

VERTICALNET INC
Form 10-Q
November 14, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 000-25269

VERTICALNET, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-2815834
(I.R.S. Employer
Identification No.)

400 CHESTER FIELD PARKWAY

19355

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MALVERN, PENNSYLVANIA
(Address of principal executive offices)

(Zip Code)

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

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 No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares outstanding of the registrant's common stock as of November 10, 2006 was 8,785,974 (includes 48,294 shares subject to an escrow agreement in connection with a prior acquisition).

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FORM 10-Q

For the Quarterly Period Ended September 30, 2006

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Table of Contents**Part I. Financial Information****Item 1. Consolidated Financial Statements****VERTICALNET, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

	September 30, 2006 (unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,467	\$ 4,576
Restricted cash		155
Accounts receivable, net	4,857	5,188
Prepaid expenses and other current assets	1,080	735
Total current assets	8,404	10,654
Property and equipment, net	1,000	1,288
Goodwill	9,643	19,331
Other intangible assets, net	2,643	4,003
Other assets	592	768
Total assets	\$ 22,282	\$ 36,044
Liabilities and Shareholders Equity		
Current liabilities:		
Current portion of long-term debt, convertible notes, and other non-current liabilities	\$ 7,754	\$ 2,638
Accounts payable and accrued expenses	4,939	4,038
Deferred revenues	4,057	3,297
Total current liabilities	16,750	9,973
Non-current portion of deferred revenues	765	313
Derivative liabilities		1,321
Long-term debt, convertible notes, and other non-current liabilities	263	2,041
Total liabilities	17,778	13,648
Commitments and contingencies (see Notes 2, 6, 7, and 8)		
Shareholders equity:		
Preferred stock \$.01 par value, 10,000,000 shares authorized, none issued at September 30, 2006 and December 31, 2005		
Common stock \$.01 par value, 21,428,571 shares authorized at September 30, 2006 and 14,285,714 at December 31, 2005, 8,329,467 shares issued at September 30, 2006 and 7,081,345 shares issued at December 31, 2005		
	83	71
Additional paid-in capital	1,229,699	1,226,469
Deferred compensation		(593)
Accumulated other comprehensive loss	(127)	(403)
Accumulated deficit	(1,224,346)	(1,202,343)

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	5,309	23,201
Treasury stock at cost, 9,377 shares at September 30, 2006 and December 31, 2005	(805)	(805)
Total shareholders equity	4,504	22,396
Total liabilities and shareholders equity	\$ 22,282	\$ 36,044

See accompanying notes to consolidated financial statements.

Table of Contents**VERTICALNET, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues:				
Software and software related	\$ 2,343	\$ 1,609	\$ 5,774	\$ 4,721
Services	1,830	3,289	6,500	10,497
Total revenues	4,173	4,898	12,274	15,218
Cost of revenues:				
Cost of software and software related	529	627	1,702	2,085
Cost of services	1,047	1,872	4,131	5,653
Amortization of acquired technology and customer contracts	272	268	768	747
Total cost of revenues	1,848	2,767	6,601	8,485
Gross profit	2,325	2,131	5,673	6,733
Operating expenses:				
Research and development	1,201	1,831	4,074	5,297
Sales and marketing	1,630	2,155	5,464	6,181
General and administrative	1,547	1,527	4,885	4,505
Litigation and settlement costs	6	154	1,032	192
Restructuring charges (reversals)	(21)	149	195	473
Impairment charge for goodwill			9,877	
Amortization of other intangible assets	201	344	660	969
Total operating expenses	4,564	6,160	26,187	17,617
Operating loss	(2,239)	(4,029)	(20,514)	(10,884)
Interest and other expense (income), net	1,145	(369)	1,489	(71)
Net loss	\$ (3,384)	\$ (3,660)	\$ (22,003)	\$ (10,813)
Basic and diluted loss per common share	\$ (0.42)	\$ (0.57)	\$ (2.89)	\$ (1.76)
Basic and diluted weighted average common shares outstanding	8,061	6,457	7,616	6,161

See accompanying notes to consolidated financial statements.

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VERTICALNET, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30,	
	2006	2005
Operating activities:		
Net loss	\$ (22,003)	\$ (10,813)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,839	2,187
Stock-based compensation	1,414	628
Impairment of goodwill	9,877	
Accretion of promissory notes and non-cash interest	1,820	218
Change in the fair value of derivative liabilities	(1,265)	(663)
Amortization of deferred financing costs	467	48
Write-down related to cost method investment		364
Other non-cash items	9	
Change in assets and liabilities, net of effect of acquisition:		
Accounts receivable	331	1,660
Prepaid expenses and other assets	345	197
Accounts payable and accrued expenses	1,479	(1,401)
Deferred revenues	1,212	(141)
Net cash used in operating activities	(4,475)	(7,716)
Investing activities:		
Acquisitions related payments	(57)	(309)
Capital expenditures	(77)	(322)
Restricted cash	155	
Proceeds from sale of cost, equity method, and available-for-sale investments		242
Net cash provided by (used in) investing activities	21	(389)
Financing activities:		
Principal payments on long-term debt and obligations under capital leases	(1,364)	(656)
Proceeds from issuance of senior convertible notes, net		5,951
Proceeds from issuance of senior subordinated discount note, net	3,677	
Proceeds from exercise of stock options and issuance of non-vested stock	11	73
Net cash provided by financing activities	2,324	5,368
Effect of exchange rate fluctuation on cash and cash equivalents	21	(88)
Net decrease in cash and cash equivalents	(2,109)	(2,825)
Cash and cash equivalents - beginning of period	4,576	9,370
Cash and cash equivalents - end of period	\$ 2,467	\$ 6,545
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 260	\$ 29

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Supplemental schedule of non-cash investing and financing activities:

Conversion of and payments on senior convertible promissory notes and accrued interest into/with common stock	\$ 2,394	\$
Financed insurance policies	663	816
Capital expenditures financed through capital lease arrangements	42	141
Issuance of common stock as consideration for the Digital Union acquisition		2,973
Issuance of warrants to private placement agent		35

See accompanying notes to consolidated financial statements.

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VERTICALNET, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)