EMERGE INTERACTIVE INC
Form 10-Q
May 15, 2001

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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 March 31, 2001,

Or

[ ] Transition Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ______

Commission File Number: 000-29037

EMERGE INTERACTIVE, INC.
(Exact name of registrant as specified in its charter)

Delaware	65-0534535
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10305 102nd Terrace Sebastian, Florida 32958
(Address of principal executive offices)

(561) 589-5310
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 [ ]

The number of shares of the registrant's common stock, $0.008 par value, outstanding as of May 9, 2001, was 35,569,671. There were 29,875,226 shares of Class A common stock outstanding and 5,694,445 shares of Class B common outstanding as of this date.

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EMERGE INTERACTIVE, INC.

FORM 10-Q QUARTERLY REPORT
(For Three Months Ended March 31, 2001)

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EMERGE INTERACTIVE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS	DECEMBER 31, 2000
Current assets:	
Cash and cash equivalents	$ 42,811,572
Trade accounts receivable, less allowance for doubtful accounts of $167,937 in 2000 and $231,005 in 2001	12,141,867
Inventories (note 3)	3,704,250
Cattle deposits	2,185,670
Prepaid expenses	1,070,674
Other current assets	697,536
Due from related parties (note 4)	3,479,492

Total current assets	66,091,061
Property, plant and equipment, net	20,567,939
Investment in Turnkey Computer Systems, Inc.	3,010,603
Intangible assets, net of accumulated amortization of $8,131,310 in 2000 and $11,610,085 in 2001	57,377,620
Restricted cash	1,505,000
Total assets	$148,552,223

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Current installments of capital lease obligation	$ 216,516
Accounts payable	9,509,316
Accrued liabilities:	
Purchase consideration	4,800,000
Salaries and benefits	850,533
Other	1,124,649
Advance payments from customers	663,850
Due to related parties (note 4)	1,219,417
Total current liabilities	18,384,281
Capital lease obligation, excluding current installments	90,820
Total liabilities	18,475,101

See accompanying notes to condensed consolidated financial statements.

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Common stock, $.008 par value, authorized 100,000,000 shares:	
Class A common stock, designated 92,711,110 shares, issued and outstanding 29,445,228 shares in 2000 and 29,846,300 shares in 2001	
Class B common stock, designated 7,288,890 shares, 5,694,445 shares issued and outstanding in 2000 and 2001	
Additional paid-in capital	1
Accumulated deficit	(
Unearned compensation	
Total stockholders' equity	1
Total liabilities and stockholders' equity	$ 1

See accompanying notes to condensed consolidated financial statements.

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EMERGE INTERACTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND 2001
(UNAUDITED)

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	2000
Revenue (including sales to related parties of approximately $0 in 2000 and $100,052,000 in 2001, note 4)	$ 38,552,89
Cost of revenue (including purchases from related parties of approximately $0 in 2000 and $32,922,000 in 2001, note 4)	38,200,92
Gross profit	351,97
Operating expenses:	
Selling, general and administrative	5,191,76
Technology and development	1,286,06
Depreciation and amortization of intangibles	567,48
Total operating expenses	7,045,31
Operating loss	(6,693,33
Equity income (loss) in unconsolidated investee	-
Interest and other income, net	1,141,55
Loss from continuing operations before cumulative effect of a change in accounting principle	(5,551,78
Income from operations of discontinued segment	43,02
Cumulative effect of a change in accounting principle	-
Net loss	$ (5,508,75
Net loss per common share - basic and diluted:	
Net loss before income from operations of discontinued segment and accounting change	$ (0.2
Income from operations of discontinued segment	-
Accounting change	-

Net loss per common share	$ (0.2
Weighted average number of common shares outstanding - basic and diluted	23,248,27

See accompanying notes to condensed consolidated financial statements.

EMERGE INTERACTIVE, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders' Equity
For the Three Months Ended March 31, 2001

(Unaudited)

	COMMON STOCK Class A		CO
	Shares	Amount	Shar
Balances at December 31, 2000	29,445,228	$235,561	5,69
Issuance of 188,356 shares of Class A common stock in connection with business combinations (note 7)	188,356	1,507	
Exercise of stock options for cash (note 6)	212,716	1,702	
Net loss	--	--	
Unearned compensation	--	--	
Amortization of unearned compensation (note 6)	--	--	
Balances at March 31, 2001	29,846,300	$238,770	5,69

	Accumulated deficit	Unearned compensation	
Balances at December 31, 2000	$ (65,511,023)	$(40,570)	$
Issuance of 188,356 shares of Class A common stock in connection with business combinations (note 7)	--	--	
Exercise of stock options for cash (note 6)	--	--	
Net loss	(10,221,539)	--	
Unearned compensation	--	(103,722)	
Amortization of unearned compensation (note 6)	--	87,664	
Balances at March 31, 2001	$ (75,732,562)	$(56,628)	

See accompanying notes to consolidated financial statements.

EMERGE INTERACTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND 2001
(UNAUDITED)

	2000
Cash flows from operating activities:	
Net loss	$ (5,508,757)
Adjustments to reconcile net loss to net cash used in operating activities:	
Cumulative effect of a change in accounting principle	--
Depreciation and amortization	579,393
Accretion to redemption value of note receivable	(527,984)
Equity loss (income) in unconsolidated investee	
Non-cash compensation	--
Amortization of unearned compensation	4,508
Fair value of financial instruments	--
Changes in operating assets and liabilities:	
Trade accounts receivable, net	(6,539,525)
Inventories	(501,070)
Cattle deposits	(906,855)
Prepaid expenses and other assets	(466,009)
Net assets of discontinued operations	(84,585)
Due from related parties, net	--
Accounts payable and accrued liabilities	329,804
Advance payments from customers	528,880
Net cash used in operating activities	(13,092,200)
Cash flows from investing activities:	
Business combinations, net of cash acquired	--
Purchase of short term investments	(215,348)
Purchase of property, plant and equipment	(1,270,855)
Net cash used in investing activities	(1,486,203)
Cash flows from financing activities:	
Net payments to related parties	(11,528,836)
Payment on note payable	(900,000)
Payments on capital lease obligations	(306,388)
Offering costs	(447,644)
Net proceeds from issuance of common stock	108,188,269
Net cash provided by financing activities	95,005,401
Net change in cash and cash equivalents	80,426,998
Cash and cash equivalents, beginning of period	12,316,497

Cash and cash equivalents, end of period	$ 92,743,495	$
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See accompanying notes to condensed consolidated financial statements.

EMERGE INTERACTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND 2001
(UNAUDITED)

	2000	
Supplemental disclosures:		
Cash paid for interest	$ 431,526	$
Issuance of Class A common stock in connection with business combinations (note 7)	--	
Conversion of Series A, B, and C preferred stock and redeemable Class A common stock into Class A common stock	513,775	
Conversion of Series D preferred stock into Class B common stock	45,556	

See accompanying notes to condensed consolidated financial statements.

EMERGE INTERACTIVE, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

(1) ORGANIZATION

(a) Basis of Presentation

The condensed consolidated financial statements include the accounts of eMerge Interactive, Inc. and its wholly-owned subsidiaries, Cyberstockyard, Inc. ("Cyberstockyard"), a Mississippi corporation, eMerge San Saba, Inc., eMerge Okolona, Inc., eMerge Gaffney, Inc. and eMerge Bluegrass, Inc., all Delaware corporations. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company's investment in Turnkey Computer Systems, Inc. ("Turnkey") is included in the accompanying condensed consolidated financial statements using the equity method of accounting. Accordingly, the Company's share of Turnkey's

earnings and losses is reflected in the caption "equity income (loss) in unconsolidated investee" in the condensed consolidated statements of operations. The Company's carrying value of Turnkey includes the unamortized excess of the cost of the Company's interest in Turnkey over its equity in the underlying net assets determined at the date of acquisition. This excess is amortized on a straight-line basis over 10 years and the related amortization is also included in "equity income (loss) in unconsolidated investee' in the condensed consolidated statements of operations.

The Company's condensed consolidated balance sheet as of December 31, 2000, has been derived from the Company's audited balance sheet as of that date. The Company's condensed consolidated financial statements as of and for the three months ended March 31, 2001 and 2000, have not been audited. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments and accruals (consisting of normal recurring adjustments) necessary to present fairly the Company's financial position as of March 31, 2001, and the results of its operations and cash flows for the periods ended March 31, 2001 and 2000.

Results of interim periods are not necessarily indicative of the results to be expected during the remainder of the current year or for any future period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted or condensed. The accounting policies used in preparing these consolidated financial statements are the same as those described in our Form 10-K and the consolidated financial statements incorporated by reference therein.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit with financial institutions and investments with maturities of 90 days or less. For the purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with maturities of 90 days or less to be cash equivalents.

(b) Inventories

Inventories are stated at the lower of cost or market and consist primarily of stocker cattle awaiting immediate resale. All cattle are acquired in groups and the costs of cattle are accumulated by groups rather than

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individual animal. Actual market prices could be materially different from the carrying cost at the time the cattle are sold.

(c) Property, Plant and Equipment

Property, plant and equipment are stated at cost and

depreciated using the straight-line method over the estimated useful lives of the assets. Equipment under capital leases is stated at the present value of future minimum lease payments. Estimated useful lives range from 15 to 20 years for buildings and improvements, 3 to 5 years for computer equipment and software, 2 to 7 years for furniture, fixtures, and equipment, and 5 years for vehicles. Leasehold improvements and equipment under capital leases are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the assets.

(d) Capitalized Software Costs

The Company accounts for the software components of its websites in accordance with the American Institute of Certified Public Accountants' Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Accordingly, certain costs to develop internal-use computer software are capitalized after the Company has completed a preliminary project assessment and management, with relevant authority, commits to funding the related software project and it is probable that the project will be completed and the software will be used to perform the function intended. The costs capitalized by the Company relate principally to the Company's internet site development and will be amortized to operations over the assets' estimated useful life of 3 years upon completion of the application development stage.

(e) Intangibles

Intangibles consist principally of goodwill, which is the excess of the purchase price over the net tangible assets of businesses acquired. Intangibles are stated at amortized cost and are amortized on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 5 years.

(f) Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS No. 121). In the event that facts and circumstances indicate that the carrying amount of long-lived assets may be impaired, the recoverability of the assets to be held and used is measured by comparing the carrying amount of the assets to the future net cash flows expected to be generated by those assets. If this review indicates that the assets will not be recoverable, the carrying value of the Company's assets would be reduced to their estimated fair value.

(g) Investment Securities

As of March 31, 2001, the Company held approximately $3.3 million of highly liquid debt instruments with maturities of 90 days or less included in cash equivalents and $1.5 million in certificates of deposit with maturities of 180 days or less included in restricted cash. The Company accounts for all of these investments in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". As of March 31, 2001, all of the Company's debt instruments and

investments were classified as held-to-maturity and their amortized cost approximated fair value due to their short-term nature.

(h) Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, trade accounts receivable, restricted cash, amounts due to and from related parties, accounts and notes payable, and accrued liabilities approximates their fair value at December 31, 2000 and March 31, 2001, due to the short-term maturity of these instruments.

(i) Revenue Recognition

The Company generates the majority of its revenue from cattle sales transactions where it acts as either a principal or agent in the purchase and sale of cattle. For cattle sales transactions where the Company is the principal in the arrangement, the Company purchases cattle from the seller, records the cattle as inventory until delivered to an accepted buyer and is exposed to both the inventory and credit risk that results from the transaction. In these types of transactions, the Company records the gross revenue earned and related product costs incurred. For cattle sales transactions in which the Company acts as an agent, the Company sells cattle consigned to it on a commission basis, where it is subject to inventory and credit risk, or the Company sells cattle on a fee basis. In these types of transactions revenue is recorded on a net basis. For all other products and services offered by the Company, the Company acts as a principal to the transaction and gross revenue and related product cost are recognized as products are shipped or services are provided.

In December 1999, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 was followed by Staff Accounting Bulletin No. 101A, "Implementation Issues Related to SAB 101," in March 2000 and by Staff Accounting Bulletin No. 101B, "Second Amendment: Revenue Recognition in Financial Statements" ("SAB 101B"), in June 2000. In October 2000, the SEC issued a Frequently Asked Questions and Answers document to provide additional guidance. These documents summarize certain views of the SEC regarding applying generally accepted accounting principles to revenue recognition in financial statements. The SEC has provided this guidance due, in part, to the large number of revenue recognition issues that registrants encounter. Management believes that its current revenue recognition principles comply with SAB 101.

(j) Income Taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating losses and tax credit

carryforwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to the taxable income in years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it appears more likely than not that such assets will be realized.

(k) Stock-Based Compensation

The Company has adopted SFAS No. 123, "Accounting for Stock-Based Compensation". As permitted by SFAS No. 123, the Company measures compensation cost in accordance with Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related interpretations and elects to provide the pro-forma net income and earnings per share disclosures required by the standard. Accordingly, no accounting recognition is given to stock options issued to employees that are granted at or above fair market value. Stock options issued to non-employees are recorded at fair value at the date of grant. Fair value is determined using the Black-Scholes method and the expense is amortized over the vesting period.

(l) Net Loss Per Share

Net loss per share is computed in accordance with SFAS No. 128, "Earnings Per Share," by dividing the net loss allocable to common stockholders by the weighted average number of shares of common stock outstanding. The Company's stock options (4,167,127 shares at December 31, 2000 and 4,643,499 shares at March 31, 2001) have not been used in the calculation of diluted net loss per share because to do so would be anti-dilutive. As such, the numerator and the denominator used in computing both basic and diluted net loss per share allocable to common stockholders are equal.

Pursuant to SEC Staff Accounting Bulletin No. 98 and SEC staff policy, all common stock and common stock equivalents issued for nominal consideration during the periods presented herein, and through the anticipated effective date of an IPO, are required to be reflected in a manner similar to a stock split or stock dividend for which retroactive treatment is required in the calculation of net income (loss) per share. The Company had no such issuances for the periods presented.

(m) Hedging Activities

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivatives Instruments and Hedging Activities", which establishes

accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. SFAS No. 133 was amended by SFAS No. 137 in June 1999 to require implementation of the standard beginning January 1, 2001. SFAS No. 133 was amended further by SFAS No. 138 in June 2000. The Company adopted the provisions of SFAS No. 133, as amended, on January 1, 2001, and recorded a cumulative effect of change in accounting principle of $232,688. As of March 31, 2001, the Company has cattle future contracts with purchase commitments of $73 million and sales commitments of $16 million. These futures contracts have unrealized net gains of $21,420 included in other current assets. The change in fair value of all derivatives contracts amounted to $397,751 for the quarter ended March 31, 2001 and is included in cost of cattle revenues. The contract lives are generally less than six months.

In the ordinary course of business, the Company enters into purchase and sale contracts for cattle that require delivery at a future date. Management believes that these transactions fall under the "normal purchases and normal sales" exception described within SFAS No. 133, as amended. The Company also enters into a limited number of cattle futures transactions. Currently, the Company does not maintain the documentation required by the standard to qualify for hedge accounting with respect to cattle futures transactions.

(n) Comprehensive Income (Loss)

Comprehensive income (loss) is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company has no such transactions, events or circumstances during the three months ended March 31, 2000 and 2001. Thus, comprehensive loss is the same as its net loss for each of the three months ended March 31, 2000 and 2001.

(o) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported results of operations, financial position, and various disclosures. Actual results could differ from those estimates.

(p) Reclassifications

Certain reclassifications have been made to the 2000 condensed consolidated financial statements in order to conform to 2001 classifications. The changes had no effect on previously reported operations.

(3) INVENTORIES

Inventories consist of:

	2000	2001
Raw materials	$ 121,219	$ 79,199
Work-in-process	--	--
Cattle	3,315,407	8,342,911
Other	267,624	226,411
	$ 3,704,250	$ 8,648,521

(4) RELATED PARTY TRANSACTIONS

Amounts due from related parties consist of:

	2000	
Eastern Livestock, Inc.	$ 2,424,264	$
Employees and shareholders	1,055,228	
	$ 3,479,492	$

Amounts due to related parties consist of:

	2000	
XL Vision	$ 313,009	$
Safeguard Scientifics, Inc. and Safeguard Delaware, Inc.	12,115	
Eastern Livestock, Inc.	321,362	
Employees and shareholders	572,931	
	$ 1,219,417	$

The Company has both cattle sales and purchase transactions with Eastern Livestock, Inc., certain employees and shareholders' related businesses in the ordinary course of business. These sales and purchases are made on trade accounts with the same credit terms of the Company's other customers and suppliers. Cattle sales to related parties amounted to $0 and $100,052,000 for the three months ended March 31, 2000 and 2001, respectively. Cattle purchases from related parties amounted to $0 and

$32,922,000 for the three months ended March 31, 2000 and 2001, respectively.

(5) SEGMENT INFORMATION

The Company's reportable segments consist of cattle sales and other products and services. The gross profit (loss) associated with cattle sales and the related prospects for this portion of the Company's business differs from the rest of the Company's products and service offerings.

The following summarizes revenue, cost of revenue and gross profit (loss) information related to the Company's two operating segments:

		THREE MONTHS ENDED	
		MARCH 31,	MARCH 31,
		2000	2001
Revenue:			
	Cattle	$ 38,011,084	$ 324,528,919
	Other	541,815	679,321
	Total	$ 38,552,899	$ 325,208,240
Cost of revenue:			
	Cattle	$ 37,811,902	$ 320,543,421
	Other	389,022	947,117
	Total	$ 38,200,924	$ 321,490,538
Gross profit (loss):			
	Cattle	$ 199,182	$ 3,985,498
	Other	152,793	(267,796)
	Total	$ 351,975	$ 3,717,702

The Company's assets and other statement of operations data are not allocated to a segment.

(6) STOCK PLAN

A summary of stock option transactions for the three months ended March 31, 2001, follows:

	SHARES	RANGE OF EXERCISE PRICE PER SHARE	WEIGHTE AVERAGE EXERCIS PRICE
Balance outstanding, December 31, 2000	4,167,127	$ 0.80-62.38	$ 8.73
Granted	845,000	3.98- 5.73	4.43
Exercised	(212,716)	0.80- 2.40	1.14
Cancelled	(155,912)	0.80-47.31	10.64
Balance outstanding, March 31, 2001	4,643,499	$ 0.80-62.38	$ 8.24

For the three months ended March 31, 2001, the Company recognized $87,664 of unearned compensation expense resulting from the accelerated vesting of stock options. This amount is included in selling, general and administrative expenses within the condensed consolidated statements of operations.

(7) ACQUISITIONS

On January 2, 2001, the Company closed on an Agreement for the Purchase and Sale of Assets with Bluegrass Stockyards ("Bluegrass") and its shareholders. In connection with this purchase, the Company acquired all of the tangible and intangible property of Bluegrass relating to its business of purchasing and reselling cattle through its auction facility. The purchase price for these assets was $1,500,000 in cash. Concurrent with the purchase and sale of assets, the Company also closed on a Contract for Sale and Purchase of Real Estate with the shareholders of Bluegrass. The Company purchased land and buildings used in the above-described business for a purchase price of $2,000,000 in cash. The acquisition was accounted for as a purchase and the estimated excess of the purchase price over the fair value of net assets acquired of approximately $2,164,800 was recorded as intangibles and is being amortized over five years.

On January 2, 2001, the Company closed on an Agreement for the Purchase and Sale of Assets with Runnells-Peters Cattle Company ("Runnells-Peters") and its shareholders for the purchase of certain tangible and intangible assets. Runnells-Peters engages in the buying of cattle for immediate or short-term resale. The purchase price for these assets consisted of (i) $500,000 in cash and (ii) 136,986 shares of eMerge's common stock valued at $500,000. The acquisition was accounted for as a purchase and the estimated excess of the purchase price over the fair value of net assets acquired of approximately $1,018,400 was recorded as intangibles and is being amortized over five years.

On January 2, 2001, the Company closed on an Agreement for the Purchase and Sale of Assets with Pennell Cattle Company ("Pennell") and its sole shareholder for the purchase of certain tangible and intangible assets. Pennell engages in the buying of cattle for immediate or short-term resale. The purchase price for these assets consisted of (i) $187,500

in cash and (ii) 51,370 shares of eMerge's common stock valued at $187,500. The acquisition was

accounted for as a purchase and the estimated excess of the purchase price over the fair value of net assets acquired of approximately $395,200 was recorded as intangibles and is being amortized over five years.

In addition to the above payments, the Company paid $2,861,220 of additional purchase price related to previous acquisitions.

Management is primarily responsible for estimating the fair value of the assets acquired, and has conducted due diligence in determining the fair value. Management has made estimates and assumptions that affect the reported amounts of assets, liabilities, and expenses resulting from such acquisitions. Actual results could differ from those amounts.

The results of operations of the acquired companies are included in the condensed consolidated statements of operations since the respective dates of acquisition.

The following unaudited proforma financial information presents the combined results of operations of eMerge, Bluegrass, Runnells-Peters and Pennell, as if the acquisitions occurred on January 1, 2000, after giving effect to certain adjustments, including amortization of goodwill. The unaudited pro forma financial information does not necessarily reflect the results of operations that would have occurred had these entities constituted a single entity during such periods.

	Three Months Ended March 31,	
	2000	2001
Revenue	$46,917,206	$325,208,240
Net loss	(5,634,666)	(3,717,702)
Net loss per share	$ (0.24)	$ (0.29)

(8) RESTRUCTURING AND RELATED CHARGES

On January 18, 2001, the Company announced plans to realign its corporate operations in connection with the decision to discontinue support of its Nutricharge and Infrared Imaging products. The Company recorded restructuring and related charges of approximately $658,300 primarily to reflect employee severance and related benefit costs. Approximately $457,400 of these charges is included in selling, general, and administrative expenses, while approximately $200,900 is included in technology and development expenses within the accompanying condensed consolidated financial statements.

(9) SUBSEQUENT EVENT

On May 15, 2001 we completed an operational review of our business and announced plans to increase our focus on businesses with the most

growth and gross margin opportunity, such as marketing cattle and animal health/beef safety technologies and discontinue our online storefront. Additionally, we announced plans to further reduce our cost structure and streamline corporate operations.

As a result, we will record a charge of approximately $8 million, or $0.23 per share, in the second quarter of 2001. Approximately $7 million of the charge will be non-cash related to the write-down of non-strategic assets to their fair values, including the product storefront and approximately $1 million will be cash related to operating efficiency initiatives, including the consolidation of the technology development and support operations as well as severance and employee-related costs. The consolidations affected approximately 60 corporate and service support associates, or 15 percent of the total work force. The majority of the cash portion of the charge is expected to be paid over the next 90 days.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with the condensed consolidated financial statements and the related notes included elsewhere in this report.

FORWARD LOOKING STATEMENTS

In addition to historical information, this report contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the use of predictive, future tense or forward-looking terminology, such as "anticipates," "believes," "estimates," "expects," "intends," "may," "will" and words of similar meaning. These statements include statements regarding, among other things, our electronic commerce strategy, acquisition and expansion strategy, product and service development, projected capital expenditures, liquidity and capital, development of additional revenue sources, expansion into new market segments,

technological advancement, ability to develop "brand" awareness and the market acceptance of the Internet as a medium of commerce. These statements are based on management's current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ significantly from those described in the forward-looking statements, including the acceptance by our customers of electronic commerce as a means of conducting business, our ability to grow revenue, our ability to increase margins, our ability to implement our acquisition and expansion strategy, the impact of competition on pricing, general economic conditions, employee turnover, the impact of litigation and other factors. Other factors that may cause such a difference include, but are not limited to, those discussed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in "Factors Affecting Our Business, Financial Condition and Results of Operation," as well as those discussed elsewhere in this report and as set forth from time to time in our other public filings and public statements. Readers of this report are cautioned to consider these risks and uncertainties and to not place undue reliance on these forward-looking statements.

OVERVIEW

We are a technology company providing supply-chain management and marketing solutions for the $40 billion U.S. beef-production industry. Our goal is to improve the nation's beef-production process by adding previously unrealized value to the supply chain via an information-management infrastructure, an e-marketplace, and value-enhancing technologies. We believe that by accomplishing our goal, we can improve the industry's productivity and profitability and help its participants enhance beef quality, safety and market share. We offer our products and services to cattle industry participants through our web-based business network, our proprietary information management applications and our direct sales force. Our current products and services include:

- Livestock procurement services consisting of on-site and on-line cattle sales and auctions;
- Daily performance analyses of a customer's feedlot operations;
- Comparative cattle industry analysis and feedlot operations benchmarking studies; and
- Cattle inventory management tools.

Our business strategy is to utilize our information management, electronic commerce and technology resources to develop and offer complementary products and services that reduce inefficiencies throughout the cattle production chain, improve cattle quality and improve overall productivity in the cattle industry.

Through this strategy, we intend to improve meat quality, meat safety and to positively affect the manufacturing process in the cattle industry by adding previously unrealized value to the nation's beef supply system. We intend to implement this strategy through our existing CattleinfoNet business network, which is comprised of our information-management infrastructure, an electronic commerce platform and value enhancing technologies. As an integral part of our strategy, we intend to enhance the effectiveness and scope of our CattleinfoNet business network by acquiring and developing a network of Interactive Marketing Facilities.

We believe that a network of Interactive Marketing Facilities will allow us to more accurately gather, track and analyze information through our information management infrastructure, more productively operate our electronic commerce platform and more uniformly implement and monitor our technologies. As a result, we believe that by combining our CattleinfoNet business network with a network of Interactive Marketing Facilities we will be able to more effectively and rapidly reduce the inefficiencies in the cattle industry and provide ranchers and producers with increased product quality, consistency, yield and safety.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 AND MARCH 31, 2000

Revenue increased from $38.6 million for the quarter ended March 31, 2000 to $325.2 million for the quarter ended March 31, 2001. Revenue from cattle sales increased from $38.0 million for the quarter ended March 31, 2000 to $324.5 million for the quarter ended March 31, 2001. This increase reflects a higher volume of cattle sales transactions brought about primarily through our acquisition activities. During the quarter ended March 31, 2001, we sold approximately 659,000 head of cattle versus 66,000 head sold in the comparable prior year period. Revenue from other products and services increased by 25%

from approximately $541,800 for the quarter ended March 31, 2000 to $679,300 for the quarter ended March 31, 2001. This increase is due primarily to incremental revenues of approximately $500,000 derived from sales of cattle-related products and services, such as feed and veterinary services offered through our assimilation facilities, and also included approximately $300,000 in revenue generated from a pre-conditioning program that was discontinued during the subsequent quarter. The increased revenue derived from other products and services was partially offset by a decline of approximately $290,000 in sales of our equine imaging systems and Nutricharge products. The decline in Nutricharge and equine imaging systems sales coincided with our announcement in January 2001 to discontinue support of these cattle-related products. We expect that cattle revenue will continue to account for the majority of our revenue base for the foreseeable future.

Cost of revenue consists primarily of the direct cost to acquire cattle and cattle-related products. In addition, cost of revenue also includes the indirect overhead costs, such as support personnel, facilities costs, telecommunication charges and material purchases, that are primarily associated with supporting our expanding base of on-line products and services. Cost of revenue attributed to cattle sales increased from $37.8 million for the quarter ended March 31, 2000 to $320.5 million for the quarter ended March 31, 2001. Cost of revenue attributed to other products and services increased by 143% from $389,000 for the quarter ended March 31, 2000 to $947,100 for the quarter ended March 31, 2001. This increase is due principally to higher costs for cattle-related products and services, such as feed and veterinary services, and also included approximately $400,000 in costs associated with a pre-conditioning program that was discontinued during the subsequent quarter. We generated a gross profit of $352,000 and $3.7 million for the quarters ended March 31, 2000 and 2001, respectively. The increase in gross profit is due primarily to the increase in cattle revenue as cost of goods did not increase in proportion to the increase in revenue.

Selling, general and administrative expenses increased 50% from $5.2 million for the quarter ended March 31, 2000 to $7.8 million for the quarter ended March 31, 2001.

Our selling expenses consist primarily of salaries and related benefit costs for sales and marketing personnel, consulting fees, travel, telephone, and advertising and trade shows. Selling expenses increased 46% from $3.7 million for the quarter ended March 31, 2000 to $5.4 million for the quarter ended March 31, 2001, and included restructuring and related charges of approximately $370,500. These charges, primarily employee severance and related benefit costs, were associated with a realignment of our corporate operations in connection with our decision to discontinue support of Nutricharge and infrared imaging products. The increase in selling expenses was primarily associated with the businesses acquired during 2000, which expanded the number of personnel within the organization causing a corresponding rise in salaries and related benefit costs, as well as higher telephone costs. These expenses were partially offset by reductions in bonus, travel and advertising expenses. We anticipate selling expenses will remain unchanged or decline for the foreseeable future (see related discussion at note 9 to the condensed consolidated financial statements in Item 1 of Part I of this report).

Our general and administrative expenses consist primarily of salaries and related benefit costs for executive, administrative, and finance personnel, insurance program charges, travel and professional service fees. General and administrative expenses increased 285% from $1.5 million for the quarter ended March 31, 2000 to $2.4 million for the quarter ended March 31, 2001, and included restructuring and related charges of approximately $86,900. As previously noted, these charges, primarily employee severance and related benefit costs, were associated with a realignment of our corporate operations in connection with our decision to discontinue support of Nutricharge and infrared

imaging products. The increase in general and administrative expenses was primarily associated with the businesses acquired during 2000, which expanded the number of personnel within the organization and caused a corresponding increase in salaries and related

benefits costs. We expect these expenses will remain unchanged or decline for the foreseeable future (see related discussion at note 9 to the condensed consolidated financial statements in Item 1 of Part I of this report).

Our technology and development expenses consist primarily of salaries and related benefit costs, facility expense, payments to outside consultants, software maintenance charges and project material costs. Our expenses increased 8% from $1.3 million for the quarter ended March 31, 2000 to $1.4 million for the quarter ended March 31, 2001, and included restructuring and related charges of approximately $200,900. These charges, primarily related to employee severance and related benefit costs, were also associated with a realignment of our corporate operations in connection with our decision to discontinue support of Nutricharge and infrared imaging products. In the absence of restructuring and related charges, our technology and development expenses were relatively flat versus the comparable prior year period. Increases in facility expenses and payments to outside consultants were offset by reductions in salaries and related benefit costs and lower travel expenses. We expect to continue to incur costs to develop and commercialize new products, expand our offerings and adapt our technologies to new markets.

Depreciation and amortization expense increased 763% from $567,500 for the quarter ended March 31, 2000 to $4.9 million for the quarter ended March 31, 2001. The increase was primarily related to higher amortization charges resulting from business acquisitions completed throughout 2000 and during the current quarter. Increases in capital spending to support our infrastructure build-up also drove depreciation higher during the quarter ended March 31, 2001. We expect both depreciation and amortization will continue to increase for the foreseeable future as new projects are placed into service and the newly acquired businesses begin their first full year of operation under our ownership.

Interest and other income, net decreased from $1.1 million for the quarter ended March 31, 2000 to $319,700 for the quarter ended March 31, 2001. This decrease was primarily due to a reduction in interest income generated by short-term investments and the collection of a related party note receivable in November 2000, which generated interest income of approximately $528,000 during the quarter ended March 31, 2000. Currently, we invest the majority of our cash balances in debt instruments of high-quality corporate issuers.

On January 1, 2001, we adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, and recorded a charge to operations of $232,688, which is included as a cumulative effect of a change in accounting principle in the condensed consolidated financial statements.

Due to the losses incurred, we did not recognize income tax expense for the quarter ended March 31, 2000 or the quarter ended March 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2001, our primary source of liquidity consisted of cash and highly liquid, high quality debt instruments. Our intent is to make such funds, which have maturities of less than one year, readily available for

operating purposes. At March 31, 2001, we had cash and cash equivalents totaling $10.3 million compared to $42.8 million at December 31, 2000.

We have had significant negative cash flows from operating activities for each fiscal and quarterly period to date. For the three months ended March 31, 2001, net cash used in operating activities was $21.8 million and primarily consisted of net operating losses, increases in trade accounts receivable, inventories, cattle deposits and prepaid expenses and a decline in accounts payable. The increase in working capital requirements corresponded with a rise in cattle sales activity during the quarter following the seasonal slowdown at fiscal year end.

Net cash used in investing activities was $10.9 million for the three months ended March 31, 2001. Our investing activities included the acquisitions of Bluegrass, Runnells-Peters, and Pennell for a combined $4.8 million of cash and capital expenditures of $3.8 million. In addition, we also paid the former shareholders of Eastern Livestock, Inc.

("Eastern") $2.3 million in cash during February 2001 pursuant to an asset purchase agreement dated May 1, 2000. We expect continued capital expenditures for the foreseeable future as we continue to effect our business strategy. However, we expect future spending on capital expenditures to be at a lower rate than experienced during 2000.

Net cash provided by financing activities was $128,000 for the three months ended March 31, 2001. Cash provided by financing activities was principally the result of stock option exercises offset in part by payments made on a capital lease obligation.

Our working capital requirements for the foreseeable future will depend on a variety of factors including our ability to implement our business plan, to reduce our net cash outflow and the working capital required by seasonal fluctuations in cattle sales.

On May 15, 2001 we completed an operational review of our business and announced plans to focus on product lines with the most growth and gross margin opportunity, such as marketing cattle and animal health/beef safety technologies. As a result we decided to increase our focus on addressing growing beef-safety concerns, reduce the level of funding supporting non-strategic product lines including discontinuing our online storefront and improve our expense structure to better position the Company to meet our profitability goal within the cash flows generated from our on-site and online cattle marketing operations.

As a result, we will record a charge of approximately $8 million, or $0.23 per share, in the second quarter of 2001. Approximately $7 million of the charge will be non-cash related to the write-down of non-strategic assets to their fair values, including the product storefront and approximately $1 million will be cash related to operating efficiency initiatives, including the consolidation of the technology development and support operations as well as severance and employee-related costs. The majority of the cash portion of the charge is expected to be paid over the next 90 days. The consolidations will affect approximately 60 corporate and service support associates, or 15 percent of the total work force. We expect these work force reductions to reduce personnel and personnel related costs by approximately $5.4 million annually as compared to the quarter ended March 31, 2001. Additionally, over the next 90 days, we expect to reduce other cash operating costs by approximately $5.5 million annually as compared to the quarter ended March 31, 2001.

We believe we will be able to fund our continuing operations with existing cash, cash expected to be generated by continuing operations and other sources for at least the next twelve months provided we are able to successfully implement our current business plan, which includes these reduced operating expenses, and we are able to reduce working capital requirements through improved working capital management or reduced cattle sales. However, in order to fund our current growth projections, we will require additional debt or equity financing prior to the end of 2001.

As previously announced, the Company is attempting to secure a line of credit with a lending institution to supplement its working capital requirements, and expects this process to be completed within the next 60 days. As of May 14, 2001, the Company had approximately $30 million of working capital. Additionally, the Company has reached an informal arrangement with a related party order-buyer to provide the Company up to $10 million of working capital support should the need arise before it secures its own line of credit. The working capital support will be in the form of accelerated payments of amounts due to the Company and the purchase of inventory from the Company.

If additional funds are raised through the issuance of equity securities, our stockholders may experience significant dilution. Furthermore, there can be no assurance that any additional financing will be available when needed, or that if available, such financing will include favorable terms. If financing is not available when required or is not available on acceptable terms, we will be unable to meet our current growth projections. See also "Factors Affecting our Business, Financial Condition, and Results of Operations" below.

FACTORS AFFECTING OUR BUSINESS, FINANCIAL CONDITION, AND RESULTS OF OPERATIONS

In addition to the other information included in this report and our other public filings and releases, the following factors should be considered while evaluating our business, financial condition, results of operations and prospects:

We have a limited operating history and unproven business model. As a result, we may not be able to accurately predict future results and our business strategy may not be successful.

We commenced operations in 1994 and commercially released our initial product in November 1997. Accordingly, we have only a limited operating history upon which to evaluate our business. In addition, our business strategy and revenue model has changed significantly during the past 24 months. Our limited operating history, combined with our shift in business strategy, makes predicting our future results of operations difficult. Our new business model has been tested over a limited period of time and, accordingly, we cannot be certain that our business strategy will be successful.

Specific uncertainties relating to our new business model include our ability to:

- achieve acceptance of our Web site as a marketplace for electronic commerce;
- expand the number of cattle producers, feedlots and packers that utilize our services;
- develop and upgrade our products and technologies more effectively and rapidly than our competitors; and
- successfully implement our acquisition, sales and marketing strategies.

We have a history of net losses and expect to continue to incur net losses for the foreseeable future. If we continue to incur net losses, our business may not ultimately be financially viable.

We have incurred significant net losses since inception. We reported a net loss of approximately $33.1 million for the year ended December 31, 2000, or 4% of total revenue, and a net loss of approximately $10.2 million for the quarter ended March 31, 2001, or 3% of total revenue. As of March 31, 2001, we had accumulated net losses totaling approximately $75.7 million. Our operating expenses have increased significantly in each year of our operation, and we anticipate that such expenses may continue to increase over the next several years, albeit at a lesser rate than previously experienced, as we expand our operations and execute on our business strategies. Our revenue may not grow or may not even continue at its current level and, as a result, our financial condition and results of our operations may be harmed and our business may not be financially viable in the future.

To achieve profitability, we must successfully address the following risks:

- lack of wide-scale commercial acceptance of our Internet cattle sales and services;
- failure to expand the number of livestock industry participants currently using our network;
- failure to obtain access to data from feedlots to adequately address the information needs of our customers;

- inability to respond promptly to competitive and industry developments;
- failure to achieve brand recognition;
- failure to introduce new products and services; and
- failure to upgrade and enhance our technologies to accommodate expanded product and service offerings and increased customer traffic.

If we are unable to successfully address any of these risks, our business may be harmed.

The Internet livestock products and services market, including, in particular, the cattle sales market, is new and uncertain and our business may not develop as we anticipate.

The Internet market for livestock products and services, including, in particular, the cattle sales market, has only recently developed, and its continued development is subject to substantial uncertainty. To date, we have not realized adequate revenues and gross margins from this market to achieve profitability. We cannot be assured that this market will continue to develop as we expect, if at all. Our revenue model depends on the commercial acceptance of our Internet-based products and services. We do not know if our target customers will use the Internet as a regular means of purchasing products and services. Even if potential customers choose to purchase livestock products and services over the Internet, they may not choose our online services to do so. If the market for livestock products and services over the Internet does not develop as we anticipate, our business and the results of our operations will be harmed.

For the quarter ended March 31, 2001, we relied on cattle sales for over 99% of our revenue and we expect to rely on the success of our cattle sales and auction services for a significant majority of our revenue for the foreseeable future. As a result, our ability to achieve commercial acceptance of our cattle sales is critical to our ability to obtain future revenue. To date, we have not achieved enough revenues from internet-based cattle sales that are sufficient

for us to determine whether these services will achieve commercial acceptance. Any failure to successfully gain commercial acceptance of these services would harm our business and the results of our operations. In addition, as the result of our dependence on cattle sales, if the demand for beef declines, the demand for our products and services would likely decline, and our results of operations would be harmed.

We recently completed significant acquisitions of businesses and technologies and we may make other business acquisitions in the future, which may be difficult to integrate into our business and may disrupt or negatively impact our business.

We recently made, and may continue to make, investments in and acquisitions of complementary companies, technologies and assets that constitute critical aspects of our current and future business operations. If we fail to successfully integrate the operations of these companies, technologies or assets into our business, we may not be able to successfully execute our business strategy. In connection with a number of our acquisitions we hire key employees. The businesses we have acquired generally are critical to our current business operations and growth strategy.

Our acquisitions may result in:

- difficulties in assimilating technologies, products, personnel and operations;

- diversion of our management's attention;

- entering markets in which we have no or limited prior experience;

- loss of key employees of acquired organizations; and capital requirements in excess of what we anticipate.

In the future, acquiring companies, assets or technologies may also require us to make cash payments, assume debt, incur large write-offs related to intangible assets and issue equity, which will dilute ownership interest.

If we are unable to manage our growth effectively, our business may be harmed.

We cannot assure that we will be able to effectively or successfully manage our growth. If we are unable to manage our growth effectively, our business operations would suffer. We seek to grow by increasing transaction and subscription volume, adding new products and services and by hiring additional employees. Our growth is likely to place a significant strain on our resources and systems. As we continue to increase the scope of our operations, we will need an effective planning and management process to implement our business strategy successfully and we will need to implement new and improve existing systems, procedures and controls. We will also need to expand, train and manage our workforce.

If we are unable to protect our intellectual property rights, our business and competitive position will be harmed.

Proprietary rights are important to our success and our competitive position. We protect our intellectual property through a combination of patent, copyright, trade secret and trademark law and confidentiality agreements with

third parties. We cannot guarantee that any of our pending patent or trademark applications will be approved. Even if they are approved, the patents or trademarks may be challenged by other parties or invalidated. Because brand recognition is an important component of our business strategy, the protection of our trademarks is critical to our success. In addition, we depend upon our proprietary database of industry and client information to provide our clients with our information services. Despite our efforts to protect our proprietary rights, unauthorized parties may copy aspects of our products and technology or obtain access to our confidential proprietary database. Other parties may also breach confidentiality agreements and other protective contracts. We may not become aware of these breaches or have adequate remedies available. In addition, effective copyright, patent and trademark protection may be unavailable in certain countries to which we might expand our operations.

In technology markets, there is generally frequent and substantial intellectual property litigation. We may be subject to legal proceedings and claims, including claims that we infringe third-party proprietary rights. While we are not aware of any patents, copyrights or other rights that would prevent us from manufacturing and commercializing our products or services in the United States and abroad, there can be no assurance that other parties will not assert infringement claims against us. There also can be no assurance that former employers of our present and future employees will not claim that our employees have improperly disclosed confidential or proprietary information to us. Any of these claims, with or without merit, could subject us to costly litigation and divert the attention of our personnel.

We typically assume the ownership of cattle sold through our Internet cattle marketplace and are subject to the risk of loss while we hold title and market risk.

In the sales transactions conducted through our Internet cattle sales and auction services network, we typically contract to purchase cattle from a seller, identify a buyer for the cattle, take title to the cattle from the seller and then resell the cattle to the buyer. In this process, we enter into a contract to purchase cattle in advance of entering into a contract to sell the cattle. Therefore, until we actually complete a sale transaction, we are subject to the risk that we may be unable to sell cattle that we are contractually obligated to purchase. In addition, once we purchase the cattle, we assume title to the cattle for generally up to 48 hours. As a result, we assume the risk of liability, loss and deterioration in value of the cattle during that period. As a result, our business may be harmed.

We depend on our key employees for our success. The loss of any of these persons could harm our ability to compete.

The loss of the services of any key person could harm our business, including our ability to compete effectively. Our performance also depends on our ability to attract, retain and motivate additional key officers and employees. We may be unable to retain our employees or to attract, assimilate and retain other qualified employees with relevant livestock and electronic commerce industry skills in the future. If we fail to attract, retain and motivate qualified employees, our business will be harmed.

We expect our quarterly operating results to fluctuate. If we fail to meet the expectations of public market analysts and investors, the market price of our common stock could decline.

We expect that our revenue and operating results will vary in the future

as a result of a number of factors. Our quarterly results of operations may not meet the expectations of securities analysts and investors, which could cause the price of our common stock to decline. Our operating results in the future may not follow any prior trends and should not be relied upon as an indication of future results. The factors that affect our quarterly operating results include:

- our ability to retain existing customers and attract new customers;
- our ability to develop and market new and enhanced products and services on a timely basis;
- the introduction of new or enhanced Web sites, products and services by us; and
- continued purchases by our existing customers.

In addition, a number of factors that are beyond our control will also affect our quarterly operating results, such as:

- demand for our products and services;
- product and price competition;
- the introduction of new or enhanced Web sites, products and services by our competitors; and
- significant downturns in our targeted markets.

Our quarterly results could fluctuate as a result of seasonal fluctuations in the cattle industry.

The cattle industry has historically experienced, and continues to experience, seasonal fluctuations. These seasonal patterns may cause quarterly fluctuations in our operating results. Generally, a higher number of cattle are sold to feedlots during the third and fourth quarters as compared to the first and second quarters of each calendar year. Therefore, a greater number of sales transactions occur during these two calendar quarters. Due to our limited operating history and the recent changes in our business as a result of acquisitions, it is difficult to predict the effect that this seasonal pattern will have on our revenue and quarterly operating results.

Our back-up mechanisms are unproven, and therefore are vulnerable to damage or interruption which would harm our ability to reliably service our customers.

Our network server, satellites, computers and facilities are vulnerable to damage or interruption from a number of sources, including fire, flood, power loss, earthquakes, telecommunications failures, system failures, Internet brownouts, computer viruses, electronic break-ins and similar disruptions. We depend on these systems to provide our customers with online cattle sales and auction services, feedlot and cattle industry analyses, and cattle inventory management tools. Any substantial interruptions could result in the loss of data and could impair our ability to provide our products and services to customers and to generate revenues. Presently, we do not have a formal disaster recovery plan in effect. Moreover, our business interruption insurance may not be sufficient to compensate us for losses that may occur if any of our Internet-based services are interrupted.

Risks associated with the security of transactions and transmitting confidential information over the Internet may negatively impact our electronic commerce business.

We believe that concern regarding the security of confidential information transmitted over the Internet, such as credit card numbers and proprietary data, may prevent many potential customers from engaging in online transactions and may harm our business. Despite the measures we intend to take

to enhance our Internet security, our infrastructure is potentially vulnerable to physical or electronic break-ins, viruses or similar problems. If our security measures are circumvented, proprietary information could be misappropriated or our operations could be interrupted. Security breaches

that result in access to confidential information could expose us to a risk of loss or liability. If we do not adequately address these concerns or face any claims in connection with a breach of security, our business, financial condition and operating results could be harmed.

We could face liability for information retrieved from or transmitted through our Web sites, which could result in high litigation or insurance costs.

As a publisher and distributor of online content, we face potential liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials that we publish or distribute on our Web sites. Any imposition of liability could negatively impact our reputation and result in increased insurance costs. Claims have been successfully brought against online services. Although we carry general liability insurance, our insurance may not cover claims of these types or may not be adequate to cover us for all liability that may be imposed.

Government regulation and legal uncertainties could result in additional burdens to doing business on the Internet.

The laws governing the Internet remain largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws including those governing intellectual property, privacy, libel and taxation apply to the Internet. Our business, results of operations and financial condition could be harmed by the adoption or modification of laws or regulations relating to the Internet that result in the imposition of additional costs on conducting business over the Internet or impose additional restrictions on our ability to conduct our business operations. In 1998, the Internet Tax Freedom Act placed a three-year moratorium on state and local taxes on Internet access, except for taxes imposed prior to October 1, 1998, and on taxes that discriminate against online commerce. However, Congress may not renew this legislation in 2001 and state and local governments would be able to impose Internet-specific taxes on goods purchased electronically, in addition to taxes that are otherwise imposed on sales transactions.

Internet Capital Group and Safeguard will be able to control matters requiring stockholder approval.

The concentration of ownership of our common stock may delay, deter or prevent acts that would result in a change of control, which could reduce the market price of our common stock. Internet Capital Group and Safeguard are affiliated entities. Internet Capital Group and Safeguard together have the power to vote approximately 57% (as of March 31, 2001) of the aggregate number of votes to which the holders of our common stock are entitled. As a result, these stockholders will be able to control all matters requiring stockholder approval.

In addition, currently five of the eight members of our board of directors also serve as directors and/or officers of Internet Capital Group and Safeguard. Internet Capital Group has the right to elect two directors to our board. Under the joint venture agreement, Safeguard and Internet Capital Group have agreed to vote for two designees of Safeguard and two designees of Internet

Capital Group in all future elections of directors. Internet Capital Group and Safeguard will therefore have the ability to significantly influence our management.

Our common stock price is likely to be highly volatile.

The market price of our common stock, like the market for Internet-related and technology companies in general, has been and will likely continue to be highly volatile. Any significant fluctuations in the future might result in a material decline in the market price of our common stock. These fluctuations may be caused by factors such as:

- actual or anticipated variations in quarterly operating results;
- announcements of technological innovations; conditions or trends in the cattle industry;
- new sales formats of new products or services;

- changes in or failure by us to meet financial estimates of securities analysts;
- conditions or trends in the Internet industry;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or joint ventures;
- capital commitments;
- additions or departures of key personnel; and
- sales of common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2001, we had cattle futures contracts with purchase commitments of $73 million and sales commitments of $16 million. The contract lives are generally less than six months. Any changes in the value of the futures contracts is generally balanced by an offsetting position in the cash market prices of the delivered livestock.

Our exposure to market risk relates to changes in interest rates and their potential impact on our investment portfolio. We invest in marketable debt securities that meet high credit quality standards and limit our credit exposure to any one issue, issuer and type of investment. As of March 31, 2001, our investments consisted of $3.3 million in cash equivalents with maturities of less than three months and $1.5 million in certificates of deposit with a maturity of less than six months. Due to the short-term nature of our investment portfolio, a 10 percent increase or decrease in interest rates would not have a material effect on our results of operations or the fair value of our portfolio. The impact on our future results of operations and the future value of our portfolio will depend largely on the gross amount of our investments.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material developments in the legal proceedings previously reported.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

RECENT SALES OF UNREGISTERED SECURITIES

On January 2, 2001, we purchased certain tangible and intangible assets in connection with the acquisition of Runnells-Peters. As part of the exchange, we issued 136,986 shares of our Class A common stock with an aggregate value of $500,000.

Also on January 2, 2001, we purchased certain tangible and intangible assets in connection with the acquisition of Pennell. As part of the exchange, we issued 51,370 shares of our Class A common stock with an aggregate value of $187,500.

All of the above referenced shares were issued pursuant to an exemption by reason of Section 4(2) of the Securities Act of 1933. The sales were made without general solicitation or advertising. Each purchaser represented that he, she, or it was acquiring the shares without a view to distribute and was afforded an opportunity to review all documents and ask questions of our officers pertaining to matters they deemed material to an investment in our Class A common stock.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the first quarter of 2001.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

There were no exhibits required to be filed for the quarter ended March 31, 2001.

* Filed herewith.

(b) Reports on Form 8-K

There were no reports filed on Form 8-K for the quarter ended March 31, 2001.

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

Dated: May 15, 2001 eMerge Interactive. Inc.

By:

/s/ Charles L. Abraham ----------------------- Charles L. Abraham	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ T. Michael Janney	Vice President and Chief Financial Officer (Principal Financial and

------------------------ Accounting Officer)
T. Michael Janney