

DIGITAL ANGEL CORP  
Form 10-K/A  
March 01, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K/A**

(Amendment No. 2)

x

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

For the fiscal year ended December 31, 2005

OR

o

**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**

(I.R.S. Employer  
Identification No.)

**490 Villaume Avenue, South St. Paul, MN**  
(Address of principal executive offices)

**55075**  
(Zip Code)

**(651) 455-1621**

(Registrant's telephone number, including area code)

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

**Title of Each Class**  
**Common Stock, \$.005 par value per share**

**Name of Each Exchange on Which Registered**  
**American Stock Exchange**

Edgar Filing: DIGITAL ANGEL CORP - Form 10-K/A

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of June 30, 2005, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$73,931,436 based on the closing sale price as reported on the American Stock Exchange.

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

| Class                                    | Outstanding at March 1, 2006 |
|--|------------------------------|
| Common Stock, \$.005 par value per share | 43,847,314 shares            |

**DOCUMENTS INCORPORATED BY REFERENCE**

| Document  | Parts Into Which Incorporated |
|---|-------------------------------|
| Proxy Statement for the Annual Meeting of Stockholders to be held May 4, 2005 | Part III                      |

**Explanatory Note**

This Amendment No. 2 on Form 10-K/A to the Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which was originally filed with the Securities and Exchange Commission on March 8, 2006, and amended by Amendment No. 1, which was filed with the Commission on April 6, 2006, (as so amended, the Original Filing ), is being filed to amend the Original Filing as follows:

- Revises Part II, Item 9A. Controls and Procedures and includes the Management's Report on Internal Control and Financial Reporting referenced in Item 9A.
- A currently dated consent letter is included from the Company's Independent Registered Public Accounting Firm dated February 28, 2007; and
- Currently dated certifications from our Chief Executive Officer and Chief Financial Officer as required by Rules 13a-14(a) or 15d-14(a) and 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934 are included as exhibits.

Except for the matters described above, this amendment does not modify or update disclosure in, or exhibits to, the Original Filing. Furthermore, except for the matters described above, this amendment does not change any previously reported financial results, nor does it reflect events occurring after the date of the Original Filing.

**DIGITAL ANGEL CORPORATION**

TABLE OF CONTENTS

| Item              | Description                                       |                |
|-------------------|---|----------------|
|                   |   | <u>PART II</u> |
| <u>9A.</u>        | <u>Controls and Procedures</u>                    | 3              |
|                   |   | <u>PART IV</u> |
| <u>15.</u>        | <u>Exhibits and Financial Statement Schedules</u> | 4              |
| <u>SIGNATURES</u> |   | 5              |

**PART II**

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Principal Accounting Officer, has reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2005. Disclosure controls and procedures are defined in the Securities Exchange Act as controls and other procedures of the Company designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC is accumulated and communicated to the Company's management, including the CEO and Principal Accounting Officer, to allow timely decisions regarding required disclosure. Based on its review and evaluation, the Company's management has concluded that the Company's disclosure controls and procedures are effective as of December 31, 2005.

There were no material changes in the Company's internal controls over the financial reporting that occurred during the three months ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. The Company believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company have been detected.

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in the Securities Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The Company's management, under the supervision and with the participation of the Company's CEO and Principal Accounting Officer, carried out an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. The Company's management based its evaluation on criteria set forth in the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2005.

**Change in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Eisner LLP, the Company's independent registered public accounting firm, as stated in their report which is immediately below.

**Report of Independent Registered Public Accounting Firm**

**Board of Directors and Stockholders of**

**Digital Angel Corporation**

## Edgar Filing: DIGITAL ANGEL CORP - Form 10-K/A

We have audited management's assessment, included in the accompanying Management's Report on Internal Controls over Financial Reporting, that Digital Angel Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on, criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Digital Angel Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all

3

---

material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Digital Angel Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Digital Angel Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Digital Angel Corporation as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 3, 2006 (with respect to the second paragraph of Note 21, March 31, 2006) expressed an unqualified opinion on those consolidated financial statements which has been included in Amendment No. 1 to the Annual Report on Form 10-K/A for the year ended December 31, 2005, previously filed.

EISNER LLP

Florham Park, New Jersey

March 3, 2006

#### PART IV

##### **Item 15 Exhibits and Financial Statement Schedules**

- |                                |  |
|--------------------------------|--|
| (a)(3)                         | The exhibits to this Amendment No. 2 to the Annual Report on Form 10-K/A are described in the Index to Exhibits beginning on page 6. |
| (b)<br>See Item 15(a)(3) above | Exhibits   |

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf by the undersigned, thereunto duly authorized.

Date: February 28, 2007

DIGITAL ANGEL CORPORATION

/s/ Kevin N. McGrath  
Kevin N. McGrath  
Chief Executive Officer

5

---

**INDEX TO EXHIBITS**

The following exhibits are filed with this Annual Report on Form 10-K:

- 23.1 Consent of Independent Registered Public Accounting Firm Eisner LLP
- 31.1 Certification of Chief Executive Officer under Rules 13a-14(a)/15d-14(a) under the Securities and Exchange Act and Section 302 of Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer under Rules 13a-14(a)/15d-14(a) under the Securities and Exchange Act and Section 302 of Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.