

DIGITAL ANGEL CORP

Form 10-Q

August 14, 2002

**As filed with the Securities and Exchange Commission on August 14, 2002**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

## FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2002

or

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

For the transition period from      to

Commission File Number: 1-15177

## DIGITAL ANGEL CORPORATION

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**52-1233960**

(IRS Employer  
Identification No.)

**490 Villaume Avenue  
South Saint Paul, Minnesota 55075**

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**(651) 455-1621**

(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on July 29, 2002:

<b>Class</b>	<b>Number of Shares</b>
Common Stock; \$.005 Par Value	26,426,076

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**DIGITAL ANGEL CORPORATION**

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## DIGITAL ANGEL CORPORATION AND SUBSIDIARIES

## CONDENSED BALANCE SHEETS

(In thousands, except par value)

	Digital Angel Corporation and Subsidiaries (Consolidated) June 30, 2002 (Unaudited)	Advanced Wireless Group (Combined) December 31, 2001
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 584	\$ 596
Accounts receivable and unbilled receivables (net of allowance for doubtful accounts of \$318 in 2002 and \$296 in 2001)	4,494	5,402
Inventories	5,574	5,819
Other current assets	1,157	733
<b>Total Current Assets</b>	<b>11,809</b>	<b>12,550</b>
<b>Property And Equipment, net</b>	<b>14,951</b>	<b>14,476</b>
<b>Goodwill and Other Intangible Assets, net</b>	<b>106,258</b>	<b>72,876</b>
<b>Investment In Affiliates</b>	<b>256</b>	<b>6,779</b>
<b>Other Assets, net</b>	<b>547</b>	<b>698</b>
	<b>\$ 133,821</b>	<b>\$ 107,379</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Current Liabilities</b>		
Notes payable and current maturities of long-term debt	\$ 387	\$ 82,643
Accounts payable	3,416	3,757
Accrued expenses and other current liabilities	4,341	2,044
Due to Applied Digital Solutions, Inc.	153	
<b>Total Current Liabilities</b>	<b>8,297</b>	<b>88,444</b>

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<b>Long-Term Debt And Notes Payable</b>	<b>2,410</b>	2,425
<b>Total Liabilities</b>	<b>10,707</b>	90,869
<b>Commitments And Contingencies</b>		
<b>Minority Interest</b>	<b>351</b>	394
<b>Stockholders' Equity (See Note 1)</b>		
Preferred shares: Authorized 1,000 in 2002, of \$1.75 par value, no shares issued or outstanding		
Common shares: Authorized 95,000 shares in 2002, of \$.005 par value; 26,448 shares issued and 26,398 shares outstanding in 2002 and 18,750 shares issued and outstanding in 2001		
	<b>132</b>	94
Additional paid-in capital	<b>167,075</b>	37,929
Accumulated deficit	<b>(45,709)</b>	(21,700)
Common stock warrants	<b>1,638</b>	300
Treasury stock (carried at cost, 50 shares in 2002)	<b>(43)</b>	
Accumulated other comprehensive loss	<b>(330)</b>	(507)
<b>Total Stockholders' Equity</b>	<b>122,763</b>	16,116
	<b>\$ 133,821</b>	\$ 107,379

See the accompanying notes to condensed financial statements.



## DIGITAL ANGEL CORPORATION AND SUBSIDIARIES

## CONDENSED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Digital Angel Corporation and Subsidiaries (Consolidated)		Advanced Wireless Group (Combined)	
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2002	2001	2002	2001
Product revenue	\$ 8,662	\$ 7,618	\$ 16,113	\$ 16,752
Service revenue	577	852	880	1,922
Total net revenue	9,239	8,470	16,993	18,674
Cost of products sold	4,835	4,600	9,135	9,961
Cost of services sold	247	479	498	1,028
Gross profit	4,157	3,391	7,360	7,685
Selling, general and administrative expenses	3,713	2,267	25,622	4,768
Management fees - Applied Digital Solutions, Inc.		178	193	371
Research and development expenses	782	1,326	1,545	2,410
Depreciation and amortization	1,095	3,024	1,830	5,383
Interest income		(8)		(11)
Interest expense - Applied Digital Solutions, Inc.			1,806	
Interest expense - others	67	92	125	151
Loss before taxes, minority interest and equity in net loss of affiliate	(1,500)	(3,488)	(23,761)	(5,387)
Provision (benefit) for income taxes		(8)		107
Loss before minority interest, and equity in net loss of affiliate	(1,500)	(3,480)	(23,761)	(5,494)
Minority interest	(2)	(5)	(43)	(27)
Equity in net loss of affiliate		49	291	67
Net loss	\$ (1,498)	\$ (3,524)	\$ (24,009)	\$ (5,534)

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Net loss per common share - basic and diluted	\$	<b>(0.06)</b>	\$	(0.19)	\$	<b>(1.06)</b>	\$	(0.30)
Weighted average number of common shares outstanding - basic and diluted		<b>26,169</b>		18,750		<b>22,616</b>		18,750

See the accompanying notes to condensed financial statements.

## DIGITAL ANGEL CORPORATION AND SUBSIDIARIES

## CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY

For The Six Months Ended June 30, 2002

(In Thousands)

(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Common Stock Warrants	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	Number	Amount						
<b>Balance - December 31, 2001</b>	18,750	\$ 94	\$ 37,929	\$ (21,700)	\$ 300	\$	\$ (507)	16,116
Net loss				(24,009)				(24,009)
Comprehensive loss -								
Foreign currency translation							177	177
Total comprehensive loss				(24,009)			177	(23,832)
Transfer of MAS common shares to ADS			(6,488)					(6,488)
Contribution by ADS			6,593					6,593
Exercise of stock options	2,392	12	589					601
Shares to be issued in settlement of liability	38		225					225
Merger consideration - Medical Advisory Systems, Inc.	5,268	26	28,163		272	(43)		28,418
Assumption of debt by ADS			81,383					81,383
Stock options remeasured in connection with merger			18,681					18,681
Warrants remeasured in connection with merger					1,066			1,066
<b>Balance - June 30, 2002</b>	<b>26,448</b>	<b>\$ 132</b>	<b>\$ 167,075</b>	<b>\$ (45,709)</b>	<b>\$ 1,638</b>	<b>\$ (43)</b>	<b>\$ (330)</b>	<b>122,763</b>

See the accompanying notes to condensed financial statements.

## DIGITAL ANGEL CORPORATION AND SUBSIDIARIES

## CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Digital Angel Corporation and Subsidiaries (Consolidated)		Advanced Wireless Group (Combined)	
	For the Six Months Ended June 30,			
	2002		2001	
<b>Cash Flows From Operating Activities</b>				
Net loss	\$	(24,009)	\$	(5,534)
Adjustments to reconcile net loss to net cash used in operating activities:				
Non-cash compensation expense		18,877		
Interest allocated by ADS and contributed to capital		1,806		
Deferred income taxes				34
Depreciation and amortization		1,830		5,383
Minority interest		(43)		(27)
Equity in net loss of affiliate		291		67
Loss on sale of equipment		7		7
Change in assets and liabilities:				
Decrease in accounts receivable		1,181		228
Decrease (increase) in inventories		312		(930)
Increase in other current assets		(545)		(514)
Increase in due to ADS		153		
(Decrease) increase in accounts payable and accrued expenses		(714)		530
<b>Net Cash Used In Operating Activities</b>		<b>(854)</b>		<b>(756)</b>
<b>Cash Flows From Investing Activities</b>				
Decrease in other assets		63		262
Payments for property and equipment		(673)		(1,091)
Proceeds from sale of property and equipment		23		
Cash acquired through acquisition, net of acquisition costs		40		
<b>Net Cash Used In Investing Activities</b>		<b>(547)</b>		<b>(829)</b>
<b>Cash Flows From Financing Activities</b>				
Net amounts borrowed on notes payable		136		(2)
Payments on long-term debt		(32)		(35)
Exercise of stock options		601		

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Net transactions with Applied Digital Solutions, Inc.	684	1,416
<b>Net Cash Provided By Financing Activities</b>	<b>1,389</b>	<b>1,379</b>
<b>Net Decrease In Cash And Cash Equivalents</b>	<b>(12)</b>	<b>(206)</b>