iDNA, Inc.
Form 10-Q
September 17, 2008

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

FORM 10-Q

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

For the quarterly period ended July 31, 2008

OR

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

For the transition period from _ to _

Commission file number 1-11601

iDNA, INC.

(Exact name of registrant as specified in its charter)

Delaware	34-1816760
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
415 Madison Avenue, 7th Floor, New York, New York	10017
(Address of principal executive offices)	(Zip Code)

(212) 644-1400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes o No x

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

Class	Outstanding at September 15, 2008
Common Stock, $0.05 par value	13,085,864

iDNA, Inc. and Subsidiaries

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

iDNA, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except share data)

	July 31, 2008 (unaudited)	January 31, 2008
ASSETS		
Cash and cash equivalents	$ 561	$ 169
Restricted cash (Note 1)	147	147
Investment in trading securities (Note 1)	225	1,421
Accounts receivable, net of allowance of $72 and $75, respectively (Note 1)	1,647	1,453
Income taxes refundable	19	19
Inventory (Note 1)	184	165
Prepaid expenses	382	444
Other current assets	73	90
Total current assets	3,238	3,908
Property and equipment, net of accumulated depreciation of $3,720 and $3,325, respectively (Note 1)	1,834	2,102
Investment in AFC (Note 2)	6,743	7,129
Other assets	149	414
	$ 11,964	$ 13,553
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
LIABILITIES		
Current maturities of long term obligations (Notes 3 and 4)	$ 1,009	$ 1,123
Accounts payable	2,190	1,220
Deferred revenue (Note 1)	1,206	1,552
Self-insurance claims (Note 5)	142	172
Other liabilities	861	1,324
Total current liabilities	5,408	5,391
Long term obligations (Notes 3 and 4)	3,831	13,373
Convertible promissory note (Note 4)	-	2,825
Accrued income taxes, long term	622	610
Redeemable common stock - issued 2,500,000 shares (Note 4)	3,121	-
	12,982	22,199
COMMITMENTS AND CONTINGENCIES (Note 5)	-	-
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock	-	-
Common stock - $.05 par value, authorized 50,000,000 shares, issued 37,449,589 and 39,949,589 shares, respectively (Note 4)	1,872	1,997
Additional paid-in capital	175,743	175,537

Retained deficit	(158,810)	(164,076)
Deferred compensation	(6)	(18)
Treasury stock, at cost, 26,863,725 and 29,938,725 shares, respectively	(19,817)	(22,086)
Total stockholders' equity (deficit)	(1,018)	(8,646)
	$ 11,964	$ 13,553

See accompanying notes to condensed consolidated financial statements.

iDNA, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended July 31, 2008	Three Months Ended July 31, 2007	Six Months Ended July 31, 2008	Six Months Ended July 31, 2007
Revenues (Note 1)	$ 4,146	$ 2,824	$ 7,649	$ 6,424
Cost of revenues (Note 1)	2,562	2,045	4,896	4,566
Gross profit	1,584	779	2,753	1,858
Selling, general and administrative	2,087	2,349	4,164	4,683
Loss from operations	(503)	(1,570)	(1,411)	(2,825)
Other income (expense):				
Income (loss) from AFC investment (Note 2)	(22)	65	214	336
Interest income	2	1	3	3
Interest expense (Note 3)	(290)	(58)	(524)	(113)
Interest expense abatement (Note 4)	156	-	156	-
Gain on restructuring of debt (Note 4)	9,026	-	9,026	-
Income (loss) from continuing operations before income taxes	8,369	(1,562)	7,464	(2,599)
Benefit (provision) for income taxes	(6)	2	(12)	(4)
Income (loss) from continuing operations	8,363	(1,560)	7,452	(2,603)
Income from discontinued operations, net of tax	1	3	2	8
Net income (loss)	$ 8,364	$ (1,557)	$ 7,454	$ (2,595)
Basic and diluted income (loss) per share				
Continuing operations	$ .79	$ (.15)	$ .72	$ (.26)
Discontinued operations	-	-	-	-
Net income (loss) per share	$ .79	$ (.15)	$ .72	$ (.26)
Weighted average number of shares outstanding				

Basic and diluted	10,586	9,955	10,320	9,908

See accompanying notes to condensed consolidated financial statements.

iDNA, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholder' Equity (Deficit)

and Comprehensive Income (Loss)

Six Months Ended July 31, 2008

(in thousands, except per share data)

(unaudited)

	Preferred Stock Shares	Preferred Stock Par Value	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Retained Deficit	Treasury Stock	Deferred Compensation Expense	Total	Comprehensive Income (Loss)
Balance at January 31, 2008	-	$ -	39,949,589	$ 1,997	$ 175,537	$ (164,076)	$ (22,086)	$ (18)	$ (8,646)	
Net income						7,454			7,454	$ 7,454
Share-based compensation expense					81				81	
Treasury stock issued						(344)	425		81	
Issuance of common stock from treasury for restructuring debt (Note 4)			(2,500,000)	(125)	125	(1,844)	1,844		-	
Deferred compensation expense								12	12	
Comprehensive income (loss)										$ 7,454
Balance at July 31, 2008	-	$ -	37,449,589	$ 1,872	$ 175,743	$ (158,810)	$ (19,817)	$ (6)	$ (1,018)	

See accompanying notes to condensed consolidated financial statements.

5

iDNA, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended July 31, 2008	Six Months Ended July 31, 2007
Cash flows from operating activities		
Net income (loss)	$ 7,454	$ (2,595)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on restructuring of debt	(9,026)	-
Depreciation and amortization	415	826
Non-cash interest	192	-
Income from AFC investment	(214)	(336)
Share-based compensation expense	162	151
Stock issued as compensation for services rendered	-	79
Amortization of deferred compensation expense	12	11
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(194)	11
Accrued income tax/refundable	12	-
Accounts payable	970	396
Deferred revenue	(346)	817
Self insurance claims	(30)	-
Other operating assets and liabilities, net	(211)	(165)
Net cash used in operating activities	(804)	(805)
Cash flows from investing activities:		
Proceeds from AFC distributions	600	750
Proceeds from sale of marketable securities	1,196	-
Purchase of other property and equipment	(147)	(58)
Net cash provided by investing activities	1,649	692
Cash flows from financing activities:		
Proceeds from exercise of stock options	-	14
Payments of loan origination fees	(43)	-
Payments on debt, notes payable and capital lease	(410)	(155)
Net cash used in financing activities	(453)	(141)
Increase (decrease) in cash and cash equivalents	392	(254)
Cash and cash equivalents at beginning of period	169	548
Cash and cash equivalents at end of period	$ 561	$ 294
Supplemental disclosures of cash flow information:		
Interest paid	$ 197	$ 115
Income taxes paid	$ -	$ -

See accompanying notes to condensed consolidated financial statements

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 - Basis of Presentation and Significant Accounting Policies

<u>General</u>

The accompanying unaudited condensed consolidated financial statements include the accounts of iDNA, Inc. and its subsidiaries ("iDNA"). iDNA's operations are comprised of three principal reportable segments: (i) strategic communications services, (ii) information services and (iii) entertainment. iDNA manages each segment separately as a consequence of different marketing, service requirements and technology strategies (see Note 6).

The strategic communications services segment provides content development via the design, development and production of media, collateral material, logistics, support and/or broadcast services for presentations at corporate and institutional events, meetings, training seminars and symposiums. The presentations may be live at single or multi-site venues and can include video conferencing, satellite broadcasting and webcasting or the presentations may be provided via on-demand access via internet websites, DVD or video tape.

The information services segment utilizes custom wireless communication technology and proprietary software to facilitate client audience interaction, participation and polling to collect, exchange and/or analyze data and information in real-time during a meeting or event. The wireless communication services are available as a turn-key service provided by iDNA during a scheduled meeting or event or alternatively, a client can purchase from iDNA the required electronic components and related proprietary software to administer its needs independently.

As a consequence of iDNA's investment in the Angelika Film Centers, LLC ("AFC"), iDNA operates in the movie exhibition and entertainment industry (see Note 2).

The financial statements are unaudited but in the opinion of management, reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of iDNA's consolidated financial position, results of operations, stockholders' equity and comprehensive loss, and cash flows for the periods presented.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the rules of the Securities and Exchange Commission applicable to interim financial statements and therefore do not include all disclosures that might normally be required for financial statements prepared in accordance with generally accepted accounting principles. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with iDNA's consolidated financial statements, including the notes thereto, appearing in iDNA's Annual Report on Form 10-K for the year ended January 31, 2008. The results of operations for the three months and six months ended July 31, 2008 are not necessarily indicative of operating results that may be achieved over the course of the full year.

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Basis of Presentation and Significant Accounting Policies- continued

The preparation of financial statements and the accompanying notes thereto, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the respective reporting periods. Examples include the provision for bad debt, useful lives of property and equipment and intangible assets, impairment of property and equipment and intangible assets, deferred income taxes, self insurance claims and assumptions related to equity-based compensation. Actual results could differ from those estimates.

iDNA uses a January 31 year-end for financial reporting purposes. References herein to the term "Fiscal 2009" shall mean iDNA's fiscal year ending January 31, 2009 and references to other "Fiscal" years shall mean the year that ended (or ends, as the case may be) on January 31 of the year indicated. The term the "Company" or "iDNA" as used herein refers to iDNA, Inc. together with its consolidated subsidiaries unless the context otherwise requires.

Investments in Trading Securities
iDNA's investment in trading securities is comprised of an investment in a mutual fund which invests in highly liquid, AAA fixed income securities. iDNA's investment in trading securities is carried at fair market value at July 31, 2008. Unrealized gains or losses on trading securities are credited or charged to operations. Interest and dividends earned on the investment are recorded as interest income.

Revenues
iDNA's revenues are earned within short time periods, generally less than one week. iDNA recognizes revenue from its strategic communications segment, including the video production, video editing, meeting services and broadcast satellite or webcast services, and its information services segment when the services are complete and delivered or all technical services have been rendered. Deposits and other prepayments are recorded as deferred revenue until revenue is recognized. iDNA does not have licensing or other arrangements that result in additional revenues following the delivery of the video or a broadcast. Costs accumulated in the production of the video, meeting services or broadcasts are deferred until the sale and delivery are complete. Deferred production costs of $73,000 and $90,000, respectively, are reported as other current assets at July 31, 2008 and January 31, 2008.

iDNA recognizes revenue from the sale of electronic equipment, proprietary software and related components at the time of shipment. Deposits and other prepayments received prior to shipment are recorded as deferred revenue until the electronic equipment and related software are shipped. iDNA has licensing and technical support arrangements for future software enhancements and upgrades for technical support for previously delivered electronic equipment. Revenues derived from licensing and technical support are recognized over the term of the licensing and technical support period, which generally are sold in increments of one year of coverage. For the three months ended July 31, 2008 and 2007, electronic equipment sales were $347,000 and $508,000, respectively. For the six months ended July 31, 2008 and 2007, electronic equipment sales were $823,000 and $1.1 million, respectively.

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Basis of Presentation and Significant Accounting Policies continued

Cost of Revenues
Cost of revenues consists of direct expenses specifically associated with client service revenues. The cost of revenues includes direct salaries and benefits, purchased products or services for clients, web hosting, support services, shipping and delivery costs.

Research and Development Costs
Research and development costs are comprised principally of personnel costs incurred for enhancements, modifications, updates, service and support expenditures for iDNA's proprietary software. Research and development costs are charged to operations as incurred and are included as a component of costs of revenues. iDNA charged $103,000 and $111,000, respectively, to research and development expense for the three months ended July 31, 2008 and 2007. iDNA charged $215,000 and $208,000, respectively, to research and development expense for the six months ended July 31, 2008 and 2007.

Restricted Cash

In June 2006, iDNA obtained a letter of credit in an amount of $147,000 that was issued in favor of the landlord of iDNA's new New York headquarters. The letter of credit is collateralized by an interest bearing money market account in the same amount. Therefore, $147,000 is classified as restricted cash as of July 31, 2008 and January 31, 2008.

Accounts Receivable
Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is iDNA's best estimate of the amount of probable credit losses in iDNA's existing accounts receivable. iDNA determines the allowance based on analysis of historical bad debts, client concentrations, client credit-worthiness and current economic trends. iDNA reviews its allowance for doubtful accounts quarterly. Past-due balances over 90 days and specified other balances are reviewed individually for collectibility. All other balances are reviewed on an aggregate basis. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. iDNA does not have any off-balance sheet credit exposure related to its clients.

Inventory
Inventory is comprised principally of electronic equipment and related components held for sale to clients. Inventory is valued at the lower of cost or market using the first-in - first-out inventory cost method.

Property and Equipment
Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from eighteen months to ten years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related improvements.

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Basis of Presentation and Significant Accounting Policies continued

Goodwill and Other Intangible Assets
Intangible assets with indefinite lives, including goodwill through January 31, 2008, are not subject to amortization but are subject to testing for impairment at least annually or whenever there is an impairment indicator (see below).

Valuation of Long-Lived Assets
iDNA reviews the carrying value of its long-lived assets (other than goodwill) whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When indicators of impairment exist, iDNA determines whether the estimated undiscounted sum of the future cash flows of such assets is less than their carrying amounts. If less, an impairment loss is recognized in the amount, if any, by which the carrying amount of such assets exceeds their respective fair values. The determination of fair value is based on quoted market prices in active markets, if available, or independent appraisals; sales price negotiations; or projected future cash flows discounted at a rate determined by management to be commensurate with iDNA's business risk. The estimation of fair value utilizing discounted forecasted cash flows includes significant judgments regarding assumptions of revenue, operating and marketing costs; selling and administrative expenses; interest rates; property and equipment additions and retirements; industry competition; and general economic and business conditions, among other factors.

At January 31, 2008, the goodwill for each of iDNA's business segments (information services and strategic communications services) was tested for impairment. As a consequence of the testing, iDNA determined that the carrying value of both its information services and its strategic communications services business segments exceeded their fair value, which was estimated based upon the present value of each reporting units expected future cash flows. As a consequence, iDNA charged to operations an aggregate of $8.0 million for the estimated impairment of goodwill and other intangible assets relating to (i) its information services segment in the amount of $5.9 million, and (ii) strategic communication services segment in the amount of $2.1 million, respectively, resulting in the reduction of the carrying value of all goodwill and other intangible assets to zero. Prior to the impairment charge during the fourth quarter of Fiscal 2008, iDNA charged to operations $202,000 and $405,000, respectively, for the amortization of these intangibles for the three months and six months ended July 31, 2007.

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Basis of Presentation and Significant Accounting Policies continued

Income Taxes
Deferred income taxes are provided for all temporary differences between the book and tax basis of assets and liabilities. Deferred income taxes are adjusted to reflect new tax rates when they are enacted into law. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is anticipated that some or all of a net deferred tax asset may not be realized.

In February 2007, iDNA adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken on a tax return. The interpretation requires that iDNA recognize the impact of a tax position in the financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition classification, interest and penalties, accounting in interim periods and disclosure.

In accordance with the provisions of FIN 48, upon its adoption as of February 1, 2007, iDNA recorded an adjustment to retained deficit of $329,000, inclusive of interest, to reflect potential liabilities for iDNA's uncertain tax positions, inclusive of interest. iDNA recognizes interest and penalties associated with uncertain tax positions as a component of tax expense (benefit). For the three months and six months ended July 31, 2008, iDNA charged to operations $6,000 and $12,000, respectively, for income taxes.

As of January 31, 2008 iDNA has federal net operating loss carryforwards of $91.5 million of which approximately $24.5 million is estimated to expire due to the limitations described below. As a consequence, iDNA's remaining federal net operating loss carryforwards of $67.0 million may be used to reduce future taxable income. Largely as a consequence of these operating loss carryforwards, iDNA reported a net deferred tax asset of $29.0 million and an offsetting valuation allowance of $29.0 million since iDNA is unable to determine, at this time, that it more likely than not will generate future taxable income against which the net operating loss could be applied.

Effective November 3, 2000, iDNA repurchased shares of its common stock, $0.05 par value, ("Common Stock") and underwent a "change in ownership" as defined for the purposes of Sections 382 and 383 of the Internal Revenue Code. As a consequence of this "change in ownership", the use of net operating loss carryforwards totaling $61.0 million incurred prior to November 3, 2000 ("pre-change losses") will be subject to significant annual limitation. Based upon an evaluation of the tax position regarding the Section 382 limitation on the pre-change losses, iDNA has determined that $24.5 million of these pre-change losses may expire unused.

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Basis of Presentation and Significant Accounting Policies continued

Stock-Based Compensation
Effective February 1, 2006, iDNA adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R (revised 2004), *Share-Based Payment* ("SFAS No. 123(R)"), which replaced SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), and superseded APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after December 15, 2005. iDNA elected the prospective method of adopting SFAS No. 123(R) which requires that compensation expense be recorded over the remaining periods for what would have been the remaining fair value under SFAS No. 123 of all unvested stock options and restricted stock at the beginning of the first quarter of adoption. The compensation costs for that portion of awards is based on the grant-date fair value of the awards as calculated for pro forma disclosures under SFAS No. 123. iDNA charged to operations $40,000 and $74,000, respectively, for share-based compensation for the three months ended July 31, 2008 and 2007. iDNA charged to operations $162,000 and $151,000, respectively, for share-based compensation for the six months ended July 31, 2008 and 2007.

Earnings Per Share
Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of Common Stock, exclusive of Common Stock subject to redemption (see Note 4), outstanding for the period. Dilutive earnings per share for all periods presented is the same as basic earnings per share due to (i) the inclusion of common stock, in the form of stock options and warrants ("Common Stock Equivalents"), would have an anti-dilutive effect on income (loss) per share for the three months and six months ended July 31, 2008 and 2007 or (ii) there were no Common Stock Equivalents for the respective period. For the three months ended July 31, 2008 and 2007, there were 0 and 12,736 Common Stock Equivalents, respectively, excluded from the earnings per share computation due to their dilutive effect. For the six months ended July 31, 2008 and 2007, there were 0 and 100,549 Common Stock Equivalents, respectively, excluded from the earnings per share computation due to their dilutive effect.

Non-cash Financing Activities
In July 2008, iDNA issued 2.5 million shares of Common Stock in exchange for the repayment of $375,000 of aggregate principal amount of the Amended Promissory Notes (defined below, see Note 4).

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Basis of Presentation and Significant Accounting Policies continued

New Accounting Pronouncements
In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurement* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles ("GAAP"), and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. The FASB agreed to a one-year deferral of the effective date for non-financial assets and liabilities that are recognized or disclosed at fair value on a non-recurring basis. The application of this pronouncement did not have a material impact on iDNA's reported consolidated financial position or results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of this pronouncement did not have a material impact on iDNA's reported consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141-R, *Business Combinations*. SFAS No. 141-R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The objective of SFAS No. 141-R is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination. SFAS No, 141-R changes the requirements for an acquirer's recognition and measurement of the assets acquired and the liabilities assumed in a business combination. iDNA does not anticipate the application of this pronouncement will have a material impact on iDNA's reported consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements - an amendment to ARB No.51*. SFAS No. 160 requires that (i) noncontrolling (minority) interests be reported as a component of shareholders' equity, (ii) net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No.160 is effective for annual periods beginning after December 15, 2008. iDNA does not anticipate the application of this pronouncement will have a material impact on iDNA's reported consolidated financial position or results of operations.

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Basis of Presentation and Significant Accounting Policies continued

In March 2008, the FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities"* ("SFAS 161"). SFAS 161 enhances disclosure requirements for derivative instruments in order to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is to be applied prospectively for the first annual reporting period beginning on or after November 15, 2008. iDNA does not anticipate the application of this pronouncement will have a material impact on iDNA's reported consolidated financial position or results of operations.

Reclassifications
Certain Fiscal 2008 amounts have been reclassified to conform with Fiscal 2009 presentations.

Note 2 – Investment in AFC

On April 5, 2000, iDNA, through its wholly owned subsidiary National Cinemas, Inc., acquired a 50% membership interest in AFC. AFC is the owner and operator of the Angelika Film Centers, which is a multiplex cinema and café complex in the Soho District of Manhattan in New York City.

AFC is currently owned 50% by iDNA and 50% by Reading International, Inc. ("Reading"). The articles and bylaws of AFC provide that for all matters subject to a vote of the members, a majority is required, except that in the event of a tie vote, the Chairman of Reading shall cast the deciding vote.

iDNA uses the equity method to account for its investment in AFC. AFC uses a December 31 year-end for financial reporting purposes. iDNA reports on a January 31 year-end, and for its fiscal quarters ending April 30, July 31, October 31 and January 31 records its pro-rata share of AFC's earnings on the basis of AFC's fiscal quarters ending March 31, June 30, September 30 and December 31, respectively. For the three months ended July 31, 2008 and 2007, iDNA recorded a loss of $22,000 and income of $65,000, respectively, representing its share of AFC's net income (loss). For the six months ended July 31, 2008 and 2007, iDNA recorded income of $214,000 and $336,000, respectively, representing its share of AFC's net income.

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 2 – Investment in AFC - continued

Summarized income statement data for AFC for the three months and six months ended June 30, 2008 and 2007, respectively, is as follows (in thousands):

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues	$ 1,043	$ 1,288	$ 2,890	$ 3,288
Operating costs	859	941	2,015	2,157
Depreciation and amortization	206	195	403	390
General and administrative expenses	22	21	44	68
	1,087	1,157	2,462	2,615
Net income (loss)	$ (44)	$ 131	$ 428	$ 673
iDNA's proportionate share of net income (loss)	$ (22)	$ 65	$ 214	$ 336

Note 3 – Current and Long Term Obligations

On November 21, 2007, iDNA, via its wholly owned subsidiary, iDNA Cinema Holdings, Inc. (“Holdings”), consummated a Master Loan and Security Agreement (the “Loan Agreement”) with Silar Advisors, L.P. (“Silar”), as Lender and Administrative, Payment and Collateral Agent, pursuant to which Silar provided a term loan in an aggregate principal amount of $4.25 million (the “Term Loan”) to Holdings (the “Term Loan Financing”). Interest accrues on the Term Loan at a per annum rate equal to the variable annual rate of interest designated from time to time by Citibank N.A. as its “prime rate,” plus 4%, or, if greater, 12.25%, and is payable by Holdings on a quarterly basis. At July 31, 2008, the “prime rate” was 5.0%. The Term Loan matures on November 20, 2009 unless extended for one year at the option of Holdings, upon written notice provided to Silar between fifteen (15) and forty-five (45) days prior to the Maturity Date, provided that no default is then ongoing and that Holdings is then in compliance with its financial covenants under the Loan Agreement. At July 31, 2008, Holdings and iDNA were in compliance with the financial covenants under the Loan Agreement. At July 31, 2008, the principal balance of the Term Loan was $3.9 million.

Holdings’ obligations under the Term Loan are secured by a pledge of all of Holdings’ assets, including all of the outstanding shares of National Cinemas, Inc. (“NCI”), which owns a 50% membership interest in AFC. The Term Loan is also guaranteed by (i) iDNA (with such guaranty being secured by a pledge of substantially all of iDNA’s assets, other than the shares of its operating subsidiaries) and (ii) NCI (with such guaranty being secured by a pledge of substantially all of NCI’s assets, other than its 50% membership interest in AFC).

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 3 – Current and Long Term Obligations - continued

In connection with the consummation of the Term Loan, as required by the Loan Agreement, iDNA issued warrants to Silar and a consultant (the "Warrants") to purchase 1.5 million and 60,000 shares, respectively, of iDNA's Common Stock at an exercise price of $0.27 per share. The number of shares issuable upon exercise of the Warrants is subject to customary adjustment in the event of a stock dividend, stock split, reverse stock split or similar event and is furthermore subject to a weighted-average antidilution protection in the event that iDNA issues additional shares of Common Stock for consideration less than the existing exercise price under the Warrants. Additionally, pursuant to the Warrants, the holder thereof has been granted (subject to certain conditions, including the reimbursement of iDNA's costs) three demand registration rights for the underlying shares of Common Stock, as well as unlimited piggyback registration rights for such shares of Common Stock. The fair value of the Warrants at the date of grant was $339,000. At July 31, 2008, the unamortized fair value of the Warrants issued in the amount of $231,000 was recorded as a reduction of the principal on the Term Loan. iDNA charges to interest expense the fair value of the Warrants over the expected three year term of the Term Loan. For the three months and six months ended July 31, 2008, iDNA charged to interest expense $46,000 and $74,000, respectively, for the fair value of the Warrants.

On January 31, 2008, ARS consummated an auto loan with a financing institution for the purchase of a delivery van in the principal amount of $24,000. The auto loan is repayable in monthly installments of $755 with the last payment due February 2011. The auto loan bears interest at the rate of 9.0% and is collateralized by the van purchased with the proceeds from the loan. At July 31, 2008, the principal balance of the auto loan was $21,000.

As a consequence of iDNA's acquisition of OTI effective November 18, 2005, iDNA issued to Flexner Wheatley & Associates ("FWA") and MeetingNet Interactive, Inc. ("MeetingNet") promissory notes in an aggregate principal amount of $1.5 million (the "OTI Promissory Notes"). The OTI Promissory Notes bear interest at 5% per annum and are repayable in quarterly installments according to a formula based upon the future cash flows realized from OTI's operations. iDNA's obligations under the OTI Promissory Notes are secured by the membership interests of OTI. At July 31, 2008, iDNA had outstanding principal obligations under the terms of the OTI Promissory Notes of $855,000 and accrued interest obligations of $12,000.

As of January 31, 2008, OTI did not meet certain minimum financial performance criterion and, as a consequence, (i) iDNA retained an option to reduce the purchase price in an amount estimated between $206,000 and $412,000 and (ii) for the three months and six months ended July 31, 2008 no interest was incurred under the OTI Promissory Notes. iDNA has not exercised its option to reduce the purchase price for its acquisition of OTI as of September 12, 2008 and no adjustment to the OTI Promissory Notes was recorded at July 31, 2008. Prospectively, interest may accrue pursuant to the terms of the OTI Promissory Notes once the minimum operating cash flow thresholds are achieved.

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 3 – Current and Long Term Obligations - continued

As a consequence of iDNA's acquisition of OMI Business Communications, Inc. ("OMI") effective April 1, 2003, iDNA assumed a $402,000 loan guaranteed by the U.S. Small Business Administration (the "SBA Loan"). At July 31, 2008, the remaining balance of the SBA Loan of $286,000 is repayable in monthly installments of $3,309 with the last payment due in April 2017. The SBA Loan bears interest at the rate of 4% per annum. OMI's obligations under the SBA Loan are collateralized by substantially all of OMI's assets and the personal guarantee of Mr. Dean Thompson, President of OMI.

In September 2006, OMI consummated equipment financing in the form of a capital lease with a financing institution to acquire $102,000 in various digital media production and editing equipment. The capital lease bears an implied interest rate of 10% and is payable in monthly installments with the last payment due in July 2009. At July 31, 2008, the remaining balance due under the capital lease was $35,000. The accumulated depreciation for the underlying equipment pursuant to the capital lease was $65,000 and $48,000, respectively, at July 31, 2008 and January 31, 2008.

The components of long term obligations at July 31, 2008 are as follows (in thousands):

	Amounts
Auto loan	$ 21
Capital leases	35
SBA loan	286
Term Loan	3,643
OTI promissory notes	855
	4,840
Less current maturities	(1,009)
Long-term obligations and convertible debt	$ 3,831

iDNA's current maturities and long term obligations at July 31, 2008 are as follows (in thousands):

	Amounts
2009	$ 1,012
2010	1,386
2011	2,480
2012	32
2013	32
Thereafter	132
	5,074
Less - unamortized	(231)

debt discount		
Less - capital lease interest		(3)
	$	4,840

17

iDNA, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 4 – Gain on Restructuring of Debt and Issuance of Shares of Common Stock Subject to Redemption

Effective as of July 3, 2008, iDNA entered into a Reduction of Purchase Price Agreement (the "Reduction Agreement") with Steven Campus, president of the Campus Group (defined below), the Campus Family 2000 Trust (the "Family Trust") and the Trust Established Under the Will of Nancy Campus (the "Shelter Trust" and, collectively with the Family Trust, the "Trusts" and each a "Trust"). (The Trusts and Steven Campus are herein referred to collectively as the "Stockholders" and each as a "Stockholder").

Pursuant to and as provided in that certain Stock Purchase Agreement dated July 31, 2003 between iDNA and the Stockholders, iDNA acquired from the Stockholders all of the issued and outstanding shares of capital stock of each of (i) Campus Group Companies, Inc. ("CGCI"), (ii) Multi-Video Services, Inc. ("Multi-Video"), (iii) Interactive Conferencing Network, Inc. ("Interactive") and (iv) Audience Response Systems, Inc. ("ARSI" and, collectively with CGCI, Multi-Video, I