

eMerge Interactive: Merging Technology with Tradition





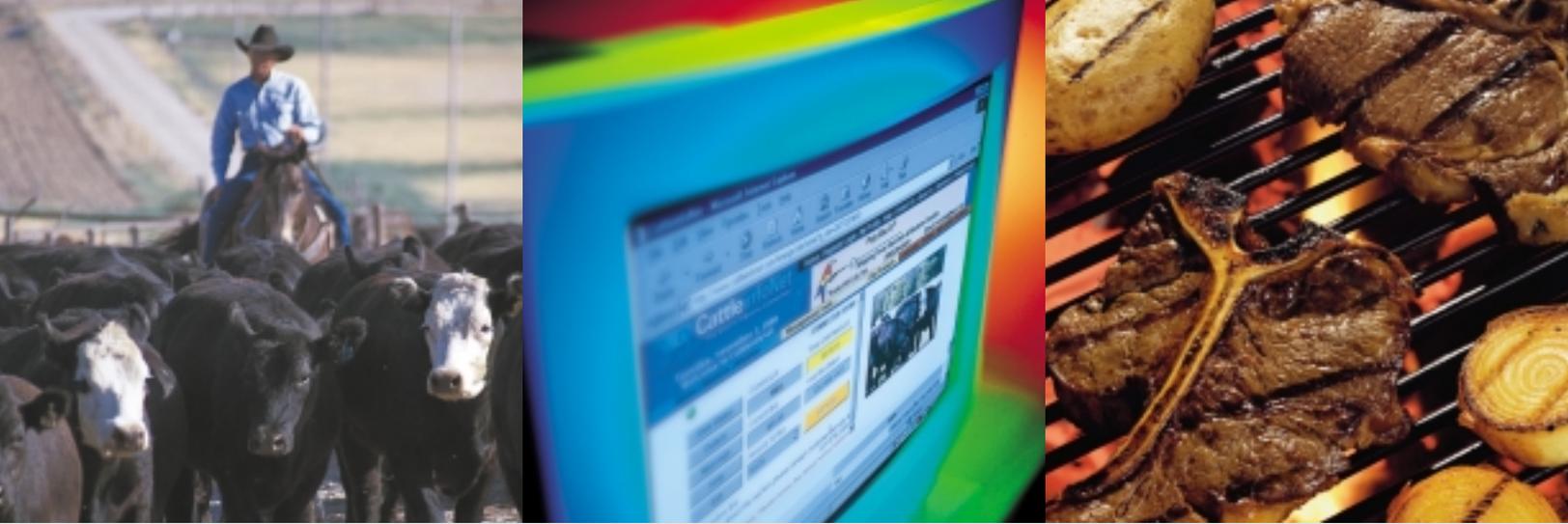
We're connecting the U.S. beef industry to new levels of productivity and prosperity.

eMerge Interactive, Inc., is a technology company providing supply-chain management and marketing solutions for the \$40 billion U.S. beef-production business – the single largest segment of U.S. agriculture. Our goals:

- Building an industry network to implement Beef Quality Assurance on a national level.
- Helping cattlemen reduce production costs, improve beef quality and enhance beef safety.
- Ultimately, enabling a large brandable beef supply to create additional consumer value and open new export markets for U.S. beef.

The need for these solutions has never been more apparent, as the challenges facing the U.S. cattle industry continue to multiply. Recent gains in beef demand haven't made up for two decades of market-share loss to alternative proteins such as poultry and pork. The industry remains highly segmented, geographically dispersed, plagued by inefficiency and growing safety concerns.

Yet challenges such as these present eMerge with enormous opportunities. As virtually every other industry has demonstrated over the last decade, advanced information-management technologies can yield tremendous gains in productivity, profitability, quality, and product safety. eMerge has made the necessary investment in assets, intellectual



eMerge solutions benefit the entire beef-supply chain – including the 1,000,000 producers who breed and raise cattle ... the 700 feedyards that help them reach maturity ... the 70 packers who harvest the meat ... and the millions of consumers who make their preferences known in retail stores across the nation.

capital and financial resources to help bring these advantages to the U.S. cattle industry.

In 2000 alone, our ranks grew to 300 employees, with nearly 70% coming from the cattle industry. And we invested more than \$66 million in facility acquisitions and another \$20 million in a state-of-the-art technology business network to help ensure rapid, widespread adoption of our solutions.

The result is a continually evolving suite of products and services, including:

- A powerful information-management infrastructure to connect industry segments through advanced technologies and software applications for cattlemen.
- An efficient on-site and online marketplace network to promote highly efficient, high-profit marketing of cattle nationwide.
- Value-enhancing technologies to bring these capabilities to users nationwide – including technologies for life-long tracking of individual animals, to make America's beef supply safer than ever.

Bottom line: eMerge is bringing together the tools that are needed to fundamentally change the way U.S. beef is brought to market – and, in the process, help ensure a prosperous future for everyone who takes advantage of them.

2000 Highlights

- Successfully raised \$107 million through the February 2000 Initial Public Offering;
- Invested \$66 million to create a national network of 12 Interactive Facilities™ with the capacity to market 4 million head-of-cattle in 2001, representing a 14 % market share;
- Invested \$20 million to build a state-of-the-art technology business network, including CattleinfoNet™, an industry-wide information-management and marketing infrastructure;
- Introduced powerful business applications with high-bandwidth capabilities to 330 feedyards across the country, representing more than 60% of U.S. feedyard capacity;
- Marketed over 1.7 million head-of-cattle, including 120,000 cattle that were electronically identified;
- Launched industry's first live Internet cattle auction via CattleinfoNet, enabling potential for better price realization;
- Conducted a record-breaking online cattle auction via CattleinfoNet, connecting 140 participants from 11 states in a 2-hour sale during which more than 9,000 head-of-cattle were offered;
- Successfully marketed 120,000 head-of-cattle via the online CattleinfoNet Interactive MarketPlace™ and effectively positioned the Interactive MarketPlace to market over 500,000 head in 2001;
- Assembled a cohesive management group consisting of technology and cattle-industry experts and advisors;
- Implemented actions to streamline operations – actions that are expected to result in the Company achieving profitability, before amortization expense, in the third quarter of 2001;
- Ended 2000 with \$43 million in cash and cash equivalents, \$149 million in assets, no long-term debt and \$130 million in stockholders' equity.

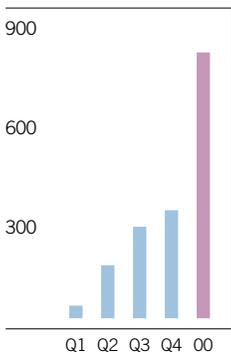
We continue to strengthen our position as the beef industry's technology partner.



Charles L. Abraham

To Our Stakeholders

Revenues
(Dollars in millions)



■ By quarter – 2000
■ Full year – 2000

From the cattleman’s viewpoint, the need for change has never been more apparent. For the first time in 20 years, demand for beef protein in the U.S. is on the rise. Yet this realization is overshadowed by the challenges that continue to confront the American beef industry, from bovine diseases in Europe to dealing with the effects of the worst drought in U.S. history.

eMerge Interactive has dedicated its efforts to developing solutions to such challenges for industry participants large and small – solutions that are focused on:

- Enabling industry Beef Quality Assurance programs that lay the foundation for maintaining high levels of consumer confidence in beef safety.
- Eliminating unnecessary costs and inefficiencies in the production, procurement, and handling of U.S. cattle.
- Creating the industry-wide supply-chain record-management system needed for process verification, electronic tracking of animals, and ultimately, a brandable beef supply.

I’m pleased to report that cattlemen throughout the country are increasingly coming to understand the impact our solutions should have on their businesses and their long-term success, and are adopting our technologies at a record pace. Among the milestones we reached last year, which was essentially our first full year of operation:

- The number of cattle marketed online and on-site through our CattleinfoNet information-management and marketing network jumped from 82,000 in 1999 to 1,700,000 – more than a 20-fold increase.
- Our gross margin-per-head rose from \$3.03 in the first quarter to \$5.74 in the last.
- The number of animals sold online through our Interactive MarketPlace climbed from 35,000 to 120,000.
- The number of feedyards introduced to our high-bandwidth business application – the eMerge Interactive Platform – grew from a handful to 330, who together account for more than 60% of U.S. feedyard capacity.

For reasons such as these, Forbes ASAP recently awarded eMerge the #10 spot on its

Ramp Champ 100 list – a ranking, based on year-over-year sales growth, of the nation’s 100 fastest growing technology companies.

And that’s just the beginning

As the 2000 Highlights (left) suggest, 2000 was a year of many major accomplishments for eMerge.

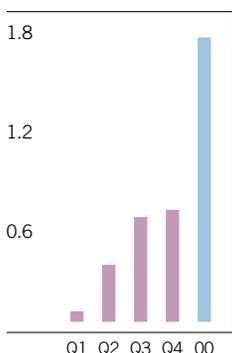
In February, we launched a highly successful IPO, raising \$107 million. Practically overnight, we went from a virtual start-up to a major industry force with a 14% share of the U.S. cattle market. And our revenues increased from \$42 million to \$802 million.

We also expanded our internal resources at a carefully controlled but aggressive pace throughout the year. By December, we had built a team capable of addressing many of the industry’s most difficult challenges, with many bringing Fortune 100 management experience to the table. We had grown from 90 to 300 employees, including both cattle-industry and Florida “space coast” technology experts. We purchased 12 leading livestock markets and order-buying operations, with the former being transformed into CattleinfoNet Interactive Facilities and the latter being integrated into our own sales operations. And we were doing major-league business in every major cattle state, from eMerge offices in Colorado, Kentucky, Florida, Kansas, Mississippi, Oklahoma, South Carolina, South Dakota, Montana and Texas.

We made a \$20 million investment in developing an exciting technology infrastructure consisting of an exclusive portfolio of products and services, including the CattleinfoNet information-management and marketing network ... and we invested over \$1 million in innovative, bacteria-battling Fecal Detection technology, winner of the prestigious R&D 100 Award for 2000.

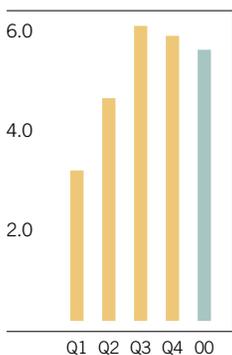
During 2000, we also introduced a range of groundbreaking capabilities to the industry. The list includes the first live Network Premium Auction and video on-site Premium Auctions, through which progressive

Head-of-Cattle (In millions)



■ By quarter – 2000
■ Full year – 2000

Gross Margin/Head (Dollars)



■ By quarter – 2000
■ Full year – 2000

Financial Highlights

Millions, except per share amounts	2000	1999	% change
Sales and Earnings⁽¹⁾			
Revenue	\$ 802	\$ 42	1,810%
Gross profit	9	1	800%
Adjusted net loss	(19)	(12)	-58%
Adjusted net loss per share	(0.59)	(1.76)	66%
Financial Condition			
Cash	\$ 43	\$ 12	258%
Total assets	149	26	473%
Total liabilities	18	16	13%
Cash Flow			
Cash flow from operations	\$(30,694)	\$(15,619)	-97%
Cash flow used in investing activities	(56,805)	(1,592)	3,468%
Cash flow from financing activities	117,994	29,528	300%

(1) Sales and earnings information is provided on an adjusted basis and excludes amortization expense, non-cash severance costs, impairment and related charges and assumes that the discontinuance of NutriCharge and Infrared Imaging products occurred at the beginning of 1999.

producers are able to earn up to \$80 more per head in exchange for delivering pre-conditioned, process-verified animals. The list also includes the introduction of innovative, Internet-enabled application-services packages designed to meet the needs of specific participants, such as feedyard managers and their medical and nutritional consultants.

Positioned for major success

What's more, we accomplished our key financial goals throughout the year against a backdrop of a challenging stock market. Even more important, we positioned eMerge to capitalize on tremendous opportunities in 2001 – a year in which you will see our systems fully enabled, our processes and technologies integrated uniformly across our Interactive Facilities, and our organization enjoying new levels of efficiency and productivity.

We expect to close the books on 2001 by marketing 4-million head-of-cattle, on-site and online, through the CattleInfoNet network. As a result, we expect to be cash-flow positive before amortization expense in the 3rd quarter of this year, based on growing revenues from the sale of cattle, products, technology and information services. Our growth has indeed been significant, and the industry's adoption of our solutions is accelerating at a record pace.

The opportunities before us are virtually boundless. The timing is right, our business model is sustainable, and we are forging a clear path to profitability in an industry where the financial barriers to entry are likely to remain high for other organizations for some time to come.

I would like to extend my sincere thanks to all the customers who share our goals and have embraced our solutions ... to every member of our industry Advisory Council, whose guidance continues to be invaluable ... and, of course, to the employees who have positioned us for such great success. Together, we'll make sure that our goals are reached, justifying stakeholders' continuing confidence in our vision and our ability to achieve it.

Charles L. Abraham
Chief Executive Officer

April 19, 2001

Knowledge is power. It's also what's needed to improve efficiency, profit margins *and* the demand for U.S. beef.



CattleinfoNet provides the infrastructure to help ensure cattlemen's prosperity and consumers' safety.



In recent years, many of the industry's state associations have launched their own Beef Quality Assurance programs to meet the increasingly urgent need to ensure that our beef supply remains safe. But no single organization had dedicated the resources and manpower needed to apply state-of-the-art solutions nationwide across this highly segmented and entrepreneurial industry.

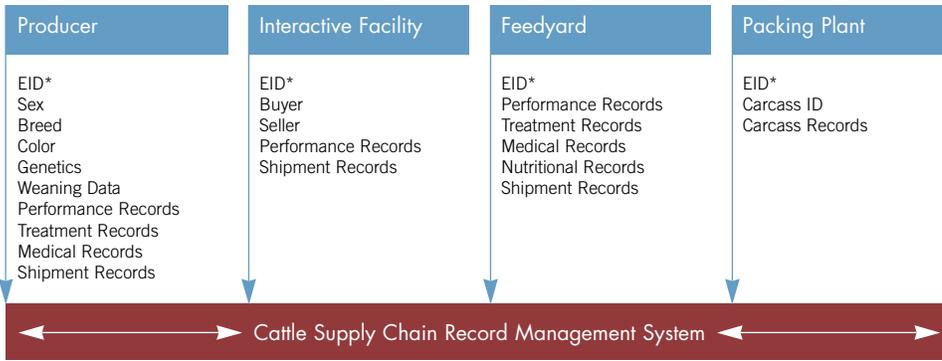
Enter eMerge Interactive – and a growing portfolio of powerful, technology-enabled tools designed to help cattlemen across the nation:

- Capture and add value to their livestock, in essence “decommoditizing” their animals to improve their profit margins.
- Enhance operational efficiency, and therefore profitability.
- Preserve both their independence and their treasured way of life.
- Improve the demand for U.S. beef, here at home and around the globe.

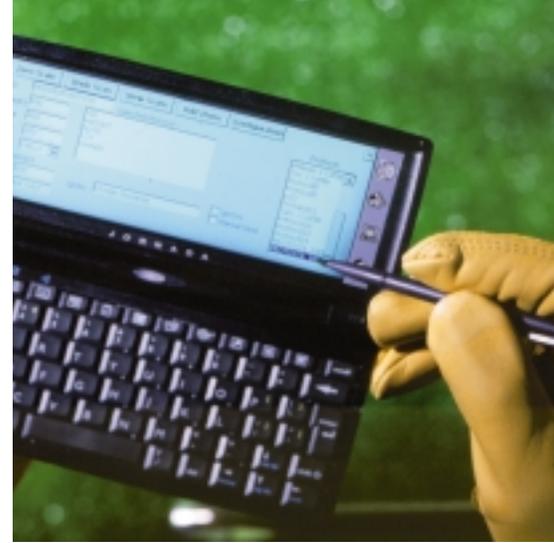
For the industry as a whole, perhaps eMerge's greatest contribution in this arena is the establishment of the industry-wide, Internet-enabled infrastructure called CattleinfoNet – the information-management and marketing network that is poised to revolutionize the U.S. beef business. Readily accessible at CattleinfoNet.com, this infra-

Thanks to eMerge's CattleinfoNet network and CattleLog™ system, process verification is becoming a reality in the U.S. cattle industry. The result should ultimately improve productivity and profitability for the entire beef-supply chain.

*Interactive Management Tools:
Individual animal process verification tracking, and data management*



*Electronic identification



structure also serves as the medium for most of the products and services we offer.

Meeting the demand for process-verified cattle

For decades, cattle have been the “widgets” of the livestock industry. They’ve been sold primarily on the basis of weight, with few individualized specifications available to set them apart as they move through the beef-supply chain.

That hasn’t helped an industry battling intense competition from the vertically integrated pork and poultry businesses, which have profited immensely from branding strategies based on proven process-verification techniques. Nor has it helped assuage public fear of beef-related public-health issues.

eMerge is helping change this scenario with a unique, CattleInfoNet-enabled animal-tracking and information-management

system called CattleLog™. It’s the only system of its kind to offer the power, affordability, security and ease of use that cattlemen need to make process and source verification a reality for the beef industry.

With CattleLog, users are able to electronically identify and track individual animals from producer to packing plant. To document the care they’ve provided, from weaning and vaccination to feeding regimens. To buy and sell animals in large lots based on detailed specifications, earning more every step of the way. And to tap a variety of web-based reports to assess virtually any parameters impacting their operations’ success, for more informed and profitable decision-making.

And that’s just the start. Because in the not-too-distant future, CattleLog will be capable of:

- Receiving feedback on carcass performance, to support users’ internal continuous-improvement programs.
- Helping users deliver the consistent-quality, brandable beef products that consumers prefer.
- Promoting consumer confidence and helping producers isolate health risks.

Improving the efficiency of individual operations

CattleInfoNet also serves as the resource for the expanding portfolio of Interactive Management Tools – application services designed to give cattlemen greater control over their operations than ever before.

Already in use is Interactive Manager™, a patented, Internet-enabled program designed exclusively for feedyards. With this application, feedyard managers are able to manage their cattle pro-actively to minimize illness and death and optimize the rate and cost of gain. They’re also able to determine the most profitable times to buy and sell, based on current and projected market conditions and highly detailed data from their own operations as well as regional benchmarks.

This rapidly evolving portfolio also includes the fully compatible Interactive Veterinarian™ and Interactive Nutritionist™, tools to help these key consultants improve client feedyards’ returns on investment. In the works are additional tools designed to help those who raise livestock improve both their efficiency and profitability.



We're expanding
producers'
marketing horizons.
And buyers
now have access
to a National
market.



Pre-conditioned and process-verified cattle, like the ones marketed at our Jordan Cattle Auction facility (left), bring higher prices for producers, because feedyards now know what they are buying.



In many ways, 21st Century cattlemen operate in much the same way as their 19th Century counterparts. Selling or buying livestock and supplies normally means a trip to the nearest town to choose from a limited inventory ... or investing much more time to expand their universe of choices.

No more. Thanks to eMerge Interactive, members of the beef industry can now tap a nationwide marketplace to get precisely what they need – if they like, simply by logging on to CattleinfoNet.com.

Just the right cattle, on-site or online

In a few short years, the CattleinfoNet information-management and marketing network has become the largest single livestock marketer in the nation. In 2000, more than 1.7 million animals changed hands through this network; by the end of this calendar year, we expect that number to reach 4 million, or 14% of the total U.S. feedyard cattle supply.

Last year, most of these animals were marketed through CattleinfoNet Interactive Facilities – a growing network of eMerge-owned and franchised livestock markets chosen to help us quickly capture a major share of the U.S. cattle market. Some facilities – including health-certification pioneer Jordan Cattle Auction and cattle-friendly facility designer LeMaster Livestock, Inc. – were selected for demonstrating truly visionary leadership. Others offered the strategic location, expert management, outstanding sales volume or sterling reputation needed to catapult eMerge to the forefront of cattle marketing.

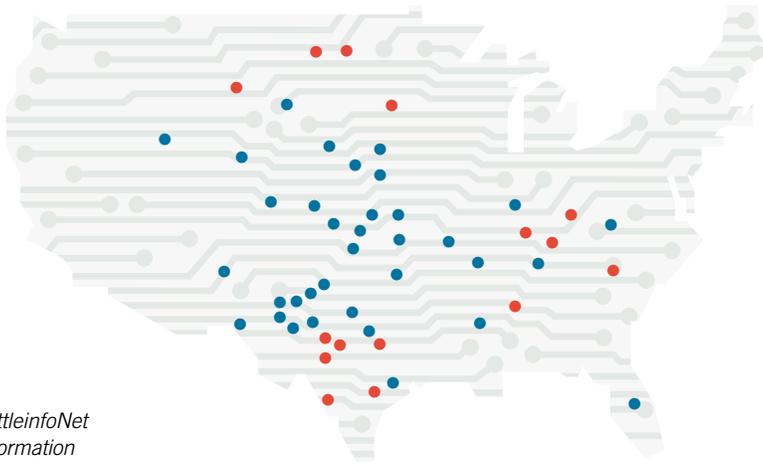
In the meantime, increasing numbers of CattleinfoNet-marketed cattle have been sold online through the CattleinfoNet Interactive MarketPlace, either brokered through our online listings or sold direct through semi-monthly online auctions.

Participants appreciate the convenience of handling transactions in minutes, from the comfort of their offices. They welcome the advantages of national price discovery and a vastly expanded selection of cattle. They're happy to be freed from unnecessary commissions. And they value the tools CattleinfoNet provides to help them identify their most profitable buying and selling opportunities.

Leveling the playing field for small producers

The vast majority of cattle producers are independent businessmen who usually market just a handful of animals at a time. Unfortunately, they've paid a steep price for maintaining their independence: Buyers pay more per pound for uniform lots of animals, because they don't require sorting and aggregating into large groups for efficient feeding.

CattleinfoNet Interactive Facilities are changing that situation by offering small producers a unique service: pre-auction sorting of small groups of animals into larger, homogenous lots. As a result, even small producers can now earn the large-draft pricing once reserved for the industry's major players.



CattleinfoNet
Information
Management
and Marketing
Network

- Network of Interactive Facilities
- Buyers



Buying livestock isn't the only reason cattlemen regularly visit CattleinfoNet.com. Here, they're also able to get information on everything from commodity pricing to weather to industry trends, while shopping for the products they need to run their businesses.

Premium cattle for predictable performance

Whether these cattle are sold on-site or online, via our brokering services or our auctions, CattleinfoNet users also can take advantage of special Premium Sales featuring weaned and pre-conditioned animals that have been process-verified with the CattleLog system.

These sales typically bring greater profits for sellers – profits that more than compensate for the slight increase in costs and labor associated with participation. With good reason – buyers usually pay more because these animals:

- Are healthier, so they require less “doctoring” in the feedyard and are far less likely to make other cattle sick.
- Are under less stress, so they don't experience the anxiety-induced weight loss that can be overcome only through costly additional rations of feed.
- Carry with them electronically documented histories, so there's no risk of unnecessarily repeating expensive health treatments.

- Offer predictable performance in the feedlot, arriving ready to feed and spending less time on feed. This translates directly into consistent performance at the packing house – a prerequisite to providing consumers with predictably palatable, differentiated beef products.

Delivering the products on which cattle businesses depend

In late 2000, the CattleinfoNet Interactive MarketPlace added another valuable dimension to its offerings: products ranging from pharmaceuticals to office supplies. While competitive pricing has been a major attraction for customers, more important has been the ability to procure the supplies they need to keep their operations running smoothly – all with a few clicks of the mouse, without spending another hour on the road.

We're applying advanced technologies to connect the industry, add value, and make the beef supply safer.



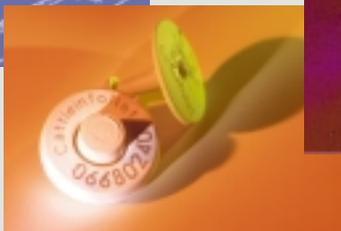
eMerge has made significant investments in adapting advanced technologies to the unique requirements of the beef industry.

Connecting rural America to the Internet

Believe it or not, decades-old telephone lines have isolated much of rural America from the Internet revolution of the 1990s.

That's why we developed the eMerge Interactive Platform. It provides even the most remote operations with reliable, high-speed Internet access. It includes such components as a powerful personal computer loaded with exclusive CattleInfoNet software, a top-quality satellite dish, and a dedicated phone line. And it offers users a range of options, including multiple workstations.

At a cost of just a few dollars a day, this high-bandwidth business application has already been introduced to 330 major U.S. feedyards, representing more than 60% of U.S. feedyard capacity.



Laying the foundation for process verification

We've also adapted technologies to the demands of process-verifying uncooperative animals that can weigh a half-ton or more each.

The heart of our solution is the powerful CattleInfoNet information-management and marketing network, which facilitates timely, accurate sharing of information throughout the beef-supply chain. It's this infrastructure which our CattleLog animal-tracking system uses to enable process verification, applying such advanced tools as electronic IDs (EIDs) – ear tags embedded with radio-frequency transponders and tied to unique identification numbers. At just a few dollars each, they represent a very cost-effective way for cattlemen to differentiate their pre-conditioned cattle from run-of-the-mill livestock.

To this foundation, we've added a range of extraordinarily rugged tools to build, communicate and analyze data on each animal's personal history – including handheld computers for field use, chuteside computers to automatically gather data on parameters



from weight to temperature, and powerful desktop computers to link offices to the full range of CattleInfoNet capabilities.

The result: An easy and affordable way to add value to livestock, while making the best possible management decisions.

Behind-the-scenes advances fuel future growth

These technologies represent just the tip of the iceberg for eMerge. We've made significant investments in our own internal Cattle Transaction System, to ensure the integrity of our animal-tracking processes while supporting our supply-chain management and business-analysis activities.

Helping to stop E. coli in its tracks

Chosen from a field of more than 80 technical-development companies by the USDA's Agricultural Research Service and Iowa State University, eMerge is also commercializing a real-time device for detecting deadly food-borne bacteria such as E. coli O157:H7.

The recipient of R&D Magazine's prestigious R&D 100 Award for technologically significant products, the device is an optical instrument capable of detecting minute amounts of the fecal matter that can harbor such bacteria. With this tool, packers will be able to remove even invisible traces of contamination, thereby making meats safer than ever before.

Corporate Directory

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Chairman of the Board
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Thomas L. Tippens
President
West Oak Commodities

Corporate Headquarters

10305 102nd Terrace
Sebastian, Florida 32958
(561) 589-5310

Corporate Officers

Charles L. Abraham
Chief Executive Officer

Scott L. Mathews
President and Chief Operating
Officer

Executive Vice Presidents

Scott Crain, DVM
Strategic Planning

Michael Janney
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Juris Pagrabs
Investor Relations

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Cattle Sales

Rich Stroman
Intellectual Property and
Advanced Beef Technologies

Lars Svensson
eBusiness Applications

Dave Ugan
eBusiness Systems

Transfer Agent and Registrar

Mellon Investor Services LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
(800) 851-9677

Independent Auditors

KPMG , LLP
111 North Orange Avenue
Orlando, FL 32801
(407) 423-3426

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Lee Leachman
Chief Executive Officer
Leachman Cattle Company

Form 10-K

A copy of the eMerge Interactive 2000 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available, without charge, by request to the Investor Relations Department at the Corporate Headquarters.

Investor Information

Investor inquiries should be directed to the Investor Relations Department at (561) 581-7070.

Bill Mies
Professor, Dept. of Animal
Sciences
Kleberg Center
Texas A & M University

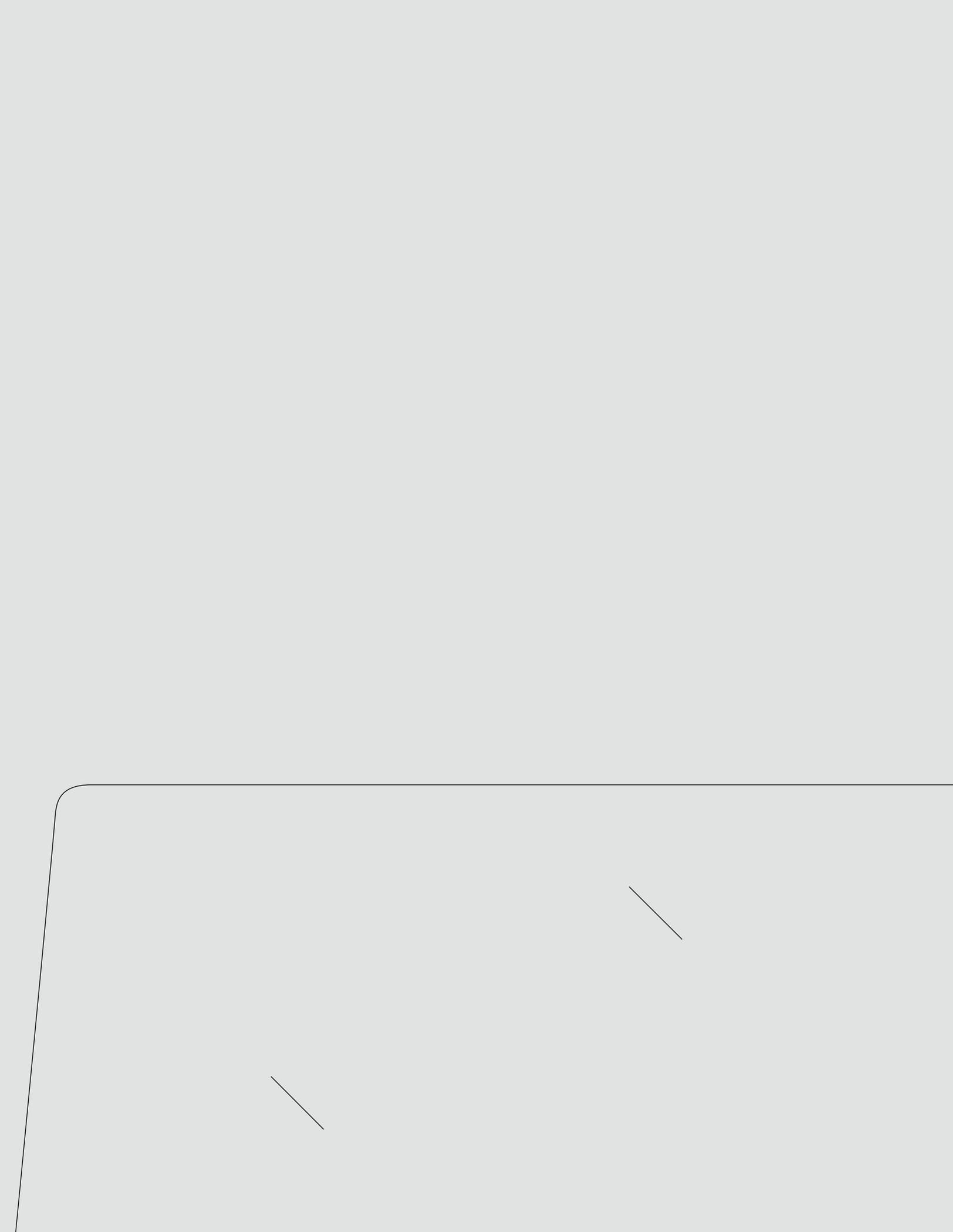
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Tom Woodward
Vice President & Manager, Cattle
Operations
Broseco Ranches

World Wide Web Site

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10305 102nd Terrace
Sebastian, Florida 32958
(561) 589-5310