

VERTICALNET INC  
Form DEF 14A  
April 30, 2003

**SCHEDULE 14A**

**(RULE 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**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.

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(Name of Registrant as Specified In Its Charter)

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

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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:

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

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(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):

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(1) Amount previously paid:

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(2) Form, schedule or registration statement no.:

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(3) Filing party:

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(4) Date filed:

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SCHEDULE 14A

DEFINITIVE PROXY MATERIALS

[VERTICALNET LOGO]

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD JUNE 18, 2003

To Our Shareholders:

The 2003 annual meeting of shareholders of Verticalnet, Inc. will be held at the offices of Morgan, Lewis & Bockius, 1701 Market Street, Philadelphia, Pennsylvania, 19103 on Wednesday, June 18, 2003, 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 to the Verticalnet, Inc. 2000 Equity Compensation Plan.
- (3) 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 March 20, 2003 are entitled to vote at the meeting or any postponements or adjournments of the meeting.

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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.

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By order of the board of directors,

/s/ Christopher G. Kuhn

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Christopher G. Kuhn

Vice President, General Counsel and Secretary

May 16, 2003

Malvern, Pennsylvania

[VERTICALNET LOGO]

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 Wednesday, June 18, 2003, 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 May 16, 2003.

### **ABOUT THE 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 its 2002 fiscal year and respond to questions from shareholders.

#### ***Who can vote at the meeting?***

All shareholders of record at the close of business on March 20, 2003, or the record date, are entitled to vote at the meeting and any postponements or adjournments of the meeting.

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

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

#### ***Who can attend the meeting?***

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All shareholders as of the record date, or their duly appointed proxies, may attend the 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
  
- By telephone
  
- Via the Internet

To vote by mail, simply mark, sign and date your proxy card and return it in the postage-paid envelope provided. The enclosed proxy card contains instructions for telephone or Internet voting, which is available to shareholders 24 hours a day, 7 days a week until noon, Malvern, Pennsylvania time on June 17, 2003.

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 meeting and you hold Verticalnet stock in street name, you must obtain a proxy card from your broker and bring that proxy card to the 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 nominee for director, your shares will be voted FOR the election of the nominee. If you withhold your vote for a particular nominee for director, your shares will be voted AGAINST that particular nominee. 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 meeting in person and request to recast your vote. Attendance at the meeting will not, by itself, revoke a previously granted proxy.



*What constitutes a quorum?*

As of the record date, Verticalnet had 13,710,685 shares of its common stock outstanding. The presence at the 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 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 of the Verticalnet, Inc. 2000 Equity Compensation Plan.

The proxy holders will vote as recommended by the board of directors with respect to any other matter that properly comes before the 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 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.

**Approval of Amendment of Verticalnet, Inc. 2000 Equity Compensation Plan.** For Proposal 2, the approval of the amendment of the Verticalnet, Inc. Equity Compensation Plan, 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 any such matter will be counted for purposes of determining whether there is a quorum. 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.

**Other Proposals.** For each other proposal that may be properly brought before the meeting, 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 any such matter will be counted for purposes of determining whether there is a quorum. 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 other proposals.

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. So, if you do not give your broker or nominee specific instructions, your shares may not be voted on those 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 \$5,500 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, 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 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 two members and one class has three 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>
Robert F. Bernstock	I	2006	I	2003
Walter W. Buckley III	I	2006	I	2003
Mark L. Walsh	I	2006	I	2003

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 I Director Nominees:***

**ROBERT F. BERNSTOCK**, 52, has served as a director since December 2001. Mr. Bernstock has been Senior Vice President and General Manager, Air Care, Food & Branded Commercial Markets of The Dial Corporation since October 2002, and was the President and

CEO 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 Vlastic Foods International Inc. from March 1998 when Vlastic was spun-off from Campbell Soup Company, to December 2000. Vlastic 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 Safeguard Scientifics. Mr. Buckley received his B.A. from the University of North Carolina, Chapel Hill.

**MARK L. WALSH**, 49, has served as a director since August 1997. Mr. Walsh has been the Chief Technology Advisor to the Democratic National Committee since January 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. Prior to 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.

#### **Incumbent Directors**

The following persons are serving as Class II directors, whose terms expire in 2004:

**JEFFREY C. BALLOWE**, 47, 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 Tech TV) and the initial ZD Softbank investments in Yahoo!, USWeb, Gamespot and Herring Communications. Currently he serves as a director of Onvia.com and is on the advisory board of Internet Capital Group. He is the co-founder and President of the not-for-profit Electronic Literature Organization. He received 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**, 40, 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. He served at Merrill Lynch in the areas of finance, technology and accounting. Prior to that time, Mr. Hagan worked for Bristol Myers Squibb from 1988 to 1990. Currently he serves as a trustee of American Financial Realty Trust. Mr. Hagan received a B.S. from St. Joseph's University and was formerly a Certified Public Accountant.

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

**NATHANAEL V. LENTZ**, 40, 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 collaborative supply chain solutions. Prior to that, Mr. Lentz was a Vice President and Partner of 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.

**JOHN N. NICKOLAS**, 36, has served as a director since February 2003. Mr. Nickolas has been a managing director with Internet Capital Group since January 1999. During his tenure at Internet Capital Group, Mr. Nickolas has 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**

Verticalnet does not pay its directors cash compensation for regular service on the board. However, they are reimbursed for expenses they incur in attending meetings. Additionally, each non-employee, non-investor director may receive options to purchase Verticalnet common stock which are granted by the Compensation Committee and the board from time to time. Mr. Nickolas did not accept his initial grant in February 2003 pursuant to a policy established by his employer, Internet Capital Group. The options are generally non-qualified stock options granted at the closing price per share on the date of grant. Options are fully vested on the date of grant. Options have a maximum term of ten

years, except that a director has 90 days to exercise after leaving the board. In Fiscal 2002, Verticalnet granted its three non-employee, non-investor directors an aggregate of 15,000 stock options.

Verticalnet pays the members of its audit committee \$3,500 for each fiscal quarter that they serve on the committee. Verticalnet pays the members of its compensation committee \$1,500 for each fiscal quarter that they serve on the committee. However, neither Mr. Buckley nor Mr. Nickolas accepts their compensation for serving on the Audit Committee pursuant to a policy of their employer, Internet Capital Group.

### Board Meetings During Fiscal 2002

The board of directors met ten times during fiscal 2002. Four of the meetings were regular meetings and the other six were special meetings. Each current director attended more than 75% of the total number of meetings of the board and committees on which he served.

### Committees of the Board Of Directors

The board of directors has the following standing committees:

**Compensation Committee.** 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. In Fiscal 2002, the compensation committee met two times. The compensation committee consists of Messrs. Ballowe and Bernstock.

**Audit Committee.** The functions of the audit committee are to recommend the appointment of independent auditors; review the arrangements for and scope of the audit by the independent auditors; review the audit reports of the independent auditors; and review procedures relating to the Company's internal controls. In fiscal 2002, the audit committee met eight times. The following table sets forth the members of the Audit committee during 2002 and 2003.

<u>Members of Audit Committee</u>	<u>Beginning</u>	<u>Ending</u>
Ballowe, Ross, McKay	January 1, 2002	February 19, 2002
Ballowe, Ross, Buckley	February 19, 2002	October 22, 2002
Ballowe, Buckley	October 22, 2002	February 5, 2003
Ballowe, Buckley, Nickolas*	February 5, 2003	Present

\* Mr. Nickolas is an audit committee financial expert as defined by Item 401(h)(2) of Regulation S-K.

### REPORT OF THE AUDIT COMMITTEE



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*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. The audit committee operates under a written charter adopted by the board of directors.

The audit committee is composed of three directors, each of whom the Company believes is independent as defined by the listing standards of The Nasdaq Stock Market. In 2002 and 2003, the audit committee consisted of the following directors:

Members of Audit Committee	Beginning	Ending
Ballowe, Ross, McKay	January 1, 2002	February 19, 2002
Ballowe, Ross, Buckley	February 19, 2002	October 22, 2002
Ballowe, Buckley	October 22, 2002	February 5, 2003
Ballowe, Buckley, Nickolas*	February 5, 2003	Present

\* Mr. Nickolas is an audit committee financial expert as defined by Item 401(h)(2) of Regulation S-K.

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.

The audit committee reviewed and discussed Verticalnet's audited financial statements for the fiscal year ended December 31, 2002, with Verticalnet's management and with Verticalnet's independent auditors, KPMG LLP. In addition, the audit committee discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees. The audit committee also received the letter from KPMG LLP required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees and the audit committee discussed with KPMG LLP that firm's independence. The audit committee also considered whether KPMG LLP's provision of non-audit services was compatible with maintaining that firm's independence.

Based on the audit committee's review of Verticalnet's audited financial statements and the review and discussions with management and the independent auditors, the audit committee recommended to the board of directors that the audited financial statements for the fiscal year ended December 31, 2002, be included in Verticalnet's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, for filing with the Securities and Exchange Commission.

THE AUDIT COMMITTEE

March 2003

John N. Nickolas, Chairman

Jeffrey C. Ballowe

Walter W. Buckley III

**Relationship with Independent Public Accountants**

KPMG LLP audited Verticalnet's financial statements for the fiscal year ended December 31, 2002. The Audit Committee of the Board of Directors, consistent with new provisions of the Sarbanes-Oxley Act, has selected KPMG LLP as the Company's independent auditors for the fiscal year ending December 31, 2003.

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.

Non-audit services to be performed by the independent auditors will be approved by the audit committee prior to the rendering of such services after due consideration of the effect of the performance thereof on the independence of the auditors.

**Fiscal 2002 Audit Firm Fee Summary**

The fees paid by Verticalnet to KPMG LLP for the 2002 fiscal year were as follows:

**Audit Fees.** The aggregate fees billed by KPMG LLP for professional services rendered for the audit of Verticalnet's annual financial statements for Fiscal 2002 and the reviews of the financial statements included in Verticalnet's Quarterly Reports on Form 10-Q were \$280,700.

**Financial Information Systems Design And Implementation Fees.** Verticalnet paid no fees to KPMG LLP during 2002 for financial information systems design and implementation.

**All Other Fees.** The aggregate fees billed for services rendered by KPMG LLP, other than the fees discussed in the foregoing paragraphs, were \$118,703, of which \$64,344 related to tax services, and \$54,359 related to filings with the Securities and Exchange Commission and other services.

**STOCK OWNERSHIP**

Except as set forth in the following table, Verticalnet knows of no single person or group that is the beneficial owner of more than 5% of Verticalnet's common stock.

Name And Address Of Beneficial Owner	Amount And Nature Of	Percent Of
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	<u>Beneficial Ownership</u>	<u>Class</u>
Internet Capital Group, Inc. 435 Devon Park Drive Bldg. 600 Wayne, PA 19087	3,574,013(1)(2)	25.9%
Safeguard Scientifics, Inc. 800 The Safeguard Building 435 Devon Park Drive Bldg. 800 Wayne, PA 19087	1,052,308(2)	7.7%

- (1) Includes 62,703 shares of common stock issuable upon the conversion of warrants. All amounts are as of March 20, 2003. Excludes 5,159 shares owned by Walter W. Buckley III. Mr. Buckley disclaims beneficial ownership of all shares held by Internet Capital Group. Mr. Buckley is the chief executive officer and chairman of the board of Internet Capital Group.
- (2) Includes the 1,052,308 shares owned by Safeguard Scientifics. Internet Capital Group filed a Schedule 13D on March 15, 2002 stating that they had reached an agreement with Safeguard Scientifics that provides Internet Capital Group with the right of first refusal to purchase the shares that Safeguard owns.

The following table shows the amount of common stock of Verticalnet beneficially owned (unless otherwise indicated) by Verticalnet's directors, the executive officers of Verticalnet named in the Summary Compensation Table appearing later in this proxy statement and the directors and named executive officers of Verticalnet as a group. Except as otherwise indicated, all information is as of March 20, 2003.

<u>Name</u>	<u>Aggregate Number Of Shares Beneficially Owned (1)</u>	<u>Acquirable Within 60 Days (2)</u>	<u>Percent Of Shares Outstanding (3)</u>
Michael J. Hagan	178,005	30,769	1.5%
Nathanael V. Lentz		121,335	*
Jeffrey C. Ballowe	3,380	22,464	*
Robert F. Bernstock		16,288	*
Walter W. Buckley, III	2,464,161(4)	62,703(5)	18.4%
John N. Nickolas			*
Mark L. Walsh	130,944	73,855	1.5%
Kevin S. McKay			*
John A. Milana		31,250	*
Christopher Larsen			*
All directors and named executive officers as a group (10 persons)	2,776,490	377,414	23.0%

\* Represents less than 1% of Verticalnet's outstanding common stock.

- (1) The number of shares shown includes shares that are individually or jointly owned, as well as shares over which the individual has either sole or shared investment or voting authority.
- (2) Unless otherwise noted, reflects the number of shares that could be purchased by exercise of options available at March 20, 2003 or within 60 days thereafter under Verticalnet's stock option plans or warrants that are currently exercisable.
- (3) Based on 13,710,685 shares outstanding at March 20, 2003.
- (4) Includes 2,459,002 shares owned by Internet Capital Group, for which Mr. Buckley serves as the President, Chief Executive Officer and a director, as disclosed in a Schedule 13G filed February 14, 2002. Does not include the 1,052,308 shares owned by Safeguard Scientifics over which Internet Capital Group shares beneficial ownership, as disclosed in a Schedule 13D filed by Internet Capital Group on March 15, 2002.

- (5) Includes 62,703 shares of common stock issuable upon the exercise of warrants held by Internet Capital Group. Mr. Buckley serves as the chief executive officer and chairman of the board of Internet Capital Group. Mr. Buckley disclaims beneficial ownership of Verticalnet's warrants held by Internet Capital Group.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING**

Section 16(a) of the Securities Exchange Act of 1934 requires officers, directors and holders of more than 10% of Verticalnet's common stock to file reports of ownership and changes of ownership with the Securities and Exchange Commission. To the best of Verticalnet's

knowledge, the reports for all officers, directors and holders of more than 10% of Verticalnet's common stock were timely filed during Fiscal 2002.

## EXECUTIVE COMPENSATION

### 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 Fiscal 2002.

#### *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 shareholders. 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 2002, because of the Company's financial condition, the board and management agreed that

no discretionary bonuses would be awarded to Verticalnet's executive officers. The compensation committee reevaluates the performance targets each year to reflect Verticalnet's goals for the coming year.

**Stock Options And Restricted Stock:** The compensation committee has utilized stock options and grants of restricted stock 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 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 were the Chief Executive Officers Compensated?*

Mr. Hagan was appointed President and CEO in January 2001. At the beginning of 2002, Mr. Hagan's salary was \$150,000, and his target bonus was 50% of his salary. Mr. Hagan resigned in February 2002 and received a severance benefit equal to continued salary for the remainder of 2002. In addition, Mr. Hagan would receive a Change in Control payment equal to \$150,000 upon a change in control of the Company.

Mr. McKay was appointed President and CEO in February 2002. Pursuant to his Employment Agreement, Mr. McKay received an initial salary of \$415,000, a target bonus of 50% of salary, of which \$100,000 was guaranteed for 2002, and a signing bonus of \$125,000. He also received an initial option grant of 175,000 shares and a grant of restricted stock units of 25,000 shares. Mr. McKay resigned in November 2002; pursuant to a termination agreement, Mr. McKay received continued salary until his termination date of December 15, 2002 as he assisted in the transition of his duties to Mr. Lentz. Thus, he became entitled to and was paid an installment of \$25,000 of his guaranteed 2002 bonus. All but 18,750 vested options and all but 9,375 vested restricted stock units previously granted to Mr. McKay terminated upon his resignation. The compensation committee and the Board of Directors believe that Mr. McKay's leadership of the Company throughout the year merited the benefits provided by this termination agreement.

Mr. Lentz was appointed President and CEO in November 2002. Pursuant to his Employment Agreement, Mr. Lentz received an initial salary of \$350,000 and is eligible to receive a Sale of the Company Bonus of \$75,000 if the Company were to be sold during the term of his employment; the Sale of the Company bonus will increase by \$75 for each \$10,000 of the sale price of the Company in excess of \$5,000,000. He also received a grant of 100,000 restricted stock units. Mr. Lentz received a grant of 100,000 options in September 2002. The compensation committee and the Board of Directors believes that this salary and benefit package was merited

by Mr. Lentz' experience and knowledge of the Company and his willingness to accept the leadership role during an extremely tumultuous period of the Company's history.