VERTICALNET INC
Form S-3/A
December 27, 2007
Table of Contents

As filed with the Securities and Exchange Commission on December 27, 2007

Registration No. 333-147065

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

VERTICALNET, INC.

(Exact name of Registrant as specified in its charter)

Pennsylvania	**7372**	**23-2815834**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code No.)**	**(I.R.S. Employer Identification No.)**

400 Chester Field Parkway

Malvern, Pennsylvania 19355

(610) 240-0600

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Christopher G. Kuhn

Vice President, General Counsel, and Secretary

400 Chester Field Parkway

Malvern, Pennsylvania 19355

(610) 240-0600

(Name and address, including zip code, and telephone number, including area code, of agent for service)

Approximate date of commencement of proposed sale to the public: As soon as practicable after the registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING SECURITY HOLDERS MAY NOT SELL ANY OF THE SECURITIES DESCRIBED IN THIS PROSPECTUS UNTIL THE REGISTRATION STATEMENT THAT WE HAVE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION TO COVER THE SECURITIES IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED DECEMBER 27, 2007

PRELIMINARY PROSPECTUS

543,750 Shares

VERTICALNET, INC.

Common Stock

This prospectus relates to the public offering, which is not being underwritten, of 543,750 shares of common stock, none of which is outstanding, all of which may be issued upon conversion of our outstanding shares of Series B Preferred Stock held by the selling shareholders. These shares are being registered pursuant to the terms of the registration rights agreement pertaining to the Series B Preferred Stock and warrants, which provides that we must register twenty-five percent (25%) of the total common stock issuable upon conversion and exercise of such shares of Series B Preferred Stock and warrants.

The selling shareholders may offer for resale through this prospectus the shares of common stock at various times at market prices prevailing at the time of sale or at privately negotiated prices. The selling shareholders may resell the common stock to or through underwriters, broker-dealers, or agents, who may receive compensation in the form of discounts, concessions, or commissions. We will not receive any of the proceeds from the resale of the common stock offered through this prospectus. We will bear all costs, expenses, and fees in connection with the registration of the shares. The selling shareholders will bear all commissions and discounts, if any, attributable to the sales of the shares.

We effected a one-for-eight reverse stock split on August 16, 2007, or the reverse stock split, of our outstanding shares of common stock. All references to shares of our common stock in this prospectus reflect the result of the reverse stock splits. Shares of our common stock are quoted on The Nasdaq Capital Market under the symbol VERT. The last reported sale price of our shares on December 26, 2007 was $2.52 per share.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. RISK FACTORS BEGIN ON PAGE 2.

Neither the Securities and Exchange Commission, or the SEC, nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is __________, 2007

Table of Contents

TABLE OF CONTENTS

	Page
SUMMARY	1
RISK FACTORS	2
FORWARD-LOOKING STATEMENTS	11
USE OF PROCEEDS	11
SELLING SHAREHOLDERS	11
PLAN OF DISTRIBUTION	15
LEGAL MATTERS	17
EXPERTS	17
ABOUT THIS PROSPECTUS	17
WHERE YOU CAN FIND MORE INFORMATION	17

Table of Contents

SUMMARY

The following summary does not contain all of the information you should consider before buying shares of our common stock. You should read the entire prospectus carefully, especially the Risk Factors section, as well as the information incorporated by reference in this prospectus before deciding to invest in shares of our common stock.

Our Company

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

In addition to traditional software installation and application service provider hosting, we offer the majority of our 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. We believe that our on-demand delivery model mitigates the software implementation costs for our customers, and reduces the obstacles to a successful supply management initiative.

In addition to implementation services, we also provide customers with supply management business process consulting, primarily in the areas of Spend Analysis and Advanced Sourcing, and offer custom software development for customers that desire to build additional supply management capabilities.

About Verticalnet, Inc.

Principal Executive Offices:	**Internet Address:**
Verticalnet, Inc.	www.verticalnet.com (Information contained on our website is not a part of this prospectus)

400 Chester Field Parkway

Malvern, Pennsylvania 19355

Phone: (610) 240-0600

Table of Contents

RISK FACTORS

We will require additional capital to fund our operations and obligations.

On October 25, 2007, we entered into an Agreement and Plan of Merger, or the merger agreement, with BravoSolution S.p.A, a corporation organized under the laws of Italy, or BravoSolution, and BravoSolution U.S.A., Inc., a Pennsylvania corporation and wholly-owned subsidiary of BravoSolution, or Merger Sub. Pursuant to the merger agreement, Merger Sub will merge with and into the Company and the Company will become a wholly-owned subsidiary of BravoSolution, which we refer to as the merger. Pursuant to the merger agreement, at the effective time of the merger: (i) all outstanding shares of our Common Stock, par value $0.01 per share, will be converted into the right to receive $2.56 per share in cash without interest; (ii) all outstanding shares of our Series B Preferred Stock, par value $0.01 per share, will be converted into the right to receive either $0.38750 or $0.26875, per share in cash (in accordance with the merger agreement) without interest; and (iii) all outstanding shares of our Series C Preferred Stock, par value $0.01 per share, will be canceled and retired, and no payment or distribution shall be made with respect thereto.

We have called a special shareholder meeting to be held on January 15, 2008, for the purpose of voting on the adoption of the merger agreement and the related Plan of Merger, and the approval of the merger. Our Board of Directors has unanimously approved the merger agreement, the related Plan of Merger and the merger, and recommends that our shareholders approve the merger. Consummation of the merger is subject to customary conditions, including, among other things, approval of the merger agreement and the related Plan of Merger by our shareholders. However, no assurance can be given that we will be able to complete the merger.

In connection with the execution of the merger agreement, on October 25, 2007, we entered into a Stock Purchase Agreement with Merger Sub, pursuant to which Merger Sub purchased 322,007 shares of Series C Preferred Stock for a purchase price of $824,338. The shares of Series C Preferred Stock were issued at the closing of the transactions contemplated by the Series C Purchase Agreement on October 31, 2007. The Series C Preferred Stock transaction resulted in net proceeds to the Company of approximately $800,000 after deducting the estimated offering costs and fees.

In the event that the merger is not completed, the Company s liquidity position will continue to create challenges for the business. Due to our lower than expected billings for the first nine months of the 2007 and our most recent projections, we believe that our current level of liquid assets and our expected cash flows from operations will not be sufficient to finance our operations and financial commitments over the next 12 months without raising additional capital to support both working capital and debt repayment. As a result we have taken action over the last twelve months to reduce expenses and would expect to further reduce our cost structure as well as continue to explore opportunities to sell or license certain of our non-strategic technology assets, subject to obtaining any consent required by the holder of our senior subordinated discount note, or the discount note. If we are successful in the sale or licensing of these non-strategic assets, we may be required to use the proceeds to repay the outstanding principal amount of the discount note.

Over the last year we have undertaken a lengthy and extensive process to either seek additional financing or explore other strategic alternatives for the business. While we have been successful in raising both debt and equity capital in the past, there is no assurance that we will be successful in the future, should the BravoSolution transaction or an alternative transaction not occur. In addition, should we successfully raise capital, such a financing is likely to be highly dilutive to current shareholders and there is no assurance that financing options will be available at or near our current share price or at levels achieved in previous financings. Should we prove unsuccessful in raising additional capital, we may be unable to fund our financial obligations, both short-term and long-term.

Although we believe that opportunities exist for us to raise capital, no assurances can be given that we will be able to raise sufficient capital to both fund working capital and repay the discount note when it comes due. In addition, while we may seek to restructure some or all of the amount due under the discount note, no assurance can be given that we will be successful in doing so. If we are able to raise additional capital by issuing equity securities, the terms and prices for these financings may be much more favorable to the new investors than the terms obtained by our existing shareholders and may dilute the ownership of our existing shareholders**.** In addition, the issuance of equity securities below the conversion value of our Series B Preferred Stock, which as of September 30, 2007 was $2.00 per share (as adjusted for August 2007 1-for-8 reverse stock split), may trigger the price protection anti-dilution terms of our Series B Preferred Stock, which would make the Series B Preferred Stock convertible into a greater number of shares of common stock and further dilute the ownership of existing shareholders.

As of September 30, 2007, the outstanding principal amount of $5.3 million under our discount note was classified as a current liability given a current maturity date of April 1, 2008. In July 2007, we repaid $189,600 of the outstanding principal

2

Table of Contents

amount of the discount note from proceeds received from the sale of Series B Preferred Stock described below, as consideration for specific waivers provided by the discount note holder. We do not expect to be able to repay this obligation from cash flow from operations and will need to find alternative sources of financing to satisfy this obligation. If we are able to acquire additional financing from alternative sources, such financing will likely prove to be extremely dilutive to our shareholders. In addition, there can be no assurance that we will be in compliance with the covenants under the discount note, although, we were in compliance with the covenants under the discount note as of September 30, 2007. If we are unable to comply with the covenants under the discount note, the holder of the discount note may declare us in default and may declare all amounts due under the discount note.

On June 1, 2007, we entered into a Share and Warrant Purchase Agreement, or purchase agreement, with several individual and institutional investors, or investors. Under the terms of the purchase agreement, the investors purchased 8,700,000 shares of Series B Preferred Stock for a purchase price of $2.175 million. The purchase price consisted of $1.575 million in cash and $600,000 of debt previously loaned to the Company in May 2007 that automatically converted into the Series B Preferred Stock on a dollar-for-dollar basis.

The Series B Preferred Stock transaction resulted in net proceeds to the Company of approximately $1.95 million (including the $600,000 from debt previously issued by the Company) after deducting the estimated offering costs and fees. Approximately $729,000 of this financing was used to repay our senior convertible notes and the discount note. We have used the remaining $1.2 million in proceeds from this transaction for working capital purposes.

Our indebtedness and debt service obligations may adversely affect our cash flows.

Our indebtedness could have significant negative consequences, including, but not limited to:

- requiring the dedication of a substantial portion of our expected cash flow from operations to service the indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- limiting our flexibility to plan for, or react to, changes in our business and the industry in which we compete; and
- placing us at a possible competitive disadvantage to competitors with less debt obligations and competitors that have better access to capital resources.

Our discount note provides that upon the occurrence of various events of default and change of control transactions, the holder would be entitled to require us to prepay the discount note, which could leave us with little or no working capital for operations or capital expenditures.

Our discount note allows the holder thereof to require us to prepay the discount note upon the occurrence of various events of default, such as the failure to list our shares on the OTC Bulletin Board or another acceptable exchange if we are delisted from The Nasdaq Capital Market or our receiving a qualification from our auditors as to our ability to continue as a going concern. If we are unable to comply with the covenants under the discount note, the holder of the discount note may declare us in default and may declare all amounts due under the discount note, including any accrued interest and penalties. There can be no assurance that we will be in compliance with the covenants under the discount note, although, we were in compliance with the covenants under the discount note as of September 30, 2007.

We may also be required to prepay the discount note upon the occurrence of specified change of control transactions. If an event of default or a change in control occurs, we may be unable to prepay the entire amount due under the discount note in cash. Even if we were able to prepay the entire amount in cash, any such prepayment could leave us with little or no working capital for our business. We have not established a sinking fund for payment of our obligations under the discount note, nor do we anticipate doing so.

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

For the nine months ended September 30, 2007, our two largest customers accounted for $1.4 million or 13.8% of our total revenues. During the same period in 2006, these same two customers accounted for $3.5 million or 28.6% of our total revenues.

Table of Contents

As of September 30, 2007, these two customers accounted for $103,000 or 3.0% of our accounts receivable balance, of which $85,000 has been collected as of November 12, 2007. Although we have had a successful collection history with these customers, and do not foresee any collection issues, there can be no assurance that we will be able to collect outstanding balances and future invoices from them.

We may be unable to maintain our listing on The Nasdaq Capital 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 Capital Market. Continued listing on The Nasdaq Capital 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 at least $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. We have been unable to demonstrate compliance with some of these requirements in the past and have been subject to delisting proceedings by The Nasdaq Capital Market.

As of September 30, 2007, we do not have at least $2.5 million of shareholders equity and therefore are not in compliance with all continued listing standards for the Nasdaq Capital Market. On November 28, 2007, we received a determination letter from the staff of the Nasdaq Stock Market that our Common Stock is subject to delisting as a result of such non-compliance. No assurance can be given that we will be able to regain compliance with the requirement that we maintain at least $2.5 million in shareholders equity. Also, there can be no assurance that we will continue to demonstrate compliance with all other requirements for continued listing on The Nasdaq Capital Market in the future, or that our stock will remain listed.

To the extent that we are delisted from The Nasdaq Capital Market, we believe that we will be able to list our shares on the OTC Bulletin Board. If our securities are delisted from The Nasdaq Capital Market, the liquidity for our securities could be adversely effected and our ability to raise additional capital would be impaired.

We may not generate an operating profit.

As of December 31, 2006, 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 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.

If our stock is delisted from The Nasdaq Capital 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.

4

Table of Contents

If our stock is delisted from The Nasdaq Capital 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.

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.

Our cost containment and cost reduction initiatives may yield further unintended consequences, such as reduced employee morale, decreased productivity and disclosures of confidential information about us by employees that seek employment with others in violation of their confidentiality agreements with us.

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. Our quarterly operating results could 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 issue our securities in capital raising or acquisition transactions, which could dilute our existing shareholders.

From time to time, we consider potential acquisitions in an attempt to grow our 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.

Table of Contents

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

Our 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 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, with which we may not be able to keep pace.

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 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 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 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.

6

Table of Contents

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.

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. 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. In addition, third parties may claim that our current or potential future products infringe their intellectual property rights. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product and service delivery delays or require us to enter into royalty or licensing agreements, which, if required, may not be available on terms acceptable to us or at all, which could seriously harm our business.

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. We intend to vigorously defend ourselves against these lawsuits; however, no assurance can be given as to the outcome of these lawsuits. In addition, other lawsuits may be brought against us. We may be required to defend such lawsuits, thus incurring expenses which we may not be able to bear, or which we may not be successful in defending.

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

If our shareholders, option holders, warrant holders, or holders of other securities sell substantial amounts of our common stock in the public market, including shares issued in completed or future acquisitions, upon the exercise of outstanding options and warrants, or upon conversion of convertible securities, then the market price of our common stock could fall. We also have filed registration statements to register shares of common stock under our equity compensation and employee stock purchase plans. Shares issued pursuant to existing or future shelf registration statements, upon exercise of stock options and warrants, upon conversion of convertible securities, such as our Series B Preferred Stock, 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 without shareholder approval. In addition, our bylaws provide for a classified board, with each board member serving a staggered three-year term. The issuance of preferred stock and the existence of a classified board could make it more difficult for a third party to acquire us.

Our common stock price is likely to remain highly volatile.

The market for stocks of technology companies has been highly volatile since our initial public offering in 1999. Throughout this period, the market price of our common stock has reached extreme highs and lows, and our daily trading volume has been, and will likely continue to be, highly volatile. Investors may not be able to resell their shares of our common stock following periods of price or trading volume volatility because of the market s adverse reaction to such volatility. Factors that could cause volatility in our stock price and trading volume, in some cases regardless of our operating performance, include, among other things:

- general economic conditions, including suppressed demand for technology products and services;

actual or anticipated variations in quarterly operating results;

announcements of technological innovations;

new products or services;

Table of Contents

- changes in the market valuations of other software or technology companies;
- failure to meet analysts or investors expectations;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, or joint ventures;
- our cash position and cash commitments;
- our prospects for software sales and new customers; and
- additions or departures of key personnel.

Acquisitions may disrupt or otherwise have a negative impact on our business.

We have made, and plan to continue to make, investments in and acquisitions of complementary companies, technologies, and assets. Future and past acquisitions are subject to the following risks:

- acquisitions may cause a disruption in our ongoing business, distract our management and other resources, and make it difficult to maintain our standards, controls, and procedures;
- we may acquire companies in markets in which we have little experience;
- we may not be able to successfully integrate the services, products, and personnel of any acquisition into our operations;
- we may be required to incur debt or issue equity securities, which may be dilutive to existing shareholders, to pay for the acquisitions;
- we may be exposed to unknown or undisclosed liabilities; and
- our acquisitions may not result in any return on our investment and we may lose our entire investment.

Interruptions or delays in service from our third-party Web hosting facilities could impair the delivery of our service and harm our business.

We provide some of our services through computer hardware that is currently located in a third-party web hosting facility in Philadelphia, Pennsylvania operated by SunGard, Inc. We do not control the operation of this facility, and it may be subject to damage or interruption from floods, fires, power loss, telecommunications failures, and similar events. It may also be subject to break-ins, sabotage, intentional acts of vandalism, and similar misconduct. Despite precautions taken at the facility, the occurrence of a natural disaster, a decision to close a facility without adequate notice, or other unanticipated problems at a facility could result in lengthy interruptions in our service. In addition, the failure by a facility to provide our required data communications capacity could result in interruptions in our service. While we are not aware of any such interruptions, if an actual or perceived interruption of our applications occurred or if our applications become unstable or unavailable, the perception by existing or potential customers of our applications could be harmed and we could lose sales and customers. In addition, we may be subject to service level penalties, which could materially and adversely affect our business, financial condition, and operating results.

If our security measures are breached and unauthorized access is obtained to a customer s data, our on-demand applications may be perceived as not being secure and customers may curtail or stop using our service.

Our on-demand supply management application model involves the storage, analysis, and transmission of customers proprietary information, and security breaches could expose us to a risk of loss or corruption of this information, litigation, and possible liability. If our security measures are breached as a result of third-party action, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party obtains access to one or more of our customers data, our reputation could be damaged, our business may suffer, and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage computer systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. While we are not aware of any such breach, if an actual or perceived breach of our security occurs, the perception by existing or potential customers of the effectiveness of our security measures could be harmed and we could lose sales and customers.

If our software or the third-party software we use to support and enable our applications is subject to intrusion or corruption by third parties, our applications could become unstable or unavailable to our customers.

We use our own as well as third-party software to support or enable our applications and which may be subject to intrusion or corruption by third parties, which may render our on-demand applications unstable or unavailable to our customers. While we are not aware of any such intrusion, if an actual or perceived intrusion or corruption of our software or third-party software which we use to support or enable our applications occurs, and our applications become unstable or unavailable, the perception by existing or potential customers of our applications could be harmed and we could lose sales and customers.

Table of Contents

If our on-demand application model is not widely accepted, our operating results will be harmed.

We expect to derive an increasing portion of our software revenues from subscriptions to our on-demand applications. As a result, widespread acceptance of our on-demand supply management applications is critical to our future success. Factors that may affect market acceptance of our on-demand applications include:

- reluctance by enterprises to migrate to an on-demand application model;
- the price and performance of our on-demand applications;
- the level of customization we can offer;
- the availability, performance, and price of competing products and services; and
- potential reluctance by enterprises to trust third parties to store and manage their internal data.

Many of these factors are beyond our control. The inability of our on-demand applications model to achieve widespread market acceptance would harm our business.

Because we will recognize revenue from our on-demand applications over the term of the agreement, downturns or upturns in sales may not be immediately reflected in our operating results.

We will recognize revenue from customers with hosted term-based licenses over the term of their agreements, which are typically 12 to 24 months, although terms can range from one to 36 months. As a result, a portion of the revenue we report in each quarter will be from agreements entered into during previous quarters. Consequently, a decline in new or renewed agreements in any one quarter will not necessarily be fully reflected in the revenue in that quarter and may negatively affect our revenue in future quarters. In addition, we may be unable to adjust our cost structure to reflect these reduced revenues. Accordingly, the effect of significant downturns in sales and market acceptance of our service may not be fully reflected in our results of operations until future periods. Our on-demand application model will also make it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable agreement term.

We do not have an adequate history with our on-demand application model to predict the rate of customer renewals and the impact these renewals will have on our revenue or operating results.

Our customers have no obligation to renew their agreements for our service after the expiration of their initial contract period and some customers have elected not to do so. In addition, our customers may decide not to renew unless we offer lower prices or agree to reduce the number of users. We have limited historical data with respect to rates of customer renewals, so we may not be able to accurately predict customer renewal rates. Our customers renewal rates may decline or fluctuate as a result of a number of factors, including their dissatisfaction with our applications or the customers ability to continue their operations and spending levels. If our customers do not renew their agreements for our on-demand supply management applications, our revenue may decline and our business may suffer.

Our future success also depends in part on our ability to sell additional features or functions of our applications, additional applications, or additional services to our current customers. This may require increasingly sophisticated and costly sales efforts that are targeted at our customers senior management. If these efforts are not successful, our business may suffer.

A failure to adequately expand our direct sales force may impede our growth.

We expect to be substantially dependent on our direct sales force to obtain new customers, particularly large enterprise customers, and to manage our customer base. We believe that there is significant competition for direct sales personnel with the advanced sales skills and technical

knowledge we need. Our ability to achieve significant growth in revenue in the future will depend, in large part, on our success in recruiting, training, and retaining sufficient direct sales personnel. New hires require significant training and may, in some cases, take more than a year before they achieve full productivity. Our recent or future hires may not become as productive as we would like, and we may be unable to hire sufficient numbers of qualified individuals in the future in the markets where we do business. If we are unable to hire and develop sufficient numbers of productive sales personnel, sales of our products and services may suffer. We have also reduced our sales force as part of our cost containment and cost reduction initiatives. Our failure to field an effective sales organization could have a material adverse effect on our operating performance and financial condition.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings.

Under U.S. generally accepted accounting principles, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, future cash flows, and slower growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined resulting in an impact on our results of operations. In June 2006, based on our market capitalization as well as other business indicators (including our decreasing relationship with one of our largest customers), we concluded that we were required to assess whether any portion of our recorded goodwill balance or amortizable intangible assets were impaired. We concluded that goodwill was impaired in the amount of $9.9 million. If our market value continues to decline, we may get to a point where an additional impairment charge would be necessary. At that time, we may be required to record a significant charge to earnings in our financial statements during the period in which the amount of the impairment of our goodwill or amortizable intangible assets is determined.

Changes in the value of the U.S. dollar, in relation to the currencies of foreign countries where we transact business, could harm our operating performance and financial condition.

International operations represent an increasing portion of our revenues. We expect to continue to commit significant resources to our international sales and marketing activities. For international sales and expenditures denominated in foreign currencies, we are subject to risks associated with currency fluctuations, particularly as a result of the decline in the value of the U.S. dollar compared to other foreign currencies. Although such international revenues are increasing, we have not to date hedged our risks associated with foreign currency transactions in order to minimize the impact of changes in foreign currency exchange rates on earnings. In the event we do begin hedging activities, there is no guarantee our hedging strategy will be successful and that currency exchange rate fluctuations will not have a material adverse effect on our operating results.

Issuance of shares of common stock upon conversion of our Preferred Stock and exercise of warrants will dilute the ownership interests of existing shareholders and could adversely affect the market price of our common stock.

We may issue shares of common stock upon conversion of some or all of our Preferred Stock and upon exercise of warrants. Any of these issuances will dilute the ownership interests of existing shareholders. Any sales in the public market of this common stock could adversely affect prevailing market prices of the common stock. In addition, the existence of warrants may encourage short selling by market participants. Holders of our Preferred Stock have certain registration rights. The exercise of these rights could adversely affect the market price of our common stock.

Our discount note is secured by substantially all of our assets.

The holders of our discount note have a security interest in and a lien on substantially all of our assets, including our existing and future accounts receivable, cash, general intangibles (including intellectual property) and equipment. As a result of this security interest and lien, if we fail to meet our payment or other obligations under the discount note, the holders of the discount note would be entitled to foreclose on and liquidate substantially all of our assets. Under those circumstances, we may not have sufficient funds to service our day-to-day operational needs. Any foreclosure by the holders of the discount note would have a material adverse effect on our financial condition.

Failure to complete the merger could negatively affect the market price of our Common Stock.

If the merger is not completed for any reason, we will be subject to a number of material risks, including the following:

- the market price of our Common Stock may decline to the extent that the current market price of its shares reflects a market assumption that the merger will be completed;

- costs relating to the merger, such as legal, accounting and financial advisory fees, and, in specified circumstances, termination fees, must be paid even if the merger is not completed;

the funds available to us may be insufficient to make full repayment on the discount note, which will come due on April 1, 2008; and

the diversion of management s attention from the day-to-day business of the Company, the potential disruption to our employees and our relationships with customers, landlords, suppliers and distributors during the period before the completion of the merger may make it difficult for the Company to regain its financial and market positions if the Merger does not occur.

Table of Contents

If the merger is not approved by our shareholders at the special meeting, the Company, BravoSolution and Merger Sub will not be permitted to complete the merger, and each of the Company and BravoSolution will have the right to terminate the merger agreement. Upon termination of the merger agreement, under certain circumstances, we may be required to pay BravoSolution a termination fee. Further, if the merger is terminated and our Board of Directors seeks another merger or business combination, shareholders cannot be certain that we will be able to find a party willing to pay an equivalent or better price than the price to be paid in the merger.

Unless the merger agreement is terminated, we will not be able to enter into a merger or business combination with another party at a favorable price because of restrictions in the merger agreement.

Unless and until the merger agreement is terminated, subject to specified exceptions, we are restricted from initiating, soliciting, or taking any action to facilitate or encourage the submission of any offer or proposal relating to an alternative transaction with any person or entity other than BravoSolution. In addition, the Company will not be able to enter into an alternative transaction at a more favorable price, unless and until the merger agreement is terminated, which may result in the Company incurring potentially significant liability to BravoSolution.

Uncertainties associated with the merger may cause the Company to lose key personnel.

Our current and prospective employees may be uncertain about their future roles and relationships with the Company following the completion of the merger. This uncertainty may adversely affect our ability to attract and retain key management and personnel.

FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this prospectus contain some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Such statements may include words such as anticipate, estimate, expect, project, intend, plan, believe, and other words and terms meaning in connection with any discussion of future operating or financial performance.

Any or all of our forward-looking statements in this prospectus may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this prospectus will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised, however, to consult any additional disclosures we make in our reports to the SEC on Forms 10-K, 10-Q, 8-K, and amendments thereto. Also note that we provide a cautionary discussion of risks and uncertainties under Risk Factors on page 2 of this prospectus. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

USE OF PROCEEDS

We will not receive any proceeds from the resale of the common stock offered through this prospectus.

SELLING SHAREHOLDERS

Shares Being Registered

This prospectus relates to the public offering, which is not being underwritten, of 543,750 shares of common stock, none of which is outstanding, all of which may be issued upon conversion of our outstanding shares of Series B Preferred Stock held by the selling shareholders. These shares are being registered pursuant to the terms of the registration rights agreement pertaining to the Series B Preferred Stock and warrants, which provides that we must register twenty-five percent (25%) of the total common stock issuable upon conversion and exercise of such shares of Series B Preferred Stock and warrants.

Table of Contents

On June 1, 2007, we entered into a purchase agreement for a private placement transaction with certain individual and institutional investors pursuant to which we issued 8,700,00 shares of our Series B Preferred Stock and warrants to purchase a total of 1,087,500 shares of common stock. The private placement transaction closed on June 1, 2007 and was exempt from the registration requirements of the Securities Act of 1933, as amended.

Subject to certain limitations on non-investor holders who have held their Series B Preferred Stock for less than six months, shares of Series B Preferred Stock are convertible into shares of our common stock at any time at the option of the holder, at a conversion ratio equal to the aggregate liquidation value of the shares of Series B Preferred Stock to be converted divided by the conversion value then in effect for the Series B Preferred Stock.

The liquidation value of the Series B Preferred Stock is equal to $0.25 per share of Series B Preferred Stock. In addition to its use in the calculation of the conversion ratio, this liquidation value is also payable to holders of Series B Preferred Stock in the event of any liquidation, dissolution or winding up of the corporation. In such an event, each holder of our Series B Preferred Stock will be entitled to receive the liquidation value of its shares of Series B Preferred Stock before any distribution of assets is made to any of our other securityholders except the holder of our senior subordinated discount promissory note.

The conversion value is equal to $2.00 per share of Series B Preferred Stock (as adjusted for the reverse stock split), as subject to adjustment on certain conditions. The conversion value is subject to anti-dilution provisions in connection with certain future issuances of our securities as well as for adjustments for stock splits and the like. Specifically, if we issue shares of our common stock at a price below the conversion value in effect at that time on any date prior to June 1, 2008, the conversion value will adjust to equal the same price as the shares of our common stock issued below the conversion value in effect immediately prior to such issuance. The anti-dilution provisions do not apply to certain excluded issuances, including issuances of securities upon conversion of the preferred stock or in connection with the subsequent financing referred to below, exercise of the existing warrants, as payment of principal or interest on outstanding securities or pursuant to certain underwritten public offerings, acquisitions by us or upon conversion or exercise of convertible securities or in connection with our stock option plans in existence at the time the shares of Series B Preferred Stock were sold. In addition, the conversion price is also subject to adjustment in connection with our ability to secure subsequent financing. Specifically, if we are unable to close a financing transaction in which we raise at least $6,000,000 (inclusive of the $2,175,000 received by us from the sales of our Series B Preferred Stock pursuant to the purchase agreement dated June 1, 2007) on or prior to December 31, 2007, the conversion price of our Series B Preferred Stock will be adjusted to $1.20 per share of Series B Preferred Stock.

The Series B Preferred Stock is also subject to mandatory conversion upon the occurrence of certain triggering events, which includes any transaction that disposes of substantially all of our assets or any business combination with another entity such that the holders of our voting securities immediately prior to such combination hold 50% or less of the total outstanding voting securities of the surviving entity immediately following such combination. In such cases, subject to certain limitations on non-investor holders, each holder of Series B Preferred Stock can elect to receive either (i) an amount equal to the aggregate liquidation preference for their shares of Series B Preferred Stock or (ii) the number of fully paid and non-assessable shares of common stock to which he or she is entitled according to the conversion ratio described above.

In addition, pursuant to the terms of the purchase agreement, upon shareholder approval of the proposals, which was successfully obtained on August 15, 2007, investors in our Series B Preferred Stock are entitled (i) to convert their shares of preferred stock into shares of common stock on an eight-for-one basis (as adjusted to reflect the one-for-eight reverse stock split on August 16, 2007), subject to adjustment in the event that we fail to enter into a subsequent financing transaction as described above; and (ii) to receive the warrants for 1,087,500 shares of common stock mentioned above in two tranches such that warrants to purchase 543,750 shares of common stock are issued at an exercise price per share equal to the closing bid price on August 15, 2007 equal to $2.64 and warrants to purchase an additional 543,750 shares of common stock are issued at an exercise price per share equal to $5.60.

In addition, as a result of shareholder approval of the proposals referenced above, (i) all accrued interest on our Series B Preferred Stock was deemed paid in full; (ii) our shares of Series B Preferred Stock ceased to accrue interest; and (iii) the redemption feature on our shares of Series B Preferred Stock was eliminated.

The table below lists the selling shareholders and other information regarding the beneficial ownership of the shares of common stock by each selling shareholder. The column titled Shares Beneficially Owned Before Offering lists the number of shares of common stock beneficially owned by each selling shareholder, including the shares of common stock beneficially owned assuming conversion of the Series B Preferred Stock into shares of common stock and the exercise of the

common stock warrants. The number of shares of common stock set forth in this column is based on the initial conversion ratio of the Series B Preferred Stock, as adjusted for the reverse stock split. However, as described above, the conversion price of the convertible notes is subject to adjustment from time to time.

The column titled Shares Offered Hereby lists the shares of common stock being offered pursuant to this prospectus by each selling shareholder assuming conversion of the Series B Preferred Stock into shares of common stock. As described above, because the conversion ratio used for converting the Series B Preferred Stock into shares of common stock may be adjusted, the number of shares of common stock set forth in this column consists of our estimate of the shares of common stock that will be issued to the selling shareholders.

This prospectus covers the resale by the selling shareholders of twenty-five percent (25%) of the total common stock issuable upon conversion and exercise of the Series B Preferred Stock and warrants. Because the conversion ratio of the Series B Preferred Stock may be adjusted, the number of shares that will actually be issued may be more or less than the number of shares being offered by this prospectus.

Under the terms of the Series B Preferred Stock, the selling shareholders may not convert the Series B Preferred Stock to the extent such conversion would cause such selling shareholder to beneficially own a number of shares of common stock which would exceed 9.99% of our then outstanding shares of common stock following such conversion. The selling shareholders will be entitled to convert additional shares of Series B Preferred Stock as soon as such conversion would no longer cause such selling shareholder to beneficially own a number of shares of common stock exceeding 9.99% of the then outstanding shares of common stock. The number of shares in the columns titled Shares Beneficially Owned Before Offering and Shares Offered Hereby therefore do not reflect this limitation.

Selling Shareholders

We have agreed with each selling shareholder to file a registration statement to register for resale the shares of common stock set forth below. Except as noted in the footnotes below, none of the selling shareholders has held any position or office with us or any of our predecessors or affiliates within the last three years or has had a material relationship with us or any of our predecessors or affiliates within the past three years other than as a result of the ownership of our shares or other securities. Shares may also be sold by donees, pledgees, and other transferees or successors in interest of the selling shareholders.

The following table sets forth information, as of December 26, 2007, with respect to each selling shareholder. The information below is based on information provided by or on behalf of the selling shareholders. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. The percentage of ownership for the selling shareholders disclosed in this table is based on 1,610,845 shares of common stock outstanding as of December 26, 2007. Both the number of shares listed as being offered by the selling shareholders in the table and the holders respective percentages of share ownership after the offering are based on the assumptions that all of the shares being offered are sold pursuant to this offering, and that no other shares of common stock are acquired or disposed of by the selling shareholders prior to the termination of this offering. Because the selling shareholders may sell all, some, or none of their shares or may acquire or dispose of other shares of common stock, we cannot estimate the aggregate number of shares that will be sold in this offering or the number or percentage of shares of common stock that the selling shareholders will own upon completion of this offering.

Table of Contents

	Shares Beneficially Owned Before Offering		Shares Offered	Shares Beneficially Owned After Offering	
Name	**Number**	**Percentage**	**Hereby**	**Number**	**Percentage**
ACT Capital Partners, L.P (1)	125,000(2)	7.20%	31,250	93,750(2)	5.40%
Jacqueline Chakejian	100,000(3)	5.85%	25,000	75,000(3)	4.38%
Amir L Ecker (4)	75,000(5)	4.45%	18,750	56,250(5)	3.34%
Michael J. Hagan (6)	254,010(7)	13.65%	62,500	191,510(7)	10.29%
Heller Capital Investments (8)	1,000,000(9)	38.30%	250,000	750,000(9)	28.73%
Nathanael V. Lentz (10)	54,679(11)	3.29%	12,500	42,179(11)	2.54%
Michael P. McNulty	250,383(7)	13.46%	62,500	187,833(7)	10.10%
David S. Nagelberg CGM IRA Custodian (12)	250,000(7)	13.43%	62,500		