

May 13, 2008

DIGITAL ALLY, Inc. (NASDAQ:DGLY- \$9.50)
INITIATE COVERAGE - BUY RECOMMENDATION
12-Month Price Target = \$18.00

For Research Disclosures – See Page 10

DIGITAL ALLY REPORTS OUTSTANDING QUARTER

Digital Ally, Inc. (“Digital Ally” or the “Company”) recently reported operating results for its first quarter of FY08 ending March 31. Revenue was up 150% from the same quarter of the prior year and reflected a 22% sequential increase for Q407. With improving supply chain performance, gross margins increased to 61.9% in Q108 from 60.3% in Q107 and 57.8% in Q407. The result was diluted EPS of \$0.10 for the quarter vs. \$0.01 for Q107. In its press release announcing the quarter results the Company guided toward revenue of \$40 million for FY08, more than double its FY07 results.

Statistical Data

Shares outstanding	15.2 million
Float	10 million
Market Capitalization	\$144 million
Avg. Daily Volume (10 days)	298,000
52-Week Range	\$1.95 - \$10.25
FY 2008 EPS Est.	\$0.46
FY 2009 EPS Est.	\$0.82
P/E 2008 Est.	19.5x
P/E 2009 Est.	11.0x

www.digitalallyinc.com

NEW PRODUCT – EXPANDED MARKET

Digital Ally entered the law enforcement market in 2006 with the introduction of its DVM-500 In-Car Digital Rearview Mirror System. On May 1, 2008 the Company introduced the DVM-250 Pro, a lower priced event recorder aimed at the broader transportation market. Event recorders automatically record and store video and audio from outside and inside of vehicles and are used by taxicabs, limousines, school buses, transit buses, delivery vehicles, utility company vehicles and even personal vehicles. The DVM-250 Pro constantly records a 30-second loop and in the case of a sudden change in speed, sudden stop, or other violent maneuver the recording continues providing video and sound record of the event. These recordings can be used for driver training, personal protection and monitoring as well as protection against liability workman’s compensation claims in the event of an accident. The DVM-250 Pro is aimed at a general market that is several times larger than the approximately 450,000 law enforcement vehicles in use in the United States.

COMPANY PREPARES FOR CONTINUED GROWTH

In addition to the recent new product introduction, Digital Ally increased the size of its production/assembly facility in the first quarter of 2008 to accommodate an anticipated expansion in product shipments. The Company also reported that it more than tripled research and development expenses from Q107 as it targets new market opportunities. Products include extensions of current products as well as new products.

CURRENT CAPITALIZATION AND CASH FLOW SHOULD SUPPORT EXPANSION

Digital Ally ended Q1 with approximately \$4.9 million in cash, nearly \$10 million in current assets and no debt. For the year ended December 31, 2007 the Company generated \$4.8 million cash from operations and spent only \$563K on capital expenditures. The Company does not have to spend significant capital dollars for production, since most of the production is outsourced and assembly takes place at the Company’s Kansas facilities. In this regard there should be minimal dilution of current shareholders from capital raises to meet the projections we have prepared.

ESTIMATE OF FINANCIAL RESULTS: (FY ends 12/31)							
	(Dollar amounts in Thousands – Except EPS)						
	Year A	Qtr A	Qtr E	Qtr E	Qtr E	Year E	Year E
	<u>2007</u>	<u>3/31/08</u>	<u>6/30/08</u>	<u>9/31/08</u>	<u>12/31/08</u>	<u>2008</u>	<u>2009</u>
Revenue	\$19,391	\$8,601	\$9,461	\$10,407	\$11,656	\$40,125	\$76,238
Net Income	\$ 4,523	\$1,676	\$1,929	\$ 2,191	\$ 2,457	\$ 8,523	\$15,525
Earnings/Share	\$ 0.28	\$ 0.10	\$ 0.11	\$ 0.12	\$ 0.14	\$ 0.46	\$ 0.82

COMPANY DESCRIPTION

Digital Ally produces digital video imaging and storage products for use in law enforcement and security applications. The Company's current products are a low cost, easy-to-install, in-car digital video rear view mirror and a digital video flashlight. These products make self-contained video and audio recordings onto flash memory cards that are incorporated into the body of the digital video rear view mirror and the flashlight. Digital Ally sells its products to law enforcement agencies and other security organizations and for consumer and commercial applications through direct sales and third-party distributors.

The Company intends to produce other digital video devices in the future. The same high-performance digital video recording capabilities may be incorporated into a wide array of other products providing the Company the opportunity to offer its technology on an original equipment manufacturing basis to those non-competing manufacturers who may have existing products and distribution capabilities.

PRODUCTS

Digital Ally's current products include an In-Car Video System ("DVM") and a Digital Video Flashlight ("DVF"), both of which allow self-contained video and audio recording onto solid state components that are incorporated into the body of the products themselves. This saves a significant amount of space in police cars using the DVM system, because the system is incorporated into the car's rearview mirror. In the case of the DVF, law enforcement personnel can record criminal and other activities, and/or substantiate evidence gathering, on a solid state chip inside the flashlight, without having to carry a separate camera/recorder that might interfere with the performance of their duties.

In-Car Digital Video System ("DVM") – In-car video systems have become a virtual necessity for police/patrol cars, and the vast majority of new police vehicles have such systems installed before being placed into service. In fact, the most prominent source of police video evidence today is derived from in-car video systems. According to the Department of Justice, there are almost 14 million arrests each year, with approximately 10% (1.4 million) involving charges of Driving While Intoxicated ("DWI") or Driving Under the Influence ("DUI"). Without some form of video or audio recording, court proceedings usually consist of the police officer's word against that of the suspect. Records reveal that where video evidence is available to back up officer testimony, conviction rates increase substantially. Video evidence also helps protect police departments against frivolous lawsuits.

Historically, most police cars have been equipped with VHS-based analog video recording systems that have cameras mounted inside the windshield and a bulky recording device in the trunk of the vehicle. In recent years, most manufacturers have begun the transition to digital video, but many have encountered problems obtaining the appropriate technology. Digital video systems are typically much more expensive than analog systems, and this has prevented many law enforcement agencies from taking full advantage of digital technology.



Digital Ally has developed a proprietary in-car digital video system that is integrated into a vehicle's rearview mirror, is less expensive than competing digital systems, and is even price competitive with most analog units. With a list price of \$3,995, DGLY's system requires no additional software and provides significant advantages to law enforcement agencies.

The Company's in-car digital video rear view mirror has the following features:

- wide angle zoom color camera;
- standards-based video and audio compression and recording;
- system is concealed in the rear view mirror, replacing factory rear view mirror;
- monitor in rear-view mirror is invisible when not activated;
- eliminates need for analog tapes to store and catalogue;
- easily installs in any vehicle;
- archive to computers, servers, DVDs, CD-ROMs, or file servers;
- 900 MHz audio transceiver with automatic activation;
- marks exact location of incident with integrated GPS;
- playback using Windows Media Player;
- proprietary software protects the chain of custody; and
- records to rugged and durable solid state memory.

Digital Video Flashlight ("DVF") – Digital Ally's second product is a high-quality, law enforcement-type flashlight with built-in digital video and audio recording capabilities. All recorded data is stored in an on-board solid state memory chip for later download to a computer. From the computer, the images and sound can be stored, reviewed or "burned" to a DVD or CD. Storage can take place at the police station or the audio/video files can be transmitted by Internet to a service provider or central storage and recording facility. Each frame of video can be time-sequenced with the DVM to provide evidence that protects the officer and the suspect.

The unit is so compact that the size, shape and weight of the DVF are virtually identical to a traditional law-enforcement-style flashlight, thus allowing the flashlight to be used as a defense baton, if necessary. As a self-contained unit, the DVF does not rely on transmitters, cables, external batteries or a separate recorder. It can record up to 8 hours of video and audio information, and space for the digital video system is created by replacing regular flashlight bulbs with smaller, rugged, ultra-bright light-emitting diode ("LED") bulbs that have up to a 100,000-hour lifespan.



The Company's digital video flashlight product has the following features:

- virtually the same size and shape as a traditional flashlight;
- easy to use, requiring one button to start and stop recording;
- on-board flash memory card;
- extra-wide field of view for digital video and audio recording;
- each frame of video can be date and time stamped;
- LED flashlight bulb is an improvement over conventional bulbs; and
- proprietary chain of custody software to protect delivery of data back to the police station.

The incorporation of "wireless download" capabilities into the Company's products has the potential to significantly accelerate sales growth, as it will enhance the ability of law enforcement officers to transmit audio/video files that can be used for evidence collection and the sharing of information critical to police work.

THE LAW ENFORCEMENT MARKET

There are approximately 18,000 law enforcement agencies in the United States. These agencies drive approximately 450,000 police cars, of which approximately 70,000 are replaced each year. To date, Digital Ally has secured 1,700 customers, most of which are among the smaller departments. Sales of only 10,000 units of the DVM-500 in-car video would produce nearly \$40 million in revenue, the amount we are forecasting for the year. The digital flashlight has not yet been shipped in significant quantities and the Company estimates that it may be the second half of 2008 before substantial revenues are generated from this product.

THE TRANSPORTATION MARKET

With the recent introduction of the DVM-250, the Company is addressing a market that is substantially larger than the law enforcement market. Taxi cabs, school buses, transit buses, rapid transit, package delivery vehicles as well as utility service vehicles and over-the-road trucks have begun to incorporate some form of video recording, although not with the penetration of the law enforcement market. There are some video products that are available for passenger cars in the after-market that are used by insurance companies, rental car companies and others to help provide liability protection in the event of an accident. Some parents have incorporated video and speed recording devices in the cars that their teen age children drive to monitor their activity and driving habits. The broad transportation market offers the potential for sale of millions of units, rather than the hundreds of thousands of units that may be sold to the law enforcement market.

ORIGINAL EQUIPMENT MANUFACTURERS

Although the Company has no agreements with OEMs at this stage, it may choose to pursue the opportunity to supply products labeled with a customer's brand or license others to use its technology. Built-in digital video recording is growing in multiple uses. Applications exist in many sports products, such as baseball and tennis speed measuring instruments. Medical practitioners are recording procedures for liability and teaching purposes, many with recording capabilities built into their devices. Medical laboratories are recording digital photographs and video of slides and samples to provide proof of results and to transmit to other researchers.

Rather than encouraging the creation of technology that could prospectively compete, The Company may sell its board-level components or complete units for inclusion in non-competing products marketed under other brand names. By making it easy for other companies to obtain digital video technology, Digital Ally can provide a bridge between the large semiconductor companies and smaller businesses with distinct and effective marketing skills.

Digital Ally expects that its role in original equipment manufacturing operations will be to utilize its design and production expertise to provide subsystems that can be incorporated into the customer's product. Once a design is accepted, fabrication can be done by one of its subcontractors. Original equipment manufacturing operations are not expected to be a significant part of the Company's revenue and profitability in its early stages.

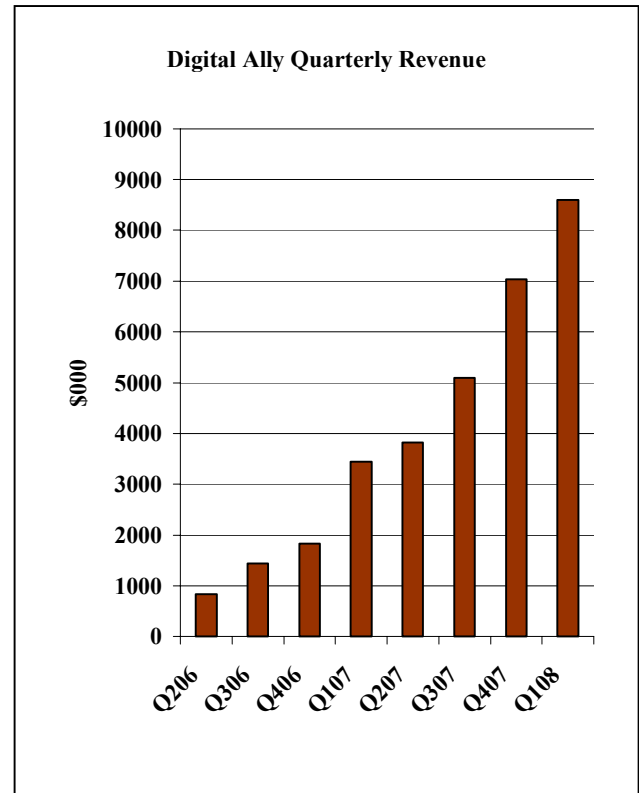
FINANCIAL RESULTS

Digital Ally products have met with enthusiasm in the marketplace. To date, orders have been received from 48 states, 11 foreign countries and several U. S. government agencies. Sales have increased significantly each quarter, and we are projecting that each quarter of 2008 will show additional increases, but at a slower growth rate than in 2007.

The in-car video was introduced late in the first quarter of 2006. Q206 was the first full quarter of revenue. From the \$825K realized in that quarter, the Company generated almost 10x that much revenue in the quarter just ended on March 31, 2008 when sales reached \$8.6 million.

For the year 2007, Digital Ally generated cash from operations in the amount of \$4,870,409, sufficient to pay off the lines of credit and leave the Company debt free. We are of the opinion that the Company will be able to fund its capital expenditures and working capital requirements with cash from operations in the near future.

This rapid growth in revenue and quick profitability has left the Company with a strong balance sheet, a current ratio of nearly 6:1 and shareholders equity of \$12 million.



FINANCIAL PROJECTIONS

We are expecting continued strong revenue growth from Digital Ally based on the fact that the company has achieved less than 10% market penetration among the number of law enforcement agencies in the United States and a much smaller penetration of the number of police cars in the current fleet. Add the potential revenue from digital flashlights and the broader transportation market, we are of the opinion that Digital Ally can again double its sales in 2008 and probably again in 2009.

The Company has provided no guidance for quarterly revenue for 2008, so we have projected a reasonable progression of sales throughout the year. We expect continued use of options as employment incentives so we have increased the share count accordingly. Our estimates follow the Company's guidance with revenue of \$40 million forecast for 2008 and advancing to over \$76 million in 2009. With maintenance of current gross margins and slight improvements in operating margin we are estimating diluted EPS of \$0.46 in 2008 and \$0.82 for FY 2009. Our quarterly and annual estimates are shown on the following page.

Digital Ally, Inc.

FY = 12/31

(DGLY) Annual Operating Summary

Dollars in thousands - except earnings per share

	Year 2006	Year 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Year 2008 E	Year 2009 E
Operating statement								
Revenues	\$ 4,109	\$ 19,391	\$ 8,601	\$ 9,461	\$ 10,407	\$ 11,656	\$ 40,125	\$ 76,238
Cost of Sales	2,127	7,650	3,281	3,595	3,955	4,429	15,260	30,495
Gross Profit	1,982	11,741	5,320	5,866	6,452	7,227	24,865	45,743
Operating Expense	5,324	8,876	2,825	2,933	3,122	3,497	12,377	22,109
Operating income	(3,342)	2,865	2,495	2,933	3,330	3,730	12,488	23,634
Interest expense, (income) net	20	(6)	(27)	(35)	(40)	(50)	(152)	(250)
Other Expenses	-	11	-	-	-	-	-	-
Earnings before taxes	(3,362)	2,860	2,522	2,968	3,370	3,780	12,640	23,884
Income Taxes	-	(1,663)	846	1,039	1,180	1,323	4,387	8,359
Net income	<u>\$ (3,362)</u>	<u>\$ 4,523</u>	<u>\$ 1,676</u>	<u>\$ 1,929</u>	<u>\$ 2,191</u>	<u>\$ 2,457</u>	<u>\$ 8,253</u>	<u>\$ 15,525</u>
Earnings per share - diluted	\$ (0.26)	\$ 0.28	\$ 0.10	\$ 0.11	\$ 0.12	\$ 0.14	\$ 0.46	\$ 0.82
Weighted share outstanding - diluted	<u>12,829</u>	<u>16,163</u>	<u>17,280</u>	<u>17,500</u>	<u>17,800</u>	<u>17,950</u>	<u>17,800</u>	<u>19,000</u>
Margin analysis								
Gross Margins	48.2%	60.5%	61.9%	62.0%	62.0%	62.0%	62.0%	60.0%
Operating Expense	129.6%	45.8%	32.8%	31.0%	30.0%	30.0%	30.8%	29.0%
Operating income	-81.3%	14.8%	29.0%	31.0%	32.0%	32.0%	31.1%	31.0%
Income tax rate	0.0%	-58.1%	33.5%	35.0%	35.0%	35.0%	34.7%	35.0%
Net income	-81.8%	23.3%	19.5%	20.4%	21.0%	21.1%	20.6%	20.4%

MANAGEMENT

STANTON E. ROSS, Chairman and Chief Executive Officer: Mr. Ross has served as Chairman and Chief Executive Officer since September 1, 2005. From March 1992 to June 2005, Mr. Ross was the Chairman and President of Infinity, Inc., a publicly held oil and gas production and service company (IFNY), and served as an officer and director of each of Infinity's subsidiaries. He resigned all of his positions with Infinity, Inc. in June 2005, except Chairman. From 1991 until March 1992, he founded and served as President of Midwest Financial, a financial services corporation involved in mergers, acquisitions and financing for corporations in the Midwest. From 1990 to 1991, Mr. Ross was employed by Duggan Securities, Inc., an investment banking firm in Overland Park, Kansas, where he primarily worked in corporate finance. From 1989 to 1990, he was employed by Stifel, Nicolaus & Co., a member of the New York Stock Exchange, where he was an investment executive. From 1985 to 1987, Mr. Ross was President and founder of Kansas Microwave, Inc. From 1981 to 1985, he was employed by Birdview Satellite Communications, Inc., which manufactured and marketed home satellite television systems, initially as a salesman and later as National Sales Manager.

THOMAS HECKMAN, Chief Financial Officer, Treasurer and Secretary: During the years 2001-2007, Mr. Heckman provided consulting and business investment services to publicly traded and private companies. He has been involved in the successful completion of a number of initial public offerings (IPOs), reverse mergers and other transactions; drafted, filed and achieved SEC effectiveness for Form SB-2 filings; assisted in the raising of capital for private companies in a variety of industries; and developed multiple private placement memorandums.

From 1983 until 2001, Mr. Heckman was employed by Deloitte and Touche, LLP, a subsidiary of Deloitte Touche Tohmatsu, one of the largest auditing, consulting, financial advisory, risk management, and tax services organizations in the world. During his 18 years with Deloitte and Touche, LLP, including six years as Accounting and Auditing Partner in the Kansas City office, Mr. Heckman specialized in IPOs and public reporting entities. He served as partner in charge of a high-technology and emerging/high-growth company market segment for cross-discipline marketing efforts, assisted companies in preparing for public offerings and other liquidity events, and was involved in numerous initial/secondary financings and merger / acquisition transactions for public and private companies. He is experienced in all facets of SEC financial reporting and compliance matters.

Mr. Heckman earned his Bachelor of Arts degree in Accounting at the University of Missouri - Columbia.

ROBERT HALER, Vice President – Engineering and Product Development: Since November 2003 Mr. Haler has served as Vice President of Product Development. His responsibilities include product specifications, research and development efforts, identifying suppliers and negotiating production arrangements. From February 2003 to October 2003 he was Product Development manager for Tri Square Communications. He directed the engineering team developing high volume FRS/GMRS radios. From June 1994 to February 2003 he was President and Owner of Lymax's Earth Sky and Astronomy, which marketed high-end astronomical telescopes to consumers and universities. From 1992 to May 1994 he was Vice President of Sales and Marketing for Smart Page Inc., which sold "as-needed" nationwide paging services. Prior to 1992 he was President and CEO of Maxon Systems, Inc. a customer products division of Maxon Electronics, a Korean electronics manufacturing company. At Maxon his divisions developed, manufactured, and marketed Maxon branded computer video cards, hard disk interfaces, microwave receivers, 49MHZ radios, and CD radios and GMRS/FSR radios.

KENNETH L. MCCOY, Vice President of Sales and Marketing: Ken McCoy has been involved in the Law Enforcement Industry for the past 35 years with the following history:

In 1969, Mr. McCoy joined Kustom Signals, Inc. He was instrumental in establishing the first company nationwide direct sales force to market speed radar devices. He was also instrumental in introducing the first solid state radar and first moving radar in the market. After leaving Kustom, Mr. McCoy joined CMI, Inc. as National Sales Manager and Vice President. While at CMI he also established a nationwide sales organization and introduced the very first Hand Held Radar Gun (the Speedgun), the first one-piece moving car radar with dual readouts, the Speedgun II and the first infrared alcohol breath testing instrument (the Intoxilyzer).

In 1976, Mr. McCoy and two partners founded and started MPH Industries, Inc. in Chanute, Kansas. They had facilities in Chanute and Lee's Summit, Missouri. He served as President of MPH Industries from 1976 to 1988 overseeing all business operations at both facilities. MPH employed approximately 100 employees with a nationwide employee sales force and service organization. MPH became known as one of the industry leaders in traffic speed enforcement products.

In 1988 MPH Industries, Inc. was purchased by MPD, Inc. located in Owensboro, Kentucky. Mr. McCoy became Vice President of the Law Enforcement Division of MPD, Inc. Under his supervision they purchased CMI, Inc. from Federal Sign and Signal, Inc. and moved the entire organizations of CMI, Inc. and MPH Industries, Inc. to Owensboro, Kentucky.

In 1992, Mr. McCoy formed his own Marketing Organization to sell Law Enforcement products throughout the USA and Canada. The first contract for the organization was with Applied Concepts, Inc., the manufacturer of Stalker brand radar. They became the exclusive marketing organization for the Stalker Radar line. Mr. McCoy served as Director of Marketing for Applied Concepts, Inc. where he started with zero in sales and within seven years the company was doing over \$12 million dollars per year in Traffic Radar and become known as the Technology Leader in this industry. During this period he also introduced and sold In-Car Video systems.

In 2004, Mr. McCoy became special advisor to the CEO of Decatur Electronics, Inc. Decatur is a fifty year old company that designs, manufactures and markets police radar, traffic safety equipment and other law enforcement products. Mr. McCoy graduated in 1968 from Pittsburgh State University, Pittsburgh Kansas, with a degree in business with a marketing major.

DARRIN MCCOY, Director of Sales and Marketing: Darrin McCoy has over 20 years experience working in the law enforcement industry. He started working for MPH Industries at a young age where he performed several different job functions and gained a vast knowledge about all the products. While working on his Bachelor degree in college he and his father founded Chanute Radar Service. He served as General Manager of Chanute Radar and was responsible for setting up, managing and maintaining all operations involved in running the business. This also allowed him to refine his experience in all aspects of business management, including financial planning and reporting, hiring, training and supervising employees, developing marketing plans and strategies, implementing sales strategies, designing and developing sales and marketing materials, budgeting and forecasting, and overseeing daily operations.

In 1998, he accepted a position with Applied Concepts, Inc. as an independent representative to market and sale all of their traffic safety products while continuing to be involved in running Chanute Radar Service. He ranked within the top three in total sales and was once ranked number one while selling their products.

In late 2000 he founded McCoy's Law Line, Inc. along with Ken and Roz McCoy, as Vice President. He was involved with every aspect of planning, organizing and managing all operations of the business. He was also responsible in developing and managing all marketing activities and materials in print and for the website. Setup and maintained a network server and all computer systems.

McCoy's Law Line merged with ICOP Digital in 2002 to design and market a state of the art digital video system for the law enforcement industry. Mr. McCoy was a key member in the design and development of the ICOP 20/20. He served as Director of Marketing and New Products where he was responsible for planning, developing and leading comprehensive marketing strategies to support business goals and objectives. He was responsible for all aspects and activities associated with new product development, such as Marketing, Sales, Operations, Engineering and Customer Service. He also developed and managed a wide range of marketing tools, including promotional materials, direct-mail pieces, stationary, multimedia presentations and website content.

In September of 2004 McCoy's Law Line sold their product line to Decatur Electronics and merged some of the company functions. Mr. McCoy served as Product Manager for Decatur with emphasis on the digital video system.

LEROY C. RICHIE, Lead Outside Director: Mr. Richie has been the Lead Outside Director of Digital Ally since September 1, 2005. Since June 1, 1999 Mr. Richie has been a director of Infinity, Inc. and since September 2000, he has been Chairman and Chief Executive Officer of Q Standards World Wide, Inc. From April 1999 to August 2000, he was President of Capitol Coating Technologies, Inc. From September 1998 to April 1999 he was President of Interpid World Communications. From January 1998 to September 1998, Mr. Richie reviewed business opportunities and served as Chairman of H.P. Devco and Vice Chairman of the Detroit Economic Growth Corporation and Detroit Medical Center. Mr. Richie was formally Vice President of Chrysler Corporation and General Counsel for automotive legal affairs, where he directed all legal affairs for that company's automotive operations from 1986 to 1997. Before joining Chrysler, he served as director of the New York office of the Federal Trade Commission. He has been a member of the board of directors of Kerr-McGee Corporation since 1998 and has served as chair of the audit committee of the board of directors of that company since January 1, 2003. He has also been a member of the board of directors of J.W. Seligman & Co. since 2000. Mr. Richie received a B.A. from City College of New York and a J.D. from the New York University School of Law.

VALUATION

Almost all of the direct competitors for in-car video systems are private companies or subsidiaries of very large communication or systems companies. Companies such as Kustom Signals, Apollo Video, Safety Vision and MPH Industries are private and therefore public comparables are hard to find. We have used companies that sell to the law enforcement market but may not have a comparable product or service offering. Also, since these are more mature companies, the growth rates will be significantly lower than what we expect from Digital Ally.

<u>Company</u>	<u>Symbol</u>	<u>5/8 Price</u>	<u>Mkt Cap Millions</u>	<u>EPS E 2008</u>	<u>EPS E 2009</u>	<u>P/E 2008 E</u>	<u>P/E 2009 E</u>
Taser Intern'l	TASR	\$ 7.44	\$471	\$0.18	\$0.34	41.3x	21.9x
LoJack	LOJN	\$ 9.55	\$175	\$0.72	\$0.94	13.2x	10.1x
L-1 Identity Sol	ID	\$14.00	\$1.05b	\$0.15	\$0.37	93.3x	37.8x
ICOP Digital	ICOP	\$ 1.95	\$14.5	(\$0.60)	\$0.02	<u>N/A</u>	<u>N/M</u>
Average P/E						49.2x	23.2x
Digital Ally	DGLY	\$9.00	\$137.6	\$0.46	\$0.82	19.5x	11.0x

Based on any valuation comparative we could derive, we believe that Digital Ally is undervalued. The above comparisons are not reflective of the technology lead that Digital Ally brings to its market or the impact that other products can have on the operations of the Company. L-1, with over \$1.0 billion in capitalization might be illustrative of a more mature company in a high growth state.

For Digital Ally we are establishing our initial price target based on our EPS estimate for FY2009 and a price earnings ratio of 22x, similar to TASR above. We believe the low market penetration of the DVM-500 and the introduction of the DVM-250 offer substantial upside potential to our revenue and EPS estimates. So, in many ways our multiple is low, but we want to see a few more quarters of consistent performance to begin to raise the multiple.

The PE of 22x and the \$0.82 estimate yields a 12-month price target of \$18.00.

12-month Price Target = \$18.00

INVESTMENT RISKS

Technology Risk: Digital Ally has a market edge by the incorporation of new technology into an accepted practice. Should other technology become available that would be less costly or easier to use than the digital recording devices used by Digital Ally, their products could be displaced. The company has recognized this fact and is pursuing technology upgrades to keep its products current.

Competition: The in-car video market is well established with several long time competitors. Should one or more of these competitors develop or buy digital recording capability on a par with Digital Ally, their established market presence might cause prospective customers to favor the more established businesses.

Time-in-Business: As with any new venture, Digital Ally must prove its product quality and company sustainability to convince police departments to invest in long lived equipment. Warranty and replacement parts are always of concern and new businesses have to demonstrate sustainability.

RESEARCH DISCLOSURES FOR DIGITAL ALLY, Inc. (DGLY)

The Analyst certifies that the views expressed in this report are his own, without undue influence by Source Capital, the subject Company or the future prospects of business between Source Capital and the Company.

Source Capital acted as Placement Agent for the Company in a 2005 Private Placement. The Analyst received commissions and warrants from the sale of Units in that Placement. He also received additional compensation for performing due diligence for the Placement. The Analyst has not received any compensation, either directly or indirectly, from investment banking services provided to the Company by Source Capital in the last twelve months and does not expect to receive any compensation from such services in the next three months. To the degree that the analyst receives direct or indirect compensation, it may affect the views expressed in this report.

Source Capital and its brokers and investment advisors offer individual account management and 401(k) advisory services for which they solicit the Company, its management and its board of directors as clients. The Analyst may receive compensation in the form of commissions or investment advisor fees from his role as broker or investment advisor to the Company, its management or members of its board of directors. The amount and timing of any indirect compensation received by the Analyst in the form of commissions and/or investment advisory fees cannot be determined at this time.

Source Capital is not a Market Maker in shares for the subject Company. Source Capital will solicit the subject Company for investment-banking services and may receive compensation for such services over the next 12-months.

Meanings of Ratings:

The ratings used by Source Capital in its Research Reports have the following meaning:

BUY: The Analyst expects the stock price of the subject company to exceed the performance of the major market indices (Standard & Poor's 500 or Dow Jones Industrials) by 20% or more over the coming 12-18 months.

NEUTRAL: The Analyst expects the stock price of the subject company to perform at or near (plus 5% to minus 5%) of the major market averages over the coming 12-18 months.

SELL: The Analyst expects the stock of the subject company to decline or perform worse than the major market averages by 10% or more over the coming 12-18 months.

Rating Distribution:	<u>BUY</u>	<u>NEUTRAL</u>	<u>SELL</u>
Percentage of covered companies assigned this rating	75%	25%	
Percentage of covered companies for which Source Capital has Provided investment banking services during the past 12 months.	33%	(Two of six companies.)	