REFINITIV

DELTA REPORT

10-Q

DGLY - DIGITAL ALLY, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1499
CHANGES	10
DELETIONS	1489
ADDITIONS	0

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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	**20-0064269**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

14001 Marshall Drive, Lenexa, KS66215

(Address of principal executive offices) (Zip Code)

(913)814-7774

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common stock, $0.001 par value per share	DGLY	The Nasdaq Capital Market LLC

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 Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at November 14, 2023
Common Stock, $0.001 par value per share	2,800,752

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

FORM 10-Q
DIGITAL ALLY, INC.
SEPTEMBER 30, 2023

TABLE OF CONTENTS

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements.

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2023 AND DECEMBER 31, 2022

	September 30, 2023 (Unaudited)	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 2,207,831	$ 3,532,199
Accounts receivable – trade, net of $200,667 allowance – September 30, 2023 and $152,736 – December 31, 2022	2,022,730	2,044,056
Other receivables, net of $5,000 allowance – September 30, 2023 and $0 – December 31, 2022 (including $0 due from related parties – September 30, 2023 and $138,384 – December 31, 2022, refer to Note 20)	2,617,812	4,076,522
Inventories, net	5,194,779	6,839,406
Prepaid expenses	7,323,615	8,466,413
Total current assets	19,366,767	24,958,596
Property, plant, and equipment, net	7,451,042	7,898,686
Goodwill and other intangible assets, net	16,861,228	17,872,970
Operating lease right of use assets, net	1,034,518	782,129
Income tax receivable	9,447	—
Other assets	6,633,072	5,155,681
Total assets	$ 51,356,074	$ 56,668,062
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 12,589,610	$ 9,477,355
Accrued expenses	2,808,068	1,090,967
Current portion of operating lease obligations	264,958	294,617
Contract liabilities – current portion	2,751,983	2,154,874
Notes payable – related party – current portion	2,106,000	—
Debt obligations, net – current portion	2,213,148	485,373
Warrant derivative liabilities	1,412,820	—
Income taxes payable	—	8,097
Total current liabilities	24,146,587	13,511,283
Long-term liabilities:		
Debt obligations – long term	147,721	442,467
Operating lease obligation – long term	837,755	555,707
Contract liabilities – long term	7,134,547	5,818,082
Notes payable – related party – long term	219,000	—
Lease Deposit	10,445	—
Total liabilities	32,496,055	20,327,539

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Commitments and contingencies		
Stockholders’ Equity:		
Common stock, $0.001 par value per share; 200,000,000 shares authorized; shares issued: 2,800,752 shares issued – September 30, 2023 and 2,720,170 shares issued – December 31, 2022	2,801	2,721
Additional paid in capital	128,367,929	127,869,342
Noncontrolling interest in consolidated subsidiary	677,318	448,694
Accumulated deficit	(110,188,029)	(91,980,234)
Total stockholders’ equity	18,860,019	36,340,523
Total liabilities and stockholders’ equity	$ 51,356,074	$ 56,668,062

See Notes to the Unaudited Condensed Consolidated Financial Statements.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2023 AND 2022
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Revenue:				
Product	$ 2,095,237	$ 3,062,373	$ 7,626,706	$ 7,682,614
Service and other	4,242,462	5,421,780	14,687,813	20,447,778
Total revenue	6,337,699	8,484,153	22,314,519	28,130,392
Cost of revenue:				
Product	2,587,750	3,262,457	7,108,366	8,154,984
Service and other	2,523,800	4,626,196	9,698,175	15,721,210
Total cost of revenue	5,111,550	7,888,653	16,806,541	23,876,194
Gross profit	1,226,149	595,500	5,507,978	4,254,198
Selling, general and administrative expenses:				
Research and development expense	564,146	616,174	2,039,361	1,654,395
Selling, advertising and promotional expense	1,932,982	1,832,916	5,885,097	7,375,364
General and administrative expense	3,877,064	4,713,433	13,845,074	15,256,049
Total selling, general and administrative expenses	6,374,192	7,162,523	21,769,532	24,285,808
Operating loss	(5,148,043)	(6,567,023)	(16,261,554)	(20,031,610)
Other income (expense):				
Interest income	12,986	13,333	84,071	116,928
Interest expense	(959,898)	(14,255)	(2,480,947)	(39,766)
Other income (loss)	25,394	(1,892)	76,180	41,167
Loss on accrual for legal settlement	—	—	(1,792,308)	—
Loss on conversion of convertible note	—	—	(93,386)	—
Change in fair value of contingent consideration promissory notes	19,888	(138,877)	177,909	347,169
Change in fair value of short-term investments	—	—	—	(84,818)
Change in fair value of warrant derivative liabilities	1,863,326	1,164,849	1,803,560	6,726,638
Gain on extinguishment of liabilities	507,304	—	507,304	—
Gain on extinguishment of warrant derivative liabilities	—	3,624,794	—	3,624,794
Total other income (expense)	1,469,000	4,647,952	(1,717,617)	10,732,112
Loss before income tax benefit	(3,679,043)	(1,919,071)	(17,979,171)	(9,299,498)
Income tax benefit	—	—	—	—

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Net loss	(3,679,043)	(1,919,071)	(17,979,171)	(9,299,498)
Net (income) attributable to noncontrolling interests of consolidated subsidiary	(29,630)	16,596	(228,624)	(268,636)
Net loss attributable to common stockholders	$ (3,708,673)	$ (1,902,475)	$ (18,207,795)	$ (9,568,134)
Net loss per share information:				
Basic	$ (1.32)	$ (0.76)	$ (6.55)	$ (3.83)
Diluted	$ (1.32)	$ (0.76)	$ (6.55)	$ (3.83)
Weighted average shares outstanding:				
Basic	2,800,752	2,518,261	2,779,530	2,498,681
Diluted	2,800,752	2,518,261	2,779,530	2,498,681

See Notes to the Unaudited Condensed Consolidated Financial Statements.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Unaudited)

	Common Stock		Additional Paid In	Noncontrolling interest in consolidated	Accumulated	
	Shares	Amount	Capital	subsidiary	deficit	Total
Balance, December 31, 2021	2,545,220	$ 2,545	$ 124,476,447	$ 56,453	$ (68,672,206)	$ 55,863,239
Stock-based compensation	—	—	394,749	—	—	394,749
Restricted common stock grant	35,750	36	(36)	—	—	—
Restricted common stock forfeitures	(750)	(1)	1	—	—	—
Repurchase and cancellation of common stock	(93,802)	(94)	—	—	(2,063,674)	(2,063,768)
Distribution to noncontrolling interest in consolidated subsidiary	—	—	—	(15,692)	—	(15,692)
Net loss	—	—	—	(98,094)	(6,600,148)	(6,698,242)
Balance, March 31, 2022	2,486,418	$ 2,486	$ 124,871,161	$ (57,333)	$ (77,336,028)	$ 47,480,286
Stock-based compensation	—	—	381,602	—	—	381,602
Restricted common stock forfeitures	(2,500)	(3)	3	—	—	—
Repurchase and cancellation of common stock	(92,498)	(92)	—	—	(1,962,663)	(1,962,755)
Net income (loss)	—	—	—	383,326	(1,065,513)	(682,187)
Balance, June 30, 2022	2,391,420	$ 2,391	$ 125,252,766	$ 325,993	$ (80,364,204)	$ 45,216,946
Issuance of common stock through warrant exchange agreement	303,750	304	4,495,196	—	—	4,495,500
Stock-based compensation	—	—	251,733	—	—	251,733
Net loss	—	—	—	(16,596)	(1,902,475)	(1,919,071)
Balance, September 30, 2022	2,695,170	$ 2,695	$ 129,999,695	$ 309,397	$ (82,266,679)	$ 48,045,108
Balance, December 31, 2022	2,720,170	$ 2,721	$ 127,869,342	448,694	$ (91,980,234)	$ 36,340,523
Stock-based compensation	—	—	114,848	—	—	114,848
Restricted common stock grant	35,000	35	(35)	—	—	—
Issuance due to rounding from reverse stock split	54	—	—		—	—
Net Income (loss)	—	—	—	126,239	(6,105,818)	(5,979,579)
Balance, March 31, 2023	2,755,224	$ 2,756	$ 127,984,155	$ 574,933	$ (98,086,052)	$ 30,475,792
Stock-based compensation	—	—	179,483	—	—	179,483
Restricted common stock forfeitures	(3,625)	(4)	4	—	—	—
Issuance due to rounding from reverse stock split	24,154	24	(24)	—	—	—

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Conversion of convertible note into common stock	25,000	25	119,725	—	—	119,750
Net Income (loss)	—	—	—	72,755	(8,393,304)	(8,320,549)
Balance, June 30, 2023	2,800,753	$ 2,801	$ 128,283,343	$ 647,688	$ (106,479,356)	$ 22,454,476
Stock-based compensation	—	—	84,586	—	—	84,586
Net Income (loss)	—	—	—	29,630	(3,708,673)	(3,679,043)
Balance, September 30, 2023	2,800,753	$ 2,801	$ 128,367,929	$ 677,318	$ (110,188,029)	$ 18,860,019

See Notes to the Unaudited Condensed Consolidated Financial Statements.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

DIGITAL ALLY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Unaudited)

	For the nine months ended September 30,	
	2023	**2022**
Cash Flows From Operating Activities:		
Net loss	$ (17,979,171)	$ (9,299,498)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	1,656,627	1,646,207
Stock-based compensation	378,917	1,028,084
Non-cash interest expense	576,380	—
Change in fair value of warrant derivative liabilities	(1,803,560)	(6,726,638)
Gain on extinguishment of liabilities	(507,304)	—
Gain on extinguishment of warrant derivative liabilities	—	(3,624,794)
Convertible debt discount amortization	1,887,273	—
Loss on conversion of debt	93,386	—
Provision for inventory obsolescence	(918,571)	143,664
Provision for doubtful accounts receivable	47,931	(161,239)
Allowance for doubtful lease reserve	5,000	—
Change in fair value of contingent consideration promissory note	(177,909)	(347,169)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable – trade	(26,605)	143,937
Accounts receivable – other	1,453,710	(3,426,732)
Inventories	2,563,198	(1,448,044)
Prepaid expenses	1,142,798	531,508
Operating lease right of use assets	285,667	306,783
Other assets	(1,477,391)	(4,125,776)
Increase (decrease) in:		
Accounts payable	3,619,557	5,133,934
Accrued expenses	1,717,101	(106,800)
Income taxes payable	(17,544)	9,969
Lease deposit	10,445	—
Operating lease obligations	(285,667)	(306,782)
Contract liabilities	1,913,574	2,831,394
Net cash used in operating activities	(5,842,158)	(17,797,992)
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(86,348)	(1,947,127)
Additions to intangible assets	(110,893)	(158,218)
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	(197,241)	(3,488,972)
Cash Flows from Financing Activities:		

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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	2,325,000	—
Proceeds – Commercial Extension of Credit – Entertainment Segment	1,224,577	—
Payments on Commercial Extension of Credit – Entertainment Segment	(1,156,441)	—
Principal payment on contingent consideration promissory notes	(318,105)	(383,222)
Net cash (used in) provided by financing activities	4,715,031	(4,425,437)
Net decrease in cash and cash equivalents	(1,324,368)	(25,712,401)
Cash, cash equivalents, beginning of period	3,532,199	32,007,792
Cash, cash equivalents, end of period	$ 2,207,831	$ 6,295,391
Supplemental disclosures of cash flow information:		
Cash payments for interest	$ 26,220	$ 44,783
Cash payments for income taxes	$ 9,447	$ 9,969
Supplemental disclosures of non-cash investing and financing activities:		
ROU and lease liability recorded on extension of lease	$ 538,056	$ —
Conversion of convertible notes payable into common stock	$ 119,750	$ —
Issuance of common stock through warrant exchange agreement	$ —	$ 4,495,500
Issuance of contingent consideration promissory note for business acquired	$ —	$ 855,000
Assets acquired in business acquisitions	$ —	$ 190,631
Liabilities assumed in the business acquisition	$ —	$ 387,005
Goodwill acquired in business acquisitions	$ —	$ 2,100,000
Restricted common stock grant	$ 35	$ 715
Reverse stock split rounding issuances	$ 24	$ —
Restricted common stock forfeitures	$ 4	$ 65
Debt discount on convertible note	$ 3,000,000	$ —

See Notes to the Unaudited Condensed Consolidated Financial Statements.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

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

Nature of Operations:

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 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. Such required segment information is included in Note 19.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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”.

Basis of Presentation:

The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three- and nine-month period ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

The balance sheet at December 31, 2022 has been derived from the audited financial statements at that date, but does not include all the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements.

For further information, refer to the audited financial statements and footnotes included in the Company’s annual report on Form 10-K for the year ended December 31, 2022.

Uncertainty Due to Geopolitical Events

Due to the Hamas-Israel and Russia-Ukraine conflicts, there has been uncertainty and disruption in the global economy. Although these events did not have a direct material adverse impact on the Company’s financial results for the three and nine months ended September 30, 2023, at this time the Company is unable to fully assess the aggregate impact the Hamas-Israel and Russia-Ukraine conflicts will have on its business due to various uncertainties, which include, but are not limited to, the duration of the conflicts, the conflicts’ effect on the economy, the impact on the Company’s businesses and actions that may be taken by governmental authorities related to the conflicts.

Liquidity and Going Concern

During the second quarter of 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. This update provided U.S. GAAP guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and about related footnote disclosures. Under this standard, the Company is required to evaluate whether there is substantial doubt about its ability to continue as a going concern each reporting period, including interim periods. In evaluating the Company’s ability to continue as a going concern, management considered the conditions and events that could raise substantial doubt about the Company’s ability to continue as a going concern within 12 months after the Company’s financial statements were issued (November 14, 2023). Management considered the Company’s current financial condition and liquidity sources, including current funds available, forecasted future cash flows and the Company’s obligations due before November 14, 2024.

The Company has experienced net losses and cash outflows from operating activities since inception. For the nine months ended September 30, 2023, the Company had a net loss attributable to common stockholders of $18,207,795 net cash used in operating activities of $5,842,158, $197,241 used in investing activities and $4,715,031 provided by financing activities. 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 implemented an enhanced quality control program to detect and correct product issues before they result in significant rework expenditures affecting its gross margins and has seen progress in that regard. The Company has also implemented a marketing and advertisement reduction plan for its entertainment segment, which will focus on reducing and alleviating current obligations from its media marketing agreements and place a hold on entering into any new agreements. The Company believes that its quality control, cost-cutting initiatives, and new product introduction will eventually restore positive operating cash flows and profitability, although it can offer no assurances in this regard.

Management has evaluated the significance of the conditions described above in relation to the Company’s ability to meet its obligations and concluded that, without additional funding, the Company will not have sufficient funds to meet its obligations within one

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

year from the date the unaudited condensed consolidated financial statements were issued. Such factors raise substantial doubt about the Company's ability to sustain operations for at least one year from the issuance of these unaudited condensed financial statements. The accompanying unaudited condensed 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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, Worldwide Reinsurance, Ltd., Digital Connect, Inc., BirdVu Jets, Inc., Kustom 440, Kustom, 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 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. on September 1, 2021, upon its acquisition of Goody Tickets, LLC and TicketSmarter, LLC, to facilitate its global entertainment operations. The Company formed Worldwide Reinsurance Ltd. in December 2021, which is a captive insurance company domiciled in Bermuda, the Company is in the process of unwinding these operations. 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.

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 customer contracts. In situations where sales are to a distributor, the Company has concluded that such contracts are with the distributor as in such cases the Company holds contract bearing enforceable rights and obligations only with the distributor. As 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 are 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 product. 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 entertainment 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 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 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, and payment is due at the time of sale.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 nine months ended September 30, 2023, the Company recognized revenue of $2.2 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:

	September 30, 2023			
	December 31, 2022	Additions/ Reclass	Recognized Revenue	September 30, 2023
Contract liabilities, current	$ 2,154,874	$ 2,133,969	$ 1,536,860	$ 2,751,983
Contract liabilities, non-current	5,818,082	1,943,313	626,848	7,134,547
	$ 7,972,956	$ 4,077,282	$ 2,163,708	$ 9,886,530
	September 30, 2022			
	December 31, 2021	Additions/ Reclass	Recognized Revenue	September 30, 2022
Contract liabilities, current	$ 1,665,519	$ 1,228,395	$ 844,210	$ 2,049,704
Contract liabilities, non-current	2,687,786	3,384,487	937,278	5,134,995
	$ 4,353,305	$ 4,612,882	$ 1,781,488	$ 7,184,699

Sales returns and allowances aggregated $116,543 and $118,029 for the nine months ended September 30, 2023 and December 31, 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, fair value of assets and liabilities acquired in a business combination, 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.

	September 30, 2023			
	Adjusted Cost	Realized Gains	Realized Losses	Fair Value
Demand deposits	$ 2,136,573	$ —	$ —	$ 2,136,573
Short-term investments with original maturities of 90 days or less (Level 1):				
Money market funds	71,258	—	—	71,258
	$ 2,207,831	$ —	$ —	$ 2,207,831
	December 31, 2022			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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
	$	3,532,199	$	—	$	—	$	3,532,199

11

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 September 30, 2023 and December 31, 2022, the uninsured balance amounted to $1,652,978 and $2,495,189, respectively.

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 recognized 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 last assessed potential impairments of its long-lived assets as of September 30, 2023 and concluded that there was no impairment.

Intangible assets include deferred patent costs, 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.

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 and are also to be reported in the segment information.

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' (deficit) equity. See further discussion of the Company's share repurchase program in Note 15 –Stockholders' Equity.

Non-Controlling Interests

Non-controlling interests in the Company's Consolidated Financial Statements represent the interest in subsidiaries held by our venture partner. The venture partner holds a noncontrolling interest 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 or loss attributable to noncontrolling interest in the Consolidated Statements of Operations.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

New Accounting Standards

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses” to improve information on credit losses for financial assets and net investment in leases that are not accounted for at fair value through net income. ASU 2016-13 replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses. In April 2019 and May 2019, the FASB issued ASU No. 2019-04, “Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments” and ASU No. 2019-05, “Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief” which provided additional implementation guidance on the previously issued ASU. In November 2019, the FASB issued ASU 2019-10, “Financial Instruments - Credit Loss (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842),” which defers the effective date for public filers that are considered small reporting companies (“SRC”) as defined by the Securities and Exchange Commission to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. As such, we adopted ASC 326 effective January 1, 2023. The adoption of this standard did not have a significant impact on the Company’s financial position and results of operations.

NOTE 2. INVENTORIES

Inventories consisted of the following at September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Raw material and component parts– video solutions segment	$ 3,680,820	$ 4,509,165
Work-in-process– video solutions segment	41,194	3,164
Finished goods – video solutions segment	5,676,031	6,846,091
Finished goods – entertainment segment	367,704	970,527
Subtotal	9,765,749	12,328,947
Reserve for excess and obsolete inventory– video solutions segment	(4,466,748)	(5,230,261)
Reserve for excess and obsolete inventory – entertainment segment	(104,222)	(259,280)
Total inventories	$ 5,194,779	$ 6,839,406

Finished goods inventory includes units held by potential customers and sales agents for test and evaluation purposes. The cost of such units totaled $164,029 and $171,071 as of September 30, 2023 and December 31, 2022, respectively.

NOTE 3. DEBT OBLIGATIONS

Debt obligations is comprised of the following:

	September 30, 2023	December 31, 2022
Economic injury disaster loan (EIDL)	$ 150,000	$ 150,000
Convertible note payable, net of unamortized debt discount of $1,014,091	1,860,909	—
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	194,477	388,955
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	87,348	176,456
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	—	208,083
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	—	4,346
Commercial Extension of Credit – Entertainment Segment	68,135	—
Debt obligations	2,360,869	927,840
Less: current maturities of debt obligations	2,213,148	485,373
Debt obligations, long-term	$ 147,721	$ 442,467

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Debt obligations mature as follows as of September 30, 2023:

	September 30, 2023
2023 (October 1, 2023 to December 31, 2023)	$ 164,295
2024	3,066,170
2025	3,412
2026	3,542
2027 and thereafter	137,541
Total	$ 3,374,960

***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 a secured 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.

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 June Contingent Note has athree-year term and bears interest at a rate of 3.00% per annum. Quarterly principal and interest payments are deferred for nine 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 $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 a reduction 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

The June Contingent 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 with subsequent changes in fair value recorded as a gain or loss in the Consolidated Statements of Operations. Management recorded the contingent consideration promissory note at its estimated fair value of $350,000 at the acquisition date. Total principal payments, since inception, on this contingent consideration promissory note totaled $202,725. The estimated fair value of the June Contingent Note at September 30, 2023 is $87,348, representing a reduction in its estimated fair value of $89,109 as compared to its estimated fair value as of December 31, 2022. This reduction only relates to the principal payments made for the three and nine months ended September 30, 2023. Therefore, the Company recorded no gain or loss in the Consolidated Statements of Operations for the three and nine months ended September 30, 2023.

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 nine 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 $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 a reduction 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 with subsequent changes in fair value recorded as a gain or loss in the Consolidated Statements of Operations. Management recorded the contingent consideration promissory note at its estimated fair value of $650,000 at the acquisition date. Total principal payments, since inception, on this contingent consideration promissory note totaled $487,430. The estimated fair value of the August Contingent Note at September 30, 2023 is $194,477, representing a reduction in its estimated fair value of $194,477 as compared to its estimated fair value as of December 31, 2022. This reduction only relates to the principal payments made for the three and nine months ended September 30, 2023. Therefore, the Company recorded no gain or loss in the Consolidated Statements of Operations for the three and nine months ended September 30, 2023.

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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

The January 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 $750,000 at the acquisition date. Principal payments, since its inception, on this contingent consideration promissory note totaled $153,769. The estimated fair value of the January Contingent Note at September 30, 2023 is $-0-, representing a reduction 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 nine months ended September 30, 2023. Therefore, the Company recorded a gain of $175,146 in the Consolidated Statements of Operations for the nine months ended September 30, 2023.

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 is 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. Principal payments, since its inception, on this contingent consideration promissory note totaled $1,584. The estimated fair value of the February Contingent Note at September 30, 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 nine months ended September 30, 2023. Therefore, the Company recorded a gain of $2,763 in the Consolidated Statements of Operations for the nine months ended September 30, 2023.

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 nine months ended September 30, 2023, the Entertainment segment drew an additional $224,577 on this agreement, with the principal balance never exceeding $1,000,000. During the nine months ended September 30, 2023, the Company’s Entertainment segment had repaid $1,156,441 towards the principal on the loan through remittances and had an outstanding balance of $68,135.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Following is a summary of activity relative to the Convertible Note for the nine months ended September 30, 2023:

	Amount
Balance, December 31, 2022	$ —
Convertible Note, at par	3,000,000
Conversion of convertible note into common stock	(125,000)
Principal payments	—
Unamortized debt discount	(1,014,091)
Balance, September 30, 2023	$ 1,860,909

During the three and nine months ended September 30, 2023 the Company amortized $1,887,273 of debt discount under interest expense, compared to $-0- for the three and nine months ended September 30, 2022.

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.

NOTE 4. 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)

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

The following table represents the Company's hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022:

	September 30, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities:				
Contingent consideration promissory notes and contingent consideration earn-out agreement	$ —	$ —	$ 281,825	$ 281,825
Warrant derivative liabilities	—	—	1,412,820	1,412,820
	$ —	$ —	$ 1,694,645	$ 1,694,645
	December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities:				
Contingent consideration promissory notes and contingent consideration earn-out agreement	$ —	$ —	$ 777,840	$ 777,840
Warrant derivative liabilities	—	—	—	—
	$ —	$ —	$ 777,840	$ 777,840

The following table represents the change in Level 3 tier value measurements for the periods ended September 30, 2023:

	Contingent Consideration Promissory Notes	Warrant Derivative Liabilities
Balance, December 31, 2022	$ 777,840	$ —
Principal payments on contingent consideration promissory notes – Revenue Cycle Management Acquisitions	(120,789)	—
Change in fair value of contingent consideration promissory notes – Revenue Cycle Management Acquisitions	(158,022)	—
Balance, March 31, 2023	$ 499,029	$ —
Issuance of warrant derivative liabilities	—	3,216,380
Principal payments on contingent consideration promissory notes – Revenue Cycle Management Acquisitions	(96,265)	—
Change in fair value of warrant derivative liabilities	—	59,766
Balance, June 30, 2023	$ 402,764	$ 3,276,146
Principal payments on contingent consideration promissory notes – Revenue Cycle Management Acquisitions	(101,051)	—
Change in fair value of contingent consideration promissory notes – Revenue Cycle Management Acquisitions	(19,888)	—
Change in fair value of warrant derivative liabilities	—	(1,863,326)
Balance, September 30, 2023	$ 281,825	$ 1,412,820

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

NOTE 5. ACCRUED EXPENSES

Accrued expenses consisted of the following at September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Accrued warranty expense	$ 16,543	$ 15,694
Accrued litigation costs	2,040,292	247,984
Accrued sales commissions	57,102	55,000
Accrued payroll and related fringes	340,373	504,020
Accrued sales returns and allowances	116,543	118,026
Accrued taxes	109,164	46,408
Other	128,051	103,835
	$ 2,808,068	$ 1,090,967

Accrued warranty expense was comprised of the following for the nine months ended September 30, 2023:

Beginning balance	$ 15,694
Provision for warranty expense	48,311
Charges applied to warranty reserve	(47,462)
Ending balance	$ 16,543

NOTE 6. INCOME TAXES

The effective tax rate for the three months ended September 30, 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 September 30, 2023, primarily because of the Company's history of operating losses.

The Company has incurred operating losses in recent years, and it continues to be in a three-year cumulative loss position at September 30, 2023. 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 is determined to continue to provide a 100% valuation allowance on its net deferred tax assets. 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. The Company has available to it approximately $113.3 million (based on its December 31, 2022 tax return) in net operating loss carryforwards to offset future taxable income as of September 30, 2023.

NOTE 7. PREPAID EXPENSES

Prepaid expenses were the following at September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Prepaid inventory	$ 5,660,619	$ 6,110,321
Prepaid advertising	955,089	1,931,628
Other	707,907	424,464
Total prepaid expenses	$ 7,323,615	$ 8,466,413

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at September 30, 2023 and December 31, 2022:

	Estimated Useful Life	September 30, 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	2,061,484	2,048,169
Warehouse and production equipment	3-7 years	40,128	51,302
Demonstration and tradeshow equipment	3-7 years	74,582	72,341
Building improvements	5-7 years	1,328,601	1,334,374
Total cost		8,781,566	8,782,957
Less: accumulated depreciation and amortization		(1,330,524)	(884,271)
Net property, plant and equipment		$ 7,451,042	$ 7,898,686

Depreciation expense for the three months ended September 30, 2023 and September 30, 2022 was $188,100 and $73,686, respectively, and is included in general and administrative expenses. Depreciation expense for the nine months ended September 30, 2023 and September 30, 2022 was $533,992 and $381,014, respectively, and is included in general and administrative expenses.

NOTE 9. OPERATING LEASE

On May 13, 2020, the Company entered into an operating lease for new warehouse and office space, which the Company currently utilizes as one of its office, assembly and warehouse locations. 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 this 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 September 30, 2023, was thirty-nine months. The Company's previous office and warehouse space lease expired in April 2020 and the Company paid holdover rent for the time period until it moved to and commenced occupying the new space on June 15, 2020.

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 the 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 September 30, 2023, was one month.

On June 30, 2021, 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 $2,648 to $2,774, with a termination date of July 2024. 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 June 30, 2021. The remaining lease term for the Company's office operating lease as of September 30, 2023, was ten months.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

On August 31, 2021, 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 $11,579 to $11,811, with a termination date of March 2023. 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 signed an eighty-four-month extension for the lease, the extension terms include monthly payments ranging from $7,436 to $8,877, with a termination date of March 2030. The remaining lease term for the Company's operating lease as of September 30, 2023 was seventy-eight months.

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 signed a month-to-month extension for the lease, extending the remaining lease term for the Company's office until a new space is located. The Company plans to relocate the entertainment operating segment acquired operations to existing owned or leased facilities upon termination of this operating lease.

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 operating lease as of September 30, 2023, was twenty-one months.

Lease expense related to the office space and copier operating leases were recorded on a straight-line basis over their respective lease terms. Total lease expense under the six operating leases was approximately $105,439 and $402,556, during the three and nine months ended September 30, 2023, respectively.

The weighted-average remaining lease term related to the Company's lease liabilities as of September 30, 2023 was 4.5 years.

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 September 30, 2023:

Assets:		
Operating lease right of use assets, net	$	1,034,518
Liabilities:		
Operating lease obligations-current portion	$	264,958
Operating lease obligations-less current portion		837,755
Total operating lease obligations	$	1,102,713

The components of lease expense were as follows for the nine months ended September 30, 2023:

Selling, general and administrative expenses	$	402,556

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

Year ending December 31:		
2023 (October 1, to December 31, 2023)	$	88,188
2024		336,992
2025		290,417
2026		271,868
Thereafter		334,651
Total undiscounted minimum future lease payments		1,322,116
Imputed interest		(219,403)
Total operating lease liability	$	1,102,713

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

NOTE 10. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consisted of the following at September 30, 2023 and December 31, 2022:

	September 30, 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)	$ 215,071	$ 87,977	$ 127,094	$ 211,183	$ 80,378	$ 130,805
Patents and trademarks (video solutions segment)	439,212	229,198	210,014	472,077	305,021	167,056
Sponsorship agreement network (entertainment segment)	5,600,000	2,333,333	3,266,667	5,600,000	1,493,333	4,106,667
SEO content (entertainment segment)	600,000	312,500	287,500	600,000	200,000	400,000
Personal seat licenses (entertainment segment)	180,081	11,704	168,377	180,081	8,001	172,080
Client agreements (revenue cycle management segments)	999,034	201,792	797,242	999,034	126,864	872,170
	8,033,398	3,176,504	4,856,894	8,062,375	2,213,597	5,848,778
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)	36,820	—	36,820	56,678	—	56,678
Total	$ 20,037,732	$ 3,176,504	$ 16,861,228	$ 20,086,567	$ 2,213,597	$ 17,872,970

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 three months ended September 30, 2023 and 2022 was $377,485 and $460,489, respectively, and $1,122,635 and $1,177,759, for the nine months ended September 30, 2023 and 2022, respectively. Estimated amortization for intangible assets with definite lives for the next five years ending December 31 and thereafter is as follows:

Year ending December 31:	
2023 (October 1, to December 31, 2023)	$ 382,342
2024	1,479,252
2025	1,386,756
2026	882,967
2027 and thereafter	725,577
	$ 4,856,894

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

NOTE 11. OTHER ASSETS

Other assets were the following at September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Lease receivable	$ 5,600,722	$ 4,700,923
Sponsorship network	662,500	116,828
Other	369,850	337,930
Total other assets	$ 6,633,072	$ 5,155,681

NOTE 12. 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 September 30, 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

NOTE 13. STOCK-BASED COMPENSATION

The Company recorded pre-tax compensation expense related to the grant of stock options and restricted stock issued of $84,586 and $251,733 for the three months ended September 30, 2023 and 2022, and $378,917 and $1,028,084 for the nine months ended September 30, 2023 and 2022, respectively.

As of September 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 2023.

Stock option grants. 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 September 30, 2023.

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

A summary of all stock option activity under the Plans for the nine months ended September 30, 2023 is as follows:

Options	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2022	53,950	$ 45.80
Granted	—	—
Exercised	—	—
Forfeited	(350)	(83.20)
Outstanding at September 30, 2023	53,600	$ 45.55
Exercisable at September 30, 2023	53,600	$ 45.55

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 nine months ended September 30, 2023 and 2022.

The aggregate intrinsic value of options outstanding was $-0- and $-0-, at September 30, 2023 and December 31, 2022, respectively. The aggregate intrinsic value of options exercisable was $-0- and $-0-, at September 30, 2023 and December 31, 2022, respectively.

As of September 30, 2023, the unrecognized portion of stock compensation expense on all existing stock options was $-0-.

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 September 30, 2023:

	Outstanding options		Exercisable options	
Exercise price range	Number of options	Weighted average remaining contractual life	Number of options	Weighted average remaining contractual life
$ 0.01 to $49.99	37,000	6.9 years	37,000	6.9 years
$ 50.00 to $69.99	15,100	4.7 years	15,100	4.7 years
$ 70.00 to $89.99	1,500	2.6 years	1,500	2.6 years
	53,600	6.1 years	53,600	6.1 years

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 five 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 Plans for the nine months ended September 30, 2023 is as follows:

	Number of Restricted shares	Weighted average grant date fair value
Nonvested balance, December 31, 2022	79,125	$ 21.73
Granted	35,000	5.00
Vested	(56,625)	(21.29)
Forfeited	(3,625)	(22.41)
Nonvested balance, September 30, 2023	53,875	$ 11.27

The Company estimated the fair market value of these restricted stock grants based on the closing market price on the date of grant. As of September 30, 2023, there were $213,727 of total unrecognized compensation costs related to all remaining non-vested restricted stock grants, which will be amortized over the next forty-nine months in accordance with their respective vesting scale.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

The nonvested balance of restricted stock vests as follows:

Years ended	Number of shares
2023 (October 1, 2023 through December 31, 2023)	—
2024	27,750
2025	19,000
2026	4,125
2027	2,000
2028	1,000

NOTE 14. 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 September 30, 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 (the “February Warrants”) 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 the date of the exchange, the February Warrants and Exchange Warrants were valued at $11,818,644 and $12,114,424 using the original and modified expiry date of the warrants, respectively, using the Black-Scholes method. The difference of $295,780 was accordingly recorded as a warrant modification expense in the consolidated statement of operations.

	Original terms at August 19, 2021	Modified term at August 19, 2021
Volatility - range	109.3 %	1
Risk-free rate	0.78 %	
Dividend	0 %	
Remaining contractual term	4.5 years	5.1 y
Exercise price	$ 65.00	$ 6
Common stock issuable under the warrants	715,000	715

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 September 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		1
Risk-free rate		3.17 -
Dividend		
Remaining contractual term		3.4 - 4.1 y
Exercise price	$	6
Common stock issuable under the warrants		1,215

Fluctuations in the Company’s stock price is 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 September 30, 2023:

		Issuance date assumptions		September 30, 20 assumptions
Volatility - range		106.0 %		1
Risk-free rate		3.36 %		
Dividend		0 %		
Remaining contractual term		5.0 years		4.5 y
Exercise price	$	5.50 - 7.50	$	5.50 -
Common stock issuable under the warrants		1,125,000		1,125

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

The following table summarizes information about shares issuable under warrants outstanding during the nine months ended September 30, 2023:

	Warrants	Weighted average exercise pric
Vested Balance, January 1, 2023	67,459	$
Granted	1,125,000	
Exercised	—	
Forfeited/cancelled	(67,459)	(
Vested Balance, September 30, 2023	1,125,000	$

The total intrinsic value of all outstanding warrants aggregated $-0- as of September 30, 2023, and the weighted average remaining term is fifty-four months.

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 September 30, 2023:

	Outstanding and exercisable warrants	
Exercise price	Number of warrants	Weighted average remaining contractual life
$ 5.50	375,000	4.5
$ 6.50	375,000	4.5
$ 7.50	375,000	4.5
	1,125,000	4.5

NOTE 15. STOCKHOLDERS' EQUITY

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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 (loss) attributable to noncontrolling interests of consolidated subsidiary of $29,630 and $(16,596) for the three months ended September 30, 2023 and 2022, and $228,624 and $268,636 for the nine months ended September 30, 2023 and 2022, respectively.

Cancellation of Common Stock

During the nine months ended September 30, 2023, the Company cancelled 3,625 shares for various reasons.

Conversion of Convertible Note

During the nine months ended September 30, 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.

NOTE 16. NET EARNINGS (LOSS) PER SHARE

The calculation of the weighted average number of shares outstanding and loss per share outstanding for the three and nine months ended September 30, 2023 and 2022 are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Numerator for basic and diluted income per share – Net loss attributable to common stockholders	$ (3,708,673)	$ (1,902,475)	$ (18,207,795)	$ (9,568,134)
Denominator for basic loss per share – weighted average shares outstanding	2,800,752	2,518,261	2,779,530	2,498,681
Dilutive effect of shares issuable under stock options and warrants outstanding	—	—	—	—
Denominator for diluted loss per share – adjusted weighted average shares outstanding	2,800,752	2,518,261	2,779,530	2,498,681
Net loss per share:				
Basic	$ (1.32)	$ (0.76)	$ (6.55)	$ (3.83)
Diluted	$ (1.32)	$ (0.76)	$ (6.55)	$ (3.83)

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Basic income (loss) per share is based upon the weighted average number of common shares outstanding during the period. For the three and nine months ended September 30, 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 income (loss) per share.

NOTE 17. 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 "June Initial Payment Amount") of $850,000. In addition to the June 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 promissory 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 and, 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 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 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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:

	Purchase price allocation	
Description	**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	$ 1,376,509	$ 1,376,509
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	$ 1,376,509	$ 1,376,509

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 September 30, 2023**	**Estimated useful life**
Identifiable intangible assets:			
Client agreements	$ 457,079	$ 102,843	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 3, "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 "August Initial Payment Amount") of $2,270,000. In addition to the August 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 Medical Billing 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 Medical Billing 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 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:

	Purchase price allocation	
Description	**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	$ 2,920,000	$ 2,920,000
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	$ 2,920,000	$ 2,920,000

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:

	Cost	**Amortization through September 30, 2023**	**Estimated useful life**
Identifiable intangible assets:			
Client agreements	$ 206,955	$ 43,116	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 3, “Debt Obligations”.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 "January Initial Payment Amount") of $1,153,626. In addition to the January 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 11 of Regulation S-X, respectively, are not required to be presented. Under the acquisition method, the purchase price of the Medical Billing 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 Medical Billing 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 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	**Final purchase price allocation**
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 3, "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 "February Initial Payment Amount") of $230,000. In addition to the February 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

In accordance 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 acquisition was structured as asset purchase and are included in the consolidated financial statements from the acquisition date. The preliminary 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:

	Cost	Amortization through September 30, 2023	Estimated useful life
Identifiable intangible assets:			
Client agreements	$ 335,000	$ 55,833	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 18. TICKETSMARTER ACQUISITION

On September 1, 2021, the Company formed 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”) (such acquisitions, 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 “TicketSmarter Initial Payment Amount”) of $9,403,600 through a combination of cash and Common Stock. In addition to the TicketSmarter 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 Company will continue to evaluate the fair value of the identified intangible assets. The preliminary estimated fair value of assets acquired, and liabilities assumed in the TicketSmarter Acquisition were as follows:

	Preliminary purchase price allocation	
Description	**As allocated September 30, 2021**	**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	$ 13,850,274	$ 13,305,874
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	$ 13,850,274	$ 13,305,874

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 September 30, 2023**	**Estimated useful life**
Identifiable intangible assets:			
Trademarks	$ 600,000	$ —	indefinite
Sponsorship agreement network	5,600,000	2,333,333	5 years
Search engine optimization/content	600,000	312,500	4 years
	$ 6,800,000	$ 2,645,833	

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 nine months ended September 30, 2022.

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 3, "Debt Obligations".

NOTE 19. 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Summarized financial information for the Company's reportable business segments is provided for the indicated periods and as of September 30, 2023, and September 30, 2022:

	For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
Net Revenues:				
Video Solutions	$ 1,797,348	$ 2,092,927	$ 5,596,300	$ 6,152,733
Revenue Cycle Management	1,636,543	2,015,112	5,142,904	6,039,807
Entertainment	2,903,808	4,376,114	11,575,315	15,937,852
Total Net Revenues	$ 6,337,699	$ 8,484,153	$ 22,314,519	$ 28,130,392
Gross Profit:				
Video Solutions	$ 426,795	$ 515,615	$ 1,740,397	$ 1,543,057
Revenue Cycle Management	625,114	866,277	2,203,220	2,520,709
Entertainment	174,240	(786,392)	1,564,361	190,432
Total Gross Profit	$ 1,226,149	$ 595,500	$ 5,507,978	$ 4,254,198
Operating Income (loss):				
Video Solutions	$ (1,311,143)	$ (1,481,048)	$ (4,639,316)	$ (4,327,049)
Revenue Cycle Management	43,202	117,844	299,010	236,628
Entertainment	(1,256,681)	(2,149,412)	(2,818,617)	(5,915,953)
Corporate	(2,623,421)	(3,054,407)	(9,102,631)	(10,025,236)
Total Operating Income (Loss)	$ (5,148,043)	$ (6,567,023)	$ (16,261,554)	$ (20,031,610)
Depreciation and Amortization:				
Video Solutions	$ 219,955	$ 213,446	$ 629,677	$ 584,266
Revenue Cycle Management	26,328	102,211	69,066	102,575
Entertainment	319,302	320,004	957,884	959,366
Total Depreciation and Amortization	$ 565,585	$ 635,661	$ 1,656,627	$ 1,646,207

	September 30, 2023	December 31, 2022
Assets (net of eliminations):		
Video Solutions	$ 28,387,191	$ 28,509,706
Revenue Cycle Management	2,286,733	2,201,570
Entertainment	7,106,806	11,190,491
Corporate	13,575,344	14,766,295
Total Identifiable Assets	$ 51,356,074	$ 56,668,062

The segments recorded noncash items effecting 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 $4,466,748 and a reserve for the entertainment segment of $104,222.

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 20. RELATED PARTY TRANSACTIONS

Transactions with Managing Member of Nobility Healthcare

Nobility, LLC is currently the managing member of 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 2021. The outstanding balance of the working capital loan was $-0- as of September 30, 2023 as the Company received full repayment of this advance.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 the TicketSmarter's operations. 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 September 30, 2023 the current portion of the TicketSmarter Related Party note is $2,106,000, and the long-term portion is $219,000, with an accrued interest balance of $3,478. 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 21. SUBSEQUENT EVENTS

Business Combination

In October 2023, Kustom Entertainment and Clover Leaf announced the filing of a Registration Statement on Form S-4 by Clover Leaf with the SEC on October 4, 2023, relating to the previously announced proposed business combination between Kustom Entertainment and Clover Leaf.

Appointment of Director

On October 17, 2023, the Board of Directors appointed D. Duke Daughtery as a member of the Board, effective immediately, to hold office until the next meeting of shareholders of the Company at which directors are being elected or as set forth in the Company's bylaws.

Loan Agreement and Mortgage

On October 26, 2023, the Company entered into a Loan and Security Agreement (the "Loan Agreement") by and between the Company, Digital Ally Healthcare (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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation.

This quarterly report on Form 10-Q (the "Report") of Digital Ally, Inc. (the "Company", "we", "us", or "our") contains forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The words "aim," "anticipate," "believe," "continue," "could," "estimate," "expect," "feel," "forecast," "intend," "may," "outlook," "plan," "potential," "predict," "project," "seek," "should," "will," "would," and similar expressions intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. 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, and the substantial doubt about our ability to continue as a going concern; (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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Current Trends and Recent Developments for the Company

Segment 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 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 have 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 on June 30, 2021, when it acquired a private medical billing company, and a second acquisition on August 31, 2021 upon the completion of its acquisition of another private medical billing company, along with two more acquisitions completed during the first quarter of 2022, 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 have 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

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".

Loan Agreement and Mortgage

On October 26, 2023, the Company entered into the Loan Agreement by and between the Company, Digital Ally Healthcare, and Kompass. In connection with the Loan Agreement, on October 26, 2023, the Company entered into the Mortgage by and between the Company, as grantor, and Kompass, as grantee, and issued 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 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. 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. 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Results of Operations

Summarized financial information for the Company's reportable business segments is provided for the indicated periods and as of September 30, 2023, and September 30, 2022:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Net Revenues:				
Video Solutions	$ 1,797,348	$ 2,092,927	$ 5,596,300	$ 6,152,733
Revenue Cycle Management	1,636,543	2,015,112	5,142,904	6,039,807
Entertainment	2,903,808	4,376,114	11,575,315	15,937,852
Total Net Revenues	$ 6,337,699	$ 8,484,153	$ 22,314,519	$ 28,130,392
Gross Profit:				
Video Solutions	$ 426,795	$ 515,615	$ 1,740,397	$ 1,543,057
Revenue Cycle Management	625,114	866,277	2,203,220	2,520,709
Entertainment	174,240	(786,392)	1,564,361	190,432
Total Gross Profit	$ 1,226,149	$ 595,500	$ 5,507,978	$ 4,254,198
Operating Income (loss):				
Video Solutions	$ (1,311,143)	$ (1,481,048)	$ (4,639,316)	$ (4,327,049)
Revenue Cycle Management	43,202	117,844	299,010	236,628
Entertainment	(1,256,681)	(2,149,412)	(2,818,617)	(5,915,953)
Corporate	(2,623,421)	(3,054,407)	(9,102,631)	(10,025,236)
Total Operating Income (Loss)	$ (5,148,043)	$ (6,567,023)	$ (16,261,554)	$ (20,031,610)
Depreciation and Amortization:				
Video Solutions	$ 219,955	$ 213,446	$ 629,677	$ 584,266
Revenue Cycle Management	26,328	102,211	69,066	102,575
Entertainment	319,302	320,004	957,884	959,366
Total Depreciation and Amortization	$ 565,585	$ 635,661	$ 1,656,627	$ 1,646,207

	September 30, 2023	December 31, 2022
Assets (net of eliminations):		
Video Solutions	$ 28,387,191	$ 28,509,706
Revenue Cycle Management	2,286,733	2,201,570
Entertainment	7,106,806	11,190,491
Corporate	13,575,344	14,766,295
Total Identifiable Assets	$ 51,356,074	$ 56,668,062

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 the first three quarters of 2023 and last half of 2022. The following is a summary of our recent operating results on a quarterly basis:

	For the three months ended:				
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Total revenue	$ 6,337,699	$ 8,279,632	$ 7,697,190	$ 8,879,504	$ 8,484,153
Gross profit	1,226,149	2,737,040	1,544,792	(1,932,256)	595,500

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Gross profit margin %	19.3 %	33.1 %	20.1 %	(21.8)%	7.0 %
Total selling, general and administrative expenses	6,374,192	7,677,744	7,717,598	7,769,389	7,162,523
Operating loss	(5,148,043)	(4,940,704)	(6,172,806)	(9,701,645)	(6,567,023)
Operating loss %	(81.2)%	(59.7)%	(80.2)%	(109.3)%	(77.4)%
Net loss	$ (3,679,043)	$ (8,320,549)	$ (5,979,579)	$ (9,574,258)	$ (1,919,071)

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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; (7) the impact of COVID-19 on the economy and our businesses; and (8) the completion of corporate acquisitions. We reported a net loss of $3,679,043 on revenues of $6,337,699 for third quarter of 2023.

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 other than the following:

We are a party to operating leases and license agreements that represent commitments for future payments (described in Note 9, “Operating Leases,” to our condensed 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.

<u>For the Three Months Ended September 30, 2023 and 2022</u>

Results of Operations

Summarized immediately below and discussed in more detail in the subsequent subsections is an analysis of our operating results for the three months ended September 30, 2023 and 2022, represented as a percentage of total revenues for each such quarter:

	For the three months ended September 30,	
	2023	**2022**
Revenue	100 %	
Cost of revenue	81 %	
Gross profit	19 %	
Selling, general and administrative expenses:		
Research and development expense	9 %	
Selling, advertising and promotional expense	30 %	
General and administrative expense	61 %	
Total selling, general and administrative expenses	101 %	
Operating loss	(81)%	
Interest expense	(15)%	
Change in fair value of contingent consideration promissory notes	— %	
Change in fair value of warrant derivative liabilities	29 %	
Gain on extinguishment of liabilities	8 %	
Income (loss) before income tax benefit	(58)%	
Income tax (provision)	— %	
Net income/(loss)	(58)%	
Net income (loss) attributable to noncontrolling interests of consolidated subsidiary	— %	
Net income (loss) attributable to common stockholders	(59)%	
Net income/(loss) per share information:		

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Basic	$ (1.32)	$ (
Diluted	$ (1.32)	$ (

44

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Revenues

Revenues by Type and by Operating Segment

Our operating segments generate two types of revenues:

Product revenues primarily includes video 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.

Our video 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:

	For the three months ended September 30,			
	2023		2022	
Product Revenues:				
Video Solutions	$	977,193	$	1,34
Revenue Cycle Management		—		
Entertainment		1,118,044		1,71
Total Product Revenues	$	2,095,237	$	3,06

Product revenues for the three months ended September 30, 2023 and 2022 were $2,095,237 and $3,062,373 respectively, a decrease of $967,136 (32%), due to the following factors:

- Revenues generated by the new entertainment operating segment began with the Company's September 2021 acquisition of TicketSmarter. The new entertainment operating segment generated $1,118,044 in product revenues for the three months ended September 30, 2023, compared to $1,713,808 for the three months ended September 30, 2022, a decrease of $595,764 (35%). This product revenue relates to the resale of tickets purchased for live events, including sporting events, concerts, and theatre, then sold through various platforms to customers.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

- The Company’s video segment operating segment generated revenues totaling $977,193 during the three months ended September 30, 2023 compared to $1,348,565 for the three months ended September 30, 2022, a decrease of $371,372 (28%). 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 compared to the same period in 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

- 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:

		For the three months ended September 30,		
		2023		2022
Service and Other Revenues:				
Video Solutions	$	820,155	$	74
Revenue Cycle Management		1,636,543		2,01
Entertainment		1,785,764		2,66
Total Service and Other Revenues	$	4,242,462	$	5,42

Service and other revenues for the three months ended September 30, 2023 and 2022 were $4,242,462 and $5,421,780, respectively, a decrease of $1,179,318 (22%), due to the following factors:

- Cloud revenues generated by the video solutions operating segment were $526,401 and $412,819 for the three months ended September 30, 2023 and 2022, respectively, an increase of $113,582 (28%). We have experienced 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 three months ended September 30, 2023. We expect this trend to continue throughout 2023 as the migration from local storage to cloud storage continues in our customer base.
- Video solutions operating segment revenues from extended warranty services were $226,056 and $201,118 for the three months ended September 30, 2023 and 2022, respectively, an increase of $24,938 (12%). This correlates with the increase in sales of DVM-800 hardware systems resulting in an increase in their associated extended warranty.
- Our entertainment operating segment generated service revenues totaling $1,785,764 and $2,662,306 for the three months ended September 30, 2023 and 2022, respectively, a decrease of $876,542 (33%). The Company completed the acquisitions of Goody Tickets, LLC and TicketSmarter, LLC on September 1, 2021, thus resulting in the new revenue stream for the Company. 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 to right-size this segment and work towards profitability.
- Our revenue cycle management operating segment generated service revenues totaling $1,636,543 and $2,015,112 for the three months ended September 30, 2023 and 2022, respectively, a decrease of $378,569 (19%). Our revenue cycle management operating segment has completed four acquisitions since formation in June of 2021, thus resulting in the new service revenue stream added in the three months ended September 30, 2022. Our revenue cycle management operating segment provides revenue cycle management solutions and back-office services to healthcare organizations throughout the country. The slight 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Total revenues for the three months ended September 30, 2023 and 2022 were $6,337,699 and $8,484,153, respectively, a decrease of $2,146,454 (25%), due to the reasons noted above.

Cost of Product Revenue

Overall cost of product revenue sold for the three months ended September 30, 2023, and 2022 was $2,587,750 and $3,262,457, respectively, a decrease of $674,707 (21%). Overall cost of goods sold for products as a percentage of product revenues for the three months ended September 30, 2023, and 2022 were 124% and 107%, respectively. Cost of products sold by operating segment is as follows:

	For the three months ended September 30,			
	2023		2022	
Cost of Product Revenues:				
Video Solutions	$	957,987	$	1,26
Revenue Cycle Management		—		
Entertainment		1,629,763		2,00
Total Cost of Product Revenues	$	2,587,750	$	3,26

The decrease in cost of goods sold for our video solutions segment products is directly correlated with the decrease in product sales for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. In addition, the Video Solutions Segment recorded valuation allowances for its older product lines and a portion of its Shield products during the first quarter of 2023. Cost of product sold as a percentage of product revenues for the video solutions segment worsened to 98% for the three months ended September 30, 2023 as compared to 94% for the three months ended September 30, 2022.

The decrease in entertainment operating segment cost of product sold directly correlates to the decrease in product revenues for the three months ended September 30, 2023 compared to September 30, 2022, resulting in cost of product revenue of $1,629,763 for the three months ended September 30, 2023, compared to $2,001,162 for the three months ended September 30, 2022. Cost of product sold as a percentage of product revenues for the entertainment segment was 146% for the three months ended September 30, 2023 as compared to 117% for the three months ended September 30, 2022.

We recorded $4,570,970 and $5,489,541 in reserves for obsolete and excess inventories at September 30, 2023 and December 31, 2022, respectively. Total raw materials, component parts, and work-in-progress were $3,722,014 and $4,512,329 at September 30, 2023 and December 31, 2022, respectively, a decrease of $790,315 (18%). Finished goods balances were $6,043,735 and $7,816,618 at September 30, 2023 and December 31, 2022, respectively, a decrease of $1,772,883 (23%) which was attributable to a decrease in finished goods from our entertainment segment. The decrease in the inventory reserve is primarily due to the reduction in finished goods and movement of excess inventory, as well as a decrease in reserve at the entertainment segment. We believe the reserves are appropriate given our inventory levels as of September 30, 2023.

Cost of Service Revenue

Overall cost of service revenue sold for the three months ended September 30, 2023, and 2022 was $2,523,800 and $4,626,196, respectively, a decrease of $2,102,396 (45%). Overall cost of goods sold for services as a percentage of service revenues for the three months ended September 30, 2023, and 2022 were 59% and 85%, respectively. Cost of service revenues by operating shipment is as follows:

	For the three months ended September 30,			
	2023		2022	
Cost of Service Revenues:				
Video Solutions	$	382,430	$	31
Revenue Cycle Management		1,011,429		1,14
Entertainment		1,129,941		3,16
Total Cost of Service Revenues	$	2,523,800	$	4,62

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

The increase in cost of service revenues for our video solutions segment is commensurate with the increase in service revenues in the three months ended September 30, 2023 compared to the three months ended September 30, 2022. Cost of service revenues as a percentage of service revenues for the video solutions segment increased to 47% for the three months ended September 30, 2023 as compared to 42% for the three months ended September 30, 2022.

Cost of service revenues as a percentage of service revenues for the revenue cycle management operating segment was 62% for the three months ended September 30, 2023 as compared to 57% for the three months ended September 30, 2022.

The decrease in entertainment operating segment cost of service revenues is commensurate with the decrease in service revenues in the three months ended September 30, 2023, compared to the three months ended September 30, 2022. Cost of service revenues as a percentage of service revenues for the entertainment segment was 63% for the three months ended September 30, 2023 as compared to 119% for the three months ended September 30, 2022.

Gross Profit

Overall gross profit for the three months ended September 30, 2023 and 2022 was $1,226,149 and $595,500, respectively, an increase of $630,649 (106%). Gross profit by operating segment was as follows:

	For the three months ended September 30,			
	2023		2022	
Gross Profit:				
Video Solutions	$	426,795	$	51
Revenue Cycle Management		174,240		86
Entertainment		625,114		(78
Total Gross Profit	$	1,226,149	$	59

The overall increase is attributable to the large increase in gross profit for the entertainment segment for the three months ended September 30, 2023 along with a decrease in the overall cost of sales as a percentage of overall revenues to 81% for the three months ended September 30, 2023 from 93% for the three months ended September 30, 2022. Our goal is to continue 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. In addition, if revenues from the video solutions segment increase, we will seek to further improve our margins from this segment through expansion and increased efficiency utilizing fixed manufacturing overhead components. We plan to continue our initiative to more efficiently management of our supply chain through outsourcing production, quantity purchases and more effective purchasing practices.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $6,374,192 and $7,162,523 for the three months ended September 30, 2023 and 2022, respectively, a decrease of $788,331 (11%). The decrease was primarily attributable to the reduction in new sponsorships being entered into by the Company. Our selling, general and administrative expenses as a percentage of sales increased to 101% for the three months ended September 30, 2023 compared to 84% in the same period in 2022. The significant components of selling, general and administrative expenses are as follows:

	For the three months ended September 30,		
	2023	2022	
Research and development expense	$ 564,146	$	616,174
Selling, advertising and promotional expense	1,932,982		1,832,916
General and administrative expense	3,877,064		4,713,433
Total	$ 6,374,192	$	7,162,523

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Research and development expense. We continue to focus on bringing new products to market, including updates and improvements to current products. Our research and development expenses totaled $564,146 and $616,174 for the three months ended September 30, 2023 and 2022, respectively. 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 intend to 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 expense totaled $1,932,982 and $1,832,916 for the three months ended September 30, 2023 and 2022, respectively, an increase of $100,066 (6%). The increase is primarily attributable to TicketSmarter remaining active in sponsorship and advertising, as it continues to build its brand and gain recognition.

General and administrative expense. General and administrative expenses totaled $3,877,064 and $4,713,433 for the three months ended September 30, 2023 and 2022, respectively. The decrease in general and administrative expenses in the three months ended September 30, 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 three months ended September 30, 2023 compared to the same period in 2022.

Operating Loss

For the reasons stated above, our operating loss was $5,148,043 and $6,567,023 for the three months ended September 30, 2023 and 2022, respectively, an improvement of $1,418,980 (22%). Operating loss as a percentage of revenues increased to 81% in the three months ended September 30, 2023 from 77% in the same period in 2022.

Interest Income

Interest income decreased to $12,986 for the three months ended September 30, 2023, from $13,333 in the same period of 2022, which reflects our change in cash and cash equivalent levels in the third quarter of 2023 compared to the third quarter of 2022.

Interest Expense

We incurred interest expenses of $959,898 and $14,255 during the three months ended September 30, 2023 and 2022, respectively. The increase is attributable to the convertible note issued in the second quarter, along with interest incurred on the contingent earn-out notes associated with the four Nobility Healthcare acquisitions.

Change in Fair Value of Contingent Consideration Promissory Notes

The Company recognized a gain on the change in fair value of contingent consideration promissory notes of $19,888 and ($138,877) during the three months ended September 30, 2023 and 2022, respectively. This is in connection with the four acquisitions made by our revenue cycle management segment.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Change in Fair Value of 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 condensed consolidated statement of operations as the change in fair value of warrant derivative liabilities. The change in fair value of the warrant derivative liabilities from June 30, 2023, to September 30, 2023, totaled $1,863,326 which was recognized as a gain in the third quarter of 2023.

Gain on Extinguishment of Liabilities

Gain on extinguishment of liabilities increased to $507,304 for the three months ended September 30, 2023, from $-0- during the three months ended September 30, 2022, which reflects income related to the entertainment segment's ability to negotiate down payables and contract liabilities during the third quarter of 2023. 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 $2,325,000 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 saving over the next several years.

Other income (loss)

Other income (loss) increased to $25,394 for the three months ended September 30, 2023, from ($1,892) during the three months ended September 30, 2022, which reflects income related to a warehouse lease within the corporate headquarters.

Loss before Income Tax Benefit

As a result of the above results of operations, we reported a loss before income tax benefit of $3,679,043, and $1,919,071 for the three months ended September 30, 2023 and 2022, respectively, a decrease of $1,759,972 (92%).

Income Tax Benefit

We did not record an income tax expense related to our income for the three months ended September 30, 2023 due to our overall net operating loss carryforwards available. We have further determined to continue providing a full valuation reserve on our net deferred tax assets as of September 30, 2023. We had approximately $113.3 million of net operating loss carryforwards and $1.8 million of research and development tax credit carryforwards as of September 30, 2023 available to offset future net taxable income.

Net Loss

As a result of the above results of operations, we reported a net loss of $3,679,043 and $1,919,071 for the three months ended September 30, 2023 and 2022, respectively, a decrease of $1,759,792 (92%).

Net Income (Loss) 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 of Nobility Healthcare which is reflected in the statement of income as "net income attributable to noncontrolling interests of consolidated subsidiary". We reported net income (loss) attributable to noncontrolling interests of consolidated subsidiary of $29,630 and ($16,596) for the three months ended September 30, 2023 and 2022, respectively.

Net Loss Attributable to Common Stockholders

As a result of the above, we reported a net loss attributable to common stockholders of $3,708,673 and $1,902,475 for the years three months September 30, 2023 and 2022, respectively, a decrease of $1,806,198 (95%).

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Basic and Diluted Loss per Share

The basic and diluted loss per share was $1.32 and $0.76 for the three months ended September 30, 2023 and 2022, respectively. Basic loss per share is based upon the weighted average number of common shares outstanding during the period. For the three months ended September 30, 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.

For the Nine months Ended September 30, 2023 and 2022

Results of Operations

Summarized immediately below and discussed in more detail in the subsequent subsections is an analysis of our operating results for the nine months ended September 30, 2023 and 2022, represented as a percentage of total revenues for each such quarter:

	For the nine months ended September 30,	
	2023	2022
Revenue	100 %	100 %
Cost of revenue	75 %	85 %
Gross profit	25 %	15 %
Selling, general and administrative expenses:		
Research and development expense	9 %	6 %
Selling, advertising and promotional expense	26 %	26 %
General and administrative expense	62 %	54 %
Total selling, general and administrative expenses	97 %	86 %
Operating loss	(73)%	(71)%
Interest income	— %	— %
Interest expense	(11)%	— %
Loss on accrual for legal settlement	(8)%	— %
Change in fair value of contingent consideration promissory notes	1 %	1 %
Change in fair value of derivative liabilities	8 %	24 %
Gain on extinguishment of liabilities	2 %	13 %
Income (loss) before income tax benefit	(81)%	(33)%
Income tax (provision)	— %	— %
Net income/(loss)	(81)%	(33)%
Net loss attributable to noncontrolling interests of consolidated subsidiary	(1)%	(1)%
Net income (loss) attributable to common stockholders	(82)%	(34)%
Net income/(loss) per share information:		
Basic	$ (6.55)	$ (3.83)
Diluted	$ (6.55)	$ (3.83)

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Product revenues by operating segment is as follows:

	For the nine months ended September 30,	
	2023	2022
Product Revenues:		
Video Solutions	$ 3,318,815	$ 4,089,037
Revenue Cycle Management	—	—
Entertainment	4,307,891	3,593,577
Total Product Revenues	$ 7,626,706	$ 7,682,614

Product revenues for the nine months ended September 30, 2023 and 2022 were $7,626,706 and $7,682,614 respectively, a decrease of $55,908 (1%), due to the following factors:

- Revenues generated by the new entertainment operating segment began with the Company's September 2021 acquisition of TicketSmarter. The new entertainment operating segment generated $4,307,891 in product revenues for the nine months ended September 30, 2023, compared to $3,593,577 for the nine months ended September 30, 2022. This product revenue relates to the first Kustom 440 music festival, as well as the resale of tickets purchased for live events, including sporting events, concerts, and theatre, then sold through various platforms to customers.
- The Company's video segment operating segment generated revenues totaling $3,318,815 during the nine months ended September 30, 2023 compared to $4,089,037 for the nine months ended September 30, 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 compared to the same period in 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 been focusing on migrating customers, and in particular 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 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 continued to gain traction, resulting in decreased product revenues and increased service revenues. We expect this program to continue to gain momentum, resulting in recurring revenues over a span of three to five years.

Service and other revenues by operating segment is as follows:

	For the nine months ended September 30,	
	2023	2022
Service and Other Revenues:		
Video Solutions	$ 2,277,485	$ 2,06
Revenue Cycle Management	5,142,904	6,03
Entertainment	7,267,424	12,34
Total Service and Other Revenues	$ 14,687,813	$ 20,44

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Service and other revenues for the nine months ended September 30, 2023 and 2022 were $14,687,813 and $20,447,778, respectively, a decrease of $5,759,965 (28%), due to the following factors:

- Cloud revenues generated by the video solutions operating segment were $1,421,174 and $1,012,129 for the nine months ended September 30, 2023 and 2022, respectively, an increase of $409,045 (40%). We have experienced 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 nine months ended September 30, 2023. We expect this trend to continue throughout 2023 as the migration from local storage to cloud storage continues in our customer base.
- Video solutions operating segment revenues from extended warranty services were $659,130 and $601,460 for the nine months ended September 30, 2023 and 2022, respectively, an increase of $57,670 (10%). This correlates with the increase in sales of DVM-800 hardware systems resulting in an increase in their associated extended warranty.
- Our new entertainment operating segment generated service revenues totaling $7,267,424 and $12,344,275 for the nine months ended September 30, 2023 and 2022, respectively, a decrease of $5,076,851 (41%). The Company completed the acquisitions of Goody Tickets, LLC and TicketSmarter, LLC on September 1, 2021, thus resulting in a new revenue stream for the Company. 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 new revenue cycle management operating segment generated service revenues totaling $5,142,904 and $6,039,807 for the nine months ended September 30, 2023 and 2022, respectively, a decrease of $896,903 (15%). Our revenue cycle management operating segment has completed four acquisitions since formation in June of 2021, thus resulting in the new service revenue stream added in the nine months ended September 30, 2023. Our revenue cycle management operating segment provides revenue cycle management solutions and back-office services to healthcare organizations throughout the country. The slight 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 nine months ended September 30, 2023 and 2022 were $22,314,519 and $28,130,392, respectively, a decrease of $5,815,873 (21%), due to the reasons noted above.

Cost of Product Revenue

Overall cost of product revenue sold for the nine months ended September 30, 2023, and 2022 was $7,108,366 and $8,154,984, respectively, a decrease of $1,046,618 (13%). Overall cost of goods sold for products as a percentage of product revenues for the nine months ended September 30, 2023, and 2022 were 93% and 106%, respectively. Cost of products sold by operating segment is as follows:

	For the nine months ended September 30,	
	2023	**2022**
Cost of Product Revenues:		
Video Solutions	$ 3,658,490	$ 3,76
Revenue Cycle Management	—	
Entertainment	3,449,876	4,38
Total Cost of Product Revenues	$ 7,108,366	$ 8,15

The decrease in cost of goods sold for our video solutions segment products is directly correlated with the decrease in product sales for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. In addition, the video solutions segment recorded valuation allowances for its older product lines and a portion of its Shield products during the first nine months of 2023, directly increasing cost of goods sold for the period. Cost of product sold as a percentage of product revenues for the video solutions segment improved to 103% for the nine months ended September 30, 2023 as compared to 105% for the nine months ended September 30, 2022.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

The increase in entertainment operating segment cost of product sold directly correlates to the increase in product revenues for the nine months ended September 30, 2023 compared to September 30, 2022, resulting in cost of product revenue of $3,449,876 for the nine months ended September 30, 2023, compared to $4,386,571 for the nine months ended September 30, 2022. Cost of product sold as a percentage of product revenues for the entertainment segment was 85% for the three months ended September 30, 2023 as compared to 107% for the nine months ended September 30, 2022.

We recorded $4,570,970 and $5,489,541 in reserves for obsolete and excess inventories at September 30, 2023 and December 31, 2022, respectively. Total raw materials, component parts, and work-in-progress were $3,722,014 and $4,512,329 at September 30, 2023 and December 31, 2022, respectively, a decrease of $790,315 (18%). Finished goods balances were $6,043,735 and $7,816,618 at September 30, 2023 and December 31, 2022, respectively, a decrease of $1,772,883 (23%) which was attributable to a decrease in finished goods from our entertainment segment. The small decrease in the inventory reserve is primarily due to the reduction in finished goods and movement of excess inventory, offset by the increase in reserve at the entertainment segment. We believe the reserves are appropriate given our inventory levels as of September 30, 2023.

Cost of Service Revenue

Overall cost of service revenue sold for the nine months ended September 30, 2023, and 2022 was $7,174,375 and $11,095,015, respectively, a decrease of $3,920,640 (35%). Overall cost of goods sold for services as a percentage of service revenues for the nine months ended September 30, 2023, and 2022 were 69% and 74%, respectively. Cost of service revenues by operating segment is as follows:

	For the nine months ended September 30,			
		2023		2022
Cost of Service Revenues:				
Video Solutions	$	1,024,798	$	84
Revenue Cycle Management		2,939,682		3,51
Entertainment		5,733,695		11,36
Total Cost of Service Revenues	$	9,698,175	$	15,72

The decrease in cost of service revenues for our video solutions segment is commensurate with the decrease in service revenues in the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Cost of service revenues as a percentage of service revenues for the video solutions segment increased to 45% for the nine months ended September 30, 2023 as compared to 41% for the nine months ended September 30, 2022.

The decrease in revenue cycle management operating segment cost of service revenue is commensurate with the decrease in service revenues in the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Cost of service revenues as a percentage of service revenues for the revenue cycle management operating segment was 57% for the nine months ended September 30, 2023 as compared to 58% for the nine months ended September 30, 2022.

The decrease in entertainment operating segment cost of service revenues is commensurate with the decrease in service revenues in the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Cost of service revenues as a percentage of service revenues for the entertainment operating segment was 79% for the nine months ended September 30, 2023 as compared to 92% for the nine months ended September 30, 2022.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Gross Profit

Overall gross profit for the nine months ended September 30, 2023 and 2022 was $5,507,978 and $4,254,198, respectively, an increase of $1,253,780 (29%). Gross profit by operating segment was as follows:

	For the nine months ended September 30,	
	2023	2022
Gross Profit:		
Video Solutions	$ 1,658,584	$ 1,54
Revenue Cycle Management	2,203,222	2,52
Entertainment	1,646,172	19
Total Gross Profit	$ 5,507,978	$ 4,25

The overall increase is attributable to the large overall increase in revenues for the nine months ended September 30, 2023 and an increase in the overall cost of sales as a percentage of overall revenues to 75% for the nine months ended September 30, 2023 from 85% for the nine months ended September 30, 2022. 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, ShieldTM disinfectants and our cloud evidence storage and management offering, provided that they gain traction in the marketplace. In addition, if revenues from the video solutions segment increase, we will seek to further improve our margins from this segment through expansion and increased efficiency utilizing fixed manufacturing overhead components. 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

Selling, general and administrative expenses were $21,769,532 and $24,285,808 for the nine months ended September 30, 2023 and 2022, respectively, a decrease of $2,516,276 (10%). The decrease was primarily attributable to the reduction in new sponsorships being entered into by the Company. Our selling, general and administrative expenses as a percentage of sales increased to 97% for the nine months ended September 30, 2023 compared to 86% in the same period in 2022. The significant components of selling, general and administrative expenses are as follows:

	For the nine months ended September 30,	
	2023	2022
Research and development expense	$ 2,039,361	$ 1,654,395
Selling, advertising and promotional expense	5,885,097	7,375,364
General and administrative expense	13,845,074	15,256,049
Total	$ 21,769,532	$ 24,285,808

Research and development expense. We continue to focus on bringing new products to market, including updates and improvements to current products. Our research and development expenses totaled $2,039,361 and $1,654,395 for the nine months ended September 30, 2023 and 2022, respectively, an increase of $384,966 (23%). 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 intend to 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 expense totaled $5,885,097 and $7,375,364 for the nine months ended September 30, 2023 and 2022, respectively, a decrease of $1,490,267 (20%). The decrease is primarily attributable to the reduction in new sponsorships being entered into by the Company. Additionally, TicketSmarter remains active in sponsorship and advertising, as it continues to build its brand and gain recognition.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

General and administrative expense. General and administrative expenses totaled $13,845,074 and $15,256,049 for the nine months ended September 30, 2023 and 2022, respectively, a decrease of $1,410,975 (9%). The decrease in general and administrative expenses in the nine months ended September 30, 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 three months ended September 30, 2023 compared to the same period in 2022.

Operating Loss

For the reasons stated above, our operating loss was $16,261,554 and $20,031,610 for the nine months ended September 30, 2023 and 2022, respectively, an improvement of $3,770,056 (19%). Operating loss as a percentage of revenues changed to 73% in the nine months ended September 30, 2023 from 71% in the same period in 2022.

Interest Income

Interest income decreased to $84,071 for the nine months ended September 30, 2023, from $116,928 in the same period of 2022, which reflects our change in cash and cash equivalent levels throughout 2023 compared to 2022.

Interest Expense

We incurred interest expenses of $2,480,947 and $39,766 during the nine months ended September 30, 2023 and 2022, respectively. The increase is attributable to the convertible note entered into in the second quarter of 2023, and the contingent earn-out notes associated with the four Nobility Healthcare acquisitions, with interest rates of 3.00% per annum.

Loss on Accrual for Legal Settlement

The Company recognized a loss on accrual for legal settlement of $1,792,308 and $-0- during the nine months ended September 30, 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 $93,386 and $-0- during the nine months ended September 30, 2023 and 2022, respectively. This is in connection with the convertible note issued during the nine months ended September 30, 2023 and the conversion from debt to equity during the period.

Change in Fair Value of Contingent Consideration Promissory Notes

During the nine months ended September 30, 2023, The Company recognized a gain on the change in fair value of contingent consideration promissory notes of $177,909 and $347,169 during the nine months ended September 30, 2023 and 2022, respectively. This is in connection with the four acquisitions made by our revenue cycle management segment.

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 nine months ended September 30, 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Change in Fair Value of 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 condensed consolidated statement of operations as the change in fair value of warrant derivative liabilities. The change in fair value of the warrant derivative liabilities from December 31, 2022, to September 30, 2023, totaled $1,803,560 which was recognized as a gain in the nine months ended September 30, 2023.

Gain on Extinguishment of Liabilities

Gain on extinguishment of liabilities increased to $507,304 for the nine months ended September 30, 2023, from $-0- during the nine months ended September 30, 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 $2,325,000 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 saving over the next several years.

Gain on Extinguishment of Warrant Derivative Liabilities

The Company recognized a gain on the change in fair value of contingent consideration promissory notes of $-0- and $3,624,794 during the nine months ended September 30, 2023 and 2022, respectively. This is in connection with the Warrant Exchange Agreement executed by the Company on August 23, 2022.

Other income

Other income increased to $76,180 for the nine months ended September 30, 2023, from $41,167 during the nine months ended September 30, 2022, which reflects income related to a warehouse lease within the corporate headquarters.

Loss before Income Tax Benefit

As a result of the above results of operations, we reported a loss before income tax benefit of $17,979,171 and $9,299,498 for the nine months ended September 30, 2023 and 2022, respectively, a decline of $8,679,673 (93%).

Income Tax Benefit

We did not record an income tax expense related to our income for the nine months ended September 30, 2023 due to our overall net operating loss carryforwards available. We have further determined to continue providing a full valuation reserve on our net deferred tax assets as of September 30, 2023. We had approximately $113.3 million of net operating loss carryforwards and $1.8 million of research and development tax credit carryforwards as of September 30, 2023 available to offset future net taxable income.

Net Loss

As a result of the above results of operations, we reported a net loss of $17,979,171 and $9,299,498 for the nine months ended September 30, 2023 and 2022, respectively, a decline of $8,679,673 (93%).

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 of Nobility Healthcare which is reflected in the statement of income as "net income attributable to noncontrolling interests of consolidated subsidiary". We reported net income attributable to noncontrolling interests of consolidated subsidiary of $228,624 and $268,636 for the nine months ended September 30, 2023 and 2022, respectively.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Net Loss Attributable to Common Stockholders

As a result of the above, we reported a net loss attributable to common stockholders of $18,207,795 and $9,568,134 for the nine months September 30, 2023 and 2022, respectively, a deterioration of $8,639,661 (90%).

Basic and Diluted Loss per Share

The basic and diluted loss per share was $6.55 and $3.83 for the nine months ended September 30, 2023 and 2022, respectively. Basic loss per share is based upon the weighted average number of common shares outstanding during the period. For the nine months ended September 30, 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.

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.

Cash, cash equivalents: As of September 30, 2023, we had cash and cash equivalents with an aggregate balance of $2,207,831, a decrease from a balance of $3,532,199 at December 31, 2022. Summarized immediately below and discussed in more detail in the subsequent subsections are the main elements of the $1,324,368 net decrease in cash during the nine months ended September 30, 2023:

- **Operating activities**: $5,842,158 of net cash used in operating activities. Net cash used in operating activities was $5,842,158 and $17,797,992 for the nine months ended September 30, 2023 and 2022, respectively, a decrease of $11,955,834. The improvement is attributable 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 during the nine months ended September 30, 2023 compared to the same period in 2022.
- **Investing activities**: $197,241 of net cash used in investing activities. Cash used in investing activities was $197,241 and $3,488,972 for the nine months ended September 30, 2023 and 2022, respectively. During the nine months ended September 30, 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.
- **Financing activities**: $4,715,031 of net cash provided by financing activities. Cash provided by (used in) financing activities was $4,715,031 and ($4,425,437) for the nine months ended September 30, 2023 and 2022, respectively. During the first nine months of 2023, we completed a convertible note agreement, a related party note payable, made principal payments on contingent consideration promissory notes, received a Commercial Extension of Credit for our Entertainment Segment, and made principal payments on that extension of credit. During the first nine months of 2022 the Company repurchased its common stock on the open market pursuant to the stock repurchase plan, as well as principal payments on contingent consideration promissory notes.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Commitments:

We had $2,207,831 of cash and cash equivalents and net negative working capital of ($4,779,820) as of September 30, 2023. Accounts receivable and other receivables balances represented $4,640,542 of our net working capital at September 30, 2023. We intend to collect our outstanding receivables on a timely basis and reduce the overall level during 2023, which would help to provide positive cash flow to support our operations during 2023. Inventory represents $5,194,779 of our net working capital at September 30, 2023. We are actively managing the level of inventory and our goal is to reduce such level during the balance of 2023 by our sales activities, the increase of which should provide additional cash flow to help support our operations during 2023.

Capital Expenditures:

We had the following material commitments for capital expenditures at September 30, 2023:

Lease commitments. Total lease expense under the six operating leases was approximately $105,439 and $402,556, during the three and nine months ended September 30, 2023, respectively.

The following sets forth the operating lease right of use assets and liabilities as of September 30, 2023:

Assets:		
Operating lease right of use assets, net	$	1,034,518
Liabilities:		
Operating lease obligations-current portion	$	264,958
Operating lease obligations-less current portion		837,755
Total operating lease obligations	$	1,102,713

The components of lease expense were as follows for the nine months ended September 30, 2023:

Selling, general and administrative expenses	$	402,556

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

Year ending December 31:		
2023 (October 1, to December 31, 2023)	$	88,188
2024		336,992
2025		290,417
2026		271,868
Thereafter		334,651
Total undiscounted minimum future lease payments		1,322,116
Imputed interest		(219,403)
Total operating lease liability	$	1,102,713

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Debt obligations – Outstanding debt obligations comprises the following:

	September 30, 2023	December 31, 2022
Economic injury disaster loan (EIDL)	$ 150,000	$ 150,000
Convertible note payable, net of unamortized debt discount of $1,014,091	1,860,909	—
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	194,477	388,955
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	87,348	176,456
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	—	208,083
Contingent consideration promissory note – Nobility Healthcare Division Acquisition	—	4,346
Commercial Extension of Credit – Entertainment Segment	68,135	—
Debt obligations	2,360,869	927,840
Less: current maturities of debt obligations	2,213,148	485,373
Debt obligations, long-term	$ 147,721	$ 442,467

Debt obligations mature as follows as of September 30, 2023:

	September 30, 2023
2023 (October 1, 2023 to December 31, 2023)	$ 164,295
2024	3,066,170
2025	3,412
2026	3,542
2027 and thereafter	137,541
Total	$ 3,374,960

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 and estimates 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;
- Fair value of warrant derivative liabilities;
- Stock-based Compensation Expense;
- Accounting for Income Taxes; and

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

We review all significant, unusual, or nonstandard shipments of product 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. Our historical bad debts have been negligible, with less than $258,000 charged off as uncollectible on cumulative revenues of $248.0 million since we commenced deliveries during 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.

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 at September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Raw material and component parts– video solutions segment	$ 3,680,820	$ 4,509,165
Work-in-process– video solutions segment	41,194	3,164
Finished goods – video solutions segment	5,676,031	6,846,091
Finished goods – entertainment segment	367,704	970,527
Subtotal	9,765,749	12,328,947
Reserve for excess and obsolete inventory– video solutions segment	(4,466,748)	(5,230,261)
Reserve for excess and obsolete inventory – entertainment segment	(104,222)	(259,280)
Total inventories	$ 5,194,779	$ 6,839,406

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 47% of the gross inventory balance at September 30, 2023, compared to 45% of the gross inventory balance at December 31, 2022. We had $4,570,970 and $5,489,541 in reserves for obsolete and excess inventories at September 30, 2023 and December 31, 2022, respectively. Total raw materials, component parts, and work-in-process were $3,722,014 and $4,512,329 at September 30, 2023 and December 31, 2022, respectively, a decrease of $790,315 (18%). Finished goods balances were $6,043,735 and $7,816,618 at September 30, 2023 and December 31, 2022, respectively, a decrease of $1,772,883 (23%). The decrease in the inventory reserve is primarily due to the reduction in finished goods within the entertainment segment and movement of excess inventory. 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 September 30, 2023.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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 changes 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Our most recent annual impairment test of goodwill was a qualitative analysis conducted as of December 31, 2022 that indicated no impairment. Subsequent to completing our 2022 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 10 — 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 $16,543 as of September 30, 2023 compared to $15,694 as of December 31, 2022 due to newer products gaining a long history of claims to consider, which was slightly offset 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.

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. Furthermore, the Company revalues the fair value of warrant derivative liability as of the date the warrant is exercised with the resulting warrant derivative liability transitioned to equity.

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 September 30, 2023:

	Issuance date assumptions	September 30, 2023 assumptions
Volatility - range	106.0 %	105.7 %
Risk-free rate	3.36 %	4.60 %
Dividend	0 %	0 %
Remaining contractual term	5.0 years	4.5 years
Exercise price	$ 5.50 - 7.50	$ 5.50 - 7.50
Common stock issuable under the warrants	1,125,000	1,125,000

***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 three or nine months ended September 30, 2023.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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 fair values of our share-based compensation. Certain share-based payment awards, such as employee stock options, may expire worthless 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.

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 September 30, 2023, we have fully reserved all of our deferred 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 $17,220,000 to a balance of $34,200,000 to fully reserve our deferred tax assets at December 31, 2022. We determined that it was appropriate to continue to provide a full valuation reserve on our net deferred tax assets as of September 30, 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 September 30, 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.

Inflation and Seasonality

Inflation has not materially affected us during the past fiscal year. We do not believe that our Video Solutions and Revenue Cycle Management segments business is seasonal in nature, however; the Entertainment Segment is expected to generate higher revenues during the second half of the calendar year than in the first half.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not Applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures, as such terms are defined in Rules 13a-15(e) under the Exchange Act. The Company, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of such disclosure controls and procedures for this Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2023 to provide reasonable assurance that material information required to be disclosed by the Company in this Report was recorded, processed, summarized and communicated to the Company's management as appropriate and within the time periods specified in SEC rules and forms.

As part of our plan to remediate our controls which were not effective, 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 effectiveness 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

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

The information regarding certain legal proceedings in which we are involved as set forth in Note 12 – Contingencies of the Notes to the Condensed Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report on Form 10-Q) is incorporated by reference into this Item 1.

In addition to such legal proceedings, we are faced with or involved in various other claims and legal proceedings arising in the normal course of our businesses. At this time, we do not believe any material losses under such other claims and proceedings to be probable. While the ultimate outcome of such claims or legal proceedings cannot be predicted with certainty, it is in the opinion of management, after consultation with legal counsel, that the final outcome in such proceedings, in the aggregate, would not have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Item 1A. Risk Factors.

As a smaller reporting company, we are not required to provide the information required by this Item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There were no unregistered sales of equity securities during the first half of 2023 that were not disclosed by the Company on a Current Report on Form 8-K.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On September 22, 2023, a trust, the beneficiaries of which are the Chief Executive Officer of TicketSmarter, and his spouse, contributed cash in the amount of $2,325,000 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 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 6. Exhibits.

(a) Exhibits.

10.1	Loan and Security Agreement between Digital Ally, Inc., Digital Ally Healthcare, LLC and Kompass Kapital Funding, LLC (incorporated by reference to Exhibit 10.1 to Company's Current Report on Form 8-K with the SEC on October 27, 2023).
10.2	Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing between Digital Ally, Inc. and Kompass Kapital Funding, LLC (incorporated by reference to Exhibit 10.2 to Company's Current Report on Form 8-K with the SEC on October 27, 2023).
10.3	Revolving Note between Digital Ally, Inc., Digital Ally Healthcare, LLC and Kompass Kapital Funding, LLC (incorporated by reference to Exhibit 10.3 to Company's Current Report on Form 8-K with the SEC on October 27, 2023).
10.4	Promissory Note between TicketSmarter, Inc. and Jeff Goodman and Heather Goodman Joint Revocable Trust, dated September 22, 2023.
31.1	Certificate of Stanton E. Ross pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.
31.2	Certificate of Thomas J. Heckman pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.
32.1	Certificate of Stanton E. Ross pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934, as amended.
32.2	Certificate of Thomas J. Heckman pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934, as amended.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Schema Document
101.CAL	Inline XBRL Calculation Linkbase Document
101.DEF	Inline XBRL Definition Linkbase Document
101.LAB	Inline XBRL Label Linkbase Document
101.PRE	Inline XBRL Presentation Linkbase Document
104	Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit)

(*) Filed herewith.

In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

SIGNATURES

Pursuant to the requirements 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.

Date: November 14, 2023

DIGITAL ALLY, INC.

By:	*/s/ Stanton E. Ross*
Name:	Stanton E. Ross
Title:	Chief Executive Officer
By:	*/s/ Thomas J. Heckman*
Name:	Thomas J. Heckman
Title:	Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)

Exhibit 10.4

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

EXHIBIT 31.1

DIGITAL ALLY, INC.

CERTIFICATIONS
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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

1. I have reviewed this report on Form 10-Q for the nine three months ended September 30, 2023 March 31, 2024 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) 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

(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.

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: November 14, 2023 May 17, 2024

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

/s/ Stanton E. Ross

Stanton E. Ross
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

DIGITAL ALLY, INC.

CERTIFICATIONS
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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

1. I have reviewed this report on Form 10-Q for the nine three months ended September 30, 2023 March 31, 2024 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) 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

   (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

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

(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: November 14, 2023 May 17, 2024

/s/ Thomas J. Heckman

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

EXHIBIT 32.1

DIGITAL ALLY, INC.

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

In connection with the Quarterly Report of Digital Ally, Inc. (the "Company") on Form 10-Q for the three months ended September 30, 2023 March 31, 2024 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)
November 14, 2023 May 17, 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.

EXHIBIT 32.2

DIGITAL ALLY, INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Digital Ally, Inc. (the "Company") on Form 10-Q for the three months ended September 30, 2023 March 31, 2024 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)
November 14, 2023 May 17, 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All rights reserved. Patents Pending.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.