ICAHN ENTERPRISES L.P.
Form 424B5
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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are part of an effective registration statement filed with the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell, nor do they seek an offer to buy, these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 11, 2013

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus dated May 17, 2010)

Depositary Units

Representing Limited Partner Interests

Icahn Enterprises L.P.

We are selling depositary units representing limited partner interests in Icahn Enterprises L.P.

Our depositary units are traded on The NASDAQ Global Select Market under the symbol IEP. On June 10, 2013, the last reported sales price of our depositary units on The NASDAQ Global Select Market was $76.68 per depositary unit.

Investing in our depositary units involves a high degree of risk. Please read Risk Factors beginning on page S-27 of this prospectus supplement, on page 3 of the accompanying prospectus and in the documents incorporated by reference into this prospectus supplement.

We are selling to the underwriters the depositary units at a price of $ per depositary unit, resulting in net proceeds to us, before deducting expenses relating to the offering, of $ million, or $ million assuming full exercise of the underwriters option to purchase additional depositary units.

The underwriters will offer the depositary units for sale from time to time in one or more transactions on The NASDAQ Global Select Market or in the over-the-counter market (which may include block transactions), in negotiated transactions or otherwise, or a combination of those methods of sale, at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. See Underwriting.

We have granted the underwriters an option for a period of 30 days to purchase an additional of our depositary units on the same terms and conditions set forth above.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the depositary units offered hereby on or about , 2013.

Credit Suisse **UBS Investment Bank** **Jefferies**

Citigroup **Keefe, Bruyette & Woods** *A Stifel Company* **KeyBanc Capital Markets** **Oppenheimer & Co.** **Wunderlich Securities**

The date of this prospectus supplement is , 2013

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IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of depositary units and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information about securities we may offer from time to time, some of which may not apply to this offering of depositary units. Generally, when we refer only to the prospectus, we are referring to both parts combined.

If the information relating to the offering varies between the prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free-writing prospectus prepared by or on behalf of Icahn Enterprises L.P. We have not, and the underwriters have not, authorized any other person to provide you with different or additional information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell the depositary units in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement or in the accompanying prospectus is accurate as of any date other than the date on the front of that document. Our business, financial condition, results of operations and prospects may have changed since such date.

You should read and consider all information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus before making your investment decision.

Unless we indicate otherwise, the information presented in this prospectus supplement assumes that the underwriters do not exercise their option to purchase additional depositary units.

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the documents incorporated by reference in the accompanying prospectus may contain forward-looking statements. Forward-looking statements are those that do not relate solely to historical fact. They include, but are not limited to, any statement that may predict, forecast, indicate or imply future results, performance, achievements or events. Forward-looking statements can generally be identified by phrases such as believes, expects, potential, continues, may, should, seeks, predicts, anticipates, intends, proje could, designed, should be and other similar expressions that denote expectations of future or conditional events rathe than statements of fact. Forward-looking statements also may relate to strategies, plans and objectives for, and potential results of, future operations, financial results, financial condition, business prospects, growth strategy and liquidity, and are based upon management s current plans and beliefs or current estimates of future results or trends.

These forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties that may cause actual results to differ materially from trends, plans or expectations set forth in the forward-looking statements. These risks and uncertainties may include the risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 31, 2012 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, as well as those risk factors included under Risk Factors in this prospectus supplement. Among these risks are: risks related to economic downturns, substantial competition and rising operating costs; risks related to our investment activities, including the nature of the investments made by the Funds we manage, losses in the Funds and loss of key employees; risks related to our automotive activities, including exposure to adverse conditions in the automotive industry, and risks related to operations in foreign countries; risks related to our energy business, including the volatility and availability of crude oil, other feed stocks and refined products, unfavorable refining margin (crack spread), interrupted access to pipelines, significant fluctuations in nitrogen fertilizer demand in the agricultural industry and seasonality of results; risks related to our gaming operations, including reductions in discretionary spending due to a downturn in the local, regional or national economy, intense competition in the gaming industry from present and emerging internet online markets and extensive regulation; risks related to our railcar activities, including reliance upon a small number of customers that represent a large percentage of revenues and backlog, the health of and prospects for the overall railcar

industry and the cyclical nature of the railcar manufacturing business; risks related to our food packaging activities, including competition from better capitalized competitors, inability of our suppliers to timely deliver raw materials and the failure to effectively respond to industry changes in casings technology; risks related to our scrap metals activities, including potential environmental exposure; risks related to our real estate activities, including the extent of any tenant bankruptcies and insolvencies; risks related to our home fashion operations, including changes in the availability and price of raw materials, and changes in transportation costs and delivery times; and other risks and uncertainties detailed from time to time in our filings with the SEC.

Given these risks and uncertainties, we urge you to read this prospectus completely and with the understanding that actual future results may be materially different from what we plan or expect. All of the forward-looking statements made in this prospectus are qualified by these cautionary statements and we cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business or operations. In addition, these forward-looking statements present our estimates and assumptions only as of the date of this prospectus. We do not intend to update you concerning any future revisions to any forward-looking statements to reflect events or circumstances occurring after the date of this prospectus. However, you should carefully review the risk factors set forth in other reports or documents we file from time to time with the SEC.

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PROSPECTUS SUPPLEMENT SUMMARY

The following summary highlights information about us, this offering and information appearing elsewhere included or incorporated by reference in this prospectus supplement, the accompanying prospectus and in the documents we incorporate by reference. This summary is not complete and does not contain all of the information that you should consider before making an investment decision. You should read carefully the entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference and the other documents to which we refer herein for a more complete understanding of this offering, including the factors described under the heading Risk Factors in this prospectus supplement beginning on page S-27, together with any free-writing prospectus we have authorized for use in connection with this offering and the financial statements and other information included or incorporated by reference in this prospectus supplement. This prospectus supplement may add to, update or change information in the accompanying prospectus. Except where the context otherwise requires or indicates, in this prospectus, (i) Icahn Enterprises, the Company, we, us and our refer to Icahn Enterprises L.P. and its subsidiaries and, with respect to acquired businesses, Mr. Icahn and his affiliates prior to our acquisition thereof, (ii) Holding Company refers to the unconsolidated results and financial position of Icahn Enterprises and Icahn Enterprises Holdings and (iii) fiscal year refers to the twelve-month period ended December 31 of the applicable year.

The Icahn Strategy

Across all of our businesses, our success is based on a simple formula: we seek to find undervalued companies in the Graham & Dodd tradition, a methodology for valuing stocks that primarily looks for deeply depressed prices. However, while the typical Graham & Dodd value investor purchases undervalued securities and waits for results, we often become actively involved in the companies we target. That activity may involve a broad range of approaches, from influencing the management of a target to take steps to improve shareholder value, to acquiring a controlling interest or outright ownership of the target company in order to implement changes that we believe are required to improve its business, and then operating and expanding that business. This activism has brought about very strong returns over the years.

Today, we are a diversified holding company owning subsidiaries engaged in the following operating businesses: Investment, Automotive, Energy, Gaming, Railcar, Food Packaging, Metals, Real Estate and Home Fashion. Through our Investment segment, we have significant positions in various investments, which include Chesapeake Energy (CHK), Forest Laboratories (FRX), Netflix (NFLX), Transocean Ltd. (RIG), Dell Inc. (DELL), Herbalife Ltd. (HLF), Nuance Communications, Inc. (NUAN) and Hain Celestial Group (HAIN), as of the date of this prospectus supplement.

Several of our operating businesses started out as investment positions in debt or equity securities, held either directly by Icahn Enterprises or Mr. Icahn. Those positions ultimately resulted in control or complete ownership of the target company. Most recently, we acquired a controlling interest in CVR Energy, Inc. (CVR), which started out as a position in our Investment segment and is now an operating subsidiary that comprises our Energy segment. As of June 10, 2013, based on the closing sale price of CVR stock and distributions since we acquired control, we had gains of approximately $2.9 billion on our purchase of CVR. The recent acquisition of CVR, like our other operating subsidiaries, reflects our opportunistic approach to value creation, through which returns may be obtained by, among other things, promoting change through minority positions at targeted companies in our Investment segment or by acquiring control of those target companies that we believe we could run more profitably ourselves.

In 2000, we began to expand our business beyond our traditional real estate activities, and to fully embrace our activist

strategy. On January 1, 2000, the closing sale price of our depositary units was $7.625 per depositary unit. On June 10, 2013, our depositary units closed at $76.68 per depositary unit, representing an increase of approximately 1,085% since January 1, 2000 (including reinvestment of distributions into additional depositary units and taking into account in-kind distributions of depositary units). Comparatively, the S&P 500, Dow Jones Industrial and Russell 2000 indices increased approximately 45%, 83% and 136%, respectively, over the same period (including reinvestment of distributions into those indices).

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During the next several years, we see a favorable opportunity to follow an activist strategy that centers on the purchase of target stock and the subsequent removal of any barriers that might interfere with a friendly purchase offer from a strong buyer. Alternatively, in appropriate circumstances, we or our subsidiaries may become the buyer of target companies, adding them to our portfolio of operating subsidiaries, thereby expanding our operations through such opportunistic acquisitions. We believe that the companies that we target for our activist activities are undervalued for many reasons, often including inept management. Unfortunately for the individual investor, in particular, and the economy, in general, many poor management teams are often unaccountable and very difficult to remove.

Unlike the individual investor, we have the wherewithal to purchase companies that we feel we can operate more effectively than incumbent management. In addition, through our Investment segment, we are in a position to pursue our activist strategy by purchasing stock or debt positions and trying to promulgate change through a variety of activist approaches, ranging from speaking and negotiating with the board and CEO to proxy fights, tender offers and taking control. We work diligently to enhance value for all shareholders and we believe that the best way to do this is to make underperforming management teams and boards accountable or to replace them.

The Chairman of the Board of our general partner, Carl C. Icahn, has been an activist investor since 1980. Mr. Icahn believes that he has never seen a time for activism that is better than today. Many major companies have substantial amounts of cash. We believe that they are hoarding cash, rather than spending it, because they do not believe investments in their business will translate to earnings.

We believe that one of the best ways for many cash-rich companies to achieve increased earnings is to use their large amounts of excess cash, together with advantageous borrowing opportunities, to purchase other companies in their industries and take advantage of the meaningful synergies that could result. In our opinion, the CEOs and Boards of Directors of undervalued companies that would be acquisition targets are the major road blocks to this logical use of assets to increase value, because we believe those CEOs and Boards are not willing to give up their power and perquisites, even if they have done a poor job in administering the companies they have been running. In addition, acquirers are often unwilling to undertake the arduous task of launching a hostile campaign. This is precisely the situation in which we believe a strong activist catalyst is necessary.

We believe that the activist catalyst adds value because, for companies with strong balance sheets, acquisition of their weaker industry rivals is often extremely compelling financially. We further believe that there are many transactions that make economic sense, even at a large premium over market. Acquirers can use their excess cash, that is earning a very low return, and/or borrow at the advantageous interest rates now available, to acquire a target company. In either case, an acquirer can add the target company s earnings and the income from synergies to the acquirer s bottom line, at a relatively low cost. But for these potential acquirers to act, the target company must be willing to at least entertain an offer. We believe that often the activist can step in and remove the obstacles that a target may seek to use to prevent an acquisition.

It is our belief that our strategy will continue to produce strong results in 2013 and into the future, and that belief is reflected in the action of the Board of Directors of our general partner, which announced on February 11, 2013, a decision to modify our distribution policy to increase our annual distribution to $4.00 per depositary unit. Further, on May 29, 2013, the Board of Directors of our general partner further modified our distribution policy to increase our annual distribution from $4.00 per depositary unit to $5.00 per depositary unit. We believe that the strong cash flow and asset coverage from our operating subsidiaries will allow us to maintain a strong balance sheet and ample liquidity.

In our view Icahn Enterprises is in a virtuous cycle. By raising our distribution to our limited partners, and with the results we hope to achieve in 2013, we believe that our depositary units will give us another powerful activist tool,

allowing us both to use our depositary units as currency for tender offers and acquisitions (both hostile and friendly) where appropriate, and to increase our fire power by raising additional cash through depositary unit sales. All of these factors will, in our opinion, contribute to making our activism even more efficacious, which we expect to enhance our results and stock value.

Overview

We are a diversified holding company owning subsidiaries engaged in the following operating businesses: Investment, Automotive, Energy, Gaming, Railcar, Food Packaging, Metals, Real Estate and Home Fashion.

Icahn Enterprises is a master limited partnership formed in Delaware on February 17, 1987. We own a 99% limited partner interest in Icahn Enterprises Holdings. Substantially all of our assets and liabilities are owned

through Icahn Enterprises Holdings and substantially all of our operations are conducted through Icahn Enterprises Holdings and its subsidiaries. Icahn Enterprises G.P. Inc., or Icahn Enterprises GP, our sole general partner, owns a 1% general partner interest in both Icahn Enterprises Holdings and us, representing an aggregate 1.99% general partner interest in Icahn Enterprises Holdings and us. Icahn Enterprises GP is owned and controlled by Mr. Carl C. Icahn. As of March 31, 2013, affiliates of Mr. Icahn owned 97,764,251 of our depositary units that represented approximately 90.5% of our outstanding depositary units. Immediately after giving effect to the consummation of this offering, affiliates of Mr. Icahn will own % of our depositary units (or % of our depositary units, if the underwriters exercise their option to purchase additional depositary units in full).

Mr. Icahn s estate has been designed to assure the stability and continuation of Icahn Enterprises with no need to monetize his interests for estate tax or other purposes. In the event of Mr. Icahn s death, control of Mr. Icahn s interests in Icahn Enterprises and its general partner will be placed in charitable and other trusts under the control of senior Icahn executives and family members.

The following is a summary of our core holdings:

Investment. Our Investment segment is comprised of various private investment funds, including Icahn Partners LP, Icahn Partners Master Fund LP, Icahn Partners Master Fund II LP and Icahn Partners Master Fund III LP (the Funds), through which we invest our proprietary capital. We and certain of Mr. Icahn s wholly owned affiliates are the sole investors in the Funds. Prior to March 31, 2011, interests in the Funds were offered to certain sophisticated and qualified investors on the basis of exemptions from the registration requirements of the federal securities laws and were not publicly available. The Funds returned all fee-paying capital to third-party investors during fiscal year 2011. This segment derives revenues from gains and losses from our investments in the Funds.

Automotive. We conduct our Automotive segment through our 77.6% ownership, as of March 31, 2013, in Federal-Mogul Corporation (Federal-Mogul), a leading global supplier to the automotive, aerospace, energy, heavy duty truck, industrial, marine, power generation and railway industries. In 2012, Federal-Mogul reorganized its businesses around its Powertrain and Vehicle Components Solutions businesses to take advantage of unique growth opportunities and customer requirements in each sector (primarily aftermarket). Federal-Mogul s high-precision products are designed and engineered to help its customers satisfy and exceed environmental and safety standards without sacrificing performance.

Federal-Mogul s Powertrain business has leading market share positions in pistons, piston rings, valve seats, value guides, bearings, ignition, sealing and systems protection components. It focuses on high-technology, high-precision products that improve fuel economy, reduce emissions and enhance durability. Demand for smaller, high-performance engines has increased dramatically over the past few years as developed economies implement higher fuel economy and emission standards and automotive demand increases due to substantial growth in the size of the emerging markets middle class. While global light vehicle production is expected to increase at a 6% compound annual growth rate, or CAGR, through 2018, cylinder count per engine is expected to continue to decrease, as engine manufacturers implement new technologies to obtain more power from smaller highly-loaded engines. These compact, more powerful engines require more advanced components to handle higher thermal and mechanical stresses, which increases overall content per vehicle. Approximately 30% of Powertrain revenue in fiscal year 2012 was derived from commercial vehicle and other non-light vehicle customers. Each of these industrial markets is highly specialized and requires significant research, development and engineering to create products capable of performing in the harshest environments. These end markets are also subject to tightening environmental regulation that introduces increased complexity and performance requirements but creates opportunity for growth.

Federal-Mogul s Vehicle Components Solutions business is a global leader in aftermarket components such as engine, sealing, chassis, wiper and ignition components, and is a leading premium brake pad and component manufacturer in North America and Europe. Federal-Mogul has some of the most widely recognized aftermarket brands, including Fel-Pro, Moog, Ferodo, ThermoQuiet, Wagner, ANCO and Champion. Aftermarket demand is a function of the size of the global car parc, which is estimated to grow at a 4% CAGR through 2020 on the strength of emerging market vehicle sales. A further driver is the age of the car parc, which has been steadily increasing in all markets. We believe Federal-Mogul has an excellent opportunity to leverage its brands and products throughout the emerging markets, as well as to participate in consolidation opportunities in North America and Europe. In addition, the North American automotive aftermarket distribution system is highly profitable, yet inefficient due to multi-tier channels and inventory

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management complexity. As a large manufacturer with a broad product portfolio, Federal-Mogul has an opportunity to streamline its own distribution and expand into new distribution channels, such as the Internet, to capture more of the value chain.

Energy. We conduct our Energy segment through our 82.0% ownership, as of March 31, 2013, in CVR, in which we acquired a controlling interest on May 4, 2012. CVR is a holding company that owns majority interests in two separate operating subsidiaries, CVR Refining, LP (CVRR) and CVR Partners, LP (CVRP). CVRR is an independent petroleum refiner and marketer of high-value transportation fuels in the mid-continent of the United States. CVRP is a leading nitrogen fertilizer producer in the heart of the Corn Belt.

CVRR s mid-continent location provides access to significant quantities of crude oil from the continental United States and Western Canada. We believe expected crude oil production growth in North America, coupled with declining North Sea volumes, transportation bottlenecks and other geopolitical considerations will likely support favorable crack spreads for mid-continent refineries for the foreseeable future. CVRR s refinery assets include two of only seven refineries in the underserved PADD II Group 3 region, a 115,000 barrels per day (bpd) complex full coking medium-sour crude refinery in Coffeyville, Kansas and a 70,000 bpd medium complexity refinery in Wynnewood, Oklahoma capable of processing 20,000 bpd of light sour crude. CVRR also controls and operates supporting logistics assets including approximately 350 miles of owned pipelines, over 125 owned crude transports, a network of strategically located crude oil gathering tank farms providing roughly 50,000 bpd to the refineries and over 6.0 million barrels of owned or leased crude oil storage capacity. In addition, CVRR has 35,000 bpd of contracted capacity on the Keystone and Spearhead pipelines to supply its refineries with Canadian and Bakken crudes.

CVRP produces and distributes nitrogen fertilizer products, such as ammonia and urea ammonium nitrate (UAN), used by farmers to improve the yield and quality of their crops. Located in the heart of the Corn Belt with direct access to its primary input, pet coke, from the adjacent Coffeyville refinery, CVRP is close to customers and enjoys a meaningful freight advantage compared to many of its competitors and imports. CVRP s utilization of pet coke instead of natural gas provides CVRP with a relatively fixed cost structure and makes it less sensitive to swings in energy prices. Fertilizer consumption continues to grow annually as global population growth, changing food consumption patterns in emerging markets and decreasing per capita farmland drive world grain demand higher and necessitate more efficient land use. The United States currently accounts for 25% of world coarse grain production, and as the third largest consumer of nitrogen fertilizer, imports approximately 43% of its requirements. As a result of these trends and the recent completion of its UAN expansion project, we believe CVRP is well positioned to continue to benefit from the secular growth in the fertilizer market.

On January 24, 2013, the board of directors of CVR adopted a quarterly cash dividend policy of $0.75 per share, or $3.00 per share on an annualized basis. CVR paid its first regular quarterly dividend in the second quarter of 2013. In addition, CVR paid a $5.50 per share special dividend on February 19, 2013 and declared a special dividend of $6.50 per share on May 28, 2013 that will be paid on June 10, 2013 to stockholders of record on June 3, 2013.

Gaming. We conduct our Gaming segment through our 67.9% ownership, as of March 31, 2013, in Tropicana Entertainment Inc. (Tropicana). Tropicana currently owns and operates a diversified, multi-jurisdictional collection of casino gaming properties. The eight casino facilities it operates feature approximately 372,000 square feet of gaming space with 7,100 slot machines, 210 table games and 6,000 hotel rooms with three casino facilities located in Nevada and one in each of Mississippi, Indiana, Louisiana, New Jersey and Aruba. We acquired our ownership in Tropicana through distressed debt and subsequent equity purchases. In 2010, Tropicana emerged from bankruptcy following which we replaced management and improved performance.

Through a highly analytical approach to operations, Tropicana management has identified programs that are designed to enhance marketing, improve hotel utilization, optimize product mix and reduce expenses. Tropicana has also reinvested in its properties by upgrading hotel rooms, refreshing casino floor products tailored for each regional market and pursuing strong brands for restaurant and retail opportunities. Tropicana intends to pursue acquisition opportunities where it can expand into attractive regional markets and leverage

the Tropicana brand name and customer base. In addition, we are monitoring the prospects of Internet gaming and intend to pursue the opportunity if and when it is legalized.

Railcar. We conduct our Railcar segment primarily through our 55.6% ownership, as of March 31, 2013, in American Railcar Industries Inc. (ARI) and our wholly owned subsidiary, AEP Leasing LLC (AEP Leasing). ARI is a leading North American manufacturer of hopper and tank railcars, two product groups that constitute over 50% of the approximately 1.5 million railcar North American fleet, 73% of first quarter 2013 railcar deliveries and 90% of the railcar industry manufacturing backlog as of March 31, 2013. These railcars are offered for sale or lease to leasing companies, industrial companies, shippers and railroads. ARI currently benefits from the rapidly increasing energy production in North America. Increased crude oil production from North American shale regions and Canada have resulted in significant demand for tank railcars as the existing pipeline capacity is not able to satisfy the transportation demands for crude oil. ARI s backlog for tank railcars extends into 2014 and industry new tank railcar order backlogs extend into 2016. ARI has a railcar fleet for lease of approximately 3,120 railcars, and we also operate a separate lease fleet through AEP Leasing with a railcar fleet for lease of 975 railcars as of March 31, 2013.

ARI also provides services for railcar fleets including critical railcar repair, maintenance, engineering and fleet management services. ARI also manufactures other industrial products, primarily aluminum and special alloy steel castings.

ARI s fleet management services include maintenance, engineering and field services for railcars owned by certain customers. Such services include maintenance planning, project management, tracking and tracing, regulatory compliance, mileage audit, rolling stock taxes and online service access.

Food Packaging. We conduct our Food Packaging segment through our 70.8% ownership, as of March 31, 2013, in Viskase Companies, Inc. (Viskase). Viskase is a worldwide leader in the production and sale of cellulosic, fibrous and plastic casings for the processed meat and poultry industry. Viskase currently operates eight manufacturing facilities and ten distribution centers throughout North America, Europe, South America and Asia and derives approximately 70% of its total net sales from customers located outside the United States. Viskase believes it is one of the two largest manufacturers of non-edible cellulosic casings for processed meats and one of the three largest manufacturers of non-edible fibrous casings.

While developed markets remain a steady source of demand for Viskase s products, we believe that future growth will be driven significantly by the growing middle class in emerging markets. As per capita income increases in these emerging economies, we expect protein consumption to increase. We believe that this will create significant demand for meat-related products, such as sausages, hot dogs and luncheon meats, which are some of the most affordable sources of protein and represent the primary sources of demand for Viskase casings.

Viskase is aggressively pursuing this emerging market opportunity. Since 2007, sales to emerging economies have grown on average 13% per year, and in 2012 accounted for almost 50% of total company sales compared to 36% in 2007. In 2012, Viskase completed a new finishing center in the Philippines and expanded its capacity in Brazil. Artificial casings are technically difficult to make and the challenges of producing quality casings that meet stringent food-related regulatory requirements are significant. In addition, there are significant barriers to entry in building the manufacturing facilities and obtaining the regulatory permits necessary to meaningfully participate in the industry. Viskase had invested approximately $120 million of capital from 2009 through 2012 to meet the increasing emerging market demand. A significant portion of that investment was made in 2011 and 2012 and therefore the financial returns on investment will not be evident until 2013.

Metals. We conduct our Metals segment through our indirect wholly owned subsidiary, PSC Metals, Inc. (PSC Metals). PSC Metals is one of the largest independent metal recycling companies in the United States and collects industrial and obsolete scrap metal, processes it into reusable forms and supplies the recycled metals to its customers including electric-arc furnace mills, integrated steel mills, foundries, secondary smelters and metals brokers. PSC Metals has nearly 50 locations concentrated in three main geographic regions the Upper Midwest, the St. Louis region and the South. PSC Metals has actively consolidated its regions and is seeking to build a leading position in each market.

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As recycled steel is more environmentally friendly and energy efficient (and therefore cheaper to produce) than virgin steel, we believe that PSC Metals will benefit from secular growth trends in recycled metals. In addition, PSC Metals is well positioned to benefit from the improving economy and higher industrial production and steel mill operating rates in North America. NAFTA steel consumption growth is expected to be 2.9% in 2013. In our Upper Midwest market, steel mills will have invested an estimated $1.9 billion between 2011 and 2014 to meet growing steel demand driven primarily by automotive and increased oil and gas drilling industries. We believe these investments will increase the regional demand for ferrous scrap. Finally, as the United States is the leading exporter of scrap metal in the world, the U.S. scrap industry is expected to benefit from growing global steel demand.

PSC Metals also processes non-ferrous metals including aluminum, aluminum ingots, copper, brass, stainless steel and nickel-bearing metals. Non-ferrous products are a significant raw material in the production of aluminum and copper alloys used in manufacturing. PSC Metals also operates a secondary products business that includes the supply of secondary plate and structural grade pipe that is sold into niche markets for counterweights, piling and foundations, construction materials and infrastructure end-markets.

Real Estate. Our Real Estate segment consists of rental real estate, property development and resort activities. As of March 31, 2013, we owned 29 rental commercial real estate properties. Our property development operations are run primarily through Bayswater Development LLC, a real estate investment, management and development subsidiary that focuses primarily on the construction and sale of single-family and multi-family homes, lots in subdivisions and planned communities and raw land for residential development. Our New Seabury development property in Cape Cod, Massachusetts and our Grand Harbor and Oak Harbor development property in Vero Beach, Florida include land for future residential development of approximately 322 and 870 units of residential housing, respectively. Both developments operate golf and resort operations as well. In addition, our Real Estate segment owns an unfinished property development located on approximately 23 acres in Las Vegas, Nevada.

Home Fashion. We conduct our Home Fashion segment through our indirect wholly-owned subsidiary WestPoint Home LLC (WPH), a manufacturer and distributor of home fashion consumer products. WPH is engaged in the business of manufacturing, sourcing, designing, marketing, distributing and selling home fashion consumer products. WPH markets a broad range of manufactured and sourced bed, bath and basic bedding products, including sheets, pillowcases, bedspreads, quilts, comforters and duvet covers, feather beds, bath and beach towels, bath accessories, bed skirts, bed pillows, flocked blankets, woven blankets and throws, and mattress pads. WPH recognizes revenue primarily through the sale of home fashion products to a variety of retail and institutional customers. We acquired our interest in WPH in 2005 through a purchase of distressed debt. Since its emergence from bankruptcy, we have completely restructured our manufacturing footprint moving our plants to low cost countries, discontinued unprofitable programs, and right-sized our overhead structure. WPH owns many of the most well known brands in home textiles including Martex, Grand Patrician, Luxor and Vellux. WPH also manufactures products for Ralph Lauren and under licensed brands such as Izod, Portico, Under the Canopy and Southern Tide for home textile products.

Business Strengths

Significant Net Asset Value. We are well capitalized with approximately $26.3 billion of total assets at March 31, 2013, and significant equity value in our operating subsidiaries. The table below sets forth the combined value of our operating subsidiaries and Holding Company s liquid assets.

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Our net asset value is summarized as follows (in millions, except per unit amounts):

	As of				
	June 30, 2012	September 30, 2012	December 31, 2012	March 31, 2013	June 10, 2013
			(*unaudited*)		
Market-valued Subsidiaries:					
Holding Company interest in Funds[1]	$2,076	$2,349	$2,387	$2,607	$2,600
CVR Energy[2]	1,892	2,617	3,474	3,675	4,101
CVR Refining[2]				139	185
Federal-Mogul[2]	840	702	615	462	788
American Railcar Industries[2]	322	336	377	555	410
Total market-valued subsidiaries	$5,130	$6,004	$6,853	$7,438	$8,083
Other Subsidiaries					
Tropicana[3]	$480	$482	$512	$546	$546
Viskase[3]	148	155	268	283	240
Real Estate Holdings[4]	741	746	763	696	696
PSC Metals[4]	410	396	338	334	334
WestPoint Home[4]	271	266	256	207	207
AEP Leasing[4]		13	60	112	112
Total other subsidiaries	$2,050	$2,058	$2,196	$2,178	$2,136
Add: Holding Company cash and cash equivalents[5]	$1,128	$1,046	$1,045	$755	$1,156
Less: Holding Company debt[6]	(3,770)	(4,084)	(4,082)	(3,525)	(3,525)
Add: Other Holding Company net assets[7]	37	43	86	137	229
Total Net Asset Value	**$4,575**	**$5,067**	**$6,098**	**$6,983**	**$8,080**
Units outstanding[8]	102.4	106.3	107.0	110.2	111.8
NAV Per Unit[9]	**$45**	**$48**	**$57**	**$63**	**$72**

(1) Represents Investment segment equity attributable to us as of the respective dates indicated.

(2) Based on closing share price as of the respective dates indicated and the number of shares owned by the Holding Company on such date. The Holding Company owned (a) 71.2 million shares of CVR as of each date indicated, (b) 4.0 million common units and 6.0 million common units of CVRR as of March 31, 2013 and June 10, 2013, respectively, (c) 76.4 million shares of Federal-Mogul as of June 30, 2012 and 76.7 million shares of Federal-Mogul as of each other date indicated and (d) 11.9 million shares of ARI as of each date indicated.

(3) Amounts based on market comparables due to lack of material trading volume. Tropicana valued at 7.0x, 7.0x, 8.0x and 9.0x Adjusted EBITDA for the twelve months ended June 30, 2012, September 30, 2012, December 31, 2012 and March 31, 2013, respectively. Viskase valued at 10.0x Adjusted EBITDA for the twelve months ended June 30, 2012, September 30, 2012 and June 10, 2013, and 11.0x Adjusted EBITDA for twelve months ended December 31, 2012 and March 31, 2013. The June 10, 2013 Tropicana valuation is the same as the March 31, 2013 valuation due to lack of any new financial information subsequent to March 31, 2013.

(4) Represents equity attributable to us as of each respective date except for June 10, 2013 which is as of March 31, 2013 due to lack of any new financial information subsequent to March 31, 2013.

(5) Holding Company s cash and cash equivalents balance as of each respective date except for June 10, 2013 which is as of March 31, 2013 and pro forma (i) for the purchase of two million common units of CVRR and (ii) for the payment of the $6.50 special dividend paid by CVR on June 10, 2013.

(6) March 31, 2013 and June 10, 2013 Holding Company debt are adjusted for the satisfaction and discharge of the indenture governing our variable rate convertible notes due 2013.

(7) March 31, 2013 and June 10, 2013 Holding Company other net assets are adjusted for the satisfaction

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and discharge of the indenture governing our variable rate convertible notes due 2013. June 10, 2013 is also adjusted for the distribution of additional depositary units on April 15, 2013 in connection with our quarterly distribution.

(8) LP units outstanding and the GP unit equivalent as of each respective date.

(9) We use the net asset value per depositary unit as an additional method for considering the value of our depositary units, and we believe that this information can be helpful to investors. Please note, however, that the net asset value per depositary unit does not represent the market price at which our depositary units trade. Accordingly, data regarding net asset value should not be considered in isolation. Our depositary units are not redeemable, which means that investors have no right or ability to obtain from us the net asset value per depositary unit that they own. Depositary units may be bought and sold on The NASDAQ Global Select Market (NASDAQ) at prevailing market prices. Those prices may be higher or lower than the net asset value per depositary unit as calculated by management.

Diversified Operating Subsidiaries with Strong Financial Position. We have operating subsidiaries in diverse industries including Investment, Automotive, Energy, Railcar, Food Packaging, Metals, Real Estate and Home Fashion. For the twelve month period ended March 31, 2013, we generated revenues of $18.3 billion, Adjusted EBITDA before non-controlling interests of $3.0 billion, and Adjusted EBITDA attributable to Icahn Enterprises of $2.0 billion. A reconciliation of Adjusted EBITDA before non-controlling interests to net income before non-controlling interests and Adjusted EBITDA attributable to Icahn Enterprises to net income attributable to Icahn Enterprises is included in Summary Consolidated Historical and Other Financial Data. Furthermore, with over $0.8 billion of cash at our Holding Company, $2.6 billion liquid interest in the Funds and over $1.6 billion of cash at our subsidiary operating companies all as of March 31, 2013, we have strong liquidity to fund operating needs, strategic initiatives and attractive investment opportunities.

Proven Investment Team. Our investment team is led by Carl C. Icahn, working with a team of experienced financial and operational executives. Mr. Icahn s substantial investing history provides us with a unique network of relationships and access on Wall Street, in industry and throughout the restructuring community. Our team consists of nearly 20 professionals with diverse backgrounds, most of whom have worked with us for many years. Our team maintains a deep knowledge of business systems, bankruptcy laws and transaction processes that further supports our efforts to build stakeholder value.

Significant Realizations. We have demonstrated a history of successfully acquiring undervalued assets and improving and enhancing their operations and financial results. Our record is based on a long-term horizon that can enhance business value and facilitate a profitable exit strategy. For example, in 2006, we sold our oil and gas assets to a strategic buyer for $1.5 billion resulting in a pre-tax gain of $599 million. Our oil and gas assets included National Energy Group, Inc., TransTexas Gas Corporation and Panaco, Inc., which were acquired out of bankruptcy. Subsequently, we grew the business through organic investment and through a series of bolt-on acquisitions. In addition, we installed operational and financial guidelines to improve the business, including realignment of the fixed asset cost structure, reserve life expansion by maintaining a highly successful drilling program and implementation of internal controls.

We have applied our ability to enhance value in other distressed situations, such as the consolidation of American Casino & Entertainment Properties LLC (ACEP). ACEP s properties in Las Vegas, which included Stratosphere Casino Hotel & Tower, Arizona Charlie s Decatur and Arizona Charlie s Boulder, were acquired through bankruptcy at a substantial discount to replacement cost, and we immediately took managerial and operational steps to reduce operating costs and reinvested in the assets to enhance value. Notably, we provided capital to complete a 1,000 room expansion at the Stratosphere and made significant investments at each of the properties to refurbish rooms. We also grew ACEP by acquiring and upgrading the Acquarius in Laughlin, Nevada. Our ownership of ACEP spanned many years. We sold that business in 2008 through a sale of the casinos to W2007/ACEP Holdings, LLC, an affiliate of Whitehall Street Real Estate Funds, a series of real estate funds affiliated with Goldman, Sachs & Co., which resulted

in proceeds of $1.2 billion and a pre-tax gain of $732 million. We reinvested $465 million of proceeds from this sale to acquire two triple net leased properties, which have been leased to a single-A-rated public company whose market capitalization is approximately $190 billion. These assets have generated annual cash flow of over $32 million.

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Business Strategy

We believe that our core strengths include: identifying and acquiring undervalued assets and businesses, often through the purchase of distressed securities; increasing value through management, financial or other operational changes; and managing complex legal, regulatory or financial issues, which may include bankruptcy or insolvency, environmental, zoning, permitting and licensing issues.

The key elements of our business strategy include the following:

Capitalize on Growth Opportunities in our Existing Businesses. We believe that we have developed a strong portfolio of businesses with experienced management teams. We may expand our existing businesses if appropriate opportunities are identified, as well as use our established businesses as a platform for additional acquisitions in the same or related areas.

Drive Accountability and Financial Discipline in the Management of our Business. Our Chief Executive Officer is accountable directly to our board of directors, including the Chairman, and has day-to-day responsibility, in consultation with our Chairman, for general oversight of our business segments. We continually evaluate our operating subsidiaries with a view towards maximizing value and cost efficiencies, bringing an owner s perspective to our operating businesses. In each of these businesses, we assemble senior management teams with the expertise to run their businesses and boards of directors to oversee the management of those businesses. Each management team is responsible for the day-to-day operations of their businesses and directly accountable to its board of directors.

Seek to Acquire Undervalued Assets. We intend to continue to make investments in businesses that we believe are undervalued and have potential for growth. We also seek to capitalize on investment opportunities arising from market inefficiencies, economic or market trends that have not been identified and reflected in market value, or complex or special situations. Certain opportunities may arise from companies that experience disappointing financial results, liquidity or capital needs, lowered credit ratings, revised industry forecasts or legal complications. We may acquire businesses or assets directly or we may establish an ownership position through the purchase of debt or equity securities in the open market or in privately negotiated transactions.

Use Activism to Unlock Value. As described above, we become actively involved in companies in which we invest. Such activism may involve a broad range of activities, from trying to influence management in a proxy fight, to taking outright control of a company in order to bring about the change we think is required to unlock value. The key is flexibility, permanent capital and the willingness and ability to have a long-term horizon.

Recent Developments

CVR Dividends. On April 30, 2013, CVR declared a cash dividend for the first quarter of 2013 of $0.75 per share or $65.1 million in aggregate. The dividend was paid on May 17, 2013 to stockholders of record on May 10, 2013. We received $53.4 million in respect of our 82.0% ownership interest in CVR.

On February 19, 2013 CVR paid a special dividend of $5.50 per share. In addition, CVR declared a special dividend of $6.50 per share on May 28, 2013 that was paid on June 10, 2013 to stockholders of record on June 3, 2013. We received $462.8 million upon payment of this special dividend, bringing cumulative dividends from CVR to $907.8 million since the beginning of 2013.

CVRR Public Offering. On May 20, 2013, CVRR closed its registered public offering of 12.0 million common units at a price of $29.8275 per common unit (net of underwriting discounts and commissions). CVRR received proceeds from the offering of approximately $357.9 million (net of underwriting discounts and commissions). The net proceeds of the offering were used to redeem 12.0 million common units that were held by CVR Refining Holdings, LLC (CVR Refining Holdings). On June 5, 2013, the underwriters for the CVRR public offering exercised their right to purchase 1.2 million common units pursuant to an overallotment option, which closed on June 10, 2013. The net proceeds from the exercise of the over-allotment option will be used to redeem 1.2 million common units held by CVR Refining Holdings.

In addition, on May 23, 3013, American Entertainment Properties Corp., our subsidiary, purchased 2.0 million common units from an affiliate of CVR Refining Holdings in a concurrent privately negotiated transaction at a

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price per common unit equal to the price per common unit paid by the public in the public offering. Following the closing of the transaction, we, together with our affiliates (excluding CVR Refining Holdings), own approximately 4.1% of the CVRR s outstanding common units.

CVRP Secondary Offering. On May 28, 2013, CVRP announced that Coffeyville Resources, LLC, a wholly-owned subsidiary of CVR, closed an offering of 12.0 million common units in CVRP in a registered public offering at a price of $24.38 per common unit (net of underwriting discounts and commissions). In connection with the offering, Coffeyville Resources, LLC granted the underwriters a 30-day option to purchase up to an additional 1.8 million common units. CVRP has not received and will not receive any of the proceeds from the offering and the number of common units outstanding will remain unchanged.

Federal-Mogul Rights Offering and Refinancing. On June 7, 2013 Federal-Mogul launched its previously announced registered rights offering. In the rights offering, each stockholder on the record date of June 7, 2013 was issued, at no charge, one transferable subscription right for each whole share of common stock owned by that stockholder on the record date. IEH FM Holdings LLC, our subsidiary and Federal-Mogul's largest stockholder, has agreed, pursuant to an investment agreement, to subscribe for its pro rata share of the rights offering under its basic subscription privilege and indicated its willingness to oversubscribe for additional shares if necessary for a successful refinancing of Federal-Mogul's outstanding indebtedness, subject to availability and pro-rata allocation among other rights holders who have elected to exercise their oversubscription rights.

Each subscription right entitles a shareholder to purchase 0.51691 shares of Federal-Mogul's common stock at a subscription price equal to $9.78 per share (subject to rounding down to avoid the issuance of fractional shares) (the basic subscription privilege). The rights offering also includes an over-subscription privilege, which entitles stockholders who exercise all of their subscription rights in the basic subscription privilege the right to purchase additional shares of common stock in the rights offering, subject to availability and pro rata allocation of shares among other rights holders exercising such over-subscription privilege.

Federal-Mogul will offer a number of shares of its common stock in the rights offering, inclusive of the over-subscription privilege, representing approximately $500 million of gross proceeds. Federal-Mogul plans to use the proceeds from the rights offering to repay a portion of its outstanding indebtedness under its existing credit facility and for general corporate purposes, including, but not limited to, operational restructuring actions.

Federal-Mogul presently expects to begin distributing the subscription rights to its stockholders under the rights offering as soon as practicable following the record date. The rights offering will terminate at 5:00 p.m. Eastern Daylight Time, on June 27, 2013, unless extended. Holders of subscription rights must exercise their rights prior to that time and date if they intend to participate in the rights offering.

In addition, Federal-Mogul announced that in connection with its previously announced potential refinancing, it expects to (i) enter into one or more new credit agreements, which are anticipated to provide for new senior secured credit facilities consisting of an asset-based revolver of approximately $550 million and a term loan facility of approximately $1.75 billion and (ii) commence an offering of $750 million aggregate principal amount of senior notes to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to certain non-U.S. persons in transactions outside the United States in reliance on Regulation S. Federal-Mogul expects to complete the refinancing shortly after the completion of the rights offering. However, no assurances can be given that the refinancing will be completed on the terms described, on commercially reasonable terms or at all.

Icahn Enterprises Dividends. On May 29, 2013, Icahn Enterprises announced that the Board of Directors of its general partner has increased its annual distribution from $4.00 per depositary unit to $5.00 per depositary unit,

payable in either cash or additional depositary units, at the election of each depositary unit holder. The new distribution policy is expected to take effect in the third quarter of 2013, subject to declaration by the board of directors of the general partner of Icahn Enterprises. Mr. Icahn has stated that he will elect to receive the increase in additional depositary units for the foreseeable future.

Investment Fund Results. The Investment Funds aggregate gross return for the period of January 1, 2013 through the close of business on June 10, 2013 was approximately 9.4%. Since inception in November 2004,

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the Funds gross return is 199%, representing an annualized rate of return of 13.5% as of June 10, 2013. Assets under management were approximately $6.5 billion, of which our interests were $2.6 billion, as of the close of business on June 10, 2013.

Appointment of New Federal-Mogul Co-Chief Executive Officer. On May 29, 2013, Federal-Mogul announced that Kevin P. Freeland will become Federal-Mogul s Co-Chief Executive Officer and Chief Executive Officer, Vehicle Components Solutions business and will join Federal-Mogul s Board of Directors, effective June 17, 2013. In connection with Mr. Freeland s appointment as Co-Chief Executive Officer and Chief Executive Officer, Vehicle Components Solutions business, Federal-Mogul entered into an employment agreement with Mr. Freeland. On May 30, 2013, Federal-Mogul announced that its board of directors accepted, on May 23, 2013, the resignation of Michael Broderick as Co-Chief Executive Officer of Federal-Mogul and Chief Executive Officer, Vehicle Components Solutions business, effective immediately. Federal-Mogul entered into a separation agreement with Mr. Broderick in connection with his resignation on May 31, 2013.

Our Corporate Information

Our principal executive offices are located at 767 Fifth Avenue, Suite 4700, New York, New York 10153 and our telephone number is (212) 702-4300. Our Internet address is *www.ieplp.com*. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this prospectus supplement or the accompanying prospectus.

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The Offering

Depositary units offered by us

depositary units; depositary units if the underwriters exercise in full their option to purchase additional depositary units.

Depositary units outstanding after this offering

depositary units; depositary units if the underwriters exercise in full their option to purchase additional depositary units.

Use of proceeds

We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and commissions and estimated offering expenses, will be approximately $ million (or approximately $ million if the underwriters exercise in full their option to purchase additional depositary units).

We will use the net proceeds from this offering and from the underwriters exercise of their option to purchase additional depositary units, if any, solely to effect the recapitalization of Federal-Mogul, which may include the purchase of our pro rata share of the common stock to be issued by Federal-Mogul pursuant to its rights offering launched on June 7, 2013, if consummated, or any other use of capital that results in the proceeds of this offering being used to recapitalize Federal-Mogul.

Distribution policy

On May 29, 2013, the board of directors of our general partner, Icahn Enterprises GP, announced an annual distribution policy of $5.00 per depositary unit, payable in either cash or additional depositary units, at the election of each depositary unit holder. The new distribution policy is expected to take effect in the third quarter of 2013, subject to declaration by the board of directors of Icahn Enterprises GP. Mr. Icahn has stated that he will elect to receive the increase in additional depositary units for the foreseeable future.

On February 10, 2013, the board of directors of Icahn Enterprises GP declared a quarterly distribution of $1.00 per depositary unit, payable in cash or additional depositary units. As a result, on April 15, 2013, Icahn Enterprises distributed an aggregate 1,521,962 depositary units to unit holders electing to receive depositary units in connection with this distribution.

On April 29, 2013, the board of directors of Icahn Enterprises GP declared a quarterly distribution in the amount of $1.00 per depositary unit, which will be paid on or about July 5, 2013 to depositary unit holders of record at the close of business on May 13, 2013. Depositary unit holders had until June 3, 2013 to make an election to receive either cash or additional depositary units; if a holder does not make an election, it will automatically be deemed to have elected to receive the dividend in cash. Depositary unit holders who elect to receive additional depositary units will receive units valued at the volume weighted average trading price of the units on NASDAQ during the 20 consecutive trading days ending July 1, 2013. No fractional depositary units will be issued pursuant to the

dividend payment. We will make a cash payment in lieu of issuing fractional depositary units to any holders electing to receive depositary units. Any holders that would only be eligible to receive a fraction of a depositary unit based on the above calculation will receive a cash payment.

Exchange listing

Our depositary units are traded on NASDAQ under the symbol IEP.

Material U.S. federal income tax considerations

For a discussion of material U.S. federal income tax considerations that may be relevant to potential holders of our depositary units, please read Material U.S. Federal Income Tax Considerations.

Risk factors

You should carefully consider the information set forth under Risk Factors beginning on page S-27 of this prospectus supplement and page 3 of the accompanying prospectus, as well as the risks described in our Annual Report on Form 10-K for the year ended December 31, 2012 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and the other documents we previously have filed with the Securities and Exchange Commission that are incorporated by reference herein, before making an investment in our depositary units.

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SUMMARY CONSOLIDATED HISTORICAL AND OTHER FINANCIAL DATA

The following tables contain our summary consolidated historical financial data, which should be read in conjunction with our consolidated financial statements and the related notes thereto, and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Quarterly Report on Form 10-Q for the three months ended March 31, 2013 and our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

The summary consolidated historical financial data as of March 31, 2013 and for the three months ended March 31, 2012 and 2013 have been derived from our unaudited consolidated financial statements contained in our Quarterly Report on Form 10-Q, filed with the SEC on May 3, 2013. The summary consolidated historical financial data for the fiscal years ended December 31, 2010, 2011 and 2012 have been derived from our audited consolidated financial statements contained in our Annual Report on Form 10-K filed with the SEC on March 15, 2013. The summary consolidated historical financial data for the twelve months ended March 31, 2013 have been derived from our audited consolidated financial statements contained in our Annual Report on Form 10-K filed with the SEC on March 15, 2013 and our unaudited consolidated financial statements contained in our Quarterly Report on Form 10-Q filed with the SEC on May 3, 2013. The financial data presented below is not necessarily indicative of the results that may be expected for any future periods and the financial data presented for the interim periods is not necessarily indicative of the results that may be expected for the full year.

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	Year Ended December 31,			Three Months Ended March 31,	
	2010	2011	2012	2012	2013
				(*unaudited*)	
	(in millions, except per unit amounts)				
Statement of Operations Data:					
Net sales	$7,903	$9,127	$14,619	$2,399	$4,574
Other revenues from operations	228	771	775	192	189
Net gain from investment activities	814	1,905	343	58	578
Income from continuing operations	744	1,764	727	101	695
Income (loss) from discontinued operations	(1)				
Net income	743	1,764	727	101	695
Less: Net income attributable to non-controlling interests	(544)	(1,014)	(331)	(52)	(418)
Net income attributable to Icahn Enterprises	$199	$750	$396	$49	$277
Net income attributable to Icahn Enterprises allocable to:					
Limited partners	$195	$735	$379	$48	$271
General partner	4	15	17	1	6
Net income attributable to Icahn Enterprises	$199	$750	$396	$49	$277
Net income (loss) attributable to Icahn Enterprises from:					
Continuing operations	$200	$750	$396	$49	$277
Discontinued operations	(1)				
Net income attributable to Icahn Enterprises	$199	$750	$396	$49	$277
Basic income (loss) per LP unit:					
Income from continuing operations	$2.28	$8.35	$3.75	$0.48	$2.56
Income (loss) from discontinued operations	(0.01)	0.00	0.00	0.00	0.00
Basic income per LP unit	$2.27	$8.35	$3.75	$0.48	$2.56
Basic weighted average LP units outstanding	86	88	101	99	106
Diluted income (loss) per LP unit:					
Income from continuing operations	$2.27	$8.15	$3.75	$0.48	$2.50
Income (loss) from discontinued operations	(0.01)	0.00	0.00	0.00	0.00
Diluted income per LP unit	$2.26	$8.15	$3.75	$0.48	$2.50
Diluted weighted average LP units outstanding	87	93	101	99	109
Cash distributions declared per LP unit	$1.00	$0.55	$0.40	$0.10	$1.00

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	Year Ended December 31,			Three Months Ended March 31,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in millions)				
Statement of Comprehensive Income Data:					
Net income	$743	$1,764	$727	$101	$695
Other comprehensive income (loss), net of tax:					
Post-employment benefits	63	(132)	(224)	9	13
Hedge instruments	(13)	1	46	14	6
Translation adjustments and other	10	(127)	51	84	(41)
Other comprehensive income (loss)	60	(258)	(127)	107	(22)
Comprehensive income	803	1,506	600	208	673
Less: Comprehensive income attributable to non-controlling interests	(558)	(947)	(302)	(79)	(412)
Comprehensive income attributable to Icahn Enterprises	$245	$559	$298	$129	$261
Comprehensive income attributable to Icahn Enterprises allocable to:					
Limited partners	$240	$548	$283	$127	$256
General partner	5	11	15	2	5
Comprehensive income attributable to Icahn Enterprises	$245	$559	$298	$129	$261

	Year Ended December 31,			Three Months Ended March 31,		Twelve Months Ended March 31,
	2010	2011	2012	2012	2013	2013
	(unaudited)			*(unaudited)*		*(unaudited)*
	(in millions)					
Other Financial Data:						
EBITDA attributable to Icahn Enterprises[3]	$876	$1,463	$1,158	$194	$603	$ 1,567
Adjusted EBITDA attributable to Icahn Enterprises[3]	939	1,547	1,542	213	621	1,950

	As of December 31,			As of March 31,
	2010	2011	2012	2013
				(unaudited)
	(in millions)			
Balance Sheet Data:				
Cash and cash equivalents	$ 2,963	$ 2,278	$ 3,071	$ 2,437
Investments	7,470	8,938	5,491	7,690
Property, plant and equipment, net	3,455	3,505	6,523	6,571
Total assets	21,338	25,136	24,556	26,261
Debt	6,509	6,473	8,548	8,184

Post-employment benefit liability	1,272	1,340	1,488	1,438
Equity attributable to Icahn Enterprises	3,183	3,755	4,669	5,068

	Year Ended December 31,			Three Months Ended March 31,		Twelve Months Ended March 31,
	2010	2011	2012	2012	2013	2013
				(*unaudited*)		(*unaudited*)
	(in millions)					
Segment Operating Data:						
Consolidated revenues:						
Investment	$887	$1,896	$398	$71	$603	$930
Automotive	6,239	6,937	6,677	1,774	1,680	6,583
Energy[1]			5,519		2,338	7,857
Gaming[2]	78	624	611	153	143	601
Railcar	270	514	657	182	138	613
Food Packaging	317	338	341	83	88	346
Metals	725	1,096	1,103	332	264	1,035
Real Estate	90	90	88	21	21	88
Home Fashion	431	325	231	57	46	220
Holding Company	57	36	29	11	(2)	16
Eliminations	(22)	(14)				
	$9,072	$11,842	$15,654	$2,684	$5,319	$18,289
		(*unaudited*)		(*unaudited*)		(*unaudited*)
Adjusted EBITDA before non-controlling interests[3]:						
Investment	$823	$1,845	$374	$68	$575	$881
Automotive	661	688	508	165	141	484
Energy[1]			977		351	1,328
Gaming[2]	6	72	79	21	18	76
Railcar	3	50	143	30	34	147
Food Packaging	50	48	57	13	16	60
Metals	24	26	(16)		(5)	(21)
Real Estate	40	47	47	11	11	47
Home Fashion	(32)	(31)	(3)	(5)	(1)	1
Holding Company	69	5	11	7	(7)	(3)
	$1,644	$2,750	$2,177	$310	$1,133	$3,000
		(*unaudited*)		(*unaudited*)		(*unaudited*)
Adjusted EBITDA attributable to Icahn Enterprises[3]:						
Investment	$342	$876	$158	$32	$233	$359
Automotive	499	518	386	126	107	367
Energy[1]			787		244	1,031
Gaming[2]	1	37	54	14	12	52
Railcar	2	27	77	18	15	74
Food Packaging	37	35	41	10	12	43
Metals	24	26	(16)		(5)	(21)
Real Estate	40	47	47	11	11	47
Home Fashion	(23)	(24)	(3)	(5)	(1)	1
Holding Company	17	5	11	7	(7)	(3)

$939	$1,547	$1,542	$213	$621	$1,950

(1) Energy segment results for 2012 are for the periods commencing May 5, 2012.

(2) Gaming segment results for 2010 are for the periods commencing November 15, 2010.

(3) EBITDA represents earnings before interest expense, net, income tax (benefit) expense and depreciation and amortization. We define Adjusted EBITDA as EBITDA excluding the effects of impairment,

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restructuring costs, certain pension plan expenses, FIFO impacts, OPEB curtailment gains, certain share-based compensation, major scheduled turnaround, discontinued operations, certain proxy matter expenses, certain acquisition expenses, losses on extinguishment of debt, unrealized gain and losses on derivatives and certain commercial settlement charges. We conduct substantially all of our operations through subsidiaries. The operating results of our subsidiaries may not be sufficient to make distributions to us. In addition, our subsidiaries are not obligated to make funds available to us for payment of our indebtedness, payment of distributions on our depositary units or otherwise, and distributions and intercompany transfers from our subsidiaries to us may be restricted by applicable law or covenants contained in debt agreements and other agreements to which these subsidiaries currently may be subject or into which they may enter in the future. The terms of any borrowings of our subsidiaries or other entities in which we own equity may restrict dividends, distributions or loans to us.

We believe that providing EBITDA and Adjusted EBITDA to investors has economic substance as these measures provide important supplemental information regarding our performance to investors and permits investors and management to evaluate the core operating performance of our business. Additionally, we believe this information is frequently used by securities analysts, investors and other interested parties in the evaluation of companies that have issued debt. Management uses, and believes that investors benefit from referring to these non-GAAP financial measures in assessing our operating results, as well as in planning, forecasting and analyzing future periods. Adjusting earnings for these charges allows investors to evaluate our performance from period to period, as well as our peers, without the effects of certain items that may vary depending on accounting methods and the book value of assets. Additionally, EBITDA and Adjusted EBITDA present meaningful measures of corporate performance exclusive of our capital structure and the method by which assets were acquired and financed.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under U.S. GAAP. For example, EBITDA and Adjusted EBITDA:

do not reflect our cash expenditures, or future requirements for capital expenditures, or contractual commitments;

do not reflect changes in, or cash requirements for, our working capital needs; and

do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on our debt.

Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized often will have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements. Other companies in the industries in which we operate may calculate EBITDA and Adjusted EBITDA differently than we do, limiting their usefulness as comparative measures. In addition, EBITDA and Adjusted EBITDA do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations.

EBITDA and Adjusted EBITDA are not measurements of our financial performance under U.S. GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with U.S. GAAP or as alternatives to cash flow from operating activities as a measure of our liquidity. Given these limitations, we rely primarily on our U.S. GAAP results and use EBITDA and Adjusted EBITDA only as a supplemental measure of our financial performance.

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The following table reconciles, on a basis attributable to Icahn Enterprises, net income attributable to Icahn Enterprises to EBITDA and EBITDA to Adjusted EBITDA for the periods indicated:

	Year Ended December 31,			Three Months Ended March 31,		Twelve Months Ended March 31,
	2010	2011	2012	2012	2013	2013
	(*unaudited*)			(*unaudited*)		(*unaudited*)
	(in millions)					
Attributable to Icahn Enterprises:						
Net income (loss)	$199	$750	$396	$49	$277	$ 624
Interest expense	338	377	456	103	119	472
Income tax expense (benefit)	11	27	(128)	(36)	93	1
Depreciation, depletion and amortization	328	309	434	78	114	470
EBITDA attributable to Icahn Enterprises	$876	$1,463	$1,158	$194	$603	$ 1,567
Impairment[(a)]	$8	$58	$106	$2	$	$ 104
Restructuring[(b)]	12	9	25	6	6	25
Non-service cost of U.S.-based pension[(c)]	25	18	29	8	2	23
FIFO impact (favorable) unfavorable[(d)]			58		(5)	53
OPEB curtailment gains[(e)]	(22)	(1)	(40)			(40)
Certain share-based compensation expense[(f)]			30		7	37
Major scheduled turnaround expense[(g)]			88			88
Loss on discontinued operations[(h)]					36	36
Expenses related to certain acquisitions[(i)]			4			4
Net loss (gain) on extinguishment of debt[(j)]	40		7	1	(5)	1
Unrealized (gain)/loss on certain derivatives[(k)]			57		(26)	31
Other[(l)]			20	2	3	21
Adjusted EBITDA attributable to Icahn Enterprises	$939	$1,547	$1,542	$213	$621	$ 1,950

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The following table reconciles net income to EBITDA and EBITDA to Adjusted EBITDA for the year ended December 31, 2010 for each of our segments:

	Investment	Automotive		Energy	Gaming		Railcar	Food Packaging	Metals	Real Estate	Home Fashion	Holding Company	Tot
	(unaudited) (in millions)												
fore n-controlling erests:													
t income (loss)	$818	$160		$	$(2	)	$(27)	$14	$4	$8	$(62)	$(170)	$74
erest expense, net	4	141			1		21	21		8	1	192	38
come tax expense enefit)	2	12					(15)	2	1			7	9
epreciation, pletion and nortization		333			5		23	14	18	23	11		42
BITDA before n-controlling erests	$824	$646	3,962,676										

enominator for sic income (loss) r share – weighted erage shares tstanding	15,821,075	15,736,559	15,756,342		15,181,662
lutive effect of ares issuable under ock options and rrants outstanding	187,506	1,898,018	—		2,443,699
enominator for uted income (loss) r share – adjusted eighted average ares outstanding	16,008,581	17,634,577	15,756,342		17,625,361
t income (loss) per are:					
Basic	$0.01	$0.06	$(0.09	)	$0.26
Diluted	$0.01	$0.05	$(0.09	)	$0.22

Basic income (loss) per share is based upon the weighted average number of common shares outstanding during the period. For the three months ended September 30, 2009, weighted-average outstanding stock options totaling 2,005,639 shares of common stock were antidilutive and, therefore, not included in the computation of diluted earnings per share. All outstanding stock options were excluded from the diluted earnings (loss) per share calculation for the nine months ended September 30, 2009 because their effect was antidilutive. For the three and nine months ended September 30, 2008 weighted-average outstanding stock options and warrants totaling 15,000 and 30,000

shares, respectively, of common stock were antidilutive and, therefore, not included in the computation of diluted earnings per share.

NOTE 12. RELATED PARTY TRANSACTIONS

The Company sells primarily through a network of unaffiliated distributors/sales agents. An entity that previously served as an independent sales agent was owned by the spouse of one of the Company's executive officers. The Company paid commissions on sales generated by this sales agent aggregating $36,602 for the nine months ended September 30, 2008. Subsequent to December 31, 2007, this entity was dissolved and no longer serves as an independent sales agent for the Company.

NOTE 13. RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2007, the FASB issued FAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51" ("FAS No. 160"). FAS No.160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. FAS No. 160 is effective for the Company in its fiscal year beginning January 1, 2010. The Company does not believe this statement will have a material impact on its financial position and results of operations upon adoption.

In December 2007, the FASB issued FAS No. 141 R, "Business Combinations"("FAS No. 141R"). FAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. FAS No. 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS No. 141R is effective for the Company's fiscal year beginning January 1, 2009. The Company has not entered into any business combinations therefore this statement has not had any impact on its financial position and results of operations upon adoption.

In March 2008, FASB issued Statement of Financial Accounting Standard (SFAS) No. 161, "Disclosures about Derivative Instruments and Hedging Activities." This standard is intended to improve financial reporting by requiring more disclosure about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under SFAS No 133; and how derivative instruments and related hedged items affect its financial position, financial performance and cash flows. SFAS No. 161 was effective for the Company's first quarter of 2009. As this pronouncement is only disclosure related, it did not have an impact on the Company's financial position and results of operations.

In April 2008, the FASB issued Staff Position (FSP) No. FAS 142-3 "Determination of the Useful Life of Intangible Assets." FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". It is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and should be applied prospectively to intangible assets acquired after the effective date. Early adoption is not permitted. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives for intangible assets and should be applied to all intangible asset recognized as of, and subsequent to the effective date. The impact of FSP FAS 142-3 will depend on the size and nature of acquisitions on or after January 1, 2009.

In June 2008, the FASB issued Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities," (FSP EITF 03-6-1). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, on a retrospective basis and was adopted by the Company in the first quarter of 2009. The adoption of FSP EITF 03-6-1 had no effect on its calculation of EPS.

In May 2009, the Financial Accounting Standards Board ("FASB") issued FASB No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 establishes general standards of accounting for disclosing events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009 and has been adopted by the Company.

In June 2009, the FASB issued FASB No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP in the United States. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and is now in effect.

NOTE 14. SUBSEQUENT EVENTS

During October 2009, the Company was awarded a contract to deliver DVM-750 units to the Turkish Police. The contract is valued in excess of $3 million and is expected to be shipped during the fourth quarter 2009. The Company's bank issued a standby letter of credit in the approximate amount of $173,000 as security for the successful performance of the Company under the contract.

On October 23, 2009, the Circuit Court of Jackson County, Missouri awarded the Company an interlocutory judgment against a previous contract manufacturer for the Company. The Company had filed for and received a temporary restraining order in June 2009 that forbid the supplier from engaging in certain actions involving the Company. The interlocutory judgment was entered in favor of the Company against the supplier that in effect cancelled all purchase orders and confirmed that the Company has no further obligations, whether monetary or otherwise, to the supplier. The Company will record a benefit of approximately $72,000 during the three months ending December 31, 2009 representing the amount of unpaid invoices to the supplier which it is no longer obligated to pay. The Company has submitted damage claims in excess of $11 million against the supplier relative to this lawsuit. A hearing on the award of such damages will be held on November 10, 2009. Management believes that the ultimate collection of any award of damages over and above the $72,000 in unpaid invoices is uncertain at this time, because of the financial

status of the supplier.

Subsequent to September 30, 2009, the Company reacquired a total of 321 DVM-500 legacy units from one of its international distributors representing a total value of $1,025,916. The reacquired units will be utilized to satisfy current customer backlog and expected demand for the legacy units until such time as the Company is able to secure the necessary component parts to resume the production line.

Management has evaluated and disclosed subsequent events up to and including November 4, 2009, which is the date the financial statements were available.

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

As used in this Report, "Digital Ally," the "Company," "we," "us," or "our" refer to Digital Ally, Inc., unless otherwise indicated.

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words "believe," "expect," "anticipate," "intend," "estimate," "may," "should," "could," "will," "plan," "future," "continue," and other expressions that are predictions of or indicate future events ar trends and that do not relate to historical matters identify forward-looking statements. These forward-looking statements are based largely on our expectations or forecasts of future events, can be affected by inaccurate assumptions, and are subject to various business risks and known and unknown uncertainties, a number of which are beyond our control. Therefore, actual results could differ materially from the forward-looking statements contained in this document, and readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. A wide variety of factors could cause or contribute to such differences and could adversely impact revenues, profitability, cash flows and capital needs. There can be no assurance that the forward-looking statements contained in this document will, in fact, transpire or prove to be accurate.

Factors that could cause or contribute to our actual results differing materially from those discussed herein or for our stock price to be adversely affected include, but are not limited to: (i) our relatively short operating history; (ii) macro-economic risks from the economic downturn and decrease in budgets for the law-enforcement community; (iii) our ability to increase revenues and profitability, particularly in the fourth quarter of 2009, in the current economic environment; (iv) our operation in a developing market and uncertainty as to market acceptance of our technology and new products; (v) the impact of the federal government's stimulus program on the budgets of law enforcement agencies, including the timing, amount and restrictions on funding; (vi) our ability to deliver our new product offerings as scheduled, including the DVM-750, First VU and DVM-500 Ultra, and have them perform as planned or advertised; (vii) whether there will be commercial markets, domestically and internationally, for one or more of our new products and the degree to which the interest shown in our DVM-750 will translate into sales in the fourth quarter of 2009; (viii) our ability to continue to expand our share of the in-car video market in the domestic and international law enforcement communities, including having our international revenues return to their historical levels; (ix) our ability to continue to produce our products in a cost-effective manner; (x) competition from larger, more established companies with far greater economic and human resources; (xi) our ability to attract and retain quality employees; (xii) risks related to dealing with governmental entities as customers; (xiii) our expenditure of significant resources in anticipation of a sale due to our lengthy sales cycle and the potential to receive no revenue in return; (xiv) characterization of our market by new products and rapid technological change; (xv) our dependence on sales of our DVM-750 and DVM-500 Plus products; (xvi) potential that stockholders may lose all or part of their investment if we are unable to compete in our markets; (xvii) failure of digital video to be widely accepted as admissible scientific evidence in court; (xviii) defects in our products that could impair our ability to sell our products or could result in litigation and other significant costs; (xix) our dependence on key personnel; (xx) our reliance on third party distributors and representatives for our marketing capability; (xxi) our dependence on manufacturers and suppliers; (xxii) our ability to protect technology through patents; (xxiii) our ability to protect our proprietary technology and information as trade secrets and through other similar means; (xxiv) risks related to our license arrangements; (xxv) our revenues and operating results may fluctuate unexpectantly from quarter to quarter; (xxvi) sufficient voting power by coalitions of a few of our larger stockholders to make corporate governance decisions that could have significant effect on us and the other stockholders; (xxvii) sale of substantial amounts of our common stock that may have a depressive effect on the market price of the outstanding shares of our common stock; (xxviii) possible issuance of common stock subject to options and warrants that may dilute the interest of stockholders; (xxviv) our ability to continue to comply with Sarbanes-Oxley Act of 2002 Section 404 as required; (xxx) our nonpayment of dividends and lack of plans to pay dividends in the future; (xxxi) future sale of a substantial number of shares of our common stock that could depress the trading price of our common stock, lower our value and make it more difficult for us to raise

capital; (xxxii) our additional securities available for issuance, which, if issued, could adversely affect the rights of the holders of our common stock; (xxxiii) our stock price which is likely to be highly volatile because of several factors, including a relatively limited public float; (xxxiv) indemnification of our officers and directors; and (xxxv) our ability to continue to satisfy the requirements of our credit facility, including maintaining a tangible net worth of at least $15.0 million.

Current Trends and Recent Developments for the Company

Overview

We supply technology-based products based upon portable, digital video and audio recording capabilities, primarily for the law enforcement and security industries. We have the ability to integrate electronic, radio, computer, mechanical, and multi-media technologies to create unique solutions to customers' requests. We began shipping our flagship digital video mirror in March 2006 and enjoyed significant growth until the fourth quarter of 2008. We have launched the new DVM-500 Ultra product for motorcycles, ATV's and marine use during the third quarter of 2009 and we intend to launch the FirstVU (body-worn camera) product during the fourth quarter of 2009. We have additional research and development projects that we anticipate will result in several new products to be launched in 2010. We believe that the launch of these new products will help to diversify and increase our product offerings resulting in increased revenues in the future.

We have regained profitability during the third quarter of 2009 as we reported operating income of $122,436 on revenues of $5,714,683. This reverses the negative trend experienced during the previous three quarters, in which our operating losses totaled $285,643 (second quarter of 2009); $1,967,625 (first quarter of 2009) and $1,044,123 (fourth quarter 2008). We have regained profitability primarily as a result of significant cost containment measures and improved gross margins on sales. Sales and gross margins have improved because of the successful launch of the DVM -750 product and gains in production efficiencies of such product. We have experienced a general increase in inventory levels during the same time frame. There have been a number of factors/trends affecting our recent performance, which include:

- We experienced a decrease in revenues during the fourth quarter 2008 and first quarter of 2009 due in part to the challenging economy, which has negatively impacted state, county and municipal budgets. We expect that the current economic downturn will continue to depress certain state and local tax bases, which will continue to make the remainder of 2009 a challenging business environment. Our second and third quarter 2009 revenues have shown significant improvement over the first quarter of 2009 and we expect our sales for the balance of 2009 will improve as these conditions begin to abate.

- We believe that delays in the introduction of our DVM-750 resulted in significant lost revenues in 2009 and this contributed to our decreased revenues and operating losses. We were not able to compete for several large contracts that required the specifications of the DVM-750. In addition, we bought substantial quantities of component parts in the fourth quarter 2008 and first quarter of 2009 in anticipation of commencing commercial production of the DVM-750 beginning in the fourth quarter 2008, which increased our inventory balances. Based upon our marketing efforts and the level of customer response we believe that demand for this new product will be very strong. Commercial deliveries of the DVM-750 commenced in the second quarter of 2009, which were a prime component of our improved sales for the second and third quarters of 2009 over the first quarter of 2009. We expect that our current order backlog for the DVM-750 and continued acceptance of this new product will help to improve our revenues for the balance of 2009.

- We anticipated that the assembly line changeover to the new DVM-500 Plus and DVM-750 products would occur during the fourth quarter 2008. We built significant quantities of the legacy DVM-500 model in October and November 2008 to handle anticipated product demand during the conversion period. As a result, we held approximately 1,150 DVM-500 units in finished goods inventory at December 31, 2008. The number of these units has been reduced to less than 50 units at September 30, 2009 though sales activities in 2009 (average of 120 to 170 units sold per month).

- We believe that current and potential customers may be delaying orders due to a number of factors, including budget reductions and anticipation of receiving the federal government's stimulus funds in order to preserve their currently available funding and budgets. In light of the historically high levels of federal funding, estimated at over $4 billion, allocated to Law Enforcement under the American Recovery and Reinvestment Act, the Omnibus Appropriations Act of 2009, and other programs, law enforcement agencies will have access to federal funding which has not been available to them in the past. We believe that such funding will have a positive impact on our revenues in the future, but cannot predict the amount of the funds that will be used for products such as ours or the timing of the release of such funds. We anticipate a reduction in our inventory balances for the remainder of 2009 as our sales increase and as we continue to maintain stricter inventory control.

- Our international revenues decreased substantially during the fourth quarter 2008 and the first three quarters of 2009. Sales to certain countries that were strong revenue sources for us on an historical basis have been negatively impacted by political and social unrest, economic recession and a weakening of their currency exchange rates versus the US dollar. We have focused on our international business by hiring an international sales manager in January 2009 and by appointing international distributers in new countries. We expect international sales to improve during the remainder of 2009, based on an easing of economic, political and social conditions affecting

certain of our key international customers and as initial sales to new countries occur. In addition, we believe that availability of the DVM-750 will help to improve our international revenues. During October 2009, we received an order from the Turkish National Police for DVM-750 units that are valued in excess of $3 million. We expect this order from Turkey to ship in the fourth quarter of 2009, thereby improving our international revenues.

Our recent operating losses and increases in inventory levels led to deterioration in our cash levels and liquidity in the first three quarters of 2009 compared to fiscal 2008. We have an unused $2.5 million revolving line-of-credit which would provide us short-term liquidity should the need arise, provided that we continue to satisfy the facility's covenants, including a $15.0 million minimum tangible net worth. Currently, we have no long or short-term debt outstanding and have approximately $13.9 million in working capital. Management is focusing on reducing inventory and accounts receivable levels to generate additional liquidity and improve our cash position. We believe that our liquidity trends will continue to improve during the balance of 2009 with increased revenues and profitability and that our current credit facility will be sufficient to meet our operating needs for the reasonably foreseeable future.

Our line-of-credit facility requires us to maintain a minimum tangible net worth of $15 million until its maturity date in February 2010. We had a tangible net worth in excess of $16.2 million at September 30, 2009. We may be in risk of not meeting such requirement if we do not remain profitable and if operating losses recur. If we do not maintain the required tangible net worth, the bank would have the discretion to discontinue any advances under the credit facility. In addition, the line-of-credit matures in February 2010 and there can be no assurance that our bank will be willing to extend or renew the facility under terms that are mutually agreeable. We will seek to renew or replace the current line-of-credit when it matures and eventually to replace it with longer term credit facilities.

Management does not consider raising capital through an equity offering as a viable alternative to supplement working capital needs, given the general levels of public equity valuations. However, management would consider the issuance of equity capital as consideration for potential acquisitions.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have material current or future effect on financial conditions, changes in the financial conditions, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses. We are a party to operating leases and license agreements that represent commitments for future payments (described in Note 8 to the condensed financial statements) and we have issued purchase orders in the ordinary course of business that represent commitments to future payments for goods and services.

We are contingently liable as of September 30, 2009 for standby letters of credit issued by our bank for an aggregate amount of $105,000 to certain customers as security in the event that we did not perform completely our contractual obligation to deliver products. No beneficiary has ever demanded funding related to such standby letters of credit.

For the Three Months Ended September 30, 2009 and 2008

Results of Operations

Summarized immediately below and discussed in more detail in the subsequent sub-sections is an analysis of our operating results for the three months ended September 30, 2009 and 2008, represented as a percentage of total revenues for each respective year:

	Three Months Ended September 30,			
	2009		2008	
Revenue	100	%	100	%
Cost of revenue	42	%	39	%
Gross profit	58	%	61	%

Selling, general and administrative expenses:				
Research and development expense	12	%	9	%
Selling, advertising and promotional expense	13	%	11	%
Stock-based compensation expense	6	%	6	%
Vendor settlements and credits	(5	%)	—	%
General and administrative expense	30	%	19	%
Total selling, general and administrative expenses	56	%	45	%
Operating income	2	%	16	%
Interest income (expense)	—	%	—	%
Income (loss) before income tax provision	2	%	16	%
Income tax (provision) benefit	(1	%)	(6	%)
Net income	1	%	10	%
Net income per share information:				
Basic	$0.01		$0.06	
Diluted	$0.01		$0.05	

Revenues

We commenced delivery and sale of our digital video rear view mirror (DVM-500) product in March 2006 and generated significant revenues from this product line. We have customers in all 50 states and our largest single order to date in the amount of $5.1 million was placed by an international customer. We believe our DVM-500 product has achieved widespread acceptance in the marketplace. In December 2008, we introduced an upgrade to the DVM-500 legacy product, the DVM-500 Plus model, which targets the smaller and rural police agencies typically with less than 25-50 uniformed officers. In addition, during the second quarter of 2009 we launched the new DVM-750 product series with many advanced features that targets the larger police agencies and urban areas. The DVM-750 allows us to pursue a new market that we were not previously able to target with our legacy DVM-500 product series. We also expanded our product line in the third quarter of 2009 through the introduction of our DVM-500 Ultra model, that targets motorcycle, boat and ATV markets, and we plan to introduce the FirstVu, which is a mobile product that clips onto an officers' pocket or uniform, during the fourth quarter of 2009. We anticipate the DVM-750, DVM-500 Plus, DVM-500 Ultra and FirstVu will contribute to our 2009 revenues and supplement our DVM-500 legacy sales.

Revenues for the three months ended September 30, 2009 and 2008 were $5,714,683 and $8,451,270, respectively, a decrease of $2,736,587 (32%), due to the following conditions:

- We have experienced a decrease in revenues resulting from the challenging economy which has negatively impacted state, county and municipal budgets. Our average order size decreased from approximately $12,400 during the three months ended September 30, 2008 to $6,700 during the three months ended September 30, 2009. During the three months ended September 30, 2008, we shipped one order for approximately $2.2 million, which did not recur in the 2009 period. However, we shipped eight individual orders in excess of $100,000 during the three months ended September 30, 2009, compared to four individual orders in excess of $100,000 during the three months ended September 30, 2008.

- We believe that current and potential customers may have delayed their orders due to a number of factors, including their local budget reductions and anticipation of receiving the federal government's stimulus funds in order to preserve their currently available funding and budgets.

  - Our international revenues decreased substantially to $270,491 during the three months ended September 30, 2009 compared to $3,183,182 during the three months ended September 30, 2008. Sales to certain countries that were strong revenue sources for us on an historical basis have been negatively impacted by political and social unrest, economic recession and a weakening of their currency exchange rate versus the US dollar. We have focused on our international business by hiring an international sales manager in January 2009 and by appointing international distribution agents in six new countries since January 1, 2009, which brings our total to 30 agents representing our products in various countries throughout the world. We have experienced an increase in inquiries and bid activity from international customers in 2009. During October 2009, we were awarded a $3 million contract from a customer located in Turkey that is expected to ship in the fourth quarter of 2009. We believe that revenues from our international customers will recover in the upcoming quarters.

We have maintained consistent retail pricing on our DVM-500 models during 2009 and do not plan any increases in pricing during the remainder of 2009 for the DVM-500 product series and the new products recently introduced. Our new products include the DVM-500 Ultra model and the DVM-750, which will be sold at higher retail pricing levels compared to the legacy products during 2009 due to increased features.

Cost of Revenue

Cost of revenue on units sold for the three months ended September 30, 2009 and 2008 was $2,379,694 and $3,283,446, respectively, a decrease of $903,752 (28%). The decrease in costs of goods sold is commensurate with the 32% decrease in revenues and the impact of the introduction of the new DVM-750 and DVM-500 Ultra product lines and the upgraded DVM-500 Plus. The DVM-750 was launched during the second quarter of 2009 and the DVM-500 Plus product was introduced in late 2008, but commercial production was ramped up during the second and third quarters of 2009. There were inefficiencies, training, rework and a high failure rate at final burn-in that contributed to increased production costs during the three months ended September 30, 2009. Such product conversion costs and inefficiencies are anticipated and are a main focus of management and engineering at the current time. Production rates for the new models have steadily improved throughout the three months ended September 30, 2009, reaching planned production rates of 60 to 70 units per day in September 2009. In addition, failure and rework rates are improving, but have not yet reached normal levels. We anticipate that such rates will continue to improve dramatically during the fourth quarter of 2009. Costs associated with the production line conversion to DVM-750, DVM-500 Ultra and DVM-500 Plus products, including the training, rework and high failure rates of the DVM-750 units coupled with a significant decrease in revenues (32%) during the three months ended September 30, 2009, resulted in a substantial increase in our cost of revenues as a percent of revenues to 42% compared to the 39% rate during the three months ended September 30, 2008. We expect that our new product offerings during 2009 will likely increase our cost of goods sold as a percentage of sales for the balance of 2009 compared to 2008 levels, but will show improvement to the first three quarters of 2009. We do not expect to incur significant capital expenditures to ramp up production of the new products because our internal process is largely assembling subcomponents, testing and shipping of completed products. We rely on our subcontractors to produce finished circuit boards that represent the primary components in our products, thereby reducing our need to purchase capital equipment. However, we will need to acquire test and calibration equipment to ensure that the completed products meet our specifications and requirements, which we expect will cost less than $100,000.

We had $863,875 in reserves for obsolete and excess inventories at September 30, 2009. We had fewer than 50 units of the legacy DVM-500 units in finished goods at September 30, 2009, which are expected to be fully liquidated during the balance of 2009 without requiring any pricing discounts. We believe these reserves are appropriate given our inventory levels at September 30, 2009 and the new product introductions that we anticipate during the remainder of 2009.

We primarily order finished component parts, including electronics boards, chips and camera parts, from outside suppliers. Our internal work consists of assembly, testing and burn-in of the finished units. We have added indirect production and purchasing personnel to better manage and gain efficiencies in our production process as we expand our product line during 2009 and beyond. We have recently hired a new purchasing manager in order to concentrate on improving our raw material and component costs by managing our supply chain through quantity purchases and more effective purchasing practices. We believe that if we can increase our production rate and expand product lines for the remainder of 2009, we will be able to eventually reduce our component and supply chain costs by ordering in larger quantities with more effective price negotiations and leverage. In addition, we believe if we can increase production rates for the remainder of 2009, we may stimulate some efficiency in our assembly, testing and burn in process that should lead to improvements in our cost of sales. Nonetheless, we expect these supply chain efficiencies may be less than the impact from the introduction of new products on our cost of revenue during 2009, resulting in an overall increase in cost of revenue as a percentage of revenue.

Gross Profit

Gross profit for the three months ended September 30, 2009 and 2008 was $3,334,989 and $5,167,824, respectively, a decrease of $1,832,835 (35%). The significant decrease is commensurate with the 32% decline in revenues and increase in cost of revenues as a percent of sales that we experienced during the three months ended September 30,

2009. The gross profit percentages decreased to 58% for the three months ended September 30, 2009 from 61% for the three months ended September 30, 2008. We expect that our margins will be lower than normal on revenues contributed by our new products as we bring these products into commercial production during 2009. However, as revenues increase from these products, we will seek to improve our margins from these new products due to economies of scale and more effectively utilizing fixed manufacturing overhead components. We plan to concentrate on more efficient management of our supply chain through quantity purchases and more effective purchasing practices. Nonetheless, on an overall basis, we expect a decline in our gross margin percentage for the balance of 2009 compared to 2008, due primarily to the impact of our new product offerings and our results in the first three quarters of 2009.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $3,212,553 and $3,798,436 for the three months ended September 30, 2009 and 2008, respectively, a decrease of $585,883 (15%). Overall selling, general and administrative expenses as a percentage of sales increased to 56% in 2009 compared to 45% in 2008. A summary of the significant components of selling, general and administrative expenses are as follows:

	Three Months Ended September 30,	
	2009	2008
Research and development expense	$ 696,523	$ 785,428
Selling, advertising and promotional expense	748,634	889,496
Stock-based compensation expense	348,704	531,947
Vendor settlements and credits	(278,173)	-
Professional fees and expense	237,958	237,191
Executive, sales and administrative staff payroll	820,959	558,630
Other	637,948	795,744
Total	$ 3,212,553	$ 3,798,436

Research and development expense. We continue to focus on bringing new products, updates and improvements to current products to market. Our research and development expenses totaled $696,523 and $785,428 for the three months ended September 30, 2009 and 2008, respectively, a decrease of $88,905 (11%). The decrease in 2009 was attributable to cost containment efforts and increased scrutiny of engineering resources during 2009 by our new Vice President of Engineering, who was hired in April 2009. He has effected changes to improve the efficiency and cost effective usage of engineering resources to improve our efforts to develop new products (in particular the DVM-750) and line extensions for our current products that we plan to bring to market during 2009. We employed a total of 21 engineers at September 30, 2009, most of whom are dedicated to research and development activities for new products. Research and development expenses as a percentage of total revenues were 12% in 2009 and 9% in 2008, illustrating our commitment to bringing new products to market and expanding our current product line. We have active research and development projects on several new products designed for the school bus, mass transit, taxi cab, law enforcement and other markets, as well as upgrades to our existing product lines. We experienced delays in the launch of our DVM-750 product, which was expected to be completed and in production during the fourth quarter 2008, and then in the first quarter of 2009. The DVM-750 was launched and commercial deliveries began during the second quarter of 2009. These delays caused increased research and development expenses during the three months ended September 30, 2009, as our engineers focused on initial production and other technical issues that developed in the DVM-750 product. During the third quarter of 2009, we successfully launched the DVM-500 Ultra and we anticipate the launch of the FirstVU during the fourth quarter of 2009, which illustrates the current results of our research and development efforts. Our number of engineers devoted to research and development activities is expected to continue to approximate our 2008 levels. Therefore, we believe that research and development expenses will be comparable to our 2008 levels for the balance of 2009, although we expect that such expense as a percentage of total revenues should remain steady or decline as our revenues increase. We consider our research and development capabilities and new product focus to be a competitive advantage and will continue to invest in this area on a prudent basis.

Selling, advertising and promotional expenses. Selling, advertising and promotional expense totaled $748,634 and $889,496 for the three months ended September 30, 2009 and 2008, respectively, a decrease of $140,862 (16%). The largest component of selling, promotional and advertising expense is commissions paid to our independent agents that represent our sales force in the domestic market. These agents receive a commission on sales ranging from 5% to 10% of the gross sales price to the end customer. Sales commissions totaled $631,993 and $742,587 for the three months ended September 30, 2009 and 2008, respectively, a decrease of $110,594 (15%), which is commensurate with the 32% decline in sales and the higher percentage of domestic revenues versus foreign revenues during 2009 compared to 2008. Foreign sales are handled by independent distributors who buy product at a wholesale price from us and resell it to their customers at a retail price and retain the margin as their compensation rather than receiving commission on such sales. Sales commissions as a percentage of overall sales increased to 11% during the three months ended September 30, 2009, compared to 9% during the three months ended September 30, 2008, which is attributable to the significant decline in foreign revenues as a percentage of total revenues during 2009 (5%) compared

to 2008 (38%).

Promotional and advertising expenses totaled $116,641 during the three months ended September 30, 2009, compared to $146,909 during the three months ended September 30, 2008, a decrease of $30,268 (21%). The decrease is attributable to the timing of trade shows rather than the number of shows attended. We have hired a graphic designer in 2009, who has designed and produced many of our sales brochures and promotional tools, which has reduced our overall costs in this area. We have increased the number of trade shows attended during 2009 to 2008, including both domestic and international venues. We believe our increased presence at such trade shows will lead to higher revenues through new leads and product demonstrations.

Stock-based compensation expense. Stock based compensation expense totaled $348,704 and $531,947 for the three months ended September 30, 2009 and 2008, respectively, a decrease of $183,243 (34%). The decrease was primarily attributable to the Separation Agreement we entered into with our former Vice President of Engineering and Production, which included a provision whereby the Company repurchased all of his vested and unvested stock options during April 2009. As a result, all remaining unamortized stock compensation expense related to such unvested stock options was expensed immediately (in the second quarter of 2009) as a charge related to the purchase and cancellations of employee stock options. Therefore normal amortization related to such options did not occur in the third quarter of 2009 subsequent to the resignation.

Vendor Settlements and Credits. The Company resolved a dispute with a vendor during August 2009 that resulted in an aggregate benefit to the Company of $278,173. The Company disputed the value of services and products delivered and invoiced to the Company. The dispute was resolved through mediation prior to the filing of a lawsuit and resulted in the Company receiving a cash settlement of $200,000, plus the cancellation of $78,173 of account payables to this vendor. The Company recognized an aggregate benefit of $278,173 during the three months ended September 30, 2009, which was reflected as an offset to selling, general and administrative expenses.

Professional fees and expense. Professional fees and expenses totaled $237,958 and $237,191 for the three months ended September 30, 2009 and 2008, respectively, a slight increase of $767 (0%). The legal fees during 2009 were related primarily to normal public company matters and the DeHuff, and Z3 Technologies, LLC matters. During 2008, the legal fees were primarily related to the L-3 Mobile Vision patent litigation and Dehuff matters. The Dehuff and Z3 Technologies, LLC matters have not been resolved, therefore the related legal fees will continue to impact the Company during the balance of 2009, at a minimum.

Executive, sales and administrative staff payroll. Executive, sales and administrative staff payroll expenses totaled $820,959 and $558,630 for the three months ended September 30, 2009 and 2008, respectively, an increase of $262,329 (47%). This increase is attributable to increased payroll costs related to additional sales and marketing personnel, the Vice President of Strategic Development hired in 2009 and a $150,000 performance bonus granted to our CEO during the three months ended September 30, 2009 that did not occur in 2008. Effective January 2009, we hired three new sales and marketing employees, including an international sales manager, an inside sales manager and a national accounts manager, to improve our sales and marketing infrastructure in anticipation of the new products being launched in 2009 and to increase our presence internationally.

Other. Other selling, general and administrative expenses totaled $637,947 and $795,744 for the three months ended September 30, 2009 and 2008, respectively, a decrease of $157,797 (20%). The decrease in 2009 was primarily due to cost containment measures implemented that resulted in lower facility-related expenses, consulting, insurance, information technology and travel during 2009. We plan to continue our cost containment initiatives for at least the remainder of 2009 and expect the improvement in our overhead costs to continue.

Operating Income (loss)

For the reasons previously stated, our operating income was $122,436 and $1,369,389 for the three months ended September 30, 2009 and 2008, respectively, a decline of $1,246,953 (91%). Operating income as a percentage of revenues declined to 2% in 2009 compared to 16% in 2008. We expect that the negative trends in operating income will improve during the remainder of 2009, as our revenue and gross margins dollars increase through the launches of our new products and anticipated increases in funding to states, counties and municipalities from the stimulus bill, coupled with management's continued monitoring and control over selling general and administrative expenses.

Interest Income

Interest income declined to $8,966 in the three months ended September 30, 2009 from $22,221 in 2008. The decrease in interest income was a result of our decreased average cash balances, coupled with a significantly lower average interest rate earned on such balances during the three months ended September 30, 2009 compared to 2008.

Income before Income Tax (Provision) Benefit

As a result of the above, we reported income before income tax provision of $131,402 and $1,391,609 for the three months ended September 30, 2009 and 2008, respectively, a decline of $1,260,207 (91%).

Income Tax (Provision) Benefit

Our income tax provision was $50,000 for the three months ended September 30, 2009, compared to an income tax provision of $518,000 for the three months ended September 30, 2008.

During the three months ended September 30, 2009, we recorded a benefit for income taxes at an effective tax rate of 38% compared to a provision at an effective rate of 37% for 2008. We have approximately $1,670,500 of net operating loss carryforwards as of September 30, 2009 available to offset future net taxable income.

Net Income (Loss)

As a result of the above, for the three months ended September 30, 2009 and 2008, we reported net income of $81,402 and $873,609, respectively, a decrease of $792,207.

Basic and Diluted Income (Loss) per Share

Basic income per share was $0.01 and $0.06 for the three months ended September 30, 2009 and 2008, respectively, for the reasons previously noted. The diluted income per share was $0.01 and $0.05, respectively, for the same periods. Approximately 2,005,639 of the outstanding stock options were considered antidilutive and therefore excluded from the calculation of diluted loss per share for the three months ended September 30, 2009 because their exercise price exceeded the average market price during the period. The difference between basic and dilutive income per share for the three months ended September 30, 2008 is attributable to the dilutive effect of shares issuable under outstanding stock options.

For the Nine months Ended September 30, 2009 and 2008

Results of Operations

Summarized immediately below and discussed in more detail in the subsequent sub-sections is an analysis of our operating results for the nine months ended September 30, 2009 and 2008, represented as a percentage of total revenues for each respective year:

	Nine Months Ended September 30,			
	2009		2008	
Revenue	100	%	100	%
Cost of revenue	49	%	38	%
Gross profit	51	%	62	%
Selling, general and administrative expenses:				
Research and development expense	16	%	7	%
Selling, advertising and promotional expense	11	%	10	%
Stock-based compensation expense	6	%	4	%
Charge related to purchase and cancellation of employee stock options	2	%	—	%
Vendor settlements and credits	(2	%)	—	%
General and administrative expense	31	%	17	%
Total selling, general and administrative expenses	64	%	38	%
Operating income (loss)	(13	%)	24	%
Interest income (expense)	1	%	—	%
Income (loss) before income tax provision	(12	%)	24	%
Income tax (provision) benefit	4	%	(9	%)
Net income (loss)	(8	%)	15	%
Net income per share information:				
Basic	$(0.09	)	$0.26	
Diluted	$(0.09	)	$0.22	

Revenues

We commenced delivery and sale of our digital video rear view mirror (DVM-500) product in March 2006 and generated significant revenues from this product line. We have customers in all 50 states and our largest single order to date in the amount of $5.1 million was placed by an international customer. We believe our DVM-500 product has achieved widespread acceptance in the marketplace. In December 2008, we introduced an upgrade to the DVM-500 legacy product, the DVM-500 Plus model, which targets the smaller and rural police agencies typically with less than 25-50 uniformed officers. In addition, during the second quarter of 2009, we launched the new DVM-750 product series with many advanced features that targets the larger police agencies and urban areas. The DVM-750 allows us to pursue a new market that we were not previously able to target with our legacy DVM-500 product series. We also expanded our product line in the third quarter of 2009 through the introduction of our DVM-500 Ultra model that targets motorcycle, boat and ATV markets and we plan to introduce the FirstVu, which is a mobile product that clips onto an officers' pocket or uniform, during the fourth quarter of 2009. We anticipate the DVM-750, DVM-500 Plus, DVM-500 Ultra and FirstVu will contribute to our 2009 revenues and supplement our DVM-500 product sales.

Revenues for the nine months ended September 30, 2009 and 2008 were $17,121,063 and $25,940,996, respectively, a decrease of $8,819,933 (34%), due to the following conditions:

- We have experienced a decrease in overall revenues resulting from the challenging economy which has negatively impacted state, county and municipal budgets.

- We believe that delays in the introduction of our DVM-750 product resulted in significant lost revenues during the nine months ended September 30, 2009. We were not able to compete for several large contracts that required the specifications of the DVM-750. In addition, we believe that customers may have delayed orders so that they could purchase the DVM-750 rather than the DVM-500 product series.

- We believe that current and potential customers may have delayed their orders due to a number of factors, including local budget reductions and in anticipation of receiving the federal government's stimulus funds in order to preserve their currently available funding and budgets.

- Our international revenues decreased substantially to $595,737 during the nine months ended September 30, 2009, compared to $7,941,114 during the nine months ended September 30, 2008. Sales to certain countries that were strong revenue sources for us on an historical basis have been negatively impacted by political and social unrest, economic recession and a weakening of their currency exchange rate versus the US dollar. We have focused on our international business by hiring an international sales manager in January 2009 and by appointing international distribution agents in six new countries since January 1, 2009, which brings our total to 30 agents representing our products in various countries throughout the world. We have experienced an increase in inquiries and bid activity from international customers in 2009. During October 2009, we were awarded a $3 million contract from a customer in Turkey that is expected to ship in the fourth quarter of 2009. We believe that revenues from our international customers will recover in the upcoming quarters.

We expect that the current economic domestic and international economies downturn will continue to have an adverse effect on the budgets of our customers and negatively impact our business for the remainder of 2009. However, we are hopeful that the anticipated increase in funding to states, counties and municipalities from the stimulus bill and the availability of new products in particular the DVM-750 may help to offset some of the negative impact of the economic recession.

We have maintained consistent retail pricing on our DVM-500 models during 2009 and do not plan any increases in pricing during the remainder of 2009 for the DVM-500 product series and the new products recently introduced. Our new products include the DVM-500 Ultra model and the DVM-750, which will be sold at higher retail pricing levels compared to the legacy products during 2009 due to increased features.

Cost of Revenue

Cost of revenue on units sold for the nine months ended September 30, 2009 and 2008 was $8,415,929 and $9,914,682, respectively, a decrease of $1,498,753 (15%). The decrease in cost of sales is primarily attributable to a substantial decrease in the number of units shipped resulting in a 34% decrease in total revenues offset by an increase in the cost of revenue as a percentage of total sales. Cost of sales as a percent of revenues increased to 49% during the nine months ended September 30, 2009, compared to 38% during the nine months ended September 30, 2008. The increase in costs of goods sold primarily reflects the impact of the introduction of the new DVM-750 product line and the upgraded DVM-500 Plus. The DVM-750 was launched during the second quarter of 2009 and the DVM-500 Plus product was introduced in late 2008, but commercial production was ramped up during the second and third quarters of 2009. There were additional expenses related to inefficiencies, training, rework and a high failure rate at final burn-in related to the new products that substantially increased production costs during the nine months ended September 30, 2009. Such product conversion costs and inefficiencies were anticipated and are a main focus of

management and engineering at the current time. Production rates for the new models have steadily improved throughout the nine months ended September 30, 2009 reaching 60 to 70 units per day in September 2009. In addition, failure and rework rates are improving, but have not yet reached normal levels. We anticipate that such rates will continue to improve dramatically during the remainder of 2009. We expect that our new product offerings during 2009 will likely increase our cost of goods sold as a percentage of sales for the remainder of 2009 compared to 2008 levels, but will show improvement compared to the first three quarters of 2009. We do not expect to incur significant capital expenditures to ramp up production of the new products because our internal process is largely assembling subcomponents, testing and shipping of completed products. We rely on our subcontractors to produce finished circuit boards that represent the primary components in our products, thereby reducing our need to purchase capital equipment. However, we will need to acquire test and calibration equipment to ensure that the completed products meet our specifications and requirements which will cost less than $100,000 in total.

We had $863,875 in reserves for obsolete and excess inventories at September 30, 2009. We had fewer than 50 units of the legacy DVM-500 units in finished goods at September 30, 2009, which are expected to be fully liquidated during the balance of 2009 without requiring any pricing discounts. We believe these reserves are appropriate given our inventory levels at September 30, 2009 and the new product introductions. that we anticipate during the remainder of 2009.

We primarily order finished component parts, including electronics boards, chips and camera parts, from outside suppliers. Our internal work consists of assembly, testing and burn-in of the finished units. We have added indirect production and purchasing personnel to better manage and gain efficiencies in our production process as we expand our product line during 2009 and beyond. We have recently hired a new purchasing manager in order to concentrate on improving our raw material and component costs by managing our supply chain through quantity purchases and more effective purchasing practices. We believe that if we can increase our production rate and expand product lines for the remainder of 2009, we will be able to eventually reduce our component and supply chain costs by ordering in larger quantities and more effective price negotiations and leverage. In addition, we believe if we can increase production rates for the remainder of 2009, we may stimulate some efficiency in our assembly, testing and burn in process that should lead to improvements in our cost of sales. Nonetheless, we expect these supply chain efficiencies may be less than the impact from the introduction of new products on our cost of revenue during 2009, resulting in an overall increase in cost of revenue as a percentage of revenue.

Gross Profit

Gross profit for the nine months ended September 30, 2009 and 2008 was $8,705,134 and $16,026,314, respectively, a decrease of $7,321,180 (46%). The significant decrease is commensurate with the 34% decline in revenues and increase in cost of revenues as a percent of sales that we experienced during the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008. Our gross profit percentage decreased to 51% for the nine months ended September 30, 2009 from 62% for the nine months ended September 30, 2008. We expect that our gross margins to be lower than normal on revenues contributed by our new products as we bring these products into commercial production during 2009. However, as revenues increase from these products, we will seek to improve our margins from these new products due to economies of scale and more effectively utilizing fixed manufacturing overhead components. We plan to concentrate on more efficient management of our supply chain through quantity purchases and more effective purchasing practices. Nonetheless, on an overall basis, we expect a decline in our gross margin percentage for the remainder of 2009 compared to 2008, due primarily to the impact of our new product offerings and our results in the first three quarters of 2009.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $10,835,968 and $9,882,156 for the nine months ended September 30, 2009 and 2008, respectively, an increase of $953,812 (9%). Overall selling, general and administrative expenses as a percentage of sales increased to 64% in 2009 compared to 38% in 2008.

A summary of the significant components of selling, general and administrative expenses are as follows:

	Nine Months Ended September 30,	
	2009	2008
Research and development expense	$ 2,803,038	$ 1,893,318
Selling, advertising and promotional expense	1,922,535	2,500,789
Stock-based compensation expense	1,054,003	1,106,258
Charge related to purchase and cancellation of employee stock options	358,104	--

Vendor settlements and credits	(278,173)	--
Professional fees and expense	851,625	720,464
Executive, sales and administrative staff payroll	2,233,430	1,594,819
Other	1,891,406	2,066,508
Total	$ 10,835,968	$ 9,882,156

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Research and development expense. We continue to focus on bringing new products, updates and improvements to current products to market. Our research and development expenses totaled $2,803,038 and $1,893,318 for the nine months ended September 30, 2009 and 2008, respectively, an increase of $909,720 (48%). The increase in 2009 was attributable to our continued efforts to develop new products (in particular the DVM-750) and line extensions for our current products that we plan to bring to market during 2009, including additional internal staff additions related to such activities. We employed a total of 21 engineers at September 30, 2009, compared to 18 at September 30, 2008, most of which are dedicated to research and development activities for new products. Research and development expenses as a percentage of total revenues were 16% in 2009 and 7% in 2008, illustrating our commitment to bringing new products to market and expanding our current product line. We have active research and development projects on several new products designed for the school bus, mass transit, taxi cab, law enforcement and other markets, as well as upgrades to our existing product lines. We experienced delays in the launch of our DVM-750 product, which was expected to be completed and in production during the fourth quarter 2008, and then in the first quarter of 2009. The DVM-750 was launched and commercial deliveries began during the second quarter of 2009. The delays have caused increased research and development expenses during the nine months ended September 30, 2009 as our engineers focused on initial production and other technical issues that developed in the DVM-750 product. During the third quarter of 2009, we successfully launched the DVM-500 Ultra and we anticipate the launch of the FirstVU during the fourth quarter of 2009, which illustrates the current results of our research and development efforts. We hired a new Vice President of Engineering during April 2009, who has focused on cost management within our research and engineering group. However, our number of engineers devoted to research and development activities is expected to continue to approximate our 2008 levels. Therefore, we believe that research and development expenses will be comparable to our 2008 levels for the remainder of 2009, although we expect that such expense as a percentage of total revenues should remain steady or decline as our revenues increase. We consider our research and development capabilities and new product focus to be a competitive advantage and will continue to invest in this area on a prudent basis.

Selling, advertising and promotional expense. Selling, advertising and promotional expense totaled $1,922,535 and $2,500,789 for the nine months ended September 30, 2009 and 2008, respectively, a decrease of $578,254 (23%). The largest component of selling, promotional and advertising expense is commissions paid to our independent agents that represent our sales force in the domestic market. These agents receive a commission on sales ranging from 5% to 10% of the gross sales price to the end customer. Sales commissions totaled $1,571,269 and $2,162,680 for the nine months ended September 30, 2009 and 2008, respectively, a decrease of $591,411 (27%), which is commensurate with the 34% decline in sales and the higher percentage of domestic revenues versus foreign revenues during 2009 compared to 2008. Foreign sales are handled by independent distributors who buy our product at a wholesale price from us and resell it to their customers at a retail price and retain the margin as their compensation rather than receiving commission on such sales. Sales commissions as a percentage of overall sales increased to 9.2% during the nine months ended September 30,2009, compared to 8.3% during the nine months ended September 30, 2008, which is attributable to the significant decline in foreign revenues as a percentage of total revenues during 2009 (3%) compared to 2008 (31%).

Promotional and advertising expenses totaled $351,266 during the nine months ended September 30, 2009, compared to $338,109 during the nine months ended September 30, 2008, an increase of $13,157 (4%). The increase is attributable to an increase in the number of trade shows attended, including both domestic and international venues. We believe our increased presence at such trade shows will lead to increased revenues through new leads and product demonstrations. Our promotional expenses increased as we launched our new products in 2009, which required the development of new marketing brochures and material including wider advertising through trade magazines and journals.

Stock- based compensation expenses. Stock based compensation expenses totaled $1,054,003 and $1,106,258 for the nine months ended September 30, 2009 and 2008, respectively, a decrease of $52,255 (5%). The Board of Directors granted a total of 675,000 options to employees during the nine months ended September 30, 2009, compared to

945,000 during the nine months ended September 30, 2009. The lower number of options issued during 2009 compared to 2008 contributed to the decrease in stock-based compensation expense.

Charge related to purchase and cancellation of employee stock options. Charges related to purchase and cancellation of employee stock options totaled $358,104 and $0 for the nine months ended September 30, 2009 and 2008, respectively, an increase of $358,104 (100%). The increase was attributable to the Separation Agreement entered into with our previous Vice President of Engineering and Production, who resigned during April 2009. The Separation Agreement included a provision whereby the Company repurchased all of his vested and unvested stock options. As a result, all remaining unamortized stock compensation expense related to the unvested stock options was expensed immediately. The one-time charge totaled $358,104 and is included in charges related to purchase and cancellation of employee stock options for the nine months ended September 30, 2009.

Vendor Settlements and Credits. The Company resolved a dispute with a vendor during August 2009 that resulted in an aggregate benefit to the Company of $278,173. The Company disputed the value of services and products delivered and invoiced to the Company. The dispute was resolved through mediation prior to the filing of a lawsuit and resulted in the Company receiving a cash settlement of $200,000, plus the cancellation of $78,173 of invoices payable to this vendor. The Company recognized an aggregate benefit of $278,173 during the nine months ended September 30, 2009, which was reflected as an offset to selling, general and administrative expenses.

Professional fees and expense. Professional fees and expenses totaled $851,625 and $720,464 for the nine months ended September 30, 2009 and 2008, respectively, an increase of $131,161 (18%). The increase primarily reflects the legal fees incurred during 2009 to prosecute and defend the DeHuff, Z3 Technologies, LLC and other legal actions. These matters have not been resolved; therefore the related legal fees will continue to impact the Company during the remainder of 2009, at a minimum.

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Executive, sales and administrative staff payroll. Executive, sales and administrative staff payroll expenses totaled $2,233,430 and $1,594,819 for the nine months ended September 30, 2009 and 2008, respectively, an increase of $638,611 (40%). This increase is attributable to additional sales and marketing personnel, the Vice President of Strategic Development hired in 2009 and a $150,000 performance bonus granted to our CEO during the nine months ended September 30, 2009 that did not occur in 2008. During January 2009, we have hired three new sales and marketing employees, including an international sales manager, an inside sales manager and a national accounts manager, to improve our sales and marketing infrastructure in anticipation of the new products launched in 2009 and to increase our presence internationally.

Other. Other selling, general and administrative expenses totaled $1,891,406 and $2,066,508 for the nine months ended September 30, 2009 and 2008, respectively, a decrease of $175,102 (8%). The decrease in 2009 was primarily due to cost containment measures implemented that resulted in lower facility-related expenses, consulting, insurance, information technology and travel during 2009. We plan to continue our cost containment initiatives for at least the balance of 2009.

Operating Income (loss)

For the reasons previously stated, our operating income (loss) was ($2,130,834) and $6,144,158 for the nine months ended September 30, 2009 and 2008, respectively, a decline of $8,274,992 (135%). Operating income (loss) as a percentage of revenues declined to (13%) in 2009 compared to 24% in 2008. We expect that the negative trends in operating income (loss) will improve during the remainder of 2009, as our revenue and gross margins dollars increase through the launches of our new products and anticipated increases in funding to states, counties and municipalities from the stimulus bill, coupled with management’s continued monitoring and control over selling general and administrative expenses.

Interest Income

Interest income declined to $27,089 in the nine months ended September 30, 2009 from $71,518 in 2008. The decrease in interest income was a result of our decreased average cash balances, coupled with a significantly lower average interest rate earned on such balances during the nine months ended September 30, 2009 compared to 2008.

Income before Income Tax (Provision) Benefit

As a result of the above, we reported income (loss) before income tax (provision) benefit of ($2,103,745) and $6,215,676 for the nine months ended September 30, 2009 and 2008, respectively, a decline of $8,319,421 (134%).

Income Tax (Provision) Benefit

Our income tax benefit was $720,000 for the nine months ended September 30, 2009, compared to an income tax provision of $2,253,000 for the nine months ended September 30, 2008.

During the nine months ended September 30, 2009, we recorded a benefit for income taxes at an effective tax rate of 34% compared to a provision at an effective rate of 36% for 2008. We have approximately $1,670,500 of net operating loss carryforwards as of September 30, 2009 available to offset future net taxable income.

Net Income (Loss)

As a result of the above, for the nine months ended September 30, 2009 and 2008, we reported net income (loss) of ($1,383,745) and $3,962,676, respectively, a decrease of $5,346,421.

Basic and Diluted Income (Loss) per Share

Basic income (loss) per share was ($0.09) and $0.26 for the nine months ended September 30, 2009 and 2008, respectively, for the reasons previously noted. The diluted income (loss) per share was ($0.09) and $0.22, respectively, for the same periods. All outstanding stock options were considered antidilutive and therefore excluded from the calculation of diluted loss per share for the nine months ended September 30, 2009 because of the net loss incurred. The difference between basic and dilutive income per share for the nine months ended September 30, 2008 is attributable to the dilutive effect of shares issuable under stock options and warrants.

Liquidity and Capital Resources

Overall: During 2009 and 2008, we principally funded our operations internally through cash flow from operations and the exercise of stock options and related tax benefits. Prior to 2008, we primarily provided for our cash requirements through private placements of our common stock, the issuance of term debt and a revolving credit facility with a bank. In 2005, we raised a net of $4.1 million from the sale of our common stock and, during the third quarter 2006, we completed a private placement of our common stock and common stock purchase warrants, which raised a net of $1.6 million. During March 2006, we began shipment of our products and commenced the generation of revenues and operating cash flows to help support our activities. During the fourth quarter 2006, we established a $500,000 revolving line of credit with a bank, which we utilized to support our activities. In April 2007, we paid off the line of credit in full, and the bank expanded the line of credit to $1.5 million. The holder of a $500,000 note payable exercised its right to convert the note to 500,000 shares of common stock, which was completed during the second quarter 2007. During February 2009, our bank renewed our operating line of credit through February 2010 and expanded the borrowing capacity to $2.5 million. As of September 30, 2009, we had working capital of $13,876,461 and we had no long-term or short-term interest bearing debt outstanding. We have not had any interest bearing debt outstanding since May 2007.

Our recent operating losses and increases in inventory levels have led to deterioration in our cash levels and liquidity in the first three quarters of 2009 compared to fiscal 2008. We have an unused $2.5 million revolving line-of-credit which would provide us short-term liquidity should the need arise, provided that we continue to satisfy the facility's covenant requiring us to maintain a $15.0 million tangible net worth. Currently, we have no long or short-term debt outstanding and have approximately $13.9 million in working capital. Management is focusing on reducing inventory and accounts receivable levels to generate additional liquidity and improve our cash position. We believe that our liquidity trends will improve during the remainder of 2009 and that our current credit facility will be sufficient to meet our operating needs for the reasonably foreseeable future. However, we believe that our strong working capital position and debt-free balance sheet would allow us to increase our line-of-credit facility and/or raise additional equity capital should the need arise. Management does not consider raising capital through an equity offering as a viable alternative to supplement working capital needs, given the general levels of public equity valuations. There can be no assurance that such increased debt facilities and capital raise can be accomplished in a timely manner and at a rate acceptable to the Company.

Cash and cash equivalents balances: As of September 30, 2009, we had cash and cash equivalents with an aggregate balance of $1,017,790, a decline from a balance of $1,205,947 at December 31, 2008. Summarized immediately below and discussed in more detail in the subsequent sub-sections are the main elements of the $188,157 net decrease in cash during the nine months ended September 30, 2009:

- Operating activities: $474,691 of net cash provided by operating activities, generated primarily from the collection of accounts receivable and non-cash charges to income, such as depreciation and amortization, stock-based compensation and increases in reserves for inventory obsolescence offset by our net loss. In addition, our cash flows from operating activities was negatively affected by payments of trade accounts payable and non-cash deferred tax benefits during the period

- Investing activities: $421,135 of net cash used in investing activities, primarily to acquire equipment to expand our research, development and production capabilities and the costs to acquire patents on our proprietary technology utilized in our products.

- Financing activities: $241,713 of net cash used in financing activities, representing the purchase of common shares for treasury, the repurchase of outstanding stock options and the related deficiency in tax benefit offset by the proceeds from stock option the purchase of common shares for treasury.

Operating activities: Net cash provided by (used in) operating activities was $474,691 and ($2,951,153) for the nine months ended September 30, 2009 and 2008, respectively, an improvement of $3,425,844. The positive cash flow from operations for the nine months ended September 30, 2009 is primarily the result of collections of accounts receivable and substantial non-cash charges to income such as depreciation and amortization expense, stock-based compensation and increases in inventory reserves offset by our net losses and non-cash credits for deferred tax benefits and a substantial decrease in accounts payables during 2009. Our accounts receivable decreased as a result of our increased collection efforts and lower revenues generated late in the third quarter of 2009, compared to the previous period. We anticipate that we will increase revenues, return to profitability and decrease our inventory and accounts receivable balances during the remainder of 2009, thereby providing positive cash flows from operations.

Investing activities: Cash used in investing activities was $421,135 and $1,182,435 for the nine months ended September 30, 2009 and 2008, respectively. In both 2009 and 2008, we purchased production, research and development equipment and office furniture and fixtures to support our activities. During 2009, we also incurred costs to acquire patents on our proprietary technology utilized in our new products and included in intangible assets.

Financing activities: During the nine months ended September 30, 2009, net cash used in financing activities was $241,713, which is attributable to the purchase of common shares held in treasury in the amount of $63,112, the purchase of outstanding stock options for $320,000 and the related $120,000 deficiency in tax benefits, which was partially offset by proceeds from the exercise of stock purchase options of $261,399. During the nine months ended September 30, 2008, net cash provided by financing activities totaled $3,095,619. During 2008 we received proceeds from the exercise of stock purchase options of $2,374,972 and the related excess tax benefit totaling $2,345,000. We have not had any outstanding debt since May 2007.

The net result of these activities was a decrease in cash of $188,157 to $1,017,790 for the nine months ended September 30, 2009.

Commitments:

We had $1,017,790 of cash and cash equivalent balances and net positive working capital approximating $13.9 million as of September 30, 2009. Accounts receivable balances represented $5,412,504 of our net working capital at September 30, 2009. We expect our outstanding receivables will be collected timely and the overall level will be reduced substantially during the remainder of 2009, which will provide positive cash flows to support our operations during 2009. Inventory represented $8,093,499 of our net working capital at September 30, 2009. We are actively managing the overall level of inventory and expect that such levels will be reduced during the remainder of 2009, which will provide cash flow to help support our operations during 2009. In addition, in February 2009, we renewed our revolving line of credit for an additional one year term until February 2010 and increased our maximum available borrowings to $2,500,000. The renewed line of credit bears variable interest at the bank’s prime rate less 0.50%, with a floor of 5.5%. We believe we have adequate cash balances and available borrowings under our line of credit to support our anticipated cash needs and related business activities during the remainder of 2009. Among other items, the line of credit contains a covenant that we must maintain a tangible net worth (as defined in the agreement) of at least $15.0 million as of September 30, 2009 and each quarter-end thereafter. Our tangible net worth calculated in accordance with the bank’s definitions as of September 30, 2009 is in excess of $16.2 million.

Capital Expenditures. We had no material commitments for capital expenditures at September 30, 2009.

Lease commitments. The Company has several non-cancelable operating lease agreements for office space and warehouse space. The agreements expire at various dates through October 2012. The Company also has entered into month-to-month leases. Rent expense for the three months ended September 30, 2009 and 2008 was $96,974 and $89,953, respectively, and for the nine months ended September 30, 2009 and 2008 was $293,567 and $251,221, respectively, related to these leases. The future minimum amounts due under the leases are as follows:

Year ending December 31:	
2009 (October 1, 2009 through December 31, 2009)	$99,335
2010	265,565
2011	169,086
2012	126,815
2013 and thereafter	—
	$660,801

License agreements. The Company has several license agreements whereby it has been assigned the rights to certain licensed materials used in the Company’s products. Certain of these agreements require the Company to pay ongoing royalties based on the number of products shipped containing the licensed material on a quarterly basis. Royalty expense related to these agreements aggregated $11,586 and $28,645 for the nine months ended September 30, 2009 and 2008, respectively. Following is a summary of the Company’s licenses as of September 30, 2009:

License Type	Effective Date	Expiration Date	Terms
Production software license agreement	April, 2005	April, 2010	Automatically renews for one year periods unless terminated by either party.
Software sublicense agreement	October, 2007	October, 2010	Automatically renews for one year periods unless terminated by either party.
Technology license agreement	July, 2007	July, 2010	Automatically renews for one year periods unless terminated by either party.
Limited license agreement	August, 2008	Perpetual	May be terminated by either party.

During April 2009, the Company (i) exercised its rights to terminate the limited license agreement entered into during January 2009 and (ii) terminated its production software license agreement entered into during October 2008 because of failure of the counter party to deliver the required materials and refusal to honor warranty provisions. These terminations are now in dispute and the Company has filed a lawsuit to enforce its rights and protect its interests pursuant to these agreements. See "Litigation" below.

Litigation. The Company is subject to various legal proceedings arising from normal business operations. Although there can be no assurances, based on the information currently available, management believes that it is probable that the ultimate outcome of each of the actions will not have a material adverse effect on the consolidated financial statements. However, an adverse outcome in any of the actions could have a material adverse effect on the financial results of the Company in the period in which it is recorded.

On April 9, 2008, Thomas DeHuff filed suit against the Company and Charles A. Ross in the Chancery Court of Lincoln County, Mississippi. Charles A. Ross, Jr., ("Ross") is the son of Charles A. Ross and was a former officer and director of the Company. The complaint alleges that on or about April 8, 2005, the plaintiff entered into a verbal agreement with Ross, whom the plaintiff maintains was acting for and on behalf of the Company, under which he purportedly was to receive 150,000 shares of the Company's common stock to resolve certain claims to compensation the plaintiff maintains was due from the Company. The lawsuit also claims that the plaintiff advanced funds to Ross, believing that he was purchasing the Company's common stock which was never issued. Plaintiff is seeking unspecified damages and punitive damages and attorney fees in addition to requiring the Company to issue the common shares. The Company has successfully removed the case from the Chancery Court of Lincoln County, Mississippi to the United States District Court located in Jackson Mississippi. The Company has filed a motion to dismiss the case which is currently pending in the United States District Court. The Company believes that the lawsuit is without merit and will continue to vigorously defend itself.

On June 8, 2009, Digital Ally, Inc. filed suit against Z3 Technologies, LLC ("Z3") in Federal Court for the District of Kansas claiming breach of a production software license agreement entered into during October 2008 and the rescission of a second limited license agreement entered into during January 2009. Among various other claims, the Company has asserted that Z3 failed to deliver the material required under the contracts, the product that was delivered by Z3 is defective and/or unusable and that the January 2009 contract should be rescinded and declared void, unenforceable and of no force or effect. The Company has paid license fees and other payments to Z3 totaling $265,000 to-date relative to these contracts. Z3 has denied the Company's claims and has filed counterclaims that allege the Company did not have the right to terminate the contract and therefore Z3 has been damaged for loss of profits and related damages. Discovery and depositions by both parties have commenced.

On October 23, 2009, the Circuit Court of Jackson County, Missouri awarded the Company an interlocutory judgment against a previous contract manufacturer for the Company. The Company had filed for and received a temporary restraining order in June 2009 that forbid the supplier from engaging in certain actions involving the Company. The interlocutory judgment was entered in favor of the Company against the supplier that in effect cancelled all purchase orders and confirmed that the Company has no further obligations, whether monetary or otherwise, to the supplier. The Company will record a benefit of approximately $72,000 during the three months ending December 31, 2009 representing the amount of unpaid invoices to the supplier which it is no longer obligated to pay. The Company has submitted damage claims in excess of $11 million against the supplier relative to this lawsuit. A hearing on the award of such damages will be held on November 10, 2009. Management believes that the ultimate collection of any award of damages over and above the $72,000 in unpaid invoices is uncertain at this time, because of the financial status of the supplier.

The Company is also involved as a plaintiff and defendant in ordinary, routine litigation and administrative proceedings incidental to its business from time to time, including customer collections, vendor and employment-related matters. The Company believes the likely outcome of any other pending cases and proceedings

will not be material to its business or its financial condition.

Vendor Settlements and Credits. The Company resolved a dispute with a vendor during August 2009 that resulted in an aggregate benefit to the Company of $278,173. The Company disputed the value of services and products delivered and invoiced to the Company. The dispute was resolved through mediation prior to the filing of a lawsuit and resulted in the Company receiving a cash settlement of $200,000, plus the cancellation of $78,173 of account payables to this vendor. The Company recognized an aggregate benefit of $278,173 during the three and nine months ended September 30, 2009, which was reflected as an offset to selling, general; and administrative expenses.

401 (k) Plan. In July 2008, the Company amended and restated its 401(k) retirement savings plan. The amended plan requires the Company to provide 100% matching contributions for employees who elect to contribute up to 3% of their compensation to the plan and 50% matching contribution for the next 2% of employee's elective deferrals. The Company has made matching contributions totaling $115,779 for the nine months ended September 30, 2009 and $26,045 for the nine months ended September 30, 2008. Each participant is 100% vested at all times in employee and employer matching contributions.

Stock Repurchase Program. During June 2008, the Board of Directors approved a program that authorizes the repurchase of up to $10 million of the Company's common stock in the open market, or in privately negotiated transactions, through July 1, 2010. The repurchases, if and when made, will be subject to market conditions, applicable rules of the Securities and Exchange Commission and other factors. The repurchase program will be funded using a portion of cash and cash equivalents, along with cash flow from operations. Purchases may be commenced, suspended or discontinued at any time. The Company repurchased 38,250 shares for an aggregate purchase price of $63,112 (average cost of $1.65 per share) during the nine months ended September 30, 2009. In total, the Company has repurchased 248,610 shares at a total cost of $1,687,465 (average cost of $6.79 per share) under this program as of September 30, 2009.

Standby Letters of Credit. The Company is contingently liable for standby letters of credit issued by its bank to certain customers as security for the performance by the Company under contracts to deliver products. Outstanding letters of credit totaled $105,000 as of September 30, 2009, which expire during October 2009. To date, no beneficiary has drawn upon the standby-by letters of credit.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are summarized in Note 1 to the condensed financial statements included in Item 1 "Financial Statements" of this report. While the selection and application of any accounting policy may involve some level of subjective judgments and estimates, we believe the following accounting policies are the most critical to our financial statements, potentially involve the most subjective judgments in their selection and application, and are the most susceptible to uncertainties and changing conditions:

- Revenue Recognition / Allowance for Doubtful Accounts;
- Allowance for excess and obsolete Inventory;
- Warranty reserves;
- Stock-based Compensation Expense;
- Accounting for Income Taxes

Revenue Recognition / Allowances for Doubtful Accounts. Our primary customers are state, local and federal law enforcement agencies, which historically have been low risks for uncollectible accounts. However, we do have commercial customers and international distributors that present a greater risk for uncollectible accounts than such law enforcement customers and we consider a specific reserve for bad debts based on their individual circumstances. Our historical bad debts have been negligible with less than $15,000 charged off as uncollectible since we commenced deliveries during 2006. As of September 30, 2009, we have a recorded a reserve for doubtful accounts of $110,000, compared to $90,000 as of December 31, 2008.

We have an outstanding receivable from one of our international distributors totaling $1,502,600 as of September 30, 2009, which we have specifically reviewed for risk of loss due to uncollectibility. Based on our specific review, we consider this receivable balance to be fully collectible because of our historical experience with this distributor and our ongoing evaluation of their credit status. In addition, the receivable balance has been reduced $1,025,916 to a remaining uncollected balance of $476,684 subsequent to September 30, 2009, which further supports the likelihood of collection of the receivable in full. However, should the balance due from this customer ultimately become uncollectible then our allowance for bad debts will not be sufficient to cover the charge-off and we will be required to record additional bad debt expense in our statement of operations.

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

Inventories consist of the following at September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Raw material and component parts	$ 4,347,913	$ 4,783,730
Work-in-process	1,492,432	1,282,140
Finished goods	3,117,029	2,823,212
Subtotal	8,957,374	8,889,082
Reserve for excess and obsolete inventory	(863,875)	(529,121)
Total	$ 8,093,499	$ 8,359,961

The Company balances the need to maintain strategic inventory levels to ensure competitive delivery performance to its customers against the risk of inventory obsolescence due to changing technology and customer requirements. As reflected above, the Company's inventory reserves represented 10% of the gross inventory balance at September 30, 2009, compared to 6% of the gross inventory balance at December 31, 2008. Our finished goods are composed primarily of our new DVM -750 system, the new DVM-500 plus and the DVF 500 flashlight products which are not considered excess or obsolete. The Company has reduced the finished goods inventory related to the legacy DVM-500 system to less than 50 as of September 30, 2009. Raw material and component part inventory balances were increased at December 31, 2008 and September 30, 2009 to accommodate the conversion to the updated DVM-500 and the new DVM -750 products. The level of finished goods at September 30, 2009 was increased because of three primary factors: (1) we were not able to ship approximately $1 million in DVM-750 orders prior to September 30, 2009 because the wireless download optional feature was not yet available on such product, (2) we produced extra DVM-750 units in order to accommodate several expected orders that were not awarded until after September 30, 2009, and (3) there was a general decrease in demand from our customers because of the economic recession and delays in purchasing units in anticipation of receiving Economic Stimulus Plan funding in the future. Our raw material and component part inventory levels at September 30, 2009 and December 31, 2008 was increased primarily because of the following factors: (1) we had purchased component parts related to our DVM -750 product in anticipation of beginning commercial deliveries in the fourth quarter 2008, (2) we anticipated higher sales of all products during the third quarter of 2009 than actually occurred, and (3) there was a general decrease in demand from our customers because of the economic recession and delays in purchasing units in anticipation of receiving Economic Stimulus Plan funding in the future. During the second quarter of 2009, we began deliveries of the DVM-750, which contributed to the decrease in raw material and component parts and significant increase in work in process as of September 30, 2009, as we rapidly increased production to satisfy the sales backlog accumulated on the DVM-750 product. We have inventory reserves for pending changes to the product line, engineering upgrades and design changes that alter the demand for component parts and a shift of production to outsourcing.

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

Warranty Reserves. We generally provide a two year parts and labor warranty on our products to our customers. Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of claims. We actively study trends of claims and take action to improve product quality and minimize claims. Our warranty reserves were increased to $315,687 as of September 30, 2009, compared to $271,307 as of December 31, 2008, which reflects the increased number of units under warranty and an anticipated increased failure frequency rates and average cost of claims on our initial deliveries of the DVM-750 product. We are introducing several new products, including the DVM-750 mirror system, during 2009 for which we have limited or no historical warranty data. There is a risk that we will have higher warranty claim frequency rates and average cost of claims on these new products than our legacy products. Actual experience could differ from the amounts estimated requiring adjustments to these liabilities in future periods.

Stock-based Compensation Expense. We grant stock options to our employees and directors and such benefits provided are share-based payment awards subject to the provisions of SFAS No. 123R, "Share-based Payments" ("SFAS No. 123R"). Under SFAS No. 123R, we are required to make significant estimates related to determining the value of our share-based compensation. Our expected stock-price volatility assumption is based on historical volatilities of the underlying stock which are obtained from public data sources. For stock option grants issued during the nine months ended September 30, 2009, we used an expected stock-price volatility of 78% to 86%. The expected term of options granted during 2009 ranged from 2 to 5 years.

If factors change and we develop different assumptions in the application of SFAS No. 123R in future periods, the compensation expense that we record under SFAS No. 123R may differ significantly from what we have recorded in the current period. There is a high degree of subjectivity involved when using option pricing models to estimate share-based compensation under SFAS No. 123R. Changes in the subjective input assumptions can materially affect our estimates of fair values of our share-based compensation. Certain share-based payment awards, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, values may be realized from these instruments that are significantly in excess of the fair values originally estimated on the grant date and reported in our financial statements. Although the fair value of employee share-based awards is determined in accordance with SFAS No. 123R and SAB No. 110 using an option pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

In addition, under SFAS No. 123R, we are required to net estimated forfeitures against compensation expense. This requires us to estimate the number of awards that will be forfeited prior to vesting. If actual forfeitures in future periods are different than our initial estimate, the compensation expense that we ultimately record under SFAS No. 123R may differ significantly from what was originally estimated. The estimated forfeiture rate for unvested options outstanding as of September 30, 2009 is 5%.

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

We account for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes” and Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109” (“FIN 48”). As required by SFAS No. 109, we record deferred tax assets or liabilities based on differences between financial reporting and tax bases of assets and liabilities using currently enacted rates that will be in effect when the differences are expected to reverse. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. As of September 30, 2009, cumulative valuation allowances in the amount of $165,000 were recorded in connection with the net deferred income tax assets. As required by FIN 48, we have performed a comprehensive review of our portfolio of uncertain tax positions in accordance with recognition standards established by the Interpretation. Pursuant to FIN 48, an uncertain tax position represents the Company’s expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. We have no recorded liability as of September 30, 2009 representing uncertain tax positions.

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

Inflation and Seasonality

Inflation has not materially affected us during the past fiscal year. We do not believe that our business is seasonal in nature however; generally we generate higher revenues during the second half of the calendar year compared to the first half.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

(Not Applicable)

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures, as such terms are defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). The Company, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of such disclosure controls and procedures for this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2009 to provide reasonable assurance that material information required to be disclosed by the Company in this report was recorded, processed, summarized and communicated to the Company's management as appropriate and within the time periods specified in SEC rules and forms.

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Litigation. The Company is subject to various legal proceedings arising from normal business operations. Although there can be no assurances, based on the information currently available, management believes that it is probable that the ultimate outcome of each of the actions will not have a material adverse effect on the consolidated financial statements. However, an adverse outcome in any of the actions could have a material adverse effect on the financial results of the Company in the period in which it is recorded.

On April 9, 2008, Thomas DeHuff filed suit against the Company and Charles A. Ross in the Chancery Court of Lincoln County, Mississippi. Charles A. Ross, Jr., ("Ross") is the son of Charles A. Ross and was a former officer and director of the Company. The complaint alleges that on or about April 8, 2005, the plaintiff entered into a verbal agreement with Ross, whom the plaintiff maintains was acting for and on behalf of the Company, under which he purportedly was to receive 150,000 shares of the Company's common stock to resolve certain claims to compensation the plaintiff maintains was due from the Company. The lawsuit also claims that the plaintiff advanced funds to Ross, believing that he was purchasing the Company's common stock which was never issued. Plaintiff is seeking unspecified damages and punitive damages and attorney fees in addition to requiring the Company to issue the common shares. The Company has successfully removed the case from the Chancery Court of Lincoln County, Mississippi to the United States District Court located in Jackson Mississippi. The Company has filed a motion to dismiss the case which is currently pending in the United States District Court. The Company believes that the lawsuit is without merit and will continue to vigorously defend itself.

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status of the supplier.

The Company is also involved as a plaintiff and defendant in ordinary, routine litigation and administrative proceedings incidental to its business from time to time, including customer collections, vendor and employment-related matters. The Company believes the likely outcome of any other pending cases and proceedings will not be material to its business or its financial condition.

Vendor Settlements and Credits. The Company resolved a dispute with a vendor during August 2009 that resulted in an aggregate benefit to the Company of $278,173. The Company disputed the value of services and products delivered and invoiced to the Company. The dispute was resolved through mediation prior to the filing of a lawsuit and resulted in the Company receiving a cash settlement of $200,000, plus the cancellation of $78,173 of account payables to this vendor. The Company recognized an aggregate benefit of $278,173 during the three and nine months ended September 30, 2009, which was reflected as an offset to selling, general; and administrative expenses.

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

(c) Issuer Purchases of Equity Securities.

Period	(a) Total Number of Shares Purchased [1]	(b) Average Price Paid per Share [1]	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	(d)Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs [1]
January 1 to 31, 2009	—	—	—	$8,375,647
February 1 to 28, 2009	—	—	—	$8,375,647
March 1 to 31, 2009	38,250	$1.65	38,250	$8,312,535
April 1 to 30, 2009	—	—	—	$8,312,535
May 1 to 31, 2009	—	—	—	$8,312,535
June 1 to 30, 2009	—	—	—	$8,312,535
July 1 to 31, 2009	—	—	—	$8,312,535
August 1 to 31, 2009	—	—	—	$8,312,535
September 1 to 30, 2009	—	—	—	$8,312,535 [2]

[1] During September 2008, the Board of Directors approved the Stock Repurchase Program that authorized the repurchase of up to $10 million of the Company's common stock in the open market, or in privately negotiated transactions, through July 1, 2010. The repurchases, if and when made, will be subject to market conditions, applicable rules of the Securities and Exchange Commission and other factors. Purchases may be commenced, suspended or discontinued at any time.

[2] The Stock Repurchase Program authorizes the repurchase of up to $10 million of common stock. A total of 248,610 shares have been repurchased under this program as of September 30, 2009, at a total cost of $1,687,465 ($6.79 per share average). As a result, $8,312,535 is the maximum remaining dollar amount of common shares that may be purchased under the Program. The number of shares yet to be purchased is variable based upon the purchase price of the shares at the time.

[3] We purchased vested and unvested employee stock options to acquire 950,000 shares of our common stock in April 2009. The purchase was part of a Separation Agreement reached with our former Executive Vice President of Engineering who resigned to pursue other opportunities. This repurchase was not considered to be part of our Stock Repurchase Program and therefore is not included in the above table.

Item 3. Defaults upon Senior Securities.

(Not Applicable)

Item 4. Submission of Matters to a Vote of Security Holders.

(Not Applicable)

Item 5. Other Information.

(Not Applicable)

Item 6. Exhibits.

(a) Exhibits.

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10.19 Letter Amendment to Loan Agreement dated September 30, 2009.

21.1 Subsidiaries of Registrant

31.1 Certificate of Stanton E. Ross pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.

31.2 Certificate of Thomas J. Heckman pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.

32.1 Certificate of Stanton E. Ross pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934, as amended.

32.2 Certificate of Thomas J. Heckman pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934, as amended.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 5, 2009

DIGITAL ALLY, INC.,
a Nevada corporation

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

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EXHIBIT INDEX

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