

DIGITAL ANGEL CORP
Form DEF 14A
April 09, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
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Digital Angel Corporation

(Name of Registrant as Specified In Its Charter)

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

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(3) Filing Party:

(4) Date Filed:

DIGITAL ANGEL CORPORATION

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

Notice of Annual Meeting of Stockholders to Be Held May 6, 2004

To the Stockholders of Digital Angel Corporation:

Notice is hereby given that the Annual Meeting of Stockholders (the "Annual Meeting") of Digital Angel Corporation, a Delaware corporation (the "Company"), will be held on Thursday, May 6, 2004 at 9:30 a.m. (local time) at the offices of Winthrop & Weinstine, P.A., 225 South Sixth Street, Suite 3500, Minneapolis, Minnesota 55402.

At the Annual Meeting, the Company's stockholders will be asked to:

1. Elect six (6) directors of the Company to serve until the next annual meeting of stockholders and until their successors are elected and qualified or until their earlier resignation, removal or death;
2. Approve an amendment to the Amended and Restated Digital Angel Corporation Transition Stock Option Plan ("2002 Stock Plan") increasing the number of shares of Company common stock subject to the 2002 Stock Plan;
- 3.

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Ratify options granted outside the 2002 Stock Plan to certain officers, directors and key employees of the Company;

4. Ratify the appointment of Eisner LLP as independent auditors for the fiscal year ending December 31, 2004; and
5. Transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Only holders of record of the Company's common stock at the close of business on March 29, 2004 are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof.

Each of you is invited to attend the Annual Meeting in person, if possible. Whether or not you plan to attend in person, please mark, date and sign the enclosed proxy, and mail it promptly. A return envelope is enclosed for your convenience.

By Order of the Board of
Directors,

James P. Santelli, *Secretary*

April 9, 2004

**Whether or not you expect to attend the Annual Meeting,
please sign the proxy and return it in the enclosed envelope or vote
by telephone or through the Internet as instructed on the proxy card.**

DIGITAL ANGEL CORPORATION

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

PROXY STATEMENT

SELECTION OF PROXIES

This proxy statement is being furnished to stockholders of Digital Angel Corporation, a Delaware corporation (the "Company"), in connection with the solicitation of proxies by and on behalf of the Board of Directors of the Company for use at the Annual Meeting of Stockholders ("Annual Meeting") to be held on May 6, 2004 and any adjournment thereof. This proxy statement and the accompanying form of proxy are being mailed to stockholders beginning on or about April 9, 2004. This Proxy Statement and the accompanying Annual Report to Stockholders is for the year ended December 31, 2003.

The expense of the solicitation of proxies for the Annual Meeting, including the cost of mailing, has been or will be borne by the Company. Arrangements will be made with brokerage houses and other custodian nominees and fiduciaries to send proxies and proxy materials to their principals, and the Company will reimburse them for their expense in so doing. In addition to solicitation by mail, proxies may be solicited by telephone, telegraph or personally.

VOTING AND REVOCATION OF PROXY

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Only holders of record of the Company's Common Stock, par value \$0.005 per share, at the close of business on March 29, 2004, the record date for the Annual Meeting, are entitled to notice of and to vote at the Annual Meeting. On the record date, 32,537,702 shares of the Company's common stock were outstanding. Each share of common stock entitles the holder thereof to one vote upon each matter to be presented at the Annual Meeting. A quorum, consisting of a majority of the shares of the Company's common stock entitled to vote at the Annual Meeting, must be present in person or by proxy before action may be taken at the Annual Meeting. Shares represented by a proxy with instructions to abstain on any matter or by a proxy that indicates that the broker does not have discretionary authority to vote on one or more proposals (that is, broker non-votes) will be counted for the purpose of determining the presence of a quorum at the Annual Meeting.

Each proxy returned to the Company will be voted according to the instructions indicated on the proxy. If no instructions are indicated, the shares will be voted (i) *for* the election of the nominees for the Board of Directors named in this proxy statement; (ii) *for* the amendment to increase the number of shares issuable under the Amended and Restated Digital Angel Corporation Transition Stock Option Plan ("2002 Stock Plan"); (iii) *for* the ratification of options granted outside the 2002 Stock Plan; and (iv) *for* the ratification of the appointment of Eisner LLP as independent auditors for the fiscal year ending December 31, 2004. Although the Board of Directors knows of no other matters to be presented at the Annual Meeting or any adjournment thereof, all proxies returned to the Company will be voted on any such matter in accordance with the judgment of the proxy holders.

Instead of submitting a signed proxy card, stockholders may submit their proxies by telephone or through the Internet using the control number and instructions on the proxy card. Telephone and Internet proxies must be used in conjunction with, and will be subject to, the information and terms contained on the proxy card. These procedures may not be available to stockholders who hold their shares through a broker, nominee, fiduciary or other custodian.

The election of the directors set forth in Proposal 1 requires a plurality of the votes of the shares of common stock present in person or represented by proxy at the Annual Meeting. If a quorum is present, those nominees receiving a plurality of the votes cast will be elected. With respect to Proposals 2, 3 and 4, if a quorum is present, the affirmative vote of a majority of the shares of common stock present in person or represented by proxy at the Annual Meeting is required to approve such matters. If a proxy is returned and the stockholder has abstained from voting on any matter, the shares represented by such proxy will be included in the number of votes present and entitled to vote and will be treated as "no" votes with respect to that matter. Broker non-votes are not counted as shares present and entitled to be voted with respect to the matter on which the broker has expressly not voted. Thus, broker non-votes will not affect the outcome of any of the matters being voted on at the annual meeting. Generally, broker non-votes occur when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because the broker has not received voting instructions from the beneficial owner and the broker lacks discretionary voting power to vote such shares.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by:

giving written notice of such revocation to the Secretary of the Company before or at the Annual Meeting before a vote is taken;

delivering another written proxy bearing a later date; or

attending the Annual Meeting *and* voting in person (although attendance at the Annual Meeting will not in and of itself constitute a revocation of a proxy).

At March 29, 2004, Applied Digital Solutions, Inc. owned 22,303,506 shares of the Company's outstanding common stock, representing approximately 68.5% of the Company's outstanding common stock and voting power. In addition, Applied Digital Solutions, Inc. holds a warrant to purchase an additional 1,000,000 shares of common stock of the Company. Applied Digital Solutions, Inc. controls the Company within the meaning of Section 801(a) of Part 8 of the Listing Standards, Policies and Requirements of the American Stock Exchange ("AMEX Rules"). Applied Digital Solutions, Inc. has indicated to the Company that it intends to vote for each proposal set forth in this Proxy Statement.

PROPOSAL 1 ELECTION OF DIRECTORS

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The business and affairs of the Company are managed under the direction of its Board of Directors. The Company's Bylaws provide that the Board of Directors shall consist of at least three members. The Board of Directors currently consists of six members. Each Director is elected to serve until the next annual meeting of stockholders and until their successors are elected and qualified or until their earlier resignation, death or removal.

Stockholders will be asked at the Annual Meeting to elect six Directors. The Board has nominated the six individuals named below to serve as Directors of the Company. The nominees comprise the entire Board, and all nominees now serve as Directors of the Company.

All nominees have indicated a willingness to serve, if elected. If any nominee becomes unable to serve before the Annual Meeting, the proxies received in response to this solicitation will be voted for a replacement nominee selected in accordance with the best judgment of the proxy holders named in the proxy.

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The following sets forth certain information as of March 31, 2004 regarding the nominees for the Board of Directors:

Name	Positions with the Company	Age
Kevin N. McGrath	President, Chief Executive Officer and Director	51
Scott R. Silverman	Chairman of the Board	40
John R. Block	Director	69
Kevin H. McLaughlin	Director	62
Howard S. Weintraub, Ph.D.	Director	60
Michael S. Zarriello	Director	54

Stockholder Approval

The affirmative vote of a plurality of the shares of common stock of the Company represented at the Annual Meeting either in person or by proxy, assuming a quorum is present, is required for the election of a Director.

The Board of Directors recommends that the stockholders vote for the election of the nominees for the Board of Directors as set forth in Proposal 1.

INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS

Directors

Each nominee for election to the Company's Board of Directors is presently serving as a Director of the Company. The following discussion sets forth information concerning the nominees for Directors of the Company.

Kevin N. McGrath has been Chief Executive Officer and President of the Company since January 2004. From 1987 until 2003, he was employed at Hughes Electronics Corp. in a number of senior level executive positions, including Corporate Vice President of DirecTV International, President of Hughes Communications, Inc. and the senior financial executive of Hughes Space and Communications Group. From 1996 to 2003, he was Chairman of DirecTV Latin America (a subsidiary of Hughes Electronics Corporation). Prior to his work at Hughes, Mr. McGrath spent two years as Chief Financial Officer for Electronic Data Systems, Asia and Pacific, and 10 years in various financial management positions at General Motors Corp. Mr. McGrath is a graduate of Princeton University and received a Masters of Business Administration from the Amos Tuck School at Dartmouth College.

Scott R. Silverman is Chairman of the Company's Board of Directors and has been a Director of the Company since July 2003. He has served since August 2001 as a special advisor to the Board of Directors of Applied Digital Solutions, Inc. (Nasdaq:ADSX) ("ADSX"). In March 2002, he was appointed to ADSX's Board of Directors and named President. In March 2003, Mr. Silverman was appointed Chairman of the Board and Chief Executive Officer of ADSX. From September 1999 to March 2002, Mr. Silverman operated his own private investment banking firm. From October 1996 to September 1999, he served in various capacities for ADSX, including positions related to business development, corporate development and legal affairs. From July 1995 to September 1996, Mr. Silverman served as President of ATI Communications, Inc., a subsidiary of ADSX. He began his career as an attorney specializing in commercial litigation and communications law

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at the law firm of Cooper Perskie in Atlantic City, New Jersey, and Philadelphia, Pennsylvania. Mr. Silverman is a graduate of the University of Pennsylvania and the Villanova University School of Law.

John R. (Jack) Block joined the Board of Directors in January 2004. Mr. Block serves as Chairman of the Board's Government Relations Committee. He has served as the Executive Vice President of the

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Food Marketing Institute, a trade association in Washington, D.C., since January 2003, and for the past year has been President of its Wholesaler Division. From 1986 until 2003, Mr. Block was President and Chief Executive Officer of Food Distributors International and the International Foodservice Distributors Association (NAWGA/IFDA). Mr. Block was appointed to President Reagan's Cabinet in 1981 and served for five years as the Secretary of the U.S. Department of Agriculture. As a member of the Reagan Cabinet and a key member of the Economic Policy Council, he dealt with a wide range of complex domestic farm program and tax issues. Under his leadership, the Department of Agriculture's Food for Peace Program was a primary resource in feeding the starving African continent. During his tenure as Secretary of Agriculture, Mr. Block visited more than 30 foreign countries, meeting with heads of state and agriculture ministers from all over the globe and negotiating sensitive agreements critical to U.S. farm interests. From 1977 to 1981, he served as Director of Agriculture for the State of Illinois. Mr. Block currently has a syndicated weekly radio commentary broadcast by more than 600 stations in 30 states. Mr. Block serves on a number of corporate boards, including those of NYSE-listed Deere & Co. and Hormel Foods Corporation. He is also a member of the Board of Advisors for the Retail Food Industry Center at the University of Minnesota, and he is President of the Board of Directors of the U.S. Friends of the World Food Programme, a joint initiative of the United Nations and the Food and Agricultural Organization, and Chairman of the Agribusiness Alliance of the Citizens Network for Foreign Affairs in Washington.

Kevin H. McLaughlin has been a Director since September 2003. He was the interim Chief Executive Officer of the Company from September 2003 through November 2003. Mr. McLaughlin has served as a director of InfoTech USA, Inc., a 52.5% owned subsidiary of ADSX, since April 2002. He was appointed President of ADSX in May 2003 and Chief Operating Officer in March 2003. From April 12, 2002 until March 10, 2003, Mr. McLaughlin served as a director and Chief Executive Officer of InfoTech USA, Inc. From September 2001 until January 2002, he served as Chief Executive Officer of Computer Equity Corporation, a wholly-owned subsidiary of ADSX. Mr. McLaughlin joined ADSX as Vice President of Sales and Marketing in June 2000. From June 1995 to May 2000, he served as Senior Vice President of Sales for SCB Computer Technology, Inc.

Howard S. Weintraub, Ph.D. has been a Director of the Company since March 2002. Dr. Weintraub retired from C. R. Bard, Inc., a medical device company, in 2003, where he was Vice President, R&D, Corporate Staff. From 1988 to 1998, he held a series of senior research and technology management positions at Bristol-Myers Squibb. Dr. Weintraub was previously associated with Ortho Pharmaceutical Corporation, a Johnson and Johnson company, from 1973 until 1988, where he held senior research management positions. He also has authored or co-authored over 50 scientific 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 sub-section of the Research and Pharmaceutical Manufacturers' Association. 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 the Board of Directors of the privately-held biotechnology firm, Bioenergy, Inc., and a member of the Scientific Advisory Board of Polymerix Corporation, a specialty development-stage pharmaceutical company. He was also a Board Advisor to the Swiss Biotechnology firm, Modex Therapeutics, prior to its merger with IsoTis, NV, in 2002.

Michael S. Zariello has been a Director of Digital Angel Corporation since September 2003. He has served as Senior Vice President and Chief Financial Officer for Rural/Metro Corporation in Scottsdale, Arizona, since July 2003. From 1998 to 2003, Mr. Zariello was a Senior Managing Director of Jesup & Lamont Securities Corporation and President of Jesup & Lamont Merchant Partners LLC, both of which are investment banking firms. From 1989 to 1997, Mr. Zariello was a Managing Director- Principal of Bear Stearns & Co., Inc., and from 1989 to 1991, he served as Chief Financial Officer of the Principal Activities Group that invested Bear Stearns' capital in middle market

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companies. Mr. Zariello also serves as a member of the Boards of ADSX and Good Samaritan Hospital in Suffern, New York. He serves on the Board of Directors and Audit Committee for Bon Secours Charity Health System in New York.

Directors of the Company are elected annually to serve until the next annual meeting of stockholders and until their successors are elected and qualified or until their earlier resignation, death or removal. There is no family relationship between any of the directors or executive officers of the Company.

Board Actions and Committees

The Board held 21 formal meetings and adopted resolutions by written action 14 times during 2003. The Board has an Audit Committee, a Compensation Committee and a newly-created Government Relations Committee. The Company has no Nominating Committee and, under the AMEX Rules, it is not required to create such a committee as it is controlled by ADSX. The full Board of Directors considers and nominates candidates proposed for election.

Independent Directors

The Company's Board of Directors has determined that each of Messrs. Block, Weintraub and Zarriello are "independent," as that term is defined in Section 121(A) of the AMEX Rules. Because the Company is controlled by ADSX, under the AMEX rules, it is not required to have a majority of independent directors.

Compensation Committee

From January 1, 2003 until November 6, 2003, the Compensation Committee consisted of Messrs. Kenneth D. Larson and Howard S. Weintraub, Ph.D. Effective November 6, 2003, Mr. Larson resigned from the Board and the Compensation Committee, and the Board of Directors appointed Mr. Zarriello to the Compensation Committee. The Compensation Committee determines compensation for senior management, advises the Board of Directors on the adoption and administration of employee benefit and compensation plans, and administers the March 1998 Amended and Restated Employee and Directors Stock Plan (the "1998 Stock Plan") and the 2002 Stock Plan. The Compensation Committee did not meet during 2003, and it has no charter.

Audit Committee

From January 1, 2003 until August 15, 2003, the Company's Audit Committee consisted of Messrs. Richard S. Friedland, Kenneth D. Larson and Howard S. Weintraub, Ph.D. Messrs. Friedland and Larson and Dr. Weintraub were "independent" members of the Audit Committee, as the term "independent" is defined as Section 121(A) of the AMEX Rules. Effective August 15, 2003, Mr. Friedland resigned from the Board and the Audit Committee. Mr. Larson resigned from the Board and the Audit Committee on November 6, 2003. On September 12, 2003, the Board appointed Michael S. Zarriello to the Audit Committee. During 2003, the Audit Committee met nine times, and except for one meeting at which Mr. Zarriello was absent, all members of the Audit Committee attended each meeting.

The Audit Committee recommends annually to the Board of Directors the engagement of independent auditors, approves professional services provided by the independent auditors, considers the range of audit and any non-audit fees, and reviews the adequacy of the Company's internal accounting controls and major accounting and financial reporting matters. The Audit Committee also reviews all reports and financial information submitted to the United States Securities and Exchange Commission and resolves any significant disagreements between management and the independent auditors in connection with the preparation of the Company's financial statements. The Committee

reviews with the Company's legal counsel all legal and regulatory matters which may have a significant impact on the Company's financial statements. The Audit Committee determined that the provision of non-audit services by the independent auditors in 2003 was compatible with maintaining the independent auditors' independence.

The Company's Board of Directors has determined that all members of the Audit Committee are independent under Section 121(A) of the AMEX Rules and Rule 10A-3 under the Securities Exchange Act of 1934 ("Exchange Act"). The Board has determined that Mr. Zarriello is qualified as an "audit committee financial expert," as that term is defined in Item 401(h)(2)(i) of Regulation S-K under the Exchange Act.

The Audit Committee charter was included as an exhibit to the Company's Proxy Statement dated April 14, 2003.

Nominating Committee

The Company has no Nominating Committee and, under the AMEX Rules, it is not required to create such a committee as it is controlled by ADSX. The full Board of Directors considers and nominates candidates proposed for election.

Government Relations Committee

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The Government Relations Committee was recently formed to assist the Company with the proposed national identification program for cattle and any other government-related matters. The Government Relations Committee consists of Mr. John R. Block. The Government Relations Committee has no charter.

Executive Sessions of the Board

For 2004, the Board has adopted a formal policy of meeting in executive session, with only independent directors being present, on a regular basis and at least two times each year. During 2003, the Board did not meet in executive session, and it had no policy to do so.

Code of Business Conduct and Ethics

The Board has approved and the Company has adopted a Code of Business Conduct and Ethics that applies to all directors, officers and employees of the Company. This Code is available on the Company's website at www.digitalangelcorp.com. The Compensation Committee of the Board is responsible for overseeing the Code of Business Conduct and Ethics. In accordance with the AMEX Rules, any waivers of the Code for directors and executive officers must be approved by the Company's Board of Directors.

Qualifications of Candidates for Election to the Board

The Company's Directors take a critical role in guiding the Company's strategic direction, and they oversee the management of Company. When Board candidates are considered, they are evaluated based upon various criteria, such as their broad-based business and professional skills and experiences, experience serving as management or on the board of directors of companies such as the Company, concern for the long-term interests of the stockholders, financial literacy and personal integrity in judgment. In addition, director candidates must have time available to devote to Board activities. Accordingly, the Board seeks to attract highly-qualified directors who have sufficient time to attend to their duties and responsibilities to the Company. Recent developments in corporate governance and financial reporting have resulted in an increased demand for such highly-qualified and productive public company directors.

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Director candidates for the Company's Board of Directors will be considered for vacant Board seats if they are able to read and understand fundamental financial statements; have at least 10 years of relevant business experience; have no identified conflicts of interest as a prospective Director of the Company; have not been convicted in a criminal proceeding other than traffic violations during the five years before the date of selection; and are willing to comply with the Company's Code of Business Conduct and Ethics. The Company retains the right to modify these minimum qualifications from time to time. Exceptional candidates who do not meet all of these criteria may still be considered.

Process for Identifying and Evaluating Candidates for Election to the Board

The Board of Directors will review the qualifications and backgrounds of the Directors, as well as the overall composition of the Board. In the case of any director candidates, the questions of independence and financial expertise are important to determine what roles can be performed by the candidate, and the Board of Directors will consider whether the candidate meets the applicable independence standards and the level of the candidate's financial expertise. Any new candidates would be interviewed, and the full Board would approve the final nominations. The Chairman of the Board, acting on behalf of the full Board, will extend the formal invitation to become a nominee of the Board of Directors.

Stockholder Nominations

Stockholders may nominate Director candidates for consideration by the Board of Directors by writing to the Chairman and providing to the Chairman the candidate's name, biographical data and qualifications, including five-year employment history with employer names and a description of the employer's business; whether such individual can read and understand fundamental financial statements; other board memberships (if any); and such other information as is reasonably available and sufficient to enable the Board to evaluate the minimum qualifications stated above under the section of this proxy statement entitled "Qualifications of Candidates for Election to the Board." The submission must be accompanied by a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders. If a stockholder nominee is eligible, and if the nomination is proper, the Board then will deliberate and make a decision as to whether the candidate will be submitted to the Company's stockholders for a vote.

The Board will not change the manner in which it evaluates candidates, including the applicable minimum criteria set forth above, based on whether the candidate was recommended by a stockholder.

Communications with the Board

Stockholders can communicate directly with the Board, or with any Committee of the Board, by writing to Mr. James P. Santelli, the Company's Chief Financial Officer, by calling Mr. Santelli at (651) 455-1621 or via e-mail at jsantelli@digitalangelcorp.com. All communications will be reviewed by management and then forwarded to the appropriate director or directors or to the full Board, as appropriate.

Directors' Compensation

The Board has determined to pay each member of the Company's Board of Directors who is not an employee or officer of the Company or an "affiliate" of the Company (as the term "affiliate" is defined in the Company's 2002 Stock Plan) \$5,000 per quarter for serving on the Board; \$5,000 per quarter for serving on the Audit Committee; \$1,250 per quarter for serving as the Audit Committee Chair; \$1,000 per quarter for serving on the Compensation Committee; \$1,000 per quarter for serving on the Government Relations Committee; and \$4,000 per quarter for serving as Chair of the Government Relations Committee. The Company also reimburses such directors for reasonable expenses incurred by them in rendering their duties as directors of the Company, subject to such reimbursement practices and procedures as the Company reasonably imposes.

Under these arrangements, the following non-employee Directors received the following amounts during 2003: Scott R. Silverman (\$0), Kevin H. McLaughlin (\$0), John R. Block (\$0), Howard S. Weintraub, Ph.D. (\$44,000) and Michael S. Zarriello (\$11,250). Information regarding options granted to the directors during 2003 under the 2002 Plan is set forth below.

	Number of Shares Subject to Options Granted	Exercise Price	Grant Date	Expiration	Vesting*
Scott R. Silverman	250,000	\$ 1.91	9/5/2003	9/4/2013	9/4/2004
Kevin H. McLaughlin	250,000	\$ 1.91	9/5/2003	9/4/2013	9/4/2004
Michael S. Zarriello	250,000	\$ 1.99	9/15/2003	9/14/2013	9/14/2004
Kevin N. McGrath	250,000	\$ 2.08	12/18/2003	12/17/2013	12/17/2004
Scott R. Silverman	250,000	\$ 3.89	12/31/2003	12/30/2013	12/30/2004

*

All options have vested or will vest on these dates if the Director was or is a Director of the Company on such dates. 100,000 of the options granted to Mr. McGrath were vested upon his being named Chief Executive Officer of the Company on January 12, 2004.

Executive Officers

The following discussion sets forth information as of March 31, 2004 about Messrs. James P. Santelli, Kevin L. Neisuwma and David M. Cairnie, who are executive officers but not Directors of the Company.

Name	Positions with the Company	Age
James P. Santelli	Vice President-Finance, Chief Financial Officer, Treasurer and Secretary	56
Kevin L. Nieuwsma	Vice President	36
David M. Cairnie	Managing Director, Signature Industries, Ltd.	59

James P. Santelli has been Vice President-Finance, Chief Financial Officer, Treasurer and Secretary of the Company since March 27, 2002. He is a manager (Chief Financial Officer) and one of two governors of Digital Angel Holdings, LLC. He was Vice President-Finance and Chief Financial Officer of the former Digital Angel Corporation since September 2000 (which is now named Digital Angel

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Technology Corporation and is a wholly-owned subsidiary of the Company). Mr. Santelli joined the former Digital Angel Corporation (then named Destron Fearing Corporation) in September 1999 as Vice President-Finance and Chief Financial Officer. From October 1998 until September 1999, he was Chief Operating Officer of Doorlite, Inc., a manufacturer of specialty door glass with approximately \$40 million in annual revenues. From November 1995 until October 1998, Mr. Santelli was Chief Financial Officer and Vice President, Finance of Hartzell Manufacturing, Inc., a manufacturer of custom plastic injected and metal die cast parts with approximately \$90 million in annual revenue. From December 1994 until November 1995, he was a Strategy Consultant for Continental Financial Management Corp., which was a start-up asset financing company. Mr. Santelli has a Bachelor's degree in Economics from Carleton College and an MBA in Finance from Cornell University.

Kevin L. Nieuwsma has been Vice President since November 11, 2002. He has primary responsibility for the Company's radio frequency identification (RFID) business. Since joining the Company in June 1993, he has held various sales and marketing positions, including Manager of Electronic ID Sales, Manager of North American Companion Animal Sales, and Director of Strategic Development. From 1990 to 1993, Mr. Nieuwsma was Regional Sales Representative for Iowa Veterinary Supply Co. Mr. Nieuwsma has a Bachelor of Sciences degree with majors in Business Administration and Economics from Morningside College.

David M. Cairnie has been the Managing Director of our United Kingdom subsidiary, Signature Industries, Ltd., since March 27, 2002. Mr. Cairnie has been the Managing Director of Signature Industries, Ltd. since the management-led buy-out in 1993. Before the management led buy-out, Signature Industries, Ltd. was known as FKI Communications, a division of FKI plc, where Mr. Cairnie had been the Managing Director since 1990. Before joining FKI Communications, Mr. Cairnie worked for International Telephone and Telegraph (ITT). Mr. Cairnie completed the ITT Senior Management Development program at the London Business School and operated in various management roles before joining FKI.

Executive Compensation

The following table sets forth the compensation earned from the Company by Randolph K. Geissler, the President and Chief Executive Officer of the Company from March 27, 2002 until September 5, 2003; Kevin H. McLaughlin, the interim Chief Executive Officer from September 5, 2003 through November 3, 2003; and Van Chu, Chief Executive Officer of the Company from November 3, 2003 until January 12, 2004. Mr. Kevin N. McGrath was appointed as the Company's President and Chief Executive Officer on January 12, 2004 and accordingly is not listed in the summary compensation table. The table below also provides information for each of the years ended December 31, 2003, 2002 and 2001 about the other three most highly compensated executive officers of the Company whose salary and bonus exceeded \$100,000 in 2003 and about Thomas M. Hall, M.D., M.I.M., who was Chief

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Executive Officer of the Company until March 27, 2002. (The officers identified in the table are known as the "Named Executive Officers.")

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Shares of Stock Underlying Options (#)	All Other Compensation (\$)
Randolph K. Geissler(1) President and Chief Executive Officer	2003	250,000	60,000	49,917(2)	1,000,000	-0-
	2002	244,940	37,500(3)	48,800(4)	1,000,000	-0-
	2001	-0-	-0-	-0-	-0-	-0-
Kevin H. McLaughlin(1) Former Chief Executive Officer	2003	-0-	-0-	-0-	250,000	-0-
Van Chu(1) Former Chief Executive Officer	2003	33,654	-0-	1,615(5)	1,000,000	-0-
Thomas M. Hall, M.D.,	2003	260,000	-0-	10,615(6)	-0-	-0-

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		Annual Compensation			Long-Term Compensation Awards	
M.I.M.	2002	260,000	-0-	-0-	-0-	-0-
Former Chief Executive Officer and Chief Physician	2001	260,000	-0-	1,000	150,000	-0-
James P. Santelli(7)	2003	171,634	-0-	-0-	100,000	-0-
Vice President-Finance and Chief Financial Officer	2002	175,000	-0-	-0-	250,000	-0-
	2001	-0-	-0-	-0-	-0-	-0-
Kevin L. Nieuwsma(8)	2003	145,090	-0-	-0-	200,000	-0-
Vice President	2002	134,954	-0-	-0-	100,000	-0-
	2001	-0-	-0-	-0-	-0-	-0-
David M. Cairnie	2003	176,143	4,738	-0-	-0-	-0-
Managing Director, Signature Industries, Ltd.	2002	158,159	4,428	7,523(9)	50,000	-0-
	2001	138,967	4,267	-0-	-0-	-0-

- (1) Mr. Geissler was President and Chief Executive Officer of the Company from March 2002 until September 5, 2003. Mr. McLaughlin was the Company's interim Chief Executive Officer from September 5, 2003 to November 3, 2003. Mr. Chu was Chief Executive Officer from November 3, 2003 until January 12, 2004. Mr. McLaughlin's salary as Chief Executive Officer was determined and paid by ADSX, and the options were granted to him in his capacity only as a Director of the Company.
- (2) Consists of Mr. Geissler's \$5,000 per month flexible perquisite allowance.
- (3) Accrued in 2002 and paid in 2003.
- (4) Consists of (i) \$45,385 of Mr. Geissler's \$5,000 per month flexible perquisite allowance payable beginning March 27, 2002, of which \$25,385 was paid and \$20,000 is accrued but not paid, and (ii) a \$3,415 vehicle allowance. See " Employment Agreements."
- (5) Consists of Mr. Chu's vehicle allowance.
- (6) Consists of Dr. Hall's vehicle allowance.
- (7) Mr. Santelli became Vice President-Finance and Chief Financial Officer on March 27, 2002.
- (8) Mr. Nieuwsma became Vice President on November 11, 2002.
- (9) Consists of Mr. Cairnie's vehicle allowance.

The following table sets forth information concerning grants of stock options in the year ended December 31, 2003 to the Named Executive Officers. All grants of options were made under the Company's 2002 Option Plan. No options were granted in 2003 under the Company's 1998 Stock Plan.

Stock Option Grants in 2003

Individual Grants

Name	Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term	
					5% (\$)	10% (\$)
Randolph K. Geissler	1,000,000	26.1%	\$ 1.97	9/1/2012	\$ 1,238,922	\$ 3,139,673
Kevin H. McLaughlin	250,000	6.5%	\$ 1.91	9/4/2013	300,297	761,012
Van Chu	1,000,000	26.1%	\$ 2.40	11/2/2013	1,509,347	3,824,982
James P. Santelli	100,000	2.6%	\$ 3.89	12/30/2013	244,640	619,966
Thomas M. Hall, M.D., M.I.M.						
Kevin L. Nieuwsma	200,000	5.2%	\$ 3.89	12/30/2013	489,280	1,239,932
David M. Cairnie						

The following table sets forth information concerning stock options exercised in the year ended December 31, 2003 and held as of December 31, 2003 by the Named Executive Officers.

Aggregated Option Exercises In Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise(#)	Value Realized(\$)	Number of Unexercised Options at Fiscal Year End(#)		Value of Unexercised In-the-Money Options at Fiscal Year End\$(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Randolph K. Geissler	1,587,500	2,485,634	1,350,000		2,319,500	
Kevin H. McLaughlin	-0-	-0-		250,000		707,500
Van Chu	-0-	-0-		1,000,000		2,700,000
James P. Santelli	-0-	-0-	390,375	100,000	893,572	85,000
Thomas M. Hall, M.D., M.I.M.	105,000	126,800	180,000		88,500	
Kevin L. Nieuwsma	75,000	256,225	98,958	266,667	304,962	260,000
David M. Cairnie	-0-	-0-	16,667	33,333	22,500	44,500

(1) Based on the difference between the December 31, 2003 closing price of \$4.74 per share as reported on The American Stock Exchange and the exercise prices of the options.

401(k) Profit Sharing Plan and Trust

The Company maintains a 401(k) profit sharing plan for the benefit of eligible employees and their beneficiaries in which executive officers participate on the same basis as all other employees, subject to certain overall and specific anti-discrimination restrictions. An employee is eligible to participate in the 401(k) plan after completing 60 days of service. The plan is a defined contribution profit sharing plan designed to be funded with both Company and employee contributions. Employees may voluntarily contribute up to 15% of their annual pay into the plan, not to exceed an annual dollar limitation, which was \$12,000 in 2003. Employees may make contributions by payroll deductions. The Company has the option to make matching contributions each year for eligible employees. The amount of any matching contribution by the Company is determined by the Company. Distributions from the 401(k) plan are available only after reaching the age of 59^{1/2} years (for salary deferral accounts) or termination of employment.

No amounts were paid or distributed during 2003 by the 401(k) plan to the Named Executive Officers. The Company contributed no benefit amounts under the plan for the Named Executive Officers or any other employees during 2003, 2002 or 2001.

Stock Plans*Securities Authorized for Issuance Under Equity Compensation Plans*

The following table sets forth certain information as of December 31, 2003 with respect to Company's 1998 Stock Plan and 2002 Stock Plan and certain options and warrants granted by the Company outside of the 1998 Stock Plan and 2002 Stock Plan:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	6,374,054	\$ 2.70	861,875
Equity compensation plans not approved by security holders(2)	5,361,726	\$ 2.88	295,010
Total	11,735,780	\$ 2.78	1,156,885

(1) Consists of only the 2002 Stock Plan, which is described below under the subheading " 2002 Stock Plan."

(2) Consists of the 1998 Stock Plan, which is described below under the subheading " 1998 Stock Plan," outstanding options to purchase 1,350,000 shares and outstanding warrants to purchase 3,028,906 shares.

2002 Stock Plan

The following is a summary of the terms of the 2002 Stock Plan and is qualified in its entirety by reference to the 2002 Stock Plan.

Effective April 11, 2002, the Company's Board of Directors adopted the 2002 Stock Plan, subject to approval by the stockholders of the Company, and reserved 5,195,312 shares of Common Stock for issuance under the 2002 Stock Plan. On October 22, 2002, the Company's stockholders approved the

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2002 Stock Plan and approved amendments to the 2002 Stock Plan increasing the number of shares reserved for issuance to 11,195,312 shares and allowing the Company's Board to designate participants in the 2002 Stock Plan. As of March 29, 2004, 11,195,312 shares of common stock were reserved for issuance under the 2002 Stock Plan, and awards consisting of options to purchase 7,637,966 shares of common stock were outstanding under the 2002 Stock Plan. Included in the options outstanding at March 29, 2004 are options to purchase 1,430,000 shares of common stock approved by the Board of Directors on March 12, 2004 which are subject to stockholder approval of amendments to the 2002 Plan described in this proxy statement. As of March 29, 2004, there were outstanding options to purchase 1,500,000 shares of common stock which were granted outside the 2002 Stock Plan and the Company's 1998 Stock Plan. The Board of Directors and the Board's Compensation Committee administer the 2002 Stock Plan. Benefits under the 2002 Stock Plan may be granted to only employees and directors of the Company and its affiliates, consisting of approximately 241 individuals. The participants are those persons who are selected by the Board or the Committee.

The 2002 Stock Plan permits the Board or the Committee to grant benefits in the form of stock options, stock appreciation rights, restricted stock, cash awards, performance-based awards or any combination thereof. Any of such awards may, as determined by the Board or the Committee, be granted in a manner such that they qualify for the performance-based compensation exemption of Section 162(m) of the Code.

Options granted under the 2002 Stock Plan may be either "incentive stock options" which satisfy the requirements of Section 422 of the Code or "non-qualified stock options" which are not intended to meet such requirements. Incentive stock options may be granted only to participants who are employees of the Company or its affiliates as of the date of grant. The Board or the Committee determines the per share option exercise price subject to the requirements imposed by the Code and the 2002 Stock Plan. The 2002 Stock Plan and the Code provide that the exercise price for shares under any incentive stock option shall not be less than the fair market value of the shares at the time the option is granted. The 2002 Stock Plan provides that the exercise price for shares under non-qualified stock options shall not be less than 85% of the fair market value of the shares at the time the option is granted. Options may be exercised at such time or times and subject to such terms and conditions as are determined by the Board or the Committee. However, incentive stock options may not be exercised more than ten years after the date they are granted.

Unless permitted by the Board or the Committee, each benefit granted under the 2002 Stock Plan is not transferable other than by will or other laws of descent and distribution and is exercisable during the participant's lifetime only by the participant. Unless otherwise determined by the Board or the Committee, in the event of a "change of control" (as that term is defined in the 2002 Stock Plan), all options and other awards then outstanding under the 2002 Stock Plan will become fully vested.

The Board of Directors has the sole right and power to amend the 2002 Stock Plan at any time. However, it cannot amend the 2002 Stock Plan without approval of the Company's stockholders in a manner which would cause options which are intended to qualify as incentive stock options to fail to qualify as such, in a manner which would cause the 2002 Stock Plan to fail to meet the requirements of Rule 16b-3 under the Securities Exchange Act of 1934, or in a manner which would violate applicable law. The plan has no specific term and will continue in full force and effect until terminated. The 2002 Stock Plan may be terminated at any time by the Board.

1998 Stock Plan

Effective March 1, 1998, the Board of Directors of Medical Advisory Systems, Inc. adopted the 1998 Stock Plan. The 1998 Stock Plan and the Board's amendments to the 1998 Stock Plan were not submitted to the Company's stockholders for their approval. Only options that are not incentive stock options may be granted under the 1998 Stock Plan. The exercise price per share of common stock

under each option granted under the 1998 Stock Plan must not be less than the fair market value of the common stock at the close of business on the date the option is granted. Under the 1998 Stock Plan, "fair market value" is the average of the highest and lowest price for a share of common stock as quoted on The American Stock Exchange on the last trading date immediately before the date of the grant. The exercise price of an option may be paid with cash or a certified check, or with the surrender of shares of common stock having a fair market value on the date of exercise equal to that portion of the purchase price for which payment in cash or by certified check is not made.

Upon termination of employment except by death or in connection with a "change of control," an employee has three months after cessation of employment to exercise his options under the 1998 Stock Plan to the extent that such employee is entitled to exercise them on the date of cessation of employment. Upon a "change of control," all vested options immediately vest and are exercisable. The merger of the former Digital Angel Corporation with the wholly-owned subsidiary of the Company on March 27, 2002 triggered the vesting of options to purchase 600,000 shares under the 1998 Stock Plan. Upon an option holder's death while employed by the Company, or within three months after having retired with the consent of the Company, the employee's executors or administrators or the legatees or heirs of his estate have the right to exercise the options that are vested and not exercised to the extent that the deceased employee was entitled to exercise the options on the date of his death.

However, no options are exercisable more than 10 years from the date they are granted. The plan expires on March 1, 2008. Under the 1998 Stock Plan, options may be granted to officers, directors, employees, advisors and consultants who render services to the Company. As of March 29, 2004, 1,650,000 shares of common stock were reserved for issuance under the 1998 Stock Plan, and options to purchase 963,820 shares were outstanding under the 1998 Stock Plan.

Employment Agreements

Employment Agreements with Former Executive Officers of Medical Advisory Systems, Inc.

Before March 27, 2002, the effective date of the merger, the Company entered into employment agreements with Ronald W. Pickett and Thomas M. Hall, M.D. On October 26, 2001, the Company signed amendments to the employment agreements with each of Mr. Pickett and Dr. Hall that reflected both certain prior oral amendments to the employment agreements and additional amendments. The amendments confirmed the extension of the term of each of Mr. Pickett's and Dr. Hall's employment agreement through October 31, 2006 and established that Mr. Pickett would receive an annual salary of at least \$180,000 and Dr. Hall would receive an annual salary of at least \$260,000 throughout the term of their employment agreements. The amendments also provide that if Mr. Pickett's or Dr. Hall's employment was terminated or they resigned at any time following a "change of control" of the Company, each of Mr. Pickett and Dr. Hall would be entitled to a \$250,000 payment, plus an amount equal to all salary and other benefits that would have been paid under the employment agreement for the remainder of the term of their agreements as though no termination or resignation occurred, plus 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, plus participation in any profit sharing, stock option or similar plans. These payments are due 30 days after termination of employment. The definition of change of control in the employment agreements also was amended to include any consolidation, merger or share exchange, regardless of whether the Company was the surviving corporation, in which any or affiliated person acquires in excess of 20.0% of the combined voting power of the then-outstanding securities of the Company.

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Under the amended employment agreements, the March 27, 2002 merger of the Company's wholly-owned subsidiary with the former Digital Angel Corporation constituted a change of control. Therefore, each of Mr. Pickett and Dr. Hall is entitled to a \$250,000 payment from the Company plus the salaries and other benefits for the remaining term of their employment agreements upon the termination of their employment with the Company. Mr. Pickett resigned his position with the Company on March 27, 2002, and the Company paid to him the \$250,000 amount due under his agreement. Because Dr. Hall remains an employee of the Company, the Company accrued for Dr. Hall's \$250,000 payment due to him under his agreement. During 2003, the Company paid a total of \$198,089 of salary and fringe benefits to Mr. Pickett and a total of \$283,136 of salary and fringe benefits to Dr. Hall due to them under their agreements.

Employment Agreements with the Company's Former President and Chief Executive Officer

The Company entered into a five-year employment agreement with Randolph K. Geissler, the Company's former President and Chief Executive Officer, dated as of March 8, 2002. The term of the employment agreement was five years, ending on March 7, 2007. On September 5, 2003, Mr. Geissler's employment agreement dated March 8, 2002 was terminated in connection with his resignation as President and Chief Executive Officer of the Company. After September 5, 2003, Mr. Geissler's terms of employment provided for the Company to pay Mr. Geissler a base salary of \$185,000 per year, subject to annual adjustments or discretionary bonuses as determined by the Company, and Mr. Geissler was entitled to participate in welfare plans on the same basis as other employees. If Mr. Geissler was terminated by the Company not for cause, as defined, Mr. Geissler would have been entitled to severance equal to one year of salary to be paid in equal payments over a period of six months. The terms of Mr. Geissler's employment also provided that the options he then held to acquire 937,500 shares of the Company's common stock at an exercise price of \$0.77867 per share and to purchase 1,000,000 shares at an exercise price of \$3.39 per share would continue in accordance with their terms. The Company also granted to Mr. Geissler an option to purchase 1,000,000 shares at an exercise price of \$1.97 per share (equal to the closing price of the Company's stock on September 3, 2003), vesting 100% upon grant and having an expiration date of September 1, 2012. None of the options are affected by Mr. Geissler's termination of employment from the Company. The terms of employment included a non-compete clause through one year following the termination of Mr. Geissler's employment.

Employment Agreements with the Company's Current Executive Officers

The Company does not have a formal written employment agreement with Kevin N. McGrath, its President and Chief Executive Officer. The terms of Mr. McGrath's employment provide for the Company to pay Mr. McGrath a base salary of \$250,000 per year and a bonus as determined the Compensation Committee of the Board of Directors. In addition, the Company has agreed to pay Mr. McGrath's life insurance premiums of approximately \$4,800 per year and a \$1,000 per month automobile allowance.

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Effective as of April 1, 2002, the Company entered into an employment agreement with Mr. James P. Santelli, its Vice President, Finance and Chief Financial Officer. The agreement has a term of three years. The term is automatically renewed for successive one-year terms on each anniversary date of the agreement, which is added at the end of the then existing term, unless either party notifies the other at least 60 days prior to such an anniversary date. The agreement provides that the Company shall pay to Mr. Santelli a base salary of \$175,000 per year and that he is entitled to participate in any of the Company's benefit and deferred compensation plans or programs as are from time to time available to officers of the Company. The agreement contains confidentiality, non-compete and assignment of invention clauses. The agreement also provides that if the Board of Directors terminates Mr. Santelli's employment with the Company because of his willful and material misconduct or because he has

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breached the agreement in any material respect, or if Mr. Santelli terminates his employment other than for "Good Reason" (as that term is defined in the agreement), he is entitled to salary and benefits accrued through the date of termination of employment. If Mr. Santelli dies or becomes disabled (as disabled is determined under the agreement), if the Company terminates his employment for reasons other than his misconduct or his breach of the agreement, or if he terminates his employment for Good Reason, the Company must pay him his accrued compensation and benefits for the remaining term of the agreement, including any extensions. The employment agreement provides that upon a change of control, Mr. Santelli may terminate his employment at any time within one year after the change of control upon 15 days' notice. Upon such termination, the Company must pay to Mr. Santelli a severance payment equal to the base amount as defined in Section 280G(b)(3) of the Internal Revenue Code minus \$1.00. Upon a change of control, all outstanding stock options held by Mr. Santelli would become fully exercisable.

The Company has an employment agreement with Kevin L. Nieuwsma effective as of October 1, 2000. The initial term of the agreement is one year, and the term is automatically extended for successive one-year periods unless either party gives written notice to the other party no later than 60 days before the expiration of each term. The agreement provides that the Company will pay to Mr. Nieuwsma a base salary of \$125,000 per year and that he is entitled to participate in any of the Company's benefit and deferred compensation plans or programs that are available to its officers. The agreement contains confidentiality, non-compete and assignment of inventions clauses. The agreement also provides that if the Board of Directors terminates Mr. Nieuwsma's employment with the Company because of his willful and material misconduct or because he has breached the agreement in any material respect, or if Mr. Nieuwsma terminates his employment other than for "Good Reason" (as that term is defined in the agreement), he is entitled to salary and benefits accrued through the date of termination of employment. If Mr. Nieuwsma dies or becomes disabled (as disabled is determined under the agreement), if the Company terminates his employment for reasons other than his misconduct or his breach of the agreement, or if he terminates his employment for Good Reason, the Company must pay him his accrued compensation and benefits through the date of termination, pay him compensation for 24 months after such date and provide him benefits for a period of 12 months after such date.

The Company has an employment agreement with David M. Cairnie effective April 13, 1993. The initial term of the agreement is one year until terminated by either party giving six months' notice or payment in lieu of such notice expiring on or at any time one year after the effective date of the agreement. The agreement provides that the Company will pay Mr. Cairnie £75,000 per year, or a higher rate as to which the parties may from time to time agree. The agreement also provides for a bonus based on the achievement of profits, as defined in the agreement. In addition, under the agreement, the Company is to provide an automobile to Mr. Cairnie. The agreement includes a non-compete provision.

Certain Transactions

In 2003, the Company paid \$123,475 to Richard J. Sullivan, a former Director and Chairman of the Company.

In 2003, the Company recognized \$495,000 of revenue under a Distribution and Licensing Agreement with Verichip Corporation, a wholly-owned subsidiary of Applied Digital Solutions, Inc.

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REPORT OF THE COMPENSATION COMMITTEE

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933 or the Exchange Act that might incorporate future filings or this proxy statement, the following report shall not be deemed to be incorporated by reference into any such filings. In addition, the following report shall not be deemed to be "soliciting material" or "filed" with the SEC.

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The role of Compensation Committee is to determine the amount of compensation of, and incentives for, the Company's executive officers. The Compensation Committee also has the power to administer the 1998 Stock Plan and the 2002 Stock Plan.

The base salary, bonus and benefits payable to the executive officers of the Company for the year ended December 31, 2003 were fixed under written employment agreements, except for Kevin H. McLaughlin, who was interim Chief Executive Officer from September 2003 through November 3, 2003, and Van Chu, who acted as Chief Executive Officer of the Company from November 3, 2003 until January 12, 2004. The terms of these agreements were determined before January 1, 2003 and before the appointment of the members of the Compensation Committee for 2003. These employment agreements provide as follows:

Dr. Hall was employed under an employment agreement that commenced on November 1, 1998 and provided for an annual salary of \$260,000 and bonuses and benefits based on the Company's internal policies.

Mr. Geissler was employed under an employment agreement that commenced on March 8, 2002. It provided for an annual salary of not less than \$250,000 and an annual bonus of not less than \$50,000, plus such bonuses, incentive compensation and other compensation, if any, as the Company's Board or the Compensation Committee shall determine. The agreement also provided that Mr. Geissler receive from the Company a monthly \$5,000 flexible perquisite allowance.

Mr. Santelli's employment agreement is for a three-year term that commenced on April 1, 2002 and is automatically extended for an additional one-year term on each anniversary date of the agreement. It provides for an annual base salary of \$175,000.

Mr. Nieuwsma's employment agreement is for a one-year term that commenced on October 1, 2000 and is automatically renewable for successive one-year periods. It provides for an annual base salary of \$125,000 per year.

Mr. Cairnie's employment agreement is for a one-year term that commenced on April 13, 1993 and is automatically renewable for successive one-year periods. It provides for an annual base salary of £75,000 per year.

As described above in this proxy statement, the Company maintains the 1998 Stock Plan and the 2002 Stock Plan under which stock options may be granted to officers, directors, employees, advisors and consultants who render services to the Company.

Mr. McLaughlin's salary for serving in the capacity of interim Chief Executive Officer during 2003 was determined and paid by Applied Digital Solutions, Inc. and neither the Compensation Committee nor the Company's Board had any role in determining his salary. The Company granted options to Mr. McLaughlin in 2003 only in his capacity as a Director of the Company.

Mr. Chu's compensation, including his options, that he received during 2003 while he served as Chief Executive Officer of the Company was determined by the Company's Board of Directors. In making its determination, the Board considered the compensation, including the terms of options, of chief executive officers of comparable companies, as well as the availability of standard benefit packages and stock options at comparable companies. The Board also based Mr. Chu's compensation on his expected performance and his achievement of expected performance goals.

By the Compensation Committee

Howard S. Weintraub, Ph.D.

REPORT OF THE AUDIT COMMITTEE

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings or this proxy statement, the following report shall not be deemed to be

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incorporated by reference into any such filings. In addition, the following report shall not be deemed to be "soliciting material" or "filed" with the SEC.

The Audit Committee for the year ended December 31, 2003, whose members are identified below, has reviewed and discussed the audited financial statements as of and for the year ended December 31, 2003 with management of the Company and has discussed the matters required to be discussed by SAS 61 with the Company's independent auditors. The Audit Committee has also received the written disclosures and the letter from the Company's independent auditors required by Independent Standards Board Standard No. 1 and has discussed with the independent auditors the independent auditors' independence. Based upon its review of the foregoing materials and its discussions with the Company's management and independent auditors, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

The Audit Committee has a written charter adopted by the Board on March 27, 2003 that was filed with the Company's Proxy Statement dated April 14, 2003. The Audit Committee established procedures for the receipt, retention and treatment of any complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by the Company's employees of any concerns regarding questionable accounting or auditing matters.

By the Audit Committee

Howard S. Weintraub, Ph.D.
Michael S. Zarriello

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PERFORMANCE GRAPH

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings or this proxy statement, the following performance graph and accompanying data shall not be deemed to be incorporated by reference into any such filings. In addition, they shall not be deemed to be "soliciting material" or "filed" with the SEC.

The Company's common stock is traded on The American Stock Exchange under the symbol "DOC." The following graph shows changes during the period from December 31, 1998 to December 31, 2003 in the value of \$100 invested in: (1) the Company's common stock; (2) the Total Return Index for the American Stock Exchange (U.S.) ("AMEX") compiled by the Center for Research in Securities Prices ("CRSP") at the University of Chicago, Chicago, Illinois; and (3) the CRSP Total Return Index for AMEX Consumer Manufacturing Stocks. The graph also shows amounts for the CRSP Total Return Index for The Nasdaq Stock Market (U.S.) and the CRSP Total Return Index for Nasdaq Non-Financial Stocks, which were the indices by the Company in prior years. The Company decided to utilize different comparative indices due to the fact that the new AMEX indices are more comparable to the Company than the broader NASDAQ indices previously used. The values of each investment as of the dates indicated are based on share prices plus any dividends paid in cash, with the dividends reinvested on the date they were paid. The calculations exclude trading commissions and taxes.

	<u>12/31/98</u>	<u>12/31/99</u>	<u>12/31/00</u>	<u>12/31/01</u>	<u>12/31/02</u>	<u>12/31/03</u>
Digital Angel Corporation	\$ 100.00	\$ 297.14	\$ 98.51	\$ 112.00	\$ 58.29	\$ 108.34
CRSP Total Return Index for the AMEX Stock Market (U.S.)	\$ 100.00	\$ 131.94	\$ 122.38	\$ 113.91	\$ 93.10	\$ 126.03
CRSP Total Return Index for AMEX Consumer Manufacturing Stocks	\$ 100.00	\$ 80.67	\$ 72.60	\$ 96.59		