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VERTICALNET INC
Form 8-K
July 15, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): June 28, 2002

Verticalnet, Inc.

(Exact name of Registrant as Specified in Charter)

| | | |
|--|-----------------------------|--------------------------------------|
| Pennsylvania | 000-25269 | 23-2815834 |
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |
| 300 Chester Field Parkway, Malvern, PA | | 19355 |
| (Address of principal executive offices) | | Zip Code |

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

(Former name and former address, if changed since last report)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On July 1, 2002, the Registrant announced that, on June 28, 2002, it had completed the sale of its Small and Medium Business division ("SMB"), which operates 59 online public marketplaces, to Vert Markets Inc. (the "Purchaser"), a wholly-owned subsidiary of Corry Publishing Inc., which is the operator of ISIT.com.

Under the Asset Purchase Agreement, dated as of June 28, 2002, by and among the Registrant, Verticalnet LLC, Vert Tech LLC, Corry Publishing, Inc. and the Purchaser (the "Asset Purchase Agreement"), the Registrant sold certain of the assets of the SMB division to the Purchaser in consideration for the payment of \$2.35 million in cash to the Registrant at the closing date and the assumption by the Purchaser of identified liabilities of the SMB division. In addition, under the Asset Purchase Agreement, the Registrant is entitled to receive up to \$6.5 million as an earn-out over the four-year period after the closing date.

Copies of the Asset Purchase Agreement and the press release issued by the Registrant on July 1, 2002, concerning the sale of the SMB division are

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attached hereto as Exhibits 2.1 and 99.1, respectively, and are incorporated herein by reference.

ITEM 5. OTHER EVENTS

On July 1, 2002, the Registrant announced that, on June 28, 2002, the Registrant completed the repurchase of 100% of Registrant's outstanding shares of Series A 6.00% Convertible Redeemable Preferred Stock due 2010, plus accrued dividends thereon, for a purchase price of \$5.0 million, and agreed to the cancellation of a Common Stock Purchase Warrant, dated April 7, 2000.

On July 1, 2002, the Registrant announced that its Board of Directors had approved a 1-for-10 reverse stock split effective with the commencement of trading Monday, July 15, 2002. Previously, on June 5, 2002, the Registrant's shareholders authorized the Board of Directors to effect a reverse stock split in the range of 1:5 to 1:10, with the specific exchange rate to be determined at the discretion of the Board of Directors. A copy of the Amendment to the Registrant's Amended and Restated Articles of Incorporation that effects the 1-for-10 reverse stock split is attached hereto as Exhibit 1.1 and incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) None

(b) Pro Forma Financial Information

Basis of Presentation
Unaudited Pro Forma Condensed Consolidated Balance Sheet
Unaudited Pro Forma Condensed Consolidated Statements of
Operations
Notes to Unaudited Pro Forma Condensed Consolidated Financial
Statements

(c) Exhibits.

- 1.1 Amendment to the Registrant's Amended and Restated Articles of Incorporation
- 2.1 Asset Purchase Agreement, dated as of June 28, 2002, between Verticalnet, Inc., Verticalnet LLC, Vert Tech LLC, Corry Publishing, Inc. and Vert Markets Inc.
- 99.1 Press Release dated July 1, 2002

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VERTICALNET, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed consolidated balance sheet of Verticalnet, Inc. (or the "Company") as of March 31, 2002 and the related unaudited pro forma condensed consolidated statements of operations for the three months ended March 31, 2002 and the year ended December 31, 2001, give effect to the sale of the SMB unit as if the transaction had occurred as of March 31, 2002 in the case of the unaudited pro forma condensed consolidated

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balance sheet, and as of January 1, 2001 in the case of the unaudited pro forma condensed consolidated statements of operations.

The unaudited pro forma condensed consolidated balance sheet also gives effect to the June 28, 2002 repurchase of 100% of the Company's outstanding shares of Series A Convertible Redeemable Preferred Stock due 2010, plus accrued dividends thereon, for a purchase price of \$5.0 million and to the 1-for-10 reverse stock split effective July 15, 2002.

The unaudited pro forma condensed consolidated financial statements have been prepared by the management of the Company and should be read in conjunction with the Company's historical consolidated financial statements, which have been previously filed in the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002.

The unaudited pro forma condensed consolidated financial statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of the Company would have been if the transactions had occurred on the dates assumed, nor is it indicative of the Company's future consolidated results of operations or consolidated financial position.

VERTICALNET, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (in thousands, except for per share data) March 31, 2002

| | VERTICALNET, INC. ----- | PRO FORMA ADJUSTMENTS (1) ----- | PRO FORMA TOTAL ----- |
|--|-------------------------------|---------------------------------------|-----------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 33,983 | \$ 3,450 (b) | \$ 37,433 |
| Short-term investments | 33 | | 33 |
| Accounts receivable, net of allowance for doubtful accounts | 2,306 | 1,221 (c) | 3,527 |
| Prepaid expenses and other assets | 3,816 | (107) (d) | 3,709 |
| Assets held for disposal | 9,126 | (9,126) (b) | - |
| | ----- | ----- | ----- |
| Total current assets | 49,264 | (4,562) | 44,702 |
| Property and equipment, net | 5,983 | | 5,983 |
| Goodwill and other intangibles, net of accumulated amortization | 30,094 | | 30,094 |
| Long-term investments | 1,912 | | 1,912 |
| Other assets | 20,460 | | 20,460 |
| | ----- | ----- | ----- |
| Total assets | \$ 107,713 ===== | \$ (4,562) ===== | \$ 103,151 ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 3,029 | \$ 224 (c) | \$ 3,253 |
| Accrued expenses | 15,814 | 1,437 (c) 413 (d) | 17,664 |
| Deferred revenues | 25,824 | | 25,824 |
| Other current liabilities | 12,937 | | 12,937 |

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| | | | |
|--|------------|--------------|------------|
| Liabilities held for disposal | 10,392 | (10,392) (b) | - |
| | ----- | ----- | ----- |
| Total current liabilities | 67,996 | (8,318) | 59,678 |
| | ----- | ----- | ----- |
| Long-term debt | 416 | | 416 |
| Other long-term liabilities | 1,912 | | 1,912 |
| Convertible notes | 21,705 | | 21,705 |
| | ----- | ----- | ----- |
| Total liabilities | 92,029 | (8,318) | 83,711 |
| | ----- | ----- | ----- |
| Commitments and contingencies | | | |
| Series A 6.00% convertible redeemable preferred stock, \$.01 par value | | | |
| | 104,098 | | 104,098 |
| Put arrangement involving common stock | 1,057 | | 1,057 |
| Shareholders' equity (deficit) | (89,471) | 3,756 (e) | (85,715) |
| | ----- | ----- | ----- |
| Total liabilities and shareholders' equity (deficit) | \$ 107,713 | \$ (4,562) | \$ 103,151 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

VERTICALNET, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except for per share data)
Three months ended March 31, 2002

| | VERTICALNET, INC. | Pro Forma Adjustments (1) | Pro Forma Total |
|--|----------------------|------------------------------|--------------------|
| | ----- | ----- | ----- |
| REVENUES: | | | |
| Software license | \$ 6,258 | | \$ 6,258 |
| Services and maintenance | 1,747 | | 1,747 |
| | ----- | ----- | ----- |
| Total Revenue | 8,005 | - | 8,005 |
| COST OF REVENUE: | | | |
| Cost of license | 266 | | 266 |
| Cost of acquired technology | 160 | | 160 |
| | ----- | ----- | ----- |
| Cost of software | 426 | - | 426 |
| Cost of maintenance and services | 1,463 | | 1,463 |
| | ----- | ----- | ----- |
| Total cost of revenue | 1,889 | - | 1,889 |
| Research and development | 3,516 | | 3,516 |
| Sales and marketing | 1,749 | | 1,749 |
| General and administrative | 3,551 | | 3,551 |
| Restructuring and asset impairment charges | 1,355 | | 1,355 |
| Amortization and other intangible expenses | 1,056 | | 1,056 |
| | ----- | ----- | ----- |
| | 13,116 | - | 13,116 |
| | ----- | ----- | ----- |

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| | | | |
|---|------------|-------|------------|
| Operating loss | (5,111) | - | (5,111) |
| | ----- | ----- | ----- |
| Net interest expense and other | (652) | | (652) |
| | ----- | ----- | ----- |
| Net loss from continuing operations | (5,763) | - | (5,763) |
| Preferred stock dividends and accretion | (1,917) | | (1,917) |
| | ----- | ----- | ----- |
| Net loss from continuing operations attributable to common shareholders | \$ (7,680) | - | \$ (7,680) |
| | ===== | ===== | ===== |
| Basic and diluted loss per common share from continuing operations(3) | \$ (0.69) | | \$ (0.69) |
| | ===== | | ===== |
| Weighted average common shares outstanding used in basic and diluted per share calculation(3) | 11,138 | | 11,138 |
| | ===== | | ===== |

The accompanying notes are an integral part of these statements.

VERTICALNET, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except for per share data)
Year ended December 31, 2001

| | VERTICALNET, INC. | PRO FORMA ADJUSTMENTS (|
|--|----------------------|----------------------------|
| | ----- | ----- |
| REVENUES: | | |
| E-enablement, e-commerce, advertising and other services | \$ 89,962 | \$ (89,962) |
| Software licensing and related services | 35,608 | |
| | ----- | ----- |
| Total Revenues | 125,570 | (89,962) |
| COSTS AND EXPENSES: | | |
| Cost of e-enablement, e-commerce, advertising and other services | 21,157 | (21,157) |
| Cost of software licensing and related services | 17,354 | |
| Research and development | 27,037 | (7,313) |
| Sales and marketing | 63,421 | (48,059) |
| General and administrative | 49,550 | (12,023) |
| Amortization | 121,726 | (10,002) |
| Restructuring and asset impairment charges | 345,542 | (76,917) |
| In-process research and development charges | 420 | |
| | ----- | ----- |
| Operating loss | (520,637) | 85,509 |
| | ----- | ----- |

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| | | |
|--|--------------|-----------|
| Net interest expense and other | (236,312) | -- |
| | ----- | ----- |
| Net loss from continuing operations | (756,949) | 85,509 |
| Preferred stock dividends and accretion | (7,420) | -- |
| | ----- | ----- |
| Net loss from continuing operations attributable to common shareholders | \$ (764,369) | \$ 85,509 |
| | ===== | ===== |
| Basic and diluted loss per common share from continuing operations(3) | \$ (78.87) | |
| | ===== | |
| Weighted average common shares outstanding used in basic and diluted per share calculation(3) | 9,692 | |
| | ===== | |

The accompanying notes are an integral part of these statements.

VERTICALNET, INC.
NOTES TO UNAUDITED PRO FORMA
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- On June 28, 2002, Verticalnet completed the sale of the SMB unit to Corry Publishing. Verticalnet received cash consideration of \$2.35 million. In addition, Verticalnet may receive up to an additional \$6.5 million based on a four-year performance-based earn-out provision. The potential earn-out has not been reflected in the pro forma condensed consolidated financial statements. Verticalnet accounted for the SMB unit as a discontinued operations beginning in 2002.

The assets held for sale as of March 31, 2002 included certain assets that were sold during the ordinary course of the SMB unit's operations. These other assets were also sold in June 2002 under a separate agreement. These other assets were sold for \$1.1 million, and the proceeds, elimination of the assets, and effect on shareholders' equity are included in the unaudited pro forma condensed consolidated balance sheet as of March 31, 2002.

The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2001 and the three months ended March 31, 2002 give effect to the sale of the SMB unit and the sale of the other assets as if the transactions had occurred as of January 1, 2001. The unaudited pro forma condensed consolidated balance sheet gives effect to the transactions as if they had occurred on March 31, 2002. The unaudited pro forma condensed consolidated statements of operations and pro forma condensed consolidated balance sheet reflect the following adjustments:

- To record the elimination of the SMB unit's operating results for the year ended December 31, 2001. No adjustments are needed for the three months ended March 31, 2002 as the SMB unit was reflected as a discontinued operation during that period.
- To record the sale of the SMB unit and the sale of the other assets.

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- (c) To reflect the retention of certain assets and liabilities that previously were held for disposal.
- (d) To record the estimated costs of the transaction.
- (e) To reflect the estimated effect on shareholders' equity as of March 31, 2002, calculated as follows:

Pro forma gain on sale to Corry Publishing:

| | |
|------------------------------------|----------|
| Proceeds | \$ 2,350 |
| Liabilities assumed, net of assets | 3,912 |
| Estimated transaction costs | (520) |
| | ----- |
| Gain on sale | \$ 5,742 |
| | ===== |

Sale or write-off of other assets included in the SMB unit:

| | |
|--|-----------|
| Proceeds | \$ 1,100 |
| Assets disposed of or written-off | (3,086) |
| | ----- |
| SMB unit operating loss pertaining to sale or write-off of other assets | \$(1,986) |
| | ===== |
| Total effect on shareholders' equity | \$ 3,756 |
| | ===== |

During the second quarter of 2002, the results of operations of the SMB unit will impact the net carrying value of the business as of the date of the sale. This will result in a change in the gain (loss) on the sale to Corry Publishing, and will be reflected in the reported results for the second quarter of 2002.

2. The unaudited pro forma condensed consolidated balance sheet also gives effect to the June 28, 2002 repurchase of the Company's Series A Preferred Stock for \$5.0 million. The actual amount of preferred stock redeemed will be higher than shown due to preferred stock dividends and accretion of approximately \$1.9 million in the second quarter of 2002.
3. The weighted average common shares outstanding used in the basic and diluted per share calculation gives effect to the 1-for-10 reverse stock split effective July 15, 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

VERTICALNET, INC.

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Date: July 15, 2002

By: /s/ James W. McKenzie Jr.

Name: James W. McKenzie Jr.
Title: Executive Vice
President, General Counsel
and Secretary

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EXHIBIT INDEX

| Exhibit No. | Description of Exhibit |
|-------------|--|
| ----- | ----- |
| 1.1 | Amendment to the Registrant's Amended and Restated Articles of Incorporation |
| 2.1 | Asset Purchase Agreement, dated as of June 28, 2002, between Verticalnet, Inc., Verticalnet LLC, Vert Tech LLC, Corry Publishing, Inc. and Vert Markets Inc. |
| 99.1 | Press Release dated July 1, 2002 |

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