

DIGITAL ALLY INC  
Form DEF 14A  
April 01, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C.**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934**

**(Amendment No. \_\_)**

Filed by the Registrant [ ]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

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**Digital Ally, Inc.**

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee: (Check the appropriate box):

No fee required

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Digital Ally, Inc.

9705 Loiret Boulevard

Lenexa, Kansas 66219

April 5, 2019

To our Stockholders:

I am pleased to invite you to attend the annual meeting of stockholders of Digital Ally, Inc. (“Digital”) to be held on Tuesday, May 21, 2019 at 10:00 a.m., CDT, at our Company facility at 9705 Loiret Boulevard, Lenexa, Kansas 66219. Details regarding admission to the annual meeting and the business to be conducted are more fully described in the accompanying notice of annual meeting and proxy statement.

We have elected to take advantage of Securities and Exchange Commission rules that allow issuers to furnish proxy materials to their stockholders on the Internet. We believe that the rules will allow us to provide our stockholders with the information they need, while lowering the costs of delivery and reducing the environmental impact of our annual meeting.

Your vote is important. I hope that you will vote as soon as possible whether or not you plan to attend the annual meeting. Please review the instructions on each of your voting options described in the proxy statement and the notice of annual meeting you received in the mail.

Thank you for your ongoing support of, and continued interest in, Digital Ally.

Sincerely,

Stanton E. Ross

President, Chief Executive Officer and

Chairman of the Board

Admission to the annual meeting will be limited to stockholders. Please note that an admission ticket and picture identification will be required to enter the annual meeting. For stockholders of record, an admission ticket is printed on the back cover of these proxy materials and on the notice of annual meeting. An individual arriving without an admission ticket will not be admitted unless it can be verified that the individual was a Digital stockholder as of the record date. Backpacks, cameras, cell phones with cameras, recording equipment and other electronic recording devices will not be permitted at the annual meeting. Digital reserves the right to inspect any persons or items prior to their admission to the annual meeting. Failure to follow the meeting rules or permit inspection will be grounds for exclusion from the meeting.

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### **Cautionary Note Regarding Forward Looking Statements**

Certain statements in this Proxy Statement may be considered to be “forward-looking statements” as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995. In particular, these forward-looking statements include, among others, statements about, opportunities for and growth of our business, our plans regarding product development and enhancements, and our expectations regarding profitability. The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “could,” “target,” “potential,” “is likely,” “expect,” and similar expressions relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements speak only as of the date of this Proxy Statement. We assume no obligation to, and do not necessarily intend to, update these forward-looking statements.

**Digital Ally, Inc.**

9705 Loiret Blvd

Lenexa, Kansas 66219

(913) 814-7774

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on Tuesday, May 21, 2019**

The 2019 Annual Meeting of the Stockholders of Digital Ally, Inc., a Nevada corporation (“Digital,” the “Company,” “we,” “ours” and “us”), will be held at the corporate facility located at 9705 Loiret Boulevard, Lenexa, Kansas, 66219 on Tuesday, May 21, 2019 at 10:00 a.m., CDT, for the following purposes:

1. To elect four directors;
2. To approve the amendment to the 2018 Digital Ally, Inc. Stock Option and Restricted Stock Plan which increases the number of shares reserved for issuance under such Plan by 750,000 ;
3. To approve an amendment to our Articles of Incorporation to increase the number of authorized shares of our capital stock that we may issue by 10,000,000 and classify such shares as blank check preferred stock;  
  
To approve, on an advisory, non-binding basis, the compensation of the Company’s named executive officers, as
4. disclosed pursuant to Item 402 of Regulation S-K, including the compensation tables and narrative discussion in the accompanying proxy statement;
5. To ratify the appointment of RSM US LLP as our independent registered public accounting firm; and
6. To act upon such other business as may properly come before the annual meeting.

The foregoing items of business are more fully described in the proxy statement accompanying this notice. Only stockholders of record at the close of business on March 27, 2019 will be entitled to vote at the annual meeting or any adjournment or postponement thereof. You are cordially invited to attend the annual meeting. Whether or not you plan to attend the annual meeting, please sign, date and return your proxy to us promptly. Your cooperation in signing and returning the proxy will help avoid further solicitation expense.



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Pursuant to rules promulgated by the Securities and Exchange Commission, or the SEC, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a notice of annual meeting, proxy statement, and 2018 Annual Report to Stockholders, and by notifying you of the availability of our proxy materials on the Internet. Copies of our notice of annual meeting, proxy statement and 2018 Annual Report to Stockholders are available at [www.digitalallyinc.com](http://www.digitalallyinc.com).

By order of the Board of Directors

Stanton E. Ross  
Chairman of the Board, President and Chief Executive Officer

April 5, 2019

Lenexa, Kansas

**YOUR VOTE IS IMPORTANT**

**WHETHER YOU PLAN TO ATTEND THE ANNUAL MEETING, WE URGE YOU TO VOTE AND SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE TO ENSURE THE PRESENCE OF A QUORUM. TO ASSURE YOUR REPRESENTATION AT THE MEETING, PLEASE SIGN AND DATE THE ENCLOSED PROXY EXACTLY AS YOUR NAME APPEARS ON IT AND RETURN IMMEDIATELY IN THE ENVELOPE PROVIDED, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES, OR VOTE BY PROXY ON THE INTERNET OR BY TELEPHONE.**

**DIGITAL ALLY, INC.**

**PROXY STATEMENT**

**FOR THE 2019 ANNUAL MEETING OF STOCKHOLDERS**

**INFORMATION CONCERNING SOLICITATION AND VOTING**

**General**

The enclosed proxy is solicited on behalf of the Board of Directors of Digital Ally, Inc., a Nevada corporation, (referred to in this proxy statement as “Digital Ally,” “we,” “our,” “us,” or the “Company”) in connection with the solicitation of proxies by our Board of Directors (the “Board”) for use at the Annual Meeting of Stockholders to be held Tuesday, May 21, 2019 at 10:00 a.m., CDT, or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying notice of Annual Meeting of Stockholders. The Annual Meeting will be held at our corporate facility, located at 9705 Loiret Boulevard, Lenexa, Kansas, 66219. The telephone number at that location is (913) 814-7774.

These proxy solicitation materials are first being mailed on or about April 5, 2019 to all stockholders entitled to vote at the meeting.

## **Who is Entitled to Vote?**

Our Board of Directors has fixed the close of business on March 27, 2019 as the record date for a determination of stockholders entitled to notice of, and to vote at, the meeting. On the record date, 11,127,555 shares of our common stock were issued of which 63,518 are held in treasury all of which is voting stock, and is held of record by 107 stockholders.

## **Voting**

You are entitled to one vote for each share of common stock that you hold on the record date on each matter that may come before the Annual Meeting.

## **What is the Difference Between Holding Shares as a Record Holder and as a Beneficial Owner?**

If your shares are registered in your name with our transfer agent, Action Stock Transfer Corporation, you are the “record holder” of those shares. If you are a record holder, we have provided these proxy materials directly to you.

If your shares are held in a stock brokerage account, a bank or other holder of record, you are considered the “beneficial owner” of those shares held in “street name.” If your shares are held in street name, these proxy materials have been forwarded to you by that organization. As the beneficial owner, you have the right to instruct such organization on how to vote your shares.

### **Who May Attend the Meeting?**

Record holders and beneficial owners may attend the Annual Meeting. If your shares are held in street name, you will need to bring a copy of a brokerage statement or other documentation reflecting your stock ownership as of the record date.

### **How Do I Vote?**

#### **Record Holder**

1. Vote by Internet. The website address for Internet voting is on your proxy card.
2. Vote by phone. Call 1 (800) 454-8683 and follow the instructions on your proxy card.
3. Vote by mail. Mark, date, sign and mail promptly the enclosed proxy card (a postage-paid envelope is provided for mailing in the United States).
4. Vote in person. Attend and vote at the Annual Meeting.

#### **Beneficial Owner (Holding Shares in Street Name)**

1. Vote by Internet. The website address for Internet voting is on your vote instruction form.
2. Vote by mail. Mark, date, sign and mail promptly the enclosed vote instruction form (a postage-paid envelope is provided for mailing in the United States).
3. Vote in person. Obtain a valid legal proxy from the organization that holds your shares and attend and vote at the Annual Meeting.

If you vote by Internet or phone, please DO NOT mail your proxy card.

### **Is My Vote Confidential?**

Yes, your vote is confidential. Only the following persons have access to your vote: election inspectors, individuals who help with processing and counting your votes and persons who need access for legal reasons. If you write comments on your proxy card, your comments will be provided to the Company, but how you vote will remain confidential.

### **What Constitutes a Quorum?**

We must have a quorum to carry on the business of the Annual Meeting. Our Bylaws provide that the presence, in person, by remote communication, if applicable, or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business at the Annual Meeting or any adjournment thereof. Broker non-votes (see definition below) and abstentions are counted as present to determine the existence of a quorum. The broker non-votes are counted because there are routine matters presented at the Annual Meeting.

The stockholders present at a duly called or convened meeting at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. In the absence of a quorum at the Annual Meeting or any adjournment thereof, a majority in voting interest of those present in person or by proxy and entitled to vote, or any officer entitled to preside at, or to act as secretary of, the Annual Meeting may adjourn the Annual Meeting until stockholders holding the amount of stock requisite for a quorum are present in person or by proxy.

### **What is a Broker Non-Vote?**

If your shares are held in “street name,” you must instruct your bank, broker or other nominee as to how to vote your shares by following the instructions that the broker or other nominee provides to you. Brokers usually offer the ability for stockholders to submit voting instructions by mail by completing a vote instruction form, by telephone or over the Internet. If you do not provide voting instructions to your bank, broker or other nominee, your shares will not be voted on any proposal on which your broker or other nominee does not have discretionary authority to vote, namely, “non-routine” matters. This is called a “broker non-vote.” On the other hand, if you do not provide voting instructions to your bank, broker or other nominee, such party has the discretion to vote your shares on “routine” matters.

### **Which Proposals are Considered “Routine” or “Non-Routine” for Brokers or Other Nominees?**

The following Proposals “non-routine” and thus a broker discretionary vote is not allowed:

Proposal 1, “Election of Directors;”

Proposal 2, “Approve the Amendment to the 2018 Digital Ally, Inc. Stock Option and Restricted Stock to increase the number of shares reserved for issuance under such Plan by 750,000;”

Proposal 3, “Approve an amendment to our Articles of Incorporation to increase the number of authorized shares of our capital stock that we may issue by 10,000,000 and classify such shares as blank check preferred stock;” and

Proposal 4, “Approve, on an advisory, non-binding basis, the compensation of the Company’s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the compensation tables and narrative discussion in the accompanying proxy statement.”

The following Proposals are “routine” and thus a broker discretionary vote is allowed:

Proposal 5, “Ratify the appointment of RSM US LLP as our independent registered public accounting firm.”

**How Many Votes are Needed for Each Proposal to Pass and is Broker Discretionary Voting Allowed?**

For matters at the Annual Meeting, if a quorum is present, the following votes will be required for the Proposal to pass:

| Proposal  | Vote Required  | Broker Discretionary<br>Vote Allowed |
|---|--|--------------------------------------|
| 1. Election of Directors  | The votes cast for a nominee’s election must exceed the votes casts against such nominee’s election. | No                                   |
| 2. Amendment to the 2018 Stock Option and Restricted Stock Plan | The affirmative vote of the holders of a majority of the votes cast.                                 | No                                   |
| 3. Blank Check Preferred Amendment                              | The affirmative vote of the holders of a majority of the outstanding shares.                         | No                                   |
| 4. Advisory Vote on Executive Compensation                      | The affirmative vote of the holders of a majority of the votes cast.                                 | No                                   |
| 5. Ratify Appointment of RSM US LLP                             | The affirmative vote of the holders of a majority of the votes cast.                                 | Yes                                  |

### **How are Abstentions Treated?**

An abstention occurs when a stockholder attends a meeting, either in person or by proxy, but specifically indicates an abstention from voting on one or more of the proposals. If you submit a proxy card or provide proxy instructions to your broker or other nominee and affirmatively elect to abstain from voting, your proxy will be counted as present for the purpose of determining the presence of a quorum for the meeting, but will not be voted at the Annual Meeting. Abstentions only have an effect on the outcome of any matter being voted on that requires a certain level of approval based on our total voting stock outstanding. Thus, abstentions will have an effect on Proposal 3, “The Blank Check Preferred Amendment,” but not on the other proposals.

### **What Are the Voting Procedures?**

In voting by proxy on the proposals, you may vote for the proposal or against the proposal, or you may abstain from voting on the proposal. You should specify your respective choices on the accompanying proxy card or your vote instruction form.

### **Is My Proxy Revocable?**

You may revoke your proxy and reclaim your right to vote up to and including the day of the Annual Meeting by giving written notice to the Corporate Secretary of Digital Ally by delivering a proxy card dated after the date of the proxy or by voting in person at the Annual Meeting. All written notices of revocation and other communications with respect to revocations of proxies should be addressed to: Digital Ally, Inc., 9705 Loiret Boulevard, Lenexa, Kansas 66219, telephone (913) 814-7774, Attention: Corporate Secretary.

### **Who is Paying for the Expenses Involved in Preparing and Mailing this Proxy Statement?**

We will pay all the expenses involved in preparing, assembling and mailing these proxy materials and all costs of soliciting proxies. In addition to the solicitation by mail, proxies may be solicited by our officers and other employees by telephone or in person. Such persons will receive no compensation for their services other than their regular salaries. Arrangements will also be made with brokerage houses and other custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of the shares held of record by such persons, and we may reimburse such persons for reasonable out of pocket expenses incurred by them in so doing.



**What Happens if Additional Matters are Presented at the Annual Meeting?**

Other than the items of business described in this Proxy Statement, we are not aware of any other business to be acted upon at the Annual Meeting. If you grant a proxy, the persons named as proxy holders will have the discretion to vote your shares on any additional matters properly presented for a vote at the Annual Meeting.

**What is “Householding” and How Does It Affect Me?**

Record holders who have the same address and last name will receive only one copy of their proxy materials, unless we are notified that one or more of these record holders wishes to continue receiving individual copies. This procedure will reduce our printing costs and postage fees. Stockholders who participate in householding will continue to receive separate proxy cards.

If you are eligible for householding, but you and other record holders with whom you share an address, receive multiple copies of these proxy materials, or if you hold Digital Ally stock in more than one account, and in either case you wish to receive only a single copy of each of these documents for your household, please contact our transfer agent, Action Stock Transfer Corporation (in writing: Ms. Justeene Blankenship, Action Stock Transfer Corp., 7069 S. Highland Dr., Suite 300, Salt Lake City, UT 84121; or by telephone: (801) 274-1088; or by facsimile: (801) 274-1099.

If you participate in householding and wish to receive a separate copy of these proxy materials, or if you do not wish to continue to participate in householding and prefer to receive separate copies of these documents in the future, please contact Action Stock Transfer as indicated above. Beneficial owners can request information about householding from their brokers, banks or other holders of record.

### **Do I Have Dissenters' (Appraisal) Rights?**

Appraisal rights are not available to Digital Ally stockholders with any of the proposals described above to be brought before the Annual Meeting.

### **Stockholder List**

The stockholder list as of the record date will be available for examination by any stockholder at our corporate office, 9705 Loiret Boulevard, Lenexa, Kansas 66219, beginning May 6, 2019, which is at least ten business days prior to the date of the Annual Meeting and the stockholder list will be available at the Annual Meeting.

### **Our Voting Recommendations**

Our Board of Directors recommends that you vote:

**FOR** the four nominees to the Board of Directors;

**FOR** the approval of the amendment to the 2018 Digital Ally, Inc. Stock Option and Restricted Stock Plan to increase the number of shares reserved for issuance under such Plan by 750,000;

**FOR** an amendment to our Articles of Incorporation to increase the number of authorized shares of our capital stock that we may issue by 10,000,000 and classify such shares as blank check preferred stock;

**FOR** approval, on an advisory (non-binding) basis, the compensation of the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the compensation tables and narrative discussion in the accompanying proxy statement;

**FOR** ratification of the appointment of RSM US LLP as our independent registered public accounting firm; and  
On such other matters that may properly come before the annual meeting in accordance with the best judgment of the individual proxies named in the proxy.

## **Voting Results**

The preliminary voting results will be announced at the Annual Meeting. The final voting results will be calculated by our Inspector of Elections and published in our report on Form 8-K within four business days of the meeting.

## **Deadline for Receipt of Stockholder Proposals for 2020 Annual Meeting of Stockholders**

As a stockholder, you may be entitled to present proposals for action at an upcoming meeting if you comply with the requirements of the proxy rules established by the Securities and Exchange Commission and our bylaws. Stockholders wishing to present a proposal to be eligible for inclusion in the proxy statement and form of proxy relating for our 2020 annual meeting of stockholders must submit such proposal to us by December 24, 2019, which is the 120<sup>th</sup> calendar day prior to the anniversary date this Proxy Statement was mailed to stockholders in connection with the 2019 Annual Meeting. Any such proposals should be in compliance with our bylaws and should be submitted to Digital Ally, Inc., 9705 Loiret Boulevard, Lenexa, Kansas 66219, Attention: Thomas J. Heckman, Secretary.

## **Other Matters**

Other than the proposals listed above, our Board of Directors does not intend to present any other matters to be voted on at the meeting. Our Board of Directors is not currently aware of any other matters that will be presented by others for action at the meeting. However, if other matters are properly presented at the meeting and you have signed and returned your proxy card, the proxy holders will have discretion to vote your shares on these matters to the extent authorized under the Securities Exchange Act of 1934, as amended.

## **IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 21, 2019:**

Copies of our notice of Annual Meeting, proxy statement and 2018 Annual Report are available online at [www.digitalallyinc.com](http://www.digitalallyinc.com).

## **PROPOSAL ONE**

### **ELECTION OF DIRECTORS**

#### **Nominees**

A Board of four directors is to be elected at the 2019 Annual Meeting of Stockholders. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the four nominees named below, all of which are presently directors of Digital.

If any nominee is unable or declines to serve as a director at the time of the annual meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. We are not aware of any nominee who will be unable or will decline to serve as a director. The term of office for each person elected as a director will continue until the next annual meeting of stockholders or until a successor has been elected and qualified. The names of the nominees and certain information about them as of the date of this proxy statement are set forth below:

| <b>Name of Nominee</b>            | <b>Principal Occupation</b>  | <b>Age</b> | <b>Director Since</b> |
|-----------------------------------|--|------------|-----------------------|
| Stanton E. Ross                   | Chairman, President and Chief Executive Officer  | 57         | 2005                  |
| Leroy C. Richie<br>(1)(2)(3)      | Lead Outside Director, Chairman of the Nominating and Governance Committee and Compensation Committee and attorney | 77         | 2005                  |
| Daniel F. Hutchins<br>(1)         | Certified Public Accountant; Chairman of Audit Committee   | 63         | 2007                  |
| Michael J. Caulfield<br>(1)(2)(3) | Investment banking-retired   | 63         | 2016                  |

(1)Member of Audit Committee

(2)Member of Compensation Committee

(3)Member of Nominating and Governance Committee and Compensation Committee

**Stanton E. Ross** has served as Chairman, President and Chief Executive Officer since September 2005. From March 1992 to June 2005, Mr. Ross was the Chairman and President of Infinity Energy Resources, Inc., a publicly held oil and gas exploration and development company (“Infinity”), and served as an officer and director of each of Infinity’s subsidiaries. He resigned all his positions with Infinity in June 2005, except Chairman, but was reappointed President in October 2006. From 1991 until March 1992, he founded and served as President of Midwest Financial, a financial services corporation involved in mergers, acquisitions and financing for corporations in the Midwest. From 1990 to 1991, Mr. Ross was employed by Duggan Securities, Inc., an investment banking firm in Lenexa, Kansas, where he primarily worked in corporate finance. From 1989 to 1990, he was employed by Stifel, Nicolaus & Co., a member of the New York Stock Exchange, where he was an investment executive. From 1987 to 1989, Mr. Ross was self-employed as a business consultant. From 1985 to 1987, Mr. Ross was President and founder of Kansas Microwave, Inc., which developed a radar detector product. From 1981 to 1985, he was employed by Birdview Satellite Communications, Inc., which manufactured and marketed home satellite television systems, initially as a salesman and later as National Sales Manager. Mr. Ross estimates he devoted most of his time to Digital Ally and the balance to Infinity in 2016. In late 2007, Infinity sold a substantial portion of its operating assets and has not required a substantial amount of his time since such point. Mr. Ross holds no public company directorships other than with the Company and Infinity and has not held any others during the previous five years. The Company believes that Mr. Ross’s broad entrepreneurial, financial and business expertise and his experience with micro-cap public companies and his role as President and Chief Executive Officer give him the qualifications and skills to serve as a Director.

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

**Daniel F. Hutchins** was elected a Director in December 2007. He serves as Chairman of the Audit Committee and is the Board's financial expert. Mr. Hutchins, a Certified Public Accountant, is a Principal with the accounting firm of Hutchins & Haake, LLC and currently serves as a director and the Chief Financial Officer of Infinity Energy Resources, Inc., a publicly held oil and gas exploration and development company, of which Stanton E. Ross is the Chairman and President. Mr. Hutchins has served as an instructor for the Becker CPA exam with the Keller Graduate School of Management and has over 17 years of teaching experience preparing CPA candidates for the CPA exam. He has 39 years of public accounting experience, including five years with Deloitte & Touche, LLP. He has served on the boards of various non-profit groups and is a member of the American Institute of Certified Public Accountants. Mr. Hutchins earned his Bachelor of Business Administration degree in Accounting at Washburn University in Topeka, Kansas. Mr. Hutchins holds no other public company directorships and has not held any others during the previous five years. The Company believes that Mr. Hutchins' significant experience in finance and accounting gives him the qualifications and skills to serve as a Director.

**Michael J. Caulfield** was elected a Director in May 2016. He is a member of the Audit Committee, Compensation Committee and Nominating and Governance Committee. He served as Vice President – Strategic Development of the Company from June 1 2009 to January 11, 2012. Mr. Caulfield was most recently (2012-2016) a Vice-Chairman at Teneo Holdings, LLC, a global advisory firm where he was responsible for the firm's investment banking relationships with a broad range of industrial companies. From 2006 to 2009, Mr. Caulfield served as a Managing Director at Banc of America Securities ("BAS"), where he was responsible for the merger, acquisition, divestiture and restructuring advisory services for a number of large public and private companies. He was also in charge of BAS's global investment banking activities involving the Safety, Security, Engineering and Construction Industries. Prior to joining BAS, Mr. Caulfield spent six years (2000-2006) as a Managing Director with Morgan Stanley in New York City, leading that global investment banking firm's efforts in the Aerospace and Defense Industries. He was also responsible for the investment banking relationships with a number of Morgan Stanley's largest clients. From 1989 to 2000, he worked at General Electric Capital Corp., where he served as a Managing Director and head of the Corporate Finance Group. In this capacity, he advised GE Capital and the industrial divisions of General Electric on such issues as capital

structuring, mergers and acquisitions, and private equity transactions. Mr. Caulfield received an MBA from the Wharton School of the University of Pennsylvania and a B.S. Degree from the University of Minnesota.

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

### **Vote Required and Board Recommendation**

If a quorum is present and voting, the four nominees receiving the greatest number of votes will be elected to the Board of Directors. Votes withheld from any nominee will be counted for purposes of determining the presence or absence of a quorum for transaction of business at the meeting, but will have no other legal effect upon the election of directors under Nevada law.

**OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR EACH OF THE FOUR NOMINEES NAMED ABOVE.**

### **Board of Directors and Committee Meetings**

Our Board of Directors held six meetings and acted a number of times by unanimous consent resolutions during the fiscal year ended December 31, 2018. Each of our directors attended at least 75% of the meetings of the Board of Directors and the committees on which he served in the fiscal year ended December 31, 2018. Our directors are expected, absent exceptional circumstances, to attend all Board meetings and meetings of committees on which they serve, and are also expected to attend our annual meeting of stockholders. All directors then in office attended the 2018 Annual Meeting of stockholders.

### **Committees of the Board of Directors**

Our Board of Directors currently has three committees: an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. Each committee has a written charter approved by the Board of Directors outlining the principal responsibilities of the committee. These charters are also available on the Investor Relations page of our website. All our directors, other than our Chairman and Chief Executive Officer, have met in executive sessions without management present on a regular basis in 2018 and year-to-date 2019.



*Audit Committee*

Our Audit Committee appoints the Company's independent auditors, reviews audit reports and plans, accounting policies, financial statements, internal controls, audit fees, and certain other expenses and oversees our accounting and financial reporting process. Specific responsibilities include selecting, hiring and terminating our independent auditors; evaluating the qualifications, independence and performance of our independent auditors; approving the audit and non-audit services to be performed by our auditors; reviewing the design, implementation, adequacy and effectiveness of our internal controls and critical accounting policies; overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters; reviewing any earnings announcements and other public announcements regarding our results of operations in conjunction with management and our public auditors; conferring with management and the independent auditors regarding the effectiveness of internal controls, financial reporting processes and disclosure controls; consulting with management and the independent auditors regarding Company policies governing financial risk management; reviewing and discussing reports from the independent auditors on critical accounting policies used by the Company; establishing procedures, as required under applicable law, for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; reviewing and approving related-person transactions in accordance with the Company's policies and procedures with respect to related-person transactions and applicable rules; reviewing the financial statements to be included in our annual report on Form 10-K; discussing with management and the independent auditors the results of the annual audit and the results of quarterly reviews and any significant changes in our accounting principles; and preparing the report that the Securities and Exchange Commission requires in our annual proxy statement. The report of the Audit Committee for the year-ended December 31, 2018 is included in this proxy statement.

The Audit Committee is comprised of three Directors, each of whom is independent, as defined by the rules and regulations of the Securities and Exchange Commission. The Audit Committee held five meetings during the year-ended December 31, 2018. On September 22, 2005, the Company created the Audit Committee and adopted a written charter for it. The members of our Audit Committee are Daniel F. Hutchins, Leroy C. Richie and Michael J. Caulfield. The Board of Directors determined that Mr. Hutchins qualifies as an “audit committee financial expert,” as defined under the rules and regulations of the Securities and Exchange Commission, and is independent as noted above.

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

### *Compensation Committee*

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

Our Compensation Committee is comprised of two Directors, whom the Board considers to be independent under the rules of the Securities and Exchange Commission. The members of our Compensation Committee are Leroy C. Richie, Chairman, and Michael J. Caulfield. The Compensation Committee held two meetings and acted several times by unanimous written consent resolutions during the year-ended December 31, 2018. Mr. Ross, our Chief Executive Officer, does not participate in the determination of his own compensation or the compensation of directors. However, he makes recommendations to the Compensation Committee regarding the amount and form of the compensation of the other executive officers and key employees, and he often participates in the Compensation Committee’s deliberations about such persons’ compensation. Thomas J. Heckman, our Chief Financial Officer, also assists the

Compensation Committee in its deliberations regarding executive officer, director and employee compensation. No other executive officers participate in the determination of the amount or the form of the compensation of executive officers or directors. The Compensation Committee does not utilize the services of an independent compensation consultant to assist in its oversight of executive and director compensation. On September 22, 2007, the Board of Directors adopted a written charter for the Compensation Committee

*Nominating and Governance Committee*

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

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

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

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

determines the criteria for the selection of prospective directors and committee members;

reviews the composition and size of the Board and its committees to ensure proper expertise and diversity among its members;

evaluates the performance and contributions of directors eligible for re-election;

determines the desired qualifications for individual directors and desired skills and characteristics for the Board;

identifies persons who can provide needed skills and characteristics;

screens possible candidates for Board membership;

reviews any potential conflicts of interests between such candidates and the Company's interests; and

shares information concerning the candidates with the Board, and solicit input from other directors.

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

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

Our Nominating and Governance Committee is comprised of three Directors, whom the Board considers to be independent under the rules of the Securities and Exchange Commission. The Nominating and Governance Committee held one meeting during the year ended December 31, 2018. The members of our Nominating and Governance Committee are Leroy C. Richie, who serves as Chairman, and Michael J. Caulfield. The Committee was created by our Board of Directors on December 27, 2007, when the Board of Directors adopted a written charter, which was amended in February 2010.

### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee is made up of two independent, non-employee directors, Messrs. Richie and Caulfield. No interlocking relationship exists between the members of our Compensation Committee and the board of directors or compensation committee of any other company.

### **Board of Directors' Role in the Oversight of Risk Management**

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

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

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

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

### **Board Leadership Structure**

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

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

### **Stockholder Communications with the Board of Directors**

Stockholders may communicate with the Board of Directors by writing to us as follows: Digital Ally, Inc., attention: Corporate Secretary, 9705 Loiret Boulevard, Lenexa, Kansas 66219. Stockholders who would like their submission directed to a member of the Board of Directors may so specify and the communication will be forwarded as appropriate.

### **Policy for Director Recommendations and Nominations**

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

***Stockholder Recommendations for Director Nominations.*** Stockholder recommendations for director nominations may be submitted to the Company at the following address: Digital Ally, Inc., Attention: Corporate Secretary, 9705 Loiret Boulevard, Lenexa, Kansas 66219. Such recommendations will be forwarded to the Nominating Committee for consideration, provided that they are accompanied by sufficient information to permit the Board to evaluate the qualifications and experience of the nominees, and they are in time for the Nominating and Governance Committee to do an adequate evaluation of the candidate before the annual meeting of stockholders. The submission must be



accompanied by a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected and to cooperate with a background check.

***Stockholder Nominations of Directors.*** Our bylaws provide that in order for a stockholder to nominate a director at an annual meeting, the stockholder must give timely written notice to our Secretary and such notice must be received at our principal executive offices not less than 120 days before the date of our release of the proxy statement to stockholders in connection with our previous year's annual meeting of stockholders. Such stockholder's notice shall include, with respect to each person whom the stockholder proposes to nominate for election as a director, all information relating to such nominee, including such person's written consent to being named in the proxy statement as a nominee, serving as a director, that is required under the Securities Exchange Act of 1934, as amended, and cooperating with a background investigation. In addition, the stockholder must include in such notice his name and address, as they appear on our records, of the stockholder proposing the nomination of such person, and the name and address of the beneficial owner, if any, on whose behalf the nomination is made, the class and number of shares of our capital stock that are owned beneficially and of record by such stockholder of record and by the beneficial owner, if any, on whose behalf the nomination is made, and any material interest or relationship that such stockholder of record and/or the beneficial owner, if any, on whose behalf the nomination is made may respectively have in such business or with such nominee. At the request of the Board of Directors, any person nominated for election as a director shall furnish to our Secretary the information required to be set forth in a stockholder's notice of nomination that pertains to the nominee.

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

### **Code of Ethics and Conduct**

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

### **Director Compensation**

Our non-employee directors received the stock option grants noted in the section below entitled "Director Compensation" for their service on the Board of Directors in 2018, including on the Audit, Nominating and Governance and Compensation Committees.

In July 2018, we granted to Messrs. Richie, Caulfield and Hutchins each options exercisable to acquire 50,000 shares of common stock at an exercise price of \$2.20 per share for their service on the Board until the next annual meeting of stockholders with vesting to occur on a periodic basis through May 5, 2019 provided each person has remained a director at such dates.

In August 2017, we granted to Messrs. Richie, Caulfield and Hutchins each options exercisable to acquire 30,000 shares of common stock at an exercise price of \$3.00 per share for their service on the Board until the next annual meeting of stockholders with vesting to occur on August 14, 2018 provided each person has remained a director at such dates.

Director compensation for the year ended December 31, 2018 was as follows:

### **Director Compensation**

| Name                                       | Fees<br>earned<br>or paid<br>in<br>cash (\$) | Stock<br>awards<br>(\$) <sup>(2)</sup> | Option<br>awards<br>(\$) <sup>(2)</sup> | Total<br>(\$) |
|--|--|--|---|---------------|
| Stanton E. Ross, Chairman of the Board (1) | \$—  | \$                                     | —\$—                                    | \$—           |
| Leroy C. Richie                            | \$60,000                                     | \$                                     | —\$88,870                               | \$148,870     |
| Daniel F. Hutchins                         | \$55,000                                     | \$                                     | —\$88,870                               | \$143,870     |
| Michael J. Caulfield                       | \$70,000                                     | \$                                     | —\$88,870                               | \$138,870     |

(1) Mr. Ross's compensation and option awards are provided in the Executive Compensation table because he did not receive compensation or stock options for his services as a director.

(2) Represents aggregate grant date fair value pursuant to ASC Topic 718 for stock options and restricted stock granted. Please refer to Note 12 to the consolidated financial statements for further description of the awards and the underlying assumptions utilized to determine the amount of grant date fair value related to such grants.

**Stock Option and Restricted Stock Grants to Directors**

| Name of Individual       | Number of<br>Restricted<br>Shares of<br>Common<br>Stock<br>Granted | Number<br>of<br>Options<br>Granted | <b>Average<br/>per<br/>Share<br/>Exercise<br/>Price</b> |
|--------------------------|--|------------------------------------|---|
| Stanton E. Ross (1)      | —  | —                                  | \$ —  |
| Leroy C. Richie (2)      | —  | 50,000                             | \$ 2.20   |
| Daniel F. Hutchins (2)   | —  | 50,000                             | \$ 2.20   |
| Michael J. Caulfield (2) | —  | 50,000                             | \$ 2.20   |

(1) Mr. Ross's compensation and option awards are noted in the Executive Compensation table because he did not receive compensation or stock options for his services as a director.

(2) The stock option grants were issued on July 5, 2018 with vesting to occur ratably through May 5, 2019.

**PROPOSAL TWO****TO AMEND THE 2018 DIGITAL ALLY, INC. STOCK OPTION AND RESTRICTED STOCK PLAN TO INCREASE THE NUMBER OF SHARES RESERVED FOR ISSUANCE UNDER THE PLAN BY 750,000.**

We are seeking stockholder approval to amend the 2018 Stock Option and Restricted Stock Plan (the "2018 Plan") to increase the number of shares reserved for issuance under the 2018 Plan from 1,000,000 to 1,750,000. At March 27, 2019, there were 944,500 shares subject to restricted stock awards or stock options issued under the 2018 Plan since its adoption in 2018. We made such grants generally in lieu of cash bonuses and compensation, which helped to conserve cash in the 2018 and to-date in 2019 and plan to do the same during the remainder of 2019 and beyond. As a result of our past grants, we have 55,500 shares remaining available for awards as of March 27, 2019 under the 2018 Plan.

The purpose of the 2018 Plan is to offer all our employees, directors, and key consultants an opportunity to acquire a proprietary interest in our success, and remain in service to the Company and to attract new employees, directors and consultants. The 2018 Plan provides both for the direct award of shares, for the grant of options to purchase shares, as well as for the grant of Stock Appreciation Rights (SARs). Options granted under the 2018 Plan may include

non-statutory options as well as incentive stock options intended to qualify under Section 422 of the Internal Revenue Code.

The Company has a policy of issuing new shares upon the exercise of stock options, awarding significant amounts of stock options or restricted stock grants to new employees and regularly awarding such to employees on an annual basis. Stock options are generally granted at the market price on the date of grant. Stock options and restricted stock grants have generally vested over one or more years for officers and employees and one year for directors. Stock options generally can be exercised within seven to ten years.

The aggregate number of shares of common stock that may be issued under the 2018 Plan was originally set at 1,000,000 shares. In order to continue, as well as enhance, the effectiveness of the Plan, on March 15, 2019 the Board of Directors approved an amendment to increase the number of shares of Common Stock reserved for issuance under the Plan by 750,000, for a total of 1,750,000 shares, which amendment is subject to approval at the Annual Meeting of Shareholders.

The Board believes the approval of the amendment is necessary in order to make shares available for future awards, in part, due to the following.

(i) We anticipate that in order to meet the objectives and requirements of the 2018 Plan, we will likely utilize all the shares presently available for awards under the 2018 Plan in 2019; and

(ii) There are relatively few shares available for grant under our existing stock option plans. Due to a number of factors, including the decline in the price of our common stock, the exercise prices of a large number of the options granted in prior years remain well above the current market price. Further, previous long-term restricted stock awards have, in large part, become fully vested. We face increasing competition from industry to retain our talented and experienced staff and add staff as appropriate. We believe that new equity awards that vest over longer periods are effective for retention and incentive compensation.

In view of the limited number of shares remaining for grants under the 2018 Plan and earlier stock option plans, the continued need to attract and maintain individuals of the highest caliber to positions on the Board, management and employment, the Board of Directors has concluded that the maximum number of shares of common stock that may be issued under the 2018 Plan should be increased by 750,000.

The Board of Directors approved the increase in shares reserved under and the required amendment to the 2018 Plan on March 15, 2019, subject to stockholder approval at the Annual Meeting. If our stockholders approve the amendment to the 2018 Plan, 750,000 additional shares will be available for future grants.

The Board of Directors believes that it is in the best interests of us and our stockholders to approve the increase in shares reserved under the 2018 Plan. The Board believes that equity awards assist in retaining, motivating and rewarding employees, executives and consultants by giving them an opportunity to obtain long-term equity participation in us. In addition, equity awards are an important contributor to aligning the incentives of our employees with the interests of our stockholders.

The Board also believes equity awards are essential to attracting new employees and retaining current employees. Further, the granting of options to new and existing employees frequently permits us to pay lower salaries than otherwise might be the case. The Board of Directors believes that to remain competitive with other technology companies in our long-term incentive plans, we must continue to provide employees with the opportunity to obtain equity in us and that an inability to offer equity incentives to new and current employees would put us at a competitive disadvantage in attracting and retaining qualified personnel. Our named executive officers and directors have an interest in this proposal because they are expected to receive awards under the 2018 Plan if the amendment is approved at the Annual Meeting.

The full text of the proposed amendment to increase the number of shares under the 2018 Plan is attached to this proxy statement as Appendix B.

### **Vote Required and Recommendation**

The affirmative vote of a majority of the votes cast will be required to approve the amendment to the 2018 Plan.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE TO AMEND THE 2018 STOCK OPTION AND RESTRICTED STOCK PLAN TO INCREASE THE NUMBER OF SHARES RESERVED FOR ISSUANCE UNDER THE PLAN BY 750,000 SHARES.**

### **Summary of the 2018 Stock Option and Restricted Stock Plan**

Our Board of Directors adopted the 2018 Plan on April 12, 2018 and such Plan was approved by the shareholders at the 2018 Annual Meeting of Shareholders held on June 27, 2018. At the 2019 Annual Meeting, we are asking stockholders to approve an amendment to the 2018 Plan to increase the number of shares issuable under the 2018 Plan by 750,000. Prior to this amendment, the 2018 Plan authorized us to issue 1,000,000 shares of common stock upon exercise of options and grant of restricted stock awards, which will be increased to a total of 1,750,000 shares reserved if the shareholders approve the amendment. Stock options and restricted stock representing a total of 944,500 shares have been granted under the 2018 Plan to date. The 2018 Plan authorizes us to grant (i) to the key employees incentive stock options to purchase shares of common stock and non-qualified stock options to purchase shares of common stock and restricted stock awards and (ii) to non-employee directors and consultants non-qualified stock options and restricted stock. As of March 27, 2019, approximately 90 employees, two executive officers, and three non-employee directors were eligible to participate in the 2018 Plan.

The following paragraphs provide a summary of the principal features of the 2018 Plan and its operation. The following summary is qualified in its entirety by reference to the 2018 Plan as previously filed as an exhibit with the Securities and Exchange Commission and the proposed Amendment as set forth in Appendix A.

**Objectives.** The objective of the 2018 Plan is to provide incentives to our key employees, directors and consultants to achieve financial results aimed at increasing shareholder value and attracting talented individuals to us. Persons eligible to be granted stock options or restricted stock under the 2018 Plan will be those persons whose performance, in the judgment of the Compensation Committee of our Board of Directors, can have significant impact on our success.

**Oversight.** Our Board will administer the 2018 Plan by making determinations regarding the persons to whom options or restricted stock should be granted and the amount, terms, conditions and restrictions of the awards. The Board also has the authority to interpret the provisions of the 2018 Plan and to establish and amend rules for its administration subject to the 2018 Plan's limitations.

**Number of Shares of Common Stock Available Under the 2018 Plan.** If our stockholders approve the amendment to the 2018 Plan, a total of 1,750,000 shares of our common stock will be reserved for issuance under the 2018 Plan.

**Types of Grants.** The 2018 Plan allows for the grant of incentive stock options, non-qualified stock options and restricted stock awards. The 2018 Plan does not specify what portion of the awards may be in the form of incentive stock options, non-statutory options or restricted stock. Incentive stock options awarded to our employees are qualified stock options under the Internal Revenue Code.

**Statutory Conditions on Stock Option—Exercise Price.** Incentive stock options granted under the 2018 Plan must have an exercise price at least equal to 100% of the fair market value of the common stock as of the date of grant. Incentive stock options granted to any person who owns, immediately after the grant, stock possessing more than 10% of the combined voting power of all classes of our stock, or of any parent or subsidiary corporation, must have an exercise price at least equal to 110% of the fair market value of the common stock on the date of grant. Non-statutory stock options may have an exercise price at least equal to 100% of the fair market value of the common stock as of the date of the grant.

**- Dollar limit.** The aggregate fair market value, determined as of the time an incentive stock option is granted, of the common stock with respect to which incentive stock options are exercisable by an employee for the first time during any calendar year cannot exceed \$100,000. However, there is no aggregate dollar limitation on the amount of non-statutory stock options that may be exercisable for the first time during any calendar year.



- **Expiration date.** Any option granted under the 2018 Plan will expire at the time fixed by our Board of Directors, which cannot be more than ten years after the date it is granted or, in the case of any person who owns more than 10% of the combined voting power of all classes of our stock or of any subsidiary corporation, not more than five years after the date of grant.

- **Exercisability.** Our Board may also specify when all or part of an option becomes exercisable, but in the absence of such specification, the option will ordinarily be exercisable in whole or in part at any time during its term. However, the board of directors may accelerate the exercisability of any option at its discretion.

- **Assignability.** Options granted under the 2018 Plan are not assignable. Incentive stock options may be exercised only while we employ the optionee or within twelve months after termination by reason of death or disabilities or within three months after termination for any other reason.

**Payment upon Exercise of Options.** Payment of the exercise price for any option may be in cash, or with our consent, by withheld shares which, upon exercise, have a fair market value at the time the option is exercised equal to the option price (plus applicable withholding tax) or in the form of shares of common stock, subject to restrictions.

**Restricted Stock.** Our Board is authorized to grant restricted stock awards. A restricted stock grant is a grant of shares of our common stock, which is subject to restrictions on transferability, risk of forfeiture and other restrictions and which may be forfeited in the event of certain terminations of employment or service prior to the end of a restricted period specified by the Board of Directors. A participant granted restricted stock generally has all the rights of a stockholder, unless otherwise determined by the Compensation Committee.

**Merger or Sale of Assets.** If we merge with or into another corporation, or sell all or substantially all our assets, any unvested Awards will vest immediately prior to closing of the event resulting in the change of control, and the Board shall have the power and discretion to provide for each award holder’s election alternatives regarding the terms and conditions for the exercise of such awards. The alternative may provide that each outstanding stock option and restricted stock award will be assumed or substituted for by the successor corporation (or a parent or subsidiary or such successor corporation). If there is no assumption or substitution of outstanding awards, the administrator will provide notice to the recipient of their alternatives regarding their right to exercise the stock option as to all the shares subject to the stock option.

**Amendment and Termination of the 2018 Plan.** The administrator has the authority to amend, alter, suspend, or terminate the 2018 Plan, except that stockholder approval will be required for any amendment to the 2018 Plan to the extent required by any applicable law, regulation, or Nasdaq or stock exchange rule. Any amendment, alteration, suspension, or termination will not, without the consent of the participant, materially adversely affect any rights or obligations under any stock option or restricted stock award previously granted. The 2018 Plan has a term of ten (10) years beginning June 27, 2018, unless terminated earlier by the administrator.

**Outstanding Stock Options Held by Directors and Officers.**

The following table presents information concerning the outstanding equity awards for the Directors and Officers as of December 31, 2018:

**Outstanding Equity Awards at Fiscal Year-End**

| Name | Number of securities underlying unexercised options (#) exercisable | Number of securities underlying unexercised options (#) unexercisable | Equity incentive plan awards: Number of securities underlying | Option exercise price (\$) | Option expiration date |
|------|---|---|---|----------------------------|------------------------|
|------|---|---|---|----------------------------|------------------------|

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|   |        |   | unexercised<br>unearned<br>Options<br>(#) |          |           |
|---|--------|---|---|----------|-----------|
| Stanton E. Ross Chairman, CEO and<br>President    | 15,000 | — | —   | \$ 4.80  | 1/12/2022 |
|   | 18,750 | — | —   | \$ 13.20 | 1/10/2021 |
|   | 3,750  | — | —   | \$ 14.24 | 5/5/2019  |
| Leroy C. Richie Lead Outside Director             | 50,000 | — | —   | \$ 2.20  | 7/5/2028  |
|   | 30,000 | — | —   | \$ 3.00  | 8/14/2027 |
|   | 10,000 | — | —   | \$ 3.92  | 5/11/2026 |
|   | 1,250  | — | —   | \$ 13.20 | 1/10/2021 |
|   | 625    | — | —   | \$ 14.24 | 5/5/2019  |
| Daniel F. Hutchins Director                       | 50,000 | — | —   | \$ 2.20  | 7/5/2028  |
|   | 30,000 | — | —   | \$ 3.00  | 8/14/2027 |
|   | 10,000 | — | —   | \$ 3.92  | 5/11/2026 |
|   | 8,750  | — | —   | \$ 3.52  | 5/25/2022 |
|   | 1,250  | — | —   | \$ 9.52  | 6/3/2021  |
|   | 1,250  | — | —   | \$ 13.20 | 1/10/2021 |
|   | 625    | — | —   | \$ 14.24 | 5/5/2019  |
| 3,125   | —      | — | \$ 12.72                                  | 5/5/2019 |           |
| Michael J. Caulfield Director                     | 50,000 | — | —   | \$ 2.20  | 7/5/2028  |
|   | 30,000 | — | —   | \$ 3.00  | 8/14/2027 |
|   | 10,000 | — | —   | \$ 3.92  | 5/11/2026 |
| Thomas J. Heckman CFO, Treasurer and<br>Secretary | 12,500 | — | —   | \$ 13.20 | 1/10/2021 |
|   | 3,750  | — | —   | \$ 24.80 | 7/30/2019 |
|   | 3,750  | — | —   | \$ 14.24 | 5/5/2019  |
|   | 2,500  | — | —   | \$ 12.72 | 3/30/2019 |

### **Recent Stock Option and Restricted Stock Award Grants to Employees, Consultants, and Directors**

Our board of directors adopted the 2005 Stock Option and Restricted Stock Plan (the “2005 Plan”) on September 1, 2005. The 2005 Plan authorized us to reserve 312,500 shares of our common stock for issuance upon exercise of options and grant of restricted stock awards. The 2005 Plan terminated in 2015 with 4616 shares reserved for awards that are now unavailable for issuance. Stock options granted under the 2005 Plan that remain unexercised and outstanding as of December 31, 2018 total 23,125.

On January 17, 2006, our board of directors adopted the 2006 Stock Option and Restricted Stock Plan (the “2006 Plan”). The 2006 Plan authorizes us to reserve 187,500 shares for future grants under it. The 2006 Plan terminated in 2016 with 21,087 shares reserved for awards that are now unavailable for issuance. Stock options granted under the 2006 Plan that remain unexercised and outstanding as of December 31, 2018 total 46,387.

On January 24, 2007, our board of directors adopted the 2007 Stock Option and Restricted Stock Plan (the “2007 Plan”). The 2007 Plan authorizes us to reserve 187,500 shares for future grants under it. The 2007 Plan terminated in 2017 with 82,151 shares reserved for awards that are now unavailable for issuance. Stock options granted under the 2007 Plan that remain unexercised and outstanding as of December 31, 2018 total 12,500.

On January 2, 2008, our board of directors adopted the 2008 Stock Option and Restricted Stock Plan (the “2008 Plan”). The 2008 Plan authorizes us to reserve 125,000 shares for future grants under it. The 2008 Plan terminated in 2018 with 6,249 shares reserved for awards that are now unavailable for issuance. Stock options granted under the 2008 Plan that remain unexercised and outstanding as of December 31, 2018 total 32,250.

On March 18, 2011, our board of directors adopted the 2011 Stock Option and Restricted Stock Plan (the “2011 Plan”). The 2011 Plan authorizes us to reserve 62,500 shares for future grants under it. At December 31, 2018, there were 726 shares reserved for awards available for issuance under the 2011 Plan. Stock options granted under the 2011 Plan that remain unexercised and outstanding as of December 31, 2018 total 9,750.

On March 22, 2013, our board of directors adopted the 2013 Stock Option and Restricted Stock Plan (the “2013 Plan”). The 2013 Plan was amended on March 28, 2014 and November 14, 2014 to increase the number of shares authorized and reserved for issuance under the 2013 Plan to a total of 300,000. At December 31, 2018, there were 100 shares reserved for awards available for issuance under the 2013 Plan. Stock options granted under the 2013 Plan that remain unexercised and outstanding as of December 31, 2018 total 20,000.

On March 27, 2015, our board of directors adopted the 2015 Stock Option and Restricted Stock Plan (the “2015 Plan”). The 2015 Plan was amended on February 25, 2016 and May 31, 2017 to increase the number of shares authorized and reserved for issuance under the 2015 Plan to a total of 1,250,000. At December 31, 2018, there were 37,100 shares reserved for awards available for issuance under the 2015 Plan, as amended. Stock options granted under the 2015 Plan that remain unexercised and outstanding as of December 31, 2018 total 130,000.

On April 12, 2018, our board of directors adopted the 2018 Stock Option and Restricted Stock Plan (the “2018 Plan”). The 2018 Plan authorizes us to reserve 1,000,000 shares for future grants under it. At December 31, 2018, there were 540,000 shares reserved for awards available for issuance under the 2018 Plan. Stock options granted under the 2018 Plan that remain unexercised and outstanding as of December 31, 2018 total 160,000.

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

We believe that such awards better align the interests of our employees with those of our stockholders. Option awards have been granted with an exercise price equal to the market price of our 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. Restricted stock awards have also been made under the Plans. A restricted stock award is a grant of shares of the common stock that is subject to restrictions on transferability, risk of forfeiture and other restrictions and that may be forfeited in the event of certain terminations of employment or service prior to the end of a restricted period specified by the Compensation Committee. These option and restricted stock awards typically provide for accelerated vesting if there is a change in control (as defined in the Plans). We have registered all shares of common stock that are issuable under our Plans with the SEC. A total of 577,926 shares remained available for awards under the various Plans as of December 31, 2018.

The number of stock options and restricted stock awards that an employee, director, or consultant may receive under our Plans is in the discretion of the administrator and therefore cannot be determined in advance, although the Board of Directors’ policy for 2018 was to grant directors stock options that vest over a one-year period and to grant officers restricted shares that vest over a one to two-year period.

The following table sets forth (a) the aggregate number of shares subject to options and restricted stock granted under the Plans during the year-ended December 31, 2018 and (b) the average per share exercise price of such options.

**Stock Option and Restricted Stock Grants**

| <b>Name of Individual or Group</b>                            | <b>Number of Restricted Shares of Common Stock Granted</b> | <b>Number of Options Granted</b> | <b>Average per Share Exercise Price</b> |
|---|--|----------------------------------|---|
| Stanton E. Ross, Chairman of the Board, CEO & President       | 250,000  | —                                | \$ —                                    |
| Leroy C. Richie, Director                                     | —  | 50,000                           | \$ 2.20                                 |
| Daniel F. Hutchins, Director                                  | —  | 50,000                           | \$ 2.20                                 |
| Michael J. Caulfield, Director                                | —  | 50,000                           | \$ 2.20                                 |
| Thomas J. Heckman, Vice President, CFO, Treasurer & Secretary | 150,000  | —                                | \$ —                                    |
| All executive officers, as a group                            | 400,000  | —                                | \$ —                                    |
| All directors who are not executive officers, as a group      | —  | 150,000                          | \$ 2.20                                 |
| All employees who are not executive officers, as a group      | 84,500   | —                                | \$ —                                    |

## Federal Tax Aspects

The following summary is a brief discussion of certain federal income tax consequences to U.S. taxpayers and to the Company of stock option and restricted stock awards granted under the 2018 Plan. This summary is not intended to be a complete discussion of all the federal income tax consequences of the 2018 Plan or of all the requirements that must be met in order to qualify for the tax treatment described below. The following summary is based upon the provisions of U.S. federal tax law in effect on the date hereof, which is subject to change (perhaps with retroactive effect), and does not constitute tax advice. In addition, because tax consequences may vary, and certain exceptions to the general rules discussed in this summary may be applicable, depending upon the personal circumstances of individual recipients and each recipient should consider his or her personal situation and consult with his or her own tax advisor with respect to the specific tax consequences applicable to him or her. The following assumes stock options have been granted at an exercise price per share at least equal to 100% of the fair market value of the Company's common stock on the date of grant.

***Tax consequences of nonqualified stock options.*** In general, an employee, director or consultant will not recognize income at the time of the grant of nonqualified options under the 2018 Plan. When an optionee exercises a nonqualified stock option, he or she generally will recognize ordinary income equal to the excess, if any, of the fair market value (determined on the day of exercise) of the shares of the common stock received over the option exercise price. The tax basis of such shares to the optionee will be equal to the exercise price paid plus the amount of ordinary income includible in his or her gross income at the time of the exercise. Upon a subsequent sale or exchange of shares acquired pursuant to the exercise of a nonqualified stock option, the optionee will have taxable capital gain or loss, measured by the difference between the amount realized on the sale or exchange and the tax basis of the shares. The capital gain or loss will be short-term or long-term depending on holding period of the shares sold.

***Tax consequences of incentive stock options.*** In general, an employee will not recognize income on the grant of incentive stock options under the 2018 Plan. Except with respect to the alternative minimum tax, an optionee will not recognize income on the exercise of an incentive stock option unless the option exercise price is paid with stock acquired on the exercise of an incentive stock option and the following holding period for such stock has not been satisfied. For purposes of the alternative minimum tax, however, an optionee will be required to treat an amount equal to the difference between the fair market value (determined on the day of exercise) of our shares of the common stock received and the exercise price as an item of adjustment in computing the optionee's alternative minimum taxable income.

An optionee will recognize long-term capital gain or loss on a sale of the shares acquired on exercise, provided the shares acquired are not sold or otherwise disposed of before the earlier of: (i) two years from the date of grant of the option, or (ii) one year from the date of exercise of the option. In general, the amount of gain or loss will equal the difference, if any, between the sale price of such shares and the exercise price. If the stock is not held for the required period of time, the optionee will recognize ordinary income to the extent the fair market value (determined on the day of exercise) of the stock exceeds the option price, but limited to the gain recognized on sale. The balance of any such gain will be a short-term or long-term capital gain (depending on the applicable holding period).

For the exercise of a stock option to qualify for the foregoing incentive stock option tax treatment, an optionee generally must be our employee continuously from the date of the grant until any termination of employment, and in the event of a termination of employment, the stock option must be exercised within three months after the termination.

***Tax consequences of restricted stock awards.*** In general, the recipient of a stock award that is not subject to restrictions will recognize ordinary income at the time the shares are received equal to the excess, if any, of the fair market value of the shares received over the amount, if any, the recipient paid in exchange for the shares. If, however, the shares are subject to vesting or other restrictions (that is, they are nontransferable and subject to a substantial risk of forfeiture) when the shares are granted (for example, if the employee is required to work for a period of time in order to have the right to sell the stock), the recipient generally will not recognize income until the shares becomes vested or the restrictions otherwise lapse, at which time the recipient will recognize ordinary income equal to the excess, if any, of the fair market value of the shares on the date of vesting (or the date of the lapse of a restriction) less the amount, if any, the recipient paid in exchange for the shares. If the shares are forfeited under the terms of the restricted stock award, the recipient will not recognize income and will not be allowed an income tax deduction with respect to the forfeiture.



A recipient may file an election under Section 83(b) of the Internal Revenue Code with the Internal Revenue Service within thirty (30) days of his or her receipt of a restricted stock award to recognize ordinary income, as of the award date, equal to the excess, if any, of the fair market value of the shares on the award date less the amount, if any, the recipient paid in exchange for the shares. If a recipient makes a Section 83(b) election, then the recipient will not otherwise be taxed in the year the vesting or restriction lapses, and, if the stock award is forfeited, he or she will not be allowed an income tax deduction. If the recipient does not make a Section 83(b) election, dividends paid to the recipient on the shares prior to the date the vesting or restrictions lapse will be treated as compensation income.

The recipient's tax basis for the determination of gain or loss upon the subsequent disposition of shares acquired as stock awards will be the amount paid for such shares plus the amount includible in his or her gross income as compensation in respect of such shares.

*Withholding and other consequences.* Any compensation includible in the gross income of a recipient will be subject to appropriate federal and state income tax withholding.

*Tax effect for the Company.* We are generally entitled to an income tax deduction in connection with a stock option or restricted stock award granted under the 2018 Plan in an amount equal to the ordinary income realized by a recipient at the time the recipient recognizes such income (for example, the exercise of a nonqualified stock option). Special rules may limit the deductibility of compensation paid to our Chief Executive Officer and to each of our four most highly compensated executive officers under Section 162(m) of the Internal Revenue Code to the extent that annual compensation paid to any of the foregoing individuals exceeds \$1,000,000.

**THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF FEDERAL INCOME TAXATION UPON PARTICIPANTS AND THE COMPANY WITH RESPECT TO THE GRANT AND EXERCISE OF STOCK OPTIONS, STOCK APPRECIATION RIGHTS, AND RESTRICTED STOCK AWARDS UNDER THE 2018 PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A RECIPIENT'S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY STATE OR FOREIGN COUNTRY IN WHICH THE RECIPIENT MAY RESIDE. THE FOREGOING SUMMARY IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED BY ANY TAXPAYER, TO AVOID PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER.**

### **PROPOSAL THREE**

**APPROVAL OF AMENDMENT TO OUR ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF OUR CAPITAL STOCK THAT WE MAY ISSUE BY 10,000,000 AND CLASSIFY SUCH SHARES AS BLANK CHECK PREFERRED STOCK.**

Proposal 3 seeks your approval of an amendment to our Articles of Incorporation, which we refer to as the “Articles Amendment,” to increase the number of authorized shares of capital stock by 10,000,000 and classify such shares as blank check preferred stock. The Articles Amendment has the effect of creating a new class of stock: blank check preferred. The proposed Articles Amendment is set forth below:

“Article IX of the Articles of Incorporation of the Company is amended to include the following:

(a) **Authorized Shares.** The aggregate number of shares of capital stock that the Corporation will have the authority to issue includes, in addition to the Common Stock, ten million (10,000,000) shares of blank check preferred stock, with a par value of \$0.001 per share (the “Preferred Stock”).

(b) **Blank Check Preferred Stock.** The Board of Directors is authorized, subject to the limitations prescribed in this Article IX, to provide for the issuance of the shares of blank check preferred stock in series, and by filing a certificate pursuant to the applicable law of the State of Nevada, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations and restrictions thereof. The authority of the Board of Directors with respect to each series of Preferred Stock will include, but not be limited to, the rights to determine the following:

- (i) The number of shares constituting that series of Preferred Stock and the distinctive designation of that series, which may be a distinguishing number, letter or title;
- (ii) The dividend rate on the shares of that series of Preferred Stock, whether dividends will be cumulative, and if so, from which date(s), and the relative rights of priority, if any, of payment of dividends on shares of that series;
- (iii) Whether that series of Preferred Stock will have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;
- (iv) Whether that series of Preferred Stock will have conversion privileges and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board of Directors determines;
- (v) Whether or not the shares of that series of Preferred Stock will be redeemable and, if so, the terms and conditions of such redemption, including the date or date upon or after which they are redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;
- (vi) Whether that series of Preferred Stock will have a sinking fund for the redemption or purchase of shares of that series and, if so, the terms and amount of such sinking fund;
- (vii) The rights of the shares of that series of Preferred Stock in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series; and
- (viii) Any other relative rights, preferences and limitations of that series of Preferred Stock.

Each series of serial Preferred Stock, in preference to the Common Stock, will be entitled to dividends from funds or other assets legally available therefore, at such rates, payable at such times and cumulative to the extent as may be fixed by the Board of Directors of the Corporation pursuant to the authority herein conferred upon it. In the event of dissolution or liquidation of the Corporation, voluntary or involuntary, the holders of serial Preferred Stock, in preference to the Common Stock, will be entitled to receive such amount or amounts as may be fixed by the Board of Directors of the Corporation pursuant to the authority herein conferred upon it. Preferred Stock of any series redeemed, converted, exchanged, purchased or otherwise acquired by the Corporation shall be canceled by the Corporation and returned to the status of authorized but unissued Preferred Stock. All shares of any series of serial Preferred Stock, as between themselves, shall rank equally and be identical; and all series of serial Preferred Stock, as between themselves, shall rank equally and be identical, except as set forth in resolutions of the Board of Directors

authorizing the issuance of the series.”

### **Authorization of Blank Check Preferred Stock**

The Articles Amendment will increase the number of shares of our capital stock by an additional 10,000,000 shares of blank check preferred stock and authorizes the issuance of blank check preferred stock with such designations, rights and preferences as may be determined from time to time by our Board of Directors. Accordingly, upon effectiveness of the Articles Amendment, our Board of Directors will be authorized to issue the preferred stock without stockholder approval, except as may be required by applicable laws or rules. For example, under the rules of the NASDAQ Stock Market, shareholder approval is required for any potential issuance of 20% or more of our outstanding shares of common stock, including upon conversion of convertible preferred stock, in connection with acquisitions or discounted private placements. In connection with the issuance of the preferred stock, the Board would have the authority to designate and issue series of our preferred stock with dividend, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of our common stock, substantially dilute the common stockholders’ interests in us and depress the price of our common stock. In addition, although we do not presently intend to use the blank check preferred stock provision for such purpose, preferred stock authorized under such provision could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change of control of us.

Our Board of Directors believes that authorization of blank check preferred stock is in the best interests of us and our stockholders because it is advisable to have the ability to authorize such shares of preferred stock and have them available for, among other things, possible issuances in connection with such activities as public or private offerings of shares for cash, acquisitions of other companies, pursuit of financing opportunities and other corporate purposes. However, we do not have any plans, proposals or arrangements concerning the issuance of shares of our blank check preferred stock.

There will be an increase in the number of shares of our capital stock authorized by 10,000,000 in the form of preferred stock if this proposal is approved. Immediately following the adoption of the Articles Amendment, we will have approximately 38,872,445 shares of common stock authorized but unissued and available for issuance and 10,000,000 shares of preferred stock authorized but unissued and available for issuance. At March 27, 2019, we had 11,127,555 shares of common stock issued of which 63,518 shares are held in treasury, 354,012 shares issuable upon exercise of options granted under the Plans, 4,496,145 shares issuable upon exercise of outstanding warrants to purchase common stock and no preferred stock authorized or issued.

#### **Effectiveness of the Articles Amendment**

The amendment to our Articles of Incorporation described above, if approved by our stockholders, will become effective upon the filing of the Articles Amendment with the Secretary of State of Nevada.

#### **Potential Anti-Takeover effect of the Proposed Articles Amendment**

The Articles Amendment relating to the increase in the number of authorized shares of our capital stock and adoption of a blank check preferred stock is not intended to have any anti-takeover effect and is not part of any series of anti-takeover measures contained in our Articles of Incorporation or Bylaws in effect on the date of this proxy statement. However, our stockholders should note that the availability of additional authorized and unissued shares of preferred stock could make any attempt to gain control of us or the Board more difficult or time-consuming and that the availability of additional authorized and unissued shares might make it more difficult to remove management. Although the Board currently has no intention of doing so, shares of stock could be issued by the Board to dilute the percentage of stock owned by any stockholder and increase the cost of, or the number of, voting shares necessary to acquire control of the Board or to meet the voting requirements imposed by Nevada law with respect to a merger or other business combination involving us. The issuance of preferred stock with voting and conversion rights by our Board may adversely affect the voting power of the holders of common stock, including the loss of voting control to others.

Our Board of Directors did not propose this Articles Amendment for the purpose of discouraging mergers, tender offers, proxy contests, solicitation in opposition to management or other changes in control. We are not aware of any specific effort to accumulate our common stock or obtain control of us by means of a merger, tender offer, solicitation or otherwise. We have no present intention to use the creation of the blank check preferred stock for anti-takeover purposes.

### **Vote Required and Recommendation**

The affirmative vote of a majority of the issued and outstanding common stock will be required to approve the Articles Amendment.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE APPROVAL OF THE AMENDMENT TO OUR ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF OUR CAPITAL STOCK THAT WE MAY ISSUE BY 10,000,000 AND CLASSIFY SUCH SHARES AS BLANK CHECK PREFERRED STOCK.**

## **PROPOSAL FOUR**

### **ADVISORY (NON-BINDING) VOTE ON EXECUTIVE COMPENSATION**

Our compensation policies and procedures are centered on a pay-for-performance philosophy, and we believe that they are strongly aligned with the long-term interests of our stockholders. Our compensation program is designed to attract, motivate, and retain the key executives who drive our success. Compensation that rewards excellence and reflects performance, and alignment of that compensation with the interests of long-term stockholders, are key principles of our compensation program design. Although we have made and will continue to make improvements to our compensation program from time to time, these key principles have been unchanged for many years.

We support the principle that our corporate governance policies, including our executive compensation program, should be responsive to stockholder concerns. This principle is embodied in a non-binding, advisory vote that gives you as a stockholder the opportunity to approve the compensation of our named executive officers as disclosed in this proxy statement, including, among other things, our executive compensation objectives, policies and procedures. This vote is intended to provide an overall assessment of our executive compensation program rather than to focus on any specific item of compensation. The Compensation Committee, and the Board as a whole, value the opinions of our stockholders and intend to take the outcome of this vote into account when considering future executive compensation arrangements. However, because the vote is advisory, it will not directly affect any existing compensation awards of any of our executive officers, including our named executive officers.

As discussed above, our executive compensation program is designed:

to demand and reward excellence from each of our executive officers and from the management team as a whole;

to align our interests with the interests of executives and other employees through compensation programs that recognize individual contributions toward the achievement of corporate goals and objectives without encouraging unnecessary or unreasonable risks;

to further link executive and stockholder interests through equity-based compensation and long-term stock ownership arrangements;

to recognize and reward excellence in an executive's performance in the furtherance of our goals and objectives without undertaking unnecessary or excessive risk; and

to attract and retain high caliber executive and employee talent.

The application of these principles and our executive compensation philosophy, policies and procedures have resulted in a corporate culture that demands excellence and recognizes individual and team performance without encouraging unnecessary or excessive risks. We align the interests of stockholders and executives by linking a substantial portion of compensation to our performance. For example, approximately 55.9% of the total 2018 compensation disclosed in the Summary Compensation Table for our named executive officers (excluding the increase in the value of retirement benefits and earnings on deferred compensation) consisted of either incentives that were subject to pre-established performance criteria or equity awards whose ultimate value upon resale depends upon the value of our stock to stockholders. We have made and will continue to make improvements to our compensation program from time to time. In most cases, compensation decisions made during 2018 resulted in only a relatively small increase in base pay over the prior year.

We encourage you to consider the detailed information provided in the Summary Compensation Table and the tables and other information that follow it. The Board and the Compensation Committee will review the advisory voting results and will take them into account in making future executive compensation decisions.



After reviewing the information provided above and in the other parts of this proxy statement, the Board of Directors asks you to approve the following advisory resolution:

**Resolved, that the stockholders of Digital Ally, Inc. hereby approve, on an advisory, nonbinding basis, the compensation paid to its named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the compensation tables and narrative discussion in this proxy statement.**

This advisory vote will be approved if it receives the affirmative vote of a plurality of the shares of common stock present in person or represented by proxy at the annual meeting and entitled to vote with respect to this proposal.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE TO APPROVE THE COMPENSATION PAID TO THE CORPORATION'S NAMED EXECUTIVE OFFICERS AS DISCLOSED HEREIN.**

## **PROPOSAL FIVE**

### **RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors has appointed RSM US LLP as the independent registered public accounting firm to audit our financial statements for the year ending December 31, 2019 and recommends that stockholders vote for ratification of such appointment. Although we are not required to seek stockholder approval of this appointment, the Board believes it to be sound corporate governance to do so. Notwithstanding the selection by the Audit Committee of RSM US LLP, the Audit Committee may direct the appointment of a new independent registered public accounting firm at any time during the year if the Board of Directors determines that such a change would be in our best interest and in that of our stockholders. If the appointment is not ratified, the Audit Committee will investigate the reasons for stockholder rejection and will reconsider the appointment.

The Audit Committee believes that RSM US LLP is well suited to provide the services that we require in 2019 and beyond. Representatives of RSM US LLP are expected to attend the annual meeting, where they will be available to respond to questions and, if they desire, to make a statement.

## **Audit and Related Fees**

The following table is a summary of the fees billed to us by RSM US LLP for the fiscal years ended December 31, 2018 and 2017:

| Fee Category       | Fiscal<br>2018 fees | Fiscal<br>2017 fees |
|--------------------|---------------------|---------------------|
| Audit fees         | \$222,730           | \$163,600           |
| Audit-related fees | 44,625              | 33,000              |
| Tax fees           | —                   | —                   |
| All other fees     | 11,343              | 9,674               |
| Total fees         | \$278,698           | \$206,274           |

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

***Audit-Related Fees.*** Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit Fees.” These services include consents issued for certain filings with the SEC, accounting consultations in connection with financings and consultations concerning financial accounting and reporting standards.

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

**All Other Fees.** Consists of fees for products and services other than the services reported above. . In fiscal 2018, such fees were also related primarily to telecommunications and server network support and maintenance. In fiscal 2017, such fees were related primarily to server hardware and telephone system maintenance and upgrades.

The Audit Committee's practice is to consider and approve in advance all proposed audit and non-audit services to be provided by our independent registered public accounting firm. All the fees shown above were pre-approved by the Audit Committee.

The audit report of RSM US LLP on our consolidated financial statements for the year ended December 31, 2018 did not contain an adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During our fiscal year ended December 31, 2018, there were no disagreements with RSM US LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to RSM US LLP's satisfaction would have caused it to make reference to the subject matter of such disagreements in connection with its reports on the financial statements for such periods.

During our fiscal years ended December 31, 2018, there were no reportable events (as described in Item 304(a)(1)(v) of Regulation S-K).

### **Vote Required and Board Recommendation**

If a quorum is present, the affirmative vote of a majority of the shares present and entitled to vote at the annual meeting will be required to ratify the appointment of RSM US LLP as our independent registered public accounting firm.

**OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF RSM US LLP AS THE INDEPENDENT**

**REGISTERED ACCOUNTING FIRM OF DIGITAL ALLY, INC. FOR THE YEAR ENDING DECEMBER 31, 2019.**

*Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including this proxy statement, in whole or in part, the Audit Committee Report shall not be incorporated by reference into any such filings.*

**REPORT OF THE AUDIT COMMITTEE**

Below is the report of the Audit Committee with respect to our audited consolidated financial statements for the fiscal year ended December 31, 2018, which includes our consolidated balance sheets as of December 31, 2018 and 2016, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the fiscal years ended December 31, 2018 and December 31, 2017 and the notes thereto.

In accordance with the written charter adopted by the Board of Directors, the Audit Committee of the Board of Directors has the primary responsibility for overseeing our financial reporting, accounting principles and system of internal accounting controls, and reporting its observations and activities to the Board of Directors. It also approves the appointment of our independent registered public accounting firm and approves in advance the services performed by such firm.

### **Review and Discussion with Management**

The Audit Committee has reviewed and discussed with management our audited consolidated financial statements for the fiscal year ended December 31, 2018, the process designed to achieve compliance with Section 404 of the Sarbanes-Oxley Act of 2002, our assessment of internal control over financial reporting and the report by our independent registered public accounting firm thereon.

### **Review and Discussions with Independent Registered Public Accounting Firm**

In the performance of its oversight function and in accordance with its responsibilities under its charter, the Audit Committee has reviewed and discussed with management and the independent registered public accounting firm the Company's audited financial statements as of and for the fiscal year ended December 31, 2018. The Audit Committee also discussed with our independent registered public accounting firm the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 16 "Communications with Audit Committee." Finally, the Audit Committee received the written disclosures and the letter from our independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and discussed with our independent registered public accounting firm its independence.

### **Conclusion**

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that our audited consolidated financial statements for the fiscal year ended December 31, 2018 be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 for filing with the Securities and Exchange Commission.

Respectfully submitted by:

THE AUDIT COMMITTEE  
OF THE BOARD OF

DIRECTORS OF DIGITAL  
ALLY, INC.

Daniel F. Hutchins, Chairman  
Leroy C. Richie

Michael J. Caulfield

**EXECUTIVE COMPENSATION**

The following table presents information concerning the total compensation of the Company's Chief Executive Officer and Chief Financial Officer (the "Named Executive Officers") for services rendered to the Company in all capacities for the years ended December 31, 2018 and 2017:

**Summary Compensation Table**

| Name and principal position   | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock<br>awards (\$)<br>(1)(3)(4)(5) | Option<br>awards<br>(\$ (1) | All other<br>compensation<br>(\$ (2) | Total (\$)  |
|---|------|----------------|---------------|--------------------------------------|-----------------------------|--------------------------------------|-------------|
| Stanton E. Ross<br>Chairman, CEO and President  | 2018 | \$250,000      | \$250,000     | \$560,000                            | \$ —                        | \$ 26,390                            | \$1,086,390 |
|   | 2017 | \$220,000      | \$25,000      | \$1,087,500                          | \$ —                        | \$ 22,516                            | \$1,355,016 |
| Thomas J. Heckman<br>Vice President, Chief Financial<br>Officer,<br>Treasurer and Secretary | 2018 | \$230,000      | \$23,000      | \$347,500                            | \$ —                        | \$ 20,460                            | \$620,960   |
|   | 2017 | \$220,000      | \$—           | \$682,500                            | \$ —                        | \$ 23,672                            | \$926,172   |

Represents aggregate grant date fair value pursuant to ASC Topic 718 for the respective year for stock options (1) granted. Please refer to Note 12 to the consolidated financial statements for further description of the awards and the underlying assumptions utilized to determine the amount of grant date fair value related to such grants.

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

Stock awards include the following restricted stock granted during 2018 to Mr. Ross: (i) 50,000 shares at \$2.70 per (3) share that vest ratably over the one-year period ending April 15, 2019; and (ii) 200,000 shares at \$2.125 per share that vest ratably over the one-year period ending July 5, 2019.

Stock awards include the following restricted stock granted during 2017 to Mr. Heckman: (i) 50,000 shares at (4) \$2.70 per share that vest ratably over the one-year period ending April 15, 2019; and (ii) 100,000 shares at \$2.125 per share that vest ratably over the one-year period ending July 5, 2019.

Stock awards include the following restricted stock granted during 2017 to Mr. Ross: (i) 125,000 shares at \$5.10 (5) per share that vest ratably over the two-year period ending January 22, 2019; and (ii) 150,000 shares at \$3.00 per share that vest ratably over the one-year period ending August 14, 2018.

Stock awards include the following restricted stock granted during 2017 to Mr. Heckman: (i) 75,000 shares at (6) \$5.10 per share that vest ratably over the two-year period ending January 22, 2019; and (ii) 100,000 shares at \$3.00 per share that vest ratably over the one-year period ending August 14, 2018.

### All Other Compensation Table

| Name  | Year | 401(k) Plan contribution by Company | Company paid healthcare insurance | Flexible & health savings account contributions by Company | Company paid life, accident & disability insurance | Other Contractual payments | Total     |
|---|------|-------------------------------------|-----------------------------------|--|--|----------------------------|-----------|
| Stanton E. Ross<br>Chairman, CEO<br>and President   | 2018 | \$ 8,694                            | \$ 16,075                         | \$ 1,100   | \$ 521   | \$ —                       | \$ 26,390 |
|   | 2017 | \$ 5,517                            | \$ 15,373                         | \$ 1,100   | \$ 526   | \$ —                       | \$ 22,516 |
| Thomas J. Heckman<br>Vice President, Chief<br>Financial Officer, Treasurer<br>and Secretary | 2018 | \$ 9,000                            | \$ 10,220                         | \$ 719   | \$ 521   | \$ —                       | \$ 20,460 |
|   | 2017 | \$ 8,800                            | \$ 13,546                         | \$ 800   | \$ 526   | \$ —                       | \$ 23,672 |

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

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

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



For fiscal year 2019, the Compensation Committee of the Board of Directors (the “Committee”) set the annual base salaries of Stanton E. Ross, President and Chief Executive Officer, and Thomas J. Heckman, Chief Financial Officer, Treasurer and Secretary, at \$250,000 and \$230,000, respectively. This represents no increase or decrease from the previous year.

For fiscal year 2018, the Compensation Committee of the Board of Directors (the “Committee”) set the annual base salaries of Stanton E. Ross, President and Chief Executive Officer, and Thomas J. Heckman, Chief Financial Officer, Treasurer and Secretary, at \$250,000 and \$230,000, respectively. This represents an increase from the previous year.

For fiscal year 2017, the Compensation Committee of the Board of Directors (the “Committee”) set the annual base salaries of Stanton E. Ross, President and Chief Executive Officer, and Thomas J. Heckman, Chief Financial Officer, Treasurer and Secretary, at \$220,000 each.

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

***Stock Options and Restricted Stock Awards.*** The Compensation Committee determined stock option and restricted stock awards based on numerous factors, some of which include responsibilities incumbent with the role of each executive with us, tenure with us, as well as our performance. The vesting period of options and restricted stock is also tied, in some instances, to our performance directly related to certain executive’s responsibilities with us. The Committee determined that Messrs. Ross and Heckman were eligible for awards of stock options or restricted stock in 2018 based on their performance. Refer to grant of Plan-Based Awards table below for restricted stock awards made in 2018. The Committee also determined that Messrs. Ross and Heckman would be eligible in 2019 for awards of restricted stock or stock options provided each person is employed with us at such point.

***Bonuses.*** The Compensation Committee determined to award bonuses to each of the executive officers in 2018 and 2017, as set forth in the foregoing table. Refer to the section entitled “Executive Compensation” for the bonuses paid to Messrs. Ross and Heckman in 2018 and 2017. In fiscal 2019, Messrs. Ross and Heckman will be eligible for bonuses of up to \$250,000 and \$230,000, respectively. The Compensation Committee reviews each executive officer’s performance on a quarterly basis and determines what, if any, portion of the bonus he has earned and will be paid as of such point.

***Other.*** In July 2008, we amended and restated our 401(k) retirement savings plan (the “401(k) Plan”). The amended plan requires us to provide a 100% matching contribution for employees who elect to contribute up to 3% of their compensation to the plan and a 50% matching contribution for employee’s elective deferrals between 4% and 5%. We

have made matching contributions for executives who elected to contribute to the 401(k) Plan during 2010. Each participant is 100% vested at all times in employee and employer matching contributions. As of December 31, 2018, a total of 76,040 shares of our common stock were held in the 401(k) Plan. Mr. Heckman, as trustee of the 401(k) Plan, holds the voting power as to the shares of our common stock held in the 401(k) Plan. We have no profit sharing plan in place for our employees. However, we may consider adding such a plan to provide yet another level of compensation to our compensation plan.

The following table presents information concerning the grants of Plan-based awards to the Named Executive Officers during the year ended December 31, 2018:

### Grants of Plan-Based Awards

| Name   | Grant date | Date approved by Compensation Committee | All Other stock awards: Number of shares of stock or units: (#) (1) | Exercise or base price of option awards (\$/Share) | Grant date fair value of stock awards (\$) (3) |
|--|------------|---|---|--|--|
| Stanton E. Ross<br>Chairman, CEO and President                   | 4/16/2018  | 4/16/2018                               | 50,000 (1)  | \$ —   | \$135,000                                      |
|  | 7/5/2018   | 7/5/2018                                | 200,000 (2)   | \$ —   | \$425,000                                      |
| Thomas J. Heckman<br>Vice President CFO, Treasurer and Secretary | 4/16/2018  | 4/16/2018                               | 50,000 (1)  | \$ —   | \$135,000                                      |
|  | 7/5/2018   | 7/5/2018                                | 100,000 (2)   | \$ —   | \$212,500                                      |

These restricted stock awards were made under the Digital Ally, Inc. Stock Option and Restricted Stock Plans and (1) vest over a one-year period (100% on April 15, 2019) contingent upon whether the individual is still employed by us at that point.

These restricted stock awards were made under the Digital Ally, Inc. Stock Option and Restricted Stock Plans and (2) vest over a one-year period (100% on July 5, 2019) contingent upon whether the individual is still employed by us at that point.

Stock awards noted represent the aggregate amount of grant date fair value as determined under ASC Topic 718. (3) Please refer to Note 12 to the consolidated financial statements for further description of the awards and the underlying assumptions utilized to determine the amount of grant date fair value related to such grants.

The following table presents information concerning the outstanding equity awards for the Named Executive Officers as of December 31, 2018:

### Outstanding Equity Awards at Fiscal Year-End

| Name   | Option Awards   |   |   |                     |                        | Stock Awards  |   | Equity incentive plan   |   |
|--|---|---|---|---------------------|------------------------|---|---|---|---|
|  | Number of securities underlying unexercised options (#) exercisable (1) | Number of securities underlying unexercised options (#) | Equity incentive plan awards: Number of securities underlying unexercised options (#) | Exercise price (\$) | Option expiration date | Number of shares or units of stock that have not vested (1) | Market value of shares or units of stock that have not vested (2) | Equity awards: Number of unearned shares, other rights that have not vested | Market Payout of unearned shares, other rights that have not vested |
| Stanton E. Ross<br>Chairman, CEO and<br>President    | 15,000  | —   | —   | \$ 4.80             | 1/12/2022              | 395,000   | \$1,058,600   | —   | \$ —  |
|  | 18,750  | —   | —   | \$ 13.20            | 1/10/2021              |   |   |   |   |
|  | 3,750   | —   | —   | \$ 14.24            | 5/5/2019               |   |   |   |   |
| Thomas J. Heckman<br>CFO, Treasurer and<br>Secretary | 12,500  | —   | —   | \$ 13.20            | 1/10/2021              | 245,000   | \$656,600   | —   | \$ —  |
|  | 3,750   | —   | —   | \$ 24.80            | 7/30/2019              |   |   |   |   |
|  | 3,750   | —   | —   | \$ 14.24            | 5/5/2019               |   |   |   |   |
|  | 2,500   | —   | —   | \$ 12.72            | 3/30/2019              |   |   |   |   |

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

(2) Market value based upon the closing market price of \$2.68 on December 31, 2018.

The following table presents information concerning the stock options exercised and the vesting of restricted stock awards during 2018 for the Named Executive Officers for the year ending December 31, 2018:

|   | <b>Option Exercises and Restricted Stock Vested</b>       |                                  | <b>Stock Awards</b>            |                     |
|---|---|----------------------------------|--------------------------------|---------------------|
|   | <b>Option Awards</b>                                      | <b>Value</b>                     | <b>Number of Shares</b>        | <b>Value on</b>     |
|   | <b>Number of Shares acquired realized on exercise (#)</b> | <b>realized on exercise (\$)</b> | <b>acquired on vesting (#)</b> | <b>vesting (\$)</b> |
| Stanton E. Ross<br>Chairman, CEO &<br>President         | —   | \$—                              | 2150,000                       | \$550,525 (1)       |
| Thomas J.<br>Heckman<br>CFO, Treasurer<br>and Secretary | —   | \$—                              | 165,000                        | \$425,525 (1)       |

Based on the closing market price of our common stock of \$2.65 on January 3, 2018, the date of vesting for 17,500 shares for both Mr. Ross and Mr. Heckman, \$2.60 on May 11, 2018, the date of vesting for 32,500 shares for both (1) Mr. Ross and Mr. Heckman, \$2.50 on August 14, 2018, the date of vesting for 150,000 shares for Mr. Ross and 100,000 shares for Mr. Heckman, and \$2.86 on October 30, 2018 the date of vesting for 15,000 shares for both Mr. Ross and Mr. Heckman.

### ***Stock Option Plans***

#### **Securities Authorized for Issuance under Equity Compensation Plans**

Our board of directors adopted the 2005 Stock Option and Restricted Stock Plan (the “2005 Plan”) on September 1, 2005. The 2005 Plan authorized us to reserve 312,500 shares of our common stock for issuance upon exercise of options and grant of restricted stock awards. The 2005 Plan terminated in 2015 with 4616 shares reserved for awards that are now unavailable for issuance. Stock options granted under the 2005 Plan that remain unexercised and outstanding as of December 31, 2018 total 23,125.

On January 17, 2006, our board of directors adopted the 2006 Stock Option and Restricted Stock Plan (the “2006 Plan”). The 2006 Plan authorizes us to reserve 187,500 shares for future grants under it. The 2006 Plan terminated in 2016 with 21,087 shares reserved for awards that are now unavailable for issuance. Stock options granted under the 2006 Plan that remain unexercised and outstanding as of December 31, 2018 total 46,387.

On January 24, 2007, our board of directors adopted the 2007 Stock Option and Restricted Stock Plan (the “2007 Plan”). The 2007 Plan authorizes us to reserve 187,500 shares for future grants under it. The 2007 Plan terminated in 2017 with 82,151 shares reserved for awards that are now unavailable for issuance. Stock options granted under the 2007 Plan that remain unexercised and outstanding as of December 31, 2018 total 12,500.

On January 2, 2008, our board of directors adopted the 2008 Stock Option and Restricted Stock Plan (the “2008 Plan”). The 2008 Plan authorizes us to reserve 125,000 shares for future grants under it. The 2008 Plan terminated in 2018 with 6,249 shares reserved for awards that are now unavailable for issuance. Stock options granted under the 2008 Plan that remain unexercised and outstanding as of December 31, 2018 total 32,250.

On March 18, 2011, our board of directors adopted the 2011 Stock Option and Restricted Stock Plan (the “2011 Plan”). The 2011 Plan authorizes us to reserve 62,500 shares for future grants under it. At December 31, 2018, there were 726 shares reserved for awards available for issuance under the 2011 Plan. Stock options granted under the 2011 Plan that remain unexercised and outstanding as of December 31, 2018 total 9,750.

On March 22, 2013, our board of directors adopted the 2013 Stock Option and Restricted Stock Plan (the “2013 Plan”). The 2013 Plan was amended on March 28, 2014 and November 14, 2014 to increase the number of shares authorized and reserved for issuance under the 2013 Plan to a total of 300,000. At December 31, 2018, there were 100 shares reserved for awards available for issuance under the 2013 Plan. Stock options granted under the 2013 Plan that remain unexercised and outstanding as of December 31, 2018 total 20,000.

On March 27, 2015, our board of directors adopted the 2015 Stock Option and Restricted Stock Plan (the “2015 Plan”). The 2015 Plan was amended on February 25, 2016 and May 31, 2017 to increase the number of shares authorized and reserved for issuance under the 2015 Plan to a total of 1,250,000. At December 31, 2018, there were 37,100 shares reserved for awards available for issuance under the 2015 Plan, as amended. Stock options granted under the 2015 Plan that remain unexercised and outstanding as of December 31, 2018 total 130,000.

On April 12, 2018, our board of directors adopted the 2018 Stock Option and Restricted Stock Plan (the “2018 Plan”). The 2018 Plan authorizes us to reserve 1,000,000 shares for future grants under it. At December 31, 2018, there were 540,000 shares reserved for awards available for issuance under the 2018 Plan. Stock options granted under the 2018 Plan that remain unexercised and outstanding as of December 31, 2018 total 160,000.

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

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

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

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

We have filed various registration statements on Form S-8 and amendments to previously filed Form S-8's with the SEC which registered a total of 3,425,000 shares issued or to be issued upon exercise of the stock options underlying the various stock option plans.



The following table sets forth certain information regarding the stock option plans adopted by the Company as of December 31, 2018:

| <b>Plan category</b>                                   | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b> |
|--|--|--|--|
| Equity compensation plans approved by stockholders     | 421,512  | \$ 4.34  | 577,926  |
| Equity compensation plans not approved by stockholders | 12,500   | \$ 14.12   | —  |
| Total all plans  | 434,012  | \$ 4.62  | 577,926  |

The number of stock options and restricted stock awards that an employee, director, or consultant may receive under our Plans is in the discretion of the administrator and therefore cannot be determined in advance. The Board of Directors' policy in 2018 was to grant officers an award of 250,000 restricted shares to our CEO/President and 150,000 restricted shares to our CFO/Treasurer and each non-employee director an award of options to purchase 50,000 shares, all subject to vesting requirements.

The following table sets forth (a) the aggregate number of shares subject to options granted under the Plans during the year-ended December 31, 2018 and (b) the average per share exercise price of such options.

### Stock Option and Restricted Stock Grants

| <b>Name of Individual or Group</b> | <b>Number of Restricted Shares of Common Stock Granted</b> | <b>Number of Options Granted</b> | <b>Average per Share Exercise Price</b> |
|------------------------------------|--|----------------------------------|---|
|                                    | 250,000  | —                                | \$ —                                    |

|  |         |         |         |
|--|---------|---------|---------|
| Stanton E. Ross, Chairman of the Board,<br>CEO & President       |         |         |         |
| Leroy C. Richie, Director  | —       | 50,000  | \$ 2.20 |
| Daniel F. Hutchins, Director                                     | —       | 50,000  | \$ 2.20 |
| Michael J. Caulfield, Director                                   | —       | 50,000  | \$ 2.20 |
| Thomas J. Heckman, Vice President, CFO,<br>Treasurer & Secretary | 150,000 | —       | \$ —    |
| All executive officers, as a group                               | 400,000 | —       | \$ —    |
| All directors who are not executive officers, as a group         | —       | 150,000 | \$ 2.20 |
| All employees who are not executive officers, as a group         | 84,500  | 10,000  | \$ 2.20 |

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

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

### **Retention Agreements - Potential Payments upon Termination or Change of Control**

The following table sets forth for each named executive officer potential post-employment payments and payments on a change in control and assumes that the triggering event took place on January 1, 2019 and that the amendments to the retention agreements of each person were in effect.

**Retention Agreement Compensation**

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

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

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

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

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

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

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

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

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

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

## **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of March 27, 2019, the number and percentage of outstanding shares of common stock beneficially owned by each person known by us to beneficially own more than five percent of such stock. We have no other class of capital stock outstanding.

### **Security Ownership of Certain Beneficial Owners**

The following table sets forth information regarding ownership of our common stock by:

- each person or group of affiliated persons known by us to be the beneficial owner of more than 5% of our outstanding common stock;
- each of our directors and nominees for director;
- each of our named executive officers; and
- all directors and executive officers as a group.

The amounts our named executive officers and directors as a group and our significant stockholders are as of March 27, 2019, the Record Date, unless otherwise indicated in a footnote below. Beneficial ownership in this table is determined in accordance with the rules of the SEC, and does not necessarily indicate beneficial ownership for any other purpose. Under these rules, the number of shares of common stock deemed outstanding includes all shares of restricted stock and those shares issuable upon exercise of options held by the respective person or group that may be exercised within 60 days after March 27, 2019. For purposes of calculating each person's or group's percentage ownership, unvested stock options exercisable within 60 days and all shares of restricted stock are included for that person or group, but not for any other person or group. Percentage of beneficial ownership is based on the shares of common stock outstanding as of March 27, 2019.

| Name and address of beneficial owner                          | Amount and<br>nature of beneficial | <b>Percent<br/>of class</b> |
|---|------------------------------------|-----------------------------|
| 5% Stockholders (excluding executive officers and directors): |                                    |                             |
| None (1)(2)(3)(4)   |                                    |                             |

(1) Based solely on a review of Schedule 13G/A filed on February 1, 2019 by Hudson Bay Master Fund, Ltd. and a Schedule 13G/A filed on February 12, 2016 by CVI Investments, Inc. and a Schedule 13G/A filed on January 18, 2018 by Empery Asset Management, LP.

(2) Hudson Bay Master Fund, Ltd. owns warrants exercisable to purchase a total of 439,883 shares of common stock at a price of \$13.43 per share, warrants exercisable to purchase a total of 400,000 shares at a price of \$5.00 per share, warrants exercisable to purchase a total of 146,667 shares at a price of \$3.36 per share and warrants exercisable to purchase a total of 110,000 shares at a price of \$3.00 per share. The warrants contain provisions that limit the number of shares issuable upon their exercise to 4.99% beneficial ownership of our common stock, or 9.99% beneficial ownership if the holder gives us written notice, which it has not. An increase in the ownership limit to 9.9% would amount to beneficial ownership of 1,095,340 shares if the holder exercised that portion of its warrants.

(3) CVI Investments, Inc. owns warrants exercisable to purchase a total of 439,883 shares of common stock at a price of \$13.43 per share and warrants exercisable to purchase a total of 400,000 shares at a price of \$5.00 per share. The warrants contain provisions that limit the number of shares issuable upon their exercise to 4.99% beneficial ownership of our common stock, or 9.99% if the holder gives us written notice, which it has not. An increase of the ownership limit to 9.9% would amount to beneficial ownership of 839,883 shares if the holder exercised all of its warrants.

(4) Empery Asset Management, LP owns warrants exercisable to purchase a total of 660,000 shares of common stock at a price of \$3.36 per share. The warrants contain provisions that limit the number of shares issuable upon their exercise to 4.99% beneficial ownership of our common stock, or 9.99% if the holder gives us written notice, which it has not. An increase of the ownership limit to 9.9% would amount to beneficial ownership of 660,000 shares if the holder exercised all of its warrants.

The following table sets forth, as of March 27, 2019, the number and percentage of outstanding shares of common stock beneficially owned by each director of the Company, each named officer of the Company, and all our directors and executive officers as a group. We have no other class of capital stock outstanding.

#### Security Ownership of Executive Officers and Directors

| Name and address of beneficial owner                     | Amount<br>and nature<br>of<br>beneficial<br>ownership | Percent<br><br>of class |   |
|--|---|-------------------------|---|
| Executive Officers & Directors: (1)                      |   |                         |   |
| Stanton E. Ross (2)                                      | 1,104,411   | 9.7                     | % |
| Leroy C. Richie (3)                                      | 132,343   | 1.1                     | % |
| Daniel F. Hutchins (4)                                   | 138,950   | 1.2                     | % |
| Michael J. Caulfield (5)                                 | 92,855  | 0.8                     | % |
| Thomas J. Heckman (6)                                    | 909,674   | 8.0                     | % |
| All officers and directors as a group (five individuals) | 2,378,233   | 20.8                    | % |

(1) The address of these persons is c/o Digital Ally, Inc. 9705 Loiret Blvd, Lenexa, KS 66219.

Mr. Ross's total shares include: (i) 520,000 restricted shares that are subject to forfeiture to us and (ii) vested options exercisable to purchase 37,500 shares of common stock. Mr. Ross has pledged 200,525 common shares and options exercisable to purchase 37,500 shares of common stock at \$8.00 per share to the lenders as collateral for personal loans.

Mr. Richie's total shares include: (i) 4,000 restricted shares of common stock that are subject to forfeiture to us, (ii) vested options exercisable to purchase 68,125 shares of common stock, and (iii) unvested options which vest within 60 days exercisable to purchase 25,000 shares of common stock.

(4)

Mr. Hutchins' total shares include: (i) 4,000 restricted shares of common stock that are subject to forfeiture to us, (ii) vested options exercisable to purchase 80,000 shares of common stock, and (iii) unvested options which vest within 60 days exercisable to purchase 25,000 shares of common stock.

(5) Mr. Caulfield's total shares include vested options exercisable to purchase 10,000 shares of common stock.

Mr. Heckman's total shares include (i) 320,000 restricted shares that are subject to forfeiture to us; (ii) vested options exercisable to purchase 22,500 shares of common stock; and (iii) 125,420 shares of common stock held in

(6) the Company's 401(k) Plan (on December 31, 2018) as to which Mr. Heckman has voting power as trustee of the 401(k) Plan. Mr. Heckman has pledged 143,059 common shares to financial institutions as collateral for personal loans.



## **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Act of 1934, as amended, requires our executive officers and directors, and persons who own more than ten percent of our common stock, to file with the Securities and Exchange Commission reports of ownership of, and transactions in, our securities and to provide us with copies of those filings. To our knowledge, based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during the year ended December 31, 2018, all filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with.

## **TRANSACTIONS WITH RELATED PERSONS**

### **Certain Relationships and Related Person Transactions**

We engaged in no reportable transactions with related persons during the years ended December 31, 2018 and 2017 other than the following:

We entered into an agreement that required us to make monthly payments that will be applied to future commissions and/or consulting fees to be earned by the provider. The agreement is with a limited liability company (“LLC”) that is minority owned by a relative of our chief financial officer. Under the agreement, dated January 15, 2016 and as amended on February 13, 2017, the LLC provides consulting services for developing a new distribution channel outside of law enforcement for our body-worn camera and related cloud storage products to customers in the United States. We advanced amounts to the LLC as advance against commissions ranging from \$5,000 to \$6,000 per month plus necessary and reasonable expenses for the period through June 30, 2017, which can be automatically extended based on the LLC achieving minimum sales quotas. The agreement was renewed in January 2017 for a period of three years, subject to yearly minimum sales thresholds that would allow us to terminate the contract if such minimums are not met. As of December 31, 2018, we had advanced a total of \$279,140 pursuant to this agreement and established an allowance reserve of \$104,140 for a net advance of \$175,000. The minimum sales threshold has not been met and we have discontinued all advances, although the contract has not been formally terminated. However, the exclusivity provisions of the agreement have been terminated.

## **OTHER MATTERS**

The Board of Directors is not aware of any other matters to be presented for action at the annual meeting. However, if any other matter is properly presented at the annual meeting, it is the intention of the persons named in the enclosed

proxy to vote the shares they represent as the Board of Directors may recommend.

#### **ADVANCE NOTICE PROVISIONS FOR STOCKHOLDER PROPOSALS AND NOMINATIONS**

The bylaws of the Company provide that in order for a stockholder to nominate directors at an annual meeting or to propose business to be brought before an annual meeting, the stockholder must give timely, written notice to the Secretary of the Company and such notice must be received at the principal executive offices of the Company not less than 120 days before the date of its release of the proxy statement to stockholders in connection with its previous year's annual meeting of stockholders.

Such stockholder's notice shall include, with respect to each matter that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, and with respect to each person whom the stockholder proposes to nominate for election as a director, all information relating to such person, including such person's written consent to being named in the proxy statement as a nominee and to serving as a director, that is required under the Securities Exchange Act of 1934, as amended.

In addition, the stockholder must include in such notice the name and address, as they appear on the Company's records, of the stockholder proposing such business or nominating such persons, and the name and address of the beneficial owner, if any, on whose behalf the proposal or nomination is made, the class and number of shares of capital stock of the Company that are owned beneficially and of record by such stockholder of record and by the beneficial owner, if any, on whose behalf the proposal or nomination is made, and any material interest or relationship that such stockholder of record and/or the beneficial owner, if any, on whose behalf the proposal or nomination is made may respectively have in such business or with such nominee. At the request of the Board of Directors, any person nominated for election as a director shall furnish to the Secretary of the Company the information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

## **ANNUAL REPORT**

This proxy statement is accompanied by a copy of our annual report for the fiscal year ended December 31, 2018.

## **BY ORDER OF THE BOARD OF DIRECTORS**

April 5, 2019 **Chairman of the Board, Chief Executive**

Lenexa, Kansas **Officer and President**

## Appendix A

### AMENDMENT TO DIGITAL ALLY, INC.

#### 2018 STOCK OPTION AND RESTRICTED STOCK PLAN

Pursuant to Section 12 of the Digital Ally, Inc. 2018 Stock Option and Restricted Stock Plan (the “Plan”), the Board of Directors (the “Board”) of Digital Ally, Inc. (the “Corporation”) hereby amends the Plan, subject to the approval of the Corporation’s stockholders. This Amendment to the Digital Ally, Inc. 2018 Stock Option and Restricted Stock Plan (the “Amendment”) is effective as of the date of shareholder approval as provided in Section 12 hereof.

#### 1. PURPOSE OF THE AMENDMENT

The Corporation wishes to amend the Plan to increase the aggregate number of Shares that may be granted under the Plan.

#### 2. AMENDMENT

Section 4 of the Plan is hereby amended and restated in its entirety to read as follows:

#### STOCK SUBJECT TO THE PLAN.

**(a) Stock Reserve.** Subject to the provisions of Section 11 relating to adjustments upon changes in Common Stock, the shares of Common Stock that may be issued pursuant to Awards shall not exceed in the aggregate one million seven hundred-fifty thousand (1,750,000) shares of Common Stock.

This Amendment amends only the provision of the Plan as noted above, and those provisions not expressly amended herein shall be considered in full force and effect. Notwithstanding the foregoing, this Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions and intent of this Amendment.

### 3. APPROVAL OF STOCKHOLDERS

This Amendment was adopted by the Board on March 15, 2019, and is subject to approval by the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present or by an action by written consent no later than March 15, 2020.

### 4. EXECUTION

To record the adoption of this Amendment by the Board on March 15, 2019, the Corporation has caused an authorized officer to affix the Corporate name hereto.

#### **DIGITAL ALLY, INC.**

By: /s/ STANTON E. ROSS

*Stanton E. Ross, Chairman, Chief Executive Officer and President*

#### **Admission Ticket**

Bring this ticket with you for admission to the 2019 Annual Meeting

#### **Digital Ally, Inc.**

2019 Annual Meeting of Stockholders

May 21, 2019 at 10:00 a.m. CDT

9705 Loiret Boulevard

Lenexa, Kansas 66219

**Your vote is important**

**FOLD AND DETACH HERE AND READ THE REVERSE SIDE**

**DIGITAL ALLY, INC.**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**FOR THE 2019 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON TUESDAY, MAY 21, 2019**

The undersigned hereby appoints **Thomas J. Heckman** as the true and lawful attorney, agent and proxy of the undersigned, with full power of substitution, to represent and to vote all shares of common stock of **Digital Ally, Inc.** held of record by the undersigned on March 27, 2019, at the 2019 Annual Meeting of Stockholders to be held at the corporate facility located at 9705 Loiret Boulevard, Lenexa, Kansas 66219, on Tuesday, May 21, 2019 at 10:00 a.m., CDT, and at any adjournments thereof.

Any and all proxies heretofore given are hereby revoked.

When properly executed, this proxy will be voted as designated by the undersigned.

In his discretion, the proxy is authorized to vote upon such other business that may properly come before the annual meeting.

**(Continued and to be dated and signed on reverse side)**

**2019 Annual Meeting of STOCKHOLDERS OF DIGITAL ALLY, INC.**

**Tuesday, May 21, 2019**

**Please date, sign and mail your proxy card in the envelope provided as soon as possible.**

**Please mark your vote in blue or black ink as shown here Please detach along perforated line and mail in the envelope provided.**

**The Board of Directors recommends that you vote as follows: “FOR” the election of the four nominees to the Board of Directors; “FOR” Proposals 2, 3, 4 and 5.**

**Proposal 1:** Election of Directors of the Company

**NOMINEES:**

FOR ALL NOMINEES

Stanton E. Ross

Leroy C. Richie

Daniel F. Hutchins

Michael J. Caulfield

WITHHOLD AUTHORITY FOR ALL NOMINEES

FOR ALL EXCEPT  
\_\_\_\_\_

(See instructions below)

**INSTRUCTIONS:** To withhold authority to vote for any individual nominee(s), mark “**FOR ALL EXCEPT**” and fill in the circle next to each nominee you wish to withhold, as shown here:

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

**Proposal 2.** FOR the approval of the amendment to the 2018 Digital Ally, Inc. Stock Option and Restricted Stock Plan:

**FOR AGAINST ABSTAIN**  
[ ] [ ] [ ]

**Proposal 3.** FOR the approval of an amendment to our Articles of Incorporation to increase the number of authorized shares of our capital stock by 10,000,000 and classify such shares as blank check preferred stock:

**FOR AGAINST ABSTAIN**  
[ ] [ ] [ ]

**Proposal 4.** FOR the approval, on an advisory, non-binding basis, of the compensation of the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the compensation tables and narrative discussion in the accompanying proxy statement.

**FOR AGAINST ABSTAIN**  
[ ] [ ] [ ]

**Proposal 5.** FOR ratification of the appointment of RSM US LLP as our independent registered public accounting firm:

**FOR AGAINST ABSTAIN**  
[ ] [ ] [ ]

**In his discretion, the proxy is authorized to vote upon such other business that may properly come before the 2019 Annual Meeting.**

**Signature of Stockholder   Date   Signature of Stockholder   Date**

NOTE: Please sign exactly as name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, as executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a



partnership, please sign in partnership name by authorized person.

