination of such person, and the name and address of the beneficial owner, if any, on whose behalf the nomination is made, the class and number of shares of our capital stock that are owned beneficially and of record by such stockholder of record and by the beneficial owner, if any, on whose behalf the nomination is made, and any material interest or relationship that such stockholder of record and/or the beneficial owner, if any, on whose behalf the nomination is made may respectively have in such business or with such nominee. At the request of the Board of Directors, any person nominated for election as a director shall furnish to our Secretary the information required to be set forth in a stockholder’s notice of nomination that pertains to the nominee.

To be timely in the case of a special meeting or if the date of the annual meeting is changed by more than thirty (30) days from such anniversary date, a stockholder’s notice must be received at our principal executive offices no later than the close of business on the tenth (10th) day following the earlier of the day on which notice of the meeting date was mailed or public disclosure of the meeting date was made.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves, or in the past has served, as a member of the Compensation Committee. None of the members of our Compensation Committee is, or has ever been, an officer or employee of the Company.

Code of Ethics and Conduct

Our Board of Directors has adopted a *Code of Ethics and Conduct* that is applicable to all of our employees, officers and directors. Our *Code of Ethics and Conduct* is intended to ensure that our employees, officers and directors act in accordance with the highest ethical standards. The *Code of Ethics and Conduct* is available on the Investor Relations page of our website at <http://www.digitalally.com> and the *Code of Ethics and Conduct* was filed as an exhibit to our Annual Report on Form 10-KSB filed March 4, 2008.

Delinquent Section 16(a) Reports

Under the securities laws of the United States, our directors, executive (and certain other) officers, and any persons holding ten percent or more of our Common Stock must report on their ownership of the Common Stock and any changes in that ownership to the SEC. Specific due dates for these reports have been established. During the fiscal year ended December 31, 2023, we believe the following reports listed in the table below were required to be filed by such persons pursuant to Section 16(a) and were not filed on a timely basis for each such reporting person:

Name	Number of Late Reports	Description
Han Peng	1	Mr. Peng’s Form 4 was not filed on timely basis.
Stanton E. Ross	1	Mr. Ross’ Form 4 was not filed on timely basis.

Item 11. Executive Compensation.

The following table presents information concerning the total compensation of the Company’s Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”) and Chief Operating Officer (“COO”) and collectively with the CEO and the CFO, the “Named Executive Officers”) for services rendered to the Company in all capacities for the years ended December 31, 2023 and 2022, as required by Item 402(m)(2) of Regulation S-K.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock awards (\$)	Option awards (\$) (1)	All other compensation (\$) (2)	Total (\$)
Stanton E. Ross	2022	\$ 300,000	\$ 100,000	\$ 374,500(3)	\$ —	\$ 32,034	\$ 806,534
Chairman and CEO	2023	\$ 250,000	\$ —	\$ 87,325(6)	\$ —	\$ 11,200	\$ 348,525
Thomas J. Heckman	2022	\$ 120,000	\$ —	\$ 80,250(4)	\$ —	\$ 16,292	\$ 216,542
CFO, Treasurer and Secretary	2023	\$ 120,000	\$ —	\$ 18,713(7)	\$ —	\$ 6,354	\$ 145,067
Peng Han	2022	\$ 250,000	\$ —	\$ 107,000(5)	\$ —	\$ 10,576	\$ 367,576
COO	2023	\$ 250,000	\$ —	\$ 24,950(8)	\$ —	\$ 10,821	\$ 285,771

(1) Represents aggregate grant date fair value pursuant to ASC Topic 718 for the respective year for stock options granted. Please refer to Note 14 to the consolidated financial statements for a further description of the awards and the underlying assumptions utilized to determine the amount of grant date fair value related to such grants.

(2) Amounts included in all other compensation include the following items: the employer contribution to the Company's 401(k) Retirement Savings Plan (the "401(k) Plan") on behalf of the named executive. We are required to provide a 100% matching contribution for all who elect to contribute up to 3% of their compensation to the plan and a 50% matching contribution for all employees' elective deferral between 4% and 5%. The employee (i) is 100% vested at all times in the employee contributions and employer matching contributions; (ii) receives Company paid healthcare insurance; (iii) receives Company paid contributions to health savings accounts; and (iv) receives Company paid life, accident and disability insurance. See "All Other Compensation Table" below.

(3) Stock awards include the following restricted stock granted during 2022 to Mr. Ross: 17,500 shares at \$21.40 per share that vest 50% on January 7, 2023 and 50% on January 7, 2024, subject to Mr. Ross remaining an employee of the Company at that point in time.

(4) Stock awards include the following restricted stock granted during 2022 to Mr. Heckman: 3,750 shares at \$21.40 per share that on January 7, 2023, subject to Mr. Heckman remaining an employee of the Company at that point in time.

(5) Stock awards include the following restricted stock granted during 2022 to Mr. Han: 5,000 shares at \$21.40 per share that vest 20% annually on the anniversary of January 7 from 2023 to 2027, subject to Mr. Han remaining an employee of the Company at that point in time.

(6) Stock awards include the following restricted stock granted during 2023 to Mr. Ross: 17,500 shares at \$4.99 per share that vest 50% on January 10, 2024 and 50% on January 10, 2025, subject to Mr. Ross remaining an employee of the Company at that point in time.

(7) Stock awards include the following restricted stock granted during 2023 to Mr. Heckman: 3,750 shares at \$4.99 per share that vested on April 1, 2023.

(8) Stock awards include the following restricted stock granted during 2023 to Mr. Han: 5,000 shares at \$4.99 per share that vest 20% annually on the anniversary of January 10 from 2024 to 2028, subject to Mr. Han remaining an employee of the Company at that point in time.

All Other Compensation Table

Name and Principal Position	Year	401(k) Plan contribution by Company	Company paid healthcare insurance	Flexible & health savings account contributions by Company	Company paid life, accident & disability insurance	Other Contractual payments	Total (\$)
Stanton E. Ross Chairman and CEO	2022	\$ 10,039	\$ 20,319	\$ 1,100	\$ 576	\$ —	\$ 32,034
	2023	\$ 11,200	\$ —	\$ 1,100	\$ 821	\$ —	\$ 13,121
Thomas J. Heckman CFO, Treasurer and Secretary	2022	\$ 4,800	\$ 10,021	\$ 895	\$ 576	\$ —	\$ 16,292
	2023	\$ 4,800	\$ —	\$ 895	\$ 659	\$ —	\$ 6,354
Peng Han COO	2022	\$ 10,000	\$ —	\$ —	\$ 576	\$ —	\$ 10,576
	2023	\$ 10,000	\$ —	\$ —	\$ 821	\$ —	\$ 10,821

Compensation Policy. Our executive compensation plan is based on attracting and retaining qualified professionals who possess the skills and leadership necessary to enable us to achieve earnings and profitability growth to satisfy its stockholders. We must, therefore, create incentives for these executives to achieve both our and individual performance objectives using performance-based compensation programs. No one component is considered by itself, but all forms of the compensation package are considered in total. Wherever possible, objective measurements will be utilized to quantify performance, but many subjective factors still come into play when determining performance.

Compensation Components. The main elements of its compensation package consist of base salary, stock options or restricted stock awards and bonus.

Base Salary. The base salary for each executive officer is reviewed and compared to the prior year, with considerations given for increase or decrease. The review is generally on an annual basis but may take place more often in the discretion of the Compensation Committee.

On January 7, 2022, the Compensation Committee restored the annual base salaries of Stanton E. Ross, Chief Executive Officer, Thomas J. Heckman, Chief Financial Officer, Treasurer and Secretary, and Peng Han, Chief Operating Officer, at \$300,000, \$120,000, and \$250,000, respectively for 2022.

On January 10, 2023, the Compensation Committee restored the annual base salaries of Stanton E. Ross, Chief Executive Officer, Thomas J. Heckman, Chief Financial Officer, Treasurer and Secretary, and Peng Han, Chief Operating Officer, at \$250,000, \$120,000, and \$250,000, respectively for 2023.

The Compensation Committee plans to review the base salaries for possible adjustments on an annual basis. Base salary adjustments will be based on both the individual and our performances and will include both objective and subjective criteria specific to each executive's role and responsibility with us.

Stock Options and Restricted Stock Awards. The Compensation Committee determined stock option and restricted stock awards based on numerous factors, some of which include responsibilities incumbent with the role of each executive with us, tenure with us, as well as our performance. The vesting period of options and restricted stock is also tied, in some instances, to our performance directly related to certain executive's responsibilities with us. The Compensation Committee determined that Messrs. Ross, Heckman, and Han were eligible for awards of stock options or restricted stock in 2022 based on their performance. Refer to the "Grants of Plan-Based Awards" table below for restricted stock awards made in 2022. The Committee also determined that Messrs. Ross, Heckman, and Han would be eligible in 2023 for awards of restricted stock or stock options.

Bonuses. The Compensation Committee determined to award bonuses to each of the executive officers in 2023 and 2022, as set forth in the foregoing table. Refer to the "Summary Compensation Table" above for the bonuses paid to Messrs. Ross, Heckman, and Han in 2023 and 2022. In fiscal 2023, Messrs. Ross, Heckman, and Han were eligible for bonuses of up to \$250,000, \$120,000, and \$250,000, respectively.

Other. In July 2008, we amended and restated our 401(k) Plan. The amended 401(k) Plan requires us to provide a 100% matching contribution for employees who elect to contribute up to 3% of their compensation to the plan and a 50% matching contribution for employees' elective deferrals between 4% and 5%. We have made matching contributions for executives who elected to contribute to the 401(k) Plan during 2021. Each participant is 100% vested at all times in employee and employer matching contributions. As of December 31, 2023, a total of 66,946 shares of our Common Stock were held in the 401(k) Plan. Mr. Heckman, as trustee of the 401(k) Plan, holds the voting power as to the shares of our Common Stock held in the 401(k) Plan. We have no profit-sharing plan in place for our employees. However, we may consider adding such a plan to provide yet another level of compensation to our compensation plan.

The following table presents information concerning the grants of plan-based awards to the Named Executive Officers during the year ended December 31, 2023:

Grant of Plan-Based Awards

Name	Grant date	Date approved by Compensation Committee	All other stock awards: Number of shares of stock or units: (#) (1) (2)	Exercise or base price of option awards (\$/Share)	Grant date fair value of stock awards (\$ (3)
Stanton E. Ross Chairman and CEO	January 10, 2023	January 10, 2023	17,500(1)	\$ 4.99	\$ 87,325
Thomas J. Heckman CFO, Treasurer and Secretary	—	—	—	\$ —	\$ —
Peng Han COO	January 10, 2023	January 10, 2023	5,000(2)	\$ 4.99	\$ 24,950

(1) These restricted stock awards were made under the Digital Ally, Inc. Stock Option and Restricted Stock Plans and vest over a two-year period (50% on January 10, 2024 and 50% on January 10, 2025) contingent upon whether the individual is still employed by us at that point.

(3) These restricted stock awards were made under the Digital Ally, Inc. Stock Option and Restricted Stock Plans and vest over a five-year period (20% on each anniversary of January 10 from 2024 to 2028) contingent upon whether the individual is still employed by us at that point.

(3) Stock awards noted represent the aggregate amount of grant date fair value as determined under ASC Topic 718. Please refer to Note 14 to the consolidated financial statements that appear in our Annual Report on Form 10-K, filed with the SEC on March 31, 2023, for a further description of the awards and the underlying assumptions utilized to determine the amount of grant date fair value related to such grants.

Employment Contracts; Termination of Employment and Change-in-Control Arrangements

We do not have any employment agreements with any of our executive officers. However, on December 23, 2008, we entered into retention agreements with the following executive officers: Stanton E. Ross and Thomas J. Heckman. In April 2018 we amended these agreements.

Retention Agreements - Potential Payments upon Termination or Change of Control

The following table sets forth for each named executive officer potential post-employment payments and payments on a change in control and assumes that the triggering event took place on January 1, 2024 and that the amendments to the retention agreements of each person were in effect.

Retention Agreement Compensation

Name	Change in control payment due based upon successful completion of transaction	Severance payment due based on termination after Change of Control occurs	Total
Stanton E. Ross	\$ 125,000	\$ 500,000	\$ 625,000
Thomas J. Heckman	\$ 115,000	\$ 460,000	\$ 575,000
Total	\$ 240,000	\$ 960,000	\$ 1,200,000

The retention agreements guarantee the executive officers' specific payments and benefits upon a Change in Control of the Company. The retention agreements also provide for specified severance benefits if, after a Change in Control of the Company occurs, the executive officer voluntarily terminates employment for "Good Reason" or is involuntarily terminated without "Cause."

Under the retention agreements, a "Change in Control" means (i) one party alone, or acting with others, has acquired or gained control over more than 50% of the voting shares of the Company; (ii) the Company merges or consolidates with or into another entity or completes any other corporate reorganization, if more than 50% of the combined voting power of the surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization; (iii) a majority of the Board of Directors is replaced and/or dismissed by the stockholders of the Company without the recommendation of or nomination by the Company's current Board of Directors; (iv) the Company's Chief Executive Officer (the "CEO") is replaced and/or dismissed by stockholders without the approval of the Board of Directors; or (v) the Company sells, transfers or otherwise disposes of all or substantially all of the consolidated assets of the Company and the Company does not own stock in the purchaser or purchasers having more than 50% of the voting power of the entity owning all or substantially all of the consolidated assets of the Company after such purchase.

"Good Reason" means either (i) a material adverse change in the executive's status as an executive or other key employee of the Company, including without limitation, a material adverse change in the executive's position, authority, or aggregate duties or responsibilities; (ii) any adverse change in the executive's base salary, target bonus or benefits; or (iii) a request by the Company to materially change the executive's geographic work location.

"Cause" means (i) the executive has acted in bad faith and to the detriment of the Company; (ii) the executive has refused or failed to act in accordance with any specific lawful and material direction or order of his or her supervisor; (iii) the executive has exhibited, in regard to employment, unfitness or unavailability for service, misconduct, dishonesty, habitual neglect, incompetence, or has committed an act of embezzlement, fraud or theft with respect to the property of the Company; (iv) the executive has abused alcohol or drugs on the job or in a manner that affects the executive's job performance; and/or (v) the executive has been found guilty of or has plead nolo contendere to the commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person. Prior to termination for Cause, the Company shall give the executive written notice of the reason for such potential termination and provide the executive a 30-day period to cure such conduct or act or omission alleged to provide grounds for such termination.

If any Change in Control occurs and the executive continues to be employed as of the completion of such Change in Control, upon completion of such Change in Control, as payment for the executive's additional efforts during such Change in Control, the Company shall pay the executive a Change in Control benefit payment equal to three months of the his base salary at the rate in effect immediately prior to the Change in Control completion date, payable in a lump sum net of required tax withholdings. If any Change in Control occurs, and if, during the one-year period following the Change in Control, the Company terminates the executive's employment without Cause or the executive submits a resignation for Good Reason (the effective date of such termination or resignation, the "Termination Date"), then:

- a) The Company shall pay the executive severance pay equal to 12 months of his base salary at the higher of the rate in effect immediately prior to the Termination Date or the rate in effect immediately prior to the occurrence of the event or events constituting Good Reason, payable on the Termination Date in a lump sum net of required tax withholdings, plus all other amounts then payable by the Company to the executive less any amounts then due and owing from the executive to the Company;

b) The Company shall provide continuation of the executive's health benefits at the Company's expense for 18 months following the Termination Date; and

c) The executive's outstanding employee stock options shall fully vest and be exercisable for a 90-day period following the Termination Date.

The executive is not entitled to the above severance benefits for a termination based on death or disability, resignation without Good Reason or termination for Cause. Following the Termination Date, the Company shall also pay the executive all reimbursements for expenses in accordance with the Company's policies, within ten days of submission of appropriate evidence thereof by the executive.

The following table presents information concerning the outstanding equity awards for the Named Executive Officers as of December 31, 2023:

Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards				Stock Awards				
	Number of securities underlying unexercised options (#) exercisable (1)	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#)	Option exercise price (\$)	Option expiration date	Number of shares or units of stock that have not vested (1)	Market value of shares or units of stock that have not vested (2)	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested	Equity incentive awards: Market or Payout value of unearned shares, units or other rights that have not vested
Stanton E. Ross Chairman and CEO	-	-	-	-	-	26,250	\$ 55,650	-	\$ -
Thomas J. Heckman CFO, Treasurer and Secretary	-	-	-	-	-	-	\$ -	-	\$ -
Peng Han COO	-	-	-	-	-	9,000	\$ 19,080	-	\$ -

(1) These stock option and restricted stock awards were made under the Digital Ally, Inc. Stock Option and Restricted Stock Plans and vest over the prescribed period contingent upon whether the individual is still employed by the Company at that point.

(2) Market value based upon the closing market price of \$2.12 on December 31, 2023.

The following table presents information concerning the stock options exercised and the vesting of restricted stock awards during 2023 for the Named Executive Officers for the year ended December 31, 2023:

	Option Exercises and Restricted Stock Vested			
	Option Awards		Stock Awards	
	Number of Shares acquired realized on exercise (#)	Value realized on exercise (\$)	Number of Shares acquired on vesting (#)	Value on vesting (\$)
Stanton E. Ross Chairman and CEO	-	\$ -	16,250	\$ 77,675(1)
Thomas J. Heckman CFO, Treasurer and Secretary	-	\$ -	7,500	\$ 35,250(2)
Peng Han COO	-	\$ -	1,000	\$ 4,780(3)

(1) Based on the closing market price of our Common Stock of \$4.78 on January 6, 2023, the date of vesting for 7,500 shares of Common Stock, and the closing market price of our Common Stock of \$4.78 on January 7, 2023, the date of vesting for 8,750 shares of Common Stock for Mr. Ross.

(2) Based on the closing market price of our Common Stock of \$4.78 on January 6, 2023, the date of vesting for 3,750 shares of Common Stock, and the closing market price of our Common Stock of \$4.62 on March 31, 2023, the date of vesting for 3,750 shares of Common Stock for Mr. Heckman.

(3) Based on the closing market price of our Common Stock of \$4.78 on January 7, 2023, the date of vesting for 1,000 shares of Common Stock for Mr. Han.

The number of stock options and restricted stock awards that an employee, director, or consultant may receive under our Plans (defined below under “Information Regarding Plans and Other Arrangements Not Subject to Security Holder Action”) is in the discretion of the administrator and therefore cannot be determined in advance. The Board of Directors’ policy in 2023 was to grant officers an award of 17,500 restricted shares of Common Stock to our CEO and 3,750 restricted shares of Common Stock to our CFO/Treasurer and each non-employee director an award of options to purchase 5,000 shares of Common Stock, all subject to vesting requirements.

The following table sets forth (a) the aggregate number of shares of Common Stock subject to options granted under the Plans during the year ended December 31, 2023 and (b) the average per share exercise price of such options.

Stock Options and Restricted Stock Grants

Name of Individual or Group	Number of Restricted Shares of Common Stock Granted	Number of Options Granted	Average per Share Exercise Price
Stanton E. Ross, Chairman of the Board of Directors & CEO	17,500	-	\$ -
Leroy C. Richie, Director	-	-	\$ -
Thomas J. Heckman, Vice President, CFO, Treasurer & Secretary	3,750	-	\$ -
Peng Han, COO	5,000	-	\$ -
All executive officers, as a group	26,250	-	\$ -
All directors who are not executive officers, as a group	-	-	\$ -
All employees who are not executive officers, as a group	12,500	-	\$ -

Director Compensation

Our non-employee directors received the stock option grants noted in the “Director Compensation” table below for their service on the Board of Directors in 2023, including on the Audit, Nominating and Compensation Committees.

Director compensation for the year ended December 31, 2023 was as follows:

Director Compensation				
Name	Fees earned or paid in cash (\$)	Stock awards (\$)	Option awards (\$)	Total (\$)
Stanton E. Ross, Chairman of the Board of Directors (1)	\$ —	\$ —	\$ —	\$ —
Leroy C. Richie	\$ 60,000	\$ —	\$ —	\$ 60,000
Daniel F. Hutchins	\$ 55,000	\$ —	\$ —	\$ 55,000
Michael J. Caulfield	\$ 50,000	\$ —	\$ —	\$ 50,000

(1) As a Named Executive Officer, Mr. Ross's compensation and option awards are fully reflected in the "Summary Compensation" table, and elsewhere under "Executive Compensation." He did not receive compensation, stock awards or options for his services as a director.

On November 17, 2023, our board of directors adopted a clawback policy (the “Clawback Policy”) permitting the Company to seek the recovery of incentive compensation received by any of the Company’s current and former executive officers (as determined by the board in accordance with Section 10D of the Exchange Act) and such other senior executives/employees who may from time to time be deemed subject to the Clawback Policy by the board (collectively, the “Covered Executives”). The amount to be recovered will be the excess of the incentive compensation paid to the Covered Executive based on the erroneous data over the incentive compensation that would have been paid to the Covered Executive had it been based on the restated results, as determined by the board. If the board cannot determine the amount of excess incentive compensation received by the Covered Executive directly from the information in the accounting restatement, then it will make its determination based on a reasonable estimate of the effect of the accounting restatement. Refer to **Exhibit 97** of this Annual Report for the Company’s Clawback Policy.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth, as of April 1, 2024, information regarding beneficial ownership of our Common Stock for:

- each person, or group of affiliated persons, known by us to beneficially own more than 5% of our Common Stock;
- each of our executive officers;
- each of our directors; and
- all of our current executive officers and directors as a group

Beneficial ownership is determined according to the rules of the SEC and generally means that a person has beneficial ownership of a security if he, she or it possesses sole or shared voting or investment power of that security, including securities that are currently exercisable or exercisable within sixty (60) days of April 1, 2024. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons named in the table below have sole voting and investment power with respect to all shares of Common Stock shown that they beneficially own, subject to community property laws where applicable.

Common Stock subject to securities currently exercisable or exercisable within sixty (60) days of April 1, 2024 are deemed to be outstanding for computing the percentage ownership of the person holding such securities and the percentage ownership of any group of which the holder is a member but are not deemed outstanding for computing the percentage of any other person.

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Digital Ally, Inc., 14001 Marshall Drive., Lenexa, KS 66215.

	Number of Shares of Common Stock Beneficially Owned (1)		% of Total Voting Power
	Shares	%	
5% or Greater Stockholders:			
None	—	—	—
Executive Officers and Directors:			
Stanton E. Ross ⁽²⁾	116,065	4.1%	4.1%
Leroy C. Richie ⁽³⁾	18,211	*	*
D. Duke Daughtery	1,405	*	*
Thomas J. Heckman ⁽⁴⁾	120,513	4.3%	4.3%
Peng Han ⁽⁵⁾	13,781	*	*
All executive officers and directors as a group (five individuals)	269,975	9.6%	9.6%

* Represents less than 1%.

(1) Based on 2,800,754 shares of Common Stock issued and outstanding as of April 1, 2024 and, with respect only to the ownership by all executive officers and directors as a group.

(2) Mr. Ross’s total shares of Common Stock include 8,750 restricted shares that are subject to forfeiture to us.

(3) Mr. Richie’s total shares of Common Stock include 16,250 shares of Common Stock to be received upon the exercise of vested options.

(4) Mr. Heckman’s total shares of Common Stock include 66,946 shares of Common Stock held in the Company’s 401(k) Plan (on December 31, 2023) as to which Mr. Heckman has voting power as trustee of the 401(k) Plan.

(5) Mr. Han’s total shares of Common Stock include (i) 9,000 restricted shares that are subject to forfeiture to us and (ii) 331 shares of Common Stock to be received upon the exercise of vested options.

Securities Authorized for Issuance Under Equity Compensation Plans

Our Board of Directors adopted the 2005 Stock Option and Restricted Stock Plan (the “2005 Plan”) on September 1, 2005. The 2005 Plan authorized us to reserve 15,625 shares of our Common Stock for issuance upon exercise of options and grant of restricted stock awards. The 2005 Plan terminated in 2015 with 1,078 shares of Common Stock reserved for awards that are now unavailable for issuance. Stock options granted under the 2005 Plan that remain unexercised and outstanding as of December 31, 2023 total 284.

On January 17, 2006, our Board adopted the 2006 Stock Option and Restricted Stock Plan (the “2006 Plan”). The 2006 Plan authorizes us to reserve 9,375 shares of Common Stock for future grants under it. The 2006 Plan terminated in 2016 with 2,739 shares of Common Stock reserved for awards that are now unavailable for issuance. Stock options granted under the 2006 Plan that remain unexercised and outstanding as of December 31, 2023 total 531.

On January 24, 2007, our Board adopted the 2007 Stock Option and Restricted Stock Plan (the “2007 Plan”). The 2007 Plan authorizes us to reserve 9,375 shares of Common Stock for future grants under it. The 2007 Plan terminated in 2017 with 4,733 shares of Common Stock reserved for awards that are now unavailable for issuance. There are no stock options granted under the 2007 Plan that remain unexercised and outstanding as of December 31, 2023.

On January 2, 2008, our Board adopted the 2008 Stock Option and Restricted Stock Plan (the “2008 Plan”). The 2008 Plan authorizes us to reserve 6,250 shares of Common Stock for future grants under it. The 2008 Plan terminated in 2018 with 2,025 shares of Common Stock reserved for awards that are now unavailable for issuance. There are no stock options granted under the 2008 Plan that remain unexercised and outstanding as of December 31, 2023.

On March 18, 2011, our Board adopted the 2011 Stock Option and Restricted Stock Plan (the “2011 Plan”). The 2011 Plan authorizes us to reserve 3,125 shares of Common Stock for future grants under it. At December 31, 2023, there were 438 shares of Common Stock reserved for awards available for issuance under the 2011 Plan. Stock options granted under the 2011 Plan that remain unexercised and outstanding as of December 31, 2023 total 50.

On March 22, 2013, our Board adopted the 2013 Stock Option and Restricted Stock Plan (the “2013 Plan”). The 2013 Plan was amended on March 28, 2014 and November 14, 2014 to increase the number of shares of Common Stock authorized and reserved for issuance under the 2013 Plan to a total of 15,000. At December 31, 2023, there were no shares of Common Stock reserved for awards available for issuance under the 2013 Plan. Stock options granted under the 2013 Plan that remain unexercised and outstanding as of December 31, 2023 total 1,000.

On March 27, 2015, our Board of Directors adopted the 2015 Stock Option and Restricted Stock Plan (the “2015 Plan”). The 2015 Plan was amended on February 25, 2016 and May 31, 2017 to increase the number of shares of Common Stock authorized and reserved for issuance under the 2015 Plan to a total of 62,500. At December 31, 2023, there were no shares of Common Stock reserved for awards available for issuance under the 2015 Plan, as amended. Stock options granted under the 2015 Plan that remain unexercised and outstanding as of December 31, 2023 total 6,500.

On April 12, 2018, our Board of Directors adopted the 2018 Stock Option and Restricted Stock Plan (the “2018 Plan”). The 2018 Plan was amended on May 21, 2019 to increase the number of shares of Common Stock authorized and reserved for issuance under the 2018 Plan to a total of 87,500. At December 31, 2023, there were 31,275 shares of Common Stock reserved for awards available for issuance under the 2018 Plan. Stock options granted under the 2018 Plan that remain unexercised and outstanding as of December 31, 2023 total 17,000.

Our Board of Directors adopted the 2020 Stock Option and Restricted Stock Plan (the “2020 Plan”) on June 30, 2020 and the Company’s stockholders approved the 2020 Plan at the Annual Meeting held on September 9, 2020. The Company’s stockholders approved an amendment to the 2020 Plan at the Annual Meeting held on June 22, 2021 which increased the number of shares of Common Stock authorized and reserved for issuance under the 2020 Plan to a total of 125,000. At December 31, 2023, there were 12,042 shares of Common Stock reserved for awards available for issuance under the 2020 Plan. Stock options granted under the 2020 Plan that remain unexercised and outstanding as of December 31, 2023 total 29,000.

Our Board of Directors adopted the 2022 Stock Option and Restricted Stock Plan (the “2022 Plan”) on October 28, 2022 and the Company’s stockholders approved the 2022 Plan at the Annual Meeting held on December 7, 2022. The number of shares of Common Stock authorized and reserved for issuance under the 2022 Plan totals 125,000. At December 31, 2023, there were no shares of Common Stock reserved for awards available for issuance under the 2022 Plan. Stock options granted under the 2022 Plan that remain unexercised and outstanding as of December 31, 2023 total 125,000.

The 2005 Plan, 2006 Plan, 2007 Plan, 2008 Plan, 2011 Plan, 2013 Plan, 2015 Plan, 2018 Plan, 2020 Plan, and 2022 Plan are collectively referred to as the “Plans.”

The Plans authorize us to grant (i) to the key employees incentive stock options (except for the 2007 Plan) to purchase shares of Common Stock and non-qualified stock options to purchase shares of Common Stock and restricted stock awards, and (ii) to non-employee directors and consultants’ non-qualified stock options and restricted stock. The Compensation Committee of our Board (the “Compensation Committee”) administers the Plans by making recommendations to the Board or determinations regarding the persons to whom options or restricted stock should be granted and the amount, terms, conditions and restrictions of the awards.

The Plans allow for the grant of incentive stock options (except for the 2007 Plan), non-qualified stock options and restricted stock awards. Incentive stock options granted under the Plans must have an exercise price at least equal to 100% of the fair market value of the Common Stock as of the date of grant. Incentive stock options granted to any person who owns, immediately after the grant, stock possessing more than 10% of the combined voting power of all classes of our stock, or of any parent or subsidiary corporation, must have an exercise price at least equal to 110% of the fair market value of the Common Stock on the date of grant. Non-statutory stock options may have exercise prices as determined by our Compensation Committee.

The Compensation Committee is also authorized to grant restricted stock awards under the Plans. A restricted stock award is a grant of shares of the Common Stock that is subject to restrictions on transferability, risk of forfeiture and other restrictions and that may be forfeited in the event of certain terminations of employment or service prior to the end of a restricted period specified by the Compensation Committee.

We have filed various registration statements on Form S-8 and amendments to previously filed Form S-8’s with SEC, which registered a total of 408,750 shares of Common Stock issued or to be issued underlying the awards under the Plans.

The following table sets forth certain information regarding the Plans as of December 31, 2023:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	53,600	\$ 45.55	408,750
Equity compensation plans not approved by stockholders	—	\$ —	—
Total all plans	53,600	\$ 45.55	408,750

Item 13. Certain Relationships and Related Transactions, and Director Independence.

In 2023, a trust, the beneficiaries of which are the Chief Executive Officer of TicketSmarter, and his spouse, contributed cash in the amount of \$2,700,000 to support TicketSmarter's operations and to repay approved debts and obligations of TicketSmarter in exchange for the TicketSmarter Related Party Note (the "TicketSmarter Related Party Note"). The TicketSmarter Related Party Note bears interest of 13.25% per annum with weekly repayments of the principal amount of \$54,000.00 each, together with accrued interest, for fifty weeks, or until the principal is paid in full, commencing on January 2, 2024. The use of proceeds of the TicketSmarter Related Party Note was to resolve numerous outstanding payables at a discounted rate, the discount received is recognized as a gain on extinguishment of liabilities on the statement of operations. Additionally, these negotiations relieved TicketSmarter of numerous future obligations following fiscal year 2023.

Item 14. Principal Accountant Fees and Services.

The following table is a summary of the fees billed to us by RBSM LLP for the fiscal years ended December 31, 2023 and 2022:

Fee Category	Fiscal 2023 fees	Fiscal 2022 fees
Audit fees	\$ 312,500	\$ 327,415
Audit-related fees	145,000	—
Tax fees	—	—
All other fees	—	—
Total fees	\$ 457,500	\$ 327,415

Audit Fees. Such amount consists of fees billed for professional services rendered in connection with the audit of our annual financial statements and review of the interim financial statements included in our quarterly reports. It also includes services that are normally provided by our independent registered public accounting firms in connection with statutory and regulatory filings or engagements.

Audit-Related Fees. Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees." These services include employee benefit plan audits, consents issued for certain filings with the SEC, accounting consultations in connection with acquisitions, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

Tax Fees. Tax fees consist of fees billed for professional services related to tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international tax compliance, tax audit defense, customs and duties, mergers and acquisitions, and international tax planning.

All Other Fees. Consists of fees for products and services other than the services reported above.

Pre-Approval Policy of Services Performed by Independent Registered Public Accounting Firm. The Audit Committee's policy is to pre-approve all audit and non-audit related services, tax services and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The Audit Committee has delegated the pre-approval authority to its chairperson when expedition of services is necessary. The independent registered public accounting firm and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval and the fees for the services performed to date.

PART IV**Item 15. Exhibits and Financial Statement Schedules.**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. *Consolidated Financial Statements:*

The consolidated financial statements required to be included in Part II, Item 8, Financial Statements and Supplementary Data, begin on Page F-1 and are submitted as a separate section of this Annual Report on Form 10-K.

2. *Financial Statement Schedules:*

All schedules are omitted because they are not applicable or are not required, or because the required information is included in the consolidated financial statements or notes in this Annual Report on Form 10-K.

3. *Exhibits:*

Exhibit Number	Description of Exhibit	
2.1	Agreement and Plan of Merger, dated August 23, 2022, between Digital Ally, Inc. and DGLY Subsidiary.	(19)
2.2	Agreement and Plan of Merger, dated June 1, 2023, by and among Clover Leaf Capital Corp., CL Merger Sub, Inc., Yntegra Capital Investments LLC, in the capacity as the Purchaser Representative, Kustom Entertainment, Inc. and Digital Ally, Inc.	(27)
3.1(i)(a)	Articles of Incorporation.	(19)
3.1(i)(b)	Articles of Merger.	(19)
3.1(i)(c)	Certificate of Amendment to Digital Ally, Inc.'s Articles of Incorporation, dated December 8, 2022.	(22)
3.1(i)(d)	Certificate of Amendment to Articles of Incorporation of Digital Ally, Inc., dated February 6, 2023.	(23)
3.1(ii)	Bylaws	(19)
4.1	Form of Common Stock Certificate.	*
4.2	Form of Certificate of Designation of Series A Convertible Redeemable Preferred Stock.	(20)
4.3	Form of Certificate of Designation of Series B Convertible Redeemable Preferred Stock.	(20)
4.4	Form of Common Stock Purchase Warrant of Digital Ally, Inc., dated August 5, 2019.	(10)
4.5	Form of Pre-Funded Common Stock Purchase Warrant of Digital Ally, dated February 1, 2021.	(13)
4.6	Form of Common Stock Purchase Warrant of Digital Ally, dated February 1, 2021.	*
4.7	Form of Senior Secured Convertible Note, issued by Digital Ally, Inc., dated April 5, 2023.	(26)
4.8	Form of Warrant of Digital Ally, Inc., dated April 5, 2023.	(26)
4.9	Revolving Note, dated October 26, 2023, issued by Digital Ally, Inc. to Kompas Kapital Funding, LLC.	(28)
4.10	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.	(25)
10.1	2005 Stock Option and Restricted Stock Plan.	(2)
10.2	2006 Stock Option and Restricted Stock Plan.	(2)
10.3	Form of Stock Option Agreement (ISO and Non-Qualified) 2005 Stock Option Plan.	(2)
10.4	Form of Stock Option Agreement (ISO and Non-Qualified) 2006 Stock Option Plan.	(2)
10.9	Forms of Restricted Stock Agreement for 2005, 2006, 2007 and 2008 Stock Option and Restricted Stock Plans.	(3)
10.11	2011 Stock Option and Restricted Stock Plan	(4)
10.12	Form of Stock Option Agreement for 2011 Stock Option and Restricted Stock Plan	(4)
10.13	Amended and Restated 2015 Stock Option and Restricted Stock Plan	(5)
10.14	Form of 2015 Stock Option and Restricted Stock Plan Restricted Stock Grant Agreement.	(25)
10.15	Digital Ally, Inc. 2018 Stock Option and Restricted Stock Plan.	(9)
10.16	Form of 2018 Stock Option and Restricted Stock Plan Restricted Stock Grant Agreement.	(25)
10.17	Digital Ally, Inc. 2020 Stock Option and Restricted Stock Plan.	(11)
10.18	Amendment to Digital Ally, Inc. 2020 Stock Option and Restricted Stock Plan.	(14)
10.19	Form of 2020 Stock Option and Restricted Stock Plan Restricted Stock Grant Agreement.	(25)
10.20	Digital Ally, Inc. 2022 Stock Option and Restricted Stock Plan.	(21)
10.21	Form of 2022 Stock Option and Restricted Stock Plan Restricted Stock Grant Agreement under the 2022 Stock Option and Restricted Stock Plan.	(24)
10.22	Proceeds Investment Agreement, dated as July 31, 2018, by and between Digital Ally, Inc. and Brickell Key Investments LP.	(8)
10.23	Letter Agreement, dated as July 31, 2018, by and between Digital Ally, Inc. and Brickell Key Investments LP.	(8)
10.24	Form of Securities Purchase Agreement, dated as of January 11, 2021, by and between Digital Ally, Inc. and the Investors.	(12)
10.25	Form of Placement Agency Agreement, dated January 27, 2021, by and between Digital Ally, Inc. and Kingswood Capital Markets, division of Benchmark Investments, Inc.	(13)

10.26	Form of Securities Purchase Agreement, dated as of January 27, 2021, by and between Digital Ally, Inc. and the Investors.	(13)
10.27	Commercial Real Estate Sales Contract, dated February 24, 2021, between Digital Ally, Inc. and DDG Holding, LLC.	(15)
10.28	Form of Operating Agreement of Nobility Healthcare, LLC, dated June 1, 2021.	(16)
10.29	Warrant Exchange Agreement, dated August 19, 2021, by and among Digital Ally, Inc. and the warrant holders who are signatories thereto.	(17)
10.30	Unit Purchase Agreement, dated September 2, 2021.	(18)
10.31	Form of Exchange Agreement, dated August 23, 2022.	(19)
10.32	Form of Securities Purchase Agreement, dated October 13, 2022, between Digital Ally, Inc. and the investors thereto.	(20)
10.33	Form of Registration Rights Agreement, dated October 13, 2022, by and among Digital Ally, Inc. and the investors named therein.	(20)
10.34	Form of Securities Purchase Agreement, dated April 5, 2023, between Digital Ally, Inc. and certain Purchasers who are signatories thereto.	(26)
10.35	Form of Security Agreement, dated April 5, 2023, between Digital Ally, Inc. and certain holders of Digital Ally, Inc.'s Senior Secured Convertible Notes who are signatories thereto.	(26)
10.36	Form of Trademark Security Agreement, dated April 5, 2023, between Digital Ally, Inc. and a lender.	(26)
10.37	Form of Patent Security Agreement, dated April 5, 2023, between Digital Ally, Inc. and between Digital Ally, Inc. and a lender.	(26)
10.38	Form of Subsidiary Guaranty, dated April 5, 2023, by and among Digital Ally, Inc. and its direct and indirect subsidiaries and a lender.	(26)
10.39	Form of Registration Rights Agreement, dated April 5, 2023, between Digital Ally, Inc. and certain Purchasers, who are signatories thereto.	(26)
10.40	Loan and Security Agreement, dated October 26, 2023, by and between Digital Ally, Inc., Digital Ally Healthcare, LLC, and Kompass Kapital Funding, LLC.	(28)
10.41	Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated October 26, 2023, by and between Digital Ally, Inc. and Kompass Kapital Funding, LLC.	(28)
10.42	Lock-Up Agreement, dated June 1, 2023, by and between Clover Leaf Capital Corp., Yntegra Capital Investments, LLC, and Digital Ally, Inc.	(27)
14.1	Code of Ethics and Code of Conduct.	(1)
21.1	Subsidiaries of Registrant	*
23.1	Consent of RBSM LLP	*
24.1	Power of Attorney	*
31.1	Certificate of Stanton E. Ross, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*
31.2	Certificate of Thomas J. Heckman, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*
32.1	Certificate of Stanton E. Ross, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
32.2	Certificate of Thomas J. Heckman, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
97	Digital Ally, Inc. Clawback Policy	*
101.INS	Inline XBRL Instance Document **	
101.SCH	Inline XBRL Taxonomy Schema **	
101.CAL	Inline XBRL Taxonomy Calculation Linkbase **	
101.LAB	Inline XBRL Taxonomy Label Linkbase **	
101.PRE	Inline XBRL Taxonomy Presentation Linkbase **	
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)	

*Filed herewith.

** The XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that Section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

- (1) Filed as an exhibit to the Company's Annual Report on Form 10KSB for the Year ended December 31, 2007.
- (2) Filed as an exhibit to the Company's October 2006 Form SB-2.
- (3) Filed as an exhibit to the Company's Annual Report on Form 10K for the Year ended December 31, 2009.
- (4) Filed as an exhibit to the Company's Form 8-K filed June 1, 2011.
- (5) Filed as an exhibit to the Company's Form S-8 filed May 23, 2016.
- (6) Filed as an exhibit to the Company's Form 8-K filed August 25, 2017.
- (7) Filed as an exhibit to the Company's Form 8-K filed April 4, 2018.
- (8) Filed as an exhibit to the Company's Form 8-K filed August 2, 2018.
- (9) Filed as an exhibit to the Company's Registration Statement on Form S-8 filed August 20, 2018.
- (10) Filed as an exhibit to the Company's Form 8-K filed August 5, 2019.
- (11) Filed as an exhibit to the Company's Registration Statement on Form S-8 filed November 16, 2020.
- (12) Filed as an exhibit to the Company's Form 8-K filed January 12, 2021.
- (13) Filed as an exhibit to the Company's Form 8-K filed January 28, 2021.
- (14) Filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed April 27, 2021.
- (15) Filed as an exhibit to the Company's Form 8-K filed May 3, 2021.
- (16) Filed as an exhibit to the Company's Form 8-K filed June 9, 2021.
- (17) Filed as an exhibit to the Company's Form 8-K filed August 19, 2021.
- (18) Filed as an exhibit to the Company's Form 8-K filed September 9, 2021.
- (19) Filed as an exhibit to the Company's Form 8-K filed August 23, 2022.
- (20) Filed as an exhibit to the Company's Form 8-K filed October 19, 2022.
- (21) Filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed October 28, 2022.
- (22) Filed as an exhibit to the Company's Form 8-K filed December 8, 2022.
- (23) Filed as an exhibit to the Company's Form 8-K filed February 7, 2023.
- (24) Filed as an exhibit to the Company's Registration Statement on Form S-8 filed February 28, 2023.

(25) Filed as an exhibit to the Company's Annual Report on Form 10K for the Year ended December 31, 2022.

(26) Filed as an exhibit to the Company's Form 8-K filed April 7, 2023.

(27) Filed as an exhibit to the Company's Form 8-K filed June 6, 2023.

(28) Filed as an exhibit to the Company's Form 8-K filed October 27, 2023.

- (b) No financial statement schedules have been provided because the information is not required or is shown either in the financial statements or the notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIGITAL ALLY, INC.,
a Nevada corporation

By: /s/ STANTON E. ROSS
Stanton E. Ross
Chief Executive Officer
(Principal Executive Officer)
Dated: April 1, 2024

Each person whose signature appears below authorizes Stanton E. Ross to execute in the name of each such person who is then an officer or director of the registrant, and to file, any amendments to this Annual Report on Form 10-K necessary or advisable to enable the registrant to comply with the Securities Exchange Act of 1934 and any rules, regulations and requirements of the Securities and Exchange Commission in respect thereof, which amendments may make such changes in such Report as such attorney-in-fact may deem appropriate.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature and Title</u>	<u>Date</u>
<u>/s/ STANTON E. ROSS</u> Stanton E. Ross, Director and Chief Executive Officer	April 1, 2024
<u>/s/ LEROY C. RICHIE</u> Leroy C. Richie, Director	April 1, 2024
<u>/s/ D. DUKE DAUGHTERY</u> D. Duke Daughtery	April 1, 2024
<u>/s/ THOMAS J. HECKMAN</u> Thomas J. Heckman, Chief Financial Officer, Secretary, Treasurer and Principal Accounting Officer (Principal Financial Officer and Principal Accounting Officer)	April 1, 2024

DIGITAL ALLY, INC. AND SUBSIDIARIES
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New York Office:

805 Third Avenue
New York, NY 10022
212.838-5100

www.rbsmlp.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the
Board of Directors of
Digital Ally, Inc. and subsidiaries
Lenexa, KS

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Digital Ally, Inc. and its subsidiaries (the Company) as of December 31, 2023 and 2022, the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two year period ended December 31, 2023, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flow for each of the years in the two year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

The Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred substantial operating losses and will require additional capital to continue as a going concern. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Basis for Opinion

These financial statement are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

New York, NY Washington DC Mumbai & Pune, India Boca Raton, FL
San Francisco, CA Las Vegas, NV Beijing, China Athens, Greece
Member: ANTEA International with affiliated offices worldwide

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill, Indefinite Life Intangibles and Other Intangibles Impairment Assessments – Entertainment/Ticketing Reporting Unit – Refer to Notes 1, 8 and 22 to the consolidated financial statements

Critical Audit Matter Description

As described in Note 22 to the consolidated financial statements, the Company's goodwill and indefinite life intangible asset balance was \$5,886,547 and \$600,000, respectively as of December 31, 2023. The Company also has amortizable identifiable intangible assets of \$5,600,000 and \$600,000 which are being amortized over 5 years and 4 years, respectively, and are related to the Entertainment/Ticketing reporting unit. Management tests these assets annually for impairment or more frequently when potential impairment triggering events are present. Goodwill is tested for impairment by comparing the estimated fair value of a reporting unit to its carrying value. Management uses a market approach to estimate the fair value of its reporting unit. The key assumptions and estimates utilized in the market approach primarily include market multiples, peer group and comparable transaction selection and selection of relevant financial matrices for concluding the fair value of reporting unit, and future levels of revenue growth.

The principal considerations for our determination that performing procedures relating to the goodwill and intangible asset impairment assessments of the Entertainment/Ticketing reporting unit is a critical audit matter because (i) the significant judgment used by management when determining the fair value estimates of the reporting units; (ii) the high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating the significant assumptions used in management's fair value estimates; and (iii) the audit effort involved in the use of professionals with specialized skill and knowledge.

How the Critical Audit Matter Was Addressed in the Audit

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements.

- These procedures included, among others, (i) testing management's process for determining the fair value estimates of the entertainment/ticketing reporting unit; (ii) testing the completeness and accuracy of the underlying data used in the market approach; and (iii) evaluating the reasonableness of the significant assumptions used by management related to market multiples, peer group and comparable transaction selection and selection of relevant financial matrices for concluding the fair value of reporting unit and future levels of revenue growth.
- Evaluating management's assumptions related to the future levels of revenue growth and involved evaluating whether the assumptions were reasonable considering (i) current and past performance of the reporting units; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit.
- Professionals with specialized skill and knowledge were used to assist in evaluating (i) the appropriateness of the market approach and (ii) the reasonableness of significant assumptions related to the market multiples, peer group and comparable transaction selection and selection of relevant financial matrices for concluding the fair value of reporting unit and future levels of revenue growth.

/s/ **RBSM LLP**

We have served as the Company's auditor since 2019.

New York, NY
April 1, 2024
PCAOB ID Number 587

New York, NY Washington DC Mumbai & Pune, India Boca Raton, FL
San Francisco, CA Las Vegas, NV Beijing, China Athens, Greece
Member: ANTEA International with affiliated offices worldwide

DIGITAL ALLY, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 680,549	\$ 3,532,199
Accounts receivable-trade, less allowance for doubtful accounts of \$200,668 – 2023 and \$152,736 – 2022	1,584,662	2,044,056
Other receivables, net of \$5,000 allowance – 2023 and \$0 - 2022 (including \$0- due from related parties – 2023 and \$138,384– 2022, refer to Note 19)	3,107,634	4,076,522
Inventories, net	3,845,281	6,839,406
Prepaid expenses	<u>6,366,368</u>	<u>8,466,413</u>
Total current assets	15,584,494	24,958,596
Property, plant, and equipment, net	7,283,702	7,898,686
Goodwill and other intangible assets, net	16,510,422	17,872,970
Operating lease right of use assets, net	1,053,159	782,129
Other assets	<u>6,597,032</u>	<u>5,155,681</u>
Total assets	\$ 47,028,809	\$ 56,668,062
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 10,732,089	\$ 9,477,355
Accrued expenses	3,269,330	1,090,967
Current portion of operating lease obligations	279,538	294,617
Contract liabilities – current	2,937,168	2,154,874
Notes payable – related party – current portion	2,700,000	—
Debt obligations – current	1,260,513	485,373
Warrant derivative liabilities	1,369,738	—
Income taxes payable	<u>61</u>	<u>8,097</u>
Total current liabilities	22,548,437	13,511,283
Long-term liabilities:		
Debt obligations – long term	4,853,237	442,467
Operating lease obligation – long term	827,836	555,707
Contract liabilities – long term	7,340,459	5,818,082
Lease deposit	<u>10,445</u>	<u>—</u>
Total liabilities	35,580,414	20,327,539
Commitments and contingencies		
Equity:		
Common stock, \$0.001 par value; 200,000,000 shares authorized; shares issued: 2,800,754 – 2023 and 2,720,170 – 2022	2,801	2,721
Additional paid in capital	128,441,083	127,869,342
Noncontrolling interest in consolidated subsidiary	673,292	448,694
Accumulated deficit	<u>(117,668,781)</u>	<u>(91,980,234)</u>
Total equity	11,448,395	36,340,523
Total liabilities and equity	\$ 47,028,809	\$ 56,668,062

See Notes to Consolidated Financial Statements.

DIGITAL ALLY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED
DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Revenue:		
Product	\$ 9,347,945	\$ 10,999,892
Service and other	18,900,399	26,010,003
Total revenue	28,248,344	37,009,895
Cost of revenue:		
Product	9,974,890	14,372,115
Service and other	12,510,970	20,315,839
Total cost of revenue	22,485,860	34,687,954
Gross profit	5,762,484	2,321,941
Selling, general and administrative expenses:		
Research and development expense	2,618,746	2,290,293
Selling, advertising and promotional expense	7,137,529	9,312,204
General and administrative expense	18,246,762	20,452,702
Total selling, general and administrative expenses	28,003,037	32,055,199
Operating loss	(22,240,553)	(29,733,258)
Other income (expense):		
Interest income	95,717	131,025
Interest expense	(3,134,253)	(37,196)
Other income	144,735	—
Other expense	—	(230,744)
Loss on accrual for legal settlement	(1,792,308)	—
Loss on conversion of convertible debt	(1,112,705)	—
Change in fair value of short-term investments	—	(84,818)
Change in fair value of warrant derivative liabilities	1,846,642	6,726,638
Change in fair value of contingent consideration promissory notes and earn-out agreements	177,909	516,970
Gain on the extinguishment of liabilities	550,867	—
Gain on extinguishment of warrant derivative liabilities	—	3,624,794
Gain on sale of property, plant and equipment	—	212,831
Total other income (loss)	(3,223,396)	10,859,500
Loss before income tax benefit (provision)	(25,463,949)	(18,873,758)
Income tax expense benefit (provision)	—	—
Net loss	(25,463,949)	(18,873,758)
Net income attributable to noncontrolling interests of consolidated subsidiary	(224,598)	(407,933)
Loss on redemption – Series A & B convertible redeemable preferred stock	—	(2,385,000)
Net loss attributable to common stockholders	\$ (25,688,547)	\$ (21,666,691)
Net loss per share attributable to common information:		
Basic	\$ (9.22)	\$ (8.50)
Diluted	\$ (9.22)	\$ (8.50)
Weighted average shares outstanding:		
Basic	2,784,894	2,548,549
Diluted	2,784,894	2,548,549

See Notes to Consolidated Financial Statements.

DIGITAL ALLY, INC.
CONSOLIDATED STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>Common Stock</u>		<u>Additional Paid In Capital</u>	<u>Noncontrolling Interest in consolidated subsidiary</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
Balance, December 31, 2021	2,545,220	\$ 2,545	\$ 124,476,447	\$ 56,453	\$ (68,672,206)	\$ 55,863,239
Stock-based compensation	—	—	1,282,757	—	—	1,282,757
Restricted common stock grant	35,750	36	(36)	—	—	—
Restricted common stock forfeitures	(3,250)	(3)	3	—	—	—
Distribution to noncontrolling interest in consolidated subsidiary	—	—	—	(15,692)	—	(15,692)
Issuance of common stock under rule 144 restrictions related to contemplated spin-off transaction	25,000	25	(25)	—	—	—
Repurchase and cancellation of common stock	(186,299)	(186)	—	—	(4,026,337)	(4,026,523)
Issuance of common stock through warrant exchange agreement	303,750	304	4,495,196	—	—	4,495,500
Loss on redemption of Series A and Series B Preferred Stock	—	—	(2,385,000)	—	—	(2,385,000)
Net loss	—	—	—	407,933	(19,281,691)	(18,873,758)
Balance, December 31, 2022	<u>2,720,171</u>	<u>\$ 2,721</u>	<u>\$ 127,869,342</u>	<u>\$ 448,694</u>	<u>\$ (91,980,234)</u>	<u>\$ 36,340,523</u>
Stock-based compensation	—	—	452,071	—	—	452,071
Restricted common stock grant	35,000	35	(35)	—	—	—
Restricted common stock forfeitures	(3,625)	(4)	4	—	—	—
Conversion of convertible note into common stock	25,000	25	119,725	—	—	119,750
Issuance due to rounding from reverse stock split	24,208	24	(24)	—	—	—
Net loss	—	—	—	224,598	(25,688,547)	(25,463,949)
Balance, December 31, 2023	<u>2,800,754</u>	<u>\$ 2,801</u>	<u>\$ 128,441,083</u>	<u>\$ 673,292</u>	<u>\$ (117,668,781)</u>	<u>\$ 11,448,395</u>

See Notes to Consolidated Financial Statements.

DIGITAL ALLY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Net loss	\$ (25,463,949)	\$ (18,873,758)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	2,218,237	2,176,679
Gain on sale of property, plant and equipment	—	(212,831)
Stock based compensation	452,071	1,282,757
Non-cash interest expense	576,380	—
Amortization of debt issuance costs	161,893	—
Gain on extinguishment of liabilities	(550,867)	—
Convertible debt discount amortization	2,169,545	—
Loss on conversion of debt	93,386	—
Loss on extinguishment of convertible debt	1,019,319	—
Loss on accrual for legal settlement	1,792,308	—
Provision for doubtful accounts receivable	47,932	(39,502)
Provision for doubtful lease receivable	5,000	140,448
Change in fair value of contingent consideration promissory notes and earn-out agreements	(177,909)	(516,970)
Change in fair value of warrant derivative liability	(1,846,642)	(6,726,638)
Gain on extinguishment of warrant derivative liabilities	—	(3,624,794)
Provision for inventory obsolescence	(947,080)	1,574,453
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable – trade	411,462	722,498
Accounts receivable – other (including related party)	963,888	(2,195,157)
Inventories	3,941,205	1,245,677
Prepaid expenses	2,100,045	1,293,080
Operating lease right of use assets	340,672	328,772
Other assets	(1,343,751)	(3,048,382)
Increase (decrease) in:		
Accounts payable	1,805,601	4,709,030
Accrued expenses	289,957	(112,896)
Accrued interest - related party	95,031	—
Income taxes payable	(8,036)	6,270
Lease deposit	10,445	—
Operating lease obligations	(354,652)	(328,772)
Contract liabilities	2,304,671	3,619,651
Net cash used in operating activities	(9,893,838)	(18,580,385)
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(94,165)	(2,068,508)
Proceeds from sale of property, plant and equipment	—	609,559
Purchases of intangible assets	(146,541)	(116,990)
Proceeds from sale of intangible assets	—	18,975
Cash paid for acquisition of Medical Billing Company	—	(1,153,627)
Cash paid for asset acquisition of Medical Billing Company	—	(230,000)
Net cash used in investing activities	(240,706)	(2,940,591)
Cash Flows from Financing Activities:		
Repurchase and cancellation of common stock	—	(4,026,523)
Distribution to noncontrolling interest in consolidated subsidiary	—	(15,692)
Net proceeds of convertible debt with detachable warrants	2,640,000	—
Net proceeds of related party note payable	2,700,000	—
Net proceeds of revolving loan agreement – Video Solutions Segment	4,691,745	—
Proceeds – Commercial Extension of Credit – Entertainment Segment	1,455,643	—
Proceeds – Merchant Advances – Video Solutions Segment	1,000,000	—
Payments on convertible debt	(3,162,500)	—
Payments on Commercial Extension of Credit – Entertainment Segment	(1,367,715)	—
Payments on Merchant Advances – Video Solutions Segment	(162,000)	—
Principal payment on EIDL loan	(2,219)	—
Principal payment on contingent consideration promissory notes	(412,460)	(527,402)
Proceeds from issuance of Series A & B convertible redeemable preferred shares, net of issuance costs	—	13,365,000
Redemption of Series A & B convertible redeemable preferred shares	—	(15,750,000)
Net cash provided by (used in) financing activities	7,380,494	(6,954,617)

Net decrease in cash, cash equivalents and restricted cash	(2,754,050)	(28,475,593)
Cash, cash equivalents and restricted cash, beginning of year	3,532,199	32,007,792
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 778,149</u>	<u>\$ 3,532,199</u>
Supplemental disclosures of cash flow information:		
Cash payments for interest	<u>\$ 88,631</u>	<u>\$ 49,070</u>
Cash payments for income taxes	<u>\$ 1,606</u>	<u>\$ 8,730</u>
Supplemental disclosures of non-cash investing and financing activities:		
Restricted common stock grant	<u>\$ 35</u>	<u>\$ 61</u>
Restricted common stock forfeitures	<u>\$ 4</u>	<u>\$ 3</u>
Issuance of contingent consideration earn-out agreement for business acquisitions	<u>\$ —</u>	<u>\$ 750,000</u>
Issuance of contingent consideration promissory note for asset acquisitions	<u>\$ —</u>	<u>\$ 105,000</u>
Assets acquired in business acquisitions	<u>\$ —</u>	<u>\$ 190,631</u>
Goodwill acquired in business acquisitions	<u>\$ —</u>	<u>\$ 2,100,000</u>
Liabilities assumed in business acquisitions	<u>\$ —</u>	<u>\$ 387,005</u>
ROU and lease liability recorded on extension of lease	<u>\$ 611,702</u>	<u>\$ 42,403</u>
Common stock issued due to rounding from reverse stock split	<u>\$ 24</u>	<u>\$ —</u>
Conversion of convertible notes payable into common stock	<u>\$ 119,750</u>	<u>\$ —</u>
Issuance of common stock through warrant exchange agreement	<u>\$ —</u>	<u>\$ 4,495,500</u>
Debt discount on convertible note	<u>\$ 3,000,000</u>	<u>\$ —</u>

DIGITAL ALLY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nature of Business:

Digital Ally, Inc. was originally incorporated in Nevada on December 13, 2000 as Vegas Petra, Inc. and had no operations until 2004. On November 30, 2004, Vegas Petra, Inc. entered into a Plan of Merger with Digital Ally, Inc., at which time the merged entity was renamed Digital Ally, Inc. (such merged entity, the “Predecessor Registrant”).

On August 23, 2022 (the “Effective Time”), the Predecessor Registrant merged with and into its wholly owned subsidiary, DGLY Subsidiary Inc., a Nevada corporation (the “Registrant”), pursuant to an agreement and plan of merger, dated as of August 23, 2022 (the “Merger Agreement”), between the Predecessor Registrant and the Registrant, with the Registrant as the surviving corporation in the merger (such transaction, the “Merger”). At the Effective Time, Articles of Merger were filed with the Secretary of State of the State of Nevada, pursuant to which the Registrant was renamed “Digital Ally, Inc.” and, by operation of law, succeeded to the assets, continued the business and assumed the rights and obligations of the Predecessor Registrant immediately prior to the Merger. Under the Nevada Revised Statutes, shareholder approval was not required in connection with the Merger Agreement or the transactions contemplated thereby.

At the Effective Time, pursuant to the Merger Agreement, (i) each outstanding share of Predecessor Registrant’s common stock, par value \$0.001 per share (the “Predecessor Common Stock”) automatically converted into one share of common stock, par value \$0.001 per share, of the Registrant (“Registrant Common Stock”), (ii) each outstanding option, right or warrant to acquire shares of Predecessor Common Stock converted into an option, right or warrant, as applicable, to acquire an equal number of shares of Registrant Common Stock under the same terms and conditions as the original options, rights or warrants, and (iii) the directors and executive officers of the Predecessor Registrant were appointed as directors and executive officers, as applicable, of the Registrant, each to serve in the same capacity and for the same term as such person served with the Predecessor Registrant immediately before the Merger.

The business of the Registrant, Digital Ally, Inc. (with its wholly-owned subsidiaries, Digital Ally International, Inc., Shield Products, LLC, Digital Ally Healthcare, LLC (“Digital Ally Healthcare”), TicketSmarter, Inc. (“TicketSmarter”), Worldwide Reinsurance, Ltd., Digital Connect, Inc., BirdVu Jets, Inc., Kustom 440, Inc. (“Kustom 440”), Kustom Entertainment, Inc., and its majority-owned subsidiary Nobility Healthcare, LLC, collectively, “Digital Ally,” “Digital,” and the “Company”), is divided into three reportable operating segments: 1) the Video Solutions Segment, 2) the Revenue Cycle Management Segment and 3) the Ticketing Segment. The Video Solutions Segment is our legacy business that produces digital video imaging, storage products, disinfectant and related safety products for use in law enforcement, security and commercial applications. This segment includes both service and product revenues through our subscription models offering cloud and warranty solutions, and hardware sales for video and health safety solutions. The Revenue Cycle Management Segment provides working capital and back-office services to a variety of healthcare organizations throughout the country, as a monthly service fee. The Ticketing Segment acts as an intermediary between ticket buyers and sellers within our secondary ticketing platform, ticketsmarter.com, and we also acquire tickets from primary sellers to then sell through various platforms. The accounting guidance on Segment Reporting establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in financial statements. Such required segment information is included in Note 23.

Reverse Stock Split

On February 6, 2023, the Company filed a Certificate of Amendment to its Articles of Incorporation, as amended, with the Secretary of State of the State of Nevada to effect a 1-for-20 reverse stock split (the “Reverse Stock Split”) of the shares of its common stock. The Reverse Stock Split was effective as of time of filing. No fractional shares were issued in connection with the Reverse Stock Split. Any fractional shares of our Common Stock that would have otherwise resulted from the Reverse Stock Split were rounded up to the nearest whole number. In connection with the Reverse Stock Split, the board of directors of the Company approved appropriate and proportional adjustments to all outstanding securities or other rights convertible or exercisable into shares of the Company’s common stock, including, without limitation, all preferred stock, warrants, options, and other equity compensation rights. All historical share and per-share amounts reflected throughout the Company’s consolidated financial statements and other financial information in this Report have been adjusted to reflect the Reverse Stock Split as if the split occurred as of the earliest period presented. The par value per share of the Company’s common stock was not affected by the Reverse Stock Split.

Business Combination

In June 2023, the Company, entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Clover Leaf Capital Corp., a Delaware corporation (Nasdaq: CLOE) (“Clover Leaf”), CL Merger Sub, Inc., a Nevada corporation and a wholly owned subsidiary of Clover Leaf (“Merger Sub”), Yntegra Capital Investments LLC, a Delaware limited liability company, in the capacity as the representative from and after the Effective Time (as defined in the Merger Agreement) for the stockholders of Clover Leaf in accordance with the terms and conditions of the Merger Agreement, and Kustom Entertainment, Inc., a Nevada corporation, a wholly owned subsidiary of the Company, with a focus and mission to own and produce events, festivals, and entertainment alongside its evolving primary and secondary ticketing technologies (“Kustom”). Pursuant to the Merger Agreement, subject to the terms and conditions set forth therein upon the consummation of the transactions contemplated by the Merger Agreement (the “Closing”), Merger Sub will merge with and into Kustom, with Kustom continuing as the surviving corporation in the Merger and a wholly owned subsidiary of Clover Leaf. Upon the Closing which is subject to the approval of Clover Leaf’s shareholders and the satisfaction or waiver of certain other customary closing conditions, the common stock of the combined company is expected to be listed on the Nasdaq under a mutually agreed new ticker symbol that reflects the name “Kustom Entertainment”.

The following is a summary of the Company’s Significant Accounting Policies:

Basis of Consolidation:

The accompanying financial statements include the consolidated accounts of Digital Ally, its wholly-owned subsidiaries, Digital Ally International, Inc., Shield Products, LLC, Digital Ally Healthcare, LLC, TicketSmarter, Inc., Worldwide Reinsurance, Ltd., Digital Connect, Inc., BirdVu Jets, Inc., Kustom 440, Inc., and its majority-owned subsidiary Nobility Healthcare, LLC. All intercompany balances and transactions have been eliminated during consolidation.

The Company formed Digital Ally International, Inc. during August 2009 to facilitate the export sales of its products. The Company formed Shield Products, LLC in May 2020 to facilitate the sales of its Shield™ line of disinfectant/cleanser products and ThermoVu® line of temperature monitoring equipment. The Company formed Nobility Healthcare, LLC (“Nobility Healthcare”) in June 2021 to facilitate the operations of its revenue cycle management solutions and back-office services for healthcare organizations. The Company formed TicketSmarter, Inc. upon its acquisition of Goody Tickets, LLC and TicketSmarter, LLC, to facilitate its global ticketing operations. The Company formed Worldwide Reinsurance Ltd., which is a captive insurance company domiciled in Bermuda. It will provide primarily liability insurance coverage to the Company for which insurance may not be currently available or economically feasible in today’s insurance marketplace. The Company formed Digital Connect, Inc. and BirdVu Jets, Inc. for travel and transportation purposes in 2022. The Company formed Kustom 440, Inc. in 2022 to create unique entertainment experiences directly for consumers, and Kustom Entertainment, Inc. in 2023 to serve as the participant in the Business Combination.

Fair Value of Financial Instruments:

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and subordinated notes payable approximate fair value because of the short-term nature of these items.

Revenue Recognition:

The Company applies the provisions of Accounting Standards Codification (ASC) 606-10, *Revenue from Contracts with Customers*, and all related appropriate guidance. The Company recognizes revenue under the core principle to depict the transfer of control to its customers in an amount reflecting the consideration to which it expects to be entitled. In order to achieve that core principle, the Company applies the following five-step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The Company has two different revenue streams, product and service, represented through its three segments. The Company reports all revenues on a gross basis, other than service revenues from the Company’s entertainment and revenue cycle management segments, Revenues generated by all segments are reported net of sales taxes.

Video Solutions

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with the customer. In situation where sales are to a distributor, the Company had concluded its contracts are with the distributor as the Company holds a contract bearing enforceable rights and obligations only with the distributor. As part of part of its consideration for the contract, the Company evaluates certain factors including the customers' ability to pay (or credit risk). For each contract, the Company considers the promise to transfer products, each of which is distinct, to be the identified performance obligations. In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which it expects to be entitled. As the Company's standard payment terms are less than one year, it has elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component. The Company allocates the transaction price to each distinct product based on its relative standalone selling price. The product price as specified on the purchase order is considered the standalone selling price as it is an observable input which depicts the price as if sold to a similar customer in similar circumstances. Revenue is recognized when control of the product is transferred to the customer (i.e. when the Company's performance obligations is satisfied), which typically occurs at shipment. Further in determining whether control has been transferred, the Company considers if there is a present right to payment and legal title, along with risks and rewards of ownership having transferred to the customer. Customers do not have a right to return the product other than for warranty reasons for which they would only receive repair services or replacement products. The Company has also elected the practical expedient under ASC 340-40-25-4 to expense commissions for product sales when incurred as the amortization period of the commission asset the Company would have otherwise recognized is less than one year.

Service and other revenue is comprised of revenues from extended warranties, repair services, cloud revenue and software revenue. Revenue is recognized upon shipment of the product and acceptance of the service or materials by the end customer for repair services. Revenue for extended warranty, cloud service or other software-based products is over the term of the contract warranty or service period. A time-elapsed method is used to measure progress because the Company transfers control evenly over the contractual period. Accordingly, the fixed consideration related to these revenues is generally recognized on a straight-line basis over the contract term, as long as the other revenue recognition criteria have been met.

The Company's multiple performance obligations may include future in-car or body-worn camera devices to be delivered at defined points within a multi-year contract, and in those arrangements, the Company allocates total arrangement consideration over the life of the multi-year contract to future deliverables using management's best estimate of selling price.

Revenue Cycle Management

The Company reports revenue cycle management revenues on a net basis, as its primary source of revenue is its end-to-end service fees which is generally determined as a percentage of the invoice amounts collected. These service fees are reported as revenue monthly upon completion of the Company's performance obligation to provide the agreed upon service.

Entertainment

The Company reports ticketing revenue on a gross or net basis based on management's assessment of whether the Company is acting as a principal or agent in the transaction. The determination is based upon the evaluation of control over the event ticket, including the right to sell the ticket, prior to its transfer to the ticket buyer.

The Company sells tickets held in inventory, which consists of one performance obligation, being to transfer control of an event ticket to the buyer upon confirmation of the order. The Company acts as the principal in these transactions as the ticket is owned by the Company at the time of sale, therefore controlling the ticket prior to transferring to the customer. In these transactions, revenue is recorded on a gross basis based on the value of the ticket and is recognized when an order is confirmed. Payment is typically due upon delivery of the ticket.

The Company also acts as an intermediary between buyers and sellers through online secondary marketplace. Revenues derived from this marketplace primarily consist of service fees from ticketing operations, and consists of one primary performance obligation, which is facilitating the transaction between the buyer and seller, being satisfied at the time the order has been confirmed. As the Company does not control the ticket prior to the transfer, the Company acts as an agent in these transactions. Revenue is recognized on a net basis, net of the amount due to the seller when an order is confirmed, the seller is then obligated to deliver the tickets to the buyer per the seller's listing. Payment is due at the time of sale.

Other

Contract liabilities consist of deferred revenue and include payments received in advance of performance under the contract and are reported separately as current liabilities and non-current liabilities in the Consolidated Balance Sheets. Such amounts consist of extended warranty contracts, prepaid cloud services and prepaid installation services and are generally recognized as the respective performance obligations are satisfied. During the year ended December 31, 2023, the Company recognized revenue of \$2.6 million related to its contract liabilities. Contract liabilities consist of deferred revenue and include payments received in advance of performance under the contract and are reported separately as current liabilities and non-current liabilities in the Consolidated Balance Sheets. Such amounts consist of extended warranty contracts, prepaid cloud services and prepaid installation services and are generally recognized as the respective performance obligations are satisfied. Total contract liabilities consist of the following:

	December 31, 2023			
	December 31, 2022	Additions/Reclass	Recognized Revenue	December 31, 2023
Contract liabilities, current	\$ 2,154,874	\$ 2,538,187	\$ 1,755,893	\$ 2,937,168
Contract liabilities, non-current	5,818,082	2,328,994	806,617	7,340,459
	<u>\$ 7,972,956</u>	<u>\$ 4,867,181</u>	<u>\$ 2,562,510</u>	<u>\$ 10,277,627</u>

	December 31, 2022			
	December 31, 2021	Additions/Reclass	Recognized Revenue	December 31, 2022
Contract liabilities, current	\$ 1,665,519	\$ 1,478,479	\$ 989,124	\$ 2,154,874
Contract liabilities, non-current	2,687,786	4,560,600	1,430,304	5,818,082
	<u>\$ 4,353,305</u>	<u>\$ 6,039,079</u>	<u>\$ 2,419,428</u>	<u>\$ 7,972,956</u>

Sales returns and allowances aggregated \$117,713 and \$118,026 for the years ended December 31, 2023 and 2022, respectively. Obligations for estimated sales returns and allowances are recognized at the time of sales on an accrual basis. The accrual is determined based upon historical return rates adjusted for known changes in key variables affecting these return rates.

Use of Estimates:

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management utilizes various other estimates, including but not limited to, determining the estimated lives of long-lived assets, determining the potential impairment of long-lived assets, the fair value of warrants, options, the recognition of revenue, inventory valuation reserve, allowances for doubtful accounts and other receivables, incremental borrowing rate on leases, the valuation allowance for deferred tax assets and other legal claims and contingencies. The results of any changes in accounting estimates are reflected in the financial statements in the period in which the changes become evident. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the period that they are determined to be necessary.

Cash and cash equivalents:

Cash and cash equivalents include funds on hand, in bank and short-term investments with original maturities of ninety (90) days or less. The following table shows the Company's cash and cash equivalents by significant investment category as of December 31, 2023 and 2022:

	December 31, 2023			
	Adjusted Cost	Realized Gains	Realized Losses	Fair Value
Demand deposits	\$ 545,207	\$ —	\$ —	\$ 545,207
Short-term investments with original maturities of 90 days or less (Level 1):				
Money market funds	135,342	—	—	135,342
	<u>\$ 680,549</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 680,549</u>
	December 31, 2022			
	Adjusted Cost	Realized Gains	Realized Losses	Fair Value
Demand deposits	\$ 897,745	\$ —	\$ —	\$ 897,745
Short-term investments with original maturities of 90 days or less (Level 1):				
Money market funds	2,634,454	—	—	2,634,454
	<u>\$ 3,532,199</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,532,199</u>

The Company maintains its cash and cash equivalents in banks insured by the Federal Deposit Insurance Corporation (FDIC) in accounts that at times may be in excess of the federally insured limit of \$250,000 per bank. The Company minimizes this risk by placing its cash deposits with numerous major financial institutions. At December 31, 2023 and 2022, the uninsured balance amounted to \$29,700 and \$2,495,189, respectively.

Restricted Cash:

Restricted cash of \$97,600 and \$-0- was included in other assets as of December 31, 2023 and 2022, respectively. Restricted cash consists of bank deposits that collateralize our debt obligations.

The following table provides a reconciliation of cash and cash equivalents in the consolidated balance sheets to cash, cash equivalents and restricted cash in the consolidated statements of cash flows:

	December 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 680,549	\$ 3,532,199
Long-term restricted cash included in other assets	97,600	—
Total cash, cash equivalents and restricted cash in the statements of cash flows	<u>\$ 778,149</u>	<u>\$ 3,532,199</u>

Accounts Receivable:

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a weekly basis. The Company determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions.

Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than thirty (30) days beyond terms. No interest is charged on overdue trade receivables.

Goodwill and Other Intangibles:

Goodwill - In connection with acquisitions, the Company applies the provisions of ASC 805, *Business Combinations*, using the acquisition method of accounting. The excess purchase price over the fair value of net tangible assets and identifiable intangible assets acquired is recorded as goodwill. In accordance with ASC 350, *Intangibles - Goodwill and Other*, the Company assesses goodwill for impairment annually as of December 31, and more frequently if events and circumstances indicate that goodwill might be impaired.

Goodwill impairment testing is performed at the reporting unit level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill.

Traditionally, goodwill impairment testing is a two-step process. Step one involves comparing the fair value of the reporting units to its carrying amount. If the carrying amount of a reporting unit is greater than zero and its fair value is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two involves calculating an implied fair value of goodwill. The Company has adopted ASU 2017-04 which simplifies subsequent goodwill measurement by eliminating step two from the goodwill impairment test. As a result, the Company compares the fair value of a reporting unit with its respective carrying value and recognizes an impairment charge for the amount by which the carrying amount exceeded the reporting unit's fair value.

The Company determines the fair value of its reporting units using the market approach. Under the market approach, we estimate the fair value based on multiples of comparable public companies and precedent transactions. Significant estimates in the market approach include: identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment, and assessing comparable revenue and operating income multiples in estimating the fair value of the reporting unit.

Long-lived and Other Intangible Assets - The Company periodically assesses potential impairments of its long-lived assets in accordance with the provisions of ASC 360, *Accounting for the Impairment or Disposal of Long-lived Assets*. An impairment review is performed whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The Company groups its assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of the other assets and liabilities. The Company has determined that the lowest level for which identifiable cash flows are available is the operating segment level.

Factors considered by the Company include, but are not limited to, significant underperformance relative to historical or projected operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; and significant negative industry or economic trends. When the carrying value of a long-lived asset may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company estimates the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows and eventual disposition is less than the carrying amount of the asset, the Company recognizes an impairment loss. An impairment loss is reflected as the amount by which the carrying amount of the asset exceeds the fair value of the asset, based on the fair value if available, or discounted cash flows, if fair value is not available. The Company assessed potential impairments of its long-lived assets as of December 31, 2023 and concluded that there was no impairment.

Long-lived assets such as property, plant and equipment and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party appraisals, as considered necessary.

Intangible assets include deferred patent costs and license agreements and intangibles related to acquisitions. Legal expenses incurred in preparation of patent application have been deferred and will be amortized over the useful life of granted patents. Costs incurred in preparation of applications that are not granted will be charged to expense at that time. The Company has entered into several sublicense agreements under which it has been assigned the exclusive rights to certain licensed materials used in its products. These sublicense agreements generally require upfront payments to obtain the exclusive rights to such material. The Company capitalizes the upfront payments as intangible assets and amortizes such costs over their estimated useful life on a straight-line method.

Inventories:

Inventories for the video solutions segment consist of electronic parts, circuitry boards, camera parts and ancillary parts (collectively, "components"), work-in-process and finished goods. Finished goods that are manufactured and assembled by the Company are carried at the lower of cost or net realizable value, with cost determined by standard cost methods, which approximate the first-in, first-out method. Inventory costs include material, labor and manufacturing overhead. Inventories for the entertainment segment consists of tickets to live events purchased, which are held at lower of cost or net realizable value, and written-off after the event has occurred. Event tickets for the entertainment segment are carried at lower of cost or net realizable value, and fully written off at the time the event occurs if the ticket is unsold and remaining in inventory after the completion of the event. Management has established inventory reserves based on estimates of excess and/or obsolete current inventory.

Manufacturing inventory for the video solutions segment is reviewed for obsolescence and excess quantities on a quarterly basis, based on estimated future use of quantities on hand, which is determined based on past usage, planned changes to products and known trends in markets and technology. Changes in support plans or technology could have a significant impact on obsolescence.

To support our world-wide service operations for the video solutions segment, we maintain service spare parts inventory, which consists of both consumable and repairable spare parts. Consumable service spare parts are used within our service business to replace worn or damaged parts in a system during a service call and are generally classified in current inventory as our stock of this inventory turns relatively quickly. However, if there has been no recent usage for a consumable service spare part, but the part is still necessary to support systems under service contracts, the part is considered to be non-current and included within non-current inventories within our consolidated balance sheet. Consumables are charged to cost of goods sold when issued during the service call.

As these service parts age over the related product group's post-production service life, we reduce the net carrying value of our repairable spare part inventory on the consolidated balance sheet to account for the excess that builds over the service life. The post-production service life of our systems is generally seven to twelve years and, at the end of twelve years, the carrying value for these parts in our consolidated balance sheet is reduced to zero. We also perform periodic monitoring of our installed base for premature end of service life events and expense, through cost of sales, the remaining net carrying value of any related spare parts inventory in the period incurred.

Property, plant and equipment:

Property, plant and equipment is stated at cost net of accumulated depreciation. Additions and improvements are capitalized while ordinary maintenance and repair expenditures are charged to expense as incurred. Depreciation is recorded by the straight-line method over the estimated useful life of the asset, which ranges from three to thirty years, other than the infinite useful life of land. Amortization expense on capitalized leases is included with depreciation expense. The cost and accumulated depreciation related to assets sold or retired are removed from the accounts and any gain or loss is credited or charged to income.

Leases:

The Company determines if an arrangement contains a lease at inception. For arrangements where the Company is the lessee, the Company will evaluate whether to account for the lease as an operating or finance lease. Operating leases are included in the right of use assets (ROU) and operating lease liabilities on the consolidated balance sheet as of December 31, 2023. Finance leases would be included in property, plant and equipment, net and long-term debt and finance lease obligations on the balance sheet. The Company had operating leases for copiers, offices and warehouse space at December 31, 2023 but no financing leases.

ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The Company uses its incremental borrowing rate based on the information available at the commencement date in determining the operating lease liabilities if the operating lease does not provide an implicit rate. Lease terms may include the option to extend when Company is reasonably certain that the option will be exercised. Lease expense for operating leases is recognized on a straight-line basis over the lease term.

The Company elected to apply the short-term lease measurement and recognition exemption in which ROU assets and lease liabilities are not recognized for short term leases.

Warranties:

The Company's video solutions segment products carry explicit product warranties that extend up to two years from the date of shipment. The Company records a provision for estimated warranty costs based upon historical warranty loss experience and periodically adjusts these provisions to reflect actual experience. Accrued warranty costs are included in accrued expenses. Extended warranties are offered on selected products and when a customer purchases an extended warranty the associated proceeds are treated as contract liabilities and recognized over the term of the extended warranty.

Shipping and Handling Costs:

Shipping and handling costs video solutions segment for outbound sales orders totaled \$51,061 and \$70,749 for the years ended December 31, 2023 and 2022, respectively. Such costs are included in selling, general and administrative expenses in the Consolidated Statements of Operations.

Advertising Costs:

Advertising expense video solutions segment and entertainment segments includes costs related to trade shows and conventions, promotional material and supplies, and media costs. Advertising costs are expensed in the period in which they are incurred. The Company incurred total advertising expenses of approximately \$5,773,965 and \$7,668,641 for the years ended December 31, 2023 and 2022, respectively. Such costs are included in selling, advertising and promotional expenses in the Consolidated Statements of Operations.

Income Taxes:

Deferred taxes are provided for by the liability method in which deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company applies the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 740 - Income Taxes that provides a framework for accounting for uncertainty in income taxes and provided a comprehensive model to recognize, measure, present, and disclose in its financial statements uncertain tax positions taken or expected to be taken on a tax return. It initially recognizes tax positions in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. Application requires numerous estimates based on available information. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, and it recognized tax positions and tax benefits may not accurately anticipate actual outcomes. As it obtains additional information, the Company may need to periodically adjust its recognized tax positions and tax benefits. These periodic adjustments may have a material impact on its Consolidated Statements of Operations.

The Company's policy is to record estimated interest and penalties related to the underpayment of income taxes as income tax expense in the Consolidated Statements of Operations. There was no interest expense related to the underpayment of estimated taxes during the years ended December 31, 2023 and 2022. There were no penalties in 2023 and 2022.

The Company is subject to taxation in the United States and various states. As of December 31, 2023, the Company's tax returns filed for 2020, 2021 and 2022 and to be filed for 2023 are subject to examination by the relevant taxing authorities. With a few exceptions, as of December 31, 2023, the Company is no longer subject to Federal, state, or local examinations by tax authorities for taxable years prior to 2020.

Research and Development Expenses:

The Company expenses all research and development costs as incurred, which is generally incurred by the video solutions segment. Development costs of computer software to be sold, leased, or otherwise marketed are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. In most instances, the Company's products are released soon after technological feasibility has been established. Costs incurred subsequent to achievement of technological feasibility were not significant, and software development costs were expensed as incurred during 2023 and 2022.

Warrant Derivative Liabilities:

In accordance with FASB ASC 815-40, Derivatives and Hedging: Contracts in an Entities Own Equity, entities must consider whether to classify contracts that may be settled in its own stock, such as warrants to purchase shares of Common Stock, as equity of the entity or as an asset or liability. If an event that is not within the entity's control could require net cash settlement, then the contract should be classified as an asset or a liability rather than as equity. We have determined because the terms of the warrants issued during the first quarter of 2021, and remain outstanding, include a provision that entitles all the warrant holders to receive cash for their warrants in the event of a qualifying cash tender offer, while only certain of the holders of the underlying shares of common stock would be entitled to cash, our warrants should be classified as liability measured at fair value, with changes in fair value each period reported in earnings. Volatility in the price of our common stock may result in significant changes in the value of the derivatives and resulting gains and losses on our statement of operations.

Stock-Based Compensation:

The Company grants stock-based compensation to its employees, board of directors and certain third-party contractors. Share-based compensation arrangements may include the issuance of options to purchase common stock in the future or the issuance of restricted stock, which generally are subject to vesting requirements. The Company records stock-based compensation expense for all stock-based compensation granted based on the grant-date fair value. The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award.

The Company estimates the grant-date fair value of stock-based compensation using the Black-Scholes valuation model. Assumptions used to estimate compensation expense are determined as follows:

- Expected term is determined using the contractual term and vesting period of the award;
- Expected volatility of award grants made in the Company's plan is measured using the weighted average of historical daily changes in the market price of the Company's common stock over the period equal to the expected term of the award;
- Expected dividend rate is determined based on expected dividends to be declared;
- Risk-free interest rate is equivalent to the implied yield on zero-coupon U.S. Treasury bonds with a maturity equal to the expected term of the awards; and
- Forfeitures are accounted for as they occur.

Segment Reporting

The accounting guidance on Segment Reporting establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in financial statements. Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision maker (the Company's Chief Executive Officer or "CODM") in making decisions on how to allocate resources and assess performance. The Company's three operating segments are Video Solutions, Revenue Cycle Management, and Entertainment, each of which has specific personnel responsible for that business and reports to the CODM. Corporate expenses capture the Company's corporate administrative activities, is also to be reported in the segment information. Therefore, its operations are eliminated in consolidation and is not considered a separate business segment for financial reporting purposes.

Contingent Consideration

In circumstances where an acquisition involves a contingent consideration arrangement that meets the definition of a liability under the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 480, Distinguishing Liabilities from Equity, the Company recognizes a liability equal to the fair value of the contingent payments the Company expects to make as of the acquisition date. The Company remeasures this liability each reporting period and records changes in the fair value through the consolidated statement of operations.

Repurchase and Cancellation of Shares

From time to time, the Board may authorize share repurchases of common stock. Shares repurchased under Board authorizations are held in treasury for general corporate purposes and cancelled when it is determined appropriate by management. The Company accounts for repurchases of common stock under the cost method. Shares repurchased and cancelled during the period were recorded as a reduction to stockholders’ equity. See further discussion of the Company’s share repurchase program in Note 18–Stockholders’ Equity.

Non-Controlling Interests

Non-controlling interests in the Company’s Consolidated Financial Statements represent the interest in subsidiaries held by venture partners. The venture partners hold noncontrolling interests in the Company’s consolidated subsidiary Nobility Healthcare, LLC. Since the Company consolidates the financial statements of all wholly-owned and majority owned subsidiaries, the noncontrolling owners’ share of each subsidiary’s results of operations are deducted and reported as net income attributable to noncontrolling interest in the Consolidated Statements of Operations.

Redeemable Preferred Stock

Preferred stock may be classified as a liability, temporary equity (i.e., mezzanine equity) or permanent equity. In order to determine the appropriate classification, an evaluation of the cash redemption features is required. Where there exists an absolute right of redemption presently or in the future, the preferred stock would be classified as a liability. If redemption is contingently redeemable upon the occurrence of an event that is outside of the issuer’s control, it should be classified as mezzanine equity. The probability that the redemption event will occur is irrelevant. If no redemption features exist, or if a contingent redemption feature is within the Company’s control, the preferred stock would be considered equity.

Lease Receivable

Lease receivable are carried at the original invoice amount less the total payments received pertaining to each individual customer’s lease agreement. These agreements range from three to five years and are removed from lease receivables upon termination of the agreement. The Company determines if an allowance for doubtful accounts by regularly evaluating individual customer lease receivables and considering a customer’s financial condition, credit history, and current economic conditions. No allowance was deemed necessary for the year ended December 31, 2023.

Notes Receivable

Notes receivable are carried at the original note amount less an estimate made for doubtful receivables based on a review of all outstanding notes on a quarterly basis. The Company determines the allowance for doubtful accounts by regularly evaluating each note receivable and considering the borrower’s financial condition, credit history, and current economic conditions. The Company entered into a promissory note, through its entertainment segment, as part of a co-marketing agreement, with a principal amount of \$3,000,000. Principal payment, since its inception, on this promissory note totaled \$2,849,846 as of December 31, 2023, resulting in a remaining balance of \$150,154 maturing December 31, 2023.

New Accounting Standards

In November 2023, the FASB issued Accounting Standards Update No. 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures” (“ASU 2023-07”), which is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The guidance is to be applied retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. We are currently evaluating the potential impact of adopting this new guidance on our consolidated financial statements and related disclosures.

In December 2023, the FASB issued Accounting Standards Update No. 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures” (“ASU 2023-09”), which modifies the rules on income tax disclosures to require entities to disclose (1) specific categories in the rate reconciliation, (2) the income or loss from continuing operations before income tax expense or benefit (separated between domestic and foreign) and (3) income tax expense or benefit from continuing operations (separated by federal, state and foreign). ASU 2023-09 also requires entities to disclose their income tax payments to international, federal, state and local jurisdictions, among other changes. The guidance is effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. ASU 2023-09 should be applied on a prospective basis, but retrospective application is permitted. We are currently evaluating the potential impact of adopting this new guidance on our consolidated financial statements and related disclosures.

Going Concern Matters and Management’s Plans

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred substantial operating losses in the years ended December 31, 2023 and December 31, 2022 primarily due to reduced gross margins caused by a combination of competitors’ introduction of newer products with more advanced features together with significant price cutting of their products and the recent acquisitions with much smaller margins than the video solutions segment, historically. The Company incurred operating losses of approximately \$22.2 million for the year ended December 31, 2023 and \$29.7 million during the year ended December 31, 2022 and it had an accumulated deficit of \$117.7 million as of December 31, 2023. These matters raise substantial doubt about Company’s ability to continue as a going concern. In recent years the Company has accessed the public and private capital markets to raise funding through the issuance of debt and equity. In that regard, the Company raised approximately \$66.6 million in the year ended December 31, 2021 through two underwritten public offerings. These equity raises were utilized to fund its operations and acquisitions. Management expects to continue this pattern until it achieves positive cash flows from operations, although it can offer no assurance in this regard.

The Company will have to restore positive operating cash flows and profitability over the next year and/or raise additional capital to fund its operational plans, meet its customary payment obligations and otherwise execute its business plan. There can be no assurance that it will be successful in restoring positive cash flows and profitability, or that it can raise additional financing when needed, and obtain it on terms acceptable or favorable to the Company.

The Company has increased its contract liabilities to nearly \$10.3 million as of December 31, 2023, which results in recurring revenue during the period of 2023 to 2026. The Company believes that its quality control and cost cutting initiatives, expansion to non-law enforcement sales channels and new product introduction will eventually restore positive operating cash flows and profitability, although it can offer no assurances in this regard.

The Company has significantly cut costs in its entertainment segment through the removal of several large partnerships and sponsorships. These were not yielding the results management expected; thus, it is not expected that these costs will significantly hinder total revenues in 2024 and beyond.

In addition to the initiatives described above, the Board of Directors is conducting a review of a full range of strategic alternatives to best position the Company for the future including, but not limited to, the sale of all or certain assets, properties or groups of properties or individual businesses or merger or combination with another company. The result of this review may also include the continued implementation of the Company’s business plan. There can be no assurance that any additional transactions or financings will result from this process.

In that regard, the Company, entered into an Agreement and Plan of Merger with Clover Leaf Capital Corp., with a focus and mission to own and produce events, festivals, and entertainment alongside its evolving primary and secondary ticketing technologies. Pursuant to the Merger Agreement, the entertainment segment will become a separate publicly traded Company while the video and revenue cycle management segments will be retained by Digital Ally, Inc.

Based on the uncertainties described above, the Company believes its business plan does not alleviate the existence of substantial doubt about its ability to continue as a going concern within one year from the date of the issuance of these consolidated financial statements. The accompanying consolidated financial statements do not include any adjustments related to the recoverability and classification of asset amounts or the classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 2. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

Financial instruments that potentially subject the Company to concentrations of credit risk consist of accounts receivable. Sales to domestic customers are typically made on credit and the Company generally does not require collateral while sales to international customers require payment before shipment or backing by an irrevocable letter of credit. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for estimated losses. Accounts are written off when deemed uncollectible and accounts receivable are presented net of an allowance for doubtful accounts. The allowance for doubtful accounts totaled \$200,668 as of December 31, 2023 and \$152,736 as of December 31, 2022.

The Company maintains its cash and cash equivalents in banks insured by the Federal Deposit Insurance Corporation (FDIC) in accounts that at times may be in excess of the federally insured limit of \$250,000 per bank. The Company minimizes this risk by placing its cash deposits with major financial institutions. At December 31, 2023 and 2022, the uninsured balance amounted to \$29,700 and \$2,495,189, respectively. The Company uses primarily a network of unaffiliated distributors for international sales and an employee-based direct sales force for domestic sales. No international distributor individually exceeded 10% of total revenues. No one individual customer receivable balance exceeded 10% of total accounts receivable as of December 31, 2023.

The Company's video solutions segment purchases finished circuit boards and other proprietary component parts from suppliers located in the United States and on a limited basis from Asia. Although the Company obtains certain of these components from single source suppliers, it generally owns all tooling and management has located alternative suppliers to reduce the risk in most cases to supplier problems that could result in significant production delays. The Company has not historically experienced significant supply disruptions from any of its principal vendors and does not anticipate future supply disruptions. The Company acquires most of its components on a purchase order basis and does not have long-term contracts with its suppliers.

NOTE 3. ACCOUNTS RECEIVABLE – ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts receivable was comprised of the following for the years ended December 31, 2023 and 2022:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Beginning balance	\$ 152,736	\$ 113,234
Provision for bad debts	84,446	126,018
Charge-offs to allowance, net of recoveries	(36,514)	(86,516)
Ending balance	<u>\$ 200,668</u>	<u>\$ 152,736</u>

NOTE 4. OTHER RECEIVABLES

Other receivables were the following at December 31, 2023 and December 31, 2022:

	December 31, 2023	December 31, 2022
Notes receivable	\$ 150,154	\$ 1,598,340
Lease receivable, net	2,940,261	2,339,799
Other	17,219	138,383
Total other receivables	<u>\$ 3,107,634</u>	<u>\$ 4,076,522</u>

Notes receivable decreased by over \$1.4 million at December 31, 2023 compared to December 31, 2022, primarily due to payments on a note receivable issued by the Company during 2022. The Company entered into a promissory note, through its entertainment segment, as part of a co-marketing agreement, with a principal amount of \$3,000,000. Principal payment, since its inception, on this promissory note totaled \$2,849,846 as of December 31, 2023, resulting in a remaining balance of \$150,154 maturing December 31, 2023. Lease receivable increased by \$0.6 million primarily due to increased sales under the Company's subscription model during 2023. The Company determines if an allowance for doubtful accounts by regularly evaluating notes receivable and individual customer lease receivables, by considering a customer's financial condition, credit history, and current economic conditions. The Company recorded an allowance of \$5,000 and \$0- for the years ended December 31, 2023 and 2022. Other receivables relate to a related party receivable further described in Note 19.

NOTE 5. INVENTORIES

Inventories consisted of the following at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Raw material and component parts– video solutions segment	\$ 3,044,653	\$ 4,509,165
Work-in-process– video solutions segment	20,396	3,164
Finished goods – video solutions segment	4,623,489	6,846,091
Finished goods – entertainment segment	699,204	970,527
Subtotal	<u>8,387,742</u>	<u>12,328,947</u>
Reserve for excess and obsolete inventory– video solutions segment	(4,355,666)	(5,230,261)
Reserve for excess and obsolete inventory – entertainment segment	(186,795)	(259,280)
Total inventories	<u>\$ 3,845,281</u>	<u>\$ 6,839,406</u>

Finished goods inventory includes units held by potential customers and sales agents for test and evaluation purposes. The cost of such units totaled \$42,797 and \$171,071 as of December 31, 2023 and 2022, respectively.

NOTE 6. PREPAID EXPENSES

Prepaid expenses were the following at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Prepaid inventory	\$ 5,318,939	\$ 6,110,321
Prepaid advertising	612,292	1,931,628
Other	435,137	424,464
Total prepaid expenses	<u>\$ 6,366,368</u>	<u>\$ 8,466,413</u>

Prepaid expenses decreased by approximately \$2.1 million primarily due to a decline in prepaid inventory purchases and advertising in 2023.

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2023 and 2022:

	Estimated Useful Life	December 31, 2023	December 31, 2022
Building	25 years	\$ 4,537,037	\$ 4,537,037
Land	Infinite	739,734	739,734
Office furniture, fixtures, equipment, and aircraft	3-20 years	2,065,092	2,048,169
Warehouse and production equipment	3-7 years	29,055	51,302
Demonstration and tradeshow equipment	3-7 years	87,987	72,341
Building improvements	5-7 years	1,328,654	1,334,374
Total cost		8,787,559	8,782,957
Less: accumulated depreciation and amortization		(1,503,857)	(884,271)
Net property, plant and equipment		<u>\$ 7,283,702</u>	<u>\$ 7,898,686</u>

Depreciation and amortization of property, plant and equipment aggregated \$711,103 and \$614,121 for the years ended December 31, 2023 and 2022, respectively. The cost and accumulated depreciation related to assets sold or retired are removed from the accounts and any gain or loss is credited or charged to income. The Company retired fixed assets during 2023 totaling \$89,562 resulting in no gain or loss for the year ended December 31, 2023 on the Company's Consolidated Statement of Operations. The Company retired fixed assets during 2022 totaling \$549,104 resulting in a gain on sale of assets of \$212,831 for the year ended December 31, 2022 on the Company's Consolidated Statement of Operations.

NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consisted of the following at December 31, 2023 and 2022:

	December 31, 2023			December 31, 2022		
	Gross value	Accumulated amortization	Net carrying value	Gross value	Accumulated amortization	Net carrying value
Amortized intangible assets:						
Licenses (video solutions segment)	\$ 225,545	\$ 89,887	\$ 135,658	\$ 211,183	\$ 80,378	\$ 130,805
Patents and trademarks (video solutions segment)	483,521	266,403	217,118	472,077	305,021	167,056
Sponsorship agreement network (entertainment segment)	5,600,000	2,613,333	2,986,667	5,600,000	1,493,333	4,106,667
SEO content (entertainment segment)	600,000	350,000	250,000	600,000	200,000	400,000
Personal seat licenses (entertainment segment)	180,081	14,004	166,077	180,081	8,001	172,080
Website enhancements (entertainment segment)	13,500	—	13,500	—	—	—
Client agreements (revenue cycle management segments)	999,034	226,768	772,266	999,034	126,864	872,170
	<u>8,101,681</u>	<u>3,560,395</u>	<u>4,541,286</u>	<u>8,062,375</u>	<u>2,213,597</u>	<u>5,848,778</u>
Indefinite life intangible assets:						
Goodwill (entertainment and revenue cycle management segments)	11,367,514	—	11,367,514	11,367,514	—	11,367,514
Trade name (entertainment segment)	600,000	—	600,000	600,000	—	600,000
Patents and trademarks pending (video solutions segment)	1,622	—	1,622	56,678	—	56,678
Total	<u>\$20,070,817</u>	<u>\$ 3,560,395</u>	<u>\$16,510,422</u>	<u>\$20,086,567</u>	<u>\$ 2,213,597</u>	<u>\$17,872,970</u>

Patents and trademarks pending will be amortized beginning at the time they are issued by the appropriate authorities. If issuance of the final patent or trademark is denied, then the amount deferred will be immediately charged to expense.

Amortization expense for the years ended December 31, 2023 and 2022 was \$1,507,134 and \$1,562,558, respectively. Estimated amortization for intangible assets with definite lives for the next five years ending December 31, 2023, and thereafter is as follows:

	Year ending December 31:
2024	\$ 1,502,013
2025	1,409,517
2026	904,979
2027	112,965
2028 and thereafter	611,810
	<u>\$ 4,541,284</u>

NOTE 9. OTHER ASSETS

Other assets were the following at December 31, 2023 and December 31, 2022:

	December 31, 2023	December 31, 2022
Lease receivable	\$ 6,095,050	\$ 4,700,923
Sponsorship network	—	116,828
Restricted Cash	97,600	—
Other	404,382	337,930
Total other assets	<u>\$ 6,597,032</u>	<u>\$ 5,155,681</u>

NOTE 10. DEBT OBLIGATIONS

Debt obligations is comprised of the following:

	December 31, 2023	December 31, 2022
Economic injury disaster loan (EIDL)	\$ 147,781	\$ 150,000
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	129,651	388,955
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	58,819	176,456
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	—	208,083
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	—	4,346
Revolving Loan Agreement	4,880,000	—
Commercial Extension of Credit- Entertainment Segment	87,928	—
Merchant Advances	1,350,000	—
Unamortized debt issuance costs	(540,429)	—
Debt obligations	<u>6,113,750</u>	<u>927,840</u>
Less: current maturities of debt obligations	1,260,513	485,373
Debt obligations, long-term	<u>\$ 4,853,237</u>	<u>\$ 442,467</u>

Debt obligations mature as follows as of December 31, 2023:

	December 31, 2023
2024	\$ 1,260,513
2025	4,712,154
2026	3,542
2027	3,677
2028 and thereafter	133,864
Total	\$ 6,113,750

2020 Small Business Administration Notes.

On May 12, 2020, the Company received \$150,000 in loan funding from the SBA under the EIDL program administered by the SBA, which program was expanded pursuant to the recently enacted CARES Act. The EIDL is evidenced by an unsecured promissory note, dated May 8, 2020, in the original principal amount of \$150,000 with the SBA, the lender.

Under the terms of the note issued under the EIDL program, interest accrues on the outstanding principal at the rate of 3.75% per annum. The term of such note is thirty years, though it may be payable sooner upon an event of default under such note. Monthly principal and interest payments began in November 2022, after being deferred for thirty months after the date of disbursement and total \$731.00 per month thereafter. Such note may be prepaid in part or in full, at any time, without penalty. The Company granted the secured party a continuing interest in and to any and all collateral, including but not limited to tangible and intangible personal property.

The Company made principal payments of \$2,219 and \$-0- for the years ended December 31, 2023 and 2022 and recorded interest expense of \$5,606 in 2023.

Contingent Consideration Promissory Notes

On June 30, 2021, Nobility Healthcare, a subsidiary of the Company, issued a contingent consideration promissory note (the "June Contingent Note") in connection with a stock purchase agreement between Nobility Healthcare and a private company (the "June Seller") of \$350,000. The Contingent Note has a three-year term and bears interest at a rate of 3.00% per annum. Quarterly principal and interest payments are deferred for six months and is due in equal quarterly installments on the seventh business day of each quarter. The principal amount of the June Contingent Note is subject to an earn-out adjustment, being the difference between the \$975,000 (the "June Projected Revenue") and the cash basis revenue (the "June Measurement Period Revenue") collected by the June Seller in its normal course of business from the clients existing on June 30, 2021, during the period from October 1, 2021 through September 30, 2022 (the "June Measurement Period") measured on a quarterly basis and annualized as of the relevant period. If the June Measurement Period Revenue is less than the June Projected Revenue, such amount will be subtracted from the principal balance of this June Contingent Note on a dollar-for-dollar basis. If the June Measurement Period Revenue is more than the June Projected Revenue, such amount will be added to the principal balance of this June Contingent Note on a dollar-for-dollar basis. In no event will the principal balance of this June Contingent Note become a negative number. The maximum downward earn-out adjustment to the principal balance will be to zero. There are no limits to the increases to the principal balance of the June Contingent Note as a result of the earn-out adjustments.

The June Contingent Payment Note is considered to be additional purchase price, therefore the estimated fair value of the contingent liability is recorded as a liability at the acquisition date and the fair value is considered part of the consideration paid for the acquisition. Management has recorded the contingent consideration promissory note at its estimated fair value of \$350,000 at the acquisition date. Principal payments, since its inception, on this contingent consideration promissory note totaled \$232,134. The estimated fair value of the June Contingent Note at December 31, 2023 is \$58,819, representing a decrease in its estimated fair value of \$117,637 as compared to its estimated fair value as of December 31, 2022. This reduction only relates to the principal payments made for the year ended December 31, 2023. Therefore, the Company recorded a gain of \$-0- and \$27,139 in the Consolidated Statements of Operations for the years ended December 31, 2023 and December 31, 2022, respectively.

On August 31, 2021, Nobility Healthcare, issued another contingent consideration promissory note (the “August Contingent Payment Note”) in connection with a stock purchase agreement between Nobility Healthcare and a private company (the “August Sellers”) of \$650,000. The August Contingent Payment Note has a three-year term and bears interest at a rate of 3.00% per annum. Quarterly principal and interest payments are deferred for six months and is due in equal quarterly installments on the seventh business day of each quarter. The principal amount of the August Contingent Payment Note is subject to an earn-out adjustment, being the difference between the \$3,000,000 (the “August Projected Revenue”) and the cash basis revenue (the “August Measurement Period Revenue”) collected by the August Sellers in its normal course of business from the clients existing on September 1, 2021, during the period from December 1, 2021 through November 30, 2022 (the “August Measurement Period”) measured on a quarterly basis and annualized as of the relevant period. If the August Measurement Period Revenue is less than the August Projected Revenue, such amount will be subtracted from the principal balance of this August Contingent Payment Note on a dollar-for-dollar basis. If the August Measurement Period Revenue is more than the August Projected Revenue, such amount will be added to the principal balance of this August Contingent Payment Note on a dollar-for-dollar basis. In no event will the principal balance of this August Contingent Payment Note become a negative number. The maximum downward earn-out adjustment to the principal balance will be to zero. There are no limits to the increases to the principal balance of the August Contingent Payment Note as a result of the earn-out adjustments.

The August Contingent Payment Note is considered to be additional purchase price, therefore the estimated fair value of the contingent liability is recorded as a liability at the acquisition date and the fair value is considered part of the consideration paid for the acquisition. Management has recorded the contingent consideration promissory note at its estimated fair value of \$650,000 at the acquisition date. Principal payments, since its inception, on this contingent consideration promissory note totaled \$552,256. The estimated fair value of the August Contingent Note at December 31, 2023 is \$129,651, representing a decrease in its estimated fair value of \$259,303 as compared to its estimated fair value as of December 31, 2022. This reduction only relates to the principal payments made for the year ended December 31, 2023. Therefore, the Company recorded a loss of \$-0- and \$31,907 in the Consolidated Statements of Operations for the years ended December 31, 2023 and December 31, 2022, respectively.

On January 1, 2022, Nobility Healthcare issued another contingent consideration promissory note (the “January Contingent Payment Note”) in connection with a stock purchase agreement between Nobility Healthcare and a private company (the “January Sellers”) of \$750,000. The January Contingent Payment Note has a two-and-a-half-year term and bears interest at a rate of 3.00% per annum. Quarterly principal and interest payments are deferred for seven months and is due in equal quarterly installments on the tenth business day of each quarter. The principal amount of the January Contingent Payment Note is subject to an earn-out adjustment, being the difference between \$3,500,000 (the “January Projected Revenue”) and the cash basis revenue (the “January Measurement Period Revenue”) collected by the January Sellers in its normal course of business from the clients existing on January 1, 2022, during the period from April 1, 2022 through March 31, 2023 (the “January Measurement Period”) measured on a quarterly basis and annualized as of the relevant period. If the January Measurement Period Revenue is less than the January Projected Revenue, such amount will be subtracted from the principal balance of this January Contingent Payment Note on a dollar-for-dollar basis. If the January Measurement Period Revenue is more than the January Projected Revenue, such amount will be added to the principal balance of this January Contingent Payment Note on a dollar-for-dollar basis. In no event will the principal balance of this January Contingent Payment Note become a negative number. The maximum downward earn-out adjustment to the principal balance will be a reduction to zero. There are no limits to the increases to the principal balance of the January Contingent Payment Note as a result of the earn-out adjustments.

On January 1, 2022, Nobility Healthcare issued another contingent consideration promissory note (the “January Contingent Payment Note”) in connection with a stock purchase agreement between Nobility Healthcare and a private company (the “January Sellers”) of \$750,000. Principal payments, since its inception, on this contingent consideration promissory note totaled \$153,769. The estimated fair value of the January Contingent Note at December 31, 2023 is \$-0-, representing a decrease in its estimated fair value of \$208,083 as compared to its estimated fair value as of December 31, 2022, of which \$32,936 represents payments made during the year ended December 31, 2023. Therefore, the Company recorded a gain of \$175,146 and \$421,085 in the Consolidated Statements of Operations for the years ended December 31, 2023 and December 31, 2022, respectively.

On February 1, 2022, Nobility Healthcare issued another contingent consideration promissory note (the “February Contingent Payment Note”) in connection with an asset purchase agreement between Nobility Healthcare and a private company (the “February Sellers”) of \$105,000. The February Contingent Payment Note has a three-year term and bears interest at a rate of 3.00% per annum. Quarterly principal and interest payments are deferred for seven months and are due in equal quarterly installments on the tenth business day of each quarter. The principal amount of the February Contingent Payment Note is subject to an earn-out adjustment, being the difference between \$440,000 (the “February Projected Revenue”) and the cash basis revenue (the “February Measurement Period Revenue”) collected by the February Sellers in its normal course of business from the clients existing on February 1, 2022, during the period from May 1, 2022 through April 30, 2023 (the “February Measurement Period”) measured on a quarterly basis and annualized as of the relevant period. If the February Measurement Period Revenue is less than the February Projected Revenue, such amount will be subtracted from the principal balance of this February Contingent Payment Note on a dollar-for-dollar basis. If the February Measurement Period Revenue is more than the February Projected Revenue, such amount will be added to the principal balance of this February Contingent Payment Note on a dollar-for-dollar basis. In no event will the principal balance of this February Contingent Payment Note become a negative number. The maximum downward earn-out adjustment to the principal balance will be a reduction to zero. There are no limits to the increases to the principal balance of the February Contingent Payment Note as a result of the earn-out adjustments.

The February Contingent Payment Note is considered to be additional purchase price, therefore the estimated fair value of the contingent liability is recorded as a liability at the acquisition date and the fair value is considered part of the consideration paid for the acquisition. Management has recorded the contingent consideration promissory note at its estimated fair value of \$105,000 at the acquisition date. The estimated fair value of the February Contingent Note at December 31, 2023 is \$-0-, representing a decrease in its estimated fair value of \$4,347 as compared to its estimated fair value as of December 31, 2022, of which \$1,584 represents payments made during the year ended December 31, 2023. Therefore, the Company recorded a gain of \$2,763 and \$100,654 in the Consolidated Statements of Operations for the years ended December 31, 2023 and 2022, respectively.

Contingent consideration earn-out Agreement – TicketSmarter Acquisition

On September 1, 2021, TicketSmarter, Inc., a subsidiary of the Company, issued a contingent consideration earn-out agreement (the “TicketSmarter Earn-Out”) in connection with the Stock Purchase Agreement between TicketSmarter, Inc., Goody Tickets, LLC and TicketSmarter, LLC (“TicketSmarter”) of up to \$4,244,400 with a fair value at acquisition of \$3,700,000. The TicketSmarter Earn-Out shall be payable with ninety percent (90%) readily available funds and ten percent (10%) in stock consideration. The principal amount of the TicketSmarter Earn-Out is subject to an earn-out adjustment, being the difference between the \$2,896,829 (the “Projected EBITDA”) and the actual EBITDA (the “Measurement Period EBITDA”) generated by TicketSmarter in its normal course of business, during the period from September 1, 2021 through December 31, 2021 (the “Measurement Period”). If the Measurement Period EBITDA is less than seventy percent (70%) of the Projected EBITDA, there will be zero contingent payment. If the Measurement Period EBITDA is between seventy percent (70%) and one hundred percent (100%) of the Projected EBITDA, then a fractional amount of the contingent payment will be paid out. If the Measurement Period EBITDA is more than the Projected EBITDA, the full principal balance of this TicketSmarter Earn-Out will be paid out. In no event will the principal balance of this TicketSmarter Earn-Out become a negative number. The maximum downward earn-out adjustment to the earn-out balance will be to reduce the balance to zero.

The contingent consideration earn-out is considered to be additional purchase price, therefore the estimated fair value of the contingent liability is recorded as a liability at the acquisition date and the fair value is considered part of the consideration paid for the acquisition. Management has recorded the contingent consideration earn-out at its estimated fair value of \$3,700,000 at the acquisition date. Management determined that the actual Measurement Period EBITDA generated by TicketSmarter was less than 70% of the Projected EBITDA threshold. Therefore, no TicketSmarter Earn-Out payments amounts were due under the agreement. Therefore, the fair value of the contingent consideration earn-out agreement was reduced to zero, and the resulting gain of \$-0- and \$-0- was reported in our Consolidated Statements of Operations for the years ended December 31, 2023 and December 31, 2022, respectively.

2023 Commercial Extension of Credit

On February 23, 2023, the Company's Entertainment segment entered into an extension of credit in the form of a loan to use in marketing and operating its business in accordance with the Private Label Agreement previously entered into with the Lender. The Lender agreed to extend, subject to the conditions hereof, and Borrower agreed to take, a Loan for Principal Sum of \$1,000,000.

Lender shall retain 25% of each remittance owed to Borrower under the terms of the Private Label Agreement. Such remittances shall include regular weekly remittances and any additional incentive payments to which the Borrower may be entitled. The 25% withholding of the Borrower's applicable remittance shall be deemed a "Payment" under the terms of this Note, and Payments shall continue until the earlier of (i) repayment of the Principal Sum, accrued Interest, and a fee of \$35,000.00 or (ii) expiration of the Private Label Agreement on December 31, 2023.

During the year ended December 31, 2023, the Entertainment segment drew an additional \$455,643 on this agreement, with the principal balance never exceeding \$1,000,000. During the year ended December 31, 2023, the Company's Entertainment segment had repaid \$1,367,715 towards the principal on the loan through remittances and had an outstanding balance of \$87,928.

Convertible Note

On April 5, 2023, the Company entered into and consummated the initial closing (the "First Closing") of the transactions contemplated by a Securities Purchase Agreement, dated as of April 5, 2023 (the "Purchase Agreement"), between the Company and certain investors (the "Purchasers").

At the First Closing, the Company issued and sold to the Purchasers Senior Secured Convertible Notes in the aggregate original principal amount of \$3,000,000 (the "Notes") and warrants (the "Warrants"). The Purchase Agreement provided for a ten percent (10%) original interest discount resulting in gross proceeds to the Company of \$2,700,000. No interest accrues under the Notes. The Warrants are exercisable for an aggregate 1,125,000 shares comprised of 375,000 warrants at an exercise price of \$5.50 per share of the Company's common stock, par value \$0.001 (the "Common Stock"), 375,000 warrants at an exercise price of \$6.50 per share of Common Stock, and 375,000 warrants at an exercise price of \$7.50 per share of Common Stock.

Subject to certain conditions, within 18 months from the effectiveness date and while the Notes remain outstanding, the Purchasers have the right to require the Company to consummate a second closing of up to an additional \$3,000,000 of Notes (the "Second Notes") and Warrants on the same terms and conditions as the First Closing, except that the Second Notes may be subordinate to a mortgage on the Company's headquarters building (the "Bank Mortgage").

The Notes are convertible into shares of Common Stock at the election of the Purchasers at any time at a fixed conversion price of \$5.00 (the "Conversion Price") per share of Common Stock. The Conversion Price is subject to customary adjustments for stock dividends, stock splits, reclassifications and the like, and subject to price-based adjustment in the event of any issuances of Common Stock, or securities convertible, exercisable or exchangeable for, Common Stock at a price below the then-applicable Conversion Price (subject to certain exceptions). Subject to certain conditions, including certain equity conditions, the Company may redeem some or all of the then outstanding principal amount of the Note for cash in an amount equal to 110% of the outstanding principal amount of the Notes (the "Optional Redemption Amount"). In addition, the Purchasers may, at their option, demand repayment at the Optional Redemption Amount upon five (5) business days' written notice following (i) the closing by the Company of the Bank Mortgage, or (ii) a sale by the Company of Common Stock or Common Stock equivalents.

The Notes rank senior to all outstanding and future indebtedness of the Company and its subsidiaries, and are secured by substantially all of the Company's assets, as evidenced by (i) a security agreement entered into at the Closing, (ii) a trademark security agreement entered into at the Closing, (iii) a patent security agreement entered into at the Closing, (iv) a guaranty executed by all direct and indirect subsidiaries of the Company pursuant to which each of them has agreed to guaranty the obligations of the Company under the Notes, and (v) a mortgage on the Company's headquarters building in favor of the Purchasers.

Also at the Closing, the Company entered into a Registration Rights Agreement (the "Registration Rights Agreement") with the Purchasers. Pursuant to the terms of the Registration Rights Agreement, the Company has agreed to prepare and file with the SEC within the 10th business day following the First Closing (the "Filing Date") a registration statement covering the resale of the shares of Common Stock issuable upon conversion of the Notes and exercise of the Warrants, and to use its best efforts to cause such Registration Statement to be declared effective under the Securities Act of 1933, as amended (the "Securities Act"), as promptly as possible, but in any event no later than 45 days following the Filing Date (the "Effectiveness Date"). If the Registration Statement is not filed by the Filing Date or is not declared effective by the Effectiveness Date, or under certain other circumstances described in the Registration Rights Agreement, then the Company shall be obligated to pay, as partial liquidated damages, to each Purchaser an amount in cash equal to 2% of the original principal amount of the Notes each month until the applicable event giving rise to such payments is cured. If the Company fails to pay any partial liquidated damages in full within seven days after the date payable, the Company will pay interest thereon at a rate of 10% per annum.

The Company recognized the full warrant derivative value, with the remaining amount being allocated to the debt obligation. As the warrant derivative value exceeded the net proceeds from the issuance, the excess amount is recognized as a loss on the date of the issue date. Thus, the Company recorded a loss of \$576,380 as an interest expense on the date of issuance relating to the Convertible note. The following is the assumptions used in calculating the estimated grant-date fair value of the detachable warrants to purchase common stock granted in connection with the Convertible Note:

	Terms at April 5, 2023 (issuance date)
Volatility - range	106.0%
Risk-free rate	3.36%
Dividend	0%
Remaining contractual term	5.0 years
Exercise price	\$ 5.50 – 7.50
Common stock issuable under the warrants	1,125,000

On June 2, 2023, the Purchasers elected to convert \$125,000 principal, at the fixed price of \$5.00 per share of common stock, 25,000 shares valued at \$119,750. The loss on conversion of convertible note into common shares, of \$93,386, was recorded during the period.

On October 26, 2023, the Company entered into a Revolving Loan Agreement of which a portion of the net proceeds were used to repay the principal amount of the Convertible debt. The Company made an aggregate payment of \$3,162,500 from the proceeds, inclusive of fees to retire the convertible notes. In 2023, the Company amortized \$2,169,545 in debt issuance costs associated with the convertible notes and expensed the remaining balance of \$731,819 upon extinguishment of the notes. As a result a loss on extinguishment of debt totaling \$1,019,319 was recorded in our Consolidated Statements of Operations for the year ended December 31, 2023. The warrants associated with the convertible debt remain outstanding.

Revolving Loan Agreement

On October 26, 2023, the Company entered into a Loan and Security Agreement (the "Loan Agreement") by and between the Company, Digital Ally Healthcare, Inc., a Nevada corporation and wholly-owned subsidiary of the Company ("Digital Ally Healthcare" and, together with the Company, the "Borrower"), and Kompass Kapital Funding, LLC, a Kansas limited liability company ("Kompass"). In connection with the Loan Agreement, on October 26, 2023, the Company entered into a Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing (the "Mortgage") by and between the Company, as grantor, and Kompass, as grantee, and issued a Revolving Note (the "Revolving Note") to Kompass. The gross proceeds to the Company are \$4,880,000 before repaying those certain Senior Secured Convertible Notes issued on April 5, 2023 in the aggregate amount of \$3,162,500 and paying customary fees and expenses.

Pursuant to the Loan Agreement, Kompass agreed to make revolving loans (the “Revolving Loans”) available to the Borrower as the Borrower may from time to time request until, but not including, October 26, 2025, and in such amounts as the Borrower may from time to time request, provided, however, that the aggregate principal balance of the Revolving Loans outstanding at any time shall not exceed the lesser of \$4,880,000.00 or an amount equal to eighty percent of the value of the mortgaged property, which consists of the real property owned by the Company having an address of 14001 Marshall Drive, Lenexa, KS 66215 (the “Mortgaged Property”). Under the Loan Agreement, the Revolving Loans made by Kompass may be repaid and, subject to customary terms and conditions, borrowed again up to, but not including October 26, 2025, unless the Revolving Loans are otherwise accelerated, terminated or extended as provided in the Loan Agreement. The Revolving Loans shall be used by the Borrower for the purpose of working capital and to retire existing debt. Under the Loan Agreement, the Borrower is required to provide written notice to Kompass prior to creating, assuming or incurring any debt or becoming liable, whether as endorser, guarantor, surety or otherwise, for any debt or obligation of any other party. While obligations remain outstanding under the Loan Agreement, the Borrower is required to maintain a minimum balance of \$97,600 in a reserve account (the “Capital Reserve Account”). Under the Loan Agreement, the Borrower is prohibited from creating, assuming, incurring or suffering or permitting to exist any lien of any kind or character upon the collateral, which consists of the Mortgaged Property and the Company’s interest in the Capital Reserve Account. The Loan Agreement contains customary covenants, representations and warranties by the Borrower.

Pursuant to the Loan Agreement, the Company issued the Revolving Note to Kompass whereby the Company and Digital Ally Healthcare jointly and severally promise to pay to the order of Kompass the lesser of (i) \$4,880,000.00, or (ii) the aggregate principal amount of all Revolving Loans outstanding under and pursuant to the Loan Agreement at the maturity or maturities and in the amount or amounts stated on the records of Kompass, together with interest (computed on the actual number of days elapsed on the basis of a 360 day year) at a floating per annum rate equal to the greater of (i) the Prime Rate plus four percent or (ii) eight percent, on the aggregate principal amount of all Revolving Loans outstanding from time to time as provided in the Loan Agreement.

The Company entered into the Mortgage to secure its obligations under the Loan Agreement. The property mortgaged under the Mortgage consists of the Mortgaged Property. The Mortgage contains customary covenants, representations and warranties by the Company. In addition, the Company recorded debt issuance costs of \$188,255. During the year ended December 31, 2023, the Company amortized \$16,997 of debt discount under interest expense, compared to \$-0- for the year ended December 31, 2022.

Merchant Cash Advances

In November 2023, the Company obtained a short-term merchant advance, which totaled \$1,050,000, from a single lender to fund operations. These advances included origination fees totaling \$50,000 for net proceeds of \$1,000,000. The advance is, for the most part, is secured by expected future sales transactions of the Company with expected payments on a weekly basis. The Company will repay an aggregate of \$1,512,000 to the lender. During 2023, the Company made repayments totaling \$162,000 and \$1,350,000 remained outstanding, which is expected to be repaid in 2024.

During the year ended December 2023 the Company amortized \$142,829 of debt discount under interest expense, compared to \$-0- for year ended December 31, 2022.

NOTE 11. FAIR VALUE MEASUREMENT

In accordance with ASC Topic 820 — *Fair Value Measurements and Disclosures* (“ASC 820”), the Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets or liabilities, such as a business.

ASC 820 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1 — Quoted prices in active markets for identical assets and liabilities
- Level 2 — Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)
- Level 3 — Significant unobservable inputs (including the Company’s own assumptions in determining the fair value)

The following table represents the Company’s hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022.

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Warrant derivative liabilities	\$ —	\$ —	\$ 1,369,738	\$ 1,369,738
Contingent consideration promissory notes and contingent consideration earn-out agreement	—	—	188,470	188,470
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,558,208</u>	<u>\$ 1,558,208</u>

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Warrant derivative liabilities	\$ —	\$ —	\$ —	\$ —
Contingent consideration promissory notes and contingent consideration earn-out agreement	—	—	777,840	777,840
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 777,840</u>	<u>\$ 777,840</u>

The following table represents the change in Level 3 tier value measurements:

	Contingent Consideration Promissory Notes and Earn-Out Agreement	Warrant Derivative Liabilities
Balance, December 31, 2022	\$ 777,840	\$ —
Issuance of warrant derivative liabilities	—	3,216,380
Change in fair value of warrant derivative liabilities	—	(1,846,642)
Principal payments on contingent consideration promissory notes – Revenue Cycle Management Acquisitions	(411,460)	—
Change in fair value of contingent consideration promissory notes - Revenue Cycle Management Acquisitions	(177,910)	—
Balance, December 31, 2023	<u>\$ 188,470</u>	<u>\$ 1,369,738</u>

NOTE 12. ACCRUED EXPENSES

Accrued expenses consisted of the following at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Accrued warranty expense	\$ 17,699	\$ 15,694
Accrued litigation costs	2,040,292	247,984
Accrued sales commissions	87,421	55,000
Accrued payroll and related fringes	367,826	504,020
Accrued sales returns and allowances	117,713	118,026
Accrued taxes	150,981	46,408
Accrued interest - related party	95,031	—
Customer deposits	219,462	—
Other	172,905	103,835
	<u>\$ 3,269,330</u>	<u>\$ 1,090,967</u>

Accrued warranty expense was comprised of the following for the years ended December 31, 2023 and 2022:

	2023	2022
Beginning balance	\$ 15,694	\$ 13,742
Provision for warranty expense	63,980	71,734
Charges applied to warranty reserve	(61,975)	(69,782)
Ending balance	<u>\$ 17,699</u>	<u>\$ 15,694</u>

NOTE 13. INCOME TAXES

The components of income tax provision (benefit) for the years ended December 31, 2023, and 2022 are as follows:

	2023	2022
Current taxes:		
Federal	\$ —	\$ —
State	—	—
Total current taxes	—	—
Deferred tax provision (benefit)	—	—
Income tax provision (benefit)	<u>\$ —</u>	<u>\$ —</u>

A reconciliation of the income tax (provision) benefit at the statutory rate of 21% for the years ended December 31, 2023, and 2022 to the Company's effective tax rate is as follows:

	2023	2022
U.S. Statutory tax rate	21.0%	21.0%
State taxes, net of Federal benefit	6.0%	6.0%
Stock based compensation	4.3%	(1.5)%
Change in valuation reserve on deferred tax assets	(28.8)%	(91.2)%
Termination of warrant derivative liabilities	—%	57.0%
Contingent consideration for acquisition	(3.0)%	4.1%
Extinguishment of convertible debt	3.2%	—%
Other, net	(2.7)%	4.6%
Income tax (provision) benefit	<u>—%</u>	<u>—%</u>

The effective tax rate for the years ended December 31, 2023, and 2022 varied from the expected statutory rate due to the Company continuing to provide a 100% valuation allowance on net deferred tax assets. The Company determined that it was appropriate to continue the full valuation allowance on net deferred tax assets as of December 31, 2023, primarily because of the current year operating losses.

Significant components of the Company's deferred tax assets (liabilities) as of December 31, 2023 and 2022 are as follows:

	2023	2022
Deferred tax assets:		
Stock-based compensation	\$ 305,000	\$ 510,000
Start-up costs	110,000	110,000
Inventory reserves	1,120,000	1,355,000
Uniform capitalization of inventory costs	115,000	70,000
Allowance for doubtful accounts receivable	50,000	40,000
Property, plant and equipment depreciation	230,000	290,000
Deferred revenue	2,535,000	1,965,000
Accrued litigation reserve	500,000	60,000

Accrued expenses	35,000	50,000
Net operating loss carryforward	35,365,000	27,940,000
Research and development tax credit carryforward	1,795,000	1,795,000
State jobs credit carryforward	230,000	230,000
Charitable contributions carryforward	95,000	95,000
Total deferred tax assets	42,485,000	34,510,000
Valuation reserve	(41,610,000)	(34,200,000)
Total deferred tax assets	875,000	310,000
Deferred tax liabilities:		
Warrant derivative liabilities	(455,000)	—
Intangible assets	(265,000)	(165,000)
Domestic international sales company	(155,000)	(145,000)
Total deferred tax liabilities	(875,000)	(310,000)
Net deferred tax assets (liability)	\$ —	\$ —

The valuation allowance on deferred tax assets totaled \$41,610,000 and \$34,200,000 as of December 31, 2023, and 2022, respectively. The Company records the benefit it will derive in future accounting periods from tax losses and credits and deductible temporary differences as “deferred tax assets.” In accordance with ASC 740, “Income Taxes,” the Company records a valuation allowance to reduce the carrying value of our deferred tax assets if, based on all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company incurred operating losses in 2023 and 2022 and it continues to be in a three-year cumulative loss position at December 31, 2023 and 2022. Accordingly, the Company determined there was not sufficient positive evidence regarding its potential for future profits to outweigh the negative evidence of our three-year cumulative loss position under the guidance provided in ASC 740. Therefore, it determined to increase our valuation allowance by \$7,870,000 but continue to fully reserve its deferred tax assets at December 31, 2023. The Company expects to continue to maintain a full valuation allowance until it determines that it can sustain a level of profitability that demonstrates its ability to realize these assets. To the extent the Company determines that the realization of some or all of these benefits is more likely than not based upon expected future taxable income, a portion or all of the valuation allowance will be reversed. Such a reversal would be recorded as an income tax benefit and, for some portion related to deductions for stock option exercises, an increase in shareholders’ equity.

As of December 31, 2023, the Company had available approximately \$140,940,000 of Federal net operating loss carry-forwards available to offset future taxable income generated. Such tax net operating loss carry-forwards expire between 2025 and 2043, with \$91,352,000 of the tax net operating loss carry-forwards have an indefinite life since the enactment of the Tax Cuts and Jobs Act of 2017. In addition, the Company had research and development tax credit carry-forwards totaling \$1,794,000 available as of December 31, 2023, which expire between 2024 and 2040.

The Internal Revenue Code contains provisions under Section 382 which limit a company’s ability to utilize net operating loss carry-forwards in the event that it has experienced a more than 50% change in ownership over a three-year period. Current estimates prepared by the Company indicate that due to ownership changes which have occurred, approximately \$765,000 of its net operating loss and \$175,000 of its research and development tax credit carry-forwards are currently subject to an annual limitation of approximately \$1,151,000 and may be further limited by additional ownership changes which may occur in the future. As stated above, the net operating loss and research and development credit carry-forwards expire between 2024 and 2039, allowing the Company to potentially utilize all of the limited net operating loss carry-forwards during the carry-forward period.

As discussed in Note 1, “Summary of Significant Accounting Policies,” tax positions are evaluated in a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold, it is then measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Management has identified no tax positions taken that would meet or exceed these thresholds and therefore there are no gross interest, penalties and unrecognized tax expense/benefits that are not expected to ultimately result in payment or receipt of cash in the consolidated financial statements.

The effective tax rate for the years ended December 31, 2023, and 2022 varied from the expected statutory rate due to the Company continuing to provide a 100% valuation allowance on net deferred tax assets. The Company determined that it was appropriate to continue the full valuation allowance on net deferred tax assets as of December 31, 2023, primarily because of the current year operating losses.

The Company’s federal and state income tax returns are closed for examination purposes by relevant statute and by examination for 2019 and all prior tax years.

NOTE 14. OPERATING LEASE

The Company entered into an operating lease with a third party in October 2019 for copiers used for office and warehouse purposes. The terms of the lease include 48 monthly payments of \$1,598 with a maturity date of October 2023. The Company has the option to purchase such equipment at maturity for its estimated fair market value at that point in time. The lease for the Company's copier operating lease expired and was renewed in October 2023.

The Company entered into an operating lease with a third party in October 2023 for copiers used for office and warehouse purposes. The terms of the lease include 48 monthly payments of \$1,786 with a maturity date of October 2027. The Company has the option to purchase such equipment at maturity for its estimated fair market value at that point in time. The remaining lease term for the Company's copier operating lease as of December 31, 2023 was forty-six months.

On May 13, 2020, the Company entered into an operating lease for new warehouse and office space, which served as its new principal executive office and primary business location prior to the April 30 purchase and sale agreement. The original lease agreement was amended on August 28, 2020 to correct the footage under lease and monthly payment amounts resulting from such correction. The lease terms, as amended include no base rent for the first nine months and monthly payments ranging from \$12,398 to \$14,741 thereafter, with a termination date of December 2026. The Company is responsible for property taxes, utilities, insurance and its proportionate share of common area costs related to its new location. The Company took possession of the leased facilities on June 15, 2020. The remaining lease term for the Company's office and warehouse operating lease as of December 31, 2023 was thirty-six months.

On June 30, 2021, the Company completed the acquisition of its first medical billing company, through Nobility Healthcare. Upon completion of this acquisition, Nobility Healthcare became responsible for the operating lease for the seller's office space. The lease terms include monthly payments ranging from \$2,648 to \$2,774 thereafter, with a termination date in July 2024. The Company is responsible for property taxes, utilities, insurance and its proportionate share of common area costs related to this location. The remaining lease term for the Company's office operating lease as of December 31, 2023 was seven months.

On August 31, 2021, the Company completed the acquisition of its second acquired medical billing company, through Nobility Healthcare. Upon completion of this acquisition, Nobility Healthcare became responsible for the operating lease for the seller's office space. The lease was renewed in April 2023 with favorable terms and payments ranging from \$7,436 to \$8,877 thereafter, with a termination date in March 2030. The Company is responsible for property taxes, utilities, insurance and its proportionate share of common area costs related to this location. The remaining term for the Company's office operating lease was seventy-five months as of December 31, 2023.

On September 1, 2021, the Company completed the acquisition of Goody Tickets, LLC and TicketSmarter, LLC through TicketSmarter. Upon completion of this acquisition, the Company became responsible for the operating lease for TicketSmarter's office space. The lease terms include monthly payments ranging from \$7,211 to \$7,364 thereafter, with a termination date of December 2022. The Company is responsible for property taxes, utilities, insurance and its proportionate share of common area costs related to this location. The Company took possession of the leased facilities on September 1, 2021. The Company currently rents this space on a month-to-month basis with intentions to relocate upon the identification of suitable space.

On January 1, 2022, the Company completed the acquisition of a private medical billing company, through its revenue cycle management segment. Upon completion of this acquisition, the Company became responsible for the operating lease for the seller's office space. The lease terms include monthly payments ranging from \$4,233 to \$4,626, with a termination date of June 2025. The Company is responsible for property taxes, utilities, insurance and its proportionate share of common area costs related to this location. The Company took possession of the leased facilities on January 1, 2022. The remaining lease term for the Company's office and warehouse operating lease as of December 31, 2023, was seventeen months.

Lease expense related to the office spaces and copier operating leases was recorded on a straight-line basis over the lease term. Total lease expense under the five operating leases was approximately \$534,830 for the year ended December 31, 2023.

The weighted-average remaining lease term related to the Company's lease liabilities as of December 31, 2023 and December 31, 2022 was 4.5 years and 3.3 years, respectively.

The discount rate implicit within the Company's operating leases was not generally determinable, and therefore, the Company determined the discount rate based on its incremental borrowing rate on the information available at commencement date. As of commencement date, the operating lease liabilities reflect a weighted average discount rate of 8%.

The following sets forth the operating lease right of use assets and liabilities as of December 31, 2023:

Assets:	
Operating lease right of use assets	\$ 1,053,159
Liabilities:	
Operating lease obligations-current portion	279,538
Operating lease obligations-less current portion	827,836
Total operating lease obligations	\$ 1,107,374

Following are the minimum lease payments for each year and in total.

Year ending December 31:	
2024	\$ 358,424
2025	311,849
2026	293,300
2027	117,492
Thereafter	235,020
Total undiscounted minimum future lease payments	1,316,085
Imputed interest	(208,711)
Total operating lease liability	\$ 1,107,374

NOTE 15. COMMITMENTS AND CONTINGENCIES

Litigation.

From time to time, we are notified that we may be a party to a lawsuit or that a claim is being made against us. It is our policy to not disclose the specifics of any claim or threatened lawsuit until the summons and complaint are actually served on us. After carefully assessing the claim, and assuming we determine that we are not at fault or we disagree with the damages or relief demanded, we vigorously defend any lawsuit filed against us. We record a liability when losses are deemed probable and reasonably estimable. When losses are deemed reasonably possible but not probable, we determine whether it is possible to provide an estimate of the amount of the loss or range of possible losses for the claim, if material for disclosure. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, the availability of insurance, and the severity of any potential loss. We reevaluate and update accruals as matters progress over time.

On May 31, 2022, the Company filed a lawsuit against Culp McAuley, Inc. (“defendant”) in the United States District Court for the District of Kansas. The lawsuit arises from the defendant’s multiple breaches of its obligations to the Company. The Company seeks monetary damages and injunctive relief based on certain conduct by the defendant. On July 18, 2022, the defendant filed its Answer to the Company’s Verified Complaint and included Counterclaims alleging breach of contract and seeking monetary damages. On August 8, 2022, the Company filed its Reply and Affirmative Defenses to the Counterclaims by, among other things, denying the allegations and any and all liability.

As of December 31, 2023, we are able to estimate a range of reasonably possible loss related to the Culp McCauley case, our estimate of the aggregate reasonably possible loss (in excess of any accrued amounts) was approximately \$1.8 million. Our estimate with respect to the aggregate reasonably possible loss is based upon currently available information and is subject to significant judgment and a variety of assumptions and known and unknown uncertainties, which may change quickly and significantly from time to time, particularly if and as we engage with applicable governmental agencies or plaintiffs in connection with a proceeding. Also, the matters underlying the reasonably possible loss will change from time to time. As a result, actual results may vary significantly from the current estimate.

While the ultimate resolution is unknown, based on the information currently available, we do not expect that these lawsuits will individually, or in the aggregate, have a material adverse effect to our results of operations, financial condition or cash flows. However, the outcome of any litigation is inherently uncertain and there can be no assurance that any expense, liability or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts recognized or provided by insurance coverage and will not have a material adverse effect on our operating results, financial condition or cash flows.

General

401 (k) Plan. The Company sponsors a 401(k) retirement savings plan for the benefit of its employees. The plan, as amended, requires it to provide 100% matching contributions for employees, who elect to contribute up to 3% of their compensation to the plan and 50% matching contributions for employee's elective deferrals on the next 2% of their contributions. The Company made matching contributions totaling \$207,463 and \$223,084 for the years ended December 31, 2023 and 2022, respectively. Each participant is 100% vested at all times in employee and employer matching contributions.

NOTE 16. STOCK-BASED COMPENSATION

The Company recorded pre-tax compensation expense related to the grant of stock options and restricted stock issued of \$452,071 and \$1,282,757 for the years ended December 31, 2023 and 2022, respectively.

As of December 31, 2023, the Company had adopted ten separate stock option and restricted stock plans: (i) the 2005 Stock Option and Restricted Stock Plan (the "2005 Plan"), (ii) the 2006 Stock Option and Restricted Stock Plan (the "2006 Plan"), (iii) the 2007 Stock Option and Restricted Stock Plan (the "2007 Plan"), (iv) the 2008 Stock Option and Restricted Stock Plan (the "2008 Plan"), (v) the 2011 Stock Option and Restricted Stock Plan (the "2011 Plan"), (vi) the 2013 Stock Option and Restricted Stock Plan (the "2013 Plan"), (vii) the 2015 Stock Option and Restricted Stock Plan (the "2015 Plan"), (viii) the 2018 Stock Option and Restricted Stock Plan (the "2018 Plan"), (ix) the 2020 Stock Option and Restricted Stock Plan (the "2020 Plan"), and (x) the 2022 Stock Option and Restricted Stock Plan (the "2022 Plan"). The 2005 Plan, 2006 Plan, 2007 Plan, 2008 Plan, 2011 Plan, 2013 Plan, 2015 Plan, 2018 Plan, 2020 Plan and 2022 Plan are referred to as the "Plans."

These Plans permit the grant of stock options or restricted stock to its employees, non-employee directors and others for up to a total of 333,750 shares of common stock. The 2005 Plan terminated during 2015 with 1,078 shares not awarded or underlying options, which shares are now unavailable for issuance. Stock options granted under the 2005 Plan that remain unexercised and outstanding as of December 31, 2023 total 284. The 2006 Plan terminated during 2016 with 2,739 shares not awarded or underlying options, which shares are now unavailable for issuance. Stock options granted under the 2006 Plan that remain unexercised and outstanding as of December 31, 2023 total 531. The 2007 Plan terminated during 2017 with 4,733 shares not awarded or underlying options, which shares are now unavailable for issuance. There are no stock options granted under the 2007 Plan that remain unexercised and outstanding as of December 31, 2023. The 2008 Plan terminated during 2018 with 2,025 shares not awarded or underlying options, which shares are now unavailable for issuance. There are no stock options granted under the 2008 Plan that remain unexercised and outstanding as of December 31, 2023.

Our Board of Directors adopted the 2020 Stock Option and Restricted Stock Plan (the "2020 Plan") on June 30, 2020 and the Company's stockholders approved the 2020 Plan at the Annual Meeting held on September 9, 2020. The Company's stockholders approved an amendment to the 2020 Plan at the Annual Meeting held on June 22, 2021 which increased the number of shares of Common Stock authorized and reserved for issuance under the 2020 Plan to a total of 125,000. A total of 112,958 options and restricted stock have been granted under the 2020 Plan to date. The 2020 Plan also authorizes us to grant (i) to the key employees' incentive stock options to purchase shares of Common Stock and non-qualified stock options to purchase shares of Common Stock and restricted stock awards and (ii) to non-employee directors and consultants non-qualified stock options and restricted stock.

Our Board of Directors adopted the 2022 Stock Option and Restricted Stock Plan (the “2022 Plan”) on October 28, 2022 and the Company’s stockholders approved the 2022 Plan at the Annual Meeting held on December 7, 2022. The number of shares of Common Stock authorized and reserved for issuance under the 2022 Plan totals 125,000. The 2022 Plan also authorizes us to grant (i) to the key employees’ incentive stock options to purchase shares of Common Stock and non-qualified stock options to purchase shares of Common Stock and restricted stock awards and (ii) to non-employee directors and consultants non-qualified stock options and restricted stock.

The Company believes that such awards better align the interests of our employees with those of its stockholders. Option awards have been granted with an exercise price equal to the market price of its stock at the date of grant with such option awards generally vesting based on the completion of continuous service and having ten-year contractual terms. These option awards typically provide for accelerated vesting if there is a change in control (as defined in the Plans). The Company has registered all shares of common stock that are issuable under its Plans with the SEC. A total of 137,042 shares remained available for awards under the various Plans as of December 31, 2023.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model.

Activity in the various Plans during the years ended December 31, 2023 and 2022 is reflected in the following table:

Options	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2022	54,303	\$ 47.40
Granted	1,250	19.60
Exercised	—	—
Forfeited	(1,603)	(80.80)
Outstanding at December 31, 2022	<u>53,950</u>	<u>\$ 45.80</u>
Exercisable at December 31, 2022	<u>53,950</u>	<u>\$ 45.80</u>

Options	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2023	53,950	\$ 45.80
Granted	—	—
Exercised	—	—
Forfeited	(350)	(83.20)
Outstanding at December 31, 2023	<u>53,600</u>	<u>\$ 45.55</u>
Exercisable at December 31, 2023	<u>53,600</u>	<u>\$ 45.55</u>

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. The total estimated grant date fair value stock options issued during the year ended December 31, 2023 and 2022 was \$-0- and \$22,768, respectively.

The Company has utilized the following assumptions in its Black-Scholes option valuation model to calculate the estimated grant date fair value of the options during the years ended December 31, 2023 and 2022:

	2023 Assumptions	2022 Assumptions
Volatility – range	—	111.67%
Risk-free rate	—	1.81%
Expected term	—	10.0 years
Exercise price	—	\$ 19.60

The Plans allow for the cashless exercise of stock options. This provision allows the option holder to surrender/cancel options with an intrinsic value equivalent to the purchase/exercise price of other options exercised. There were no shares surrendered pursuant to cashless exercises during the years ended December 31, 2023 and 2022.

At December 31, 2023 and 2022, the aggregate intrinsic value of options outstanding was approximately \$-0- and \$-0-, respectively, and the aggregate intrinsic value of options exercisable was approximately \$-0- and \$-0-, respectively.

The following table summarizes the range of exercise prices and weighted average remaining contractual life for outstanding and exercisable options under the Company's option plans as of December 31, 2023:

Exercise price range	Outstanding options		Exercisable options	
	Number of options	Weighted average remaining contractual life	Number of options	Weighted average remaining contractual life
\$ 0.01 to \$49.99	37,000	6.6 years	37,000	6.6 years
\$ 50.00 to \$69.99	15,100	4.5 years	15,100	4.5 years
\$ 70.00 to \$89.99	1,500	2.4 years	1,500	2.4 years
	<u>53,600</u>	<u>5.9 years</u>	<u>53,600</u>	<u>5.9 years</u>

Restricted stock grants. The Board of Directors has granted restricted stock awards under the Plans. Restricted stock awards are valued on the date of grant and have no purchase price for the recipient. Restricted stock awards typically vest over one to four years corresponding to anniversaries of the grant date. Under the Plans, unvested shares of restricted stock awards may be forfeited upon the termination of service to or employment with the Company, depending upon the circumstances of termination. Except for restrictions placed on the transferability of restricted stock, holders of unvested restricted stock have full stockholder's rights, including voting rights and the right to receive cash dividends.

A summary of all restricted stock activity under the equity compensation plans for the years ended December 31, 2023 and 2022 is as follows:

	Number of Restricted shares	Weighted average grant date fair value
Nonvested balance, January 1, 2022	52,869	\$ 37.40
Granted	60,750	14.67
Vested	(31,244)	(34.73)
Forfeited	(3,250)	(21.20)
Nonvested balance, December 31, 2022	<u>79,125</u>	<u>\$ 21.73</u>
	Number of Restricted shares	Weighted average grant date fair value
Nonvested balance, January 1, 2023	79,125	\$ 21.73
Granted	35,000	5.00
Vested	(56,625)	(21.29)
Forfeited	(3,625)	(22.41)
Nonvested balance, December 31, 2023	<u>53,875</u>	<u>\$ 11.27</u>

The Company estimated the fair market value of these restricted stock grants based on the closing market price on the date of the grant. As of December 31, 2023, there was \$140,573 of total unrecognized compensation costs related to all remaining non-vested restricted stock grants, which will be amortized over the next forty-eight months in accordance with their respective vesting scale.

The nonvested balance of restricted stock vests as follows:

Years ended	Number of shares
2024	27,750
2025	19,000
2026	4,125
2027	2,000
2028	1,000

NOTE 17. COMMON STOCK PURCHASE WARRANTS

2021 Purchase Warrants

The Company has issued Common Stock purchase warrants in conjunction with various debt and equity issuances. The warrants are either immediately exercisable or have a delayed initial exercise date, no more than nine months from their respective issue date and allow the holders to purchase up to 1,148,286 shares of common stock at \$5.50 to \$52.00 per share as of December 31, 2023. The warrants expire from July 31, 2023 through April 5, 2028 and under certain circumstances allow for cashless exercise.

On January 14, 2021 and February 1, 2021, the Company issued warrants to purchase a total of 2,127,500 shares of Common Stock. The warrant terms provide for net cash settlement outside the control of the Company under certain circumstances in the event of tender offers. As such, the Company is required to treat these warrants as derivative liabilities which are valued at their estimated fair value at their issuance date and at each reporting date with any subsequent changes reported in the consolidated statements of operations as the change in fair value of warrant derivative liabilities. Furthermore, the Company re-values the fair value of warrant derivative liability as of the date the warrant is exercised with the resulting warrant derivative liability transitioned to change in fair value of warrant derivative liabilities through the consolidated statement of operations.

On August 19, 2021, the Company entered into a Warrant Exchange Agreement (the “Exchange Agreement”) with the Investors cancelling February Warrants exercisable for an aggregate of 384,077 shares of Common Stock in consideration for its issuance of (i) new warrants (the “Exchange Warrants”) to the Investors exercisable for an aggregate of up to 384,077 shares of Common Stock. The Company also issued warrants (the “Replacement Original Warrants”) replacing the February Warrants for the remaining shares of Common Stock exercisable thereunder, representing an aggregate of 330,923 shares of Common Stock, and extended the expiration date of the February Warrants to September 18, 2026. The Exchange Warrants provide for an initial exercise price of \$65.00 per share, subject to customary adjustments thereunder, and are immediately exercisable upon issuance for cash and on a cashless basis. On the date of the exchange, the Company calculated the fair value, using the Black-Scholes method, of the cancelled February Warrants and the newly issued Exchange Warrants, the difference in fair value measurement of the respective warrants was attributed to warrant modification expense in the consolidated statement of operations.

On August 23, 2022, the Company entered into Warrant Exchange Agreements (the “Warrant Exchange Agreements”) with certain investors (the “Investors”), pursuant to which the Company agreed to issue to the Investors an aggregate of 303,750 shares of Common Stock in exchange for the cancellation by the Investors of the January Warrants, the Exchange Warrants and the Replacement Originals Warrants. On the date of the exchange, the Company calculated the fair value of the issuance of shares of common stock pursuant to the Warrant Exchange Agreements, attributing that value to common stock and additional paid in capital. The remaining value of the warrant derivative liability was attributed to an income from change in fair market value of warrant derivative liabilities and gain on extinguishment of warrant derivative liabilities in the consolidated statement of operations. On the date of the Warrant Exchange Agreement, using the Black-Scholes method, the fair value of the warrant derivative liability was \$8.1 million, compared to \$9.3 million at June 30, 2022, resulting in income from change in fair market value of warrant derivative liabilities of \$1.2 million during the year ended December 31, 2022. Further, the value of the issued shares of Common Stock was \$4.5 million, applied to additional paid in capital, resulting in a gain on the extinguishment of warrant derivative liabilities of \$3.6 million during the year ended December 31, 2022.

	Terms at August 23, 2022
Volatility - range	103.7%
Risk-free rate	3.17 - 3.36%
Dividend	0%
Remaining contractual term	3.4 - 4.1 years
Exercise price	\$ 65.00
Common stock issuable under the warrants	1,215,000

Fluctuations in the Company’s stock price are a primary driver for the changes in the derivative valuations during each reporting period. As the stock price increases for each of the related derivative instruments, the value to the holder of the instrument generally increases, therefore increasing the liability on the Company’s balance sheet. Additionally, stock price volatility is one of the significant unobservable inputs used in the fair value measurement of each of the Company’s derivative instruments. The simulated fair value of these liabilities is sensitive to changes in the Company’s expected volatility. Increases in expected volatility would generally result in higher fair value measurement. A 10% change in pricing inputs and changes in volatilities and correlation factors would not result in a material change in our Level 3 fair value.

2023 Purchase Warrants

On April 5, 2023, the Company issued warrants to purchase a total of 1,125,000 shares of Common Stock. The warrant terms provide for net cash settlement outside the control of the Company under certain circumstances. As such, the Company is required to treat these warrants as derivative liabilities which are valued at their estimated fair value at their issuance date and at each reporting date with any subsequent changes reported in the consolidated statements of operations as the change in fair value of warrant derivative liabilities. Furthermore, the Company re-values the fair value of warrant derivative liability as of the date the warrant is exercised with the resulting warrant derivative liability transitioned to change in fair value of warrant derivative liabilities through the consolidated statement of operations.

The Company has utilized the following assumptions in its Black-Scholes option valuation model to calculate the estimated fair value of the warrant derivative liabilities as of their date of issuance and as of December 31, 2023:

	Issuance date assumptions	December 31, 2023 assumptions
Volatility - range	106.0%	\$ 105.4%
Risk-free rate	3.36%	3.84%
Dividend	0%	0%
Remaining contractual term	5.0 years	4.3 years
Exercise price	5.50 – 7.50	5.50 – 7.50
Common stock issuable under the warrants	1,125,000	1,125,000

The following table summarizes information about shares issuable under warrants outstanding during the years ended December 31, 2023 and 2022:

	Warrants	Weighted average exercise price
Vested Balance, January 1, 2022	1,300,430	\$ 64.80
Granted	—	—
Exercised	—	—
Cancelled	(1,232,971)	(65.08)
Vested Balance, December 31, 2022	<u>67,459</u>	<u>\$ 60.26</u>

	Warrants	Weighted average exercise price
Vested Balance, January 1, 2023	67,459	\$ 60.26
Granted	1,125,000	6.50
Exercised	—	—
Forfeited/cancelled	(67,459)	(60.26)
Vested Balance, December 31, 2023	<u>1,125,000</u>	<u>\$ 6.50</u>

The total intrinsic value of all outstanding warrants aggregated \$-0- as of December 31, 2023 and 2022, and the weighted average remaining term was 51.2 and 3.9 months as of December 31, 2023 and 2022, respectively.

The following table summarizes the range of exercise prices and weighted average remaining contractual life for outstanding and exercisable warrants to purchase shares of common stock as of December 31, 2023:

Outstanding and exercisable warrants		
Exercise price	Number of warrants	Weighted average remaining contractual life
\$ 5.50	375,000	4.3 years
\$ 6.50	375,000	4.3 years
\$ 7.50	375,000	4.3 years
	<u>1,125,000</u>	<u>4.3 years</u>

NOTE 18 - STOCKHOLDERS' EQUITY

2022 Issuance of Restricted Common Stock.

On January 7, 2022, the board of directors approved the grant of 26,250 shares of common stock to officers of the Company. Such shares will vest over various periods ranging from one to five years on the anniversary of the grant date, provided that each grantee remains an officer or employee on such dates.

On various dates in January 2022, the board of directors approved the grant of 9,500 shares of common stock to employees of the Company. Most shares will generally vest in varying amounts over the next two to five years, provided that each grantee remains an employee on such vesting dates.

Cancellation of Restricted Stock

During the year ended December 31, 2023, the Company cancelled 3,625 shares for various reasons.

Preferred Stock Transaction

On October 13, 2022, the Company, entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain institutional investors (the "Preferred Stock Investors"), pursuant to which the Company agreed to issue and sell, in a private placement (the "2022 Offering"), 1,400,000 shares of the Company's Series A Convertible Redeemable Preferred Stock, par value \$0.001 per share (the "Series A Preferred Stock"), and 100,000 shares of the Company's Series B Convertible Redeemable Preferred Stock, par value \$0.001 per share (the "Series B Preferred Stock", and together with the Series A Preferred Stock, the "Preferred Stock"), at an offering price of \$9.50 per share, representing a 5% original issue discount to the stated value of \$10.00 per share, for gross aggregate proceeds of \$15 million in the 2022 Offering, before the deduction of discounts, fees and offering expenses. The shares of Preferred Stock will, under certain circumstances, be convertible into shares of the Company's common stock, at the option of the holders of the Preferred Stock and, in certain circumstances, by the Company. In connection with the 2022 Offering, the Company paid A.G.P./Alliance Global Partners (the "Financial Advisor") an aggregate cash fee equal to \$750,000 and reimbursed the Financial Advisor for certain of its expenses in an amount not to exceed \$135,000.

Pursuant to the Purchase Agreement, the Company filed on October 17, 2022 certificates of designation (the "Certificates of Designation") with the Secretary of the State of Nevada designating the rights, preferences and limitations of the shares of Series A Preferred Stock and Series B Preferred Stock. The Certificate of Designation for the Series A Preferred Stock provides, in particular, that the Series A Preferred Stock will have no voting rights other than the right to vote on the Amendments on an as-if-converted-to-Common-Stock basis. The Certificate of Designation for the Series B Preferred Stock provides, in particular, that the Series B Preferred Stock will have no voting rights other than the right to vote on the Amendments and each share of Series B Preferred Stock entitles the holder thereof the right to cast 2,500 votes on the Amendments.

The holders of Preferred Stock will be entitled to dividends, on an as-if converted-to-Common-Stock basis, equal to dividends actually paid, if any, on shares of Common Stock. The Preferred Stock is convertible, at the option of the holders and, in certain circumstances, by the Company, into shares of Common Stock at a conversion price of \$20.00 per share. The conversion price can be adjusted pursuant to the Certificates of Designation for stock dividends and stock splits, subsequent rights offering, pro rata distributions of dividends or other distribution of its assets, or the occurrence of a fundamental transaction (as defined in the applicable Certificate of Designation).

The holders of the Series A Preferred Stock and Series B Preferred Stock have the right to require the Company to redeem their shares of the relevant series at a price per share equal to 105% of the stated value of such shares commencing (i) after the earlier of (1) the receipt of stockholder approval of the Amendments and (2) sixty (60) days after the closing of the 2022 Offering and (ii) before the date that is ninety (90) days after such closing. The Company has the option to redeem the Series A Preferred Stock and Series B Preferred Stock at a price per share equal to 105% of the stated value of such shares commencing after the 90th day following the closing of the 2022 Offering, subject to the holders' rights to convert the shares prior to such redemption.

The proceeds of the 2022 Offering were held in an escrow account, along with the additional amount that would be necessary to fund the 105% redemption price until the expiration of the redemption period for the Preferred Stock, as applicable, subject to the earlier payment to redeeming holders. Upon expiration of the redemption period, any proceeds remaining in the escrow account will be disbursed to the Company.

The 2022 Offering closed on October 19, 2022. In December 2022, the Company redeemed 1,400,000 shares of Series A & 100,000 shares of Series B Preferred Stock, for a redemption price of \$15,750,000, with a \$13,365,000 carrying amount, resulting in a \$2,385,000 loss on redemption.

Issuance of Common Stock as Consideration for the Potential Spin-Off Transaction.

On December 28, 2022, the Company issued a total of 25,000 shares of common stock as a portion of the consideration paid for the advisory services associated with the potential spin-off transaction.

Stock Repurchase Program

On December 6, 2021, the board of directors of the Company authorized the repurchase of up to \$10.0 million of the Company's outstanding common stock under the specified terms of a share repurchase program (the "Program"). During the year ended December 31, 2022, the Company repurchased 186,299 shares of its common stock for \$4,026,523, in accordance with the Program.

Period	Total Number of Shares Purchased	Average Price Paid per Shares	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
December 2021	86,742	\$ 22.80	86,742	—
January 2022	34,855	22.20	34,855	—
February 2022	34,649	22.40	34,649	—
March 2022	24,298	21.20	24,298	—
April 2022	29,774	22.80	29,774	—
May 2022	35,846	21.60	35,846	—
June 2022	26,878	19.20	26,878	—
Total all plans	<u>273,042</u>	<u>\$ 22.00</u>	<u>273,042</u>	<u>\$ 3,998,398</u>

On June 30, 2022, the board of directors of the Company elected to terminate the Program, effective immediately. The Program began in December 2021, with the Company purchasing a total of 273,042 shares at a cost of \$6,001,602 through June 30, 2022.

2023 Issuance of Restricted Common Stock

On January 10, 2023, the board of directors approved the grant of 22,500 shares of Common Stock to officers of the Company. Such shares will generally vest over a period of one to five years on their respective anniversary dates in January through January 2028, provided that each grantee remains an officer or employee on such dates. Additionally, the board of directors approved the grant of 12,500 restricted common shares to certain new employees of the Company. Such shares will generally vest over a period of one to two years on their respective anniversary dates in January through January 2025, provided that each grantee remains an employee of the company on such dates.

Reverse Stock Split

On February 6, 2023, we filed a Certificate of Amendment to the Articles of Incorporation, as amended, with the Secretary of State of the State of Nevada to effect a 1-for-20 reverse stock split (the "Reverse Stock Split") of the shares of our Common Stock. The Reverse Stock Split was effective as of time of filing. No fractional shares were issued in connection with the Reverse Stock Split. Any fractional shares of our Common Stock that would have otherwise resulted from the Reverse Stock Split were rounded up to the nearest whole number. In connection with the Reverse Stock Split, our board approved appropriate and proportional adjustments to all outstanding securities or other rights convertible or exercisable into shares of our Common Stock, including, without limitation, all preferred stock, warrants, options, and other equity compensation rights. All historical share and per-share amounts reflected throughout our consolidated financial statements and other financial information in this Report have been adjusted to reflect the Reverse Stock Split as if the split occurred as of the earliest period presented. The par value per share of our Common Stock was not affected by the Reverse Stock Split.

As a result of the Reverse Stock Split, no fractional shares of new common stock will be issued in connection with the Reverse Stock Split, all of which shares of new common stock shall be rounded up to the nearest whole number of such shares. Therefore, the Company issued 24,206 shares pursuant to Reverse Stock Split related to rounding up to the nearest whole number of shares.

Noncontrolling Interests

The Company owns a 51% equity interest in its consolidated subsidiary, Nobility Healthcare. As a result, the noncontrolling shareholders or minority interest is allocated 49% of the income/loss of Nobility Healthcare which is reflected in the statement of (income) loss as "net (income) loss attributable to noncontrolling interests of consolidated subsidiary". We reported net income attributable to noncontrolling interests of consolidated subsidiary of \$224,598 and \$407,933 for the year ended December 31, 2023 and 2022, respectively.

Conversion of Convertible Note

During the year ended December 31, 2023, pursuant to the Convertible Note, the Purchasers elected to convert \$125,000 principal, at the fixed price of \$5.00 per share of common stock, 25,000 shares valued at \$119,750.

Cancellation of Common Stock

During the year ended December 31, 2023, the Company cancelled 3,625 shares for various reasons.

NOTE 19. RELATED PARTY TRANSACTIONS

Transactions with Managing Member of Nobility Healthcare

On January 27, 2022, the board of directors appointed Christian J. Hoffmann, III as a member of the Board, effective immediately. Mr. Hoffmann is a principal owner and manager of Nobility, LLC which is currently the managing member of our consolidated subsidiary Nobility Healthcare, LLC.

The Company has advanced a total of \$158,384 in the form of a working capital loan to Nobility, LLC in order to fund capital expenditures necessary for the initial growth of the joint venture during 2022. The outstanding balance of the working capital loan was \$-0- as of December 31, 2023. The Company paid distributions to the noncontrolling in consolidated subsidiary totaling \$-0- and \$15,692, for the years ended December 31, 2023 and 2022, respectively.

The Company also accrued reimbursable expenses payable to Nobility, LLC totaling \$619,301 and \$265,241 for the years ended December 31, 2023 and 2022 and management fees in accordance with the operating agreement of \$49,014 and \$36,502 for the years ended December 31, 2023 and 2022.

On August 1, 2022, Mr. Hoffmann resigned as a member of the Board, effective immediately. He remains as a principal owner and manager of Nobility, LLC.

Transactions with Related Party of TicketSmarter

On September 22, 2023, a trust, the beneficiaries of which are TicketSmarter's Chief Executive Officer and his spouse, contributed cash in the amount of \$2,325,000 to TicketSmarter to support TicketSmarter's operations. On October 2, 2023 an additional \$375,000 was contributed to TicketSmarter. The transaction was recorded as a related party note payable (the "TicketSmarter Related Party Note"). The TicketSmarter Related Party Note bears interest of 13.25% per annum with repayment beginning January 2, 2024. As of December 31, 2023, the entire TicketSmarter Related Party note is \$2,700,000, is classified as current, with an accrued interest balance of \$95,031. The use of proceeds of the TicketSmarter Related Party Note was to resolve numerous outstanding payables at a discounted rate, the discount received is recognized as a gain on extinguishment of liabilities on the statement of operations. Additionally, these negotiations relieved TicketSmarter of numerous future obligations following fiscal year 2023.

NOTE 20. NET LOSS PER SHARE

The calculation of the weighted average number of shares outstanding and loss per share outstanding for the years ended December 31, 2023 and 2022 are as follows:

	Year ended December 31,	
	2023	2022
Numerator for basic and diluted loss per share – Net loss attributable to common stockholders	\$ (25,688,547)	\$ (21,666,691)
Denominator for basic loss per share – weighted average shares outstanding	2,784,894	2,548,549
Dilutive effect of shares issuable upon conversion of convertible debt and the exercise of stock options and warrants outstanding	—	—
Denominator for diluted loss per share – adjusted weighted average shares outstanding	2,784,894	2,548,549
Net loss per share:		
Basic	\$ (9.22)	\$ (8.50)
Diluted	\$ (9.22)	\$ (8.50)

Basic loss per share is based upon the weighted average number of shares of common stock outstanding during the period. For the years ended December 31, 2023 and 2022, all shares issuable upon conversion of convertible debt and the exercise of outstanding stock options and warrants were antidilutive, and, therefore, not included in the computation of diluted loss per share.

NOTE 21. DIGITAL ALLY HEALTHCARE VENTURE

On June 4, 2021, Digital Ally Healthcare, a wholly-owned subsidiary of the Company, entered into a venture with Nobility LLC ("Nobility"), an eight-year-old revenue cycle management ("RCM") company servicing the medical industry, to form Nobility Healthcare, LLC ("Nobility Healthcare"). Digital Ally Healthcare is capitalizing the venture with \$13.5 million to support the venture's business strategy to make acquisitions of RCM companies. Digital Ally Healthcare owns 51% of the venture that entitles it to 51% of the distributable cash as defined in the venture's operating agreement plus a cumulative preferred return of 10% per annum on its invested capital. Nobility will receive a management fee and 49% of the distributable cash, subordinated to Digital Ally Healthcare's preferred return. The venture comprises the Company's revenue cycle management segment.

On June 30, 2021, the Company's revenue cycle management segment completed the acquisition of a private medical billing company (the "Healthcare Acquisition"). In accordance with the stock purchase agreement, the Company's revenue cycle management segment agreed to a non-refundable initial payment (the "Initial Payment Amount") of \$850,000. In addition to the Initial Payment Amount, the Company's revenue cycle management segment agreed to issue a promissory note to the stockholders of the Healthcare Acquisition in the principal amount of \$350,000 that is subject to an earn-out adjustment. Management's estimate of the fair value of this Contingent Note at December 31, 2021 is \$317,212. The gain associated with the adjustment in the estimated fair value of this contingent promissory note is recorded as a gain in the Consolidated Statements of Operations for the year ended December 31, 2021. Lastly, the Company's revenue cycle management segment agreed to pay \$162,552 representing the principal and accrued interest balance due under a promissory note issued to the selling shareholders prior to the acquisition closing date. The Company's revenue cycle management segment anticipates the estimated fair value of the contingent promissory note to be paid in full, therefore, the total aggregate purchase price was determined to be approximately \$1,376,509. Total acquisition related costs aggregated \$164,630, which was expensed as incurred. Subsequent to the acquisition date, the Company received further information regarding the purchased assets and assumed liabilities. As a result, the initial allocation of the purchase price was adjusted by increasing accounts receivable by \$75,000 with a corresponding reduction of goodwill during the year ended December 31, 2021.

The Company accounts for business combinations using the acquisition method and that the Company has early adopted the amendments of Regulation S-X dated May 21, 2020 and has concluded that this acquisition was not significant. Accordingly, the presentation of the assets acquired, historical financial statements under Rule 3-05 and related pro forma information under Article 8 of Regulation S-X, respectively, are not required to be presented. Under the acquisition method, the purchase price of the Healthcare Acquisition has been allocated to the acquired tangible and identifiable intangible assets and assumed liabilities based on their estimated fair values at the time of the Healthcare Acquisition. This allocation involves a number of assumptions, estimates, and judgments that could materially affect the timing or amounts recognized in our financial statements. Our assumptions and estimates are based upon information obtained from the management of the Company's revenue cycle management segment. The acquisition was structured as stock purchase, therefore the excess purchase price over the fair value of net tangible assets acquired was recorded as goodwill, which will not be amortized for income tax filing purposes. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

The purchase price of the Healthcare Acquisition was allocated to the tangible assets, and assumed liabilities based on their preliminary estimated fair values at the time of the Healthcare Acquisition. The preliminary and final estimated fair value of assets acquired and liabilities assumed in the Healthcare Acquisition were as follows:

Description	Purchase price allocation	
	Preliminary as allocated June 30, 2021	Final as allocated June 30, 2022
Assets acquired:		
Tangible assets acquired, consisting of acquired cash, accounts receivable and right of use asset	\$ 174,351	\$ 174,351
Intangible assets acquired – client agreements	—	457,079
Goodwill	1,125,000	667,921
Liabilities assumed consisting of a promissory note issued by the selling shareholders which was paid off at closing, net of lease liability assumed	77,158	77,158
Net assets acquired and liabilities assumed	<u>\$ 1,376,509</u>	<u>\$ 1,376,509</u>
Consideration:		
Cash paid at Healthcare Acquisition date	\$ 1,026,509	\$ 1,026,509
Contingent consideration earn-out agreement	350,000	350,000
Total Healthcare Acquisition purchase price	<u>\$ 1,376,509</u>	<u>\$ 1,376,509</u>

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives in years as of the date of acquisition:

	Cost	Amortization through December 31, 2023	Estimated useful life
Identifiable intangible assets:			
Client agreements	\$ 457,079	\$ 114,270	10 years

For the period from the date of the Healthcare Acquisition to June 30, 2022, the Company adjusted its preliminary fair value estimates and estimated useful lives based upon information obtained through June 30, 2022, which resulted in adjustments to the preliminary allocation of the purchase price. These adjustments primarily related to estimated identifiable intangible asset fair values of client agreements and goodwill.

During the measurement period (which is the period required to obtain all necessary information that existed at the acquisition date, or to conclude that such information is unavailable, not to exceed one year), additional assets or liabilities may be recognized, or there could be changes to the amounts of assets or liabilities previously recognized on a preliminary basis, if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of these assets or liabilities as of that date. The change in fair value of the contingent consideration is more fully described in Note 10, "Debt Obligations".

On August 31, 2021, the Company's revenue cycle management segment completed the acquisition of another private medical billing company (the "Medical Billing Acquisition"). In accordance with the stock purchase agreement, Nobility Healthcare agreed to a non-refundable initial payment (the "Initial Payment Amount") of \$2,270,000. In addition to the Initial Payment Amount, the Company's revenue cycle management segment agreed to issue a contingent promissory note to the stockholders of the Medical Billing Acquisition in the principal amount of \$650,000 that is subject to an earn-out adjustment. The Company's revenue cycle management segment anticipates the estimated fair value of the contingent promissory note to be paid in full, therefore, the total aggregate purchase price was determined to be approximately \$2,920,000. Total acquisition related costs aggregated \$5,602, which was expensed as incurred.

The Company accounts for business combinations using the acquisition method and that the Company has early adopted the amendments of Regulation S-X dated May 21, 2020 and has concluded that this acquisition was not significant. Accordingly, the presentation of the assets acquired, historical financial statements under Rule 3-05 and related pro forma information under Article 8 of Regulation S-X, respectively, are not required to be presented. Under the acquisition method, the purchase price of the Healthcare Acquisition has been allocated to the acquired tangible and identifiable intangible assets and assumed liabilities based on their estimated fair values at the time of the Healthcare Acquisition. This allocation involves a number of assumptions, estimates, and judgments that could materially affect the timing or amounts recognized in our financial statements. Our assumptions and estimates are based upon information obtained from the management of the Company's revenue cycle management segment. The acquisition was structured as stock purchase, therefore the excess purchase price over the fair value of net tangible assets acquired was recorded as goodwill, which will not be amortized for income tax filing purposes. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

The purchase price of the Medical Billing Acquisition was allocated to the tangible assets, and assumed liabilities based on their preliminary estimated fair values at the time of the Medical Billing Acquisition. The preliminary and final estimated fair value of assets acquired, and liabilities assumed in the Medical Billing Acquisition were as follows:

Description	Purchase price allocation	
	Preliminary As allocated September 30, 2021	Final As allocated September 30, 2022
Assets acquired:		
Tangible assets acquired	\$ 401,547	\$ 401,547
Identifiable intangible assets acquired – client agreements	—	206,955
Goodwill	2,920,000	2,713,045
Liabilities assumed pursuant to stock purchase agreement	(401,547)	(401,547)
Net assets acquired and liabilities assumed	<u>\$ 2,920,000</u>	<u>\$ 2,920,000</u>
Consideration:		
Cash paid at Healthcare Acquisition date	\$ 2,270,000	\$ 2,270,000
Contingent consideration earn-out agreement	650,000	650,000
Total Healthcare Acquisition purchase price	<u>\$ 2,920,000</u>	<u>\$ 2,920,000</u>

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives in years as of the date of acquisition:

Identifiable intangible assets:	Cost	Amortization through December 31, 2023	Estimated useful life
Client agreements	\$ 206,955	\$ 48,290	10 years

For the period from the date of the Healthcare Acquisition to August 31, 2022, the Company adjusted its preliminary fair value estimates and estimated useful lives based upon information obtained through August 31, 2022, which resulted in adjustments to the preliminary allocation of the purchase price. These adjustments primarily related to estimated identifiable intangible asset fair values of client agreements and goodwill.

During the measurement period (which is the period required to obtain all necessary information that existed at the acquisition date, or to conclude that such information is unavailable, not to exceed one year), additional assets or liabilities may be recognized, or there could be changes to the amounts of assets or liabilities previously recognized on a preliminary basis, if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of these assets or liabilities as of that date. The change in fair value of the contingent consideration is more fully described in Note 10, “Debt Obligations”.

On January 1, 2022, the Company's revenue cycle management segment completed the acquisition of another private medical billing company (the "Medical Billing Acquisition"). In accordance with the stock purchase agreement, Nobility Healthcare agreed to a non-refundable initial payment (the "Initial Payment Amount") of \$1,153,626. In addition to the Initial Payment Amount, the Company's revenue cycle management segment agreed to issue a contingent promissory note to the stockholders of the Medical Billing Acquisition in the principal amount of \$750,000 that is subject to an earn-out adjustment. The Company's revenue cycle management segment anticipates the estimated fair value of the contingent promissory note to be paid in full, therefore, the total aggregate purchase price was determined to be approximately \$1,903,626. Total acquisition related costs aggregated \$7,996, which was expensed as incurred.

The Company accounts for business combinations using the acquisition method and that the Company has early adopted the amendments of Regulation S-X dated May 21, 2020 and has concluded that this acquisition was not significant. Accordingly, the presentation of the assets acquired, historical financial statements under Rule 3-05 and related pro forma information under Article 8 of Regulation S-X, respectively, are not required to be presented. Under the acquisition method, the purchase price of the Healthcare Acquisition has been allocated to the acquired tangible and identifiable intangible assets and assumed liabilities based on their estimated fair values at the time of the Healthcare Acquisition. This allocation involves a number of assumptions, estimates, and judgments that could materially affect the timing or amounts recognized in our financial statements. Our assumptions and estimates are based upon information obtained from the management of the Company's revenue cycle management segment. The acquisition was structured as stock purchase, therefore the excess purchase price over the fair value of net tangible assets acquired was recorded as goodwill, which will not be amortized for income tax filing purposes. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

The purchase price of the Medical Billing Acquisition was allocated to the tangible assets, and assumed liabilities based on their preliminary estimated fair values at the time of the Medical Billing Acquisition. There was no change from the preliminary estimated fair value to the final estimated fair value of assets acquired, and liabilities assumed in the Healthcare Acquisition, those value were as follows:

Description	Amount
Assets acquired:	
Tangible assets acquired	\$ 190,631
Goodwill	2,100,000
Liabilities assumed pursuant to stock purchase agreement	(387,005)
Total assets acquired and liabilities assumed	\$ 1,903,626
Consideration:	
Cash paid at acquisition date	\$ 1,153,626
Contingent consideration promissory note	750,000
Total acquisition purchase price	\$ 1,903,626

During the measurement period (which is the period required to obtain all necessary information that existed at the acquisition date, or to conclude that such information is unavailable, not to exceed one year), additional assets or liabilities may be recognized, or there could be changes to the amounts of assets or liabilities previously recognized on a preliminary basis, if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of these assets or liabilities as of that date. The change in fair value of the contingent consideration is more fully described in Note 10, "Debt Obligations".

On February 1, 2022, the Company's revenue cycle management segment completed an asset acquisition from another private medical billing company (the "Medical Billing Asset Acquisition"). In accordance with the asset purchase agreement, Nobility Healthcare agreed to a non-refundable initial payment (the "Initial Payment Amount") of \$230,000. In addition to the Initial Payment Amount, the Company's revenue cycle management segment agreed to issue a contingent promissory note to the stockholders of the Medical Billing Asset Acquisition in the principal amount of \$105,000 that is subject to an earn-out adjustment. The Company's revenue cycle management segment anticipates the estimated fair value of the contingent promissory note to be paid in full, therefore, the total aggregate purchase price was determined to be approximately \$335,000. Total acquisition related costs aggregated \$10,322, which was expensed as incurred.

In accordance with ASC 805, "Business Combinations", the acquisition method of accounting is used, and recognition of the assets acquired is at fair value as of the acquisition dates. All acquisition costs were expensed as incurred. The consideration paid has been allocated to the assets acquired based on their estimated fair values at the acquisition date. The estimate of fair values for the intangible assets acquired were agreed to by both buyer and seller. The estimated fair value of intangible assets acquired in the Medical Billing Asset Acquisition were as follows:

Description	Amount
Assets acquired:	
Intangible assets acquired – client agreements	\$ 335,000
Total assets acquired and liabilities assumed	\$ 335,000
Consideration:	
Cash paid at acquisition date	\$ 230,000
Contingent consideration promissory note	105,000
Total acquisition purchase price	\$ 335,000

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives in years as of the date of acquisition:

Identifiable intangible assets:	Cost	Amortization through December 31, 2023	Estimated useful life
Client agreements	\$ 335,000	\$ 64,208	10 years

The change in fair value of the contingent consideration is more fully described in Note 10, "Debt Obligations" and will be estimated on a quarterly basis.

NOTE 22. TICKETSMARTER ACQUISITION

On September 1, 2021, Digital Ally, Inc. formed TicketSmarter, Inc. (“TicketSmarter”), through which the Company completed the acquisition of Goody Tickets, LLC, a Kansas limited liability company (“Goody Tickets”) and TicketSmarter, LLC, a Kansas limited liability company (“TicketSmarter LLC”), collectively the “TicketSmarter Acquisition”. TicketSmarter, Inc. comprises the Company’s entertainment business segment. In accordance with the stock purchase agreement, the Company agreed to an initial payment (the “Initial Payment Amount”) of \$9,403,600 through a combination of cash and common stock. In addition to the Initial Payment Amount, the Company agreed to issue an earn-out agreement to the stockholders of Goody Tickets and TicketSmarter LLC in the contingent amount of \$4,244,400 that is subject to an earn-out adjustment based on actual EBITDA achieved in 2021, of which the Company gave a fair value of \$3,700,000 on the date of acquisition. However, following the completion of 2021, it was determined that the actual EBITDA threshold for any earn-out adjustment to be paid was not met. Thus, in accordance with U.S. GAAP, the fair value of the contingent earn-out is reduced to zero, and the associated gain related to this revaluation is recorded in our Consolidated Statements of Operations for the year ended December 31, 2021. Lastly, included in the agreement, the Company agreed to place \$500,000 in escrow, subject to a working capital adjustment based on actual working capital amounts on the acquisition date as defined in the agreement, this amount was subject to disbursement 45 days following the close of the acquisition. The parties completed the working capital adjustment resulting in the Company retaining \$297,726 of the escrow amount with the \$202,274 released to the Sellers. The total acquisition related costs aggregated \$40,625, which was expensed as incurred.

The Company accounts for business combinations using the acquisition method and that the Company has early adopted the amendments of Regulation S-X dated May 21, 2020 and has concluded that this acquisition was not significant. Accordingly, the presentation of the assets acquired, historical financial statements under Rule 3-05 and related pro forma information under Article 11 of Regulation S-X, respectively, are not required to be presented. Under the acquisition method, the purchase price of the TicketSmarter Acquisition has been allocated to Goody Tickets’ and TicketSmarter LLC’s acquired tangible and identifiable intangible assets and assumed liabilities based on their estimated fair values at the time of the TicketSmarter Acquisition. This allocation involves a number of assumptions, estimates, and judgments that could materially affect the timing or amounts recognized in our financial statements. The TicketSmarter Acquisition was structured as a stock purchase; however the parties agreed to coordinate the election to invoke IRS Section 338(h)(10) relative to this transaction for tax purposes. Therefore, the excess purchase price over the fair value of net tangible assets acquired was recorded as goodwill, which will be amortized over 15 years for income tax filing purposes. Likewise, the other acquired assets were stepped up to fair value and is deductible for income tax purposes. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date.

The purchase price of the TicketSmarter Acquisition was allocated to Goody Tickets’ and TicketSmarter LLC’s tangible assets, goodwill, identifiable intangible assets, and assumed liabilities based on their preliminary estimated fair values at the time of the TicketSmarter Acquisition. The Company retained the services of an independent valuation firm to determine the fair value of these identifiable intangible assets. The preliminary and final estimated fair value of assets acquired, and liabilities assumed in the TicketSmarter Acquisition were as follows:

Description	Purchase price allocation	
	As allocated September 30, 2021	Final as allocated December 31, 2021
Assets acquired:		
Tangible assets acquired, including \$51,432 of cash acquired	\$ 7,139,930	\$ 5,748,291
Identifiable intangible assets acquired	—	6,800,000
Goodwill	11,839,308	5,886,547
Liabilities assumed	(5,128,964)	(5,128,964)
Net assets acquired and liabilities assumed	<u>\$ 13,850,274</u>	<u>\$ 13,305,874</u>
Consideration:		
Cash paid at TicketSmarter Acquisition date	\$ 8,413,240	\$ 8,413,240
Common stock issued as consideration for TicketSmarter Acquisition at date of acquisition	990,360	990,360
Contingent consideration earn-out agreement	4,244,400	3,700,000
Cash paid at closing to escrow amount	500,000	500,000
Cash retained from escrow amount pursuant to settlement of working capital target	(297,726)	(297,726)
Total TicketSmarter Acquisition purchase price	<u>\$ 13,850,274</u>	<u>\$ 13,305,874</u>

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives in years as of the date of acquisition:

	Cost	Amortization through December 31, 2023	Estimated useful life
Identifiable intangible assets:			
Trademarks	\$ 600,000	\$ —	indefinite
Sponsorship agreement network	5,600,000	2,613,333	5 years
Search engine optimization/content	600,000	350,000	4 years
	<u>\$ 6,800,000</u>	<u>\$ 2,963,333</u>	

For the period from the date of the TicketSmarter Acquisition to December 31, 2021, the Company adjusted its preliminary fair value estimates and estimated useful lives based upon information obtained through December 31, 2021, which resulted in adjustments to the preliminary allocation of the purchase price. These adjustments primarily related to estimated identifiable intangible asset fair values (primarily related to the sponsorship agreement network), the estimated fair value of the contingent earn-out agreement liability and goodwill. There were no adjustments to the allocation of the purchase price during the year ended December 31, 2023.

During the measurement period (which is the period required to obtain all necessary information that existed at the acquisition date, or to conclude that such information is unavailable, not to exceed one year), additional assets or liabilities may be recognized, or there could be changes to the amounts of assets or liabilities previously recognized on a preliminary basis, if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of these assets or liabilities as of that date. The change in fair value of the contingent consideration is more fully described in Note 10, "Debt Obligations".

NOTE 23. SEGMENT DATA

The accounting guidance on Segment Reporting establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in financial statements. Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision maker (the Company's Chief Executive Officer or "CODM") in making decisions on how to allocate resources and assess performance. The Company's three operating segments are Video Solutions, Revenue Cycle Management, and Entertainment, each of which has specific personnel responsible for that business and reports to the CODM. Corporate expenses capture the Company's corporate administrative activities, is also to be reported in the segment information. The Company's captive insurance subsidiary provides services to the Company's other business segments and not to outside customers. Therefore, its operations are eliminated in consolidation and is not considered a separate business segment for financial reporting purposes.

The Video Solutions Segment encompasses our law, commercial, and shield divisions. This segment includes both service and product revenues through our subscription models offering cloud and warranty solutions, and hardware sales for video and health safety solutions. The Revenue Cycle Management Segment provides working capital and back-office services to a variety of healthcare organizations throughout the country, as a monthly service fee. The Entertainment Segment acts as an intermediary between ticket buyers and sellers within our secondary ticketing platform, ticketsmarter.com, and we also acquire tickets from primary sellers to then sell through various platforms.

The Company's corporate administration activities are reported in the corporate line item. These activities primarily include expense related to certain corporate officers and support staff, certain accounting staff, expense related to the Company's Board of Directors, stock option expense for options granted to corporate administration employees, certain consulting expenses, investor relations activities, and a portion of the Company's legal, auditing and professional fee expenses. Corporate identifiable assets primarily consist of cash, invested cash (if any), refundable income taxes (if any), and deferred income taxes.

Summarized financial information for the Company's reportable business segments is provided for the years ended December 31, 2023, and 2022:

	Years Ended December 31,	
	2023	2022
Net Revenues:		
Video Solutions	\$ 7,471,285	\$ 8,252,288
Revenue Cycle Management	6,713,678	7,886,107
Entertainment	14,063,381	20,871,500
Total Net Revenues	<u>\$ 28,248,344</u>	<u>\$ 37,009,895</u>
Gross Profit (loss):		
Video Solutions	\$ 1,290,509	\$ (1,250,277)
Revenue Cycle Management	2,772,271	3,303,477
Entertainment	1,699,704	268,741
Total Gross Profit	<u>\$ 5,762,484</u>	<u>\$ 2,321,941</u>
Operating Income (loss):		
Video Solutions	\$ (7,135,584)	\$ (9,278,721)
Revenue Cycle Management	292,543	357,705
Entertainment	(3,646,770)	(7,369,241)
Corporate	(11,750,742)	(13,443,001)
Total Operating Income (Loss)	<u>\$ (22,240,553)</u>	<u>\$ (29,733,258)</u>
Depreciation and Amortization:		
Video Solutions	\$ 836,699	\$ 769,228
Revenue Cycle Management	104,352	128,082
Entertainment	1,277,186	1,279,369
Total Depreciation and Amortization	<u>\$ 2,218,237</u>	<u>\$ 2,176,679</u>
Assets (net of eliminations):		
Video Solutions	\$ 26,396,559	\$ 28,509,706
Revenue Cycle Management	2,260,376	2,201,570
Entertainment	6,324,211	11,190,491
Corporate	12,047,663	14,766,295
Total Identifiable Assets	<u>\$ 47,028,809</u>	<u>\$ 56,668,062</u>

The segments recorded noncash items affecting the gross profit and operating income (loss) through the established inventory reserves based on estimates of excess and/or obsolete current and non-current inventory. The Company recorded a reserve for excess and obsolete inventory in the video solutions segment of \$4,355,666 and \$5,230,261 and a reserve for the entertainment segment of \$186,795 and \$259,280 as of December 31, 2023 and 2022.

The segment net revenues reported above represent sales to external customers. Segment gross profit represents net revenues less cost of revenues. Segment operating income, which is used in management's evaluation of segment performance, represents net revenues, less cost of revenues, less all operating expenses. Identifiable assets are those assets used by each segment in its operations. Corporate assets primarily consist of cash, property, plant and equipment, accounts receivable, inventories, and other assets.

Note 24. SUBSEQUENT EVENTS

2023 Issuance of Restricted Common Stock

On January 31, 2024, the Compensation Committee of the Board of Directors (the “Committee”) awarded Stanton E. Ross 20,000 shares of restricted common stock, half of these share will vest on January 31, 2025 and half on January 1, 2026, or in full at the completion of the previously disclosed Transaction entered into by the Company’s wholly-owned subsidiary, Kustom Entertainment, pursuant to the Merger Agreement with Clover Leaf, and the Company, whichever occurs first, provided that he remains an officer on such dates. Peng Han was awarded 15,000 shares of restricted common stock that will vest 3,000 shares on January 31, 2024, January 31, 2025, January 31, 2026, January 31, 2027 and January 31, 2028, or in full at the completion of the Transaction, whichever occurs first, provided that he remains an officer on such dates.

Resignation of Michael J. Caulfield

On January 31, 2024, Michael J. Caulfield notified the Board of Directors (the “Board”) of Digital Ally, Inc. (the “Company”) that he resigns as a director of the Board, effective immediately.

Country Stampede Acquisition

On March 1, 2024, Kustom 440, entered into an Asset Purchase Agreement (the “Acquisition Agreement”) with JC Entertainment, LLC, a Kansas limited liability company (“JC Entertainment”). Pursuant to the Acquisition Agreement, Kustom 440 acquired certain assets associated with a music entertainment event (“Country Stampede”), including all intellectual property arising out of and relating to Country Stampede (“Country Stampede Intellectual Property”) and certain contracts in which JC Entertainment is a party to host and operate the 2024 Country Stampede (the “Assumed Contracts”), and together with the Country Stampede Intellectual Property, the “Purchased Assets”).

Senior Secured Promissory Note

On March 1, 2024, the Company entered into a Note Purchase Agreement (the “Note Agreement”), by and between the Company, Kustom Entertainment (together with the Company, the “Borrowers”), and Mosh Man, LLC, a New Jersey limited liability company (the “Purchaser”), pursuant to which the Borrowers issued to the Purchaser a Senior Secured Promissory Note (the “Note”) with a principal amount of \$1,425,000. In connection with the Agreement, the Borrowers entered into a Security Agreement (the “Security Agreement”) by and between the Borrowers, as grantor, and the Purchaser, as grantee. The gross proceeds to the Company are \$1,000,000, before paying customary fees and expenses.

Pursuant to the Note, the Borrowers shall repay the Note, in full, on the earlier of (i) November 1, 2024, and (ii) the consummation of the merger between Kustom Entertainment and Clover Leaf pursuant to the Merger Agreement among the Company, Kustom Entertainment, Clover Leaf Capital Corp., Yntegra Capital Investments LLC and CL Merger Sub, dated as of June 1, 2023. The Borrowers shall pay in arrears in cash an amount equal to 50% of revenues from all ticket sales generated by Kustom Entertainment, up nine thousand tickets sold, and thereafter equal to 10% of all revenues from all ticket sales until the earlier of the date on which the Note is repaid in full or the Maturity Date. The Note bears interest at a rate of 1.58% per month. The Borrowers have the right, but not the obligation, under the Note to prepay the Note, upon written notice to the Purchaser, by payment in full of the entire outstanding principal balance plus interest. Upon a change of control of either Borrower or a sale or all or substantially all of either Borrower’s assets, the Purchaser may require the Borrowers to repay the Note, upon written notice to the Borrowers, by payment in full of the entire outstanding principal balance plus interest. In addition, upon the receipt of proceeds from any financing or extraordinary receipts, the Borrowers are required to repay the Note as follows: (A) if the aggregate proceeds of all such financings and extraordinary receipts are less than \$3,000,000, the Borrowers shall prepay an amount equaling to 50% of the outstanding principal of the Note, and (B) if the aggregate proceeds of all such financings and extraordinary receipts are equal to or greater than \$3,000,000, the Borrowers shall prepay the Note in full.

Pursuant to the Security Agreement, the Borrowers’ obligations under the Note and Agreement are secured by substantially all of the assets of the Borrowers, other than any real property.

Notice of Failure to Satisfy a Continued Listing Rule

On March 14, 2024, the Nasdaq Listing Qualifications staff notified Digital Ally, Inc. (the “Company”), that due to resignation of Mr. Michael J. Caulfield from the Company’s board of directors (the “Board”) effective on January 31, 2024, the Company no longer complies with the audit committee and compensation committee requirements as set forth in Listing Rule 5605 of The Nasdaq Stock Market LLC (“Nasdaq”), including the requirements that there are at least three independent directors on the Company’s audit committee and at least two independent directors on the Company’s compensation committee.

The notification has no immediate effect on the Company’s listing on the Nasdaq Capital Market. In accordance with Nasdaq Listing Rules, the Company is provided a cure period until the earlier of the Company’s next annual shareholders’ meeting (or July 29, 2024 if the next shareholders’ meeting will be held before July 29, 2024) or January 31, 2025 (the “Cure Period”). If the Company does not regain compliance by within the Cure Period, Nasdaq will provide written notice that the Company’s common stock, par value \$0.001 per share, will be subject to delisting from the Nasdaq Capital Market, at which time, the Company may appeal the delisting determination to a Hearings Panel.

The management of the Company has resolved to take commercially reasonable steps to fill the vacancy on the Board with a new director who qualifies as independent under the Nasdaq Listing Rules as soon as is practical and anticipates regaining compliance during the Cure Period. However, there can be no assurance that the Company will be able to satisfy Nasdaq Listing Rule 5605 or will otherwise be in compliance with other Nasdaq listing criteria.

Business Combination

In February 2024, Kustom Entertainment and Clover Leaf announced the filing of Amendment No. 2 to a Registration Statement on Form S-4 by Clover Leaf with the SEC on February 5, 2024, relating to the previously announced proposed Business Combination.

No. _____

_____ Shares

DIGITAL ALLY, INC.
Authorized Common Stock: 75,000,000
Par Value \$.001

This Certifies That _____

Is the Record Holder of _____ Shares

transferable on the books of the Corporation by the holder hereof, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed. This Certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

Witness the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated: _____

President

**DESCRIPTION OF SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2020, Digital Ally, Inc. (the “Company,” “we,” “us” or “our”) has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our common stock, \$0.001 par value per share (the “Common Stock”).

General

The following description of our Common Stock and certain provisions of our articles of incorporation, as amended (“Articles of Incorporation”), and our Bylaws are summaries and are qualified by reference to our Articles of Incorporation and Bylaws. Such summaries do not purport to be complete and are qualified in their entirety by reference to Nevada law, including the NRS, as well as copies of our Articles of Incorporation and Bylaws, which have been filed as exhibits to prior reports filed by us with the SEC and are incorporated by reference as exhibits to the registration statement of which this prospectus forms a part. See “Where You Can Find More Information.”

Common Stock

Our authorized Common Stock consists of 50,000,000 shares of Common Stock, \$0.001 par value per share. As of June 23, 2020, we had 26,581,600 shares of our Common Stock issued and outstanding, which excludes 63,518 shares held in treasury.

Voting Rights

Each share of our Common Stock entitles the owner to one vote. There is no cumulative voting. A simple majority can elect all of the directors at a given meeting, and the minority would not be able to elect any director at that meeting.

Dividends

Each share of our Common Stock is entitled to receive an equal dividend, if one is declared. We cannot provide any assurance that we will declare or pay cash dividends on our Common Stock in the future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant. Our board of directors may determine it to be necessary to retain future earnings (if any) to finance our growth. See “Risk Factors” and “Dividend Policy.”

Liquidation

If the Company is liquidated, then assets that remain (if any) after the creditors are paid and the owners of any securities with liquidation preferences senior to the Common Stock are paid will be distributed to the owners of our Common Stock *pro rata*.

Preemptive Rights

Owners of our Common Stock have no preemptive rights. We may sell shares of our Common Stock to third parties without first offering such shares to current stockholders.

Redemption Rights

We do not have the right to buy back shares of our Common Stock except in extraordinary transactions, such as mergers and court approved bankruptcy reorganizations. Owners of our Common Stock do not ordinarily have the right to require us to buy their Common Stock. We do not have a sinking fund to provide assets for any buy back.

Conversion Rights

Shares of our Common Stock cannot be converted into any other kind of stock except in extraordinary transactions, such as mergers and court approved bankruptcy reorganizations.

Nonassessability

All outstanding shares of our Common Stock are fully paid and nonassessable.

Listing

Our Common Stock trades on Nasdaq under the symbol “DGLY.”

Transfer Agent and Registrar

Our transfer agent and registrar for our Common Stock in the United States is Action Stock Transfer Corporation, located at 2469 E. Fort Union Blvd., Salt Lake City, UT 84122. Its telephone number is (801) 274-1088.

Subsidiaries of Registrant

<u>Subsidiary Legal Name</u>	<u>Status</u>	<u>State of Organization</u>	<u>Type of Organization</u>	<u>Entity Organizational ID #</u>
Digital Ally International, Inc.	Subsidiary-100% owned	Nevada	Corporation	NV20091423731
Shield Products, LLC	Subsidiary-100% owned	Kansas	Limited Liability Company	9656117
Digital Ally Healthcare, Inc.	Subsidiary-100% owned	Nevada	Corporation	NV20212106205
Nobility Healthcare, LLC.	Subsidiary-51% owned	Kansas	Limited Liability Company	9920075
TicketSmarter, Inc.	Subsidiary-100% owned	Nevada	Corporation	NV20211727915
TicketSmarter, LLC	Subsidiary-100% owned	Kansas	Limited Liability Company	9430463
Goody Tickets, LLC	Subsidiary-100% owned	Kansas	Limited Liability Company	6503932
Worldwide Reinsurance, Ltd.	Subsidiary-100% owned	Bermuda	Private Limited Company	47713
Digital Connect, Inc.	Subsidiary-100% owned	Nevada	Corporation	NV20222319342
BirdVu Jets, Inc.	Subsidiary-100% owned	Nevada	Corporation	NV20222550723
Kustom 440, Inc.	Subsidiary-100% owned	Nevada	Corporation	NV20222550723
Kustom Entertainment, Inc.	Subsidiary-100% owned	Nevada	Corporation	NV20222805846



New York Office:

805 Third Avenue
New York, NY 10022
212.838-5100

www.rbsmlp.com

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement File No. 333-270129, File No. 333-146874, File No. 333-180393, File No. 333-190117, File No. 333-199095, File No. 333-202943, File No. 333-205136, File No. 333-211534, File No. 333-220086, File No. 333-226940, File No. 333-231810, File No. 333-250124 and File No. 333-270129 on Forms S-8 and on File No. 333-227664 and File No. 333-239419 on Forms S-3 of Digital Ally, Inc. of our report dated April 1, 2024, which includes an explanatory paragraph as to the Company's ability to continue as a going concern, with respect to our audits of the consolidated financial statement of Digital Ally, Inc. as of and for the years ended December 31, 2023 and 2022, which report is included in this Annual Report on Form 10-K of Digital Ally, Inc.

/s/ RBSM LLP

New York, NY
April 1, 2024

New York, NY Washington DC Mumbai & Pune, India Boca Raton, FL
San Francisco, CA Las Vegas, NV Beijing, China Athens, Greece
Member: ANTEA International with affiliated offices worldwide

POWER OF ATTORNEY

Each person whose signature appears below, hereby authorizes and appoints Stanton E. Ross and Thomas J. Heckman or either of them as his attorneys-in-fact with full power of substitution and re-substitution, to sign and file on his behalf individually and in each such capacity stated, below, the Annual Report of Digital Ally, Inc. on Form 10-K for the year ended December 31, 2023, and any amendments thereto to be filed with the Securities and Exchange Commission, the NASDAQ Stock Market or similar body, and otherwise, as fully as such person could do in person, hereby verifying and confirming all that said attorneys-in-fact, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

<u>SIGNATURE AND TITLE</u>	<u>DATE</u>
<u>/s/ Stanton E. Ross</u> Stanton E. Ross, Director and Chief Executive Officer	April 1, 2024
<u>/s/ Leroy C. Richie</u> Leroy C. Richie, Director	April 1, 2024
<u>/s/ Christian J. Hoffmann, III</u> Christian J. Hoffmann, III, Director	April 1, 2024
<u>/s/ Thomas J. Heckman</u> Thomas J. Heckman, Chief Financial Officer, Secretary and Treasurer	April 1, 2024

DIGITAL ALLY, INC.
CERTIFICATIONS

I, **Stanton E. Ross**, Chief Executive Officer of Digital Ally, Inc., certify that:

1. I have reviewed this report on Form 10-K for the year ended December 31, 2023 of Digital Ally, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: April 1, 2024

By: /s/ Stanton E. Ross

STANTON E. ROSS

Chief Executive Officer

(Principal Executive Officer)

DIGITAL ALLY, INC.
CERTIFICATIONS

I, **Thomas J. Heckman**, Chief Financial Officer of Digital Ally, Inc., certify that:

1. I have reviewed this report on Form 10-K for the year ended December 31, 2023 of Digital Ally, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: April 1, 2024

By: */s/ Thomas J. Heckman*

THOMAS J. HECKMAN

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

DIGITAL ALLY, INC.
CERTIFICATION PURSUANT TO
19 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Digital Ally, Inc. (the "Company") on Form 10-K for the year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, **Stanton E. Ross**, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stanton E. Ross

STANTON E. ROSS

Chief Executive Officer

(Principal Executive Officer)

April 1, 2024

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Digital Ally, Inc. and will be retained by Digital Ally, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

DIGITAL ALLY, INC.
CERTIFICATION PURSUANT TO
19 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Digital Ally, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Thomas J. Heckman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas J. Heckman

THOMAS J. HECKMAN
Chief Financial Officer
(Principal Financial Officer)

April 1, 2024

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Digital Ally, Inc. and will be retained by Digital Ally, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

DIGITAL ALLY, INC. (the “Company”)

CLAWBACK POLICY

Effective as of November 17, 2023

Background

The Board of Directors of the Company (the “**Board**”) believes that it is in the best interests of the Company and its shareholders to create and maintain a culture that emphasizes integrity and accountability and that reinforces the Company’s pay-for-performance compensation philosophy. The Compensation Committee of the Board (the “**Compensation Committee**”) and the Board have therefore adopted this policy, which provides for the recoupment (or clawback) of certain executive compensation in the event of an accounting restatement resulting from material noncompliance with financial reporting requirements under the federal securities laws of the United States (the “**Policy**”). This Policy is designed to comply with Section 10D of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), Rule 10D-1 promulgated under the Exchange Act (“**Rule 10D-1**”) and the listing standards of The Nasdaq Stock Market LLC (“**Nasdaq**”) under Nasdaq Listing Rule 5608.

Administration

This Policy shall be administered by the Compensation Committee. Any determinations made by the Compensation Committee shall be final and binding on all affected individuals. Subject to any limitation under applicable law, the Compensation Committee may authorize and empower any officer or employee of the Company to take any and all actions necessary or appropriate to carry out the purpose and intent of this Policy (the “**Authorized Officers**”) (other than with respect to any recovery under this Policy involving such officer or employee).

Covered Executives

This Policy applies to the Company’s current and former executive officers, as determined by the Board in accordance with Section 10D of the Exchange Act and the listing standards of the Nasdaq (“**Covered Executives**”).

Recoupment; Accounting Restatement

In the event the Company is required to prepare an accounting restatement of its financial statements due to the Company’s material noncompliance with any financial reporting requirement under the securities laws, the Compensation Committee will require prompt reimbursement or forfeiture of any excess Incentive Compensation (as defined below) received by any Covered Executive during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement. For the sake of clarity, recoupment is required in the event of any restatement that either: (a) corrects an error in previously issued financial statements that is material to the previously issued financial statements; or (b) corrects an error not material to previously issued financial statements, but that would result in a material misstatement if (i) the error was left uncorrected in the then current period; or (ii) the error correction was recognized in the then current period. The Company’s obligation to recover erroneously awarded compensation is not dependent on if or when the restated financial statements are filed. For purposes of determining the relevant recovery period, the date that the Company is required to prepare an accounting restatement as described above is the earlier to occur of: (A) the date the Board, a committee of the Board, the Authorized Officers, or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an accounting restatement as described above; or (B) the date a court, regulator, or other legally authorized body directs the Company to prepare an accounting restatement as described above. In accordance with Nasdaq Rule 5608(e), this Policy is applicable to Incentive Compensation (as described below) received on or after October 2, 2023.

Incentive Compensation

For purposes of this Policy, “Incentive Compensation” means any of the following, provided that such compensation is granted, earned or vested based wholly or in part on the attainment of a financial reporting measure affected by the restated financial statements:

- Annual bonuses and other short- and long-term cash incentives.
- Stock options.
- Stock appreciation rights.
- Restricted stock.

Financial reporting measures are measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures. Stock price and total stockholder return are also financial reporting measures. A financial reporting measure need not be presented within the financial statements or included in a filing with the Securities and Exchange Commission. The Company’s financial reporting measures may include, but are not limited to, the following:

- Company stock price.
- Total stockholder return.
- Revenues.
- Net income.
- Earnings before interest, taxes, depreciation and amortization (EBITDA).
- Funds from operations.
- Liquidity measures such as working capital, operating cash flow or Free Cash Flow.
- Return measures such as return on invested capital or return on assets.
- Earnings measures such as earnings per share.

This Policy applies to all Incentive Compensation received by a Covered Executive:

- After beginning service as an executive officer;
 - Who served as an executive officer at any time during the performance period for that Incentive Compensation;
 - While the Company has a class of securities listed on a national securities exchange or a national securities association; and
 - During the three completed fiscal years immediately preceding the date that the Company is required to prepare an accounting restatement as described in this Policy. In addition to these last three completed fiscal years, this Policy applies to any transition period (that results from a change in the Company’s fiscal year) within or immediately following those three completed fiscal years. However, a transition period between the last day of the Company’s previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months would be deemed a completed fiscal year.
-

Incentive Compensation is deemed received in the Company's fiscal period during which the financial reporting measure specified in the Incentive Compensation award is attained, even if the payment or grant of the Incentive Compensation occurs after the end of that period.

Excess Incentive Compensation: Amount Subject to Recovery

The amount to be recovered will be the excess of the Incentive Compensation paid to the Covered Executive based on the erroneous data over the Incentive Compensation that would have been paid to the Covered Executive had it been based on the restated results, as determined by the Compensation Committee, and without regard to any taxes paid by or withheld from the Covered Executive. If the Compensation Committee cannot determine the amount of excess Incentive Compensation received by the Covered Executive directly from the information in the accounting restatement, then it will make its determination based on a reasonable estimate of the effect of the accounting restatement. For Incentive Compensation based on stock price or total stockholder return, where the amount of erroneously awarded compensation is not subject to mathematical recalculation directly from the information in an accounting restatement, the amount will be based on a reasonable estimate of the effect of the accounting restatement on the stock price or total stockholder return upon which the Incentive Compensation was received. In such case, the Company shall maintain documentation of the determination of that reasonable estimate and provide such documentation to Nasdaq.

Method of Recoupment

The Compensation Committee will determine, in its sole discretion, the method for recouping Incentive Compensation hereunder which may include, without limitation:

- Requiring reimbursement of cash Incentive Compensation previously paid;
- Seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards;
- Offsetting the recouped amount from any compensation otherwise owed by the Company to the Covered Executive in accordance with applicable law;
- Cancelling outstanding vested or unvested equity awards; and/or
- Taking any other remedial and recovery action permitted by law, as determined by the Compensation Committee.

No Indemnification

The Company shall not indemnify any Covered Executives against the loss of any Incentive Compensation recovered under this Policy or from any consequence arising therefrom.

Interpretation

The Compensation Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate or advisable for the administration of this Policy. It is intended that this Policy be interpreted in a manner that is consistent with the requirements of Section 10D of the Exchange Act, Rule 10D-1 and any applicable rules or standards adopted by the Securities and Exchange Commission or Nasdaq.

Effective Date

This Policy shall be effective as of the date it is adopted by the Board (the “**Effective Date**”) and, in accordance with Nasdaq Rule 5608(e), shall apply to Incentive Compensation that is received by Covered Executives on or after October 2, 2023.

Amendment; Termination

The Board may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary to reflect regulations adopted by the Securities and Exchange Commission under Section 10D of the Exchange Act and to comply with any rules or standards adopted by Nasdaq. The Board may terminate this Policy at any time.

Other Recoupment Rights

The Board intends that this Policy will be applied to the fullest extent of applicable law. The Board and/or Compensation Committee may require that any employment agreement, equity award agreement, or similar agreement entered into or amended on or after the Effective Date shall, as a condition to the grant of any benefit thereunder, require a Covered Executive to agree to abide by the terms of this Policy. Any right of recoupment under this Policy is in addition to, and not in lieu of: (a) any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any similar policy in any employment agreement, equity award agreement or similar agreement and any other legal remedies available to the Company, including termination of employment or institution of legal proceedings; and (b) any statutory recoupment requirement, including Section 304 of the Sarbanes-Oxley Act of 2002. For the avoidance of doubt, any amounts paid to the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 shall be considered (and may be credited) in determining any amounts recovered under this Policy.

Impracticability

The Compensation Committee shall recover any excess Incentive Compensation in accordance with this Policy unless such recovery would be impracticable, as determined in accordance with Rule 10D-1(b)(1)(iv) under the Exchange Act and the listing standards of Nasdaq. In order for the Company to determine that recovery would be impracticable, the Company’s Compensation Committee must conclude the following:

- a) The direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered after making a reasonable attempt to recover such Incentive Compensation. Note that the attempt(s) to recover must be documented by the Company and such documentation provided to Nasdaq;
- b) Recovery would violate home country law where that law was adopted prior to November 28, 2022. Note that the Company must obtain a legal opinion of home country counsel that such recovery would result in a violation of local law and provide such opinion to Nasdaq; or
- c) Recovery would likely cause an otherwise tax-qualified retirement plan under which benefits are broadly available to Company employees to fail to meet the requirements for qualified pension, profit-sharing and stock bonus plans under Section 401(a)(13) of the U.S. Internal Revenue Code or the minimum vesting standards under Section 411(a) of the U.S. Internal Revenue Code.

Successors

This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.

Exhibit Filing

A copy of this Policy shall be filed as an exhibit to the Company’s annual report on Form 10-K.

ATTESTATION AND ACKNOWLEDGEMENT OF CLAWBACK POLICY FOR DIGITAL ALLY, INC. (the "Company")

By my signature below, I acknowledge and agree that:

- I have received and read the attached Clawback Policy (this "Policy") of the Company.
- I hereby agree to abide by all of the terms of the Policy both during and after my employment with the Company, including, without limitation, by promptly repaying or returning any incorrectly awarded Incentive Compensation to the Company as determined in accordance with the Policy.
- I hereby waive any claim against the Company, its Authorized Officers and the Board in connection with the implementation of the Policy.

Signature: _____

Printed _____

Name: _____

Date: _____
