

VERTICALNET INC
Form DEF 14A
September 29, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington DC 20549

Proxy Statement Pursuant to Section 14(A) of the
Securities Exchange Act of 1934
(Amendment No. __)

Filed by the registrant Filed by a party other than the registrant

Check the appropriate box:

- Preliminary proxy statement
- Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))**
- Definitive proxy statement
- Definitive additional materials
- Soliciting material under Rule 14a-12

VERTICALNET, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD NOVEMBER 15, 2004

To Our Shareholders:

The 2004 annual meeting of shareholders of Verticalnet, Inc. will be held at the offices of Morgan, Lewis & Bockius, 1701 Market Street, Philadelphia, Pennsylvania, 19103 on November 15, 2004, beginning at 10:00 a.m. local time. At the meeting, you will be asked to act on the following matters:

- (1) Election of three directors.
- (2) Approval of the amendment and restatement of the Verticalnet, Inc. 2000 Equity Compensation Plan increasing the number of shares of common stock authorized for issuance under such plan from 4,000,000 to 7,000,000.
- (3) Approval of the conversion feature of the \$5,925,603 promissory note we issued in connection with our acquisition of B2eMarkets, Inc.
- (4) Any other matters that properly come before the meeting.

All holders of record of shares of Verticalnet's common stock at the close of business on August 20, 2004 are entitled to vote at the meeting or any postponements or adjournments of the meeting.

YOUR VOTE IS IMPORTANT. PLEASE READ THE PROXY STATEMENT AND THE VOTING INSTRUCTIONS ON THE PROXY CARD AND THEN VOTE EITHER BY MAIL BY COMPLETING THE PROXY CARD AND RETURNING IT OR BY INTERNET OR TELEPHONE BY FOLLOWING THE VOTING INSTRUCTIONS PRINTED ON THE PROXY CARD SENT TO YOU.

By order of the Board of Directors,

Christopher G. Kuhn

Edgar Filing: VERTICALNET INC - Form DEF 14A

Vice President, General Counsel and Secretary

September 30, 2004

Malvern, Pennsylvania

400 CHESTER FIELD PARKWAY
MALVERN, PENNSYLVANIA 19355

PROXY STATEMENT

This proxy statement contains information related to the annual meeting of shareholders of Verticalnet, Inc. to be held on November 15, 2004 (the Annual Meeting), beginning at 10:00 a.m. local time, at the offices of Morgan, Lewis & Bockius, 1701 Market Street, Philadelphia, Pennsylvania 19103, and any postponements or adjournments thereof. Verticalnet first mailed these proxy materials to shareholders on or about October 4, 2004.

ABOUT THE ANNUAL MEETING

What is the purpose of the Annual Meeting?

At the Annual Meeting, shareholders will act upon the matters listed in the Notice of Annual Meeting and any other matters that properly come before the meeting. In addition, the management team will report on the performance of Verticalnet during 2003 and respond to questions from shareholders.

Who can vote at the Annual Meeting?

All shareholders of record at the close of business on August 20, 2004, or the record date, are entitled to vote at the Annual Meeting and any postponements or adjournments of the meeting.

What are the voting rights of the holders of the common stock?

Holders of our common stock will vote on all matters to be acted upon at the Annual Meeting. Each outstanding share of common stock will be entitled to one vote on each matter to be voted upon at the Annual Meeting.

Who can attend the Annual Meeting?

Edgar Filing: VERTICALNET INC - Form DEF 14A

All shareholders as of the record date, or their duly appointed proxies, may attend the Annual Meeting. Each shareholder may be asked to present valid picture identification, such as a driver's license or passport. If you hold your shares through a broker or other nominee, you must bring a copy of a brokerage statement reflecting your stock ownership as of the record date. Everyone must check in at the registration desk at the meeting.

How do I vote?

You may attend the Annual Meeting and vote in person. Alternatively, you may vote your shares by proxy:

by mail, or

by telephone.

To vote by mail, simply mark, sign and date your proxy card and return it in the postage-paid envelope provided for receipt by us prior to November 15, 2004 (proxy cards received on or after November 15, 2004 will not

be counted). The enclosed proxy card contains instructions for telephone voting, which is available to shareholders 24 hours a day, 7 days a week until 10:00 a.m., Malvern, Pennsylvania time on, November 14, 2004.

Please note that if your shares are held in street name, you must check the proxy card or contact your broker or nominee to determine if you will be able to vote by telephone or via the Internet. If you want to vote in person at the Annual Meeting and you hold Verticalnet common stock in street name, you must obtain a proxy card from your broker and bring that proxy card to the Annual Meeting, together with a copy of a brokerage statement reflecting your stock ownership as of the record date.

Please also note that by casting your vote by proxy in any of the three ways listed above, you are authorizing the individuals listed on the proxy card to vote your shares in accordance with your instructions.

Is my vote confidential?

Yes. Proxy cards, ballots and voting tabulations that identify shareholders are kept confidential except in certain circumstances where it is important to protect the interests of Verticalnet and its shareholders.

What if I do not indicate my preference on the proxy card?

If you do not indicate how you would like your shares to be voted for a particular proposal, your shares will be voted (i) FOR the election of the nominated slate of directors, (ii) FOR the approval of the amendment and restatement of the Verticalnet, Inc. 2000 Equity Compensation Plan increasing the number of shares of common stock authorized for issuance thereunder from 4,000,000 to 7,000,000; and (iii) FOR approval of the conversion feature of the \$5,925,603 promissory note we issued in connection with our acquisition of B2eMarkets, Inc. As to other matters as may properly come before the meeting (or any adjournments or postponements thereof), the proxy holders will vote as recommended by the Board of Directors. If no such recommendation is made, the proxy holders will be authorized to vote upon such matters in their own discretion.

Can I change my vote after I return my proxy card?

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is exercised by filing with the Secretary of Verticalnet either a notice of revocation or a duly executed proxy bearing a later date. The powers of the proxy holders will be suspended if you attend the Annual Meeting in person and request to recast your vote. Attendance at the Annual Meeting will not, by itself, revoke a previously granted proxy.

What constitutes a quorum?

As of the record date, Verticalnet had 33,957,114 shares of its common stock outstanding. The presence at the Annual Meeting, in person or by proxy, of the holders entitled to cast at least a majority of votes which all shareholders are entitled to cast as of the record date will constitute a quorum. Broker non-votes, abstentions and votes withheld count as shares present at the Annual Meeting for purposes of a quorum.

What are the recommendations of the Board of Directors?

Unless you instruct otherwise on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board's recommendations are set forth below. In summary, the Board recommends a vote:

FOR the election of the nominated slate of directors;

FOR the approval of the amendment and restatement of the Verticalnet, Inc. 2000 Equity Compensation Plan increasing the number of shares of common stock authorized for issuance thereunder from 4,000,000 to 7,000,000; and

FOR the approval of the conversion feature of the \$5,925,603 promissory note we issued in connection with our acquisition of B2eMarkets, Inc.

The proxy holders will vote as recommended by the Board of Directors with respect to any other matter that properly comes before the Annual Meeting. If the Board of Directors on any such matter gives no recommendation, the proxy holders will vote in their own discretion.

What vote is required to approve each proposal?

Election of Directors. The affirmative vote of a plurality of the votes cast at the Annual Meeting is required for the election of directors. A properly executed proxy marked **WITHHOLD** authority with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum. Thus, the three candidates with the most affirmative votes will be elected at the Annual Meeting.

Approval of Amendment and Restatement of Verticalnet, Inc. 2000 Equity Compensation Plan. For Proposal 2, the approval of the amendment and restatement of the Verticalnet, Inc. 2000 Equity Compensation Plan to increase the number of shares of common stock authorized for issuance under such plan from 4,000,000 to 7,000,000, the affirmative vote of a majority of the votes cast by all shareholders entitled to vote for the proposal will be required for approval. A properly executed proxy marked **ABSTAIN** with respect to such matter will be counted for purposes of determining whether a quorum exists. However, under Pennsylvania law, a proxy marked **ABSTAIN** is not considered a vote cast. Accordingly, an abstention will have no effect on the approval of the proposal.

Approval of Conversion Feature of Promissory Note Issued in the B2eMarkets Acquisition. For Proposal 3, the approval of the conversion feature of the \$5,925,603 promissory note we issued in connection with our acquisition of B2eMarkets, Inc., the affirmative vote of a majority of the votes cast by all shareholders entitled to vote for the proposal will be required for approval. A properly executed proxy marked **ABSTAIN** with respect to such matter will be counted for purposes of determining whether a quorum exists. However, under Pennsylvania law, a proxy marked **ABSTAIN** is not considered a vote cast. Accordingly, an abstention will have no effect on the approval of the proposal. We issued 5,100,000 shares of Verticalnet common stock in connection with our acquisition of B2eMarkets, Inc. Pursuant to applicable Nasdaq rules, such shares are not entitled to vote on this proposal, however, such shares are counted for purposes for establishing a quorum.

Broker Non-Votes. If you hold your shares in street name through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on non-routine matters. Routine matters include the election of directors and ratification of auditors. Non-routine matters include matters such as amendments to stock plans. Therefore, if you do not give your broker or nominee specific instructions, your shares may not be voted on non-routine matters and will not be counted in the voting results. Shares represented by such broker non-votes will, however, be counted in determining whether there is a quorum. Accordingly, broker non-votes will not be counted toward a nominee's total of affirmative votes in the election of directors and will have no effect on the approval of the other proposals.

Who conducts the proxy solicitation and how much will it cost?

Verticalnet is soliciting the proxies and will bear the cost of the solicitation. Verticalnet has retained Georgeson Shareholder to aid in the solicitation. For these services, Verticalnet will pay Georgeson Shareholder a fee of \$6,000 and reimburse it for out-of-pocket disbursements and expenses. Verticalnet may ask its officers and other employees, without compensation other than their regular compensation, to solicit proxies by further mailing or personal conversations, or by telephone, facsimile, Internet or other means of electronic transmission. Verticalnet will also,

Edgar Filing: VERTICALNET INC - Form DEF 14A

if asked, reimburse brokerage firms and others for their reasonable expenses in forwarding solicitation material to the beneficial owners of the common stock.

INFORMATIONAL NOTE REGARDING PRIOR STOCK SPLITS

Information in this proxy statement has been adjusted to reflect three separate stock splits of our common stock. A two-for-one stock split was effected on August 20, 1999 and another two-for-one stock split was effected on March 31, 2000. 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.

PROPOSAL NO. 1 ELECTION OF DIRECTORS

The Board of Directors is currently divided into three classes; two classes consist of 3 members and one class has 4 members. Each class has a three-year term. The classes expire in successive years.

The Board of Directors proposes that each of the nominees identified below, all of whom are currently serving as directors, be re-elected into the class listed below for a new term expiring at the annual meeting in the year listed below and until their successors are duly elected and qualified.

<u>Name</u>	<u>Nominee For:</u>		<u>Current Director In:</u>	
	<u>Class</u>	<u>Term Expiring</u>	<u>Class</u>	<u>Term Expiring</u>
Jeffrey C. Ballowe	II	2007	II	2004
Michael J. Hagan	II	2007	II	2004
Gregory G. Schott	II	2007	II	2004

Each of the nominees has consented to serve for the term indicated above. If any of them become unavailable to serve as a director prior to the end of their term, the Board may designate a substitute nominee. In that case, the persons named as proxies will vote for the substitute nominee designated by the Board.

The Board Recommends That You Vote FOR Each of the Following Class II Director Nominees:

JEFFREY C. BALLOWE, 48, has served as a director since July 1998. Mr. Ballowe is retired from Ziff-Davis, Inc. where he was President, Interactive Media and Development Group. Before leaving Ziff Davis at the end of 1998, Ballowe led the launches of five magazines, ZDNet on the Web, ZDTV (now TechTV), and the initial ZD/Softbank investment in Yahoo!, Inc. Currently he serves as a director of Onvia.com and as a member of the Advisory Board of the Internet Capital Group, Inc. He is the co-founder and past President of the not-for-profit Electronic Literature Organization and a member of the Board of Trustees of Lawrence University. He has an MBA from the University of Chicago, an M.A. in French from the University of Wisconsin-Madison, and a B.A. from Lawrence University.

MICHAEL J. HAGAN, 41, co-founded Verticalnet in 1995 and has served as Chairman of the Board since February 2002 and as a director since 1995. Mr. Hagan has been Chairman and Chief Executive Officer of NutriSystem, Inc. since December 2002. Prior to that, he served as our President and Chief Executive Officer from January 2001 until February 2002, and Executive Vice President and Chief Operating Officer from January 2000 to January 2001. Prior to our founding, Mr. Hagan was Vice President and Senior Manager at Merrill Lynch Asset Management from 1990 to 1995. Currently he serves as a director of NutriSystem, Inc. and a trustee of American Financial Realty Trust and

Edgar Filing: VERTICALNET INC - Form DEF 14A

Saint Joseph's University. Mr. Hagan received a B.S. from St. Joseph's University and was formerly a Certified Public Accountant.

GREGORY G. SCHOTT, 40, has served as a director since August 2003. Mr. Schott served as Senior Vice President of Marketing for Agile Software Corporation from 2001 to 2002. From 1999 to 2001 Mr. Schott served as Vice President of Business Development for Agile. From 1997 to 1999, Mr. Schott served as Vice President of Marketing at Digital Generation Systems, Inc., a provider of digital distribution systems to the broadcast advertising industry. From 1996 to 1997, Mr. Schott served as Vice President of Operations, from 1995 to 1996 as Director of Business Development and from 1994 to 1995 as Director of Operations, all at Digital Generation Systems. From 1991 to 1994, Mr. Schott served as a management consultant at The Boston Consulting Group. Mr. Schott received a B.S. in Mechanical Engineering from North Carolina State University and an MBA from Stanford University.

Incumbent Directors

The following persons are serving as Class I directors, whose terms expire in 2006:

ROBERT F. BERNSTOCK, 53, has served as a director since December 2001. Mr. Bernstock has been the Executive Vice President and President of North America of The Scotts Company since June 2003. Prior to that he was the Senior Vice President and General Manager, Air Care, Food & Branded Commercial Markets of The Dial Corporation from October 2002 to June 2003. He was the President and Chief Executive Officer and a board member of Atlas Commerce from January 2001 to December 2001. Mr. Bernstock was President, Chief Executive Officer and a board member of Vlasic Foods International Inc. from March 1998 when Vlasic was spun-off from Campbell Soup Company, to December 2000. Vlasic filed voluntarily for bankruptcy in January 2001 under Chapter 11 of the United States Bankruptcy Code. Mr. Bernstock served as Executive Vice President of Campbell Soup Company and President of its Specialty Foods Division from July 1997 to March 1998. Prior to that, he was appointed President U.S. Grocery Division and Senior Vice President of Campbell Soup Company in March 1996. Mr. Bernstock served as President International Grocery Division of Campbell Soup Company from August 1994 to February 1996. He served as President International Soup Division of Campbell Soup Company from June 1993 to July 1994 and was Vice President of Campbell Soup Company. Mr. Bernstock received his MBA from Harvard Business School and a B.A. from Hamilton College.

WALTER W. BUCKLEY, III, 43, has served as a director since 1996. Mr. Buckley is co-founder, chief executive officer, and chairman of the board of Internet Capital Group, Inc. Prior to joining Internet Capital Group, Mr. Buckley was Vice President of Acquisitions for Safeguard Scientifics, Inc. between 1991 and 1996. Mr. Buckley directed many of Safeguard's investments and was also responsible for developing and executing Safeguard's multi-media and Internet investment strategies. Mr. Buckley is also a member of the board of directors of ICG Commerce, Commercequest, eCredit, and Marketron. Mr. Buckley received his B.A. from the University of North Carolina, Chapel Hill.

MARK L. WALSH, 50, has served as a director since August 1997. He is the managing partner of Ruxton Associates, a private equity and investment firm he founded in April 2002. He was Chief Executive Officer of Air America Radio from November 2003 until April 2004. He also served as head of internet operations for the John Kerry Presidential Campaign from June 2003 through September 2003, and as Chief Technology Advisor to the Democratic National Committee from December 2001 until September 2002. He served as Chairman of the Verticalnet Board of Directors from July 2000 until February 2002. Prior to that, he served as President and Chief Executive Officer from August 1997 to July 2000. Before joining Verticalnet, he was a Senior Vice President and corporate officer at America Online, Inc. from 1995 to 1997. He founded and managed AOL Enterprise, the business-to-business division of AOL. Prior to his position with AOL, Mr. Walsh was the President of GENie, General Electric's online service. He currently serves on a number of private company and non-profit boards of directors and advisors. He received his MBA from Harvard Business School and B.A. from Union College.

DARRYL E. WASH, 39, has served as a director since August 2004. Mr. Wash co-founded Ascend Venture Group, LLC in January 2000 and has served as its Managing Partner since January 2000. Ascend

is a private investment firm specializing in the education and applied technology industries. Prior to founding Ascend, he served as a Managing Director of Peter J. Solomon Company, a New York-based private investment bank focused in the retail, communications and education markets, from April 1995 to January 2000. Prior to that, Mr. Wash was employed in the Investment Banking Division of Goldman, Sachs & Co. from June 1991 to March 1995. Currently, Mr. Wash serves as a director of several Ascend portfolio companies as well as the National Association of Investment Companies. Mr. Wash received a B.A. in Economics from the University of California at Berkeley and an MBA from Stanford University.

The following persons are serving as Class III directors, whose terms expire in 2005:

NATHANAEL V. LENTZ, 41, has served as our President and Chief Executive Officer since November 2002. He was our Senior Vice President of Strategy and Marketing from August 2000 to November 2002, during which time he had responsibility for guiding our transition from an operator of internet-marketplaces to a provider of supply management solutions. Prior to that, Mr. Lentz was a Vice President and Partner at Mercer Management Consulting, where he was employed from September 1991 to May 1998 and January 1999 to August 2000. While at Mercer, Mr. Lentz managed the San Francisco office and was a leader in their Global Process Industries and E-Commerce Practices. From May 1998 to November 1998, he was employed as Vice President of Strategic Development at CMC Industries, an electronic manufacturing services company located in Santa Clara, CA. Mr. Lentz received his MBA from Stanford University where he was an Arjay Miller scholar and a B.A. from Brown University.

VINCENT J. MILANO, 41, has served as a director since August 2003. Mr. Milano is currently serving as Vice President, Chief Financial Officer of ViroPharma Inc., a position he has held since November 1997. In addition, Mr. Milano has served as Vice President, Finance & Administration of ViroPharma since February 1997, as Treasurer since July 1996, and as Executive Director, Finance & Administration from April 1996 until February 1997. From 1985 until he joined ViroPharma, Mr. Milano was with KPMG LLP, independent certified public accountants, where he was a Senior Manager since 1991. Mr. Milano is a Certified Public Accountant. Mr. Milano received his B.S. in accounting from Rider College.

JOHN N. NICKOLAS, 37, has served as a director since February 2003. Mr. Nickolas has been Director, Finance & Accounting with The Philadelphia Phillies since July 2003. Prior to joining The Philadelphia Phillies, Mr. Nickolas had been a managing director with Internet Capital Group Inc. since January 1999. During his tenure at Internet Capital Group, Mr. Nickolas served in a variety of roles including Chief Financial Officer of ICG Europe Ltd., a wholly owned subsidiary, and as a board member and Chief Financial Officer of Logistics.com, an Internet Capital Group partner company that was sold in December 2002. Prior to joining Internet Capital Group, Mr. Nickolas served in various financial positions with Safeguard Scientifics, Inc. from 1994 through 1998, most recently as Corporate Controller. Prior to joining Safeguard, Mr. Nickolas was an audit manager in the Philadelphia office of KPMG LLP. Mr. Nickolas graduated summa cum laude with a B.S. in Accounting from West Chester University.

Compensation of Directors

On May 28, 2003, the Board of Directors adopted a policy regarding director compensation. The policy provides that any non-employee director first elected or appointed to the Board after May 28, 2003 will receive an initial option grant to purchase 15,000 shares of Verticalnet common stock and that each year, as of Verticalnet's annual meeting of shareholders, each non-employee director will receive an option grant to purchase 15,000 shares of Verticalnet common stock. The first of such annual option grants took place as of the 2003 annual meeting of shareholders. The options are non-qualified stock options granted at an exercise price equal to the last reported sale price of Verticalnet common stock, as reported on The Nasdaq SmallCap Market on the date of grant. The options vest over a one-year period, with 25% of the option vesting each quarter from the date of grant and have a maximum term of 10 years, except that a director has 90 days to exercise the option after leaving the Board. In 2003, Messrs. Ballowe, Bernstock, Milano, Nickolas, Schott and Walsh received options to acquire 15,000 shares of Verticalnet common stock each. Messrs. Hagan and Buckley chose not to accept the options granted.

Although Verticalnet does not pay its directors cash compensation for regular service on the Board, Verticalnet's director compensation policy provides that each non-employee director serving as a member of the Audit Committee and Compensation Committee will receive \$14,000 and \$6,000, respectively, per year, with the Chairman of the Audit Committee receiving an additional \$6,000. Commencing on October 1, 2004, each non-employee director that serves as a member of the Nominating and Corporate Governance Committee will receive \$6,000 per year. Non-employee directors are also reimbursed for reasonable travel expenses to attend meetings.

Prior to May 28, 2003, Verticalnet did not have a formal director compensation policy. During this period, non-employee directors were reimbursed for expenses they incurred in attending meetings and were granted options to purchase Verticalnet common stock which were granted by the Compensation Committee and/or the Board from time to time. Prior to the adoption of Verticalnet's director compensation policy on May 28, 2003, non-employee directors that served as members of the Audit Committee and Compensation Committee received \$3,500 and \$1,500, respectively, for each fiscal quarter that they served on such committee, and the Chair of the Audit Committee received an additional \$1,500 per fiscal quarter.

Board and Committees

The Board of Directors is currently composed of Messrs. Hagan, Lentz, Ballowe, Bernstock, Buckley, Milano, Nickolas, Schott, Walsh and Wash. Mr. Hagan is the Chairman of the Board of Directors. The Board has determined that as of the Annual Meeting, Messrs. Ballowe, Buckley, Milano, Nickolas, Schott and Wash will be independent directors as that term is defined by the applicable listing standards of The Nasdaq Stock Market.

The Board met 10 times during 2003. Four of the meetings were regular meetings and the other six were special meetings. Each of the directors attended at least 75% of the total number of meetings of the Board and the committee(s) on which he served during 2003. Pursuant to our Corporate Governance Guidelines, all directors are encouraged to attend annual and special meetings of shareholders. Messrs. Hagan, Lentz, Nickolas and Walsh were in attendance at our 2003 annual meeting of shareholders. The Board has established the following standing committees:

Audit Committee. The principal purposes of the Audit Committee of the Board of Directors (the "Audit Committee") are to oversee our processes of accounting, auditing, financial reporting, internal controls and legal compliance functions, including without limitation, oversight of (i) the processes to insure the integrity of our financial statements; (ii) our compliance with legal and regulatory requirements; (iii) our independent auditors' qualifications and independence; and (iv) the performance of our independent auditors. In discharging its duties, the Audit Committee:

selects our independent auditors and approves in advance any audit or non-audit service provided to us by our independent auditors;

reviews and discusses our financial statements with management and our independent auditors;

reviews with management and our independent auditors matters relating to our internal accounting controls, accounting practices and procedures, the scope and procedures of the outside audit, the independence of the outside auditors and other matters relating to our financial condition;

reviews with management our disclosure controls and procedures;

reviews with management and our independent auditors our compliance with applicable rules and regulatory requirements;

reviews transactions that involve a potential conflict of interest; and

reviews our annual report on Form 10-K and our quarterly reports on Form 10-Q for filing with the SEC.

The Audit Committee acts pursuant to a written charter, a copy of which is posted on the Corporate Governance section of our website, www.verticalnet.com.

The Audit Committee is currently composed of Messrs. Milano, Ballowe and Schott, each of whom the Board has determined is independent as that term is defined by applicable listing standards of the Nasdaq Stock Market. Mr. Milano is the Chairman of the Audit Committee. The Board has designated Mr. Milano as an audit committee financial expert as defined under Item 401(h)(2) of Regulation S-K of the Securities Exchange Act of 1934, as amended. In 2003, the Audit Committee met 16 times.

Compensation Committee. The compensation committee of the Board of Directors (the Compensation Committee) is charged with reviewing Verticalnet's general compensation policies; reviewing, approving, recommending and administering Verticalnet's incentive compensation and stock option plans; and approving certain employment arrangements. The Compensation Committee acts pursuant to a written charter, a copy of which is posted on the Corporate Governance section of our website, www.verticalnet.com.

The Compensation Committee is currently composed of Messrs. Buckley, Ballowe and Schott, each of whom the Board has determined is independent, as that term is defined by applicable listing standards of The Nasdaq Stock Market. Mr. Buckley is the Chairman of the Compensation Committee. In 2003, the Compensation Committee met two times.

Nominating and Corporate Governance Committee. The nominating and corporate governance committee of the Board of Directors (the Nominating and Corporate Governance Committee) was created by resolution of the Board in April 2004. The Nominating and Corporate Governance Committee is responsible for identifying and recommending the director nominees to be selected by the Board of Directors for each annual meeting of shareholders; implementing the Board's criteria for selecting new directors; developing, reviewing and recommending to the Board a set of corporate governance policies applicable to Verticalnet; and providing oversight for the evaluation of the performance of the Board of Directors. The Nominating and Corporate Governance Committee acts pursuant to a written charter, a copy of which is posted on the Corporate Governance section of our website, www.verticalnet.com.

The Nominating and Corporate Governance Committee is currently composed of Messrs. Nickolas, Buckley and Milano, each of whom the Board has determined is independent, as that term is defined by applicable listing standards of The Nasdaq Stock Market. Mr. Nickolas is the Chairman of the Nominating and Corporate Governance Committee. The initial meeting of the Nominating and Governance Committee was in August 2004, when it recommended the nomination of Messrs. Ballowe, Hagan and Schott as candidates for election by the shareholders at the Annual Meeting.

Director Candidates

Shareholders may recommend director candidates for inclusion by the Board of Directors in the slate of nominees which the Board recommends to shareholders for election. The qualifications of recommended candidates will be reviewed by the Nominating and Corporate Governance Committee. If the Board determines to nominate a shareholder-recommended candidate and recommends his or her election as a director by the shareholders, his or her name will be included in Verticalnet's proxy card for the shareholder meeting at which his or her election is recommended.

Edgar Filing: VERTICALNET INC - Form DEF 14A

Shareholders may recommend individuals to the Nominating and Corporate Governance Committee for consideration as potential director candidates by submitting their names and background to Mr. Nickolas, Chairman of the Nominating and Corporate Governance Committee, at the address set forth below under Shareholder Communications. The Nominating and Corporate Governance Committee will consider a shareholder recommendation only if the following information is provided on a timely basis:

the name of the candidate and information about the candidate that would be required to be included in a proxy statement under the rules of the Securities and Exchange Commission;

information about the relationship between the candidate and the recommending shareholder;

the consent of the candidate to serve as a director; and

proof of the number of shares of our common stock that the recommending shareholder owns and the length of time the shares have been owned.

The process followed by the Nominating and Corporate Governance Committee to identify and evaluate candidates includes requests to Board members and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the Nominating and Corporate Governance Committee and the Board. The Nominating and Corporate Governance Committee is authorized to retain advisers and consultants and to compensate them for their services. The Nominating and Corporate Governance Committee did not retain any such advisers or consultants during 2003.

Assuming that appropriate information is provided for candidates recommended by shareholders, the Nominating and Corporate Governance Committee will evaluate those candidates by following substantially the same process, and applying substantially the same criteria, as for candidates submitted by Board members or by other persons. In considering whether to recommend any candidate for inclusion in the Board's slate of recommended director nominees, including candidates recommended by shareholders, the Nominating and Corporate Governance Committee will apply the criteria which are set forth in our Corporate Governance Guidelines. These criteria include the candidate's skills, expertise, industry and other knowledge, and business and other experience useful to the effective oversight of the our business. The Nominating and Corporate Governance Committee also seeks members from diverse backgrounds so that the Board consists of members with a broad spectrum of experience and expertise and with a reputation for integrity. Directors should have experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated, and be selected based upon contributions that they can make to our business. The Nominating and Corporate Governance Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees.

Shareholders also have the right to nominate director candidates themselves, without any prior review or recommendation by the Nominating and Corporate Governance Committee or the Board, by the procedures set forth herein under **Deadline for Submission of Shareholder Proposals for the 2005 Annual Meeting.**

At the Annual Meeting, shareholders will be asked to consider the election of Gregory G. Schott who was originally proposed to the Board of Directors by Mr. Lentz, our President and Chief Executive Officer and a member of our Board of Directors. Mr. Schott was a business associate of Mr. Lentz and possessed relevant experience in the software arena. The Board determined to include Mr. Schott among its nominees.

Shareholder Communications

The Board will give appropriate attention to written communications that are submitted by shareholders, and will respond if and as appropriate. Absent unusual circumstances or as contemplated by committee charters and subject to any required assistance or advice from legal counsel, Mr. Nickolas, the Chairman of the Nominating and Corporate Governance Committee, is primarily responsible for monitoring communications from shareholders and for providing copies or summaries of such communications to the other directors as he considers appropriate.

Communications are forwarded to all directors if they relate to important substantive matters and include suggestions or comments that Mr. Nickolas as the Chairman of the Nominating and Corporate Governance Committee considers to be important to the directors to know. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which we tend to receive repetitive or duplicative communications.

Edgar Filing: VERTICALNET INC - Form DEF 14A

Shareholders who wish to send communications on any topic to the Board should address such communications in care of Christopher G. Kuhn, Secretary, at Verticalnet, Inc., 400 Chester Field Parkway, Malvern, Pennsylvania 19355.

PROPOSAL NO. 2

APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE VERTICALNET, INC.

2000 EQUITY COMPENSATION PLAN INCREASING THE NUMBER OF SHARES OF

COMMON STOCK AUTHORIZED FOR ISSUANCE THEREUNDER

FROM 4,000,000 TO 7,000,000

We use four equity compensation plans to grant stock options to employees, all of which have previously been approved by our shareholders. Our shareholders approved the 2000 Equity Compensation Plan (the 2000 Plan) at our 2000 annual meeting of shareholders. On April 23, 2003, the Board amended and restated the 2000 Plan increasing the number of shares of common stock authorized for issuance thereunder to 4,000,000 shares (up from 1,000,000) and our shareholders approved the 2000 Plan, as amended and restated on April 23, 2003, at our 2003 annual meeting of shareholders (the 2000 Plan, as amended and restated on April 23, 2003, is hereinafter referred to as, the 2000 Plan). On August 26, 2004, the Board again amended and restated the 2000 Plan further increasing the number of shares of common stock authorized for issuance thereunder to 7,000,000 shares (up from 4,000,000). The 2000 Plan permits grants to all employees, including officers, and to non-employee directors, consultants or advisors.

The Board believes it is in Verticalnet's and its shareholders best interest to approve the amendment and restatement of the 2000 Plan increasing the number of shares of common stock authorized for issuance thereunder from 4,000,000 to 7,000,000. The 2000 Plan is intended to encourage employees to contribute materially to our growth, thereby benefiting our shareholders, and aligning the interests of the employees with shareholders. Since the last amendment and restatement of the 2000 Plan was approved by our shareholders at our 2003 annual meeting of shareholders on June 18, 2003, Verticalnet has grown its business and the number of its employees significantly, both through internal growth, as well as by acquiring other businesses. In 2004, Verticalnet acquired (i) Tigris Corp., (Tigris) a strategic sourcing and supply chain consultancy which employed 54 individuals at the time of the acquisition, and (ii) B2eMarkets, Inc., (B2eMarkets) an eSourcing software development business which employed 50 individuals at the time of the acquisition. As a result, our employee headcount has increased from approximately 65 on June 18, 2003 to 155 in August 2004.

The cumulative effect of the events set forth above has been to essentially consume all of the shares issuable under the 2000 Plan. For example, the acquisition of Tigris and B2eMarkets involved the issuance of options or Restricted Stock Units to acquire approximately 2,225,000 shares of Verticalnet common stock, including the issuance of options to acquire 480,000 shares as a result of the assumption of the Tigris option plan; options to acquire approximately 1,100,000 shares in the form of new employee grants to former Tigris employees who became Verticalnet employees as a result of the merger; Restricted Stock Units to acquire approximately 324,000 shares to former Tigris employees who became Verticalnet employees as a result of the merger; and options to acquire approximately 285,000 shares in the form of new employee grants to former B2eMarkets employees who became Verticalnet employees as a result of that merger. The options to acquire the 300,000 shares already issued to former B2eMarkets employees had an exercise price equal to the closing price of Verticalnet shares on the date of the grant (\$1.20.) In addition, because we did not grant cash bonuses to our employees in either 2002 or 2003, in order to retain our existing employees, in 2003 and 2004 we issued bonuses to existing employees in the form of discounted options to acquire approximately 1.6 million shares.

Since our last Annual Meeting in 2003, our overhang has been significantly reduced. Overhang is the amount of issued options to purchase shares plus the available options to purchase shares, divided by the total shares outstanding.

As of July 31, 2003, our overhang was approximately 48.5% and as of July 31, 2004, our overhang was approximately 24.3%. The reduction of the overhang is primarily due to a reduction in the amount of options to purchase shares issued due to option exercises, and the increase in the number of shares outstanding from approximately 16,400,000 as of July 31, 2003 to approximately 31,000,000 as of July 31, 2004. The increase

Edgar Filing: VERTICALNET INC - Form DEF 14A

in the number of shares outstanding is due to the issuance of our common stock to finance (in part) the acquisitions of Tigris and B2eMarkets, which improved our operations, and four private placements of our common stock, which improved our balance sheet.

At the Annual Meeting, a proposal to approve the amendment and restatement of the 2000 Plan increasing the number of shares of common stock authorized for issuance thereunder from 4,000,000 to 7,000,000 will be presented to Verticalnet shareholders for approval. The Board believes the amendment and restatement of the 2000 Plan increasing the number of shares of common stock authorized for issuance thereunder is necessary in order to motivate Verticalnet's expanded employee base. The Board further

believes that an employee base that is motivated to materially contribute to Verticalnet's continued growth will facilitate Verticalnet's ability to successfully execute on its business strategy. In addition, the Compensation Committee, in consultation with an outside compensation consultant, is considering a plan in which the level of ownership of our senior management is increased to more fully align their interests with that of our shareholders.

As more fully described below, if this Proposal is approved, we expect to issue options to acquire approximately 700,000 shares in the form of additional new employee grants to former B2eMarkets employees who became Verticalnet employees as a result of the merger.

If shareholders do not approve the amendment and restatement of the 2000 Plan increasing the number of shares of common stock authorized for issuance thereunder to 7,000,000 at the Annual Meeting, the amendment will not become effective but we will continue to use the 2000 Plan.

Verticalnet, Inc. 2000 Equity Compensation Plan (as amended and restated August 26, 2004) is set forth in Annex A to this Proxy Statement. The following description of the Verticalnet, Inc. 2000 Equity Compensation Plan (as amended and restated August 26, 2004) is qualified in its entirety by reference to Annex A.

Summary of the 2000 Equity Compensation Plan (as amended and restated August 26, 2004)

The Compensation Committee administers the 2000 Plan, as amended and restated August 26, 2004 (hereinafter referred to as the "2000 Plan"). The Compensation Committee has the sole authority to determine the individuals that receive grants; determine the type, size and terms of grants, the timing of grants and the period grants will be exercisable or when restrictions will lapse; amend the terms of previously issued grants; and deal with any other matters arising under the 2000 Plan. Nonetheless, the Compensation Committee may delegate to Verticalnet's Chief Executive Officer the authority to make certain grants in accordance with applicable law and subject to any conditions and limitations imposed by the Compensation Committee. The Board may ratify and approve any grants it deems appropriate.

7,000,000 shares of common stock are reserved for issuance under the 2000 Plan. As of August 26, 2004, 5.3 million shares have been issued, 3.7 million shares have been reserved for outstanding grants and less than 8,000 shares are available for future grants. All shares subject to grants that expire or are cancelled, surrendered or terminated for any reason will be available for new grants under the 2000 Plan. The 2000 Plan limits the aggregate number of shares for which options or stock awards may be granted to any person during any calendar year to 500,000 shares. The Compensation Committee may adjust these limits, as well as the number of shares covered by outstanding grants, and the price per share of outstanding grants if there is any change in the number or class of shares because of stock dividends, stock split, merger, reclassification, or other similar changes in Verticalnet's stock because of a corporate transaction.

All of our employees and employees of our subsidiaries are eligible to participate in the 2000 Plan, including employees who are officers or members of the Board and individuals who have accepted employment with us or any of our subsidiaries. Our non-employee directors, as well as certain consultants and advisors who perform services for us or our subsidiaries, are also eligible to participate in the 2000 Plan.

The 2000 Plan permits grants of incentive stock options, nonqualified stock options and stock awards. Incentive stock options may be granted only to employees. Nonqualified stock options may be granted to employees, individuals who have accepted employment, non-employee directors, consultants and advisors. The Compensation Committee determines the exercise price underlying the option. The exercise price for non-qualified stock options may be equal to, greater than or less than the fair market value of our common stock on the date of grant. The exercise price for incentive stock options may be equal to or greater than the fair market value of our common stock on the date of grant, and an incentive stock option granted to a 10% shareholder must have an exercise price of not less than 110% of the fair market of our common stock

on the date of grant.

Participants may pay the exercise price of an option by (i) cash, (ii) with the approval of the Compensation Committee, by delivering shares of common stock owned by the grantee, (iii) payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board, or (iv) by such other method as the Compensation Committee may approve.

Options will become exercisable according to the terms and conditions determined by the Compensation Committee and specified in the grant instrument. The Compensation Committee may accelerate the exercisability of any or all outstanding options at any time for any reason. The Compensation Committee will determine the term of each option, up to a maximum ten-year term. The term of an incentive stock option granted to an employee who owns more than 10% of our stock may not exceed five years from the date of grant. Options may be exercised while the grantee is an employee, consultant, advisor or member of the Board, or within a specified period of time after termination of employment or service.

The Compensation Committee may issue shares of common stock to employees, individuals who have accepted employment, consultants, advisors and non-employee directors subject to restrictions or no restrictions. Unless the Compensation Committee determines otherwise, during any restriction period, grantees will have the right to vote shares of stock awards and to receive dividends or other distributions paid on such shares. Unless the Compensation Committee determines otherwise, if a grantee's employment or service terminates during any restriction period or if any other conditions are not met, the stock awards will terminate as to all shares on which restrictions are still applicable, and the shares must be immediately returned to Verticalnet.

Grants under the 2000 Plan may not be transferred except upon the grantee's death or, with respect to grants other than incentive stock options, if permitted by the Compensation Committee pursuant to a domestic relations order. The Compensation Committee, on such terms as it deems appropriate, may permit a grantee to transfer nonqualified stock options to family members or other entities that benefit or are owned by family members.

The Board may amend or terminate the 2000 Plan at any time. However, the Board may not make any amendment without shareholder approval if such approval is required under the applicable provisions of the Internal Revenue Code or stock exchange requirements. The 2000 Plan will terminate on June 13, 2010, unless the Board terminates the 2000 Plan earlier or extends it with the approval of the shareholders.

The 2000 Plan provides that in the event of a change of control, unless the Compensation Committee determines otherwise, each outstanding option will continue in effect according to its terms. The Compensation Committee may take any of the following actions in the event of a change of control: (i) require that all outstanding options be assumed by or replaced with comparable options of the surviving company and that restricted stock be replaced with restricted stock of the surviving company, (ii) provide that all outstanding options are fully exercisable and that all restrictions on outstanding restricted stock immediately lapse, (iii) require grantees to surrender their outstanding options in exchange for payment by Verticalnet, in cash or common stock, of an amount equal to the amount by which the fair market value of our common stock exceeds the option price of the options, or (iv) determine that all outstanding options not exercised within a certain period will terminate.

A change of control will be deemed to occur if (i) any person becomes a beneficial owner, directly or indirectly, of our securities representing more than 50% of the voting power of our then outstanding securities, or (ii) its shareholders approve (or, if shareholder approval is not required, the Board approves) an agreement providing for (x) the merger or consolidation of Verticalnet where the shareholders immediately before the transaction will not hold, immediately after the transaction, a majority of the stock of the surviving corporation, (y) a sale of substantially all of our assets, or (z) a liquidation or dissolution.

Federal Income Tax Consequences

The current federal income tax consequences of grants under the 2000 Plan are generally described below. This description of tax consequences is not a complete description, and is based on the Internal Revenue Code as presently in effect, which is subject to change, and is not intended to be a complete description of the federal income tax aspects of options and stock awards under the 2000 Plan.

Nonqualified Stock Options

An optionee will not be subject to federal income tax upon the grant of a nonqualified stock option. Upon the exercise of a nonqualified stock option, the optionee will recognize ordinary compensation income in an amount equal to the excess, if any, of the then fair market value of the shares acquired over the exercise price. We will generally be able to take a deduction with respect to this compensation income for federal income tax purposes. The optionee's tax basis in the shares acquired will equal the exercise price plus the amount taxable as compensation to the optionee. Upon a sale of the shares acquired upon exercise, any gain or loss is generally long-term or short-term capital gain or loss, depending on how long the shares are held. The required holding period for long-term capital gain is presently more than one year. The optionee's holding period for shares acquired upon exercise will begin on the date of exercise.

Incentive Stock Options

An optionee who receives incentive stock options generally incurs no federal income tax liability at the time of grant or upon exercise of the options. However, the spread will be an item of tax preference which may give rise to alternative minimum tax liability at the time of exercise. If the optionee does not dispose of the shares before the date that is two years from the date of grant and one year from the date of exercise, the difference between the exercise price and the amount realized upon disposition of the shares will constitute long-term capital gain or loss, as the case may be. Assuming both holding periods are satisfied, no deduction will be allowable to us for federal income tax purposes in connection with the option. If, within two years of the date of grant or within one year from the date of exercise, the holder of shares acquired upon exercise of an incentive stock option disposes of the shares, the optionee will generally realize ordinary compensation income at the time of the disposition equal to the difference between the exercise price and the lesser of the fair market value of the stock on the date of exercise or the amount realized on the disposition. The amount realized upon such a disposition will generally be deductible by us for federal income tax purposes.

Stock Awards

If a grantee receives an unrestricted stock award, the grantee will recognize compensation income upon the grant of the stock award. If a grantee receives a restricted stock award, the grantee normally will not recognize taxable income upon receipt of the stock award until the stock is transferable by the grantee or no longer subject to a substantial risk of forfeiture, whichever occurs earlier. When the stock is either transferable or no longer subject to a substantial risk of forfeiture, the grantee will recognize compensation income in an amount equal to the fair market value of the shares (less any amount paid for such shares) at that time. A grantee may, however, elect to recognize ordinary compensation income in the year the stock award is granted in an amount equal to the fair market value of the shares (less any amount paid for the shares) at that time, determined without regard to the restrictions. We will generally be entitled to a corresponding deduction at the same time, and in the same amount, as the grantee recognizes compensation income with respect to a stock award. Any gain or loss recognized by the grantee upon subsequent disposition of the shares will be capital gain or loss.

Tax Deductibility under Section 162(m)

Section 162(m) of the Internal Revenue Code disallows a public company's deductions for employee compensation exceeding \$1,000,000 per year for the chief executive officer and the four other most highly compensated executive officers. Section 162(m) contains an exception for performance-based compensation that meets specific requirements. The 2000 Plan is intended to permit all options to qualify as performance-based compensation.

Withholding

We have the right to deduct any taxes required to be withheld with respect to grants under the 2000 Plan. We may require that the participant pay to us the amount of any required withholding. The Compensation Committee may permit the participant to elect to have withheld from the shares issuable to him or her with respect to an option or restricted stock the number of shares with a value equal to the required tax withholding amount.

Future Grants

Upon shareholder approval of the amendment and restatement of the 2000 Plan increasing the number of shares of common stock authorized for issuance thereunder, we expect to grant options to purchase approximately 700,000 shares of Verticalnet common stock to former employees of B2eMarkets who became Verticalnet employees as a result of the merger more fully described in Proposal 3. The options to acquire those approximately 700,000 shares will have an exercise price equal to the closing price of Verticalnet shares on the date of the grant. Of the options to acquire approximately 700,000 shares issued to former B2eMarkets employees, we have agreed to issue options to acquire 190,000 shares to Orville Bailey as part of his Employment Agreement. Of that amount, options to acquire 95,000 shares will have an exercise price equal to the closing price of Verticalnet shares on the date of the merger agreement (July 16, 2004) and the remaining options to acquire 95,000 shares will have an exercise price equal to the closing price of Verticalnet shares on the date of the grant.

Other than as disclosed above, we do not have any other definitive plans for granting of awards under the 2000 Plan and no determination has been made as to the number of stock options or stock awards to be granted, or the number or identity of optionees or recipients of awards.

Recommendation of the Board of Directors

The Board has unanimously approved the amendment and restatement of the 2000 Plan increasing the number of shares of common stock authorized thereunder from 4,000,000 to 7,000,000 and recommends that you vote **FOR** the approval of Proposal No.2.

PROPOSAL NO. 3

APPROVAL OF THE CONVERSION FEATURE OF THE \$5,925,603 PROMISSORY NOTE WE ISSUED IN CONNECTION WITH OUR ACQUISITION OF B2EMARKETS, INC.

On July 19, 2004, we, through our direct, wholly-owned subsidiary Popcorn Acquisition Sub, Inc. (*Acquisition Sub*), acquired B2eMarkets, Inc. through a merger. The acquisition of B2eMarkets was made pursuant to an Agreement of Merger (the *Merger Agreement*) dated July 16, 2004 by and among Verticalnet, Acquisition Sub and B2eMarkets. Pursuant to the terms of the Merger Agreement, B2eMarkets was merged with and into Acquisition Sub on July 19, 2004, with Acquisition Sub being the surviving corporation.

Edgar Filing: VERTICALNET INC - Form DEF 14A

Pursuant to the Merger Agreement, we issued an aggregate amount of 5,100,000 shares of common stock (the Merger Shares), valued on the date of closing at approximately \$6,600,000, and a \$5,925,603 promissory note (the Promissory Note) to certain stockholders of B2eMarkets. The Merger Shares represented approximately 19.7% of our then outstanding common stock before giving effect to the issuance of such shares. The Promissory Note accrues interest at the rate of 8% per annum. Half of the outstanding principal amount of the Promissory Note is payable on July 16, 2007 and the remaining outstanding principal amount and interest earned thereon is payable on July 16, 2008. Subject to approval by our shareholders, the Promissory Note is initially convertible into 2,949,204 shares of our common stock (the Conversion Shares). Upon shareholder approval of the conversion feature, either we or the

representative of the former stockholders of B2eMarkets (the Stockholders Representative) may require the conversion of the Promissory Note into our common stock. Upon shareholder approval of this Proposal, we expect to immediately require the conversion of the Promissory Note into our common stock.

We are seeking your approval solely with respect to the conversion feature of the Promissory Note. Neither Pennsylvania law nor our amended and restated articles of incorporation, as amended, or our amended and restated bylaws require us to obtain shareholder approval of the conversion feature of the Promissory Note, however, as our common stock is traded on The Nasdaq SmallCap Market, we are subject to the rules of The Nasdaq Stock Market. Nasdaq Marketplace Rule 4350(i) requires companies with securities traded on The Nasdaq Market System to obtain stockholder approval prior to issuing shares of common stock or securities convertible into or exercisable for shares of common stock that is equal to or in excess of 20% of the company's outstanding common stock prior to the issuance or that could result in a change of control of such issuing company. Pursuant to Rule 4350(i), the Merger Shares we issued in connection with our acquisition of B2eMarkets are not entitled to vote on this proposal, however, such shares may be counted for purposes of establishing a quorum.

Nasdaq Marketplace Rule 4350(i)(1)(C)(ii). Under Marketplace Rule 4350(i)(1)(C)(ii), Nasdaq-listed companies are required to receive stockholder approval before making any issuance of securities in connection with the acquisition of the stock or assets of another company, where, due to the present or potential issuance of common stock, or securities convertible into or exercisable for common stock, other than a public offering for cash, the common stock to be issued (i) is or will be in excess of 20% of the outstanding common stock pre-issuance or (ii) constitutes voting power in excess of 20% of the outstanding voting power pre-issuance. In connection with our acquisition of B2eMarkets, we issued the Merger Shares representing approximately 19.7% of our then outstanding common stock and the Promissory Note to the security holders of B2eMarkets without obtaining shareholder approval. Such issuance did not exceed the 20% threshold of Marketplace Rule 4350(i)(1)(C)(ii) because the Promissory Note is not convertible until shareholder approval is obtained. We are, however, seeking shareholder approval of the conversion feature of the Promissory Note because the issuance of the Conversion Shares upon the conversion of the Promissory Note would exceed the 20% threshold of Marketplace Rule 4350(i)(1)(C)(ii) when aggregated with the Merger Shares we already issued in connection with the merger transaction. The Merger Shares and the Conversion Shares represent approximately 31.1% of our common stock outstanding common stock on the date of issuance of the Merger Shares and Promissory Note (before taking the issuance of the Merger Shares and Conversion Shares into account).

Nasdaq Marketplace Rule 4350(i)(1)(B). Under Marketplace Rule 4350(i)(1)(B), Nasdaq-listed companies are required to receive stockholder approval before any issuance or potential issuance of securities that would result in a change of control of the issuer. In connection with our acquisition of B2eMarkets, we issued the Merger Shares representing approximately 19.7% of our then outstanding common stock and the Promissory Note to security holders of B2eMarkets without obtaining shareholder approval as the issuance of less than 20% of a company's outstanding common stock is not deemed a change of control under applicable Nasdaq rules. The Conversion Shares issuable upon the conversion of the Promissory Note and the Merger Shares represent approximately 31.1% of our common stock outstanding on the date of issuance of the Merger Shares and Conversion Shares (before taking the issuance of the Merger Shares and Conversion Shares into account). The issuance of approximately 31.1% of our then outstanding common stock could be deemed to constitute an actual or potential change of control of us for purposes of Marketplace Rule 4350(i)(1)(B). Therefore, we are seeking approval of the conversion feature of the Promissory Note in order to satisfy the requirements of Marketplace Rule 4350(i)(1)(B).

In the event our shareholders do not approve the conversion feature of the Promissory Note, there is no penalty or alternative outcome; the Promissory Note will continue subject to its terms (which are summarized below). In addition, the outcome of the vote of our shareholders with respect to the conversion feature of the Promissory Note will not affect the Merger of B2eMarkets with and into Acquisition Sub. The Merger of B2eMarkets with and into Acquisition Sub was completed on July 19, 2004 and was not contingent upon our shareholders voting to approve the conversion feature of the Promissory Note.

Reasons for the B2eMarkets Acquisition

B2eMarkets' business consists of the development of an eSourcing software suite which includes strategy formulation, negotiation management, contract management and compliance, and performance management. The combined company, which as of today operates under the Verticalnet® name, brings together our top rated Spend Analysis and Advanced Sourcing solutions with B2eMarkets' leading eSourcing suite including strategy formulation, negotiation management, contract management and compliance, and performance management software. Benefits of this combination include:

B2eMarkets brings proven "best of breed" competence in program management, eSourcing, contract management, and performance management capabilities, which when combined with our existing capabilities, provides a comprehensive suite of supply management solutions.

The combination of B2eMarkets and Verticalnet creates a company with increased scale from a financial, customer, and product standpoint. B2eMarkets generated approximately \$8.1 million in revenues in the year ended December 31, 2003.

A majority of B2eMarkets' customers operated via an on-demand software model with long-term subscription agreements. The subscription model provides us with a more balanced software and services revenue mix and enhanced visibility of future revenues.

With over 35 software customers with registered users on six continents using B2eMarkets' solutions, we have expanded our base of software customers. In addition, the combined company has more than ten European customers in France, the United Kingdom, and Northern Europe.

Having been partners for the six months prior to the merger, the companies worked closely together in go-to-market efforts and in joint product planning. Prior to the merger, we had several common customers with B2eMarkets and had been jointly selected with B2eMarkets in multiple competitive sales processes.

Financial Information

Audited financial statements of B2eMarkets for 2002 and 2003 and unaudited interim financial statements of B2eMarkets for 2004 are set forth in Annex C hereto. Unaudited pro forma combined financial statements, including a pro forma condensed consolidated balance sheet as of June 30, 2004 and pro forma condensed consolidated statements of operations for the year ended December 31, 2003 and for the six month period ended June 30, 2004 are set forth at Annex D. Such unaudited pro forma combined financial statements are presented as if Verticalnet and B2eMarkets had been operating as a combined entity. The pro forma data is for informational purposes only and may not necessarily reflect future results of operations and financial position or what the results of operations or financial position would have been had Verticalnet and B2eMarkets been operating as a combined entity for the specified periods. The unaudited pro forma combined financial statements should be read in conjunction with our audited consolidated financial statements and the accompanying notes included in our 2003 Annual Report to Shareholders and our unaudited interim consolidated financial statements included in our Quarterly Reports for the quarter ended March 31, 2004 and June 30, 2004 being mailed concurrently with this proxy statement and the historical consolidated financial statements of B2eMarkets included in Annex C.

Material Terms of the Promissory Note

Edgar Filing: VERTICALNET INC - Form DEF 14A

The following description summarizes the material terms of the Promissory Note. You are urged to read carefully the Promissory Note in its entirety, a copy of which is attached in Annex B.

Principal, Maturity and Interest. The initial principal amount of the Promissory Note is \$5,925,603. The Promissory Note accrues interest at the rate of 8% per annum. Interest on the outstanding principal

amount of the Promissory Note is payable quarterly, commencing on September 30, 2004. We may elect to forgo making any interest payment, in which case such interest shall be added to the outstanding principal amount of the Promissory Note. Half of the outstanding principal amount of the Promissory Note is payable on July 16, 2007 and the remaining outstanding principal amount and interest earned thereon is payable on July 16, 2008.

Payments. The Promissory Note may be prepaid in whole or in part at any time, without penalty or premium.

Conversion. If our stockholders approve the proposal, the outstanding principal amount of the Promissory Note plus all accrued and unpaid interest thereon may be converted into a number of shares of our common stock equal to the quotient of (i) the entire unpaid principal amount of the Promissory Note plus any accrued and unpaid interest thereon, divided by (ii) \$2.00922. We or the Stockholder Representative can require the conversion of the Promissory Note into our common stock. The \$5,925,603 Promissory Note will be initially convertible into 2,949,204 shares of our common stock. In the event we elect to forgo making an interest payment, such interest will be added to the outstanding principal amount of the Promissory Note and thus, will increase the number of shares into which such Promissory Note is convertible.

Event of Default. Upon an event of default, the Stockholder Representative may accelerate in full the outstanding principal amount of the Promissory Note plus all accrued and unpaid interest thereon and the outstanding principal together with any accrued but unpaid interest shall become immediately (subject to a 10-day cure period in certain instances) due and payable in full. Each of the following will result in an event of default:

- our failure to make any payment under the Promissory Note as and when due;
- our bankruptcy, insolvency or reorganization or some similar event; or
- our breach or failure to perform any other agreement, covenant, representation or warranty under the Promissory Note.

Change of Control. Upon a change of control, the outstanding principal amount of the Promissory Note plus all accrued and unpaid interest thereon will be immediately due and payable in full. Each of the following events will result in a change of control:

- a merger, consolidation or other business combination or transaction to which we are a party and which results in our shareholders immediately prior to the effective date of such merger, consolidation or other business combination or transaction holding less than 50% of the voting power of the surviving entity or acquiring entity following such merger, consolidation or other business combination or transaction;
- an acquisition by any person, entity or group of 50% or more of the voting power of all classes of our capital stock; or
- a sale of all or substantially all of our assets.

Set-Off Right. The former stockholders of B2eMarkets have certain indemnification obligations under the Merger Agreement. In the event the former stockholders of B2eMarkets are required to make a payment to us pursuant to their indemnification obligations under the Merger Agreement, we have the right to set-off such amount against the outstanding principal of the Promissory Note or any interest thereon, on a dollar-for-dollar basis. Upon conversion of the Promissory Note, the number of shares issuable to the former B2eMarkets stockholders shall be reduced by the quotient of (i) the difference of (A) \$1,412,334 minus (B) the aggregate amount set-off under the Promissory Note to cover indemnification obligations of the former B2eMarket stockholders under the Merger Agreement, divided by (ii) \$2.00922. For example, if no amounts have been set off under the Promissory Note to cover indemnification obligations of the former B2eMarket stockholders, then 702,926 shares shall be held back. Such shares (the "Escrow Shares") will be deposited with an escrow agent mutually acceptable to us and the Stockholder Representative to be held by such escrow agent as security for the indemnification obligations of the former stockholders of B2eMarkets under the Merger Agreement until April 16, 2005 pursuant to a mutually acceptable escrow agreement. The escrow agreement shall contain a provision permitting us to cause the Escrow Shares to be sold pursuant to the resale registration statement we have agreed to file pursuant to the Registration Rights Agreement described below, with the proceeds of such sale to be held in escrow pursuant to the terms of the escrow agreement. The outstanding principal amount under the Promissory Note is also subject to set-off on a dollar-for-dollar basis for (i) any working capital adjustment or (ii) any transaction expenses incurred by B2eMarkets in connection with the merger and paid by us, as determined

in accordance with the Merger Agreement.

Other Agreements with the Noteholders

Registration Rights Agreement. In connection with our acquisition of B2eMarkets, we entered into a Registration Rights Agreement with the certain stockholders of B2eMarkets. Furthermore, in the event the conversion feature of the Promissory Note is approved by our shareholders at the Annual Meeting, any recipient of the Conversion Shares that is not a party to the Registration Rights Agreement will be required to execute a joinder to the Registration Rights Agreement upon the conversion of the Promissory Note. Pursuant to the terms of the Registration Rights Agreement, we are required to file a resale registration statement on Form S-3 with the SEC on or prior to the date that is 45

days after the Annual Meeting, registering the offering and sale of (i) the 5,100,000 shares of our common stock we issued in connection with the B2eMarkets acquisition and (ii) any shares of our common stock issuable upon conversion of the Promissory Note (provided that, the conversion feature of the Promissory Note is approved by our shareholders at the Annual Meeting). We are required to use our best efforts to cause the resale registration statement to become effective within 60 days after the filing thereof. Upon effectiveness of the resale registration statement, the holders of the Merger Shares and Conversion Shares will have the right to publicly resell such shares.

Additionally, if we file a registration statement prior to filing the resale registration statement, the holders of the Merger Shares and the Conversion Shares have the right, subject to certain limitations, to include the Merger Shares and the Conversion Shares in any such registration statement.

Voting Agreement. In addition, certain of our directors and executive officers, which collectively own approximately 15.9% of the outstanding shares of common stock entitled to vote on Proposal No. 3, have agreed to vote their respective shares in favor of the conversion feature of the Promissory Note.

Board Rights. Pursuant to the terms of the Merger Agreement, we agreed to appoint a representative of the former stockholders of B2eMarkets to our Board of Directors. In August 2004, our Board appointed Darryl E. Wash, the representative of the former stockholders of B2eMarkets, to serve as a Class I director, whose term will expire in 2006.

Effect of Approval of Conversion Feature of Promissory Notes on Shareholders

If the conversion feature of the Promissory Note is approved by our shareholders, we and the Stockholder Representative each have the option to convert the Promissory Note into 2,949,204 shares of our common stock, representing approximately 8.7% of our outstanding common stock as of August 20, 2004 and together with the 5,100,000 shares of common stock we previously issued in connection with the acquisition, approximately 22.0% of our outstanding common stock as of August 20, 2004.

The issuance of common stock upon the conversion of the Promissory Note could depress the market price of our common stock by increasing the number of outstanding shares of our common stock. In the event our shareholders do not approve the conversion feature of the Promissory Note there is no penalty or alternative outcome; the Promissory Note will continue subject to its terms (which are summarized above).

Reasons for Modification of Securities

The Board believes that it is in our best interests and the best interests of our shareholders to approve the conversion feature of \$5,925,603 Promissory Note issued in connection with the B2eMarkets acquisition for the following reasons:

we will not have to pay any interest or principal amount of the Promissory Note in cash if the Promissory Note is converted into common stock; and

we will have more flexibility with respect to future financing needs.

Interests of Verticalnet Directors and Officers

Darryl E. Wash, a member of our Board of Directors, was appointed to the Board in August 2004 as a representative of the former stockholders of B2eMarkets pursuant to the terms of the Merger Agreement. Furthermore, Mr. Wash is an employee of Ascend Ventures, L.P., a former stockholder of B2eMarkets and beneficiary of \$636,043 in aggregate principal amount of the Promissory Note. In the event our shareholders approve the conversion feature of the Promissory Note, Ascend Ventures, L.P. will receive approximately 316,562 shares, subject to adjustment as set forth in the Merger Agreement.

In addition, certain of our directors and executive officers, which collectively own approximately 15.9% of the outstanding shares of common stock entitled to vote on Proposal No. 3, have agreed to vote their respective shares in favor of the conversion feature of the Promissory Note.

Recommendation of the Board of Directors

The Board has unanimously approved the conversion feature of the \$5,925,603 Promissory Note we issued in connection with our acquisition of B2eMarkets and recommends that you vote FOR the approval of Proposal No. 3.

REPORT OF THE AUDIT COMMITTEE

The following report of the Audit Committee, as well as the report of the Compensation Committee and the performance graph included elsewhere in this proxy statement, do not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing Verticalnet makes under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent Verticalnet specifically incorporates these reports or the performance graph by reference therein.

The Audit Committee of the Board of Directors is responsible for providing independent, objective oversight of the Company's financial reporting process and internal controls. Management is responsible for the Company's internal controls and financial reporting processes. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States and for issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

In connection with the preparation and filing of Verticalnet's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, the Audit Committee (i) reviewed and discussed Verticalnet's audited consolidated financial statements for the fiscal year ended December 31, 2003 with Verticalnet's management and with Verticalnet's independent auditors, KPMG LLP, (ii) discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, and the rules of the Securities and Exchange Commission (SEC), (iii) received the written disclosures and letter from KPMG LLP required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and discussed with KPMG LLP that firm's independence and (iv) considered whether KPMG LLP's provision of non-audit services was compatible with maintaining that firm's independence. Based on the review and discussions referred to above, among other things, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements for the fiscal year ended December 31, 2003 be included in Verticalnet's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, for filing with the Securities and Exchange Commission.

THE AUDIT COMMITTEE

Vincent J. Milano, Chairman

Jeffrey C. Ballowe

Gregory G. Schott

Independent Auditors

Edgar Filing: VERTICALNET INC - Form DEF 14A

KPMG LLP audited Verticalnet's consolidated financial statements for the year ended December 31, 2003. The Audit Committee of the Board of Directors, consistent with provisions of the Sarbanes-Oxley Act, has selected KPMG LLP as the Company's independent auditors for the year ending December 31, 2004.

One or more representatives of KPMG LLP are expected to attend the Annual Meeting to respond to appropriate questions. They will have an opportunity to make a statement if they so desire.

2003 and 2002 Independent Auditors Fee Summary

The following table presents fees paid for professional audit services rendered by KPMG LLP for the audit of the Company's annual consolidated financial statements for 2002 and 2003, and fees billed for other services rendered by KPMG LLP.

	2002	2003
Audit fees (1)	\$ 282,700	\$ 241,141
Audit-related fees (2)	17,359	96,800
Audit and audit-related fees	300,059	337,941
Tax fees (3)	64,344	17,950
All other fees (4)	0	1,600
Total fees	\$ 364,403	\$ 357,491

- (1) Audit fees consist of fees for the audit of the annual financial statements included in our Annual Reports on Form 10-K and review of the interim financial statements included in our Quarterly Reports on Form 10-Q, and fees for reviewing filings with the Securities and Exchange Commission.
- (2) Audit-related fees consist principally of fees for performing due diligence services.
- (3) Tax fees consist of fees for tax compliance and consultation services.
- (4) Secretarial services performed during dissolution of a foreign subsidiary.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Public Accountants

The Audit Committee is responsible for appointing, setting compensation for and overseeing the work of the independent auditors. The Audit Committee has established a policy regarding pre-approval of the retention of the independent auditors for the performance of all audit and lawfully permitted non-audit services and regarding pre-approval of the fees for such services. On an on-going basis, management communicates specific projects and categories of service for which the advance approval of the Audit Committee is requested. The Audit Committee reviews these requests prior to the rendering of such services after due consideration of the effect of the performance thereof on the independence of the auditors and advises management if the Audit Committee approves the engagement of the independent auditors to provide these services, as well as certain fee levels for these services. On a periodic basis, management reports to the Audit Committee regarding the actual spending for such projects and services as compared to the pre-approved fee levels. The Audit Committee also has delegated the ability to pre-approve audit and lawfully permitted non-audit services to Mr. Milano, provided that any pre-approvals by Mr. Milano are reported to the full Audit Committee at its next scheduled meeting.

The prior approval of the Audit Committee was obtained for all services provided by KPMG LLP commencing on or subsequent to May 6, 2003, which is when the pre-approval requirement for audit and non-audit services of independent auditors went into effect.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors, which reviews Verticalnet's general compensation policies and approves incentive compensation and stock option plans, has furnished the following report on executive compensation for 2003. All matters approved by the Compensation Committee were recommended to the full Board for final approval.

What is Verticalnet's Philosophy of Executive Officer Compensation?

Verticalnet's philosophy of executive officer compensation is designed to align the interests of executive officers with the short- and long-term interests of Verticalnet's shareholders to retain key executives and to attract new talented executives. Towards that goal, the compensation program for executives consists of three key elements:

A base salary,

A performance-based annual bonus, and

Periodic grants of stock options and/or restricted stock.

The Compensation Committee believes that this approach best serves the interests of Verticalnet and its shareholders. Verticalnet operates in a challenging and competitive environment, so the Compensation Committee must ensure that executive officers are compensated in a way that advances both the short- and long-term interests of shareholders. Under this approach, a significant portion of an executive officer's total compensation is tied to performance—namely, the annual bonus, stock options and restricted stock. The variable annual bonus permits individual performance to be recognized on an annual basis, and is based, in significant part, on an evaluation of the contribution made by the executive officer to Verticalnet's performance. Stock options and restricted stock relate a significant portion of long-term remuneration directly to stock price appreciation realized by Verticalnet's shareholders.

Base Salary: Base salaries for Verticalnet's executive officers, as well as changes in such salaries, are determined after considering numerous factors including:

Competitive salaries;

The nature of the officer's position and its subjective importance to Verticalnet's success;

Level of experience;

Expected amount of individual responsibility; and

General market conditions.

Annual Bonus: Annual bonuses for executive officers of Verticalnet are based on the achievement of goals pertaining to financial and operating objectives, individual objectives, and goals relating to targets for areas of responsibility. The bonus plan weighs the objective goals more heavily than the subjective targets. During 2003 and 2002, because of the Company's financial condition, the Board and management agreed that no discretionary cash bonuses would be awarded to Verticalnet's executive officers. Because of the Company's financial condition for most of 2003 and the Company's desire to retain and provide incentive to the executive team, the Compensation Committee recommended to the Board that the executive officers receive a quarterly bonus (based on financial performance goals) in the form of option grants, the exercise price of which were discounted from market price at the time of grant, in lieu of cash bonuses. This one-time bonus compensation plan was adopted for 2003 only, and has not been adopted for 2004.

The Compensation Committee reevaluates the performance targets each year to reflect Verticalnet's goals for the coming year.

Stock Options and Restricted Stock Units: The Compensation Committee has utilized stock options and grants of restricted stock units to motivate and retain executive officers. The Compensation Committee believes that this form of compensation closely aligns the officers' interests with those of shareholders and provides an incentive to building long-term shareholder value. Options are typically granted annually and are subject to vesting provisions to encourage executive officers to remain employed with Verticalnet. Similarly, restricted stock units are granted at the inception of employment and thereafter on a periodic basis. Each executive officer receives stock options and/or restricted stock units based upon

that officer's relative position, responsibilities and his or her anticipated performance and responsibilities. Additionally, the Compensation Committee reviews the prior level of grants to the executive officers and to other members of senior management, including the number of shares that continue to be subject to vesting under outstanding options, in setting the level of options to be granted to the executive officers. Stock options are granted at the market price on the date of grant and provide value only if the price of Verticalnet's common stock is over the exercise price on the date of exercise. Restricted stock units are granted at a price of \$.01 per share.

How was the Chief Executive Officer Compensated?

In 2003, Mr. Lentz received an annual salary of \$350,000 and received various grants totaling 300,890 options. Of the 300,890 options, 82,983 options were granted pursuant to the 2003 bonus compensation plan in lieu of a cash bonus and 217,907 options were annual grants. The Compensation Committee and the Board of Directors believe that the salary, bonus, and benefits received by Mr. Lentz were merited by (i) the enhanced financial condition of the Company during 2003, (ii) Mr. Lentz's experience and knowledge of the Company, and (iii) Mr. Lentz's outstanding leadership of the Company during the year.

Under the terms of Mr. Lentz's employment agreement, he would be eligible to receive a bonus of \$75,000 if the Company were to be sold during the term of his employment; the bonus would increase by \$75 for each \$10,000 of the sale price of the Company in excess of \$5,000,000. Mr. Lentz voluntarily and irrevocably waived this provision of his employment agreement during 2003.

How is the Company Addressing Internal Revenue Code Limits On Deductibility Of Compensation?

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for compensation over \$1,000,000 paid for any fiscal year to the individuals named in the Summary Compensation Table. However, the statute exempts qualifying performance-based compensation from the deduction limit if certain requirements are met. The Compensation Committee currently intends to structure performance-based compensation, including stock option grants and annual bonuses, to executive officers who may be subject to Section 162(m) in a manner that satisfies those requirements.

The Compensation Committee reserves the authority to award non-deductible compensation as it may deem appropriate. Because of uncertainty surrounding the interpretation of Section 162(m), the Compensation Committee can give no assurance, notwithstanding Verticalnet's efforts, that compensation intended to satisfy the requirements for deductibility under Section 162(m) will in fact do so.

THE COMPENSATION COMMITTEE

Walter W. Buckley, III, Chairman

Jeffrey C. Ballowe

Gregory G. Schott

Compensation Committee Interlocks and Insider Participation

During 2003, the members of our Compensation Committee were Messrs. Ballowe and Bernstock. Neither Mr. Ballowe nor Mr. Bernstock has, at any time, been one of our officers or employees. None of our executive officers currently serves, or in the past has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors or Compensation Committee.

Employment, Termination of Employment and Change-in-Control Agreements

The Company has entered into employment agreements with named executive officers Messrs. Lentz, Godick and Kuhn, on the terms set forth below:

On November 13, 2002, the Company entered into an employment agreement with Nathanael V. Lentz with an initial salary of \$350,000 per annum. The agreement has a term of two years, with automatic renewal unless either party gives at least one-year advance notice of non-renewal. The agreement has a target bonus of 50% of salary, which is not guaranteed. If Mr. Lentz is terminated without cause (with one month advance notice of termination without cause), then he will receive, in exchange for a mutual general release: a lump sum payment equal to salary for one year and a pro rata portion of any target bonus Mr. Lentz would have earned in the year of termination. In addition, he would receive healthcare coverage paid by the Company for one year; unvested options granted during 2001 would be accelerated for a period equal to six months plus one additional month for each month that he had been employed by the Company; and all vested options granted during 2001 would be exercisable for five years after termination of employment. Upon a change of control, Mr. Lentz's outstanding restricted stock units would become fully vested. If within two years after a change of control, Mr. Lentz is terminated without cause or chooses to leave for good reason, then he will receive the termination without cause benefits above, and a change in control bonus equal to, if the change in control occurs during the first year of employment, a pro rata portion of the target bonus for that year, and, if the change in control occurs after one year of employment, the entire target bonus for the year in which the change in control takes place. In addition, the original agreement provided for a Sale Of The Company Bonus in the event the Company is sold during the term of his employment, equal to \$75,000, plus an amount equal to \$75 for every \$10,000 of the purchase price in excess of \$5,000,000. Mr. Lentz voluntarily and irrevocably waived this provision of his employment agreement during 2003. The agreement provides for a cap to the executive's compensation if it produces a greater net benefit than an uncapped award would after accounting for the increased tax obligation resulting from being an excess parachute payment under sections 280G and 4999 of the Internal Revenue Code. The agreement defines good reason after a change of control as (1) the executive is transferred more than 50 miles without consent; or (2) a material reduction of authority, duties or responsibilities after reasonable notice and a chance to cure; or (3) any failure of the Company materially to comply with and satisfy the terms of the agreement; or (4) non-renewal of the agreement by the Company.

On February 3, 2003, the Company entered into an employment agreement with Gene S. Godick to be the Company's Chief Financial Officer with an initial salary of \$300,000 per annum. The agreement has a term of two years, with automatic renewal unless either party gives at least one-year advance notice of non-renewal. The agreement has a target bonus of 40% of salary, which is not guaranteed. The agreement provides for a grant of 100,000 stock options and 75,000 restricted stock units. If Mr. Godick is terminated without cause (with one month advance notice of termination without cause), then he will receive, in exchange for a mutual general release: a lump sum payment equal to salary for one year; pro rata portion of any target bonus Mr. Godick would have earned in the year of termination; and, if the termination is within 120 days of a sale of the Company, the Sale Of The Company Bonus described below. In addition, the Company will pay healthcare coverage for one year and all vested options granted would be exercisable for one year after termination of employment. Upon a change of control, Mr. Godick's outstanding stock options and restricted stock units would become fully vested. If within two years after a change of control, Mr. Godick is terminated without cause or chooses to leave for good reason, then he will receive the termination without cause benefits above, and a change in control bonus equal to, if the change in control occurs prior to November 13, 2003, a pro rata portion of the target bonus for that year, and, if the change in control occurs after November 13, 2003, the entire target bonus for the year in which the change in control takes place. In addition, the agreement provided for a Sale of the Company Bonus in the event the Company is sold during the term of his employment, equal to \$50,000, plus an amount equal to \$50 for every \$10,000 of the purchase price in excess of \$5,000,000. Mr. Godick voluntarily and irrevocably waived this provision of his employment agreement during 2003. The agreement provides for a cap to the executive's compensation if it produces a greater net benefit than an uncapped award would after accounting for the increased tax obligation resulting from being an excess parachute payment under sections 280G and 4999 of the Internal Revenue Code. The

agreement defines "good reason" after a change of control as (1) the executive is transferred more than 50 miles without consent; or (2) a material reduction of authority, duties or responsibilities after reasonable notice and a chance to cure; or (3) any failure of the Company materially to comply with and satisfy the terms of the agreement; or (4) non-renewal of the agreement by the Company.

As of December 16, 2002, the Company entered into an employment agreement with Christopher G. Kuhn to be the Company's General Counsel with an initial salary of \$165,000 per annum. The agreement has a term of one year, with automatic renewal unless either party gives at least one-year advance notice of non-renewal. If Mr. Kuhn is terminated without cause (with one month advance notice of termination without cause), then he will receive, in exchange for a mutual general release: a lump sum payment equal to salary for three months and a pro rata portion of any bonus Mr. Kuhn would have earned in the year of termination. In addition, the Company will pay healthcare coverage for six months; unvested options would be accelerated and all vested options would be exercisable for 90 days after termination of employment. If within one year after a change of control, Mr. Kuhn is terminated without cause or chooses to leave for "good reason," then he will receive the termination without cause benefits above, except Mr. Kuhn will receive a lump sum payment equal to salary for six months. The agreement provides for a cap to the executive's compensation if it produces a greater net benefit than an uncapped award would after accounting for the increased tax obligation resulting from being an excess parachute payment under sections 280G and 4999 of the Internal Revenue Code. The agreement defines "good reason" after a change of control as (1) the executive is transferred more than 50 miles without consent; or (2) a material reduction of authority, duties or responsibilities after reasonable notice and a chance to cure; or (3) any failure of the Company materially to comply with and satisfy the terms of the agreement; or (4) non-renewal of the agreement by the Company.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning total compensation earned or paid to all individuals serving as Verticalnet's chief executive officer during the 2003, its two other executive officers and two other most highly compensated executives (the "named executive officers"), for services rendered to Verticalnet during each of the last three years.

Name and Principal Position	Year	Annual Compensation		Long Term Compensation	
		Annual Salary	Bonus	No. of Stock Options Granted	Restricted Stock Awards
Nathanael V. Lentz <i>President and Chief Executive Officer (1)</i>	2003	\$ 360,013	\$	300,890	\$
	2002	244,913		100,000	93,000
	2001	240,000	72,000	60,000	
Gene S. Godick <i>Executive Vice President and Chief Financial Officer (2)</i>	2003	275,000		319,237	61,500
	2002				
	2001	216,989		275,000	
Christopher G. Kuhn <i>Vice President, General Counsel, and Secretary (5)</i>	2003	170,456		138,169	
	2002	141,230	14,000	15,000	
	2001	140,000	37,500	11,000	
John H. McNeill, Jr.	2003	281,250		130,093	
	2002	216,147	56,280	130,000	23,250

Edgar Filing: VERTICALNET INC - Form DEF 14A

Senior Vice President, Sales (3)

Daniel J. Tiernan

	2003	250,000	135,076	
<i>Senior Vice President, Professional Services and Alliances (4)</i>	2002	227,039	172,478	46,500

- (1) Mr. Lentz has served as President and Chief Executive Officer since November 2002.
- (2) Mr. Godick returned to Verticalnet as Executive Vice President and Chief Financial Officer in February 2003.
- (3) Mr. McNeill joined Verticalnet on December 28, 2001.
- (4) Mr. Tiernan joined Verticalnet on December 28, 2001.
- (5) Mr. Kuhn has served as General Counsel from December 1998 through February 2000, and since October 2002.

Option Grants In 2003

The table below shows information about stock options granted during 2003 to each of the named executive officers:

	Individual Grants					Potential Realizable Value at Assumed Annual Rate of Stock Appreciation for Option Terms (8)		
	Number of Securities	% of Total	Exercise	Market				
	Underlying Options	Options Granted to Employees	Price per Share	Price on Grant Date	Expiration Date	0%	5%	10%
	Granted	Employees	Share	Grant Date	Date			
Nathanael V. Lentz	25,763(1)	0.92%	\$ 0.32	\$ 0.80	04/29/2013	\$ 12,366	\$ 25,328	\$ 45,214
	29,661(2)	1.06%	0.47	1.18	10/28/2013	21,059	43,071	76,840
	27,559(3)	0.98%	0.51	1.27	09/04/2013	20,945	42,956	76,726
	17,907(4)	0.64%	0.60	1.50	06/23/2013	16,116	33,009	58,925
	118,138(5)	4.21%	0.80	0.80	04/28/2013		59,4371	150,625
	81,862(6)	2.92%	1.00	1.50	06/23/2013	40,931	18,155	236,631
Gene S. Godick	11,007(1)	0.39%	0.32	0.80	04/29/2013	5,283	10,821	19,317
	20,339(2)	0.72%	0.47	1.18	10/28/2013	14,441	29,534	52,691
	18,898(3)	0.67%	0.51	1.27	09/04/2013	14,362	29,456	52,613
	18,993(4)	0.68%	0.60	1.50	06/23/2013	17,094	35,011	62,499
	55,033(5)	1.96%	0.80	0.80	04/28/2013		27,688	70,167
	100,000(7)	3.56%	0.83	0.85	02/05/2013	2,000	55,456	137,468
94,967(6)	3.38%	1.00	1.50	06/23/2013	47,484	137,070	274,513	
Christopher G. Kuhn	7,310(1)	0.26%	0.32	0.80	04/29/2013	3,509	7,187	12,829
	13,983(2)	0.50%	0.47	1.18	10/28/2013	9,928	20,305	36,225
	11,811(3)	0.42%	0.51	1.27	09/04/2013	8,976	18,410	32,882
	5,065(4)	0.18%	0.60	1.50	06/23/2013	4,559	9,337	16,667
	59,069(5)	2.10%	0.80	0.80	04/28/2013		29,719	75,313
	40,931(6)	1.46%	1.00	1.50	06/23/2013	20,466	59,077	118,316
John H. McNeill, Jr.	8,307(1)	0.30%	0.32	0.80	04/29/2013	3,987	8,167	14,579
	9,534(2)	0.34%	0.47	1.18	10/28/2013	6,769	13,844	24,699
	6,496(3)	0.23%	0.51	1.27	08/05/2013	4,937	10,125	18,085
	5,756(4)	0.21%	0.60	1.50	06/23/2013	5,180	10,610	18,941
	59,069(5)	2.10%	0.80	0.80	04/28/2013		29,719	75,313
	40,931(6)	1.46%	1.00	1.50	06/23/2013	20,466	59,077	118,316
Daniel J. Tiernan	9,230(1)	0.33%	0.32	0.80	04/29/2013	4,430	9,074	16,199
	10,593(2)	0.38%	0.47	1.18	10/28/2013	7,521	15,382	27,442
	8,858(3)	0.32%	0.51	1.27	08/05/2013	6,732	13,807	24,661
	6,395(4)	0.23%	0.60	1.50	06/23/2013	5,756	11,788	21,043
	59,069(5)	2.10%	0.80	0.80	04/28/2013		29,719	75,313
	40,931(6)	1.46%	1.00	1.50	06/23/2013	20,466	59,077	118,316

-
- (1) 100% of the grant vested on April 29, 2004.
 - (2) 100% of the grant will vest on October 28, 2004.
 - (3) 100% of the grant vested on August 5, 2004.
 - (4) 100% of the grant vested on April 29, 2004.
 - (5) 25% of the grant vested on each of October 28, 2003 and April 28, 2004. The remainder of the grant will vest on October 28, 2004 and April 28, 2005.
 - (6) 25% of the grant vested on each of December 23, 2003 and June 23, 2004. The remainder of the grant will vest on December 23, 2004 and June 23, 2005.
 - (7) 12.5% of the grant vested on each of May 6, 2003, August 6, 2003, November 6, 2003, February 6, 2004, May 6, 2004 and August 6, 2004. The remainder of the grant will vest on November 6, 2004 and February 6, 2005.
 - (8) These columns show gains that may exist for the respective options, assuming that the market price for the common stock appreciates from the date of grant over a period of ten years at annual rates of growth of 0%, 5%, and 10%, respectively. The 5% and 10% rates of growth are mandated by rules of the Securities and Exchange Commission. There can be no assurance that the actual stock price appreciation over the ten-year option term will be at the assumed 0%, 5%, and 10% levels or at any other defined level.

Aggregated Option Exercises During 2003 and Option Values on December 31, 2003

	Number of Shares Acquired Upon Exercise Of Options	Value Realized Upon Exercise (1)	Number of Unexercised Options at 12/31/03		Value of Unexercised In-The-Money Options at 12/31/03 (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Nathanael V. Lentz		\$	194,758	293,133	\$ 18,782	\$ 116,903
Gene S. Godick			74,999	244,238	21,876	95,522
Christopher G. Kuhn			54,027	118,899	7,859	48,688
John H. McNeill, Jr.			122,402	145,095	9,828	44,489
Daniel J. Tiernan	25,000	21,873	124,998	172,578	8,953	48,988

- (1) Represents the difference between the market price on the exercise date and the exercise price, multiplied by the number of options exercised. Does not necessarily reflect the value received if the individual sells the shares acquired by the option exercise, since the market price of the shares at the time of sale may be higher or lower than the market price on the date of exercise.
- (2) Represents the difference between the year-end stock price (\$1.18 per share) and the exercise price associated with each option, multiplied by the number of shares underlying the options.

**STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS
AND MANAGEMENT**

The following table sets forth information regarding the beneficial ownership of our common stock as of March 15, 2004 by the following:

each person known by us to beneficially own more than 5% of our outstanding common stock,

each of our directors,

each of our the named executive officers (as defined in the Executive Compensation Summary Compensation Table section of this proxy statement), and

all of our directors and executive officers as a group.

Edgar Filing: VERTICALNET INC - Form DEF 14A

Beneficial ownership is determined in accordance with rules promulgated by the Securities and Exchange Commission. Under these rules, an individual or entity is deemed to be the beneficial owner of a security if that individual or entity has or shares voting power or investment power with respect to such security. Voting power includes the power to vote or to direct the voting of a security. Investment power includes the power to dispose of or to direct the disposition of a security. An individual or entity is also deemed to be the beneficial owner of shares of common stock that could be issued upon the exercise of outstanding options and warrants held by such individual or entity that were exercisable as of March 15, 2004 or exercisable within sixty (60) days of March 15, 2004.

Unless otherwise indicated, each beneficial owner named in the table below has sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. The inclusion herein of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of those shares.

Individual/Entity Name and Address of 5% Beneficial Owner	Number of Shares Beneficially Owned	Percent of Shares Outstanding (1)
Internet Capital Group, Inc. (2) 435 Devon Park Drive Bldg. 600 Wayne, PA 19087	2,521,705	9.8%
Brent W. Habig 261 5th Avenue New York, NY 10016	1,823,852	7.1%
Jeffrey Thorp (3)		