UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

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

For the fiscal year ended December 31, 2003

¨ **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	**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, 2003 (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 $17,468,445. Such aggregate market value was computed by reference to the closing sale price per share of $1.56 as reported on The Nasdaq Stock 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.

The number of shares outstanding of the registrant s common stock as of March 15, 2004 was 25,603,978.

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EXPLANATORY NOTE

Verticalnet, Inc. is filing this Annual Report on Form 10-K/A for the year ended December 31, 2003 (the Amended Annual Report), to amend its Annual Report on Form 10-K for the year ended December 31, 2003 (the Original Annual Report), which was originally filed with the Securities and Exchange Commission (the SEC) on March 30, 2004. The Amended Annual Report amends Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 11 Executive Compensation, and Item 15 Exhibits, Financial Statement Schedules and Reports on Form 8-K of the Annual Report. The revisions have no impact on any amounts reported in our consolidated financial statements.

The Company is filing the Amended Annual Report in response to a resolution of the investigation conducted by Nasdaq regarding the Company s qualifications to remain listed on the Nasdaq SmallCap Market. The Amended Annual Report revises various disclosures as follows: with respect to Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, to clarify disclosure regarding the status of the Company s continued listing on the Nasdaq SmallCap Market; with respect to Item 11 Executive Compensation, to correct a typographical error in the table *Options Granted in Last Fiscal Year* and to correct the spelling of a named executive officer; and with respect to Item 15 Exhibits, Financial Statement Schedules and Reports on Form 8-K, to identify that certain exhibits were filed with the Original Annual Report rather than with this Form 10-K/A.

Unless otherwise stated, the information contained in this amendment regarding Item 7 is as of April 6, 2004 and all other information contained in this amendment is as of March 30, 2004, the filing date of the Original Annual Report.

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VERTICALNET, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2003

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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, believe, continue, intend, 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 effected on March 31, 2000 and a one-for-ten reverse stock split was effected 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: Spend Analysis, Advanced eSourcing, eProcurement, Contract Management, and Supplier Scorecards. Our solutions enable our customers to harness the power of their data to achieve lower prices, improved contract compliance, better supplier service, and shorter sourcing cycles. As a result, we help our customers recognize significant and sustainable savings in materials costs, inventory levels, and administrative costs resulting in improved profitability.

With the completion of the Atlas Commerce, Inc. (Atlas Commerce) acquisition in December 2001 and the sale of our Small/Medium Business (SMB) unit (formerly referred to as Verticalnet Markets) in June 2002, we completed the business transformation from our origins as an operator of online public vertical communities to a business solely focused on delivering sourcing and supply chain software and services to enterprise customers. As a result of the Tigris Corp. (Tigris) acquisition in January 2004, we enhanced our capability to serve this market by expanding our spend analysis and strategic sourcing domain expertise while adding additional technology tools in the area of bid optimization and advanced sourcing tools. 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 2003.

Competitive Advantage

We believe our solutions are differentiated by the breadth of our Supply Management offering, the depth of our services expertise, our strong capabilities especially in Spend Analysis and Advanced Category Sourcing, and our Bid Analysis Optimization functionality. We believe that we are unique in our ability to deliver solutions, which consist of the right mix of software, services, and domain expertise, to deliver maximum value to our clients.

Software - Our solutions have been highly rated by industry analysts including AMR Research. We believe that we are differentiated in our approach to applying sourcing-specific analytics on top of an end-to-end transactional platform. This allows us to help supply managers decide which strategies to select, and then help implement them.

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.

Domain expertise - Verticalnet has been offering Spend Analysis and Advanced Sourcing solutions to companies since 1996. Our personnel offer a depth of experience in Supply Management that we believe is very beneficial to our customers. We believe that our personnel offer an extensive depth of experience in spend analysis, the strategic sourcing process in general, and particularly in the strategic sourcing of important categories such as transportation, packaging, services, and commercial printing. We believe that this expertise enables us to deliver rapid value to our clients.

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 solutions are bundled into four process steps of Supply Management: Supply Strategy, Supply Selection, Supply Execution, and Supply Performance.

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Verticalnet Supply Strategy

Verticalnet s Supply Strategy solutions help companies understand their spending across disparate locations and divisions including aggregating spending information by supplier, location, and item. Additionally, they provide organizations with concrete recommendations into sourcing opportunities to drive savings, as well as the ability to track compliance with negotiated contracts. Verticalnet Supply Strategy solutions consist of the following three offerings:

Verticalnet Spend Analysis provides our clients with enterprise-wide visibility into spending across multiple systems, divisions, and locations and enables procurement organizations to quickly identify which spending categories they should focus on to generate savings. Our Spend Analysis solution can be delivered as a behind-the-firewall software implementation, via an Application Service Provider (ASP) model, or as an outsourced service, depending on our customers requirements.

Verticalnet Sourcing Analysis enables companies to analyze sourcing projects to identify, evaluate, and quantify maximum opportunities to improve sourcing effectiveness. Our software extracts, cleanses, and classifies sourcing data from multiple disparate systems and enables procurement professionals to analyze the data to measure key sourcing metrics including: negotiated savings by commodity, negotiated savings by project, on-contract versus off-contract spending, and diversity spending.

Verticalnet Sourcing Advisory Services enable sourcing organizations to utilize a combination of sourcing expertise and diagnostic tools to identify process improvements and technical enhancements to generate added organizational efficiency and alignment.

Verticalnet Supply Selection

Verticalnet Supply Selection enables companies to quickly execute iterations of sourcing negotiation to select the best mix of suppliers balancing price, performance, and risk and selecting a portfolio of suppliers to deliver the lowest cost of ownership. Verticalnet s Supply Selection solution consists of the following two products:

Verticalnet eSourcing Verticalnet eSourcing is a self-service software application that can be delivered as an ASP model, or installed at the customer site. Key features of the solution include electronic requests for information (RFI), requests for quote (RFQ), and requests for proposal (RFP). An increasingly common term for this type of application is RFX. Additionally, our eSourcing solution includes reverse auction functionality. This solution enables companies to complete rapid sourcing cycles in a fraction of the time it takes to complete manual bid processes. Additionally, RFX and auction events can be analyzed to include both price- and non-price-factors, ensuring an optimal solution for our customers. Verticalnet s consulting organization can also work with clients, when needed, to manage these events and provide services that include supplier discovery and qualification, market research, process management, and bid analysis.

Verticalnet Advanced Sourcing For large, complex categories that include freight, packaging, printed materials, and services, Verticalnet offers its Advanced Sourcing solution. The Advanced Sourcing solution is a mix of services and technology tools that provides for enhanced bid collection and bid optimization technology to award complex bids across multiple items, shipping lanes, etc. Verticalnet s Advanced Sourcing solution has been tailored specifically for the largest and most complicated categories including transportation, packaging, commercial printing, and services. For these categories, Verticalnet s Advanced Sourcing solution can often double the savings versus stand-alone eSourcing tools.

Verticalnet s Optimization technology is available with all of the Supply Selection solutions. Our Optimization solution dramatically accelerates the analysis process, offering easy to use, yet advanced technology designed to unlock greater value from the sourcing process through comprehensive assessment of supplier award scenarios, what-if analysis, and bid optimization.

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Verticalnet Supply Execution

Verticalnet Supply Execution solutions are designed to streamline purchasing processes, improve supplier collaboration, and ensure compliance with negotiated contracts. Verticalnet Supply Execution consists of the following four products:

Verticalnet Supply Planning provides suppliers with visibility into expected supply requirements. Suppliers can commit to the requirements, or quickly raise supply issues. Transparency of information improves supplier performance and reduces inventory requirements.

Verticalnet Contract Management enables companies to create a central repository of contracts that can be accessed online. The entire contract lifecycle is managed, ensuring that contracts are online, available, and renegotiated in a timely fashion maximizing use of negotiated agreements.

Verticalnet Contract Activation enables centralized procurement organizations to disseminate centrally negotiated contracts to decentralized purchasing organizations or professionals. Contracts that are negotiated centrally, or in a single division, can easily be populated into the systems of other divisions, maximizing the use of contracts and facilitating the sharing of favorable contracts.

Verticalnet eProcurement automates the requisitioning process for frequently used items. Online catalogs, approval workflow, and automated order tracking reduce the administrative costs of purchasing, reduces rogue purchasing, and improves contract compliance.

Verticalnet Supply Performance

Verticalnet Supply Performance solutions are designed to enable companies to measure enterprise-wide supplier performance and take corrective action measures for under performing suppliers. The results of Supply Performance feed the strategy process, delivering many of the non-price factors used in Supply Strategy and Supply Selection. Verticalnet s Supply Performance solutions consist of the following two products:

Supplier Scorecards extract performance data from disparate systems across the enterprise to present a single view of supplier performance that can be analyzed to determine the root cause of supplier performance issues. Supplier Scorecards can also be securely shared with suppliers over the Internet, so that suppliers can proactively manage and correct performance issues.

Supplier Corrective Action Request automates the process of documenting supplier performance issues. Performance issues are documented and corrective actions are initiated and tracked ensuring resolution.

Services

We offer a full complement of consulting, technology, custom development, training, and customer support services. Our team is committed to delivering a quick and efficient implementation with seamless integration and a smooth operation so that our customers can achieve their targeted return on investment.

Consulting

Verticalnet s and Tigris consulting organizations have completed hundreds of Supply Management consulting engagements with FORTUNE 1000 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 approximately 42 consultants based out of our New York and

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Chicago 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.

Technology Services

Our consulting and integration services help customers plan, implement, and manage our software products so they achieve their business objectives. At the heart of our technology 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 actual customer transaction generally in less than 90 days.

Our project teams are experienced at building and implementing private exchanges for Global 2000 companies. Our teams are also focused with clearly defined goals, roles, and responsibilities. Customers may choose to use our technology services exclusively, or use our services with their own internal resources or in association with our network of systems integration and consulting partners.

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 their complex supply chain problems can be solved by taking advantage of the features of the platform. Verticalnet s Solution Center was developed to enable our customers to build out additional functionality to meet these 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. Additionally, the resulting custom developed applications are fully integrated with, and built on the same data model as, the customer s existing Verticalnet implementation.

Training

Our training services help organizations develop the knowledge and skills required to successfully deploy, maintain, and use our products. Participants engage in discussions, work on projects, and gain hands-on experience using our software. We tailor our training to meet the needs of the customer. We can deliver training in a variety of formats, including:

- Pre-designed courses
- Train-the-trainer instruction and/or

On-site instructor-led training

Customer Support

Our customer support services provide the information, tools, and assistance that our customers need, including support representatives to respond to service requests ranging from simple technical inquiries to mission critical problems.

Sales and Marketing

Our sales operation headquarters are now located in New York City. 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

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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.

We also use selective indirect sales channels, such as third-party alliances, to market our solutions, and 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, and ongoing client communication programs.

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, 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 acquisition. 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 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 15, 2004, our research and development staff consisted of 23 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. As of March 15, 2004, there were 24 software developers providing development expertise at this location.

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, Peoplesoft and SAP, who have added or are attempting to add capabilities for strategic sourcing to their products;

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- e-Sourcing solution providers, such as Ariba, FreeMarkets, Frictionless Commerce, and B2E Markets;
- Consulting organizations with significant sourcing practices such as Accenture, McKinsey & Co, and BearingPoint;
- 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.

SMB Business

In June 2002, we completed the sale of certain of the assets of the SMB unit to Corry Publishing 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 15, 2004, we had 111 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 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.

Item 2. ***Properties***

Our corporate headquarters is located in Malvern, Pennsylvania. We maintain locations throughout the United States. 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 (b)	Office	6,900	Leased
Chicago, Illinois (b)	Office	8,300	Leased
London, United Kingdom (b)	Office (c)	100	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 20 to our consolidated financial statements regarding this subsequent event.

(c) We currently sublease this facility from an unrelated third party on a month to month basis.

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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 and Section 20(a) of the Securities Exchange Act of 1934 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. It is expected that the proposed resolution will be reviewed by the District Court in early 2004. 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.

On May 15, 2003, Silicon Valley Bank commenced a lawsuit against certain of the Company s subsidiaries in the U.S. District Court for the Eastern District of Pennsylvania, captioned Silicon Valley Bank v. Tradeum, Inc. and Verticalnet Solutions, LLC, C.A. No. 03-2949, in connection with a letter of credit provided by Silicon Valley Bank for a lease of office space in San Francisco. In October 2003, the Company executed a settlement agreement with Silicon Valley Bank, pursuant to which the Company paid $480,000 to Silicon Valley Bank and Silicon Valley Bank released the Company and its subsidiaries from further claims. As a result of the settlement the lawsuit was dismissed.

In July 2000, we entered into an Opportunity Grant Program Contract with the Commonwealth of Pennsylvania Department of Community and Economic Development (PaDCED) whereby we received a grant

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in the amount of $1.0 million from the Commonwealth. The grant was conditioned upon, among other things, the creation of 1,000 full time jobs and that we would operate in our former Horsham facility for at least five years. In July 2000, 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 contain a provision that requires repayment of the grant amount in the event the conditions are not met.

In November 2002, the PaDCED requested that we repay the entire grant amount of $1.0 million for the July 2000 grant to Verticalnet. The Company responded to the PaDCED that it believes it had substantially complied with the conditions. In September 2003, the PaDCED filed a Complaint-Civil Action in the Montgomery County Court of Common Pleas, although the Complaint has not yet been served upon us. The Complaint seeks to recover the total amount of the grant to Verticalnet. Although we would prefer to amicably resolve the matter, we will vigorously defend any action to recover the grant amount.

We are also a party to various litigations 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***

No matters were submitted to a vote of security holders during the fourth quarter of 2003.

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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 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
Fiscal Year 2002		
First Quarter	$ 17.30	$ 6.50
Second Quarter	7.40	1.60
Third Quarter	1.70	0.61
Fourth Quarter	1.95	0.66

The share price data set forth above reflects a one-for-ten reverse stock split approved by the Company s board of directors. The commencement date for the reverse stock split was July 15, 2002.

At March 15, 2004, we had 516 shareholders of record.

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 August 2003, we completed a $1.1 million private placement of our common stock. The Company issued 1,140,000 shares of common stock at a purchase price of $1.00 per share, along with warrants to purchase 456,000 shares of common stock at an exercise price of $1.20 per share, which were valued at approximately $485,000. The Company received approximately $936,000 in net proceeds from this transaction.

In October 2003, we completed a $1.8 million private placement of our common stock. The Company issued 1,800,000 shares of common stock at a purchase price of $1.00 per share along with warrants to purchase 720,000 shares of common stock at an exercise price of $1.35 per share. The Company received approximately $1.6 million in net proceeds from this transaction.

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 at a purchase price of $2.02 per share along with warrants to purchase 1,218,209 shares of common stock at an exercise price of $3.72 per share. The Company received approximately $7.1 million in net proceeds from this transaction.

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

(a) Information presented relates to continuing operations. Information for the year ended December 31, 1999 is not relevant as the Company s sole business in that year is now presented as a discontinued operation.
(b) 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.

	As of December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in thousands)				
Consolidated Balance Sheet Data:					
Total assets (c)	$ 9,123	$ 18,453	$ 125,631	$ 923,284	$ 318,981
Long-term debt, excluding current portion		7,293	22,255	45,287	116,750
Convertible redeemable preferred stock			102,180	94,760	
Total shareholders equity (deficit)	4,421	1,642	(91,339)	605,402	178,397

(c) Total assets as of December 31, 2000 and 1999 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: Spend Analysis, Advanced eSourcing, eProcurement, Contract Management, and Supplier Scorecards. Our solutions enable our customers to harness the power of their data to achieve lower prices, improved contract compliance, better supplier service, and shorter sourcing cycles. As a result, we help our customers recognize significant and sustainable savings in materials costs, inventory levels, and administrative costs resulting in improved profitability.

Our professional services and consulting groups provide customers with project management, architecture and design, custom development services, and training. Our customers typically pay for professional services at an hourly rate for the time it takes us to complete the project. We strive to maintain effective staffing levels and

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to limit the amount of turnover of our professional services staff. If we are not successful in maintaining effective staffing levels, our ability to achieve our service revenue and profitability objectives may be adversely affected.

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 software platform. 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. Many of our customers find that their complex supply chain problems can be solved by taking advantage of the features of the platform. Verticalnet s Solution Center was developed to enable our customers to build out additional functionality to meet these 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. Additionally, the resulting custom developed applications are fully integrated with, and built on the same data model as, the customer s existing Verticalnet implementation.

Historically, we derived our revenue primarily from the sale of our software, as well as implementation and development services. As a result of the January 2004 acquisition of Tigris, we expect to derive additional revenues through spend analysis and other supply chain consulting services. In addition, we expect to see an increase in our overall operating expenses as a result of adding new full time employees as well as additional office locations. However, we believe that future revenue growth will exceed the expected costs increases. We expect such changes to first decrease our operating losses and eventually result in the Company generating an operating profit.

Recent Developments

In January 2003, the Company amended the lease agreement with its primary landlord resulting in annual savings of $2.7 million of operating expenses and reducing the Company s off- balance sheet obligations by $16.4 million, which consisted of both future minimum lease payments and related operating expenses over the life of lease. The amended agreement terminated the Company s financial obligation for the lease of the 700 Dresher Road and 300 Chester Field Parkway locations. Additionally, the agreement provided for occupancy of the 400 Chester Field Parkway premises until May 31, 2003 with options to continue the lease on a quarterly basis. We have exercised the option to continue the lease for an additional 90 days on four occasions, and the lease is currently set to expire on May 31, 2004. The Company is anticipating moving its corporate headquarters sometime in 2004.

In July 2003, the Company completed the repurchase of $6.4 million of our 5 $^{1}/4$% convertible subordinated debentures due September 2004 for total consideration of $5.8 million. This consideration included 2,694,100 shares of common stock, with a fair market value of $4.4 million, $1.3 million of cash, and change of control warrants to purchase 305,120 shares of common stock. The warrants are exercisable only upon a change of control, expire on September 27, 2004, and were valued at approximately $124,000 in the aggregate. Additionally the Company paid $21,000 in cash for accrued but unpaid interest on the debentures and approximately $55,000 of deferred offering costs attributable to the portion of debt repurchased was written off against additional paid-in capital. In connection with the repurchase, the Company recorded a charge to operations in the third quarter of 2003 of $5.7 million representing the inducement for conversion of the convertible debentures, in accordance with SFAS No. 84, Induced Conversions of Convertible Debt.

In August 2003, we completed a $1.1 million private placement of our common stock. The Company issued 1,140,000 shares of common stock at a purchase price of $1.00 per share, along with warrants to purchase 456,000 shares of common stock at an exercise price of $1.20 per share, which were valued at approximately $485,000. The Company received approximately $936,000 in net proceeds from this transaction.

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In October 2003, we completed a $1.8 million private placement of our common stock. The Company issued 1,800,000 shares of common stock at a purchase price of $1.00 per share, along with warrants to purchase 720,000 shares of common stock at an exercise price of $1.35 per share. The Company received approximately $1.6 million in net proceeds from this transaction.

In December 2003, we signed software license agreements with Wyeth Pharmaceuticals and Illinois Tool Works. In addition, we will be providing professional services and maintenance to both of these customers.

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 at a purchase price of $2.02 per share, along with warrants to purchase 1,218,209 shares of common stock at an exercise price of $3.72 per share. The Company received approximately $7.1 million in net proceeds from this transaction.

Tigris Corp. Acquisition

In January 2004, we acquired all of the outstanding capital stock of Tigris Corp., a privately-held strategic sourcing and supply chain consultancy 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.

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 our consolidated financial statements, areas that are particularly significant include revenue recognition policies, the assessment of the recoverability of long-lived assets, the valuation of non-publicly traded investments, and estimates made in calculating restructuring reserves for operating leases related to facilities that we no longer utilize. Management has reviewed these critical accounting policies and estimates with the audit committee.

Revenue Recognition

Software licensing and related services revenues other than from Converge (see Note 9 to our consolidated financial statements) have been principally derived from the licensing of our products, from maintenance and support contracts, and from the delivery of professional 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. Customers may also purchase custom development and implementation services from us.

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 refundable fees or agreements with cancellation rights until such rights to refund or cancellation have expired. Our products are either acquired under a perpetual license model or under a time-based subscription license model.

We recognize revenue 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 the availability of VSOE of fair value for all of the undelivered elements.

Arrangements that include professional services are evaluated to determine whether those services are essential to the functionality of 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 were recognized on a percentage of completion basis.

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

Recoverability of Other Intangible Assets and Investments

As discussed in Note 1 to our consolidated financial statements, we regularly perform reviews to determine whether events or circumstances indicate that the carrying value of long-lived assets, including 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 intangible assets 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 below 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.

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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.

Restructuring Reserves for Operating Leases

As discussed in Note 6 to our consolidated financial statements, we have recorded restructuring charges in connection with certain facilities which are leased under long-term operating leases. These charges relate to facilities and portions of facilities we no longer utilize and either seek to terminate early or sublease. Lease termination costs for the facilities were estimated for the remaining lease obligations based on current negotiations with each respective landlord and brokerage fees offset by estimated sublease income. Estimates related to sublease costs and income are based on assumptions regarding the period required to locate and contract with suitable sub-lessees and sublease rates which can be achieved using market trend information analyses provided by a commercial real estate brokerage retained by us. We review these estimates each reporting period and to the extent that these assumptions change due to continued negotiations with landlords or changes in the market, the ultimate restructuring expenses for these facilities could vary.

RESULTS OF CONTINUING OPERATIONS

The following discussion and comparison regarding results of continuing operations do not include the results of the SMB unit or our former Verticalnet Exchanges unit, which were sold in June 2002 and January 2001, respectively.

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

	2003	2002	2001
Revenues:			
Software license	4%	82%	71%
Services and maintenance	96%	18%	29%
Total revenues	100%	100%	100%
Cost of revenues:			
Cost of software license	8%	2%	11%
Cost of services and maintenance	26%	13%	60%
Total cost of revenues	34%	15%	71%
Gross profit	66%	85%	29%
Research and development	43%	21%	66%
Sales and marketing	25%	12%	50%
General and administrative	50%	21%	68%
Restructuring and asset impairment charges (reversals)	(5)%	68%	752%

Amortization expense		5%	301%
	113%	126%	1237%
Operating loss	(47)%	(41)%	(1208)%

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Revenues

(in thousands)	Year ended December 31,			2003 vs 2002 Difference		2002 vs 2001 Difference	
	2003	**2002**	**2001**	**$**	**%**	**$**	**%**
Revenues:							
Software license	$ 378	$ 36,043	$ 25,732	$ (35,665)	(99)%	$ 10,311	40%
Services and maintenance	9,255	7,681	10,387	1,574	20%	(2,706)	(26)%
Total revenues	$ 9,633	$ 43,724	$ 36,119	$ (34,091)	(78)%	$ 7,605	21%

Revenues in the ongoing business are comprised of software license revenues and services and maintenance revenues.

The decrease in software license revenues of $35.7 million in 2003 relates primarily to changes in our agreement with Converge, and a more difficult macro economic market for software companies. During the years ended December 31, 2003, 2002, and 2001, we recognized total revenues of approximately $459,000, $33.8 million, and $29.8 million, respectively, under the 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 Note 9 to our consolidated financial statements for a discussion of our relationship with Converge.

During 2003 we were able to reduce our operating loss as compared to the years ended in 2002 and 2001 in spite of the reduction in revenue recognized from Converge, as we have obtained other sources of revenue and have significantly reduced our overall cost structure.

The increase in software license revenues in 2002 was primarily due to the completion of Verticalnet s transformation to a supply chain solutions supplier and restructuring of the Converge license agreement. Prior to December 2003, Verticalnet had not signed a new software license since March 2002. In December 2003, Verticalnet signed two new software license agreements, one with Illinois Tool Works and the other with Wyeth Pharmaceuticals. No revenue was recognized in 2003 for either of these agreements. The Company expects to recognize revenue related to these two agreements in 2004.

The increase in services and maintenance revenues of $1.6 million between 2003 and 2002 is due to additional sales to our existing customer base, other than Converge. The decline in services and maintenance revenues between 2002 and 2001 was due primarily to the restructured Converge agreement, partially offset by service revenues generated principally from new customers acquired during the first quarter of 2002.

Revenue Concentration

During 2003, two customers, other than Converge, accounted for 77% or $7.4 million of total revenue. During 2003, 2002, and 2001 Converge accounted for approximately 5%, 77%, and 83% of total revenue, respectively.

Cost of Revenues

(in thousands)	Year ended December 31,			2003 vs 2002 Difference		2002 vs 2001 Difference	
	2003	2002	2001	$	%	$	%
Cost of revenues:							
Cost of software license	$ 726	$ 928	$ 4,151	$ (202)	(22)%	$ (3,223)	(78)%
Cost of services and maintenance	2,524	5,602	21,618	(3,078)	(55)%	(16,016)	(74)%
Total cost of revenues	$ 3,250	$ 6,530	$ 25,769	$ (3,280)	(50)%	$ (19,239)	(75)%

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The cost of software license is comprised primarily of royalties on technology contained in our products that is licensed from third parties, and the cost of acquired technology, which is the non-cash amortization of currently used technologies that were acquired through acquisitions. The cost of services and maintenance includes the cost of the Company s consultants who are primarily responsible for the software implementations and configurations. Also included is the cost of the Company s customer support function, which is provided to customers as part of recurring maintenance fees.

The cost of software license decreased in 2003 compared to 2002, primarily due to the decrease in the amortization of the technology acquired in our acquisitions of Isadra, Inc. (Isadra) in August 1999 and Tradeum, Inc. (Tradeum) in March 2000, which had been fully amortized as of December 31, 2002. The decrease in 2002 as compared to 2001 was primarily due to the decrease in the amortization of the technology acquired in the Isadra and Tradeum acquisitions, partially offset by the cost of acquired technology in relation to the Atlas Commerce acquisition, which occurred in December 2001.

The cost of services and maintenance decreased in 2003 primarily due to reduced facilities and infrastructure costs and a significant reduction in headcount as a result of the restructuring actions that occurred during 2002. For the year ended December 31, 2002, the decrease was primarily due to reduced third-party consulting cost and a significant reduction in headcount as a result of the restructuring actions taken during the latter part of 2001 and 2002. In addition, as a result of the headcount reductions, travel and entertainment expense declined approximately $100,000 for the year ended December 31, 2002 as compared to the same period in 2001.

Operating Expenses

(in thousands)	Year ended December 31,			2003 vs 2002 Difference		2002 vs 2001 Difference	
	2003	2002	2001	$	%	$	%
Research and development	$ 4,131	$ 8,975	$ 23,757	$ (4,844)	(54)%	$ (14,782)	(62)%
Sales and marketing	2,400	5,305	18,146	(2,905)	(55)%	(12,841)	(71)%
General and administrative	4,827	9,039	24,425	(4,212)	(47)%	(15,386)	(63)%
Restructuring and asset impairment charges (reversals)	(480)	29,855	271,445	(30,335)	(102)%	(241,590)	(89)%
Amortization expense		2,112	108,862	(2,112)	(100)%	(106,750)	(98)%
Total operating expenses	$ 10,878	$ 55,286	$ 446,635	$ (44,408)	(80)%	$ (391,349)	(88)%

Research and Development

Research and development costs consist primarily of salaries and fringe benefits cost of the Company s product strategy, development, and testing employees. Research and development costs decreased in 2003 as compared to 2002, primarily due to headcount reductions associated with the restructuring actions that occurred during 2002, which accounted for approximately $3.1 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.

Research and development costs decreased in 2002 as compared to 2001 primarily due to headcount reductions associated with the restructuring actions taken during the latter part of 2001 and 2002. Salary and fringe related cost accounted for $7.4 million of the decrease. In addition, third-party consulting cost decreased approximately $2.8 million during the year ended December 31, 2002, as compared to the prior period in 2001. Facilities, travel, recruiting, and infrastructure costs attributable to the research and development group contributed approximately $4.6 million to the overall decrease in 2002 as compared to 2001.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and fringe benefits cost, as well as commissions for sales and marketing employees and related travel expenses. The significant decrease in sales and marketing

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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 the year ended December 31, 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.

The significant decrease in sales and marketing expense for the year ended December 31, 2002 as compared to the prior year is primarily headcount related, as salary and fringe reductions amounted to approximately $5.8 million. In addition, travel related expense declined $1.7 million and direct marketing expense such as advertising, public relations, and trade shows declined approximately $1.9 million. The remaining $3.4 million related to decreases in facilities and infrastructure costs attributable to the group.

General and Administrative

General and administrative expenses consist primarily of salaries and related costs for our executive, administrative, finance, legal, and human resources personnel. 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 the year ended December 31, 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.

General and administrative expenses declined approximately $8.1 million between 2001 and 2002 primarily as a result of headcount cost reductions. Professional services expense declined approximately $2.0 million in 2002 as compared to 2001 due to a decrease in the Company s use of outside legal and accounting services as a result of the Company s reduced size. General and administrative facilities and infrastructure related reductions accounted for approximately $5.1 million of the decline between 2001 and 2002. In addition, during the year ended December 31, 2002, we settled certain litigation and tax related issues for which accruals had been established. The settlement of these items resulted in a reversal of the remaining accrual and thus reduced general and administrative expense during 2002 by $1.5 million. These were one-time reductions, and were not part of the operating cost structure.

Restructuring and Asset Impairment Charges (Reversals)

(in thousands)	2003	2002	2001
Goodwill and other intangible asset impairments	$	$ 27,595	$ 242,791
Facility leases and severance obligations, net	(489)	1,549	25,835
Write off of obsolete software	9	711	2,819
Total restructuring and asset impairment charges (reversals)	$ (480)	$ 29,855	$ 271,445

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. As of December 31, 2003, remaining accrued restructuring expenses of $3,000 relates primarily to lease termination costs. These amounts are expected to adequately cover actual amounts to be paid. Differences, if any, between the estimated amounts accrued and the actual amounts paid will be reflected in operating expenses in future periods.

Goodwill impairment charges during the years ended December 31, 2002 and 2001 related to the goodwill recorded in the acquisitions of Atlas Commerce, Tradeum, and Isadra. See Note 6 to our consolidated financial statements.

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Amortization Expense

Amortization expense for the year ended December 31 2001 primarily reflects the amortization of goodwill from purchase business combinations prior to the adoption of SFAS No 142, Goodwill and Other Intangible Assets. Amortization expense also includes the non-cash amortization of deferred costs related to the warrants and Series A convertible redeemable preferred stock issued to Microsoft Corporation in 2000. Pursuant to the Company s adoption of SFAS No. 142, the Company discontinued its amortization of goodwill beginning January 1, 2002.

Interest and Other Expense, Net

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

	Year Ended December 31,		
	2003	**2002**	**2001**
Inducement charges	$ (5,707)	$ (2,869)	$
Interest income (expense)	(1,046)	(2,597)	37
Realized gain (loss) on investments	(51,019)		(3,829)
Transaction gains	120	939	910
Realized gain on forward sale	51,132		
Equity investment loss			(2,312)
Gain on early extinguishment of debt		5,411	
Impairment charges investments		(11,564)	(231,327)
In-process research and development charge			(420)
Other income (expense) items including terminated deal costs		(2,087)	3,029
Interest and other expense, net	$ (6,520)	$ (12,767)	$ (223,912)

In July 2003, we completed the repurchase of $6.4 million of our 5 1/4% convertible subordinated debentures for total consideration of $5.8 million in cash, stock, and warrants. 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 debentures, in accordance with SFAS No. 84, Induced Conversion of Convertible Debt.

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 connection with the September 2002 settlement, the 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 (see Note 7 to our consolidated financial statements).

For the year ended December 31, 2002, we recorded impairment charges of $9.6 million related to our total Converge investment, which includes $3.5 million invested by the Company during February 2002. During the year ended December 31, 2001, we recorded an impairment charge of $207.2 million related to our Converge investment based upon an independent valuation.

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During the years ended December 31, 2002 and 2001, we recorded additional impairment charges of approximately $2.0 million and $12.0 million for other than temporary declines in the fair values of our other cost method investments.

During the year ended December 31, 2001, we recognized an impairment charge of approximately $10.5 million on our Ariba investment for an other than temporary decline, based on the difference between the original recorded cost of the investment and the fair market value of the shares as of the forward sale contract date.

During the year ended December 31, 2001, we recorded impairment charges (net of cash returned from the sale or liquidation of investments) of approximately $1.6 million on our equity method investments.

Liquidity and Capital Resources

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

(in thousands)	2003	2002
Cash and cash equivalents	$ 4,408	$ 7,979
Accounts receivable, net	$ 2,438	$ 1,586
Working capital	$ 2,683	