DIGITAL ANGEL CORP
Form S-1/A
November 27, 2002

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As filed with the Securities and Exchange Commission on November 27, 2002

Registration No. 333-100940

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to
FORM S-1

REGISTRATION STATEMENT
Under
The Securities Act of 1933

DIGITAL ANGEL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**8082**	**52-1233960**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

490 Villaume Avenue, South St. Paul, MN 55075
(651) 455-1621

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Principal Executive Offices)

Randolph K. Geissler
President
490 Villaume Avenue
South St. Paul, MN 55075

(Name and Address of Agent for Service)

(651) 455-1621

(Telephone Number, Including Area Code, of Agent for Service)

copy to:

William J. Conti, Esq.
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Suite 1100
Washington, D.C. 20036
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: ____________.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ý

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o __________________________

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ________________ _________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, $0.005 par value	22,348,720	$2.57(1)	$57,436,210(1)	$5,284.13

(1) Estimated in accordance with Rule 457 solely for the purpose of determining the registration fee.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission (SEC), acting pursuant to said Section 8(a), may determine.

A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the SEC is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated November 27, 2002

PROSPECTUS

DIGITAL ANGEL CORPORATION

22,348,720 Shares

Common Stock

This is a public offering of common stock of Digital Angel Corporation. Certain of our existing stockholders are offering for sale up to 22,348,720 shares of our common stock.

Certain shares of our common stock are being registered to permit the selling stockholders to sell the shares of common stock from time to time in the public market. The selling stockholders may sell the shares of our common stock through ordinary brokerage transactions or through any other means described in this prospectus under "PLAN OF DISTRIBUTION." The price at which the selling stockholders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions. We cannot assure you that the selling stockholders will sell all or a portion of the shares of our common stock offered under this prospectus.

Our common stock is listed on the American Stock Exchange (AMEX) under the symbol "DOC." On November 21, 2002, the last reported sale price of our common stock was $2.16.

Investing in shares of our common stock involves risks. See, "RISK FACTORS" beginning on p. 6 of this prospectus for a discussion of these risks.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in or incorporated by reference into this prospectus in connection with the offer contained in this prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by us. Neither the delivery of this prospectus nor any sale made hereunder shall under any circumstances create an implication that there has been no change in our affairs since the date hereof. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where such offers and sales are permitted. The information contained in, and incorporated by reference into, this prospectus speaks only as of the date of this prospectus unless the information specifically indicates that another date applies.

The date of this prospectus is November 27, 2002.

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PROSPECTUS SUMMARY

This summary highlights information described more fully elsewhere in this prospectus and may not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the consolidated financial statements and related notes and other financial data included in this prospectus, before making an investment decision. You should also carefully consider the information set forth under "RISK FACTORS" beginning on p. 5.

As used in this prospectus, the terms "we," "us," "our," "our company," and "Digital Angel Corporation" mean Digital Angel Corporation and our subsidiaries, unless the context otherwise requires.

Business

We were incorporated in Delaware on December 1, 1981 as "Medical Advisory Systems, Inc." to provide medical assistance and technical products and services. On March 27, 2002, we completed a merger pursuant to which Digital Angel Acquisition Co., then a wholly-owned subsidiary of Medical Advisory Systems, Inc., merged with and into Digital Angel Corporation, which was then a 93.0%-owned subsidiary of Applied Digital Solutions, Inc. In the merger, the corporate existence of Digital Angel Acquisition ceased, Digital Angel Corporation became a wholly-owned subsidiary of Medical Advisory Systems, and Medical Advisory Systems was renamed "Digital Angel Corporation." In connection with the merger transaction, Applied Digital Solutions contributed to Medical Advisory Systems all of its stock in Timely Technology Corp., a wholly-owned subsidiary, and Signature Industries, Limited, an 85.0%-owned subsidiary. These two subsidiaries along with Digital Angel Corporation comprised Applied Digital Solutions' Advanced Wireless Group. As a result of this contribution by Applied Digital Solutions, Timely Technology became a wholly-owned subsidiary of Digital Angel Corporation and Signature Industries became an 85.0%-owned subsidiary. Prior to the merger with Digital Angel Corporation, Applied Digital Solutions owned 850,000 shares of Medical Advisory Systems common stock representing approximately 16.6% of the outstanding common stock of Medical Advisory Systems.

Following the merger, the scope of our business was expanded to include the development and commercialization of proprietary technologies used to identify, locate and monitor people, animals and objects. Our business is presently organized into four segments: Animal Applications, Digital Angel Systems, GPS and Radio Communications, and Physician Call Center and Other. We are a Delaware corporation located at 490 Villaume Avenue, South St. Paul, MN 55075. Our telephone number is 651-455-1621. For a more complete discussion of our company, see "BUSINESS" on p. 12.

The Offering

This prospectus covers up to 22,348,720 shares of our common stock to be sold by the selling stockholders identified in this prospectus. The selling stockholders, or their pledgees, donees, transferees or other successors in interest may, from time to time, sell all or a portion of the shares at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to such market prices or at negotiated prices. The selling stockholders may also sell our shares directly to purchasers or may use brokers, dealers, underwriters or agents to sell our shares upon terms and conditions that will be described in the applicable prospectus supplement.

From time to time the selling stockholders may be engaged in short sales, short sales against the box, puts and calls and other hedging transactions in our securities, and may sell and deliver the shares in connection with such transactions or in settlement of securities loans. These transactions may be entered into with broker-dealers or other financial institutions. In addition, from time to time, a selling stockholder may pledge its shares pursuant to the margin provisions of its customer agreements with its broker-dealer. Upon delivery of the shares or a default by a selling stockholder, the broker-dealer or financial institution may offer and sell the pledged shares from time to time. For a more complete description of the offering see "PLAN OF DISTRIBUTION" on p. 55.

Use of Proceeds

All net proceeds from the sale of our common stock by the selling stockholders will go to the selling stockholders and we will not receive any proceeds from the sale of the common stock by the selling stockholders.

SUMMARY FINANCIAL DATA
(In thousands, expect per share amounts)

We derived the following historical financial information from the combined financial statements of the Advanced Wireless Group for the years ended December 31, 2001, 2000 and 1999 which have been audited by PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP's report on the combined financial statements contained an explanatory paragraph expressing doubt about the Advanced Wireless Group's ability to continue as a going concern. In addition, PricewaterhouseCoopers LLP was dismissed as the Advanced Wireless Group's independent accountant on April 11, 2002. The merger between Digital Angel Corporation and Medical Advisory Systems on March 27, 2002 has been treated as a reverse acquisition for accounting purposes, with the Advanced Wireless Group treated as the accounting acquirer. Accordingly, the historical combined financial statements of the Advanced Wireless Group became those of Digital Angel Corporation, and the acquisition of Medical Advisory Systems was accounted for under the purchase method of accounting. Additionally, the equity accounts of the Advanced Wireless Group have been restated based on the common shares received by the former shareholders of the Advanced Wireless Group in the merger.

The unaudited financial data as of September 30, 2002 and for the nine months ended September 30, 2002 and 2001 includes all adjustments, including normal recurring adjustments, which our management considers necessary for fair presentation of our results for these unaudited periods.

The results of operations for the nine months ended September 30, 2002 and 2001 are not necessarily indicative of the results that may be expected for a full year.

	For the Nine Months Ended September 30,		For the Years Ended December 31,		
	2002(1)	2001	2001	2000(2)	1999
	(Unaudited)				
Statement of Operations Data:					
Product revenue	$ 25,117	$ 25,168	$ 33,220	$ 19,604	$ 14,380
Service revenue	1,215	2,803	2,518	2,647	
Total net revenue	26,332	27,971	35,738	22,251	14,380
Cost of products sold	13,815	15,216	20,252	11,517	7,964
Cost of services sold	762	1,627	2,047	1,434	
Gross profit	11,755	11,128	13,439	9,300	6,416
Selling, general and administrative expenses(3)	32,333	16,379	22,798	10,792	7,513
Research and development expenses	2,159	3,742	5,071	2,235	
Asset impairment charge			726		
Interest income	(2)	(14)	(17)	(26)	
Interest expense-Applied Digital Solutions, Inc.	1,806				
Interest expense-others	196	357	2,119	115	41
Loss before taxes, minority interest and equity in net loss of affiliate	(24,737)	(9,336)	(17,258)	(3,816)	(1,138)
Provision for income taxes		55	41	58	
Loss before minority interest and equity in net loss of affiliate	(24,737)	(9,391)	(17,299)	(3,874)	(1,138)

	For the Nine Months Ended September 30,		For the Years Ended December 31,		
Minority interest share of losses	(74)	(54)	(217)	(4)	(170)
Equity in net loss (income) of affiliate	291	118	327		
Net loss	$ (24,954)	$ (9,455)	$ (17,409)	$ (3,870)	$ (968)
Net loss per common share-basic and diluted	$ (1.04)	$ (0.50)	$ (0.93)	$ (0.21)	$ (0.05)
Weighted average common shares outstanding-basic and diluted(4)	23,910	18,750	18,750	18,750	18,750
Balance Sheet Data:					
Cash and cash equivalents	$ 480	$ 5	$ 596	$ 206	$ 139
Property and equipment, net	14,464	14,902	14,476	5,408	1,115
Goodwill and other intangibles, net	106,246	76,249	72,876	77,645	2,713
Total assets	135,375	112,159	107,379	95,344	9,239
Long-term debt and notes payable	3,355	2,434	2,425	2,463	
Total debt	3,569	85,283	85,068	2,503	
Minority interest	320	558	394	612	616
Total stockholders' equity	121,797	21,454	16,116	87,809	5,574
Other Financial Data:					
Depreciation and Amortization	$ 2,750	$ 8,752	$ 12,331	$ 2,962	$ 565
Net cash provided by (used in) operating activities	(1,115)	(1,951)	(3,196)	(1,432)	14
Net cash provided by (used in) investing activities	(955)	(1,364)	(1,307)	1,066	(88)
Net cash provided by financing activities	1,954	3,114	4,893	433	212
Adjusted EBITDA(5)	(1,523)	(305)	(2,935)	(761)	(362)
Capital expenditures	984	1,509	1,310	758	106

Effective January 1, 2002, we adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 142 requires that goodwill and certain intangibles no longer be amortized but instead tested for impairment at least annually.

The following table presents the impact of FAS 142 on our summary financial data as indicated:

	For the Nine Months Ended September 30,	For the Years Ended December 31,		
	2001	2001	2000	1999
Net loss:				
Net loss as reported	$ (9,455)	$ (17,409)	$ (3,870)	$ (968)
Goodwill amortization	6,259	8,629	2,529	256
Equity method investment amortization	812	1,161		
Adjusted net loss	$ (2,384)	$ (7,619)	$ (1,341)	$ (712)
Basic and diluted loss per share:				
Net loss per share, basic and diluted, as reported	$ (0.50)	$ (0.93)	$ (0.21)	$ (0.05)
Goodwill amortization	0.33	0.46	0.13	0.01
Equity method investment amortization	0.04	0.06		

	For the Nine Months Ended September 30,	For the Years Ended December 31,		
Adjusted net loss per share, basic and diluted	$ (0.13)	$ (0.41)	$ (0.08)	$ (0.04)

(1) Includes the results of operations of Medical Advisory Systems from March 27, 2002.

(2) Includes the results of operations of (i) Timely Technology from April 1, 2000 and (ii) Destron Fearing Corporation from September 8, 2000.

(3) Selling, general and administrative expenses include management fees paid to Applied Digital Solutions of $193, $556, $771, $262 and $241 for the nine months ended September 30, 2002 and 2001 and the years ended December 31, 2001, 2000 and 1999.

(4) Weighted average shares outstanding for the nine months ended September 30, 2001, for the years ended December 31, 2001, 2000 and 1999 have been restated to reflect the number of common shares received by the former shareholders of the Advanced Wireless Group in the March 27, 2002 merger.

(5) Adjusted EBITDA is the sum of earnings before interest, taxes, depreciation, amortization and non-cash compensation expense of $18,681 arising from the remeasurement of options in connection with the March 27, 2002 merger. Adjusted EBITDA should not be regarded as an alternative for other performance measures and should not be considered in isolation. Adjusted EBITDA is not a measurement of financial performance under generally accepted accounting principles and does not reflect all expenses of doing business (e.g. interest expense, depreciation). Accordingly, Adjusted EBITDA should not be considered as having greater significance than or as an alternative to net income or operating income as indicator of operating performance or to cash flows as a measure of liquidity. In addition, our calculation of Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies.

RISK FACTORS

You should carefully consider the following risk factors and other information contained in or incorporated by reference into this prospectus and any accompanying prospectus supplement before deciding to purchase any shares of our common stock.

Our majority stockholder, the Digital Angel Share Trust, owns 74.1% of our common stock, is able to completely control our board of directors and may support action that conflicts with the interests of the other stockholders.

On March 27, 2002, we completed a merger that resulted in our acquisition of Digital Angel Technology Corporation (formerly Digital Angel Corporation), Timely Technology and an 85.0% interest in Signature Industries from Applied Digital Solutions. The merger agreement required that the stock of these three companies and the assets of Digital Angel Technology Corporation, all of which were pledged by Applied Digital Solutions as security for substantial indebtedness to IBM Credit Corporation, be delivered to us at the closing of the merger, free and clear of all liens, security interests and mortgages. As part of a major restructuring of its lending relationship with Applied Digital Solutions and as one of the conditions to releasing its security interest in the stock of these transferred companies and the assets of Digital Angel Technology Corporation and consenting to the merger, IBM Credit Corporation required Applied Digital Solutions to transfer all of the shares of our common stock owned by Applied Digital Solutions following the merger to the Digital Angel Share Trust, one of the selling stockholders under this prospectus. As a result of this transfer, the Digital Angel Share Trust currently owns approximately 74.1% of our outstanding common stock. The Digital Angel Share Trust is able to control completely our board of directors and decide all matters submitted to our stockholders for approval.

The Digital Angel Share Trust is controlled by an independent advisory board and there can be no assurance as to how the Digital Angel Share Trust will exercise control over us. The Digital Angel Share Trust may support action that is contrary to or conflicts with the interests of the other stockholders.

Upon the request of IBM Credit Corporation, the Digital Angel Share Trust is obligated to sell the shares of our common stock owned by the Digital Angel Share Trust for the benefit of IBM Credit Corporation in the event Applied Digital Solutions fails to make payments to IBM Credit Corporation beginning on February 28, 2003 or at such other time as Applied Digital Solutions otherwise defaults under its credit agreement with IBM Credit Corporation. Such sales may be in private transactions or in the public market. We can give no assurance as to when or how shares of our common stock will be sold or as to who will purchase such shares. As a result, the duration of the Digital Angel Share Trust's control over us, the identity of any parties that may acquire control of us and the effect on the market price of our stock if and when such sales commence is uncertain.

On September 30 and November 1, 2002, the debt covenants in the IBM credit agreement were amended for the remainder of 2002. The amendment reduced our current ratio and Minimum Cumulative Modified EBITDA requirements, as defined in the IBM credit agreement, for the quarters ended September 30, 2002 and December 31, 2002. We were in compliance with our amended debt covenants at September 30, 2002 and expect to be in compliance with our amended debt covenants at December 31, 2002, however, there can be no assurance of our continued compliance.

The terms of our credit facility subject us to the risk of foreclosure on substantially all of our assets.

On October 30, 2002, we executed a credit and security agreement with Wells Fargo Business Credit, Inc. that, among other things, permits us to borrow up to $5,000,000 from time to time in accordance with, and pursuant to the terms of the credit and security agreement. Amounts borrowed under the credit facility are general obligations of our company secured by a first priority lien on

substantially all of our assets, including, but not limited to, our accounts receivable and our patents and other intellectual property relating to the Digital Angel product.

The credit and security agreement requires us to comply with certain financial covenants, including a monthly minimum book net worth, monthly minimum earnings before taxes and a limitation on capital expenditures during 2003. There can be no assurance that we will continue to meet these financial covenants. Any breach of these financial covenants by us will constitute an event of default under the credit and security agreement. The credit and security agreement also provides that any change of control of our company will constitute an event of default under the credit and security agreement. A change of control will include, but not be limited to, the acquisition by any person or group of persons of more than 25.0% of the voting power of all classes of our common stock. In the event Applied Digital Solutions defaults under the IBM credit agreement, the Digital Angel Share Trust will be obligated, upon the request of IBM Credit Corporation, to sell all or a portion of our common stock held by the Digital Angel Share Trust. To the extent such sales by the Digital Angel Share Trust result in a person or group of persons owning, in the aggregate, 25.0% or more of our common stock, such sales will be deemed to constitute an event of default under the credit and security agreement. There can be no assurance that Applied Digital Solutions will not default under the IBM credit agreement or that, upon any such default, IBM Credit Corporation will not cause the sale of more than 25.0% of our common stock to any person or group of persons. See, "RISK FACTORS Our majority stockholder, the Digital Angel Share Trust, owns 74.1% of our common stock, is able to completely control our board of directors and may support action that conflicts with the interests of other stockholders."

The credit facility will expire on October 30, 2005, at which time the entire outstanding balance of the credit facility will become due and payable. It is possible that we may not have sufficient funds to repay the outstanding balance on the credit facility when it becomes due and payable. Accordingly, it is possible that we will need to obtain the funds necessary to repay the credit facility either through the refinancing of the credit facility, the issuance of additional equity or debt securities or the sale of assets. We have not received a commitment from any institutional or other lender or investor to loan the funds or purchase any equity or debt securities which we may seek to issue to refinance our indebtedness under the credit facility. If we are unable to obtain funds to repay this indebtedness on acceptable terms, or at all, we may be forced to dispose of assets or take other actions on disadvantageous terms, which could result in losses to our company and have a material adverse effect on our financial condition. For these reasons, there can be no assurance that we will be able to repay the credit facility upon its maturity.

The occurrence of any of the foregoing, or any other events of default, under the credit and security agreement would subject us to the risk of foreclosure by Wells Fargo Business Credit on substantially all of our assets to the extent necessary to repay any amounts due under the credit facility, including, but not limited to, principal, interest, penalties or other costs and expenses incurred. Any such default and resulting foreclosure would have a material adverse effect on our financial condition.

Sales of our common stock by the Digital Angel Share Trust may cause a reduction in the market value of our common stock.

In the event Applied Digital Solutions fails to pay amounts due to IBM Credit Corporation, or if Applied Digital Solutions otherwise defaults under the IBM credit agreement and its obligations are accelerated, IBM Credit Corporation has the right to require the Digital Angel Share Trust to sell shares of our common stock to provide funds to satisfy the obligations of Applied Digital Solutions to IBM Credit Corporation. It is unlikely that Applied Digital Solutions will have the funds required for payment of such obligations when due. The sale of a significant amount of shares of our common stock owned by the Digital Angel Share Trust in a single transaction or in a series of transactions over a short period of time could result in a significant decline in the market value of our common stock.

Historical losses and negative cash flows from operations raise doubt about our ability to continue as a going concern.

We have suffered losses and have not generated positive cash flows from operations. This raises substantial doubt about our ability to continue as a going concern. PricewaterhouseCoopers LLP's audit report for each of the years ended December 31, 2001 and 2000 for the Advanced Wireless Group financial statements, which became our historical financial statements in the merger, contained an explanatory paragraph expressing doubt about the Advanced Wireless Group's ability to continue as a going concern. The audited Advanced Wireless Group financial statements as of and for the three years ended December 31, 2001 and our condensed consolidated financial statements as of and for the nine months ended September 30, 2002, which are included in this prospectus, do not include adjustments that might be required as a result of this uncertainty. We believe that we will have the financial resources to meet our future business requirements for at least the next twelve months.

Our earnings will decline if we write off goodwill.

As of September 30, 2002, we have recorded goodwill of $106.2 million. Due to new accounting standards that went into effect on January 1, 2002, goodwill and other intangible assets with indefinite lives are not amortized, but rather tested for impairment annually. There was no impairment of goodwill upon adoption of this standard. As a result, we will assess the fair value of our goodwill annually or between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of our goodwill below its carrying value. If we ever determine that significant impairment has occurred, we would be required to write off the impaired portion of goodwill. An impairment charge, if any, could have a material adverse effect on our financial condition and results of operations.

The significant number of options and warrants outstanding may adversely affect the market price of our common stock.

As of September 30, 2002, there are outstanding (i) options and warrants to purchase an aggregate of 9,106,319 shares of our common stock at exercise prices ranging from $0.05 to $10.50 and (ii) 5,027,899 additional shares of our common stock, which may be issued in the future under our stock option plans. To the extent that outstanding options and warrants are exercised, your percentage ownership will be diluted and any sales in the public market of the common stock underlying such options or warrants may adversely affect prevailing market prices of our common stock.

The Digital Angel Systems segment is expected to incur future losses.

We have invested more than $14.0 million in the Digital Angel product since April 1998. We expect the Digital Angel Systems segment to incur additional development, sales and marketing, and other general expenses. As a result, the Digital Angel Systems segment is expected to incur losses and will need to generate significant revenues to achieve profitability. The failure to achieve or sustain profitability will have a material adverse effect on the market value of our common stock.

The Digital Angel Systems segment is in the initial stage of operations and may encounter unforeseen difficulties that could negatively impact our business.

The Digital Angel Systems segment develops and markets advanced technology to gather location and local sensory data and to communicate that data to an operations center. This segment is developing our Digital Angel product. The Digital Angel Systems segment is in the initial stage of operations. As a result, it has minimal operating history upon which to base an evaluation of its current business and future prospects. The first Digital Angel product was introduced in November 2001 and this segment has generated no significant revenue. Moreover, this segment does not currently have any contracts in place that will provide any significant revenue. Because of this segment's lack of an operating history, management has limited insight into trends that may emerge and could materially adversely affect its business. Prospective investors should consider the risks and difficulties the Digital Angel Systems segment may encounter in its new and rapidly evolving market, especially given the segment's lack of operating history. These risks include our ability to:

- develop and market the Digital Angel product by integrating and miniaturizing new technologies into marketable products and services;
- build a customer base;
- generate revenues;
- compete successfully in a highly competitive market;
- access sufficient capital to support growth;
- recruit and retain qualified employees;
- introduce new products and services; and
- build technology and support systems.

Each of these risks could lead to unforeseen expenses or losses, which could have a material adverse effect on our financial condition and results of operations.

Infringement by third parties on our intellectual property and development of substantially equivalent proprietary technology by our competitors could negatively impact our business.

Our success depends significantly on our ability to maintain patent and trade secret protection, to obtain future patents and licenses, and to operate without infringing on the proprietary rights of third parties. There can be no assurance that the measures we have taken to protect our intellectual property, including those relating to our Digital Angel technology, will prevent misappropriation or circumvention of our intellectual property. In addition, there can be no assurance that any patent application, when filed, will result in an issued patent, or that our existing patents, or any patents that may be issued in the future, will provide us with significant protection against competitors. Moreover, there can be no assurance that any patents issued to, or licensed by, us will not be infringed upon or circumvented by others. Moreover, litigation to establish the validity of patents, to assert infringement claims against others, and to defend against patent infringement claims can be expensive and time-consuming, even if the outcome is in our favor. We also rely to a lesser extent on unpatented proprietary technology, and no assurance can be given that others will not independently develop substantially equivalent proprietary information, techniques or processes or that we can meaningfully protect our rights to such unpatented proprietary technology. Infringement on our intellectual property or the development of substantially equivalent technology by our competitors could have a material adverse effect on our business.

Domestic and foreign government regulation and other factors could impair our ability to develop and sell our products in certain markets.

The electronic animal identification market can be negatively affected by such factors as food safety concerns, consumer perceptions regarding cost and efficacy, international technology standards, national infrastructures, and slaughterhouse removal of microchips.

We are also subject to federal, state and local regulation in the United States, including regulation by the United States Food and Drug Administration (FDA), United States Federal Communications Commission (FCC) and United States Department of Agriculture (USDA) and other countries, and we cannot predict the extent to which we may be affected by future legislative and regulatory developments concerning our products and markets. We are required to obtain regulatory approval before marketing most of our products. The regulatory approval process can be very time consuming and costly and there is no assurance that we will receive the regulatory approvals necessary to sell our products. Regulatory authorities also have the authority to revoke approval of previously approved products for cause, to request recalls of products and to close manufacturing plants in response to violations. Any such regulatory action, including the failure to obtain such approval could prevent us from selling, or materially impair our ability to sell our products in certain markets and could negatively impact our business.

We rely heavily on sales to government contractors of our animal identification products and any decline in the demand by these customers for our products could negatively impact our business.

Many of the principal customers for electronic identification devices for fish are government contractors that rely on funding from the United States government. Since these contractors rely heavily on government funds, any decline in the availability of such funds could result in a decreased demand by these contractors for our products. Any decrease in demand by such customers could have a material adverse affect on our financial condition and results of operations, and result in a decline in the market value of our common stock.

We depend on a single production arrangement for our animal identification products, and the loss of or any significant reduction in the production could have an adverse effect on our business.

We rely solely on a production arrangement with Raytheon Corporation for the assembly of our patented syringe-injectable microchips that are used in all of our implantable electronic identification products. Raytheon utilizes our proprietary technology and our equipment in the production of our syringe-injectable microchips. The termination, or any significant reduction, by Raytheon of the assembly of our microchips or a material increase in the price charged by Raytheon for the assembly of our microchips could have an adverse effect on our financial condition and results of operations. In addition, Raytheon may not be able to produce sufficient quantities of the microchips to meet any significant increased demand for our products or to meet any such demand on a timely basis. Any inability or unwillingness of Raytheon to meet our demand for microchips would require us to utilize an alterative production arrangement and remove our automated assembly production machinery from the Raytheon facility. Moreover, if Raytheon terminates our production arrangement, we cannot ensure that the assembly of our microchips from another source would be on comparable or acceptable terms. The failure to make such an alternative production arrangement could have an adverse effect on our business.

We compete with other companies in the visual and electronic identification market and the products sold by our competitors could become more popular than our products or render our products obsolete.

The market for visual and electronic identification for companion animals and livestock is highly competitive. We believe that our principal competitors in the visual identification market for livestock are AllFlex USA and Y-Tex Corporation, and our principal competitors in the electronic identification market that have developed permanent electronic identification devices for the companion animal market are AllFlex USA, Datamars SA and Avid Plc. Neither Datamars nor Avid has been granted a U.S. license to use our implantable technology.

In addition, other companies could enter this line of business in the future. Certain of our competitors have substantially greater financial and other resources than us. We may not be able to compete successfully with these competitors and these competitors may develop or market technologies and products that are more widely accepted than ours or that would render our products obsolete or noncompetitive. Our principal competitor in this area is Wherify Wireless, Inc. We are not aware of

any other competitors currently marketing products that compete with the Digital Angel product. However, we are aware of several potential competitors that have expressed an interest in similar technologies. We are unaware of any actual sales of a competing product. If such competitors enter the market and compete with the Digital Angel product, such competition could have a material adverse effect on our business.

We are subject to certain risks as a result of our foreign operations.

We maintain international operations, which subjects us to certain risks that are inherent in international operations, including the risk that:

- we will have difficulty enforcing agreements and collecting receivables through certain foreign legal systems;

- foreign customers may have longer payment cycles than customers in the United States;

- tax rates in certain foreign countries may exceed those in the United States and foreign earnings may be subject to withholding requirements or the imposition of tariffs, exchange controls or other restrictions;

- general economic and political conditions in countries where we operate may have an adverse effect on our operations in those countries;

- the difficulties associated with managing a large organization spread throughout various countries may adversely affect our business in those countries; and

- required compliance with a variety of foreign laws and regulations may prove onerous and adversely affect our operations abroad.

As we continue to expand our business globally, our success will be dependent, in part, on our ability to anticipate and effectively manage these and other risks. These and other factors may have a material adverse effect on our international operations or our business as a whole.

Currency exchange rate fluctuations could have an adverse effect on our sales and financial results.

We generate a portion of our sales and incur a portion of our expenses in currencies other than U.S. dollars. To the extent that we are unable to match revenues received in foreign currencies with costs paid in the same currency, exchange rate fluctuations in any such currency could have an adverse effect on our financial results.

The Digital Angel product is not proven and we may not be able to develop products from this unproven technology.

The Digital Angel Systems segment depends on the development, integration, miniaturization and marketing of several advanced technologies that have not previously been integrated or used as anticipated by this segment. The Digital Angel Systems segment depends upon advanced technology including: wireless communication, biosensors, motion determination and global positioning system capability. Many of these technologies are unproven or relatively new. These technologies have not been previously integrated or miniaturized into a commercial product. No assurance can be given as to when or if the Digital Angel product will be successfully marketed. Our ability to develop and commercialize products based on our proprietary technology will depend on our ability to develop our products internally on a timely basis or to enter into arrangements with third parties to provide these functions. Our failure to develop and commercialize products successfully could have a material adverse effect on our financial condition and results of operations.

FORWARD-LOOKING STATEMENTS

This prospectus and any prospectus supplement may contain "forward-looking statements," which represent our expectations or beliefs, including, but not limited to, statements concerning industry performance and our results, operations, performance, financial condition, plans, growth and strategies, which include, without limitation, statements preceded or followed by or that include the words "may," "will," "expect," "anticipate," "intend," "could," "estimate," or "continue" or the negative or other variations thereof or comparable terminology. Any statements contained in this prospectus, any prospectus supplement or the information incorporated by reference that are not statements of historical fact may be deemed to be forward-looking statements. These statements by their nature involve substantial risks and uncertainties, some of which are beyond our control, and actual results may differ materially depending on a variety of important factors, many of which are also beyond our control. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. We do not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events, except to the extent such updates and/or revisions are required to prevent these forward-looking statements from being materially false or misleading.

BUSINESS

Overview

We were incorporated in Delaware on December 1, 1981 as Medical Advisory Systems, Inc. to provide medical assistance and technical products and services. On March 27, 2002, we completed a merger pursuant to which Digital Angel Acquisition, then a wholly-owned subsidiary of Medical Advisory Systems, merged with and into Digital Angel Corporation, which was then a 93.0%-owned subsidiary of Applied Digital Solutions. In the merger, the corporate existence of Digital Angel Acquisition ceased, Digital Angel Corporation became a wholly-owned subsidiary of Medical Advisory Systems, and Medical Advisory Systems was renamed "Digital Angel Corporation." In connection with the merger transaction, Applied Digital Solutions contributed to Medical Advisory Systems all of its stock in Timely Technology, a wholly-owned subsidiary, and Signature Industries, an 85.0%-owned subsidiary. These two subsidiaries along with Digital Angel Corporation comprised Applied Digital Solutions' Advanced Wireless Group. As a result of this contribution by Applied Digital Solutions, Timely Technology became a wholly-owned subsidiary of Digital Angel Corporation and Signature Industries became an 85.0%-owned subsidiary. Prior to the merger, Applied Digital Solutions owned 850,000 shares of Medical Advisory Systems common stock representing approximately 16.6% of the outstanding common stock of Medical Advisory Systems.

Following the merger, the scope of our business was expanded to include the development and commercialization of proprietary technologies used to identify, locate and monitor people, animals and objects. Our business is presently organized into four segments: Animal Applications, Digital Angel Systems, GPS and Radio Communications, and Physician Call Center and Other. We are a Delaware corporation located at 490 Villaume Avenue, South St. Paul, MN 55075. Our telephone number is 651-455-1621.

Animal Applications

Our Animal Applications segment develops, manufactures and markets radio, electronic and visual identification devices for the companion animal, livestock, laboratory animal, fish and wildlife markets worldwide.

The Animal Applications segment's radio frequency identification products consist of miniature electronic microchips, readers and injection systems. We hold patents on our syringe-injectable microchip, which is encased in a glass or glass-like material capsule and incorporates an antenna and a microchip with a unique permanent identification code for the animal in which it is implanted. The microchip is typically injected under the skin using a hypodermic syringe, without requiring surgery. An associated reader device uses radio frequency to interrogate the microchip and read the code.

The Animal Applications segment's pet identification system involves the insertion of a microchip with identifying information in the animal. Readers at animal shelters, veterinary clinics and other locations can determine the animal's owner and other information. This pet identification system is marketed in the United States by Schering-Plough Pharmaceutical under the brand name "Home Again ," in Europe by Merial Pharmaceutical, and in Japan by Dainippon Pharmaceutical. The Animal Applications segment also has distribution agreements with a variety of other companies outside the United States to market our products. The Animal Applications segment has an established infrastructure with readers placed in approximately 20,000 domestic animal shelters and veterinary clinics. Over 1.5 million companion animals in the United States have undergone microchipping, resulting in approximately 4,000 pet recoveries in the United States each month.

In addition to pursuing the market for permanent identification of companion animals, the Animal Applications segment also produces visual and electronic identification products, principally for livestock producers. Visual identification products typically include numbered ear tags. The Animal

Applications segment also produces and markets products for the permanent electronic identification of livestock.

The USDA has given clearance for implanting microchips in food animals, enabling us to market our electronic identification products to the United States livestock market. Implantation of the segment's electronic microchips was previously cleared by the FDA, subject to a determination by USDA as to anatomical implant sites in livestock animals. USDA has identified four implantation sites, all in inedible tissue, where it has been demonstrated there will be minimal or no migration of the implanted device. We are now able to actively promote our implantable system in the United States, and we anticipate that USDA clearance will result in increased use of microchips in connection with disease control programs.

Some of the Animal Applications segment's customers, such as the U.S. Department of Energy (DOE) track fish to locate and protect spawning pools and to track migratory patterns for research and fishing purposes. Our fish scanning system has become DOE's standard system and we have been installing our high-speed scanners at selected dam sites in the Columbia River basin since 1998.

We rely heavily on a few customers for sales of our electronic animal identification products. The loss of one or more of these customers would have a material adverse effect on our business. See, "RISK FACTORS" on p. 5.

We rely solely on a production arrangement with Raytheon Corporation for the manufacture of our syringe-injectable microchips that are used in all of our electronic identification products, including our electronic animal identification products. See, "RISK FACTORS" on p. 5.

Digital Angel Systems

Our Digital Angel Systems segment is in the initial stage of operations. This segment develops and markets advanced technology to gather location and local sensory data and to communicate that data to an operations center. This segment is continuously developing its technology, which it refers to as its "Digital Angel technology." The Digital Angel technology is the integration and miniaturization into marketable products of three technologies: wireless communication (*e.g.* cellular), sensors (including bio-sensors) and position location technology (including global positioning systems (GPS) and other systems).

After the Digital Angel technology gathers location data and local sensory data and communicates that data to an operations center, the operations center can perform an action based on the data received (*e.g.*, alert a doctor or update shipment information). We plan to introduce this technology into a variety of products to suit different applications ranging from medical monitoring to asset management. These products have been in the developmental stage since April 1998. The first Digital Angel technology product was launched in November 2001.

We have developed a system for managing the data to be communicated from products using the Digital Angel technology. We refer to this system as the Digital Angel Delivery System (DADS). DADS manages data in an application-specific format. DADS works by combining highly complex software that is responsible for data collection and delivery with the advanced infrastructure needed to operate it. The DADS software is divided into the following interconnected functional areas:

Data Collection. This component acquires real-time data from the devices incorporating the Digital Angel technology (*e.g.*, location, temperature and identifying information). DADS collects the data received from devices using the technology, identifies the source of data and routes it to the appropriate middle tier components.

Business Intelligence. This component incorporates the data storage capabilities, data analysis functions, application specific algorithms and the notification engine.

Data Delivery. This component provides data storage, retrieval services and a delivery service, which allow information delivery via a variety of channels (*e.g*., web browsers, wireless devices, cell phones, pagers, e-mail, embedded devices or other devices).

The Digital Angel Systems segment also is engaged in the business of developing a broad spectrum of software and systems, including management information systems used in our Animal Applications business, the design and marketing of financial and accounting software packages for school districts, processing the data associated with product returns for customers on a contract basis and other services.

GPS and Radio Communications

Signature Industries, located in the United Kingdom, operates our GPS and Radio Communications business. This segment consists of the design, manufacture and support of secure GPS enabled search and rescue equipment (such as personal locator beacons) and intelligent communications products and services for telemetry, mobile data and radio communications applications serving commercial and military markets. This segment includes the design, manufacture and distribution of intrinsically safe sounders (horn alarms) for industrial use and other electronic components. This segment also includes a growing business in high grade communications equipment leasing and complementary data systems that customers can use to locate and monitor their assets.

Physician Call Center and Other

This segment is comprised of a staff of communication specialists and physicians operating from our medical telecommunications response center and provides medical assistance services to people traveling anywhere in the world, 24 hours per day, 7 days per week. Assistance is provided by telephone, satellite, high frequency radio, fax and telex. A major market for our services is the maritime industry and the international travel insurance and assistance industry. Services include coordination of medical care, physician consultation, translation assistance, claims handling and cost containment on behalf of assistance companies, insurance companies or managed care organizations. We also offer medical training services to the maritime industry.

We also sell a variety of kits containing pharmaceutical and medical supplies. Included in the kits are both prescription and nonprescription medications and controlled substances. The kits include our pharmaceutical manual, which provides information on proper storage, use and inventory control. All medications are specially labeled for use in our system. We directly supply pharmaceuticals to our maritime and airline customers through our warehouse facility, which stocks various commonly needed pharmaceuticals and supplies.

Finally, this segment staffs and operates an outpatient health services clinic in Owings, Maryland that provides primary care and laser treatment for hair and tattoo removal. The clinic is operated during normal business hours.

Financial Information About Segments

Revenues from our various segments can be broken down as follows (in thousands):

	Nine Months Ended September 30,		For the Years Ended December 31,		
	2002	2001	2001	2000	1999
Animal Applications	$ 16,314	$ 16,761	$ 22,074	$ 6,618	$
Digital Angel Systems	$ 1,215	$ 2,803	$ 2,520	$ 2,647	$
GPS and Radio Communications	$ 7,622	$ 8,407	$ 11,144	$ 12,986	$ 14.380
Physician Call Center and Other	$ 1,181	$	$	$	$

Refer to Note 18 in the Advanced Wireless Group combined financial statements on p. F-44 for other segment data.

Competition

Animal Identification Market

The animal identification market is highly competitive. Our principal competitors in the visual identification market are AllFlex USA, Inc. and Y-Tex Corporation and our principal competitors in the electronic identification market are AllFlex USA, Datamars SA and Avid Plc. See, "RISK FACTORS" on p. 5.

Digital Angel Systems

Our principal competitor in this area is Whereify Wireless, Inc. We are not aware of any other competitors currently marketing products that compete with the Digital Angel product. However, we are aware of several potential competitors that have expressed an interest in developing and marketing similar technologies. There is no substantial revenue from product sales of any participant in this market.

GPS and Radio Communications

Our principal competitors in this area are Tadiran Spectralink Ltd., H.R. Smith Group of Companies, Becker Avionic Systems, A.C.R. Electronics Inc. and Securicor Information Systems Ltd.

Physician Call Center and Other

We are not aware of direct competitors with our interactive medical information services. However, we believe that within the existing internet medical arena, there are many service providers and other physician groups that could deliver competing services. We believe our first-to-market status provides us with a competitive advantage over these potential competitors. However, there is no assurance that other companies will not commence competing operations and generate greater competition than now exists.

We compete in the maritime medical advice market with a few foreign government-operated entities. We are aware of several U.S. companies, as well as hospitals, that provide radio medical advice to ships at sea. While we believe we have a competitive advantage, the barriers to entry into this market are relatively low, and there can be no assurance that other companies will not commence operations similar to those provided by us and generate competition that does not now exist.

Personnel

We have 263 full time employees, including 12 in management, 21 in sales positions, 43 in administrative positions, 60 in technical positions and 127 in production positions. We also have 2 part-time physicians and 9 physicians under contract to provide services to us.

Government Regulation

We are subject to federal, state and local regulation in the United States, including the FDA and FCC. We are also subject to regulation by government entities in other countries.

Domestic Regulation

Animal products for food producing animals have been reviewed by the FDA's Center for Veterinary Medicine and the FDA has determined that our product, as presently configured, is unregulated. As of the date of this prospectus, Digital Angel products do not incorporate FDA regulated components. However, any applications directly related to medical information will require further FDA approval. The Digital Angel products have also been approved by the FCC. Our insecticide products require approval by the United States Environmental Protection Agency, which has been obtained.

We are also licensed by the FCC to operate a limited coast, high frequency and single side bank (SSB) radio station in connection with our maritime services. The United States Department of Justice and the United States Drug Enforcement Administration (DEA) also monitor our distribution of controlled substances. We are licensed by DEA and the Maryland Board of Pharmacy for the distribution of pharmaceuticals. We do not hold any medical licenses, but utilize the services of licensed physicians.

We are also taking steps to establish procedures to ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA), which takes effect on April 15, 2003. HIPAA will require us to implement certain procedures to maintain the privacy of our customers with respect to medical information transmitted via the internet. We expect to be in full compliance with the requirements of HIPAA by April 15, 2003.

Regulation Abroad

Our products are subject to compliance with applicable regulatory requirements in those foreign countries where our products are sold. The contracts we maintain with our distributors in these foreign countries generally require the distributor to obtain all necessary regulatory approvals from the governments of the countries in which these distributors sell our products.

Financial Information About Geographic Areas

Revenues are attributed to geographic areas based on the location of the assets producing the revenues. Information concerning principal geographic areas as of and for the years ended December 31, 2001, 2000 and 1999 is as follows (in thousands):

	United States		United Kingdom		Combined	
Year ended December 31, 2001						
Net revenue	$	24,594	$	11,144	$	35,738
Long-lived assets excluding goodwill and other intangibles, net		13,558		918		14,476
Year ended December 31, 2000						
Net revenue	$	9,265	$	12,986	$	22,251
Long-lived assets excluding goodwill and other intangibles, net		4,449		959		5,408
Year ended December 31, 1999						
Net revenue	$		$	14,380	$	14,380
Long-lived assets excluding goodwill and other intangibles, net				1,115		1,115

DESCRIPTION OF PROPERTY

We own a 79,692 square foot (gross building area) masonry and steel industrial two-building complex located in South St. Paul, Minnesota that is currently occupied by our administrative, sales, engineering and manufacturing operations, plus 3 additional lessees. The buildings have 6,000 square feet of office area, 9 loading docks, 1 drive-in door and 13'-16' clear ceilings. The South St. Paul property is encumbered by a mortgage in the aggregate principal amount of $2.4 million.

Our physician call center facilities currently consist of a campus of three buildings: a 12,000 square foot facility that contains two custom designed call centers and administrative offices; a 4,800 square foot facility that contains our technology center from which we operate ASP and web hosting services and our maritime pharmacy; and a third facility consisting of a two-story structure with approximately 3,000 square feet of usable office and storage space. The three buildings are owned by us and located on 1.44 acres of commercial land in Owings, Maryland, approximately twenty miles from Washington, D.C. The Owings, Maryland property is encumbered by a mortgage in the aggregate principal amount of $910,000.

LEGAL PROCEEDINGS

On May 29, 2001, Janet Silva, individually and as Guardian *ad litem* for Jonathan Silva, a minor, and the Estate of Clarence William Silva, Jr. filed suit against Customized Services Administrators, Incorporated, Pricesmart, Inc., Commercial Union Insurance Company, CGU Insurance Group, and us in the Superior Court of the State of California in and for the County of Santa Clara. The allegations of the complaint arise from a vacation guarantee insurance policy allegedly purchased by the plaintiffs from the defendants on March 6, 2000. The complaint alleges, among other things, that the defendants breached the terms of the insurance policy, defrauded plaintiffs, acted in bad faith, engaged in deceptive and unlawful business practices, resulting in the wrongful death of Clarence William Silva, Jr. and the intentional infliction of emotional distress on plaintiffs. The complaint seeks the cost of funeral and burial expenses of Mr. Silva and amounts constituting the loss of financial support of Mr. Silva, general damages, attorney's fees and costs, and exemplary damages.

Customized Services Administrators has filed a cross-claim against us alleging that we should be held liable for any liability that Customized Services Administrators may have to the plaintiffs in this case. We have denied the allegations of the complaint and the Customized Services Administrators cross-claim and are vigorously contesting all aspects of this action.

We and our subsidiaries are party to various other legal actions as either a plaintiff or a defendant. In our opinion, as of the date of this prospectus, these proceedings will not have a material adverse effect on our financial condition and results of operations.

MARKET PRICE OF AND DIVIDENDS ON OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the American Stock Exchange (AMEX) under the symbol "DOC." The following table shows the high and low sales prices for our common stock as reported on the AMEX for the periods indicated. On November 21, 2002, the last reported sale price of our common stock was $2.16. As of November 21, 2002, there were 26,470,076 shares of our common stock issued and outstanding.

	HIGH	LOW
YEAR ENDING DECEMBER 31, 2002		
First Quarter	$ 7.35	$ 2.90
Second Quarter	$ 7.75	$ 2.01
Third Quarter	$ 3.74	$ 1.50
YEAR ENDED DECEMBER 31, 2001		
First Quarter	$ 4.50	$ 3.00
Second Quarter	$ 4.30	$ 2.01
Third Quarter	$ 5.40	$ 1.75
Fourth Quarter	$ 8.44	$ 2.25
YEAR ENDED DECEMBER 31, 2000		
First Quarter	$ 18.25	$ 8.75
Second Quarter	$ 14.50	$ 7.50
Third Quarter	$ 12.38	$ 8.88
Fourth Quarter	$ 10.38	$ 2.94

We did not declare or pay dividends on our common stock in fiscal year 2001 or 2000. We have never paid dividends on our common stock and do not anticipate paying dividends in the foreseeable future.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

PricewaterhouseCoopers LLP was the independent accountant for the Advanced Wireless Group prior to the merger between Digital Angel Corporation and Medical Advisory Systems. The financial statements of the Advanced Wireless Group became the historical financial statements of Digital Angel Corporation following the merger.

The report of PricewaterhouseCoopers on the Advanced Wireless Group financial statements for the two years ended December 31, 2001 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles, except that the reports for each of the years ended December 31, 2000 and December 31, 2001 contained an explanatory paragraph expressing doubt about the Advanced Wireless Group's ability to continue as a going concern. On April 11, 2002, Applied Digital Solutions dismissed PricewaterhouseCoopers, LLP as its auditors.

On April 18, 2002, we dismissed BDO Seidman LLP as our certifying accountant. BDO Seidman's report on Medical Advisory Systems' financial statements for the past two years contained no adverse opinion or disclaimer of opinion, nor was the report qualified or modified as to uncertainty, audit scope, or accounting principles. The decision to change accountants was unanimously approved by our board of directors, including all members of our audit committee. During the last two fiscal years and through the subsequent interim period beginning November 1, 2001 and ending April 18, 2002, there were no disagreements with BDO Seidman on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures. We engaged Grant Thornton LLP as our certifying accountant on April 18, 2002.

On May 14, 2002, Grant Thornton notified us that it had resigned as our certifying accountant. Since Grant Thornton was engaged on April 18, 2002, it did not prepare a report on our financial statements for either of the last two years. Therefore, no report was issued by Grant Thornton that could contain an adverse opinion or disclaimer of opinion, or a qualification or modification as to uncertainty, audit scope, or accounting principles. Between April 18, 2002 and May 14, 2002, there were no disagreements with Grant Thornton on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. Grant Thornton advised us that its decision to resign was caused by its resignation as auditor for our majority shareholder, Applied Digital Solutions.

On May 23, 2002, we engaged Eisner LLP as our certifying accountant to audit our financial statements for the fiscal year ending December 31, 2002. During 2000 and 2001 and in the subsequent interim period, we have not consulted with Eisner LLP on items which concerned the application of accounting principles, or to a specific transaction or group of either completed or proposed transactions, or the type of audit opinion that might be rendered on our financial statements, or any other matters or reportable events.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations and sales in various regions of the world. Additionally, we may export to and import from other countries. Our operations may, therefore, be subject to volatility because of currency fluctuations, inflation and changes in political and economic conditions in these countries. Sales and expenses may be denominated in local currencies and may be affected as currency fluctuations affect our product prices and operating costs or those of our competitors.

We presently do not use any derivative financial instruments to hedge our exposure to adverse fluctuations in interest rates, foreign exchange rates, fluctuations in commodity prices or other market risks, nor do we invest in speculative financial instruments.

Due to the nature of our borrowings and our short-term investments, we have concluded that there is no material market risk exposure and, therefore, no quantitative tabular disclosures are required.

EXECUTIVE OFFICERS AND DIRECTORS

Our executive officers and directors and their ages as of the date of this prospectus are as follows:

Name	Age	Position
Randolph K. Geissler	42	Chief Executive Officer, Director
James P. Santelli	55	Vice President, Finance, Chief Financial Officer, Treasurer and Secretary
Richard Friedland	51	Director
Kenneth Larson	62	Director
Richard J. Sullivan	63	Director
Howard S. Weintraub	59	Director

Randolph K. Geissler, 42, has served as our President and Chief Executive Officer since March 27, 2002. From September 2000 until March 27, 2002, he was Chief Executive Officer of Digital Angel Technology Corporation (formerly Digital Angel Corporation). From 1993 until the merger of Destron Fearing Corporation with Applied Digital Solutions in September 2000, Mr. Geissler served as Chief Executive Officer of Destron Fearing Corporation (Nasdaq: DFCO). He was Interim Chief Executive Officer of Destron Fearing Corporation from March 1, 1993 until November 12, 1993 under a transition services agreement signed in conjunction with the merger of a wholly-owned subsidiary of Destron/IDI, Inc. and Fearing Manufacturing Co., Inc. in November 1993, when Destron/IDI, Inc. changed its name to Destron Fearing Corporation. Prior to 1987, he held a variety of positions with Fearing Corporation, including sales representative, production manager and director of research. He is a manager (Chief Executive Officer) and one of two governors of Digital Angel Holdings, LLC, which

is owned by us and was formed to own our headquarters located in South St. Paul, Minnesota. Mr. Geissler received his degree in Veterinary Animal Science from the University of Wisconsin-River Falls in 1982.

James P. Santelli, 55, has served as our Vice President, Finance, Chief Financial Officer, Treasurer and Secretary since March 27, 2002. Prior to joining Digital Angel Technology Corporation in 2000, Mr. Santelli served as Vice President, Finance and Chief Financial Officer of Destron Fearing. From October 1998 to September 1999 he was Chief Operating Officer of Doorlite, Inc., and from November 1995 to October 1998 he was Vice President Finance and Chief Financial Officer of Hartzell Manufacturing, Inc. From 1984 to 1995 Mr. Santelli held senior financial and operating positions with several start-up and emerging companies. In addition, Mr. Santelli has held financial positions with major national firms including Pillsbury Co., Northrup King Co. and The Musicland Group. He served in the U. S. Marine Corps from 1969 - 73. Mr. Santelli has a Bachelor's degree in economics from Carleton College and an M.B.A. in finance from Cornell University.

Richard Friedland, 51, has served on the board of directors since March 27, 2002. He served on the board of directors of Applied Digital Solutions from October 1999 until March 27, 2002. Mr. Friedland was previously associated with General Instrument Corporation. During his 19-year tenure with General Instrument Corporation, Mr. Friedland held several executive positions, including Chief Financial Officer, President and Chief Operating Officer. In 1995, he was appointed Chairman of the Board and Chief Executive Officer of General Instrument Corporation. He currently serves on the boards of several development-stage companies. Mr. Friedland earned a Bachelor of Science Degree in Accounting from Ohio State University in 1972 and a Masters Degree in Business Administration from Seton Hall University in 1985. Mr. Friedland is chairman of our audit committee.

Kenneth Larson, 62, has served on the board of directors since March 27, 2002. He is Chairman of Restaurant Technologies, Inc., Chief Executive Officer of Classic Space, Inc., and Secretary/Treasurer of Austin Lodge, LLC. Mr. Larson served as President and Chief Operating Officer of Polaris Industries, Inc. from 1988 until his retirement in September 1998. Polaris Industries is a publicly-held company that designs, engineers, manufactures, and markets snowmobiles, all-terrain vehicles (ATVs), and personal watercraft for recreational and utility use. He previously held management positions with Toro Company, Allis-Chalmers Corp., General Electric Company, and Gehl Company. Mr. Larson is a Director of Featherlite, Inc., where he serves on the audit and compensation committees. Mr. Larson is also a director of Nortek Systems, Inc., a diversified manufacturer of residential and commercial building products that is publicly-held. He is a member of our audit and compensation committees.

Richard J. Sullivan, 63, is Chairman of the Board of Directors. He has served on our board of directors since April 2001. Since 1993, Mr. Sullivan has been Chairman of the Board and Chief Executive Officer of Applied Digital Solutions. He served as a director of Digital Angel Technology Corporation from September 2000 to March 27, 2002. Mr. Sullivan is also Chairman of Great Bay Technology, Inc. From August 1989 to December 1992, Mr. Sullivan was Chairman of the Board of Directors of Consolidated Convenience Systems, Inc., Springfield, Missouri. He has been the Managing General Partner of The Bay Group, a mergers and acquisitions firm in New Hampshire, since February 1995. Mr. Sullivan was formerly Chairman and Chief Executive Officer of Manufacturing Resources, Inc., an MRP II software company in Boston, Massachusetts, and he was Chairman and Chief Executive Officer of Encode Technology, a computer-aided manufacturing company, in Nashua, New Hampshire from February 1984 to August 1986.

Howard S. Weintraub, 59, has served on the board of directors since March 27, 2002. He is Vice President, R&D, Corporate Staff for C.R. Bard, Inc., a medical device company (NYSE: BCR). From 1988 to 1998, he held senior research and technology management positions at Bristol-Meyers Squibb. Dr. Weintraub was previously associated with the Ortho Pharmaceutical Corporation, a division of Johnson & Johnson, from 1973 until 1988, where he held senior research management positions. He has also authored or co-authored over 50 publications and abstracts. Dr. Weintraub previously served as

chairman of the Industrial Pharmaceutical Technology Section of the AAPS (formerly AphA) and was the chairman of the Drug Metabolism subsection of the Research and Pharmaceutical Manufacturers' Association. He also is a Board Advisor to the Swiss biotechnology firm, Modex Therapeutics. Dr. Weintraub earned a Bachelor of Science Degree in Pharmacy from Columbia University and his Ph.D. in biopharmaceutics from the State University of New York at Buffalo. He is a member of our compensation and audit committees.

Summary Compensation Table

	Annual Compensation(1)				Long-term Compensation Awards
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation**	**Shares of Common Stock Underlying options**
Ronald W. Pickett(2)	2002	$ 180,000	$ 250,000	$ 0	0
President	2001	$ 180,000	$ 0	$ 0	350,000
Chairman of the Board	2000	$ 149,870	$ 0	$ 25,000(3)	0
	1999	$ 129,505	$ 0	$ 13,462(3)	0
Thomas M. Hall(4)	2002	$ 260,000	$ 0	$ 0	0
Chief Executive Officer	2001	$ 260,000	$ 0	$ 1,000(5)	150,000
Chief Physician	2000	$ 259,870	$ 0	$ 1,000(5)	30,000
	1999	$ 257,362	$ 0	$ 0	0
Dale L. Hutchins	2002	$ 140,000	$ 0	$ 0	100,000
Executive Vice President	2001	$ 140,000	$ 0	$ 0	50,000

								Long-term Compensation Awards
Chief Operating Officer	2000	$	116,793	$	0	$	23,077(3)	80,000
Randolph K. Geissler(6) Chief Executive Officer	2002	$	187,500(7)	$	50,000(8)	$	50,000(9)	1,000,000
James P. Santelli(10) Vice President, Finance Chief Financial Officer Treasurer, Secretary	2002	$	131,250(11)	$	0	$	0	250,000

(1) Represents annual compensation for the fiscal years ended October 31, 2001, 2000 and 1999. On April 18, 2002, our board of directors authorized a change in our fiscal year effective January 1, 2002. Annual compensation for 2002 represents compensation to be paid January 1 through December 31, 2002.

(2) Mr. Pickett resigned as our President on March 27, 2002, the effective date of the merger of our wholly-owned subsidiary Digital Angel Acquisition Co. with and into Digital Angel Corporation. Under Mr. Pickett's amended employment agreement, he is entitled to a $250,000 bonus and an amount equal to his annual salary of $180,000 for the remainder of the term notwithstanding his resignation.

(3) Received as compensation through DocTalk, LLC and Doc-Talk, Inc., our wholly-owned subsidiaries.

(4) Dr. Hall resigned as our Chief Executive Officer on March 27, 2002, the effective date of the merger. He continues to hold a non-executive officer position with our company.

(5) Received as compensation through Hall & Associates, P.A., an affiliate. We have an agreement with Hall & Associates, P.A., under which Hall & Associates, P.A. provides us with medical staff personnel. See, "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS."

(6) Mr. Geissler was appointed by our board of directors as our Chief Executive Officer on March 27, 2002, the effective date of the merger.

(7) Constitutes the annualized amount payable to Mr. Geissler through December 31, 2002 pursuant to a March 8, 2002 employment agreement.

(8) Mr. Geissler is entitled to an annual bonus in an aggregate amount of not less than $50,000 pursuant to his employment agreement. In addition, Mr. Geissler is eligible to receive such additional bonus compensation as our board of directors, executive committee, compensation committee or other designated committee shall award from time to time. See, "EXECUTIVE OFFICERS AND DIRECTORS Employment Agreement."

(9) Mr. Geissler receives $5,000 per month as a flexible perquisite allowance pursuant to his employment agreement to be used for such purposes as he shall determine in his sole discretion.

(10) Mr. Santelli was appointed by our board of directors as our Vice President, Finance and Chief Financial Officer on March 27, 2002, the effective date of the merger.

(11) Constitutes the annualized amount payable to Mr. Santelli through December 31, 2002 pursuant to an April 1, 2002 employment agreement.

Fiscal 2001 Options Grants

The following table sets forth information concerning grants of stock options to the executive officers made pursuant to our Amended and Restated Employee and Director Stock Option Plan and our Transition Stock Option Plan. The options granted to Mr. Pickett, Dr. Hall and Dr. Hutchins were granted on February 7, 2001 pursuant to our Amended and Restated Employee and Director Stock Option Plan.

Stock Option Grants in Fiscal Year 2001

Individual Grants

Name	Securities Underlying Options Granted (#)	Percentage of Total Options Granted to Employees in Fiscal Year(1)	Exercise or Base Price ($/sh)	Expiration Date	Potential Realizable Value of Assumed Annual Rates of Stock Price Appreciation for Option Term 5%($)	10%($)
Ronald W. Pickett	350,000	41.0%	$ 4.15	2/07/2011	$ 2.61	$ 6.61
Thomas M. Hall	150,000	17.6%	$ 4.15	2/07/2011	$ 2.61	$ 6.61
Dale L. Hutchins	50,000	5.9%	$ 4.15	2/07/2011	$ 2.61	$ 6.61
Randolph K. Geissler	0	0%	N/A	N/A	N/A	N/A
James P. Santelli	0	0%	N/A	N/A	N/A	N/A

(1) Represents the percentage of total options granted to employees for the fiscal year ended October 31, 2001 and for the subsequent period beginning November 1, 2001 and ending December 31, 2001. On April 18, 2002, our board of directors authorized a change in our fiscal year, effective January 1, 2002. Our new fiscal year begins January 1 and ends December 31.

The purchase price for each option shall not be less than the fair market value of the common stock at the close of business on the date the option is granted.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-end Value

Name	Shares Acquired on Exercise(1)	Value Realized	Number of Unexercised Options at Fiscal Year End: Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year End: Exercisable	Unexercisable
Ronald W. Pickett	0	$ 0	0	350,000(2)	$ 0	$ 262,500
Thomas M. Hall	0	$ 0	220,000	160,000(2)	$ 880,000	$ 112,500
Dale L. Hutchins	0	$ 0	65,000	90,000(2)	$ 110,000	$ 37,500
Randolph K. Geissler	0	$ 0	0	0	$ 0	$ 0
James P. Santelli	0	$ 0	0	0	$ 0	$ 0

(1) Represents option exercises in the fiscal year ended October 31, 2001 and for the subsequent period beginning November 1, 2001 and ending December 31, 2001. Options outstanding at fiscal year end represent options outstanding at December 31, 2001. On April 18, 2002, our board of directors authorized a change in our fiscal year effective January 1, 2002. Our new fiscal year begins January 1 and ends December 31.

(2) These options became fully vested on March 27, 2002, the effective time of the merger.

Compensation of Directors

Until April 1, 2002, we reimbursed non-management directors for costs and expenses they incurred in connection with their attendance and participation at meetings of the board of directors and for other travel expenses incurred on our behalf. Until April 1, 2002, we compensated each non-management director $1,000 for each meeting of the board and $500 for each meeting of the audit committee and the compensation committee attended by such director. Under these arrangements, the following non-employee directors received the following amounts during the fiscal year ended October 31, 2001:

Robert C. Goodwin, Jr.	$	15,000
Richard F. Seelig	$	11,000
Paul R. Sanberg	$	10,000
George E. Harris, IV	$	2,500

Non-employee directors were also granted options to purchase shares of our common stock in connection with their service as directors.

Effective April 1, 2002, the board of directors determined to pay each member of our board of directors who is not an employee, officer or an "affiliate" (as the term "affiliate" is defined in our Transition Stock Option Plan) $5,000 per quarter, plus $1,000 each calendar quarter for each committee of the board on which the director serves, plus $1,000 for each meeting of the board of directors that a board member attends that is not a regularly-scheduled board meeting. We also reimburse such directors for reasonable expenses incurred by them in rendering their duties as directors, subject to such reimbursement practices and procedures as we reasonably impose.

Employment Agreements

We entered into employment agreements with Mr. Pickett, Dr. Hall and Dr. Hutchins. The employment agreements provided for an annual base salary in an amount not less than the employees' current salary and terms of five years for Mr. Pickett and Dr. Hall, and four years for Dr. Hutchins. The agreements provided for termination upon the employee's death or in the event of a "for cause" incident or upon certain events specified by federal regulations. The employment agreements are also terminable by the employee upon 30 to 90 days' notice to us.

On October 26, 2001, we executed amendments to employment agreements with each of Mr. Pickett and Dr. Hall, which reflect both certain prior oral amendments to the respective employment agreements as well as further amendments. The amendments confirmed the extension of the term of each of Mr. Pickett's and Dr. Hall's employment agreements through October 31, 2006 and established that Mr. Pickett and Dr. Hall shall receive an annual salary of not less than $180,000 and $260,000, respectively, throughout the term of their employment agreements. The amendments also provided that, in the event of termination or resignation at any time following a change of control of our company, each of Mr. Pickett and Dr. Hall would be entitled to a $250,000 bonus; an amount equal to all salary and other benefits that otherwise would have been paid under the employment agreement for the remainder of the term had no termination or resignation occurred; an amount equal to the value of the fringe benefits such as medical and dental insurance and use of an automobile to which Mr. Pickett and Dr. Hall otherwise would have been entitled under their employment agreements for the remainder of the term; and participation in any profit sharing, stock option or similar plans.

The definition of change of control in the employment agreements also was amended to include any consolidation, merger or share exchange, regardless of whether we are the surviving corporation, in which any person or affiliated person acquires an excess of 20.0% of the combined voting power of our then outstanding securities. The merger transaction in which we acquired the Advanced Wireless Group constituted a change of control under each of Mr. Pickett's and Dr. Hall's employment agreements. On

March 27, 2002, the effective date of the merger, Mr. Pickett and Dr. Hall resigned their positions. However, Dr. Hall continues to hold a non-executive officer position with our company. The aggregate value of the payments Mr. Pickett and Dr. Hall are entitled to receive as a result of their amended employment agreements is $1,117,000 and $1,406,000, respectively.

Mr. Geissler is employed pursuant to a March 8, 2002 employment agreement. The employment agreement provides for an annual base salary and annual bonus of not less than $250,000 and $50,000, respectively. In addition, Mr. Geissler is entitled to receive $5,000 per month as a flexible perquisite allowance that he may use for purposes determined in his sole discretion. He is also eligible to receive such additional bonus compensation as our board of directors, executive committee, compensation committee or other designated committee shall award from time to time. Mr. Geissler's employment agreement has a term of five years, commencing on March 8, 2002, and automatically renews for successive additional one year terms on March 8 of each year, beginning on March 8, 2003, each of which terms shall be added to the end of the then existing term (taking into account any prior extensions or failures to extend), unless either party notifies the other party at least 30 days prior to such anniversary date. The agreement provides for termination of Mr. Geissler's employment upon his death, his permanent disability or upon the occurrence of certain "for cause" events enumerated in the employment agreement.

Mr. Santelli is employed pursuant to an April 1, 2002 employment agreement. The employment agreement provides for an annual base salary of $175,000. The agreement also provides for a term of three years, commencing on April 1, 2002, and automatically renews for successive additional one year terms on April 1 of each year, beginning on April 1, 2003, each of which terms shall be added to the end of the then existing term (taking into account any prior extensions or failures to extend), unless either party notifies the other party at least 60 days prior to such anniversary date. In addition, the agreement provides for termination of Mr. Santelli's employment upon his death, his permanent disability or upon the occurrence of certain "for cause" events enumerated in the employment agreement.

Amro Albanna, the President of Digital Angel Systems, is employed pursuant to a July 1, 2000 employment agreement. The employment agreement provides for an annual base salary of $100,000. The agreement also provides for a term of three years, ending on June 30, 2003. In addition, the agreement provides for termination of Mr. Albanna's employment upon his death, disability or upon the occurrence of certain "for cause" events enumerated in the employment agreement.

Compensation Committee Interlocks and Insider Participation

On November 1, 2000, which was the beginning of our 2001 fiscal year, the compensation committee consisted of Robert C. Goodwin, Jr. and George E. Harris, IV. Mr. Goodwin was a director during fiscal 2001, and Mr. Harris was a director until he resigned on January 26, 2001 from the board and the compensation committee. On February 23, 2001, the board appointed Mr. Goodwin, Mercedes Walton and Paul R. Sanberg to the compensation committee, all of whom were then directors. On April 19, 2001, Ms. Walton resigned from the board and the compensation committee. On March 27, 2002, the effective date of the merger with Medical Advisory Systems, Messrs. Goodwin and Sanberg resigned from the compensation committee, and the board appointed Kenneth D. Larson and Howard S. Weintraub to the compensation committee. Each of Mr. Larson and Dr. Weintraub is a non-employee, "independent" director.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of shares of our common stock as of October 31, 2002 of each person known by us to own beneficially more than five percent (5.0%) of the outstanding common stock, each named executive officer, all current directors and all current executive officers and directors as a group.

Beneficial Owner(1)	Number of Shares Beneficially Owned	Percent of Class(2)
Named Executive Officers(3):		
Ronald W. Pickett 8050 Southern Maryland Blvd. Owings, MD 20736	388,890(4)	1.5%
Thomas M. Hall 8050 Southern Maryland Blvd. Owings, MD 20736	844,750(5)	3.2%
Dale L. Hutchins 8050 Southern Maryland Blvd. Owings, MD 20736	177,201(6)	0.7%
Randolph K. Geissler 490 Villaume Avenue South St. Paul, MN 55075	937,500(7)	3.4%
James P. Santelli 490 Villaume Avenue South St. Paul, MN 55075	140,375(8)	0.5%

Beneficial Owner(1)	Number of Shares Beneficially Owned	Percent of Class(2)
Current Directors:		
Richard J. Sullivan 490 Villaume Avenue South St. Paul, MN 55075	987,500(9)	3.7%
Richard S. Friedland 490 Villaume Avenue South St. Paul, MN 55075	93,750(10)	0.4%
Kenneth D. Larson 490 Villaume Avenue South St. Paul, MN 55075	0	0.0%
Howard S. Weintraub 490 Villaume Avenue South St. Paul, MN 55075	0	0.0%
All current executive officers and directors as a group(11)	2,341,938	8.4%
Certain Other Beneficial Owners:		
Digital Angel Share Trust c/o Wilmington Trust Company Rodney Square North 1100 North Market Street Wilmington, DE 19890	19,600,000(12)	74.1%
Applied Digital Solutions, Inc. 400 Royal Palm Way Suite 410 Palm Beach, FL 33480	19,600,000(13)	74.1%

(1) Unless otherwise indicated, each person has sole power to vote and dispose of, or direct the disposition of, all shares of our common stock beneficially owned, subject to applicable community property and similar laws.

(2) Based on 26,460,076 shares outstanding as of October 31, 2002, which does not include 7,817,413 shares of common stock subject to stock options and warrants outstanding at August 31, 2002 which are not exercisable within 60 days.

(3) Effective March 27, 2002, Mr. Pickett resigned from our company and Drs. Hall and Hutchins became non-executive officer employees of our company.

(4) Includes 38,890 shares of our common stock owned beneficially by Mr. Pickett through his minor children and options to purchase 350,000 shares of our common stock at $4.15 per share that became fully vested on March 27, 2002, the effective time of the merger.

(5) Includes 6,000 shares owned by a family member in which Dr. Hall has an indirect beneficial ownership, immediately exercisable options to purchase 105,000 shares of our common stock at $0.50 per share, immediately exercisable options to purchase 30,000

shares of our common stock at $10.00 per share and immediately exercisable options to purchase 150,000 shares of our common stock at $4.15 per share.

(6) Includes immediately exercisable options to purchase 11,000 shares of common stock at $0.50 per share, immediately exercisable options to purchase 80,000 shares of common stock at $10.00 per share and immediately exercisable options to purchase 50,000 shares of common stock at $4.15 per share.

(7) Includes immediately exercisable options to purchase 937,500 shares of our common stock at $0.78 per share.

(8) Includes immediately exercisable options to purchase 140,375 shares of our common stock at $0.78 per share.

(9) Includes immediately exercisable options to purchase 50,000 shares of our common stock at $3.90 per share.

(10) Includes immediately exercisable options to purchase 93,750 shares of our common stock at $0.05 per share.

(11) Includes immediately exercisable options to purchase 182,813 shares of our common stock at $0.67 per share beneficially owned by Amro A. Albanna, President, Digital Angel Systems, a division of our company.

(12) Represents shares transferred by Applied Digital Solutions, Inc. to the Digital Angel Share Trust pursuant to a March 1, 2002 Trust Agreement by and between Applied Digital Solutions and Wilmington Trust Company, as trustee.

(13) Represents shares beneficially owned by Applied Digital Solutions, Inc. but held of record by the Digital Angel Share Trust pursuant to a March 1, 2002 Trust Agreement by and between Applied Digital Solutions and Wilmington Trust Company.

Changes in Control

On March 27, 2002, we completed a merger that resulted in our acquisition of Digital Angel Technology Corporation (formerly Digital Angel Corporation), Timely Technology and an 85.0% interest in Signature Industries. The merger agreement required that the stock of these three companies and the assets of Digital Angel Technology Corporation, all of which were pledged by Applied Digital Solutions as security for substantial indebtedness to IBM Credit Corporation, be delivered to us at the closing of the merger free and clear of all liens, security interests and mortgages. As part of a major restructuring of its lending relationship with Applied Digital Solutions and as one of the conditions to releasing its security interest in the stock of these transferred companies and the assets of Digital Angel Technology Corporation, IBM Credit Corporation required Applied Digital Solutions to transfer all of the shares of our common stock owned by Applied Digital Solutions to the Digital Angel Share Trust.

The Digital Angel Share Trust's primary purpose is to secure and facilitate the satisfaction of amounts owed by and other obligations of Applied Digital Solutions to IBM Credit Corporation under its new credit agreement. The Digital Angel Share Trust owns the 19,600,000 shares of our common stock that Applied Digital Solutions owned immediately following the merger. The Digital Angel Share Trust is entitled to:

- receive all dividends paid on our common stock held by it, if any,
- vote the shares of our common stock held by it, and
- sell or otherwise dispose of the shares of our common stock held by it, pursuant to the terms of the trust agreement.

For as long as Applied Digital Solutions remains indebted to IBM Credit Corporation under the IBM credit agreement, the Digital Angel Share Trust, acting through its advisory board, will exercise voting power over all shares of our common stock owned by Applied Digital Solutions as of completion of the merger. At any time when any amounts are due to IBM Credit Corporation from Applied Digital Solutions, and not timely paid pursuant to the terms of the IBM credit agreement, or upon any other default by Applied Digital Solutions under the terms of the IBM credit agreement, at the request of IBM Credit Corporation, the trustee of the Digital Angel Share Trust will promptly take action to sell an amount of our common stock held in the Digital Angel Share Trust necessary to generate cash sufficient, after payment of expenses, to make the required payment to IBM Credit Corporation. The Digital Angel Share Trust presently owns approximately 74.1% of our issued and outstanding common stock and is able to control completely our board of directors and decide all matters submitted to our stockholders for approval. Therefore, a sale by the Digital Angel Share Trust of a material amount of our common stock, could result in a change in control of our company. See, "RISK FACTORS" on p. 5.

On September 30 and November 1, 2002, the debt covenants in the IBM credit agreement were amended for the remainder of 2002. The amendment reduced our current ratio and Minimum Cumulative Modified EBITDA requirements, as defined in the IBM credit agreement, for the quarters ended September 30, 2002 and December 31, 2002.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Sale of Stock by Certain Executive Officers

In February 2001, Digital Angel Corporation, then a wholly-owned subsidiary of Applied Digital Solutions, purchased 16.6% of our issued and outstanding common stock from Mr. Pickett, his two minor children and Dr. Hall. At the time of this sale, Mr. Pickett and Dr. Hall were executive officers and directors of our company.

Payments to Certain Executive Officers in Connection with the Merger

On October 26, 2001, we executed amendments to employment agreements with each of Mr. Pickett and Dr. Hall, which reflect both certain prior oral amendments to their respective employment agreements as well as further amendments. The amendments confirmed the extension of the term of each of Mr. Pickett's and Dr. Hall's employment agreements through October 31, 2006 and established that Mr. Pickett's and Dr. Hall's annual salary at not less than $180,000 and $260,000, respectively, throughout the term of their employment agreements. The amendments also provided that, in the event of termination or resignation at any time following a change of control, each of Mr. Pickett and Dr. Hall would be entitled to a $250,000 bonus; an amount equal to all salary and other benefits that otherwise would have been paid under the employment agreement for the remainder of the term had no termination or resignation occurred; an amount equal to the value of the fringe benefits such as medical and dental insurance and use of an automobile to which Mr. Pickett and Dr. Hall otherwise would have been entitled under their employment agreements for the remainder of the term; and participation in any profit sharing, stock option or similar plans.

The definition of change of control in the employment agreements also was amended to include any consolidation, merger or share exchange, regardless of whether we are the surviving corporation, in which any person or affiliated person acquires an excess of 20.0% of the combined voting power of our then outstanding securities. The merger constituted a change of control under each of Mr. Pickett's and Dr. Hall's employment agreements. On March 27, 2002, the effective date of the merger, each of Mr. Pickett and Dr. Hall resigned their positions with our company. The aggregate value of the payments to which Mr. Pickett and Dr. Hall are entitled as a result of their amended employment agreements is $1,117,000 and $1,412,000, respectively.

We have made payments in the aggregate amount of $438,000 to Mr. Pickett and Dr. Hall in partial satisfaction of our obligation under their amended employment agreements.

Merger with Digital Angel Corporation

Effective March 27, 2002, we completed a merger pursuant to a November 1, 2001 Agreement and Plan of Merger, as amended, with Applied Digital Solutions, its wholly-owned subsidiary, Digital Angel Corporation, and Digital Angel Acquisition, our wholly-owned subsidiary. Prior to this transaction, Applied Digital Solutions beneficially owned 16.6% of our common stock. Pursuant to the merger agreement, we acquired from Applied Digital Solutions 100.0% of the outstanding shares of common stock of Digital Angel Corporation and Timely Technology, and 85.0% of the outstanding shares of common stock of Signature Industries. As a result of the merger, each issued and outstanding share of Digital Angel Corporation common stock held by Applied Digital Solutions was converted into 0.9375 shares of our common stock, or 18,750,000 shares of our common stock in the aggregate. Immediately following the merger, Applied Digital Solutions owned approximately 77.15% of our issued common stock and controlled completely our board of directors and was able to decide all of the matters submitted to our stockholders for approval.

In satisfaction of a condition to the consent to the merger of IBM Credit Corporation, a secured creditor of Applied Digital Solutions, the shares of our common stock owned by Applied Digital

Solutions following the merger were transferred to the Digital Angel Share Trust, a Delaware statutory business trust controlled by an advisory board. As a result, the Digital Angel Share Trust has legal title to 19,600,000 shares or approximately 74.1% of our outstanding common stock as of October 31, 2002, controls completely our board of directors and is able to decide all of the matters submitted to our stockholders for approval.

The Digital Angel Share Trust will have voting rights with respect to our common stock until Applied Digital Solutions' obligations to IBM Credit Corporation are paid in full. The Digital Angel Share Trust is obligated to liquidate the shares of our common stock owned by it for the benefit of IBM Credit Corporation in the event that Applied Digital Solutions fails to make payments to IBM Credit Corporation, or otherwise defaults, under the IBM credit agreement. As a result, the duration of the Digital Angel Share Trust's control over our company and the identity of any parties which may acquire control of our company if and when such sales commence is uncertain.

Transactions with Applied Digital Solutions

Prior to March 27, 2002, Applied Digital Solutions provided certain general and administrative services to Digital Angel Technology Corporation (formerly Digital Angel Corporation), including finance, legal, benefits and other miscellaneous items. The costs of these services are included in Digital Angel Corporation's statements of operations based on utilization, which management believes to be reasonable. Costs of these services were $0.2 million and $0.6 million for the nine months ended September 30, 2002 and 2001, respectively. Applied Digital Solutions also charged Digital Angel Technology Corporation $1.8 million of interest expense in 2002, for which the liability was converted to a capital contribution. In addition, accrued expenses of $0.3 million were relieved and contributed to capital by Applied Digital Solutions. Other transactions resulted in a payment due to Applied Digital Solutions of $0.7 million at September 30, 2002.

Applied Digital Solutions acquired Timely Technology, a part of the Advanced Wireless Group, in 2000 and the merger agreement included an earnout provision based on performance through June 30, 2002. Applied Digital Solutions has agreed to pay the selling shareholder of Timely Technology $3.6 million, payable in shares of Applied Digital Solutions stock, as the final payment under the earnout provision. This obligation has been reflected in the accompanying Digital Angel Corporation Condensed Consolidated financial statements as of September 30, 2002 as a capital contribution by Applied Digital Solutions and an increase in goodwill and other intangibles.

In connection with certain obligations of Applied Digital Solutions, Digital Angel Corporation has financial covenants it must meet to prevent Applied Digital Solutions' default under the IBM credit agreement. At June 30, 2002, we and Applied Digital Solutions were out of compliance with certain covenants contained in the IBM credit agreement. IBM Credit Corporation has waived such noncompliance at June 30, 2002.

On September 30, and November 1, 2002, the debt covenants in the IBM credit agreement were amended for the remainder of 2002. The amendments reduced our current ratio and Minimum Cumulative Modified EBITDA requirements, as defined in the IBM credit agreement, for the quarters

ended September 30, 2002 and December 31, 2002. The debt covenant requirements under the IBM Credit Agreement, as amended on November 1, 2002, are as follows:

COVENANT	COVENANTS REQUIREMENT	
Current Assets to Current Liabilities	June 30, 2002	1.8:1
	September 30, 2002	1.05:1
	December 31, 2002	1.09:1
Minimum Cumulative Modified EBITDA		

COVENANT	COVENANTS REQUIREMENT		
	June 30, 2002	$	577,000
	September 30, 2002	$	(338,000)
	December 31, 2002	$	732,000

Contracts with Affiliates of our Former Executive Officers

We have agreements with Hall & Associates, P.A., Hall and AmericasDoctor.com Associates, P.A., and Hall and DocTalk Associates, P.A., which are owned by Dr. Hall, our former Chief Executive Officer, to provide us with medical personnel as needed to staff our maritime and international travel operations. Amounts paid to these companies represent fees for professional services rendered and premiums on professional liability insurance. During 2001 and 2000, we paid Hall & Associates, P.A., Hall and AmericasDoctor.com Associates, P.A. and Hall and DocTalk Associates, P.A. a combined total of $732,364 and $4,219,628, respectively, in fees and professional liability insurance premiums. Dr. Hall personally received a total of $1,000 in salary related to the administration of these companies, but no other fees or compensation. There were no amounts payable to these affiliates at either October 31, 2000 or 2001.

During 2001, we completed construction of our new technology and warehouse facility. We entered into an agreement with a contractor, whose owners are related to Mr. Pickett, our former Chairman and President, to develop and construct the building. The total cost of the project was $700,000, which we believe approximates the market value for services rendered.

USE OF PROCEEDS

All net proceeds from the sale of our common stock by the selling stockholders will go to the selling stockholders and we will not receive any proceeds from the sale of the common stock by the selling stockholders.

SELLING STOCKHOLDERS

The following table provides certain information regarding the selling stockholders' beneficial ownership of our common stock prior to and after the offering. Beneficial ownership is determined under the rules of the United States Securities and Exchange Commission, and generally includes voting or investment power with respect to securities.

Selling Stockholder	Number of Shares Owned Prior to The Offering	Number of Shares Being Offered For Sale	Number of Shares Owned After the Offering	Percentage of Class
Richard J. Sullivan(1)	937,500	937,500	0	0%
Garrett A. Sullivan	468,750	468,750	0	0%
Evan McKeown(2)	30,469	30,469	0	0%
IBM Credit Corporation	1,163,906(3)	1,163,906	0	0%
Digital Angel Share Trust	19,600,000(4)	19,600,000	0	0%
Mpact Communications, Inc.	38,095	38,095	0	0%
Brett Thaxton	60,000	60,000	0	0%
Redington, Inc.	50,000(5)	50,000	0	0%

(1) Mr. Sullivan is Chairman of our board of directors and Chairman of the board of directors and Chief Executive Officer of Applied Digital Solutions, our affiliate.

(2) Mr. McKeown is Vice President and Chief Financial Officer of Applied Digital Solutions, our affiliate.

(3)

Represents a warrant to purchase 1,163,906 shares of our common stock at $1.067 per share, which is exercisable for five years beginning April 5, 2002.

(4) Represents shares transferred by Applied Digital Solutions to the Digital Angel Share Trust pursuant to a March 1, 2002 Trust Agreement by and between Applied Digital Solutions and Wilmington Trust Company. The Digital Angel Share Trust acquired our common stock following the merger in connection with it assuming certain obligations as a borrower under Applied Digital Solutions' credit agreement with IBM Credit Corporation. As of September 30, 2002, the Digital Angel Share Trust owns approximately 74.1% of our issued and outstanding common stock and is able to control completely our board of directors and decide all matters submitted to our stockholders for approval.

(5) Represents a warrant to purchase 50,000 shares at $3.60 per share, which is exercisable for five years beginning June 27, 2002.

SELECTED FINANCIAL DATA
(In thousands, except per share amounts)

The following selected financial data is qualified in its entirety by reference to, and you should read it in conjunction with, our financial statements and the notes thereto and the information contained in the sections entitled "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF DIGITAL ANGEL CORPORATION" and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE ADVANCED WIRELESS GROUP."

We derived the following historical financial information from the combined financial statements of the Advanced Wireless Group for the years ended December 31, 2001, 2000 and 1999, and the seven month period ended December 31, 1998 which have been audited by PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP's report on the combined financial statements contained an explanatory paragraph expressing doubt about the Advanced Wireless Group's ability to continue as a going concern. In addition, PricewaterhouseCoopers LLP was dismissed as the Advanced Wireless Group's independent accountant on April 11, 2002. The merger between Digital Angel Corporation and Medical Advisory Systems on March 27, 2002 has been treated as a reverse acquisition for accounting purposes, with the Advanced Wireless Group treated as the accounting acquirer. Accordingly, the historical combined financial statements of the Advanced Wireless Group became those of Digital Angel Corporation, and the acquisition of Medical Advisory Systems was accounted for under the purchase method of accounting. Additionally, the equity accounts of the Advanced Wireless Group have been restated based on the common shares received by the former shareholders of the Advanced Wireless Group in the merger.

The unaudited financial data as of September 30, 2002 and for the nine months ended September 30, 2002 and 2001 includes all adjustments, including normal recurring adjustments, which our management considers necessary for fair presentation of our results for these unaudited periods. The results of operations for the nine months ended September 30, 2002 and 2001 are not necessarily indicative of the results that may be expected for a full year. The inception of the Advanced Wireless

Group was June 1, 1998, the date Applied Digital Solutions purchased an 85.0% interest in Signature Industries.

	For the Nine Months Ended September 30,		For the Years Ended December 31,			For the Seven Months Ended December 31,
	2002(1)	**2001**	**2001**	**2000(2)**	**1999**	**1998**
	(Unaudited)					

	For the Nine Months Ended September 30,		For the Years Ended December 31,			For the Seven Months Ended December 31,
Statement of Operations Data:						
Product revenue	$ 25,117	$ 25,168	$ 33,220	$ 19,604	$ 14,380	$ 9,629
Service revenue	1,215	2,803	2,518	2,647		
Total net revenue	26,332	27,971	35,738	22,251	14,380	9,629
Cost of products sold	13,815	15,216	20,252	11,517	7,964	4,969
Cost of services sold	762	1,627	2,047	1,434		
Gross profit	11,755	11,128	13,439	9,300	6,416	4,660
Selling, general and administrative expenses(3)	32,333	16,379	22,798	10,792	7,513	3,976
Research and development expenses	2,159	3,742	5,071	2,235		
Asset impairment charge			726			
Interest income	(2)	(14)	(17)	(26)		
Interest expense-Applied Digital Solutions, Inc.	1,806					
Interest expense-others	196	357	2,119	115	41	35
Income (loss) before taxes, minority interest and equity in net loss of affiliate	(24,737)	(9,336)	(17,258)	(3,816)	(1,138)	649
Provision for income taxes		55	41	58		
Income (loss) before minority interest and equity in net loss of affiliate	(24,737)	(9,391)	(17,299)	(3,874)	(1,138)	649
Minority interest share of losses	(74)	(54)	(217)	(4)	(170)	102
Equity in net loss (income) of affiliate	291	118	327			
Net (loss) income	$ (24,954)	$ (9,455)	$ (17,409)	$ (3,870)	$ (968)	$ 547
Net (loss) income per common share-basic and diluted	$ (1.04)	$ (0.50)	$ (0.93)	$ (0.21)	$ (0.05)	$ 0.03
Weighted average common shares outstanding-basic and diluted(4)	23,910	18,750	18,750	18,750	18,750	18,750
Balance Sheet Data:						
Cash and cash equivalents	$ 480	$ 5	$ 596	$ 206	$ 139	$ 1
Property and equipment, net	14,464	14,902	14,476	5,408	1,115	1,325
Goodwill and other intangibles, net	106,246	76,249	72,876	77,645	2,713	2,937
Total assets	135,375	112,159	107,379	95,344	9,239	10,704
Long-term debt and notes payable	3,355	2,434	2,425	2,463		
Total debt	3,569	85,283	85,068	2,503		748
Minority interest	320	558	394	612	616	786
Total stockholders' equity	121,797	21,454	16,116	87,809	5,574	5,548
Other Financial Data:						
Depreciation and Amortization	$ 2,750	$ 8,752	$ 12,331	$ 2,962	$ 565	$ 348
Net cash provided by (used in) operating activities	(1,115)	(1,951)	(3,196)	(1,432)	14	248
Net cash provided by (used in) investing activities	(955)	(1,364)	(1,307)	1,066	(88)	(315)
Net cash provided by financing activities	1,954	3,114	4,893	433	212	68
Adjusted EBITDA(5)	(1,523)	(305)	(2,935)	(761)	(362)	930
Capital expenditures	984	1,509	1,310	758	106	73

Effective January 1, 2002, we adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 142 requires that goodwill and certain intangibles no longer be amortized but instead tested for impairment at least annually.

The following table presents the impact of FAS 142 on our summary financial data as indicated:

	For the Nine Months Ended September 30,	For the Years Ended December 31,			For the Seven Months Ended December 31,
	2001	2001	2000	1999	1998
Net (loss) income:					
Net (loss) income as reported	$ (9,455)	$ (17,409)	$ (3,870)	$ (968)	$ 547
Goodwill amortization	6,259	8,629	2,529	256	148
Equity method investment amortization	812	1,161			
Adjusted net (loss) income	$ (2,384)	$ (7,619)	$ (1,341)	$ (712)	$ 695
Basic and diluted (loss) income per share:					
Net (loss) income per share, basic and diluted, as reported	$ (0.50)	$ (0.93)	$ (0.21)	$ (0.05)	$ 0.03
Goodwill amortization	0.33	0.46	0.13	0.01	0.01
Equity method investment amortization	0.04	0.06			
Adjusted (loss) income per share, basic and diluted	$ (0.13)	$ (0.41)	$ (0.08)	$ (0.04)	$ 0.04

(1) Includes the results of operations of Medical Advisory Systems from March 27, 2002.

(2) Includes the results of operations of (i) Timely Technology from April 1, 2000 and (ii) Destron Fearing Corporation from September 8, 2000.

(3) Selling, general and administrative expenses include management fees paid to Applied Digital Solutions of $193, $556, $771, $262, $241 and $121 for the nine months ended September 30, 2002 and 2001, the years ended December 31, 2001, 2000 and 1999 and for the seven month period ended December 31, 1998, respectively.

(4) Weighted average shares outstanding for the nine months ended September 30, 2001, for the years ended December 31, 2001, 2000 and 1999 have been restated to reflect the number of common shares received by the former shareholders of the Advanced Wireless Group in the March 27, 2002 merger.

(5) Adjusted EBITDA is the sum of earnings before interest, taxes, depreciation, amortization and non-cash compensation expense of $18,681 arising from the remeasurement of options in connection with the March 27, 2002 merger. Adjusted EBITDA should not be regarded as an alternative for other performance measures and should not be considered in isolation. Adjusted EBITDA is not a measurement of financial performance under generally accepted accounting principles and does not reflect all expenses of doing business (e.g. interest expense, depreciation). Accordingly, Adjusted EBITDA should not be considered as having greater significance than or as an alternative to net income or operating income as an indicator of operating performance or to cash flows as a measure of liquidity. In addition, our calculation of Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF DIGITAL ANGEL CORPORATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying financial statements and related notes thereto. We consist of Digital Angel Corporation (formerly Medical Advisory Systems) and its three subsidiaries, which formerly were subsidiaries of Applied Digital Solutions: Digital Angel Technology Corporation (formerly Digital Angel Corporation), Timely Technology and Signature Industries. These three subsidiaries, when owned by Applied Digital Solutions, were known as the Advanced Wireless Group. Following the merger between Digital Angel Corporation and Medical Advisory Systems, the historical combined financial statements of the Advanced Wireless Group became those of Digital Angel Corporation.

We are engaged in the business of developing and bringing to market proprietary technologies used to identify, locate and monitor people, animals and objects. Digital Angel Technology Corporation resulted from the merger in September 2000 of Destron Fearing Corporation and Digital Angel.net Inc., which was then a wholly-owned subsidiary of Applied Digital Solutions. Before March 27, 2002, our business was operated in four segments: Animal Tracking, Digital Angel Technology, Digital Angel Delivery System, and Radio Communications and Other. Following the merger with Medical Advisory Systems in March 2002, we re-organized into four segments: Animal Applications, Digital Angel Systems, GPS and Radio Communications, and Physician Call Center and Other. Animal Applications is the new name of our segment previously identified as Animal Tracking. We combined our Digital Angel Technology segment with our Digital Angel Delivery System segment to form the new Digital Angel Systems segment, which is now managed as a single business unit. GPS and Radio Communications is the new name of our segment previously identified as Radio Communications and Other. Physician Call Center and Other reflects the Medical Advisory Systems business. Prior period segment information has been restated to reflect our current segment structure.

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Results of Operations

The following table summarizes our results of operations as a percentage of total net revenue for the nine months ended September 30, 2002 and 2001 and is derived from the accompanying consolidated and combined statements of operations included in this prospectus.

	Nine Months Ended September 30,	
	2002	2001
	%	%
Product revenue	95.4	90.0
Service revenue	4.6	10.0
Total net revenue	100.0	100.0
Cost of products sold	52.5	54.4
Cost of services sold	2.9	5.8
Total cost of products and services sold	55.4	60.2
Gross profit	44.6	39.8
Selling, general and administrative expenses	122.1	56.6
Management fees Applied Digital Solutions, Inc.	0.7	2.0
Research and development expenses	8.2	13.4
Interest income	0.0	(0.1)
Interest expense	7.6	1.3

	Nine Months Ended September 30,	
Loss before provision (benefit) for income taxes, minority interest share of losses and equity in net loss (income) of affiliate	(94.0)	(33.4)
Provision (benefit) for income taxes	0.0	0.2
Loss before minority interest share of losses and equity in net loss of affiliate	(94.0)	(33.6)
Minority interest share of losses	(0.3)	(0.2)
Equity in net loss (income) of affiliate	1.1	0.4
Net loss	(94.8)	(33.8)

Nine Months Ended September 30, 2002 Compared to the Nine Months Ended September 30, 2001

Net revenue

Total net revenue for the nine months ended September 30, 2002 was $26.3 million, a decrease of $1.6 million, or 5.9%, from $28.0 million in the nine months ended September 30, 2001.

Net revenue for each of the operating segments was:

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Animal Applications	$ 16,314	$ 16,761
Digital Angel Systems	1,215	2,803
GPS and Radio Communications	7,622	8,407
Physician Call Center and Other	1,181	
Total	$ 26,332	$ 27,971

The Animal Applications segment's net revenue decreased $0.4 million, or 2.7%, in the nine month period ended September 30, 2002 as compared to the nine month period ended September 30,

2001. The decline is due primarily to the higher sales in the first quarter of 2001 to a large customer to prepare for the launch of the pet identification product in France.

The Digital Angel Systems segment's net revenue decreased $1.6 million, or 56.7%, in the nine month period ended September 30, 2002 as compared to the nine month period ended September 30, 2001 due to completed client assignments that were not replaced and a shift in emphasis to the Digital Angel products which are in the initial stages of development.

The GPS and Radio Communications segment's net revenue decreased $0.8 million, or 9.3%, in the nine month period ended September 30, 2002 as compared to the nine month period ended September 30, 2001 primarily as a result of order fluctuations.

The Physician Call Center and Other segment's net revenue was $1.2 million for the nine months ended September 30, 2002. This segment became part of the Company on March 27, 2002.

Gross Profit and Gross Profit Margin

Gross profit for the nine months ended September 30, 2002 was $11.8 million, a decrease of $0.6 million, or 5.6%, from $11.1 million in the nine months ended September 30, 2001. As a percentage of total net revenue, the gross profit margin was 44.6% and 39.8% for the nine months ended September 30, 2002 and 2001, respectively.

Gross profit from operations for each operating segment was:

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Animal Applications	$ 6,973	$ 6,147
Digital Angel Systems	453	1,176
GPS and Radio Communications	3,871	3,805
Physician Call Center and Other	458	
Total	$ 11,755	$ 11,128

Gross profit margin from operations for each operating segment was:

	Nine Months Ended September 30, 2002 %	Nine Months Ended September 30, 2001 %
Animal Applications	42.7	36.7
Digital Angel Systems	37.3	42.0
GPS and Radio Communications	50.8	45.3
Physician Call Center and Other	38.8	
Total	44.6	39.8

The Animal Applications segment's gross profit of $7.0 million in the nine months ended September 30, 2002 increased $0.8 million compared to $6.2 million in the nine month period ended September 30, 2001. The gross profit margin increased to 42.7% in the nine month period ended September 30, 2002 as compared to 36.7% in the nine months ended September 30, 2001 due to a more favorable product mix.

The Digital Angel Systems segment's gross profit decreased $0.7 million, or 61.5%, in the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001. Margins decreased to 37.3% in the nine months ended September 30, 2002 from 42.0% in the nine months ended September 30, 2001. The gross profit decrease was primarily due to the sales decline.

The margin percentage declined due to the retention of personnel as resources were shifted to support the Digital Angel products.

The GPS and Radio Communications segment's gross profit increased $0.07 million or 1.7% in the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001. The gross margin percentage increased to 50.8% in the nine months ended September 30, 2002 compared to 45.3% in the nine months ended September 30, 2001 due to a favorable shift in the product mix.

The Physician Call Center and Other segment's gross profit was $0.5 million for the nine months ended September 30, 2002. The gross margin was 38.8% in the nine months ended September 30, 2002. This segment became part of our company on March 27, 2002.

Selling, General and Administrative Expenses

Selling, general and administrative expenses from operations increased $16.3 million, or 103.1%, in the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001. This increase was caused primarily by an $18.7 million charge arising from the remeasurement of options in connection with the merger. Pursuant to the terms of the merger agreement, options to acquire shares of Digital Angel Corporation common stock were converted into options to acquire shares of Medical Advisory Systems common stock effective March 27, 2002. The conversion resulted in a new measurement date for the options and, as a result, we recorded a charge of approximately $18.7 million in non-cash compensation expense during the three months ended March 31, 2002. For current employees of our company, these options are considered fixed awards under APB Opinion No. 25, and expense was recorded for the intrinsic value of the options converted. For all others, expense was recorded for the fair value of the options converted using the Black-Scholes option-pricing model.

Offsetting the non-cash compensation expense is the decrease in amortization expense due to the adoption of FAS 142, which took effect January 1, 2002. The adoption of FAS 142 requires the testing of goodwill for impairment at least annually, eliminating the need for monthly amortization of goodwill. Accordingly, goodwill amortization was not recorded during the first nine months of 2002.

As a percentage of total net revenue, selling, general and administrative expenses were 122.1% and 56.6% for the nine months ended September 30, 2002 and 2001, respectively.

Selling, general and administrative expenses for each of the operating segments excluding the $18.7 million charge were:

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Animal Applications	$ 4,595	$ 9,413
Digital Angel Systems	4,046	2,085
GPS and Radio Communications	3,953	4,325
Physician Call Center and Other	865	
Total	$ 13,459	$ 15,823

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Selling, general and administrative expenses as a percentage of total net revenue for each of the operating segments excluding the $18.7 million charge were:

	Nine Months Ended September 30, 2002 %	Nine Months Ended September 30, 2001 %
Animal Applications	28.2	56.2
Digital Angel Systems	333.0	74.4
GPS and Radio Communications	51.9	51.4
Physician Call Center and Other	73.2	
Total	51.1	56.6

The Animal Applications segment's selling, general and administrative expenses decreased $4.8 million in the nine months ended September 30, 2002 compared to the nine months September 30, 2001 and as a percentage of total net revenue decreased to 28.2% from 56.2% in the same respective periods. The decrease is due primarily to the adoption of FAS 142, which took effect on January 1, 2002. The adoption of FAS 142 requires the testing of goodwill for impairment at least annually, eliminating the need for monthly amortization of goodwill. The decrease was offset by increased legal, accounting, and investor relations expenses.

The Digital Angel Systems segment's selling, general and administrative expenses increased $2.0 million in the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001. Selling, general and administrative expenses increased as a percentage of total net revenue to 333.0% in the nine months ended September 30, 2002 compared to 74.4% in the nine months ended September 30, 2001 as a result of the scale up of marketing personnel, advertising and media programs, and infrastructure to support the introduction of Digital Angel   products.

The GPS and Radio Communications segment's selling, general and administrative expenses decreased $0.4 million in the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001 due to a reduction in sales personnel. As a percentage of total net revenue, selling, general and administrative expenses increased to 51.9% in the first nine months of 2002 from 51.4% in the first nine months of 2001.

The Physician Call Center and Other segment's selling, general and administrative expenses were $0.9 million in the nine months ended September 30, 2002. This segment became part of our company on March 27, 2002.

Management Fees   Applied Digital Solutions

Management fees charged by Applied Digital Solutions amounted to $0.2 million and $0.6 million for the nine months ended September 30, 2002 and 2001, respectively. These fees were for general and administrative services performed for us. After March 27, 2002, we no longer pay a management fee to Applied Digital Solutions.

Research and Development Expense

Research and development expense was $2.2 million in the nine months ended September 30, 2002, a decrease of $1.6 million, or 42.3%, from $3.7 million for the nine months ended September 30, 2001. As a percentage of total net revenue, research and development expense was 8.2% and 13.4% for the nine months ended September 30, 2002 and 2001, respectively. Included in research and development expense are charges by Applied Digital Solutions of approximately $42,000 a month to support Applied Digital Solutions' research group.

Research and development expense for each of the operating segments was:

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Animal Applications	$ 791	$ 773
Digital Angel Systems	995	2,969
GPS and Radio Communications	373	
Physician Call Center and Other		
Total	$ 2,159	$ 3,742

The decrease in expense is primarily due to the completion of some Digital Angel technology development.

Interest Expense

Interest expense was $2.0 million and $0.4 million for the first nine months of 2002 and 2001, respectively. Interest expense in the first nine months of 2002 included interest expense of $1.8 million on the debt owed to IBM Credit Corporation by Applied Digital Solutions. As discussed in Note 1 to the financial statements, this debt was recognized by the Advanced Wireless Group as a result of Applied Digital Solutions' default on the loan agreement. On March 27, 2002, Applied Digital Solutions restructured the IBM credit agreement. The provisions of this restructuring included the Advanced Wireless Group being released from responsibility to repay this debt. Accordingly, Applied Digital Solutions assumed this liability on March 27, 2002.

Income Taxes

Our company and the Advanced Wireless Group had effective income tax rates of 0.0% and 0.6% for the first nine months of 2002 and 2001, respectively. Differences in the effective income tax rates from the statutory federal income tax rate in 2002 arise primarily from valuation allowances recorded on deferred tax assets resulting from net operating losses. Differences in 2001 arise primarily from valuation allowances recorded on deferred tax assets resulting from net operating losses, non-deductible goodwill amortization associated with acquisitions and state taxes net of federal benefits. The U.S. companies in the Advanced Wireless Group were included in Applied Digital Solutions' consolidated federal income tax return through March 27, 2002. Medical Advisory Systems and its subsidiaries file a separate consolidated federal income tax return. After March 27, 2002, the Advanced Wireless Group's U.S. subsidiaries will file a consolidated federal tax return with Medical Advisory Systems.

LIQUIDITY AND CAPITAL RESOURCES FROM OPERATIONS

As of September 30, 2002, cash and cash equivalents totaled $0.5 million as compared to $0.6 million at December 31, 2001. Through March 27, 2002, the Advanced Wireless Group used a cash management system to apply excess cash on hand against advances due to Applied Digital Solutions. Cash used in operating activities totaled $1.1 million and $2.0 million in the first nine months of 2002 and 2001, respectively. In the first nine months of 2002, the use of cash was due to the net loss, after adjusting for non-cash charges, increases in other current assets and accounts receivable. Accounts receivable, net of allowance for doubtful accounts, increased by $1.0 million, or 17.9%, to $6.4 million at September 30, 2002 from $5.4 million at December 31, 2001. This increase is due to a large contract completion for a fishery industry customer in September 2002. Partially offsetting these uses of cash were increases in cash from decreases in inventory and increases in accounts payable and accrued expenses.

Inventory levels decreased by $0.7 million to $5.1 million at September 30, 2002 from $5.8 million at December 31, 2001 due to more focused management of inventory levels. Inventory acquired from our acquisition of Medical Advisory Systems amounted to $0.1 million.

Accounts payable increased by $1.0 million to $4.6 million at September 30, 2002 from $3.6 million at December 31, 2001.

Accrued expenses and other current liabilities increased by $1.9 million, or 93.2%, to $3.9 million at September 30, 2002 from $2.0 million at December 31, 2001. The increase was due to accrued acquisition costs and accrued expenses acquired from the acquisition of Medical Advisory Systems.

Investing activities used cash of $1.0 million in the first nine months of 2002 and $1.4 million in the first nine months of 2001. During the first nine months of 2002 and 2001, $1.0 million and $1.5 million, respectively, were spent to acquire property and equipment.

Financing activities provided cash of $2.0 million and $3.1 million in the first nine months of 2002 and 2001, respectively. Cash was provided primarily by stock option exercises and the refinancing of our mortgage on our physician call center facilities in 2002 and additional investments by Applied Digital Solutions in the nine months ended September 30, 2002 and 2001.

Debt, Covenant Compliance and Liquidity

Applied Digital Solutions maintains a term and revolving credit agreement with IBM Credit Corporation. Under the credit agreement in effect through March 27, 2002, IBM Credit Corporation maintained liens and security interests in the outstanding capital stock of the three Advanced Wireless Group subsidiaries and on their assets to collateralize Applied Digital Solutions' obligations to IBM Credit Corporation under the IBM credit agreement.

Applied Digital Solutions generated a significant loss from operations in 2000. As a result, Applied Digital Solutions was not in compliance with certain financial covenants of the IBM credit agreement as of December 31, 2000. The IBM credit agreement was amended and restated on October 17, 2000 and further amended on March 30, 2001. In connection with the amendment on March 30, 2001, Digital Angel Corporation granted IBM Credit Corporation warrants to acquire 1.2 million shares of Digital Angel Corporation's common stock valued at $0.3 million. As of the March 30, 2001 amendment, Applied Digital Solutions was in compliance with the revised covenants.

The IBM credit agreement contains certain quarterly financial covenants, which became more restrictive during 2001. Applied Digital Solutions anticipated that it would continue to comply in 2001 with the quarterly financial covenants in the IBM credit agreement. However, Applied Digital Solutions was not in compliance with its minimum EBITDA (as defined in the IBM credit agreement) or collateral shortfall covenants at June 30, 2001. Applied Digital Solutions was also not in compliance with the minimum EBITDA, Tangible Net Worth and Current Assets to Current Liabilities covenant requirements at September 30, 2001 and it again had a collateral shortfall. As of December 31, 2001, Applied Digital Solutions was not in compliance with various financial covenants, including minimum Tangible Net Worth, EBITDA, the ratio of Current Assets to Current Liabilities, and collateral. The IBM credit agreement was amended and restated on July 1, 2001, September 15, 2001, November 15, 2001, December 31, 2001, January 31, 2002 and February 27, 2002. These amendments extended the due dates of principal and interest payments under the credit agreement until April 2, 2002.

At December 31, 2001, Applied Digital Solutions' outstanding borrowings under the IBM credit agreement totaled $82.6 million. At that time, Applied Digital Solutions did not have the funds to repay the borrowings under the IBM credit agreement. Accordingly, the $82.6 million of outstanding borrowings was allocated to the Advanced Wireless Group effective as of September 30, 2001 and was reflected as a current obligation in the December 31, 2001 combined balance sheet. Interest associated with the borrowings was allocated to the Advanced Wireless Group for the period from September 30,

2001 to March 27, 2002. Under the terms of the agreement and plan of merger with Medical Advisory Systems, the common stock and assets of the three Advanced Wireless Group subsidiaries were released from all liens and security interests under the IBM credit agreement, and the shares of our company's common stock beneficially owned by Applied Digital Solutions upon completion of the merger were transferred to the Digital Angel Share Trust as collateral for the debt. Applied Digital Solutions assumed the debt, which was treated as a capital contribution resulting in an increase in additional paid-in capital of approximately $81.4 million.

On March 1, 2002, Applied Digital Solutions, the Digital Angel Share Trust, a newly created Delaware business trust, and IBM Credit Corporation entered into a Third Amended and Restated Term Credit Agreement. The new credit agreement became effective on March 27, 2002, the effective date of the merger between Digital Angel Corporation and Medical Advisory Systems. Amounts outstanding under the new credit agreement bear interest at an annual rate of 17.0% and mature on February 28, 2003. No principal or interest payments are due until the maturity date. However, the maturity date will be extended for consecutive one-year periods if Applied Digital Solutions repays at least 40.0% of the original principal amount outstanding plus accrued interest and expenses prior to February 28, 2003, and an additional 40.0% of the original principal amount outstanding plus accrued interest and expenses prior to February 28, 2004. In any event, all amounts outstanding will be required to be repaid by August 15, 2005. If all amounts are not repaid by February 28, 2003, the unpaid amount will accrue interest at an annual rate of 25.0%, and if all amounts are not repaid by February 28, 2004, the annual interest rate increases to 35.0%.

Applied Digital Solutions' new credit agreement contains debt covenants made by Applied Digital Solutions relating to its financial position and performance, as well as our company's financial position and performance. Our ability to meet our financial performance requirements and be in compliance throughout 2002 with covenants in the new credit agreement that apply to us cannot be assured. If business conditions are other than as anticipated or other unforeseen events or circumstances occur, these may impact the ability of Applied Digital Solutions and us to remain in compliance with the covenants. In the absence of a waiver or amendment to such financial covenants, such noncompliance would constitute an event of default under the new credit agreement, and IBM Credit Corporation would be entitled to accelerate the maturity of all amounts Applied Digital Solutions owes it. On November 1 and September 30, 2002 the new credit agreement was amended. The amendments reduced our current assets to current liabilities ratio and Minimum Cumulative Modified EBITDA requirement, as defined in the credit agreement, for the quarters ended September 30, 2002 and December 31, 2002. We were in compliance with the amended debt covenants on September 30, 2002.

On March 27, 2002, upon completion of the merger between Digital Angel Corporation and Medical Advisory Systems, in satisfaction of a condition to the consent to the merger by IBM Credit Corporation, Applied Digital Solutions transferred to the Digital Angel Share Trust all of the shares of our common stock owned by it and, as a result, the Digital Angel Share Trust has legal title to 77.15% of our common stock. The Digital Angel Share Trust has voting rights with respect to our common stock until Applied Digital Solutions' obligations to IBM Credit Corporation are repaid in full. The Digital Angel Share Trust may be obligated to liquidate the shares of our common stock owned by it for the benefit of IBM Credit Corporation if Applied Digital Solutions fails to make payments, or otherwise defaults, under its new credit agreement with IBM Credit Corporation.

To date, financing from acquisitions, Applied Digital Solutions' advances and cash generated from operations have been our primary sources of funding. However, we do not anticipate receiving additional advances from Applied Digital Solutions and we have not been able to generate positive cash flows from operations.

On October 30, 2002, we signed a credit and security agreement and related agreements with Wells Fargo Business Credit, Inc. that, among other things, permits us to borrow up to $5,000,000 from Wells

Fargo Business Credit from time to time under the terms of the credit and security agreement. Amounts borrowed under the credit facility are general obligations of our company secured by a first priority lien on substantially all of our assets, including our accounts receivable and our patents and other intellectual property relating to the Digital Angel product. The outstanding principal balance of the credit facility bears interest at an annual rate equal to the rate of interest publicly announced from time to time by Wells Fargo Bank National Association as its "prime rate" plus three percentage points. However, the credit and security agreement requires that the total amount of interest paid to Wells Fargo Business Credit per year must be at least $120,000. The credit facility will expire on October 30, 2005, at which time the entire outstanding balance of the credit facility will become due and payable.

The credit and security agreement requires us to meet certain financial covenants, including a monthly minimum book net worth and monthly minimum earnings before taxes, and it limits our capital expenditures during 2003. Any breach of the financial covenants by us will constitute an event of default under the credit and security agreement. The credit and security agreement also provides that any change of control of our company will be an event of default under the credit and security agreement. As defined in the credit and security agreement, a change of control includes the acquisition by any person or group of persons of more than 25.0% of the voting power of all classes of our common stock. If Applied Digital Solutions defaults under the IBM credit agreement, the Digital Angel Share Trust will be obligated, upon the request of IBM Credit Corporation, to sell all or a portion of our common stock held by the Digital Angel Share Trust. If such sales by the Digital Angel Share Trust result in a person or group of persons owning, in the aggregate, 25.0% or more of our common stock, such sales will be deemed to constitute an event of default under the credit and security agreement.

The occurrence of an event of default under the credit and security agreement would subject us to the risk of foreclosure on substantially all of our assets to the extent necessary to repay any amounts due under the credit facility, including, but not limited to, principal, interest, penalties or other costs and expenses incurred. There can be no assurance that we will continue to comply with the financial covenants of the credit and security agreement or that an event of default will not occur.

Management believes that the amount available under the credit facility will be sufficient to meet our capital requirements for at least the next twelve months. However, we may need to obtain additional capital in the future. Our future capital requirements will depend upon a variety of factors, including, but not limited to, the rate of increase or decrease in our existing business base; the success, timing and amount of investment required to bring new products to market; revenue growth or decline; and potential acquisitions. There can be no assurance that we will be able to obtain future financing in an amount sufficient to implement our business plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE ADVANCED WIRELESS GROUP

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying financial statements and related notes thereto.

Our Business

Prior to the merger between Digital Angel Corporation and Medical Advisory Systems on March 27, 2002, our business consisted of: the former Digital Angel Corporation and Timely Technology, which were wholly-owned subsidiaries of Applied Digital Solutions and Signature Industries, which was an 85.0%-owned subsidiary of Applied Digital Solutions. The former Digital Angel Corporation was the result of the merger in September 2000 of Destron Fearing Corporation and Digital Angel.net, Inc. Applied Digital Solutions purchased Timely Technology in April 2000 and Signature Industries in June 1998. Prior to March 27, 2002, the Advanced Wireless Group operated in four segments Animal Tracking, Digital Angel Technology, Digital Angel Delivery System and Radio Communications and Other. Following the merger in March 2002, the Advanced Wireless Group reorganized into four segments: Animal Applications, Digital Angel Systems, GPS and Radio Communications and Physician Call Center and Other. Animal Applications is the new name of our segment previously identified as Animal Tracking. We combined our Digital Angel Technology segment with our Digital Angel Delivery System segment to form the new Digital Angel Systems segment, which is now managed as a single business unit. GPS and Radio Communications is the new name of our segment previously identified as Radio Communications and Other and represents the activity of Signature Industries, which is located in the United Kingdom. Physician Call Center and Other reflects the Medical Advisory Systems business. Prior period segment information has been restated to reflect our current segment structure.

Fiscal Year Ended December 31, 2001 Compared to Fiscal Year Ended December 31, 2000 and Fiscal Year Ended December 31, 1999

Net Loss

Net loss was $17.4 million, $3.9 million and $1.0 million in 2001, 2000 and 1999, respectively. The net loss in 2001 and 2000 was primarily the result of goodwill amortization associated with the acquisitions of Digital Angel Corporation and Timely Technology during 2000 and research and development expenses incurred in connection with the Digital Angel Systems and Animal Applications segments. Also, a portion of the loss for 2001 was attributed to the allocation of interest expense associated with Applied Digital Solutions' borrowings under its credit agreement with IBM Credit Corporation. The net operating results for 1999 consisted of the performance of the GPS and Radio Communications segment as more fully discussed below.

The following table summarizes the Advanced Wireless Group's results of operations as a percentage of net operating revenue for the years ended December 31, 2001, 2000 and 1999 and is derived from the Advanced Wireless Group's combined financial statements.

	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
	%	%	%
Product revenue	93.0	88.1	100.0

	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Service revenue	7.0	11.9	
	100.0	100.0	100.0
Cost of products sold	56.7	51.8	55.4
Cost of services sold	5.7	6.4	
Total cost of products and services sold	62.4	58.2	55.4
Gross profit	37.6	41.8	44.6
Selling, general and administrative expense	29.3	35.2	48.3
Research and development expense	14.2	10.0	
Asset impairment	2.0		