CATTLESALE CO
Form 10QSB
November 19, 2004

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2004

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT For the transition period from ____________ to _______________

Commission file number 1-7636

THE CATTLESALE COMPANY
(Exact name of small business as specified in its charter)

Delaware	74-1605174
State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9901 IH10 West, Suite 800
San Antonio, Texas 78230-2292
(Address of principal executive offices)

(210) 558-2898
(Issuer's telephone number)

(Former Name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) 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___.

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes X No___ -

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 23,177,275

Transitional Small Business Disclosure Format (Check one): Yes ___ No _X__

SEC2334(1-04) Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

THE CATTLESALE COMPANY
AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
The CattleSale Company and Subsidiaries

(In thousands, except share data)

(unaudited)
Sept 30, 2004

Assets		
Current assets:		
Cash and cash equivalents	$	4
Accounts receivable, net		40
Inventory		119
Other current assets		28
Total current assets		191
Fixed assets, net		92
Goodwill		708
Other intangible assets		484
Other assets, net		132
Total Assets	$	1,607
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$	742
Accrued expenses		419
Notes payable		190
Total current liabilities		1,351
Deferred federal income tax		--
Total Liabilities	$	1,351
Stockholders' equity:		
Series A Preferred stock, $0.01 par value. Shares authorized, 500,000; 250,000 shares issued and outstanding in 2004 and 2003 (liquidation preference $2,500,000)	$	2
Series B Preferred stock, $0.01 par value. Shares authorized, 4,000,000; 2,676,044 shares issued and outstanding in 2004 and 2,381,406 in 2003 (liquidation preference $26,760,440)		27
Common stock, $0.01 par value. Shares authorized 50,000,000; shares issued and outstanding 23,177,275 in 2004 and 20,353,700 in 2003.		231
Paid in capital		8,907
Accumulated deficit		(8,911)
Total stockholders' equity	$	256
Total Liabilities and Stockholders' Equity	$	1,607

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS
The CattleSale Company and Subsidiaries

	(Unaudited) (In thousands, except shar		
	Quarter Ended		N
	Sept 30, 2004	Sept 30, 2003	Se

		(Restated)	
Revenue:			
Service, net	$ 0	$ 12	$
Total revenue	$ 423	$ --	$
Total Revenue	$ 0	12	$
Operating costs and expenses:			
Selling, general and administrative	298	569	1,
Patent Litigation Trust expenses	29		
Total operating costs and expenses	$ 298	$ 598	$ 1,
Operating loss	(298)	(586)	(1,
Non-operating income (expense):			
Interest income	--	--	
Interest expense	(37)	--	
Other, net	5	166	
Loss before income taxes	(330)	(420)	(
Income tax benefit	--	--	
Net (loss)	$ (330)	$ (420)	$
Preferred stock dividends paid or accumulated	(184)	(169)	
Net loss applicable to common shareholders adjusted for preferred stock dividend accumulated	(514)	(589)	(
Basic and Diluted Loss Per Common Share:	$(.02)	$(.03)	
Average Common Shares Outstanding:			
Basic and Diluted	23,177,275	19,577,894	22,0

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
The CattleSale Company and Subsidiaries
(Unaudited)

	(In Thousands) Nine Months Ended	
	Sept 30, 2004	Sept 30, 2003
Cash flows from operating activities:		
Net loss	$ (687)	$ (1,350)
Adjustments to reconcile net loss to net cash used in operating activities:		

Depreciation and amortization	38	36
Issuance of stock warrants	--	55
Amortization of debt discount	83	--
Special Compensation/Fees paid in Common Stock	50	--
Deferred income tax benefit	(400)	--
Changes in assets and liabilities:		
(Increase) decrease in prepaids	32	158
(Increase) decrease in receivables	22	72
(Increase) decrease in inventory	(2)	--
Increase (decrease) in accounts payable and accrued expenses	482	75
Other, net	6	6
Net cash used in operating activities	$ (376)	$ (948)
Cash flows from investing activities:		
Proceeds from limited partnership	--	6
Acquisition Costs	--	(150)
Proceeds from insurance policies	--	39
Net cash provided by (used in) investing activities	--	(105)
Cash flows from financing activities:		
Proceeds from issuance of debentures and related warrants	225	--
Sale of common stock	125	--
Net cash provided from financing activities	350	--
Net decrease in cash and cash equivalents	(26)	(1,053)
Cash and cash equivalents at beginning of period	30	1,236
Cash and cash equivalents at end of period	$ 4	$ 183
Cash payments for:		
Interest	$ --	$ --
Income taxes	$ --	$ --

See accompanying Notes to Consolidated Financial Statements.

The changes in operating assets and liabilities resulting from the acquisition transactions on February 25, 2003 and June 7, 2004 are not considered in determining net cash provided from operating activities.

THE CATTLESALE COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(In thousands, except per share data)
(Unaudited)

1. Summary of Significant Accounting Policies

Liquidity and Going Concern

The Company will not have sufficient cash resources to satisfy its cash requirements for 2004, including the payment of certain of its September 30, 2004 obligations, without an infusion of additional cash. In November and

December of 2003, the Company received short term financing of $125 to partially fund its operations. These notes matured in January and February of 2004, and the Company is currently in default on these notes. An additional $125 was received in the second quarter of 2004 as a private placement investment and proceeds of $225 were received in the third quarter of 2004 in conjunction with the issuance of debentures and related warrants (See note 7), also to partially fund its operations. Prior to the acquisition of CowTek, Inc.("CowTek"), as more fully described in Note 2, the Company had been primarily operating through one agent located in the Northwestern region of the United States, who was primarily responsible for generating most of the cattle transactions in 2003. The selling season for that region is generally in the summer and fall with deliveries occurring in the fall and winter. Consequently, subsequent to year end, the source of cash inflows to the Company has primarily been from the private investments, which is not sufficient to meet the Company's cash requirements. While the Company had been seeking to expand its agent network to include more coverage throughout the United States, in view of the acquisition of CowTek, the Company has elected to temporarily suspend its internet cattle trading operations and to devote its limited resources in expanding the CowTek operations. In addition, the Company is exploring several opportunities to provide cash infusions from equity and acquisition transactions. While the Company is simultaneously seeking additional "bridge" investments to fund its operations until more longer term capital investments are received, if at all, there can be no assurance that additional short term and/or longer term financing will be received and that the Company will be able to fulfill its obligations or continue operations.

As described, the Company will require an additional cash infusion to continue as a going concern. Pending such a cash infusion, the Company is unable to recruit additional agents and support its existing cattle auction trading service operations. The assumption that the Company will continue as a going concern is required by generally accepted accounting principles unless liquidation appears imminent. Management's plans are to resume and integrate the auction trading platform with the animal identification and traceability services to be provided by CowTek, subject to its obtaining sufficient financing. Management further believes that with the requisite cash to resume activities that is contemplated in the going concern assumption, the $708 goodwill arising from the CattleSale acquisition has not been impaired. It is possible that the going concern assumption will prove to be invalid, in which case the goodwill might not provide value equal to the carrying amount. Furthermore, the Company will perform its scheduled valuation of goodwill at December 31, 2004. Continued inactivity might erode the business value of the CattleSale name and operation which could result in an impairment loss at that time.

On April 9, 2004, the Company, along with co-tenants Canal Capital Corporation and Plaza Securities Company LP, entered into a settlement agreement with the landlord of its New York office lease. The settlement agreement provided for, among other things, termination of the lease in its entirety and full release of all of the parties. The release was contingent upon the forfeiture of the Company's and co-tenants' security deposits and the payment of two months rent. While the Company satisfied its portion of the first month's rent, the Company's portion of the second month's rent was paid directly by certain of the Company's directors and will be reimbursed to them. The terms of the original lease provided for lease termination in October, 2009.

Cash and Cash Equivalents

Cash equivalents include short-term, highly-liquid money market accounts or debt investments with overnight maturities and, as a result, the carrying value approximates fair value because of the short maturity of those instruments.

Revenue Recognition and Restatement

Effective February 25, 2003, the Company provided auction trading services through the internet to producers of beef and dairy cattle. The Company typically received a consignment fee from the producer at the time the producer entered into a listing agreement with the Company. If the listing resulted in a sale, this fee was refunded to the seller as a credit to the commission. If no sale occured, the Company retained the consignment fee. Commissions were based on a percentage of the selling price of the cattle, subject to a minimum per head charge. Commission revenue was recognized upon delivery of the cattle to the buyer.

Commissions, paid by the Company to its regional representatives, typically 60% to 80% of the Company's commission revenue, was recorded as selling costs when the Company recorded the related revenue.

The Company generally paid the seller prior to its collection from the buyer and thereby had credit risk for amounts greatly in excess of its commission revenue. Although not contractually bound, the Company also may have, in certain circumstances, absorbed losses from buyer rejection.

The previous management of the Subsidiaries before their acquisition by the Company had taken the position that the billings to the sellers should be reported as the Subsidiaries' revenue, the amounts paid to the sellers reported as the cost of sales and the net retained by the Subsidiaries reported as gross profit.

The Company continued previous management's policy in preparing its interim financial statements for the periods ended March 31, June 30 and September 30, 2003. After review of the Subsidiaries' current method of operations and the structuring of its transactions, management had concluded that reporting the Company's net commission as revenue is more appropriate. The statements of operations for the three and nine months ended September 30, 2003 have been restated to reflect net commission as revenue. The change had no effect on net loss or loss per share.

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Inventory

The Company recorded the inventory, consisting of approximately 50% raw materials and 50% finished goods, associated with the acquisition of CowTek, Inc at the estimated fair market value. The Company will record future inventory transactions at cost on a First-In First-Out (FIFO) basis.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Acquisitions

A. CowTek

The Company acquired the cattle identification, traceability and data management division of CowTek, Inc. ("CowTek"), effective June 7, 2004. CowTek, is the developer of ISO Memory tag technology with a proprietary distributive database management system for the identification and traceability of individual cattle records. Management believes that the addition of the CowTek technology provides the Company with a revenue producing business unit and will also eventually give the CattleSale.com trading platform a significant advantage as the first electronic trading platform in the country that will offer traceable source verified cattle as one of its product choices. To date, CowTek's sales have principally resulted from beta test sites .

The Company did not expend any cash in acquiring CowTek. Rather, the purchase price consisted of:

(a) $3 Million Dollars face amount (300,000) shares of The CattleSale Company ("CTLE") $10 Series B Cumulative, Convertible Preferred Stock.
(b) 1,000,000 CTLE Common Stock warrants exercisable at $0.12 for 2 years;
(c) 1,000,000 CTLE Common Stock warrants exercisable at $0.50 for 3 years;
(d) 2,000,000 CTLE Common Stock warrants exercisable at $0.75 for 3 years; and

The following table summarizes the estimated fair values of the assets and liabilities of CowTek at the date of acquisition. While the Company is in the process of determining and quantifying the breakdown of the intangible asset between software and patented technology, the Company does not anticipate any significant changes to the purchase price allocation. Pending this determination, the Company has not yet determined the estimated useful lives of the assets. This determination would have no material effect on the results of operations for the three and nine months ended September 30, 2004.

	Date of Acquisition
Inventory	$116
Equipment, Furniture & Fixtures	22
Intangible Assets	484
Total Assets Acquired	622
Current Liabilities Assumed	126
Net Assets Acquired	$496

The total transaction value of $496 included 1) 300,000 shares of the Company's Series B Preferred Stock convertible into 2,175,000 shares of Common Stock valued at $261 representing the price of the Common Stock for a representative period before and after the announcement of the terms of the transaction multiplied by 2,175,000 and 2) the $235 fair market value of the 4,000,000 warrants issued to purchase the common stock calculated by using a Black Scholes model.

Pro Forma Financial Information

The accompanying unaudited condensed pro forma statement of operations of the Company for the nine month period ended September 30, 2004 gives effect to the acquisition of CowTek as if it had occurred on January 1, 2004.

The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the acquisition of CowTek been consummated as of January 1, 2004, nor is the information necessarily indicative of future operating results.

The CattleSale Company and Subsidiaries

Pro Forma Statement of Operations
For the nine months ended September 30, 2004
($'s in 000's)

	As Reported	Adjustments	P
Net Sales	$ 1	$ 18 (1)	
Cost of Sales	-	27 (1)	
Gross Profit	1	(9)	
Selling, general and administrative expenses	1,016	97 (1) 5 (2)	
Operating loss	$ (1,015)	$ (111)	
Non-operating income (expense):			
Interest income (expense)	(96)	--	
Other, net	24	--	
Income Tax Benefit	400	--	
Net loss	$ (687)	$ (111)	$
Cumulative dividend on preferred stock	(516)	(548)	
Net loss available to common shareholders	$ (1,203)		$
Net loss per common share	$ (.06)		$
Average common shares outstanding: Basic and Fully Diluted	22,082,450		22

Notes to the Pro Forma Statement of Operations

(1) Reflects the actual results of CowTek for the period January 1, 2004 through June 6, 2004.

(2) Reflects depreciation expense on the fair value of CowTek's fixed assets acquired for the period January 1, 2004 through June 6, 2004.

(3) Assumes 300,000 shares of series B preferred stock were outstanding for the entire period of January 1, 2004 through September 30, 2004.

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The estimated pro forma effect on the Company's results of operations for the year ending December 31, 2003 had the acquisition occurred on January 1, 2003 is as follows: 2003

	Historical	Pro Forma
Revenue (net of $5,481 gross historical billings in 2003)	$113	$153
Net loss	(1,830)	(2,107)
Loss per share	(.13)	(.15)

B. ID Comm

On April 22, 2004, the Company entered into a letter of intent to acquire a 45 percent equity position in IDComm, Inc.("IDComm"). IDComm has proprietary software for Distributed Database Technology using RF Tags and 2-D Barcode structures. IDComm, the owner of the patent underlying the SmartWare(TM) technology, has successfully implemented the SmartWare(TM) technology along with read/write hardware into the cattle industry through CowTek, Inc., which CattleSale has acquired and of which a major investor also holds a majority interest in IDComm. IDComm presently is developing several applications for use outside of the agricultural sector.

The proposed acquisition was structured around the issuance of 150,000 shares of The CattleSale Company's $10 Convertible Preferred Stock B and 500,000 stock options of The CattleSale Company's common stock exercisable at $.25. While the proposed transaction was expected to close in the third quarter of 2004, a definitive purchase agreement was not finalized during the exclusivity period prescribed by the Letter of Intent. However, the Company and IDComm are currently negotiating a new agreement whereby the Company would purchase 100% of IDComm. While the specific terms of the agreement have not yet been finalized, the purchase price would most likely consist of equity and future royalty payments and the agreement would most likely be contingent on the Company's being able to secure adequate working capital funding in the short term.

3. Non-operating Income (Expense)

	Quarter Ended		Nine Months Ended	
	9/30/04	9/30/03	9/30/04	9/30/03
Interest earned	$ --	$ --	$ --	$ 2
Imputed interest	6	6	18	19
Interest expense	(37)	--	(96)	--
Unclaimed Bankruptcy Checks		160		160
Other	(1)	--	6	--
	$ (32)	$166	$ (72)	$ 181

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4. Accounts Receivable

The Company has a receivable from Vugate, Inc. ("Vugate"), the buyer of its videoconferencing business. This receivable consists of a note with a remaining face amount of $159 that is payable out of certain Vugate cash flows. This note is carried on the balance sheet at $145, $40 of which is classified as a current asset, which represents the present value of the estimated payments at a discount rate of 12.5% per annum. The Company imputed interest income at 12.5% per annum on the adjusted balance on a prospective basis beginning in the first quarter of 2002. While the Company currently believes that the receivable is fully collectible, it is reasonably possible that the note will be collected at a slower or faster rate than estimated or that a portion of the note will turn out to be uncollectible.

As of March 31, 2004, the Company had a $909 receivable from the Dynacore Patent Litigation Trust (the "Trust") plus $194 of accrued interest. The collection of the receivable was solely dependent upon the success or favorable settlement of the Patent Litigation. In view of the summary judgment granted to the defendants in the Patent Litigation on February 11, 2003, an allowance for the full amount of the receivable was recorded as of December 31, 2002. The trust appealed this ruling and on March 31, 2004, the United States Court of Appeals for the Federal Circuit rejected the appeal. As a result of the loss of the appeal, the amounts were written off in the quarter ended March 31, 2004.

The Company had not recorded the accrued interest as income.

Because of the lack of specific payment terms and comparable instruments, it is not practicable to estimate the fair value of the note receivable from Vugate.

5. Accrued Expenses

	Sept 30, 2004	Dec 31, 2003
Salaries, commissions, bonuses and other benefits	$282	$81
Accrued professional fees	126	133
Other	11	18
	$419	$232

6. Commitments and Contingencies

From time to time, the Company is a defendant in lawsuits generally incidental to its business. The Company is not currently aware of any such suit, which if decided adversely to the Company, would result in a material liability in relation to the financial position and results of operations. Subsequent to September 30, 2004, a lawsuit was initiated against the Company by one of its creditors seeking payment of approximately $206 related to alleged services and expenses incurred by the creditor. Of this amount, the Company had recorded accounts payable of approximately $166 prior to September 30, 2004. However, the Company is currently in discussions with the creditor in an attempt to settle this matter amicably.

As a result of the March 31, 2004 ruling rejecting the appeal of the Patent Litigation described in Footnote 3, the District Court must rule on the defendants' motions for taxable costs and attorneys' fees. The Company and the Trust believe that they acted in good faith in bringing and prosecuting the Action and that they have valid defenses to and arguments against defendants' motions. Although the Company and the Trust believe the motions for attorneys' fees to be without merit, there can be no assurance that the District Court will rule in favor of the Company and the Trust. The Company and the Trust cannot predict (i) when the District Court will rule on defendants' motions for attorneys' fees, (ii) how the District Court will rule on the motion, and (iii) the amount of any attorneys' fees if awarded by the District Court. However, a ruling against the Company may have a material adverse effect on the Company.

In addition, the Company was obligated to loan the Trust up to $1,000. At September 30, 2004, $909 had been advanced. As a result of the rejected appeal, Trust financial obligations up to the remaining commitment of $91 may be claimed against the Company.

As of September 30, 2004, the Company only has month-to-month leases on its remaining premises. Rent expense was $39 and $77 for the three and nine months ended September 30, 2004 respectively.

7. Notes Payable

As of September 30, 2004, there were three notes payable outstanding with a total face amount of $132. All three bear interest at 8% per annum, with maturities ranging from January 15, 2004 through February 15, 2004. In 2003, a total of 275,000 shares of the Company's common stock were issued in conjunction with the issuance of these notes. The debt discount on these notes of $47, including $40 representing proceeds allocated to the stock issued, was amortized over the maturity life of the notes.

Currently, the Company is in payment default on all of these notes. Two notes were amended in the first quarter of 2004 to include default interest of 12% for all unpaid amounts after the maturity date as well as the issuance of an additional 135,000 shares of the Company's common stock that were assigned a value of $27 based on the quoted prices on the day of the amendments.

Because of the uncertain effect of the changes in the Company's financial condition, the Company does not believe that it is practicable to estimate the fair value of the notes payable at the balance sheet date.

During the third quarter ended September 30, 2004, the Company received proceeds of $225 in conjunction with the issuance of debentures. These debentures mature in one year, are non-interest bearing and are convertible into the Company's common stock at $0.05 per share (aggregate 4,500,000 shares) at the option of the holder. In addition, a warrant is attached to each convertible share to purchase the Company's common stock at an exercise price of $.09 per share, which expires in two years. Using the Black-Scholes model the Company estimated the fair value of the warrants and allocated $95 of the $225 proceeds received to the warrants which was recorded as deferred interest and presented as a discount on the notes payable. $12 of this discount was amortized as interest expense during the three months ended September 30, 2004.

Also, on the dates of the issuance of several of the notes payable, the Company's common stock had a closing price per share on the Over-the Counter Bulletin Board that, based on the terms of the conversion associated with the notes, created an intrinsic value associated with the beneficial conversion feature estimated at $117 of proceeds not allocated to the warrants, which was also recorded as deferred interest and presented as a discount on the notes payable. The $20 of this discount was amortized as interest expense during the three months ended September 30, 2004.

Based on the $46 carrying value at September 30, 2004 and the future contractual cash payments under the debt, if not converted, the prospective effective interest rate per annum on the note is approximately 204%.

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8. Federal Income Taxes

Included in the results for the nine month period ended September 30, 2004 is a one time income tax benefit of $400. The income tax benefit relates to the reversal of deferred tax liabilities associated with certain foreign subsidiaries which the Company divested in Fiscal Year 2000 as part of its reorganization under Chapter 11. The Company has re-evaluated its exposure to these taxes and does not believe it will incur any future tax liability related to these former foreign subsidiaries.

9. Stockholders' Equity

A rollforward of the Company's Common shares outstanding is as follows:

Balance as of 12/31/03	20,353,700
Preferred Stock Conversions	38,874
Amendment to Notes Payable	135,000
Private Placement Investment-$50 Received	833,333
Balance as of 3/31/04	21,360,907

Private Placement Investment--$75 Received	1,266,667
Employee Compensation--$41 Expensed	450,000
Balance as of 6/30/04	23,077,574
Professional Services Rendered--$10 Expensed	99,701
Balance as of 9/30/04	23,177,275

10. Stock Options

As part of the CowTek Acquisition agreement, options to purchase 450,000 shares of the Company's common stock were granted to a former CowTek employee pursuant to an eighteen month employment agreement. Each of the 450,000 options, which fully vest at the end of the eighteen month employment term, provides for the issuance of one share of the Company's common stock at .10 per share. The options were valued at $16 per a Black Scholes calculation but in accordance with Company policy and with APB 25 to record the options at intrinsic value, no financial statement recognition has been made. Had the Company recorded the options as compensation expense pursuant to FASB 123, there would be no material effect on the Company's financial statements for the period ended September 30, 2004.

11. Certain Relationships and Related Transactions

During the nine months ended September 30, 2004, the Company incurred approximately $99 of consulting services rendered by MPI Venture Management, LLC. ("MPI"). Messrs. David W. Pequet and Mark A. Margason, both Company directors, are also principals of MPI. As of September 30, 2004, this liability was reflected as an accounts payable of the Company and MPI has agreed in principle to accept the Company's common stock to satisfy this obligation. In addition, of the amounts included in accounts payable and accrued expenses as of September 30, 2004, approximately $215 represents amounts due to current officers and directors related to salary and/or expense reimbursements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
(for the three and nine months ended September 30, 2004 and 2003)
($ in thousands)

Results of Operations

For the quarter and nine month period ended September 30, 2004, the Company reported a net loss of $330 and $687 and an operating loss of $298 and $1,015, respectively. For the same periods, the Company reported non-operating expense of approximately $32 and $72, respectively.

For the quarter ended September 30, 2004, the Company had no revenue. The Company had been primarily operating through one agent located in the Northwestern region of the United States, who was primarily responsible for generating most of the cattle transactions in 2003. The selling season for that region is generally in the summer and fall with deliveries occurring in the fall and winter. Therefore, until more agents are enlisted, revenue will be limited to this cyclical selling season.

Included in the results for the nine month period ended September 30, 2004 is a one time income tax benefit of $400. The income tax benefit relates to the reversal of deferred tax liabilities associated with certain foreign subsidiaries which the Company divested in Fiscal Year 2000 as part of its reorganization under Chapter 11. The Company has re-evaluated its exposure to these taxes and does not believe it will incur any future tax liability related to these former foreign subsidiaries.

For the quarter and nine month period ended September 30, 2003, the Company reported a net loss of $420 and $1,350, an operating loss of $586 and $1,531, and recorded revenue of $12 and $22, respectively. For the same periods, the Company reported non-operating income of approximately $166 and $181, respectively.

Financial Condition

During the first nine months of 2004, the Company's cash and cash equivalents decreased approximately $26 as a result of investment proceeds of $350 and the payment of certain operating expenses of $376 for the first nine months of 2004. As of September 30, 2004, the Company had cash and cash equivalents of approximately $4.

The Company will not have sufficient cash resources to satisfy its cash requirements for 2004, including the payment of certain of its September 30, 2004 obligations, without an infusion of additional cash. In November and December of 2003, the Company received short term financing of $125 to partially fund its operations. These notes matured in January and February of 2004, and the Company is currently in default on these notes. An additional $125 was received in the second quarter of 2004 as a private placement investment and proceeds of $225 were received in the third quarter of 2004 in conjunction with the issuance of debentures, also to partially fund its operations. Prior to the acquisition of CowTek, Inc.("CowTek"), as more fully described in Note 2, the Company had been primarily operating through one agent located in the Northwestern region of the United States, who was primarily responsible for generating most of the cattle transactions in 2003. The selling season for that region is generally in the summer and fall with deliveries occurring in the fall and winter. Consequently, subsequent to year end, the source of cash inflows to the Company has primarily been from the private investments, which is not

sufficient to meet the Company's cash requirements. While the Company had been seeking to expand its agent network to include more coverage throughout the United States, in view of the acquisition of CowTek, the Company has elected to temporarily suspend its internet cattle trading operations and to devote its limited resources in expanding the CowTek operations. In addition, the Company is exploring several opportunities to provide cash infusions from equity and acquisition transactions. While the Company is simultaneously seeking additional "bridge" investments to fund its operations until more longer term capital investments are received, if at all, there can be no assurance that additional short term and/or longer term financing will be received and that the Company will be able to fulfill its obligations or continue operations.

As described, the Company will require an additional cash infusion to continue as a going concern. Pending such a cash infusion, the Company is unable to recruit additional agents and support its existing cattle auction trading service operations. The assumption that the Company will continue as a going concern is required by generally accepted accounting principles unless liquidation appears imminent. Management's plans are to resume and integrate the auction trading platform with the animal identification and traceability services to be provided by CowTek, subject to its obtaining sufficient financing. Management further believes that with the requisite cash to resume activities that is contemplated in the going concern assumption, the $708 goodwill arising from the CattleSale acquisition has not been impaired. It is possible that the going concern assumption will prove to be invalid, in which case the goodwill might not provide value equal to the carrying amount. Furthermore, the Company will perform its scheduled valuation of goodwill at December 31, 2004. Continued inactivity might erode the business value of the CattleSale name and operation which could result in an impairment loss at that time.

As a result of the March 31, 2004 ruling rejecting the appeal of the Patent Litigation described in Footnote 3, the District Court must rule on the defendants' motions for taxable costs and attorneys' fees. The Company and the Trust believe that they acted in good faith in bringing and prosecuting the Action and that they have valid defenses to and arguments against defendants' motions. Although the Company and the Trust believe the motions for attorneys' fees to be without merit, there can be no assurance that the District Court will rule in favor of the Company and the Trust. The Company and the Trust cannot predict (i) when the District Court will rule on defendants' motions for attorneys' fees, (ii) how the District Court will rule on the motion, and (iii) the amount of any attorneys' fees if awarded by the District Court. However, a ruling against the Company may have a material adverse effect on the Company.

In addition, the Company was obligated to loan the Trust up to $1 million. At September 30, 2004, $909 had been advanced. As a result of the rejected appeal, Trust financial obligations up to the remaining commitment of $91 may be claimed against the Company.

Cautionary Statement Regarding Risks and Uncertainties

This Quarterly Report on Form 10-QSB contains "forward-looking statements" about the business, financial condition and prospects of the Company which are intended to be covered by the safe harbors created by Section 27A of the Securities Act of 1993, as amended and Section 21E of the Securities Exchange Act of 1934. All statements that are not historical facts, including statements about management's beliefs or expectations, are forward looking statements. When used in this Quarterly Report on Form 10-Q, the words "believes," "estimates," "plans," "expects," "will," "may," "intends" and "anticipates," and similar expressions as they relate to the Company or its management, are intended to identify forward-looking statements.

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The Company's actual results could differ materially from those indicated by the forward looking statements because of various risks and uncertainties, including, without limitation, changes in competition, economic conditions, new product development, changes in tax and other governmental rules and regulations applicable to the Company and other risks indicated in the Company's filings with the Securities and Exchange Commission and normal business uncertainty. These risks and uncertainties are beyond the ability of the Company to control, and in many cases, the Company cannot predict the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements.

While management believes that its assumptions are reasonable at the time forward looking statements were made, it is impossible to predict the actual outcome of numerous factors, and, therefore, undue reliance should not be placed on such statements. Forward looking statements speak only as of the date they are made and the Company does not undertake the obligation to update such statements in light of new information or future events that involve inherent risks and uncertainties.

Item 3. Controls and Procedures

(a) Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including David S. Geiman and Phillip P. Krumb, the Company's chief executive officer and chief financial officer, respectively, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, Messrs. Geiman and Krumb concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings with the Securities and Exchange Commission.

(b) There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the date the Company carried out this evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
99.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K filed during the quarter ended September 30, 2004

No reports were filed during the third quarter, 2004.

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SIGNATURE

Pursuant to the requirements 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.

THE CATTLESALE COMPANY
(Registrant)

DATE: November 19, 2004

/s/ Philip P. Krumb

Phillip P. Krumb
Chief Financial Officer
(Chief Accounting Officer)

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Exhibit 99.1

CERTIFICATION

I, David S. Geiman, Company, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of The CattleSale Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 19, 2004

/s/ David S. Geiman
Name: David S. Geiman
Title: Chief Executive Officer

Exhibit 99.1

CERTIFICATION

I, Phillip P. Krumb, Company, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of The CattleSale Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit

committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 19, 2004

/s/ Phillip P. Krumb
Name: Phillip P. Krumb
Title: Chief Financial Officer

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CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of The CattleSale Company (the "Company") on Form 10-QSB for the quarter ended September 30, 2004, as filed with the Securities and Exchange Commission (the "Report"), David S. Geiman, Chief Executive Officer of the Company and Phillip P. Krumb, Chief Financial Officer of the Company, respectively, do each hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that to his knowledge:

(1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David S. Geiman
David S. Geiman
Chief Executive Officer

/s/Phillip P. Krumb
Phillip P. Krumb
Chief Financial Officer

(A signed original of this written statement required by Section 906 has been provided to The CattleSale Company and will be retained by The CattleSale Company and furnished to the Securities and Exchange Commission or its staff upon request)