VERTICALNET INC
Form 10-K
March 31, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

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

Commission File Number 000-25269

VERTICALNET, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2815834**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

400 CHESTER FIELD PARKWAY

MALVERN, PENNSYLVANIA	**19355**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (610) 240-0600

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.01 per share

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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of June 30, 2004 (the last day of our most recently completed second quarter), the aggregate market value of the common stock held by non-affiliates of the registrant was $31,311,166. Such aggregate market value was computed by reference to the closing sale price per share of $1.56 as reported on The Nasdaq SmallCap Market on such date. For purposes of making this calculation only, the registrant has defined affiliates as including all officers, directors, and beneficial owners of more than five percent of the common stock of the Company. In making such calculation, the registrant is not making a determination of the affiliate or non-affiliate status of any holders of shares of the registrant s common stock.

The number of shares outstanding of the registrant s common stock as of March 1, 2005 was 42,814,374 (includes 702,927 shares subject to an escrow agreement in connection with a recent acquisition).

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VERTICALNET, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2004

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The information in this report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements contained in this report that are not statements of historical fact may be deemed forward-looking statements. Words such as may, might, will, would, should, could, project, estimate, pro forma, predict, potential, strategy, anticipate, plan to expect, and words of similar expression (including the negative of any of the foregoing) are intended to identify forward-looking statements. Additionally, forward-looking statements in this report include statements relating to the design, development, and implementation of our products; the strategies underlying our business objectives; the benefits to our customers, and their trading partners, of our products; our liquidity and capital resources; and the impact of our acquisitions and investments on our business, financial condition, and operating results.

Our forward-looking statements are not meant to predict future events or circumstances and may not be realized because they are based upon current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ materially from those currently expected as a result of these risks and uncertainties. Factors that may cause or contribute to a difference between the expected or desired results and actual results include, but are not limited to, the availability of and terms of equity and debt financing to fund our business; our reliance on the development of our enterprise software business; our ability to continue to remain listed on the Nasdaq SmallCap Market; competition in our target markets; economic conditions in general and in our specific target markets; our ability to use and protect our intellectual property; and our ability to attract and retain qualified personnel, as well as the risks discussed in the section of this report entitled Factors Affecting Our Business Condition. Given these uncertainties, investors are cautioned not to place undue reliance on our forward-looking statements. We disclaim any obligation to update these factors or to announce publicly the results of any revisions to any of the forward-looking statements contained in this report to reflect future events or developments.

INFORMATIONAL NOTE REGARDING PRIOR STOCK SPLITS

Information in this report has been adjusted to reflect two separate stock splits of our common stock. A two-for-one stock split was effective on March 31, 2000 and a one-for-ten reverse stock split was effective on July 15, 2002. All references to shares and per share amounts have been adjusted retroactively for these splits.

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PART I

Item 1. *Business*

Verticalnet, Inc., which was incorporated on July 28, 1995 under the laws of Pennsylvania, is referred to throughout this report as Verticalnet, the Company, the registrant, we, us, or through similar expressions.

We are a provider of Supply Management solutions to Global 2000 companies. We provide a full scope of Supply Management software, services, and domain expertise in areas that include: Program Management, Spend Analysis, eSourcing, Advanced Sourcing, Contract Management, and Supplier Performance Management. Our solutions help our customers to save money on the goods and services they buy.

As a result of the January 2004 acquisition of Tigris Corp. (Tigris), we began generating revenues from spend analysis and other supply chain consulting services and as a result of the July 2004 acquisition of B2eMarkets, Inc. (B2eMarkets), we have seen an increase in the amount of our revenues coming from software license, subscription, and maintenance revenues. See Management s Discussion and Analysis of Financial Condition and Results of Operations - Company Overview for a discussion of the significant changes in our business in 2004.

Competitive Advantage

We believe our solutions are differentiated by the breadth of our Supply Management offering, our on-demand delivery model, the depth of our consulting and services expertise and our category specific advanced sourcing solutions.

Supply Management Suite We believe that we offer a complete suite of supply management solutions to help our customers to automate the full lifecycle of the strategic sourcing process from opportunity identification, through supplier negotiation, contract management, performance management, and compliance measurement.

On-Demand We believe that we deliver the broadest suite of supply management solutions on-demand. Verticalnet On-Demand enables companies to achieve and sustain lower total cost of ownership by enabling them to access Verticalnet XE applications over the Internet with no software installation required. We believe that Verticalnet On-Demand significantly reduces the risk associated with implementing a strategic supply management solution. With Verticalnet On-Demand, there is no software to install, maintain, and support and no prohibitive up-front costs. Verticalnet manages all of the infrastructure management and support services, including buyer and supplier enablement.

Services - We offer a services approach across all of our solutions for companies that are looking for business process improvement or assistance with complex data problems. Our services teams have focused skill sets and experience which enable them to address highly complex client sourcing needs. We believe our service capabilities are an advantage versus most of our software-focused competitors.

Category Solutions We believe that Verticalnet s category-specific Advanced Sourcing solutions are unique amongst other supply management competitors. Category Solutions, a combination of technology and consulting services, are tailored towards specific categories, such as transportation, packaging, industrial maintenance, repair, and operations (MRO), and commercial printing. We believe that this offering provides significant differentiation versus our traditional competitors and often provides a solution to sell to companies that may have already purchased software from a competitor.

Our Solutions

Our solutions consist of a tailored mix of software, services, and process expertise designed to meet the specific needs of our customers. Supply Management encompasses the lifecycle of strategic sourcing and procurement. Our Verticalnet XE suite of software solutions consist of five modules: Program Manager, Spend Manager, Negotiation Manager, Contract Manager, and Performance Manager. Additionally we offer technology enabled, category-specific Advanced Sourcing services, as well as on-demand services

Verticalnet XE

Verticalnet XE is an end-to-end supply management suite that enables sourcing and procurement organizations to balance price, performance, and risk to achieve a lower total cost of ownership. The following five modules that comprise our Verticalnet XE suite of software solutions are available independently, or as an integrated offering.

Verticalnet Program Manager facilitates the rollout of re-usable program and process management to ensure that strategic sourcing processes are applied across the supply management lifecycle.

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Verticalnet Spend Manager provides a fast, intelligent, repeatable, and straightforward solution to analyze spending patterns to monitor compliance and identify sourcing opportunities.

Verticalnet Negotiation Manager is a comprehensive solution for creating, collaborating, publishing, negotiating, and analyzing auctions, requests for proposal and/or requests for quote.

Verticalnet Contract Manager provides the tracking, management, and negotiation capabilities necessary to negotiate and provide enterprise-wide access to contracts.

Verticalnet Performance Manager provides effective management of performance and compliance, and then the ability to immediately remedy problem areas.

Verticalnet Category Solutions

Verticalnet Category Solutions combine Verticalnet technology, services, and category expertise to enable companies to drive additional value from strategic, complex categories. Verticalnet Category Solutions include:

Transportation

Packaging

Industrial MRO

Commercial printing

On-Demand Services

Verticalnet On-Demand enables companies to rapidly achieve and sustain lower total cost of ownership by enabling them to access Verticalnet XE applications over the Internet with no software installation required. We believe that Verticalnet On-Demand significantly reduces the risk associated with implementing a strategic supply management solution. With Verticalnet On-Demand, there is no software to install, maintain, and support and no prohibitive up-front costs. Verticalnet manages all of the infrastructure management and support services, including buyer and supplier enablement. Verticalnet s on-demand services include:

Community Support

Event support

- Proxy bidding
- Trading floor management
- Application usage support

Infrastructure Management

- Application hosting
- Hardware and software management
- Application performance management

Education and Training

Consulting

Verticalnet s consulting organization has completed hundreds of supply management consulting engagements with Global 2000 companies. Our consultants have particular expertise at managing large volumes of customer data to perform spending analysis and complete strategic sourcing engagements for large, complex purchasing categories such as packaging; transportation; maintenance, repair and operational (MRO); services; and printed materials.

Our consultants have also performed many supply chain optimization consulting engagements for large clients. Our consulting organization consists of 45 consultants based out of our New York, Chicago, and Malvern offices. Our consulting personnel possess both real world experience and strong academic backgrounds in the fields of engineering, operations research, and computer science which enable them to deliver rigorous data-driven approaches for solving complex sourcing problems.

Our consultants also help customers plan, implement, and manage our software products so that they achieve their business objectives. At the heart of our implementation services are straightforward methodologies and tools that make software implementations smooth and efficient. Our methodology approaches implementation in well-defined, manageable phases rolling out categories, suppliers, and customers over discrete intervals and targets the first customer go-live generally in less than 90 days.

Custom Development

Verticalnet offers custom development for customers that desire to build additional capabilities into Verticalnet s applications. Verticalnet s Solution Center works with clients to define custom development requirements and build the required functionality on top of our Collaborative Supply Chain Foundation. Often, new capabilities developed for customers can be built into future versions of the Verticalnet software.

Verticalnet s software platform was built to be flexible and extensible. Our customers find that many of their complex supply chain problems often can be solved by taking advantage of the features of the platform. Our Solution Center approach allows Verticalnet to complete customization projects more quickly and cost effectively than internal IT organizations or traditional custom development firms. Typically the resulting custom developed applications are fully integrated with, and built on the same data model as, the customer s existing Verticalnet implementation.

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Customers

We have two customers, Premier, Inc. and A.T. Kearney, which each represent over 20% of our total revenue for the year ended December 31, 2004. The termination of our relationship by either of these customers could have a material adverse effect on our business, operating results, and financial condition.

Sales and Marketing

Our direct sales organization focuses on selling supply management solutions to large companies, typically with over $1 billion in revenues. We typically target companies in manufacturing, consumer products, pharmaceuticals, and retail where supply management is a critical driver of corporate profitability. Our sales team members have deep experience in either enterprise software sales or in solution-based sales. Our direct sales force is teamed with pre-sales consultants that work with prospects to select the proper solution to meet customer requirements and deliver the greatest value. Account executives are split into two organizations, one focused on new account sales, and the other focused on uncovering new business opportunities with existing customers.

We also use selective indirect sales channels, such as third-party alliances, to market our solutions, and to increase the market penetration of our solutions through joint marketing and sales activities. Such relationships allow us to extend the reach of our sales efforts without increasing headcount.

We support our sales activities by conducting a variety of marketing programs and participate in industry conferences. We maintain relationships with recognized industry analysts including AMR Research and Aberdeen Group. These firms advise our target client base, as well as provide us with critical feedback into our product management process. We also conduct lead-generation programs including telesales, web seminars, advertising, direct mail, email marketing, public relations, ongoing client communication programs, and several Verticalnet-moderated conferences and seminars.

Proprietary Rights

We regard our software as proprietary and rely on a combination of trade secret, patent, copyright and trademark laws, license agreements and other contractual arrangements, and confidentiality and non-disclosure agreements with our employees, our clients, consulting partners, and others to help protect proprietary rights in our products. We distribute our supply management applications under software license agreements, which typically grant clients perpetual nonexclusive, nontransferable licenses to our software products. Under such typical license agreements, we retain all rights to our products.

Use of the licensed software is usually restricted to clients internal operations and to designated users. Use is subject to terms and conditions that prohibit unauthorized reproduction or transfer of the software. We also seek to protect the source code of our software as a trade secret and as an unpublished, copyrighted work.

We typically enter into master service or professional service agreements and/or statements of work with our customers who purchase our services. These agreements also have similar provisions to protect our intellectual and proprietary rights to the tools we may use to provide our services.

Research and Development

We direct our efforts in research and development to new products, enhancements of the capabilities in existing products, and expansion of our supply management capabilities. Our internal research and development team has developed most of our current products. In addition we obtained some underlying technology through acquisitions. In developing new products or enhancements, we work closely with current and prospective clients, as well as with industry experts, to ensure that our products address the critical supply chain needs of today s businesses. We believe that this collaboration is necessary to develop and improve our software and products. Our product group works closely with our marketing, sales, and services groups to develop products that meet real customer needs. As of March 1, 2005, our research and development staff consisted of 38 employees.

In August 2003, we entered into an agreement with Symphony Service Corp., a U.S. based company, to provide software development services at a global development center in Bangalore, India. In addition, we utilized additional software developers with Paragon Solutions, Inc., a U.S. based company, which also provides software development services at a development center located in Bangalore, India. We assumed the Paragon relationship as part of our acquisition of B2eMarkets under an agreement that expires June 30, 2005, which can be terminated with 30 days notice. As of March 1, 2005, there were 39 software developers providing development expertise at these two contractors.

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Competition

The markets for our solutions are highly competitive. Our competitors are diverse and offer a variety of solutions targeting various segments of the extended supply chain, as well as the enterprise as a whole. More specifically, we compete with:

- Large enterprise resource planning (ERP) software vendors, including Oracle and SAP, who have added or are attempting to add capabilities for strategic sourcing to their products;
- e-Sourcing solution providers, such as Ariba and a number of privately held solution providers, and
- Internal efforts by corporate information technology departments or procurement organizations.

We believe that the principal competitive factors affecting our market include breadth and depth of solutions, depth of industry or category expertise, specific product features and performance, ability to implement solutions, value of solutions, corporate viability, and a base of reference customers. Although we believe that our solutions currently compete favorably with respect to these factors, our market is evolving rapidly, and we may not be able to maintain our competitive position against current and potential competitors, especially those with greater financial, marketing, service, support, technical, and other resources.

Small/Medium Business Unit

In June 2002, we completed the sale of certain of the assets of our Small/Medium Business (SMB) unit to Corry Publishing, Inc. for $2.35 million in cash consideration, plus up to an additional $6.5 million as an earn-out over the four-year period after the closing date. Additionally, during the quarter ended June 30, 2002, other assets in the SMB unit were sold under a separate agreement. Together, the transactions substantially finalized the operations of the SMB unit as part of Verticalnet.

Employees

As of March 1, 2005, we had 157 employees. We consider our relationship with our employees to be good. None of our employees are covered by collective bargaining agreements.

Website Disclosures

We maintain a website at www.verticalnet.com and make available free of charge on this website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (SEC). The material on our website is not part of this report.

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Item 2. ***Properties***

Our corporate headquarters is located in Malvern, Pennsylvania. We maintain other locations throughout the United States and in Europe. The locations of these facilities and their respective size and lease status are as follows:

Location	Type of Facility	Size (in sq/ft)	Ownership Status
Malvern, Pennsylvania	Headquarters	4,800	Leased
Endicott, New York	Development	7,700	Leased
Washington, DC	Office (a)	3,200	Leased
New York, New York	Office (b)	6,900	Leased
Chicago, Illinois	Office (b)	8,300	Leased
London, United Kingdom	Office (b)	100	Leased
Rockville, Maryland	Office (c)	6,000	Leased
San Jose, California	Office (c)	4,700	Leased

(a) We are currently subleasing this property to an unrelated third party for $9,400 per month.
(b) Acquired as part of the Tigris acquisition on January 30, 2004. See Note 3 to the consolidated financial statements regarding this event.
(c) Acquired as part of the B2eMarkets acquisition on July 19, 2004. See Note 3 to the consolidated financial statements regarding this event.

Item 3. ***Legal Proceedings***

On June 12, 2001, a class action lawsuit was filed against us and several of our officers and directors in U.S. Federal Court for the Southern District of New York in an action captioned CJA Acquisition, Inc. v. Verticalnet, et al., C.A. No. 01-CV-5241 (the CJA Action). Also named as defendants were four underwriters involved in the issuance and initial public offering of our common stock in February 1999 Lehman Brothers Inc., Hambrecht & Quist LLC, Volpe Brown Whelan & Company LLC, and WIT Capital Corporation. The complaint in the CJA Action alleges violations of Sections 11 and 15 of the Securities Act of 1933 (the Securities Act) and Section 20(a) of the Securities Exchange Act of 1934 (the Exchange Act) and Rule 10b-5 promulgated there under, based on, among other things, claims that the four underwriters awarded material portions of the initial shares to certain favored customers in exchange for excessive commissions. The plaintiff also asserts that the underwriters engaged in a practice known as laddering, whereby the clients or customers agreed that in exchange for IPO shares they would purchase additional shares at progressively higher prices after the IPO. With respect to Verticalnet, the complaint alleges that the Company and its officers and directors failed to disclose in the prospectus and the registration statement the existence of these purported excessive commissions and laddering agreements. After the CJA Action was filed, several copycat complaints were filed in U.S. Federal Court for the Southern District of New York. Those complaints, whose allegations mirror those found in the CJA Action, include Ezra Charitable Trust v. Verticalnet, et al., C.A. No. 01-CV-5350; Kofsky v. Verticalnet, et al., C.A. No. 01-CV-5628; Reeberg v. Verticalnet, C.A. No. 01-CV-5730; Lee v. Verticalnet, et al., C.A. No. 01-CV-7385; Hoang v. Verticalnet, et al., C.A. No. 01-CV-6864; Morris v. Verticalnet, et al., C.A. No. 01-CV-9459; and Murphy v. Verticalnet, et al., C.A. No. 01-CV-8084. None of the complaints state the amount of any damages being sought, but do ask the court to award rescissory damages. All of the foregoing suits were amended and consolidated into a single complaint that was filed with the U.S. Federal Court on April 19, 2002. This amended complaint contains additional factual allegations concerning the events discussed in the original complaints, and asserts that, in addition to Sections 11 and 15 of the Securities Act, the Company and our officers and directors also violated Sections 10(b), 20(a), and Rule 10b-5 of the Exchange Act in connection with the IPO. In addition to this amended and consolidated complaint, the plaintiffs in this lawsuit and in the hundreds of other similar suits filed against other companies in connection with IPOs that occurred in the late 1990s have filed master allegations that primarily focus on the conduct of the underwriters of the IPOs, including our IPO. On October 9, 2002, the U.S. Federal Court for the Southern District of New York entered an order dismissing, without prejudice, the claims against the individual Verticalnet officers and directors who had been named as defendants in the various complaints. In February 2003, the District Court entered an order denying a motion made by the defendants to dismiss the actions in their entirety, but granting the motion as to certain of the claims against some defendants. However, the District Court did not dismiss any claims against Verticalnet. On or about June 5, 2003, Verticalnet s counsel, with the approval of the Company s directors, executed a memorandum of understanding on behalf of Verticalnet with respect to a proposed settlement of the plaintiff s claims against Verticalnet. This proposed resolution of the litigation has been publicly announced (although not yet formally accepted by the plaintiffs) and widely reported in the press. The proposed settlement, if approved by the District Court, would result in, among other things, the dismissal of all claims against Verticalnet, its officers, and directors. Under the present terms of the proposed settlement described above, Verticalnet would also assign its claims against the underwriters to the plaintiffs in the consolidated actions. In February 2005, the District Court preliminarily approved the proposed settlement.

In July 2000, Verticalnet entered into an Opportunity Grant Program Contract with the Commonwealth of Pennsylvania, Department of Community and Economic Development (the PaDCED) whereby Verticalnet received a grant in the amount of $1.0 million from

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the PaDCED. The grant was conditioned upon, among other things, the creation of 1,000 full time jobs and that Verticalnet would operate in its former facility in Horsham, PA for at least five years. In July 2000, Atlas Commerce, Inc. (Atlas Commerce) entered into an Opportunity Grant Program Contract with the PaDCED whereby Atlas Commerce received a grant in the amount of $400,000 from the Commonwealth, which amount was increased to $600,000 in June 2001. The grant was conditioned upon, among other things, the creation of 250 full time jobs and that Atlas Commerce would operate in its Malvern facility for at least five years. Both contracts contained a provision that required repayment of the grant amount in the event the conditions were not met. In December 2001, Verticalnet acquired Atlas Commerce via a merger. In September 2003, the PaDCED filed a Complaint-Civil Action in the Montgomery County Court of Common Pleas seeking to recover the total amount of the grant to Verticalnet. On January 27, 2005, Verticalnet and Atlas Commerce entered into a Settlement and Release Agreement (the Settlement Agreement) with the PaDCED, resolving (i) the above civil action between the PaDCED and Verticalnet, and (ii) the PaDCED s claims against Atlas Commerce. Pursuant to the Settlement Agreement, Verticalnet agreed to pay the PaDCED an aggregate of $400,000, payable in four equal quarterly installments in full and complete satisfaction of the PaDCED s claims against Verticalnet and Atlas Commerce. The first payment of $100,000 was made on January 27, 2005, and each successive payment of $100,000 will be due on April 1, July 1, and October 1, 2005.

On September 30, 2004, the Company was served with a complaint filed against the Company and several of its former officers and directors in the U.S. District Court for the Eastern District of Pennsylvania in an action captioned Jodek Charitable Trust, R.A., Individually and as Assignee of Zvi Schreiber, LLC et al. v. Vertical Net Inc., et al., C.A. No. 04-4455. The complaint alleges that, with regards to the issuance of the Company s stock to plaintiffs in connection with the Company s acquisition of Tradeum, Inc. in March 2000, the plaintiffs were damaged by the defendants delays in registering stock, updating the registration of stock, releasing stock from lock-ups and releasing stock from escrows. Plaintiffs claim they sustained damages in excess of $65.0 million as a result of the decrease in the stock price during the alleged delays. The Company disputes the allegations raised in the complaint and intends to vigorously defend itself.

We are also a party to various lawsuits and claims that arise in the ordinary course of business. In the opinion of management, the ultimate resolutions with respect to all of the above actions will not have a material adverse effect on our financial position, liquidity, or results of operations.

Item 4. ***Submission of Matters to a Vote of Security Holders***

(a) We held our 2004 Annual Meeting of Shareholders on November 15, 2004.

(b) Pursuant to Instruction 3 to Item 4 of Form 10-K, no response is required.

(c) The matters voted upon at the annual meeting, and the results of the vote on each such matter, are set forth below.

(1) Election of Directors. The results of the vote tabulated at the meeting for the following three director nominees were as follows:

	Number of Shares	
	Voted in Favor	Withheld
Jeffrey C. Ballowe	25,817,824	797,000
Michael J. Hagan	26,457,428	157,396
Gregory G. Schott	25,817,909	796,915

(2) Approval of the amendment and restatement of the Verticalnet, Inc. 2000 Equity Compensation Plan. The results of the vote tabulated at the meeting for the amendment and restatement were as follows:

Number of Votes FOR	10,783,129
Number of Votes AGAINST	3,155,074
Number of Abstentions	44,708

(3) Approval of the conversion feature of the promissory note issued in connection with the acquisition of B2eMarkets, Inc. The results of the vote tabulated at the meeting for the approval of the conversion were as follows:

Number of Votes FOR	10,342,153
Number of Votes AGAINST	195,070
Number of Abstentions	39,305

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is traded on the Nasdaq SmallCap Market under the symbol VERT. The following table sets forth, for the periods indicated, the range of the high and low closing sales prices of our common stock as reported by NASDAQ:

	High	Low
Fiscal Year 2004:		
First Quarter	$ 3.38	$ 1.16
Second Quarter	2.34	1.42
Third Quarter	1.51	1.06
Fourth Quarter	1.86	1.13
Fiscal Year 2003:		
First Quarter	$ 1.16	$ 0.63
Second Quarter	2.06	0.70
Third Quarter	1.74	1.02
Fourth Quarter	1.51	1.12

At March 1, 2005, we had 1,020 shareholders of record, which excludes shareholders whose shares are held in nominee or street name by brokers.

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance our operations and expand our business. Any future determination to pay cash dividends will be at the discretion of the board of directors and will be dependent upon our financial condition, operating results, capital requirements, and other factors the board of directors deems relevant.

Unregistered Offerings

In November 2004, we completed the sale of 5,519,989 shares of our common stock and warrants to purchase 2,207,994 shares of common stock at an exercise price of $1.35 per share to various institutional investors for an aggregate offering price of $6.1 million. The Shemano Group acted as placement agent in the private placement and received as consideration a placement agent fee of $364,000 and warrants to purchase 151,800 shares of our common stock at an exercise price of $1.35. The shares of common stock and warrants were sold to a limited number of accredited investors in reliance on the exemption from registration provided by Rule 506 promulgated under the Securities Act of 1933. We received approximately $5.6 million in net proceeds from this transaction.

The transaction was privately negotiated and did not include any general solicitation or advertising. Each purchaser represented that it was acquiring the shares without a view to a distribution and was afforded the opportunity to review all publicly filed documents and to ask questions and receive answers from our officers.

Item 6. ***Selected Financial Data***

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the related notes thereto (see Item 8 of this report), as well as Management s Discussion and Analysis of Financial Condition and Results of Operations (see Item 7 of this report).

	Year Ended December 31,				
(in thousands, except per share data)	**2004**	**2003**	**2002**	**2001**	**2000**
Consolidated Statement of Operations Data:					
Revenues	$ 22,925	$ 9,633	$ 43,724	$ 36,119	$ 7,906
Loss from continuing opeations (a)	(9,720)	(11,015)	(30,859)	(670,197)	(145,794)
Basic income (loss) per common share from continuing operations	$ (0.33)	$ (0.70)	$ 5.52	$ (69.92)	$ (18.17)
Diluted loss per common share from continuing operations (b)	$ (0.33)	$ (0.70)	$ (2.56)	$ (69.92)	$ (18.17)

(a) Effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. See Note 1 to the consolidated financial statements.

(b) Diluted loss per common share for the year ended December 31, 2002 excludes preferred stock dividends and the impact from the redemption of our preferred stock, which resulted in basic income per share from continuing operations.

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	As of December 31,				
	2004	2003	2002	2001	2000
Consolidated Balance Sheet Data:					
Total assets (b)	$ 40,345	$ 9,123	$ 18,453	$ 125,631	$ 923,284
Long-term debt, excluding current portion	42		7,293	22,255	45,287
Convertible redeemable preferred stock				102,180	94,760
Total shareholders equity (deficit)	31,888	4,421	1,642	(91,339)	605,402

(b) Total assets as of December 31, 2000 include assets related to discontinued operations.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Selected Financial Data appearing in Item 6 of this report and our consolidated financial statements and related notes appearing under Item 8 of this report. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements, as described under Cautionary Statement Regarding Forward-Looking Statements in this report. All share and per share amounts have been adjusted to reflect the reverse stock split that occurred in July 2002.

Company Overview

We are a provider of Supply Management solutions to Global 2000 companies. We provide a full scope of Supply Management software, services, and domain expertise in areas that include: Program Management, Spend Analysis, eSourcing, Advanced Sourcing, Contract Management, and Supplier Performance Management. Our solutions help our customers to save money on the goods and services they buy.

Verticalnet s software customers license our software via a perpetual license or time-based license. Our software is licensed by module, with our customers selecting from modules that include: Spend Manager, Program Manager, Negotiation Manager, Contract Manager, and Performance Manager. Verticalnet employs technical consultants to provide project management and training during software implementation. In addition to traditional software installation and ASP hosting, Verticalnet offers the majority of its software products in an On-Demand delivery model. On-Demand delivery enables our customers to pay a single annual fee that includes software license, maintenance, application hosting, customer/community support, and training. The Company believes that its On-Demand delivery model mitigates the software implementation costs for its customers, and reduces the obstacles to a successful supply management initiative.

In addition to implementation services, our consultants provide customers with supply management business process consulting, primarily in the areas of Spend Analysis and Advanced Sourcing. Our customers typically pay for professional services at an hourly rate for the time it takes us to complete the project. Most professional services engagements also include short-term licenses of Verticalnet technology required to complete the engagement. Examples of such technology include our Advanced Bid Collection and Bid Analysis Optimization software.

In addition to our packaged applications and implementation services, Verticalnet offers custom software development for customers that desire to build additional supply management capabilities. Verticalnet s Solution Center works with clients to define custom development requirements and build out the required functionality. Verticalnet offers a flexible software platform that enables rapid, cost effective custom development for customers with advanced, complex requirements. Our Solution Center approach allows Verticalnet to complete customization projects more quickly and cost effectively than internal IT organizations or traditional custom development firms.

Historically, we derived our revenue primarily from the licensing of our software and implementation and development services. As a result of the January 2004 acquisition of Tigris, we also began to generate revenues from spend analysis and other consulting services and as a result of the July 2004 acquisition of B2eMarkets, we have seen an increase in the amount of our revenues generating from software license, subscription, and maintenance.

Recent Developments

In November 2004, the Company converted a $5.9 million note obligation, issued in conjunction with the Company s acquisition of B2eMarkets, into Verticalnet common stock. The conversion included the principal amount of the note, which carried a face value of $5.9 million, and approximately $161,000 in accrued interest. Under the terms of the note, Verticalnet issued 3,029,162 shares of common stock in the conversion. The note had a carrying value, including accrued interest, of $4.2 million on the date of conversion.

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Private Placements

In January 2004, we completed a $7.7 million private placement of our common stock. The Company issued 3,798,592 shares of common stock along with warrants to purchase 949,649 shares of common stock at an exercise price of $3.72 per share. The Company received approximately $7.0 million in net proceeds from this transaction.

In August 2004, we completed a $3.0 million private placement of our common stock. The Company issued 3,000,000 shares of common stock along with warrants to purchase 1,200,000 shares of common stock at an exercise price of $1.25 per share. The Company received approximately $2.8 million in net proceeds from this transaction.

In November 2004, we completed a $6.1 million private placement of our common stock. The Company issued 5,519,989 shares of common stock along with warrants to purchase 2,207,994 shares of common stock at an exercise price of $1.35 per share. The Company received approximately $5.6 million in net proceeds from this transaction.

Acquisitions

Tigris Corp.

In January 2004, we acquired all of the outstanding capital stock of Tigris, a privately-held strategic sourcing and supply chain consultancy company based in New York City. The acquisition brings together Verticalnet s Spend Analysis and Supply Management software with Tigris extensive spend analysis and strategic sourcing expertise. The aggregate purchase price was approximately $12.1 million, including transaction costs of approximately $300,000. The consideration included $3.5 million in cash, 1,870,450 shares of our common stock valued at approximately $5.7 million, issuance of employee options to purchase 751,670 shares of our common stock valued at $2.2 million and assumed debt of approximately $346,000.

B2eMarkets, Inc.

In July 2004, Verticalnet merged with B2eMarkets, a privately-held provider of Strategic Sourcing software solutions. The aggregate purchase price of the B2eMarkets acquisition was $12.9 million, including transaction costs of approximately $2.4 million, which primarily consisted of fees paid for investment banking, legal, and professional services. The consideration included the issuance of 5,100,000 shares of common stock, valued on the date of closing at approximately $6.6 million, and a promissory note in the principal amount of $5.9 million, which was valued at $3.9 million on the date of closing. The note was to pay interest at a stated rate of 8% per annum. The value of the Verticalnet stock issued to the B2eMarket shareholders was based on $1.29 per share, which was the average of the closing price of the Company s common stock over a five day period that included the two days prior, the day of, and two days subsequent to the signing of the merger agreement. The note plus interest was converted into 3,029,162 shares of Verticalnet common stock, after the conversion of the note was approved by Verticalnet s shareholders at the November 2004 annual shareholders meeting. If the note had not been converted, half of the principal amount would have been due and payable on July 16, 2007 and the remaining half would have been due and payable on July 16, 2008. The promissory note had an effective interest rate of 16.6% per annum. The interest expense was recorded as a non-cash item on our statement of cash flows since the accrued interest was not paid in cash when the note was converted.

Critical Accounting Policies and Estimates

Accounting policies, methods, and estimates are an integral part of the consolidated financial statements prepared by management and are based upon management s current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods, and estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management s current judgments. While there are a number of accounting policies, methods, and estimates affecting our financial statements as described in Note 1 to the consolidated financial statements, areas that are particularly significant include revenue recognition policies including estimates used for the percentage-of-completion on revenue contracts, the assessment of the recoverability of long-lived assets and non-publicly traded investments, and the recording of accruals for contingencies, including tax contingencies. Management has reviewed these critical accounting policies and estimates with the audit committee.

Revenue Recognition

Software and software related revenues

Software and software related revenues have been principally derived from the licensing of our products, from maintenance and support contracts, and from hosting services. Customers who license our products also generally purchase maintenance contracts which provide software updates and technical support over a stated term, which is usually a twelve-month period. As part of licensing our products, a customer may also purchase custom development and implementation services from us. The revenue associated with those services is recognized under services revenues as described below.

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The license agreements for our products do not provide for a right of return other than during the warranty period, and historically product returns have not been significant. We do not recognize revenue for agreements with cancellation rights or refundable fees until such rights to refund or cancellation have expired. Our products are either acquired under a perpetual license model or under a time-based license model.

We recognize revenue related to software arrangements in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions. We recognize revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery of the product has occurred; the fee is fixed or determinable; and collectibility is probable. We consider all arrangements with payment terms extending beyond one year to not be fixed or determinable, and revenue under these agreements is recognized as payments become due from the customer. If collectibility is not considered probable, revenue is recognized when the fee is collected.

SOP 97-2, as amended, generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of the elements. Our determination of fair value of each element in multi-element arrangements is based on vendor-specific objective evidence (VSOE). We limit our assessment of VSOE for each element to either the price charged when the same element is sold separately or the price established by management, having the relevant authority to do so, for an element not yet sold separately.

If evidence of fair value for all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. Revenue allocated to maintenance and support is recognized ratably over the maintenance term and revenue allocated to training and other service elements is recognized as the services are performed. The proportion of revenue recognized upon delivery of the software may vary from quarter to quarter depending upon the relative mix of licensing arrangements, the extent of services that will be required to implement the software, and whether VSOE of fair value exists for all of the undelivered elements.

Software arrangements that include professional services are evaluated to determine whether those services are essential to the functionality of the software elements of the arrangement. When services are not considered essential, the revenue allocable to the professional services is recognized as the services are performed. If we provide professional services that are considered essential to the functionality of the software products, both the software product revenue and professional service revenue are recognized in accordance with the provisions of SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. To date, most of our professional services have been considered essential to the functionality of the software and therefore, the majority of our contracts that involved licenses and professional services have been recognized on a percentage of completion basis.

Hosted term-based licenses, where the customer does not have the contractual right to take possession of the software, are accounted for in accordance with Emerging Issues Task Force (EITF) Issue No. 00-03, Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity s Hardware. Revenues related to such arrangements are recognized on a monthly basis over the term of the contract. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

Arrangements that include professional services sold with hosted term-based licenses and support offerings are evaluated under EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, and the Securities and Exchange Commission s Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. To the extent the professional services have value to the customer on a stand-alone basis and there is objective and reliable evidence of fair value of the undelivered elements, the consideration from the arrangement is allocated among the separate elements based upon their relative fair values and professional services revenues are recognized as the services are rendered. Hosted term-based licenses, as well as any professional services that do not meet the above criteria, are recognized ratably over the term of the agreement.

Services revenues

Consulting contracts with fixed-priced arrangements are recognized using the percentage-of-completion method. Percentage-of-completion accounting involves calculating the percentage of services provided during the period compared to the total estimated services to be provided over the duration of the contract. This method is followed where reasonably dependable estimates of the revenues and costs applicable to various elements of a contract can be made. Estimates of total contract revenues and costs are continuously monitored during the term of the contract, and recorded revenues and costs are subject to revision as the contract progresses. Such revisions may result in increases or decreases to revenues and results of operations and are reflected in the consolidated financial statements in the period in which they are first identified.

Consulting services with fees based on time and materials or cost-plus are recognized in accordance with SAB No. 104 as the services are performed (as measured by time incurred) and amounts earned. We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectibility is reasonably assured. In such contracts, our efforts, measured by time incurred, typically is reflective of progress against the contractual milestones or output measure, which is the contractual earnings pattern. Contingent or incentive revenues relating to consulting contracts are recognized when the contingency is satisfied and we conclude the amounts are earned.

Deferred revenue includes amounts invoiced to or received from customers for whom revenue has not been recognized, which in most cases relates to maintenance, hosting, or license fees that are deferred until they can be recognized.

Recoverability of Long-Lived Assets

As discussed in Note 1 to the consolidated financial statements, we regularly perform reviews to determine whether events or circumstances indicate that the carrying value of long-lived assets, including goodwill and intangible assets, may not be recoverable. Factors we consider important that could trigger an impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, a significant decline in our stock price for a sustained period, and our market capitalization relative to net book value. When we determine that an impairment review is necessary for long-lived assets, other then goodwill, based upon the existence of one or more of the above indicators of impairment, we perform an undiscounted cash flow analysis to evaluate whether future cash flows from the long-lived asset are less then the current carrying value of the asset. If the result from this analysis indicates that an impairment charge is required for the asset, we measure the impairment based on a projected discounted cash flow method using a discount rate commensurate with the risk inherent in our current business model. Significant judgment is required in the development of projected cash flows for these purposes, including assumptions regarding the appropriate level of aggregation of cash flows, the discount rate to be used, as well as the underlying forecasts of expected future revenue and expense. For goodwill, in addition to testing for impairment if the above indicators of impairment are present, the Company is also required to perform an annual impairment test, by comparing the total market value of the Company, including a control premium, to the carrying value of the net assets of the Company. To the extent impairment is indicated for goodwill, we measure impairment based on a comparison of the implied fair value of goodwill with its carrying value. The implied fair value of goodwill would be determined in the same manner as the amount of goodwill recognized in a business combination is determined. That is, we would allocate the fair value of the Company to all of the assets and liabilities (including any unrecognized intangible assets) as if the Company had been acquired in a business combination and the fair value was the price paid to acquire the Company. The excess of the fair value of the Company over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. Significant judgment is required in the development of the fair values to be assigned to assets and liabilities, as well as the estimated fair value of the Company.

We have recorded significant impairment charges for goodwill and intangible assets in the past and to the extent that events or circumstances cause our assumptions to change, additional charges may be required in future periods and such charges could be material. We have also recorded significant impairment charges for non-publicly traded investments which we review quarterly for potential impairment.

Contingencies

The Company is involved in various claims and legal proceedings (see Note 9 to the consolidated financial statements). The Company records accruals for contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as the assessments change or additional information becomes available. In addition, significant judgment is required in evaluating the Company s tax positions. The Company establishes reserves for tax contingencies when certain tax related positions are likely to be challenged and may not succeed (see Note 13 to the consolidated financial statements). The Company adjusts these reserves in light of changing facts and circumstances, such as the closing of a tax audit. Although it is not possible to predict with certainty the outcome of these matters or the ultimate costs, management does not believe that there are any probable expenditures that may be incurred in excess of the liabilities accrued. Management also does not believe that these expenditures would result in a material adverse effect on the Company s financial position, results of operations, liquidity or capital resources for any year; however, should circumstances change due to new developments related to these matters, changes in our estimates may need to be made and recorded amounts and costs may be material.

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RESULTS OF CONTINUING OPERATIONS

The following discussion and comparison regarding results of continuing operations do not include the results of the SMB unit which was sold in June 2002.

The following table sets forth statement of operations data expressed as a percentage of total revenue for the periods indicated:

	2004	2003	2002
Revenues:			
Software and software related	18.5%	19.0%	90.7%
Services	81.5%	81.0%	9.3%
Total revenues	100.0%	100.0%	100.0%
Cost of revenues:			
Cost of software and software related	7.5%	6.6%	2.6%
Cost of services	37.8%	16.8%	10.6%
Amortization of acquired technology and customer contracts	6.7%	9.3%	2.1%
Total cost of revenues	52.0%	32.7%	15.3%
Gross profit	48.0%	67.3%	84.7%
Operating expenses:			
Research and development	25.4%	42.3%	20.4%
Sales and marketing	26.4%	24.4%	12.1%
General and administrative	24.2%	46.8%	13.0%
Restructuring and asset impairment charges (reversals)		(5.0)%	75.1%
Stock-based compensation	7.1%	5.6%	0.7%
Amortization of other intangible assets	4.9%		4.8%
Total operating expenses	88.0%	114.0%	126.1%
Operating loss	(40.0)%	(46.7)%	(41.4)%
Interest and other expense, net	2.4%	67.6%	29.2%
Loss from continuing operations	(42.4)%	(114.3)%	(70.6)%
Discontinued operations:			
Income from operations of discontinued operations			19.5%
Loss on disposal of discontinued operations			(0.4)%
Net loss	(42.4)%	(114.3)%	(51.5)%
Preferred stock dividends and accretion			(8.8)%
Repurchase of convertible redeemable preferred stock			231.1%

Income (loss) attributable to common shareholders	(42.4)%	(114.3)%	170.8%

EMPLOYEE HEADCOUNT BY CLASSIFICATION

	December 31,					
	2004			2003		
	Employees	Dedicated Offshore Consultants	Total	Employees	Dedicated Offshore Consultants	Total
Cost of revenues	64		64	14		14
Research and development	38	41	79	22	18	40
Sales and marketing	30		30	9		9
General and administrative	22		22	9		9
Total	154	41	195	54	18	72

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Revenues

(in thousands)	Year ended December 31, 2004	2003	2002	2004 vs 2003 Difference $	%	2003 vs 2002 Difference $	%
Software and software related	$ 4,236	$ 1,832	$ 39,648	$ 2,404	131.2%	$ (37,816)	(95.4)%
Services	18,689	7,801	4,076	10,888	139.6	3,725	91.4
Total revenues	$ 22,925	$ 9,633	$ 43,724	$ 13,292	138.0%	$ (34,091)	(78.0)%

Software and software related revenues are comprised of software licenses, hosting, and maintenance revenues. Services revenues represent revenue derived from consulting services.

The increase in total revenues of $13.3 million in 2004 is primarily due to the Tigris acquisition which occurred on January 30, 2004 and the B2eMarkets acquisition, which occurred on July 19, 2004, as well as growth in Verticalnet s historical business.

During 2004 our top customer accounted for $6.4 million or 28% of our total revenue, as compared to 2003 when the same top customer accounted for approximately $6.2 million or 64% of our total revenue. We have been able to reduce our customer concentration during 2004 by growing revenues from all other customers by 377%, while maintaining the same comparable level of revenues from our top customer in 2004 as we had in 2003. We believe that we have made considerable progress in lowering our revenue concentration from our top customers by increasing our total number of active customers and total revenues being generated from them. During 2004, we have reduced our revenue concentration from our two largest customers from 64% in the first quarter to 30% in the fourth quarter of 2004. At the end of 2004, we had 65 active customers as compared to eight as of December 31, 2003.

On a pro forma basis, reflecting the combined results of Verticalnet, B2eMarkets, and Tigris (see Note 3 to the consolidated financial statements), revenues during 2004 would have increased by approximately $263,000 or 1.0%, over 2003. The small increase was due to the impact purchase accounting had on our ability to recognize from B2eMarkets pre-acquisition deferred revenues in 2004.

The decrease in software and software related revenues of $37.8 million in 2003 relates primarily to changes in our agreements with Converge, Inc. (Converge), and a more difficult macro economic market for software companies. During 2003 and 2002, we recognized total revenues of approximately $459,000 and $33.8 million, respectively, under agreements with Converge, including $19.6 million in software license revenue recognized during the fourth quarter of 2002, as a result of the second amendment to the amended and restated subscription license agreement. See Revenue Concentration below and Note 16 to the consolidated financial statements for a discussion of our relationship with Converge.

The increase in services revenues of $3.7 million between 2003 and 2002 is due to additional sales to our existing customer base, other than Converge.

Revenue Concentration

As of and for the years ended December 31, 2004, 2003 and 2002, revenues and amounts due from our largest customers were as follows (in thousands):

	2004			2003			2002		
Customer	**Accounts Receivable Balance (a)**	**Revenues**	**% of Total Revenues**	**Accounts Receivable Balance (a)**	**Revenues**	**% of Total Revenues**	**Accounts Receivable Balance (a)**	**Revenues**	**% of Total Revenues**
A	$ 636	$ 6,382	27.8%	$ 1,382	$ 6,168	64.0%	$ 751	$ 3,183	7.3%
B	907	4,830	21.1						
C	1,127	1,599	7.0						
D	174	1,144	5.0	315	1,204	12.5		1,637	3.7
E		33	0.1		459	4.8	1,684	33,782	77.3
Total	$ 2,844	$ 13,988	61.0%	$ 1,697	$ 7,831	81.3%	$ 2,435	$ 38,602	88.3%

(a) Represents both billed and unbilled amounts

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Through December 31, 2002, our software and software related revenues were substantially derived from one customer, Converge. The original arrangement with Converge entailed a right to use our existing software as well as any future software that we developed, the provision of professional services, and maintenance and support services over the life of our agreements with them. Due to the type of professional services that we were providing to Converge, as well as the fact that Converge was entitled to use, free of charge, any of our future software products, revenue related to Converge was being recognized on a straight-line basis over the term of the arrangements. However, as of November 5, 2002, the amended and restated subscription license agreement was amended to relieve the Company of any obligation to provide future software products. As such, all remaining deferred license fees ($19.6 million) were recognized during the fourth quarter of 2002 (see Note 16 to the consolidated financial statements).

Cost of Revenues

	Year ended December 31,			2004 vs 2003 Difference		2003 vs 2002 Difference	
(in thousands)	2004	2003	2002	$	%	$	%
Cost of software and software related	$ 1,711	$ 632	$ 1,118	$ 1,079	170.7%	$ (486)	(43.5)%
Cost of services	8,659	1,615	4,643	7,044	436.2	(3,028)	(65.2)
Amortization of acquired technology and customer contracts	1,532	900	900	632	70.2		
Total cost of revenues	$ 11,902	$ 3,147	$ 6,661	$ 8,755	278.2%	$ (3,514)	(52.8)%

Cost of Software and Software Related

The cost of software and software related is comprised primarily of headcount related costs, including the cost of the Company s customer support function, which is provided to customers as part of recurring maintenance fees, and third-party provided hosting services, as well as related infrastructure costs. Also included is the cost of royalties on technology contained in our products that is licensed from third parties. The increase in software and software related costs of $1.1 million during 2004 was primarily related to the acquisition of B2eMarkets, which accounted for an increase of approximately $1.1 million for the year ended December 31, 2004. For 2004, facilities and other related costs increased by $57,000 and were offset by a decrease in salary and hosting costs of $72,000 and $12,000, respectively.

The decrease in the cost of software and software related during 2003 was primarily due to a prior year write-off of capitalized software of approximately $292,000 in 2002. During 2003, facilities and depreciation costs decreased by $167,000 and $47,000, respectively, and were partially offset by an increase of $32,000 in headcount related costs.

Cost of Services

The cost of services includes the cost of the Company s and third-party consultants who are primarily responsible for the software implementations and configurations, as well as providing other supply chain consulting services, and related infrastructure costs. The increase in 2004 was primarily due to the Tigris and B2eMarkets acquisitions that occurred in 2004. The addition of the Tigris and B2eMarkets businesses represented $6.7 million and $239,000 of the increase for 2004, respectively. Historical Verticalnet headcount related costs increased by $2.0 million for 2004. These costs were partially offset by decreases in third party consulting of $826,000, which was due to a decrease in our need to staff projects with outside expertise, and $1.1 million in travel and facilities related costs for 2004, respectively.

The cost of services for 2003 decreased primarily due to reduced facilities and infrastructure costs and a significant reduction in headcount as a result of restructuring actions that occurred during 2002, which account for $1.3 million of the decrease. Facilities, third party consulting, depreciation, and other related costs decreased by $907,000, $360,000, $260,000, and $330,000, respectively.

Amortization of Acquired Technology and Customer Contracts

Amortization of acquired technology and customer contracts increased as a result of the Tigris and B2eMarkets acquisitions that occurred during 2004.

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Operating Expenses

(in thousands)	Year ended December 31,			2004 vs 2003 Difference		2003 vs 2002 Difference	
	2004	2003	2002	$	%	$	%
Research and development	$ 5,822	$ 4,071	$ 8,918	$ 1,751	43.0%	$ (4,847)	(54.4)%
Sales and marketing	6,054	2,347	5,275	3,707	157.9	(2,928)	(55.5)
General and administrative	5,558	4,505	8,698	1,053	23.4	(4,193)	(48.2)
Restructuring and asset impairment charges (reversals)		(480)	29,855	480	(100.0)	(30,335)	(101.6)
Stock-based compensation	1,636	538	297	1,098	204.1	241	81.1
Amortization of other intangible assets	1,115		2,112	1,115	n/a	(2,112)	(100.0)
Total operating expenses	$ 20,185	$ 10,981	$ 55,155	$ 9,204	83.8%	$ (44,174)	(80.1)%

Research and Development

Research and development costs consist primarily of headcount-related costs of the Company s product strategy, development and testing employees and off-shore development contractors, as well as related infrastructure costs. The increase in research and development costs was primarily the result of the addition of the B2eMarkets business, which represents $1.2 million of the increase for 2004. As a result of the increase in demand for our product and services, we have expanded the use of our offshore development provider. The Company s offshore development initiative started during the third quarter of 2003, whereby a significant portion of our product development operations were shifted to India. Although offshore development costs represented $892,000 of the increase in research and development costs for 2004, as compared to the same period in 2003, the cost to hire and maintain the same number of employees on-shore would have resulted in a much larger increase in headcount related costs. In addition, third-party consulting (other then off-shore development), infrastructure and other related costs increased $301,000 for 2004. These costs were offset by a decrease in headcount related costs of $690,000 for 2004, as compared to the same period in 2003.

Research and development costs decreased in 2003 as compared to 2002, primarily due to headcount reductions associated with restructuring actions that occurred during 2002, which accounted for approximately $3.2 million, as well as a reduction in facilities, depreciation, and infrastructure costs attributable to the research and development group, which accounted for $1.7 million.

As of December 31, 2004, the Company had a total of 79 people dedicated to development, which includes 41 dedicated offshore developers, compared to 40 total development headcount, including 18 dedicated offshore developers as of December 31, 2003.

Sales and Marketing

Sales and marketing expenses consist primarily of headcount related costs, as well as incentive compensation for sales and marketing employees, related travel and infrastructure expenses, and third-party marketing costs. Sales and marketing expense increased $3.7 million for

2004 compared to 2003. The increase in sales and marketing expenses was primarily a result of the Tigris and B2eMarkets acquisitions, which represented $2.5 million and $713,000 of the increase for 2004 as compared to 2003, respectively. Headcount related costs and marketing related costs increased by $22,000 and $570,000, respectively for 2004 as compared to 2003.

The significant decrease in sales and marketing expense in 2003 as compared to the prior year is primarily related to headcount reductions, which resulted in salary and fringe benefits decreasing by $1.5 million. For 2003, facilities and infrastructure costs attributable to the group decreased by approximately $411,000, while direct marketing expenses, such as advertising, public relations, and trade shows, declined approximately $711,000.

General and Administrative

General and administrative expenses consist primarily of headcount related costs for our executive, administrative, finance, legal, and human resources personnel, as well as related infrastructure costs. In addition, general and administrative expenses include Directors and Officers insurance, and audit, legal, and other professional fees. General and administrative expenses for 2004 increased compared to 2003 primarily due to the Tigris and B2eMarkets acquisitions, which represented $703,000 and $174,000 of the increase, respectively, and the reversal of accruals in 2003 relating to the termination of certain capital and operating leases of approximately $653,000. These costs were partially offset by a decrease in other general and administrative expenses, including professional services, insurance, and other related costs of approximately $318,000, and a decrease of approximately $159,000 in office equipment leasing costs, which is a result of the renegotiation of our lease liabilities during 2003.

The significant decrease in general and administrative expenses in 2003 as compared to the prior year is primarily a result of the restructuring actions undertaken in 2002. For 2003, headcount related cost reductions accounted for approximately $940,000 of the decline, a decrease in depreciation expense accounted for $2.6 million of the decline and a decrease in other general and administrative expenses, such as rent, contributed $672,000.

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Restructuring and Asset Impairment Charges (Reversals)

(in thousands)	2003	2002
Goodwill and other intangible asset impairments	$	$ 30,595
Facility leases and severance obligations, net	(489)	1,549
Write off of obsolete software	9	711
Total restructuring and asset impairment charges (reversals)	$ (480)	$ 32,855

During 2004, there was no restructuring or asset impairment charges (reversals) recorded.

On October 22, 2003, we reached an agreement with Silicon Valley Bank in connection with a letter of credit they had provided pertaining to a lease of office space in San Francisco, which was the subject of a lawsuit. The Company paid $480,000 to Silicon Valley Bank and Silicon Valley Bank released the Company and our subsidiaries from further claims. As a result, the restructuring accrual was adjusted during the year ended December 31, 2003, to reflect the agreed upon settlement.

Goodwill impairment charges during 2002 related to the goodwill recorded in the acquisitions of Atlas Commerce and Isadra, Inc. (see Note 5 to the consolidated financial statements).

Stock-based Compensation

The increase in stock-based compensation expense for 2004 as compared to 2003 was a result of the continued amortization of costs related to options granted under the Company s 2003 bonus plan, which awarded discounted stock options to the Company s employees in lieu of cash compensation, as well as the amortization of restricted stock units awarded to Tigris employees.

The increase in stock-based compensation expense for 2003 as compared to 2002 was a result of the amortization of restricted stock grants to certain executives and the initial options granted under the Company s 2003 bonus plan.

Amortization of Other Intangible Assets

The increase in amortization of other intangible assets in 2004 was due to the amortization of intangible assets resulting from the Tigris and B2eMarkets acquisitions.

During 2002, the Company had fully amortized the intangible assets resulting from its prior acquisitions and therefore there was no amortization expense during 2003.

Interest and Other Expense, Net

Interest and other expense, net were comprised of the following (in thousands):

	2004	2003	2002
Interest expense, net	$ (314)	$ (1,046)	$ (2,597)
Mark-to-market adjustment on warrants	(281)		
Realized gains (loss) on investments	(35)	(51,019)	35
Transaction gains (loss)	(1)	120	939
Realized gain on forward sale		51,132	
Inducement charges		(5,707)	(2,869)
Impairment charges investments			(11,600)
Gain on early extinguishment of debt			5,411
Other income (expense) items, including terminated deal costs	73		(2,086)
Interest and other expense, net	$ (558)	$ (6,520)	$ (12,767)

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Interest expense decreased significantly in 2004, as compared to 2003, due to the repurchase of $6.4 million of our 5¼% convertible subordinated debentures for total consideration of $5.8 million in cash, stock, and warrants, which occurred in the third quarter of 2003. This consideration included $1.3 million in cash, common stock with a fair market value of $4.4 million, and change of control warrants valued at $124,000. Additionally, we made a payment for accrued but unpaid interest of approximately $21,000, also in cash. In connection with the transaction, we wrote-off, against additional paid-in capital, approximately $55,000 in deferred debt offering costs attributable to the portion of debt repurchased. The Company recorded a charge to operations of $5.7 million representing the inducement for conversion of the convertible notes in accordance with SFAS No. 84, Induced Conversion of Convertible Debt.

In February 2004, holders of 320,000 warrants exercised their warrants to purchase common shares at $1.20 per share. The Company received approximately $345,000 in net proceeds from the exercise of these warrants. During the three months ended March 31, 2004, the Company recorded a $281,000 non-cash charge to earnings as a result of the mark-to-market adjustments relating to the fair value of the warrant liability up to the time of exercise. Upon the exercise of the warrants, the fair value of the warrants ($428,000) was reclassified from other current liabilities to additional paid-in capital.

In connection with Ariba Inc. s (Ariba) acquisition of Tradex Technologies, Inc., we received Ariba common stock. In July 2000, we entered into forward sale contracts relating to our investment in Ariba. Under these contracts, we pledged our shares of Ariba s common stock to the counter party for a three-year period in return for approximately $47.4 million of cash. In July 2003, the three-year period concluded, and we elected to deliver the pledged Ariba shares to satisfy the forward sale, rather than delivering cash. As a result we recognized a gain on the forward sale of $51.1 million and a loss on the investment in Ariba common stock of $51.1 million

On July 30, 2002, we completed the repurchase of $13.85 million of the convertible subordinated debentures for total consideration of $2.9 million. This consideration included $763,000, or 1,270,854 shares, of common stock, and $2.1 million in cash consideration. Additionally, we made a payment for accrued but unpaid interest of $246,000, also in cash. In connection with the transaction, we wrote off, against additional paid-in-capital, approximately $214,000 in deferred debt offering costs attributable to the portion of debt repurchased. The Company recorded a charge to operations of $2.9 million representing an inducement for conversion of the convertible debentures, in accordance with SFAS No. 84.

In 2002, we recorded impairment charges of $9.6 million related to our Converge investment, which included $3.5 million invested by the Company during February 2002. During 2002, we also recorded additional impairment charges of approximately $2.0 million for other than temporary declines in the fair values of our other cost method investments.

In December 2002, we completed the repurchase of $720,000 of the convertible subordinated debentures for total consideration of $113,000. We recognized a gain of $607,000 in connection with the repurchase.

In September 2002, a put/call agreement between Verticalnet and British Telecommunications Plc. (BT) was terminated, as well as BT s put right under this agreement that would have required us to repurchase BT s 10% interest in Verticalnet Europe. Separately, the Company and BT also agreed to terminate a reseller agreement between the parties, including a $1.5 million prepaid license obligation. As a result of this settlement, the Company recorded a $4.8 million gain representing the difference between the fair value of the consideration issued in the settlement transaction and the carrying value of the amounts due to BT.

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LIQUIDITY AND CAPITAL RESOURCES

The following table highlights key financial measurements as of and during the years ended December 31:

(in thousands)	2004	2003
Cash and cash equivalents	$ 9,370	$ 4,408
Accounts receivable, net	$ 5,902	$ 2,438
Working capital	$ 7,863	$ 2,683
Current ratio	1.96	1.57
Total debt, including current portion	$ 113	$ 757
Cash flow activities:		
Net cash used in operating activities	$ (3,953)	$ (7,636)
Net cash provided by (used in) investing activities	(5,868)	2,897
Net cash provided by financing activities	14,702	1,224

Historically, the Company has funded itself through the sale of equity and debt instruments, as well as revenue from operations.

Operating activities

During 2004, net cash used in operating activities was $4.0 million and was primarily attributable to the net loss from operations of $9.7 million and increase in accounts payable and accrued expenses of $1.3 million, offset by $5.4 million in non-cash charges and a decrease of $1.6 million in accounts receivable, prepaid expenses, and other assets.

The improvement in net cash used in operating activities was due to the Company amending the lease agreement with its primary landlord, the buy-out of certain operating leases in the prior year, the timing of payments to vendors and received from customers, and the reduction in the net loss excluding non-cash items. Payments applied against the restructuring accrual represented $3.0 million of the net change in accounts payable and accrued expenses during 2003. The net loss excluding non-cash items decreased to $4.3 million for 2004 from $4.6 million during 2003, due to the acquisitions of Tigris and B2eMarkets, as well as the continued growth of the historical Verticalnet business.

As a result of the B2eMarkets acquisition (see Note 3 to the consolidated financial statements), we have experienced a negative impact on our operating cash flows. This has occurred as a result of the assumed vendor payables and severance costs, as well as integration costs. In the long term, we believe the acquisition will help us achieve increased software and software related revenues, reduced customer concentration, and improved visibility. We believe that the short term increase in cash used by operations will be more than offset by the growth opportunities for the combined business.

Investing activities

During 2004, net cash used in investing activities was $5.9 million and primarily consisted of the $5.4 million used for the acquisitions of Tigris and B2eMarkets, the increase in restricted cash of $311,000 and capital expenditures of $186,000.

Part of our growth strategy is to pursue strategic acquisitions of businesses. We have made acquisitions in the past, and intend to make acquisitions in the future. Historically, we have financed our acquisitions with cash on hand, including proceeds from our private placements, and shares of our common stock. We expect to finance any future acquisitions with proceeds from cash generated by operations, additional sales or issuances of shares of our common stock or debt instruments, or a combination of the foregoing.

As a result of the B2eMarkets acquisition we incurred transaction costs of approximately $2.4 million. During 2004, we paid approximately $1.9 million of these costs.

Financing activities

Net cash provided by financing activities for 2004 of $14.7 million primarily relates to $15.4 million of net proceeds from the issuance of common stock and warrants and $834,000 in proceeds from the exercise of stock options and warrants, offset by $728,000 of cash used for the repurchase of the Company s convertible subordinated debentures and $833,000 in principal payments on long-term debt and capital lease obligations.

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In January 2004, we completed a $7.7 million private placement of our common stock. The Company issued 3,798,592 shares of common stock along with warrants to purchase 949,649 shares of common stock at an exercise price of $3.72 per share. The Company received approximately $7.0 million in net proceeds from this transaction.

In February 2004, 320,000 warrants from our August 2003 private placement were exercised at $1.20 per share. The Company received approximately $345,000 in net proceeds from the exercise of these warrants.

In April 2004, 40,000 warrants from our October 2003 private placement were exercised at $1.35 per share. The Company received $49,000 in net proceeds from the exercise of these warrants

In August 2004, we completed a $3.0 million private placement of our common stock. The Company issued 3,000,000 shares of common stock along with warrants to purchase 1,200,000 shares of common stock at an exercise price of $1.25 per share. The Company received approximately $2.8 million in net proceeds from this transaction.

In November 2004, we completed a $6.1 million private placement of our common stock. The Company issued 5,519,989 shares of common stock along with warrants to purchase 2,207,994 shares of common stock at an exercise price of $1.35 per share. The Company received approximately $5.6 million in net proceeds from this transaction.

We believe that our level of liquid assets will be sufficient to finance our capital requirements and anticipated operating losses through at least the next twelve months. However, to the extent that the current levels of liquid assets prove to be insufficient, we may need to further reduce our operating costs or obtain additional debt or equity financing. Additionally, we may, if the capital markets present attractive opportunities, raise cash through the sale of debt or equity. We can provide no assurance that we will be successful in obtaining any required or desired financing either on acceptable terms or at all.

Part of our growth strategy is to pursue strategic acquisitions of businesses. We have made acquisitions in the past, and intend to make acquisitions in the future. Historically, we have financed our acquisitions with the proceeds of our private placements, cash on hand, and shares of our common stock. We expect to finance any future acquisitions with proceeds from our recent common stock offering, cash generated by operations, additional sales or issuances of shares of our common stock, or a combination of the foregoing.

Contractual Commitments

The following table outlines future contractual commitments (see Notes 7 and 8 to the consolidated financial statements) as of March 1, 2005:

Expected Cash Payment by Period

(in thousands)

	2005	2006	2007	2008	2009	Due after 2010	Total
Operating leases	$ 958	$ 795	$ 515	$ 413	$ 290	$ 290	$ 3,261
Capital leases (a)	57	31					88
Insurance financing (b)	788						788
Employment agreements (c)	1,479						1,479
Other obligations (d)	726	6					732
Total	$ 4,008	$ 832	$ 515	$ 413	$ 290	$ 290	$ 6,348

(a) Capital lease balances include future interest obligations.
(b) Relates to insurance policy financing in 2005.
(c) Represents minimum salaries due to certain executives based on existing employment agreements. In addition, these agreements provide for additional payments upon employee separation of up to approximately $1.2 million.
(d) Relates to third-party hosting facilities and minimum off-shore development resources commitments.

Off-Balance Sheet Arrangements

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as special purpose entities (SPEs) or variable interest entities (VIEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other limited purposes. As of December 31, 2004, we were not involved with any unconsolidated SPEs or VIEs. As of December 31, 2004, we had no derivatives.

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Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R (revised 2004), Share-Based Payment. SFAS No. 123R is a revision of SFAS No. 123, Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. With limited exceptions, the amount of compensation costs will be measured based on the grant date fair value of the equity or liability instrument issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. Beginning with the third quarter of 2005, we will recognize compensation expense in accordance with SFAS No. 123R. The adoption of this standard for the expensing of stock options is expected to reduce pretax earnings in future years. The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on the level of share-based payments granted in the future and the model we choose to use. However, had we adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net loss under Stock Options in Note 1 to the consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets. SFAS No. 153 amends APB Opinion No. 29, Accounting for Nonmonetary Transactions, to require that assets exchanged in a nonmonetary transaction are to be measured at fair value except for those exchanges of nonmonetary assets that lack commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect SFAS No. 153 to have a material impact on our consolidated financial statements.

FACTORS AFFECTING OUR BUSINESS CONDITION

We may require additional capital for our operations and obligations, and, as a result, we are exploring alternatives to preserve and enhance value.

Although, based on our most recent projections, we believe our current level of liquid assets and the expected cash flows from contractual revenue arrangements will be sufficient to finance our capital requirements and anticipated operating losses for at least the next twelve months, any projection of future long-term cash needs and cash flows are inherently subject to uncertainty. There is no assurance that our resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements during this period. We may need, or find it advantageous, to raise additional funds in the future to fund our growth, pursue sales and licensing opportunities, develop new or enhanced products and services, respond to competitive pressures, or acquire complementary businesses, technologies, or services.

If we are ultimately unable, for any reason, to receive cash payments expected from our customers, our business, financial condition, and results of operations may be materially and adversely affected.

We may not generate an operating profit.

As of December 31, 2004, our accumulated deficit was approximately $1.2 billion. We may never again generate an operating profit or, even if we do become profitable from operations at some point, we may be unable to sustain that profitability.

We generate a significant portion of our revenues and accounts receivable from two customers.

For 2004, two customers accounted for $11.2 million or 49% of our total revenues. During 2004, we have reduced our revenue concentration from our two largest customers from 64% in the first quarter to 30% in the fourth quarter of 2004. A termination of our professional services by either of these customers could have a material adverse effect on our business, operating results, and financial condition.

As of December 31, 2004, these two customers accounted for $1.5 million of our accounts receivable balance. As of March 1, 2005, approximately $282,000 of the December 31, 2004 balance for these two customers remained outstanding. Although we have had a successful collection history with these two customers, and do not foresee any collection issues, there can be no assurance that we will be able to collect these outstanding balances and future invoices.

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We have contractual obligations to provide consulting services over many periods.

We maintain a professional services and consulting workforce to fulfill contracts that we enter into with our customers that may extend over multiple periods. Our profitability is largely a function of performing against customer contractual arrangements within the estimated costs to perform these obligations. If we exceed these estimated costs, our profitability under these contracts may be negatively impacted. In addition, if we are not able to obtain sufficient work to keep all of our professionals on revenue generating projects, our business, financial condition, and results of operations may be adversely affected.

If we fail to meet client expectations in the performance of our services, our business could suffer.

Our failure to meet client expectations in the performance of our services, including the quality, cost, and timeliness of our services, may adversely affect our ability to attract and retain clients. If a client is not satisfied with our services, we will generally spend additional human and other resources at our own expense to ensure client satisfaction. Such expenditures will typically result in a lower margin on such engagements and could have a material adverse effect on our business, financial condition, and results of operations.

We may be unable to maintain our listing on the Nasdaq SmallCap Market, which could cause our stock price to fall and decrease the liquidity of our common stock.

Our common stock is currently listed on the Nasdaq SmallCap Market. A continued listing on the Nasdaq SmallCap Market requires us to meet certain qualitative standards, including maintaining a certain number of independent Board members and independent Audit Committee members, and certain quantitative standards, including that we maintain $2.5 million in shareholders equity and that the closing price of our common stock not be less than $1.00 per share for 30 consecutive trading days. Our stock has closed below $1.00 for 10 consecutive trading days as of March 28, 2005.

We expect to remain in compliance with Nasdaq s listing qualifications for continued listing of our stock. However, there can be no assurance that we will continue to be able to meet all qualitative and quantitative listing qualifications in the future. In the event we do not meet such listing qualifications, our common stock could be subject to delisting from the Nasdaq SmallCap Market.

If our stock is delisted from the Nasdaq SmallCap Market or our share price declines significantly, then our stock may be deemed to be penny stock.

If our common stock is considered penny stock, it would be subject to rules that impose additional sales practices on broker-dealers who sell our securities. Because of these additional obligations, some brokers may be unwilling to effect transactions in our stock. This could have an adverse effect on the liquidity of our common stock and the ability of investors to sell their common stock. For example, broker-dealers must make a special suitability determination for the purchaser and have received the purchaser s written consent to the transaction prior to sale. Also, a disclosure schedule must be prepared prior to any transaction involving a penny stock and disclosure is required about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

If our stock is delisted from the Nasdaq SmallCap Market, we may be unable to license our products and sell our services to prospective or existing customers.

If our stock is delisted, our prospective and existing customers may lose confidence that we can continue as a viable business to provide support necessary to further develop our solutions and provide ongoing maintenance and consulting services. Prospective and existing customers could consider alternative solutions or significantly reduce the value they are willing to pay for our solutions to compensate for the potential added risk to their business. If our stock is delisted, our ability to meet our revenue goals could be adversely impacted, resulting in deterioration of the financial condition of our business.

Our success depends on our ability to retain key management personnel, whom we may not be able to retain.

We believe that our success depends on the continued employment of our senior management team. If one or more members of our senior management team were unable or unwilling to continue in their present positions, our success could be adversely affected.

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We may not be able to hire or retain enough additional personnel to meet our hiring needs.

Our success also depends on having highly trained professional services and software development personnel. If we are unable to retain our personnel, it could limit our ability to service our customers and design and develop products, which could reduce our attractiveness to potential customers, investors, or acquirers. We may need to hire additional personnel if our business grows. A shortage in the number of trained consultants and developers could limit our ability to implement our software if we are able to license software to new customers or if our present customers ask us to perform more services for them. Competition for personnel, particularly for employees with technical expertise, could be strong. Our business, financial condition, and operating results will be materially adversely affected if we cannot hire and retain suitable personnel.

Fluctuations in our quarterly operating results may cause our stock price to decline.

Our quarterly operating results are difficult to forecast and could vary significantly. If our operating results in a future quarter or quarters do not meet the expectations of securities analysts or investors, the price of our common stock may fall. Our quarterly operating results will be substantially dependent on software licenses and professional services booked and delivered in that quarter. Any delay in the recognition of revenue for any of our license transactions or professional services could cause significant variations in our quarterly operating results and could cause our revenues to fall significantly short of anticipated levels. We also expect that our quarterly operating results will fluctuate significantly due to other factors, many of which are beyond our control, including:

- anticipated lengthy sales cycle for our products;
- the size and timing of individual license transactions;
- intense and increased competition in our target markets;
- our ability to develop, introduce, and bring to market new products and services, or enhancements to our existing products and services, on a timely basis; and
- risks associated with past acquisitions.

If we are able to grow our business, we may not be able to manage the growth successfully.

If we are able to grow our business, such growth could place a significant strain on our resources and systems. To manage our growth, we must implement systems and train and manage our employees. In addition, we may not be able to limit our exposure to non-creditworthy customers.

We may seek to acquire another business or raise additional capital, which could dilute the ownership of our existing shareholders.

We may seek to grow our business by acquiring another business. In addition, we may seek to raise additional capital. We may be required to incur debt or issue equity securities to pay for acquisitions or to raise additional capital, which may be dilutive to our existing shareholders.

New versions and releases of our products may contain errors or defects.

Our enterprise software products may contain undetected errors or failures when first introduced or as new versions are released. This may result in loss of, or delay in, market acceptance of our products. Errors in new releases and new products after their introduction could result in delays in release, lost revenues, and customer frustration during the period required to correct these errors. We may in the future discover errors and defects in new releases or new products after they are shipped or released.

We utilize third-party software that we incorporate into and include with our products and solutions, and impaired relations with these third-parties, defects in third-party software, or their inability or failure to enhance their software over time could have a material adverse effect on our operating performance and financial condition.

We incorporate and include third-party software into and with our products and solutions. We are likely to incorporate and include additional third-party software into and with our products and solutions as we expand our product offerings. If our relations with any of these third-party software providers become impaired, and if we are unable to obtain or develop a replacement for the software, our business could be harmed. Our products may be impacted if errors occur in the third-party software that we utilize. It may be more difficult for us to correct any defects in third-party software because the software is not within our control. Accordingly, our business could be adversely affected in the event of any errors in this software. There can be no assurance that these third-parties will continue to invest the appropriate levels of resources in their products and services to maintain and enhance the capabilities of their software.

We have shifted a significant portion of our product development operations to India, which poses significant risks.

Since September 2003, an unrelated third-party has provided us with software development services in Bangalore, India. We assumed a second software development agreement with another company in Bangalore in connection with our acquisition of B2eMarkets. We have increased the proportion of our product development work being performed by contractors in India in order to take advantage of cost efficiencies associated with India s lower wage scale. However, we may not achieve the cost savings and other benefits we anticipate from this program and we may not be able to find sufficient numbers of developers with the necessary skill sets in India to meet our needs. We have a heightened risk exposure to changes in the economic, security, and political conditions of India. Economic and political instability, military actions, and other unforeseen occurrences in India could impair our ability to develop and introduce new software applications and functionality in a timely manner, which could put our products at a competitive disadvantage whereby we lose existing customers and/or fail to attract new customers.

Our target markets are evolving and characterized by rapid technological change, which we may not be able to keep pace with.

The markets for our products and services are evolving and characterized by rapid technological change, changing customer needs, evolving industry standards, and frequent new product and service announcements. The introduction of products employing new technologies and emerging industry standards could render our existing products or services obsolete or unmarketable. If we are unable to respond to these developments successfully or do not respond in a cost-effective way, our business, financial condition, and operating results will suffer. To be successful, we must continually improve and enhance the responsiveness, services, and features of our enterprise software products and introduce and deliver new product and service offerings and new releases of existing products. We may fail to improve or enhance our software products or fail to introduce and deliver new releases or new offerings on a timely and cost-effective basis or at all. If we experience delays in the future with respect to our software products, or if our improvements, enhancements, offerings, or releases to these products do not achieve market acceptance, we could experience a delay or loss of revenues and customer dissatisfaction. Our success will also depend in part on our ability to acquire or license third-party technologies that are useful in our business, which we may not be able to do.

We may ultimately be unable to compete in the markets for the products and services we offer.

The markets for our enterprise software products and services are intensely competitive, which may result in low or negative profit margins and difficulty in achieving market share, either of which could seriously harm our business. We expect the intensity of competition to increase. Our enterprise software products and services face competition from software companies whose products or services compete with a particular aspect of the solution we provide, as well as several major enterprise software developers and consulting firms. Many of our competitors have longer operating histories, greater brand recognition, and greater financial, technical, marketing, and other resources than we do, and may have well-established relationships with our existing and prospective customers. This may place us at a disadvantage in responding to our competitors pricing strategies, technological advances, advertising campaigns, strategic partnerships, and other initiatives. Our competitors may also develop products or services that are superior to or have greater market acceptance than ours. If we are unable to compete successfully against our competitors, our business, financial condition, and operating results would be negatively impacted.

We have had decreases in the fair value, and in some cases a complete loss, of our equity investments.

As of December 31, 2004 and 2003, we held cost method investments with a carrying value of $606,000. We may never realize any return on our equity interests that we continue to hold, and we may suffer a complete loss of these interests, which could materially and adversely affect our business, financial condition, and operating results.

If we do not develop the Verticalnet brand in the supply management solution industry, our revenues might not increase.

We must establish and continuously strengthen the awareness of the Verticalnet brand in the supply management solution industry. If our brand awareness as a maker of supply management solution software does not develop, or if developed, is not sustained as a respected brand, it could decrease the attractiveness of our products and services to potential customers, which could result in decreased revenues.

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We may not be able to protect our proprietary rights and may infringe the proprietary rights of others.

Proprietary rights are important to our success and to our competitive position. We may be unable to register, maintain, and protect our proprietary rights adequately or to prevent others from claiming violations of their proprietary rights. Although we file copyright registrations for the source code underlying our software, enforcement of our rights might be too difficult and costly for us to pursue effectively. We have filed patent applications for the proprietary technology underlying our software, but our ability to fully protect this technology is contingent upon the ultimate issuance of the corresponding patents. Effective patent, copyright, and trade secret protection of our software may be unavailable or limited in certain countries.

Several lawsuits have been brought against us and the outcome of these lawsuits is uncertain.

Several lawsuits have been brought against us and the underwriters of our stock in our initial public offering. These lawsuits allege, among other things, that the underwriters engaged in sales practices that had the effect of inflating our stock price, and that our prospectus for that offering was materially misleading because it did not disclose these sales practices. In addition, a lawsuit has been brought against us and several of our former officers and directors alleging, among other things, that we failed to properly register certain Verticalnet stock delivered pursuant to an acquisition in 2000. We intend to vigorously defend ourselves against these lawsuits. No assurance can be given as to the outcome of these lawsuits.

Shares eligible for future sale by our current or future shareholders may cause our stock price to decline.

If our shareholders or option and warrant holders sell substantial amounts of our common stock in the public market, including shares issued in completed or future acquisitions or upon the exercise of outstanding options and warrants, then the market price of our common stock could fall. As of December 31, 2004, the holders of 7,996,181 shares of common stock and warrants to purchase 2,422,497 shares of common stock have demand and/or piggyback registration rights. The exercise of such rights could adversely affect the market price of our common stock. We also have filed a shelf registration statement to facilitate our acquisition strategy, as well as registration statements to register shares of common stock under our stock option and employee stock purchase plans. Shares issued pursuant to existing or future shelf registration statements, upon exercise of stock options and warrants, and in connection with our employee stock purchase plan will be eligible for resale in the public market without restriction.

Anti-takeover provisions and our right to issue preferred stock could make a third-party acquisition of us difficult.

Verticalnet is a Pennsylvania corporation. Anti-takeover provisions of Pennsylvania law could make it more difficult for a third party to acquire control of us, even if such change in control would be beneficial to our shareholders. Our articles of incorporation provide that our Board of Directors may issue preferred stock