

VERTICALNET INC  
Form DEF 14A  
July 06, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington DC 20549**

**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**

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 Pursuant to Section 240.14a-12

**VERTICALNET, INC.**

(Name of Registrant as Specified In Its Charter)

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(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:

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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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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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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:

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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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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

TO BE HELD AUGUST 15, 2007

To Our Shareholders:

The 2007 annual meeting of shareholders of Verticalnet, Inc. will be held at the office of Morgan, Lewis & Bockius LLP, 1701 Market Street, Philadelphia, PA 19103 on August 15, 2007, beginning at 10:00 a.m. local time. At the meeting, you will be asked to act on the following matters:

- (1) Election of two directors;
- (2) Approval of an increase in number of shares of our common stock authorized for issuance under our 2006 Omnibus Equity Compensation Plan;
- (3) Approval of an amendment to our Amended and Restated Articles of Incorporation to effect a reverse stock split of our outstanding common stock at an exchange ratio of not less than 1-for-5 and not more than 1-for-10 and authorize our Board of Directors to implement the reverse stock split within this range at any time prior to the 2008 annual meeting of shareholders by filing an amendment to our Amended and Restated Articles of Incorporation;
- (4) Approval of an amendment to our Amended and Restated Articles of Incorporation to increase the number of authorized shares of our common stock to 120,000,000 shares;
- (5) Approval of an amendment to our Amended and Restated Articles of Incorporation to increase the number of authorized shares of our preferred stock to 35,000,000 shares;
- (6) Approval to issue shares of our common stock upon conversion of our Series B Preferred Stock in an aggregate amount exceeding 19.99% of our outstanding shares of common stock; and
- (7) 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 June 12, 2007 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 TELEPHONE BY FOLLOWING THE VOTING INSTRUCTIONS PRINTED ON THE PROXY CARD SENT TO YOU.**

BY ORDER OF THE BOARD OF DIRECTORS,

Christopher G. Kuhn  
Vice President, General Counsel and Secretary  
July 10, 2007  
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 August 15, 2007 (the Annual Meeting ), beginning at 10:00 a.m. local time, at the offices of Morgan, Lewis & Bockius LLP, 1701 Market Street, Philadelphia, PA 19103 and any postponements or adjournments thereof. Verticalnet first mailed these proxy materials to shareholders on or about July 10, 2007.

**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 2006 and respond to questions from shareholders.

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

All shareholders of record at the close of business on June 12, 2007, 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?***

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

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 August 14, 2007 (proxy cards received after 11:59 p.m., August 14, 2007 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 August 15, 2007.

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. 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 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 return a proxy card but do not indicate how you would like your shares to be voted with respect to a particular proposal, your shares will be voted FOR the election of the nominated slate of directors. 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 12,412,541 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 of Directors recommends a vote

FOR the election of the nominated slate of directors;

FOR approval of an increase in number of shares our common stock authorized for issuance under the Company's 2006 Omnibus Equity Compensation Plan;

FOR approval of an amendment to our Amended and Restated Articles of Incorporation to effect a reverse stock split of our outstanding common stock at an exchange ratio of not less than 1-for-5 and not more than 1-for-10 and authorize our Board of Directors to implement the reverse stock split within this range at any time prior to the 2008 annual meeting of shareholders by filing an amendment to our Amended and Restated Articles of Incorporation;

FOR approval of an amendment to our Amended and Restated Articles of Incorporation to increase the number of authorized shares of our common stock to 120,000,000 shares;

FOR approval of an amendment to our Amended and Restated Articles of Incorporation to increase the number of authorized shares of our preferred stock to 35,000,000 shares; and

FOR approval to issue shares of our common stock upon conversion of our Series B Preferred Stock in an aggregate amount exceeding 19.99% of our outstanding shares of common stock.

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 gives no recommendation on any such matter, 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 two candidates with the most affirmative votes will be elected at the Annual Meeting.

*Other Proposals.* For the other proposals, including an amendment to our Amended and Restated Articles of Incorporation to effect a reverse stock split at the discretion of our Board of Directors, an amendment to the Verticalnet, Inc. 2006 Omnibus Equity Compensation Plan to increase the number of shares of our common stock authorized for issuance thereunder, an amendment to our Amended and Restated Articles of Incorporation to increase the number of authorized shares of our common stock, an amendment to our Amended and Restated Articles of Incorporation to increase the number of authorized shares of our preferred stock, the issuance of shares of our common stock upon conversion of our Series B Preferred Stock in an aggregate amount exceeding 19.99% of our outstanding shares of common stock and each other proposal that may be properly brought before the meeting, the affirmative vote of a majority of the votes cast by all the 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 these proposals.

***What is a broker non-vote ?***

Broker non-votes generally occur when shares held by a broker nominee for a beneficial owner are not voted with respect to a proposal because the nominee has not received voting instructions from the beneficial owner and lacks discretionary authority to vote the shares. Brokers normally have discretion to vote on routine matters, such as director elections and ratification of independent registered public accounting firms, but not on non-routine matters, such as amendments to stock plans.

***How are broker non-votes counted?***

Broker non-votes will be counted for the purpose of determining the presence or absence of a quorum, but will not be counted for the purpose of determining the number of shares entitled to vote on a specific proposal. A broker non-vote will not affect the outcome of any proposal in this proxy statement.

***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 \$7,000 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, 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 four 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 and a one-for-seven reverse stock split was effected on June 12, 2006. 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; one class consists of three members and two classes have two 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.

Name	Nominee For:		Current Director In:	
	Class	Term Expiring	Class	Term Expiring
Michael J. Hagan	II	2010	II	2007
Gregory G. Schott	II	2010	II	2007

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 current term, the Board of Directors may designate a substitute nominee. In that case, the persons named as proxies will vote for the substitute nominee designated by the Board of Directors.

There are currently two vacancies in our Class I Directors created by the resignations of 2 directors in 2005. There is currently one vacancy in our Class II Directors cause by the resignation of Jeffrey C. Ballowe at the end of 2006. The nominating and corporate governance committee has not sought to identify candidates for nomination to fill these vacancies. As such, after the Annual Meeting two vacancies will remain on the Board of Directors in Class I whose term will expire in 2009 and one vacancy will remain on the Board of Directors in Class II whose term will expire in 2010. Under the terms of our Amended and Restated Articles of Incorporation and bylaws, the Board of Directors may fill these vacancies at any time.

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

**MICHAEL J. HAGAN**, 44, co-founded Verticalnet in 1995 and served as a director since 1995 and as Chairman of the Board of Directors from February 2002 to May 2005. Mr. Hagan has been President of NutriSystem since 2006 and 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 trustee of Internet Capital Group and 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**, 41, has served as a director since August 2003 and as Chairman of the Board of Directors since May 2005. 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 III directors, whose terms expire in 2008:

**NATHANAEL V. LENTZ**, 44, has served as our President and Chief Executive Officer and a director 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 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.

**VINCENT J. MILANO**, 43, has served as a director since August 2003. Mr. Milano is serving since January 2007, as Chief Operating Officer, as well as since November 1997, Vice President, Chief Financial Officer of ViroPharma Incorporated. 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, most recently as a Senior Manager. Mr. Milano received his B.S. in Accounting from Rider College.

**JOHN N. NICKOLAS**, 40, has served as a director since February 2003. Mr. Nickolas has been with The Philadelphia Phillies since July 2003 and is currently Vice President, Chief Financial Officer. 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.

The following persons are serving as Class I directors, whose terms expire in 2009:

**MARK L. WALSH**, 50, has served as a director since August 1997. He is the managing partner of Ruxton Associates, LLC, a private equity and investment firm he founded in April 2002. He was CEO 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 of Verticalnet 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**, 41, 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. Mr. Wash received a B.A. in Economics from the University of California at Berkeley and an MBA from Stanford University.

#### Executive Officers

The following table sets forth the name, age, and position of each person who was serving as an executive officer as of June 15, 2007.

Name	Age	Position
Nathanael V. Lentz	44	President and Chief Executive Officer
Jonathan T. Cohen	38	Vice President and Chief Accounting Officer
Christopher G. Kuhn	55	Vice President, General Counsel and Secretary

Set forth below is biographical information about each of our executive officers, except for Mr. Lentz whose biographical information is provided above under Incumbent Directors. The executive officers are elected or appointed by our Board of Directors to serve until election or appointment and qualification of their successors or their earlier death, resignation or removal.

**NATHANAEL V. LENTZ** - see biographical description above.

**JONATHAN T. COHEN** - has served as our Vice President and Chief Accounting Officer since December 1, 2006. He had served as our Controller from March 2002 to December 2006. Immediately prior to joining Verticalnet, Mr. Cohen was a retained by Constar International to assist them during and after their initial public offering and subsequent SEC filings. From 2000 to 2001, he was a manager with Deloitte & Touche's Emerging Growth practice, which provided consulting services for emerging growth technology companies. From 1996 to 2000 Mr. Cohen was Corporate Controller of Wilmar Industries, Inc. a publicly traded national distributor of repair and maintenance products to the multi-family industry. Mr. Cohen has also served as an auditor with the accounting firm Fishbein and Company, P.C. Mr. Cohen received a bachelor's degree from Hartwick College and an MBA with a concentration in Finance from LaSalle University. He is a Certified Public Accountant in the Commonwealth of Pennsylvania.

**CHRISTOPHER G. KUHN** - has served as our Vice President, General Counsel, and Secretary since October 2002. From February 2000 through October 2002, Mr. Kuhn was Verticalnet's Vice President of Legal Affairs and Assistant Secretary. From December 1998 through February 2000, he was General Counsel of the Company. Prior to that, he was an attorney with the law firm of Silberman & DiFilippo from 1989 to 1998. Mr. Kuhn received a B.A. from West Chester State College and a J.D. from the Delaware Law School.

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**BOARD OF DIRECTORS AND COMMITTEES**

The Board of Directors is currently composed of Messrs. Schott, Hagan, Lentz, Milano, Nickolas, Walsh and Wash. Mr. Schott is the Chairman of the Board of Directors. The Board of Directors has determined that all directors, other than Mr. Lentz, will be independent directors as that term is defined by the applicable listing standards of The Nasdaq Stock Market. The independent directors met regularly in executive sessions outside of the presence of directors who are not independent.

The Board of Directors met nineteen times during 2006. Four of the meetings were regular meetings and the other fifteen were special meetings. Pursuant to our Corporate Governance Guidelines, all directors are encouraged to attend annual and special meetings of shareholders. Messrs. Lentz and Nickolas were in attendance at our 2006 annual meeting of shareholders.

The Board of Directors 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 consolidated financial statements; (ii) our compliance with legal and regulatory requirements; (iii) our independent registered public accounting firm's qualifications and independence; and (iv) the performance of our independent registered public accounting firm. In discharging its duties, the Audit Committee:

selects our independent registered public accounting firm and approves in advance any audit or non-audit service provided to us by our independent registered public accounting firm;

reviews and discusses consolidated financial statements with management and our independent registered public accounting firm;

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

reviews with management our disclosure controls and procedures;

reviews with management and our independent registered public accounting firm our compliance with applicable law 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 Securities and Exchange Commission (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](http://www.verticalnet.com).

During 2006, the Audit Committee was comprised of Messrs. Milano, Ballowe and Schott until December 31, 2006, when Mr. Ballowe resigned as a director. The Audit Committee is currently composed of Messrs. Milano, Nickolas and Schott, each of whom the Board of Directors 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 of Directors has determined that Mr. Milano qualifies 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 2006, the Audit Committee met nine 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](http://www.verticalnet.com).

The Compensation Committee was comprised of Messrs. Wash, Ballowe and Schott until December 31, 2006, when Mr. Ballowe resigned as a director. Since January 1, 2006, the Compensation Committee has been comprised of Messrs. Wash, Schott and Hagan, each of whom the Board of Directors has determined is independent, as that term is defined by applicable listing standards of The Nasdaq Stock Market. Since January 1, 2006, Mr. Wash has been the Chairman of the Compensation Committee. In 2006, the Compensation Committee met six times.

*Nominating and Corporate Governance Committee.* The nominating and corporate governance committee of the Board of Directors (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 of Directors' criteria for selecting new directors; developing, reviewing and recommending to the Board of Directors 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](http://www.verticalnet.com).

The Nominating and Corporate Governance Committee is comprised of Messrs. Nickolas, Milano and Wash, each of whom the Board of Directors 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 Nominating and Corporate Governance Committee met two times in 2006.

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**PROPOSAL NO. 2 - APPROVAL OF INCREASE IN NUMBER OF SHARES AUTHORIZED**

**UNDER THE COMPANY'S 2006 OMNIBUS EQUITY COMPENSATION PLAN**

The Company currently maintains the 2006 Omnibus Equity Compensation Plan (the "2006 Plan" or the "Plan"), which was approved by the Board of Directors of the Company on March 2, 2006 and adopted by our shareholders on May 19, 2006. The Board of Directors desires to adopt an amendment to the 2006 Plan that would increase the total number of shares of common stock authorized for issuance under the 2006 Plan from 571,429 shares to 2,500,000 shares (i.e., an increase of 1,928,571 shares). The Board of Directors has directed that the proposal to increase the number of shares authorized for issuance under the 2006 Plan be submitted to our shareholders for their approval at the Annual Meeting.

As of June 15, 2007, the 2006 Plan had no shares subject to outstanding awards and 571,429 shares remaining available for issuance. As a result of the one-for-seven reverse split in June 2006, the Board of Directors believes that the number of shares available for issuance under the 2006 Plan is not sufficient in light of the Company's compensation structure and strategy. The Board of Directors has concluded that our ability to attract, retain and motivate top quality non-employee directors is material to our success and would be enhanced by our continued ability to make grants under the 2006 Plan. The Board of Directors believes that our interests and the interests of our shareholders will be advanced if we can continue to offer our non-employee directors the opportunity to acquire or increase their proprietary interests in us. The Board of Directors believes that the availability of an additional 1,928,571 shares under the 2006 Plan will ensure that we continue to have a sufficient number of shares with which to achieve our compensation strategy. Shareholder approval of the increase in the number of shares reserved for issuance under the 2006 Plan is necessary in order to comply with the listing maintenance standards of the Nasdaq Capital Market.

The material terms of the 2006 Plan are summarized below. A copy of the full text of the 2006 Plan is attached as Exhibit 10.2 to the Company's current report on Form 8-K filed on July 6, 2006. You are urged to read the full text of the 2006 Plan.

**Material Features of the Plan**

*General.* The Plan provides that grants may be made in any of the following forms: (i) incentive stock options, (ii) nonqualified stock options (incentive stock options and nonqualified stock options are collectively referred to as "options"), (iii) stock units, (iv) stock awards, (v) stock appreciation rights ("SARs"), (vi) performance shares, and (vii) other stock-based awards.

Prior to the amendment of the Plan, the Plan authorized the issuance of 571,429 shares of common stock. Our shareholders are being asked to consider and approve an amendment to the Plan that would, commencing on the date of the Annual Meeting, increase the number of shares of common stock available for grants under the Plan by an additional 1,928,571 shares, so that the total number of shares of common stock that may be granted under the Plan will be 2,500,000 shares. The Plan provides that the maximum number of shares of common stock that may be subject to grants to any individual in any calendar year is 500,000 shares of common stock.

If and to the extent options and SARs granted under the Plan terminate, expire or are cancelled, forfeited, exchanged or surrendered without being exercised or if any stock awards, stock units, performance shares or other stock-based awards are forfeited, terminated, or otherwise not paid in full, the shares subject to such grants will become available again for purposes of the Plan.

*Administration.* The Plan will be administered and interpreted by the Compensation Committee of the Board (the "Committee"). However, our Board will approve and administer all grants made to

non-employee directors. The Committee may delegate authority to administer the Plan to one or more subcommittees, as it deems appropriate.

The Committee has the authority to (i) determine the individuals to whom grants will be made under the Plan, (ii) determine the type, size, terms and conditions of the grants, (iii) determine when grants will be made and the duration of any applicable exercise or restriction period, including the criteria for exercisability and the acceleration of exercisability, (iv) amend the terms and conditions of any previously issued grant, subject to the limitations described below, and (v) deal with any other matters arising under the Plan. The Committee presently consists of Messrs. Wash, Hagan and Schott each of whom is a non-employee director of the Company.

*Eligibility for Participation.* All of our employees and the employees of our subsidiaries, all of our non-employee directors, and consultants and advisors who perform services for us and our subsidiaries are eligible to receive grants under the Plan. The Committee is authorized to select the persons to receive grants from among those eligible and to determine the number of shares of Common Stock that are subject to each grant.

#### Types of Awards.

##### *Stock Options*

The Committee may grant options intended to qualify as incentive stock options within the meaning of section 422 of the Code ( ISOs ) or nonqualified stock options that are not intended to so qualify ( NQSOs ) or any combination of ISOs and NQSOs. Anyone eligible to participate in the Plan may receive a grant of NQSOs. Only our employees and employees of our subsidiaries may receive a grant of ISOs.

The Committee will fix the exercise price per share of options on the date of grant. The exercise price of options granted under the Plan must be equal to or greater than last reported sale price of the underlying shares of Common Stock on the date of grant. However, if the grantee of an ISO is a person who holds more than 10% of the total combined voting power of all classes of our outstanding stock, the exercise price per share of an ISO granted to such person must be at least 110% of the last reported sale price of a share of Common Stock on the date of grant.

The Committee will determine the term of each option which shall not exceed ten years from the date of grant. If the grantee of an ISO is a person who holds more than 10% of the combined voting power of all classes of our outstanding stock, the term of the ISO may not exceed five years from the date of grant. To the extent that the aggregate fair market value of shares of Common Stock, determined on the date of grant, with respect to which ISOs become exercisable for the first time by a grantee during any calendar year exceeds \$100,000, such ISOs will be treated as NQSOs.

The Committee will determine the terms and conditions of options, including when they become exercisable. The Committee may accelerate the exercisability of any options. The Committee will also determine in the grant agreement under what circumstances a grantee may exercise an option after termination of employment or service.

A grantee may exercise an option by delivering notice of exercise to us. The grantee will pay the exercise price and any withholding taxes for the option (i) in cash, (ii) with the approval of the Committee, by delivering shares of Common Stock already owned by the grantee and having a fair market value on the date of exercise equal to the exercise price or by attestation to ownership of shares of Common Stock having a fair market value on the date of exercise at least equal to the exercise price, (iii) by payment

through a broker in accordance with the procedures permitted by Regulation T of the Federal Reserve Board, or (iv) by such other method as the Committee may approve.

#### *Stock Awards*

The Committee may grant stock awards to anyone eligible to participate in the Plan. The Committee may require that grantees pay consideration for the stock awards and may impose restrictions on the stock awards. If restrictions are imposed on stock awards, the Committee will determine whether they will lapse over a period of time or according to such other criteria as the Committee determines.

The Committee will determine the number of shares of Common Stock subject to the grant of stock awards and the other terms and conditions of the grant. Unless the Committee determines otherwise, a grantee will have the right to vote shares of Common Stock and to receive dividends paid on such shares during the restriction period. The Committee may determine that a grantee's entitlement to dividends with respect to stock awards will be subject to the achievement of performance goals or other conditions. The Committee will determine in the grant agreement under what circumstances a grantee may retain stock awards after termination of employment or service, and the circumstances under which the stock awards will be forfeited.

#### *Stock Units*

The Committee may grant stock units to anyone eligible to participate in the Plan. Each stock unit provides the grantee with the right to receive a share of Common Stock or an amount based on the value of a share of Common Stock at a future date. The Committee will determine the number of stock units that will be granted, whether stock units will become payable based on achievement of performance goals or other conditions, and the other terms and conditions applicable to stock units.

Stock units may be paid at the end of a specified period or deferred to a date authorized by the Committee. If a stock unit becomes distributable, it will be paid to the grantee in cash, in shares of Common Stock, or in a combination of cash and shares of Common Stock, as determined by the Committee. The Committee will determine in the grant agreement under what circumstances a grantee may retain stock units after termination of employment or service, and the circumstances under which the stock units will be forfeited.

#### *SARs*

The Committee may grant SARs to anyone eligible to participate in the Plan. SARs may be granted in connection with, or independently of, any option granted under the Plan. Upon exercise of an SAR, the grantee will receive shares of Common Stock or cash equal to an amount equal to the excess of the fair market value of the Common Stock on the date of exercise over the base amount for the SAR.

The base amount of each SAR will be determined by the Committee at the time the SAR is granted and will not be less than the last reported sale price of a share of Common Stock on the date of grant of the SAR. The Committee will determine the terms and conditions of SARs, including when they become exercisable. The Committee may accelerate the exercisability of any SARs. The Committee will determine in the grant agreement under what circumstances a grantee may retain SARs after termination of employment or service, and the circumstances under which the SARs will be forfeited.

*Performance Shares*

The Committee may grant performance shares to anyone eligible to participate in the Plan. Each performance share provides the grantee with the right to receive a share of Common Stock or an amount based on the value of a share of Common Stock at a future date. The Committee will determine the terms and conditions of the performance shares and the number of performance shares that will be granted. The Committee will establish the performance goals and other conditions for payment of the performance shares. Payment will be made at the end of a specified performance or other period, or payment may be deferred to a date authorized by the Committee.

If a performance unit becomes distributable, it will be paid to the grantee in cash, in shares of Common Stock, or in a combination of cash and shares of Common Stock, as determined by the Committee. The Committee will establish in a grant agreement a target amount to be paid under a performance share based on achievement of the performance goals. The Committee will determine in the grant agreement under what circumstances a grantee may retain performance shares after termination of employment or service, and the circumstances under which the performance shares will be forfeited.

*Other Stock-Based Awards*

The Committee may grant other stock-based awards, which are grants other than options, SARs, stock units, and stock awards. The Committee may grant other stock-based awards to anyone eligible to participate in the Plan. These grants will be based on or measured by shares of Common Stock, and will be payable in cash, in shares of Common Stock, or in a combination of cash and shares of Common Stock. The terms and conditions for other stock-based awards will be determined by the Committee.

Qualified Performance-Based Compensation

The Plan permits the Committee to impose objective performance goals that must be met with respect to grants of stock units, stock awards, performance shares or other stock-based awards granted to employees under the Plan, in order for the grants to be considered qualified performance-based compensation for purposes of section 162(m) of the Code (see *Federal Income Tax Consequences* below). Prior to, or soon after the beginning of, the performance period, the Committee will establish in writing the performance goals that must be met, the applicable performance period, the amounts to be paid if the performance goals are met, and any other conditions. The Committee may provide in the grant agreement that qualified performance-based grants will be payable or restrictions on such grants will lapse, in whole or part, in the event of the grantee's death or disability during the performance period or under other circumstances consistent with Treasury regulations.

The performance goals, to the extent designed to meet the requirements of section 162(m) of the Code, will be based on one or more of the following measures: stock price, earnings per share of stock, net earnings, operating earnings, return on assets, shareholder return, return on equity, growth in assets, unit volume, sales, market share, or strategic business criteria consisting of one or more objectives based on meeting specified revenue goals, market penetration goals, geographic business expansion goals, cost goals or goals relating to acquisitions or divestitures.

The Committee will not have the discretion to increase the amount of compensation that is payable upon achievement of the designated performance goals. After the announcement of our financial results for the performance period, the Committee will certify and announce the results for the performance period. If and to the extent that the Committee does not certify that the performance goals have been met, the grants of stock awards, stock units, performance shares and other stock-based awards for the performance period will be forfeited or will not be made, as applicable. The Committee may provide in the grant agreement

that grants will be payable, in whole or in part, in the event of the participant's death or disability, a change of control, or under other circumstances consistent with section 162(m) of the Code and its related regulations.

**Deferrals.** The Committee may permit or require grantees to defer receipt of the payment of cash or the delivery of shares of Common Stock that would otherwise be due to the grantee in connection with any stock units or other stock-based awards under the Plan. The Committee will establish the rules and procedures applicable to any such deferrals consistent with section 409A of the Code.

**Adjustment Provisions.** If there is any change in the number or kind of shares of Common Stock outstanding (i) by reason of a stock dividend, spinoff, recapitalization, stock split, or combination or exchange of shares, (ii) by reason of a merger, reorganization or consolidation, (iii) by reason of a reclassification or change in par value, or (iv) by reason of any other extraordinary or unusual event affecting the outstanding Common Stock as a class without our receipt of consideration, or if the value of outstanding shares of Common Stock is substantially reduced as a result of a spinoff or payment by us of an extraordinary dividend or distribution, the maximum number of shares of Common Stock available for issuance under the Plan, the maximum number of shares of Common Stock for which any individual may receive grants in any year, the kind and number of shares covered by outstanding grants, the kind and number of shares issued and to be issued under the Plan, and the price per share or the applicable market value of such grants will be equitably adjusted by the Committee, in such manner as the Committee deems appropriate, to reflect any increase or decrease in the number of, or change in the kind or value of, the issued shares of Common Stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under the Plan and such outstanding grants. Any fractional shares resulting from such adjustment will be eliminated. In the event of a change of control, the provisions applicable to a change in control will apply. Any adjustments to outstanding grants shall be consistent with section 409A or 422 of the Code, to the extent applicable.

*Change of Control.* Upon a change of control where we are not the surviving corporation (or survive only as a subsidiary of another corporation), unless the Committee determines otherwise, all outstanding options and SARs that are not exercised will be assumed by, or replaced with comparable options and rights by the surviving corporation (or a parent or subsidiary of the surviving corporation) and other grants that remain outstanding will be converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation).

Notwithstanding the foregoing, in the event of a change of control, the Committee may take any of the following actions with respect to any or all outstanding grants under the Plan: (i) determine that all outstanding options and SARs will automatically accelerate and become exercisable, in whole or in part; (ii) determine that the restrictions and conditions on all outstanding stock awards will immediately lapse, in whole or in part; (iii) provide that grantees holding outstanding performance shares will receive payment, in whole or in part, in settlement of the performance shares, in an amount determined by the Committee, based on the grantee's target payment for the performance period and the portion of the performance period that precedes the change of control; (iv) determine that all stock units and other stock based awards will become fully vested and will be paid at their target value, or in such greater amounts as the Committee may determine; (v) require that grantees surrender their options and SARs in exchange for payment by us, in cash or shares of Common Stock as determined by the Committee, in an amount equal to the amount by which the then fair market value of the shares subject to the grantee's unexercised options and SARs exceeds the exercise price of the options or the base amount of the SARs, as applicable, (vi) after giving grantees the opportunity to exercise their options and SARs, terminate any or all unexercised options and SARs at such time as the Committee deems appropriate, or (vii) with respect to grantees holding stock units, performance shares or other stock-based awards, the Committee may

determine that such grantees will receive a payment in settlement of such stock units, performance shares or other stock-based awards, in such amount and form as may be determined by the Committee.

*Transferability of Grants.* Only the grantee may exercise rights under a grant during the grantee's lifetime. A grantee may not transfer those rights except by will or the laws of descent and distribution; provided, however, that a grantee may transfer a grant other than an ISO pursuant to a domestic relations order. The Committee may also provide, in a grant agreement, that a grantee may transfer NQSOs to his or her family members, or one or more trusts or other entities for the benefit of or owned by such family members, consistent with applicable securities laws, according to such terms as the Committee may determine.

*Participants Outside of the United States.* If any individual who receives a grant under the Plan is subject to taxation in a country other than the United States, the Committee may make the grant on such terms and conditions as the Committee deems appropriate to comply with the laws of the applicable country.

*No Repricing of Options.* Neither the Board nor the Committee can amend the Plan or options previously granted under the Plan to permit a repricing of options, without prior shareholder approval.

*Amendment and Termination of the Plan.* The Board may amend or terminate the Plan at any time, subject to shareholder approval if such approval is required under any applicable laws or stock exchange requirements. The Plan will terminate on May 19, 2016, unless the Plan is terminated earlier by the Board or is extended by the Board with shareholder consent.

*Shareholder Approval for Qualified Performance-Based Compensation.* If stock awards, stock units, other stock-based awards or performance shares are granted as qualified performance-based compensation under section 162(m) of the Code, the Plan must be re-approved by the Company's shareholders no later than the first shareholders meeting that occurs in the fifth year following the year in which the shareholders previously approved the Plan.

*Grants Under the Plan.* Grants under the Plan are discretionary, so it is currently not possible to predict the number of shares of our common stock that will be granted or who will receive grants under the Plan after the Annual Meeting.

The last sales price of a share of our common stock on June 29, 2007, was \$0.53 per share.

#### **Federal Income Tax Consequences of the Plan**

The federal income tax consequences of grants under the Plan will depend on the type of grant. The following description provides only a general description of the application of federal income tax laws to grants under the Plan. This discussion is intended for the information of shareholders considering how to vote at the Annual Meeting and not as tax guidance to grantees, as the consequences may vary with the types of grants made, the identity of the grantees and the method of payment or settlement. The summary does not address the effects of other federal taxes (including possible golden parachute excise taxes) or taxes imposed under state, local, or foreign tax laws.

From the grantees' standpoint, as a general rule, ordinary income will be recognized at the time of delivery of shares of Common Stock or payment of cash under the Plan. Future appreciation on shares of Common Stock held beyond the ordinary income recognition event will be taxable as capital gain when the shares of Common Stock are sold. The tax rate applicable to capital gain will depend upon how long the grantee holds the shares. We, as a general rule, will be entitled to a tax deduction that corresponds in

time and amount to the ordinary income recognized by the grantee, and we will not be entitled to any tax deduction with respect to capital gain income recognized by the grantee.

Exceptions to these general rules arise under the following circumstances:

- (i) If shares of Common Stock, when delivered, are subject to a substantial risk of forfeiture by reason of any employment or performance-related condition, ordinary income taxation and our tax deduction will be delayed until the risk of forfeiture lapses, unless the grantee makes a special election to accelerate taxation under section 83(b) of the Code.
- (ii) If an employee exercises a stock option that qualifies as an ISO, no ordinary income will be recognized, and we will not be entitled to any tax deduction, if shares of Common Stock acquired upon exercise of the stock option are held until the later of (A) one year from the date of exercise and (B) two years from the date of grant. However, if the employee disposes of the shares acquired upon exercise of an ISO before satisfying both holding period requirements, the employee will recognize ordinary income to the extent of the difference between the fair market value of the shares on the date of exercise (or the amount realized on the disposition, if less) and the exercise price, and we will be entitled to a tax deduction in that amount. The gain, if any, in excess of the amount recognized as ordinary income will be long-term or short-term capital gain, depending upon the length of time the employee held the shares before the disposition.
- (iii) A grant may be subject to a 20% tax, in addition to ordinary income tax, at the time the grant becomes vested, plus interest, if the grant constitutes deferred compensation under section 409A of the Code and the requirements of section 409A of the Code are not satisfied.

Section 162(m) of the Code generally disallows a publicly held corporation's tax deduction for compensation paid to its chief executive officer or any of its four other most highly compensated officers in excess of \$1 million in any year. Qualified performance-based compensation is excluded from the \$1 million deductibility limit, and therefore remains fully deductible by the corporation that pays it. We intend that options and SARs granted under the Plan will be qualified performance-based compensation. Stock units, stock awards, performance shares and other stock-based awards granted under the Plan may be designated as qualified performance-based compensation if the Committee conditions such grants on the achievement of specific performance goals in accordance with the requirements of section 162(m) of the Code.

We have the right to require that grantees pay to us an amount necessary for us to satisfy our federal, state or local tax withholding obligations with respect to grants. We may withhold from other amounts payable to a grantee an amount necessary to satisfy these obligations. The Committee may permit a grantee to satisfy our withholding obligation with respect to grants paid in Common Stock by having shares withheld, at the time the grants become taxable, provided that the number of shares withheld does not exceed the individual's minimum applicable withholding tax rate for federal, state and local tax liabilities.

**No Dissenters Rights**

No dissenters rights are available under the Pennsylvania Business Corporation Law or under our Amended and Restated Articles of Incorporation or bylaws to any shareholder who dissents from this Proposal No. 2.

**Recommendation of the Board of Directors**

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE APPROVAL OF AN INCREASE IN NUMBER OF SHARES AUTHORIZED UNDER THE COMPANY'S 2006 OMNIBUS EQUITY COMPENSATION PLAN FROM 571,429 SHARES TO 2,500,000 SHARES.

**PROPOSAL NO. 3 - APPROVAL OF AN AMENDMENT TO OUR AMENDED AND RESTATED ARTICLES OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF OUR OUTSTANDING COMMON STOCK AT AN EXCHANGE RATIO OF NOT LESS THAN 1-FOR-5 AND NOT MORE THAN 1-FOR-10, AND AUTHORIZE OUR BOARD OF DIRECTORS TO IMPLEMENT THE REVERSE STOCK SPLIT WITHIN THIS RANGE AT ANY TIME PRIOR TO THE 2008 ANNUAL MEETING OF SHAREHOLDERS BY FILING AN AMENDMENT TO OUR AMENDED AND RESTATED ARTICLES OF INCORPORATION**

**Overview**

The Board of Directors has unanimously adopted a resolution approving, subject to approval by our shareholders, a proposed amendment to our Amended and Restated Articles of Incorporation to effect a reverse stock split of our outstanding shares of common stock, at an exchange ratio of not less than 1-for-5 and not more than 1-for-10, at the discretion of the Board of Directors. Shareholder approval of this proposal will authorize the Board of Directors, in its discretion, to effect a reverse stock split, and if so, at such exchange ratio within the approved range, at any time prior to our 2008 annual shareholders meeting. The Board of Directors believes that approval of a proposal granting this discretion to the Board of Directors to effect a reverse stock split and to determine the exchange ratio, as opposed to approval of an immediate reverse stock split at a specific ratio, will provide the Board of Directors with maximum flexibility to react to current market conditions and to therefore achieve the purposes of the reverse stock split, if implemented, and to act in the best interests of the Company.

To effect the reverse stock split, our Board of Directors would file an amendment to our Amended and Restated Articles of Incorporation with the Pennsylvania Secretary of State. The form of amendment to our Amended and Restated Articles of Incorporation to effect the proposed reverse stock split is attached to this proxy statement as Annex 1. If the Board of Directors elects to implement a reverse stock split approved by our shareholders, then the number of issued and outstanding shares of our common stock would be reduced in accordance with the exchange ratio for the selected reverse stock split. The number of shares of our common stock between and including five and ten would be combined into and become one share of common stock. The par value of our common stock would remain unchanged at \$0.01 per share. The reverse stock split would become effective upon the filing of the amendment to our Amended and Restated Articles of Incorporation with the Pennsylvania Secretary of State. The Board of Directors may elect not to implement a reverse stock split at its sole discretion, even if the proposal to grant the Board of Directors the discretion to effect a reverse stock split is approved by our shareholders.

Our Board of Directors has approved the proposed grant of discretion to effect a reverse stock split. By approving the proposal, however, our shareholders will give our Board of Directors maximum flexibility to determine the best stock split ratio.

**Purposes of the Proposed Reverse Stock Split**

Our Board of Directors believes that we should maintain the right to implement a reverse stock split for the following reasons:

To enhance the acceptability and marketability of our common stock to the financial community and the investing public; and

To enable us to use the reverse stock split as may be required to maintain, and our Board of Directors believes it is in our and our shareholders' best interests to maintain, the listing of our common stock on the Nasdaq Capital Market.

Our common stock is currently listed on the Nasdaq Capital Market. A continued listing on the Nasdaq Capital Market requires us to meet certain qualitative standards, including maintaining a certain number of independent Board of Directors members and independent Audit Committee members, and certain quantitative standards, including that we maintain \$2.5 million in shareholders' equity and that the closing price of our common stock not be less than \$1.00 per share for 30 consecutive trading days. Since November 14, 2006, our stock has closed below \$1.00 per share.

On September 27, 2006, we received written notification from The Nasdaq Stock Market ( "Nasdaq" ) that for 30 consecutive trading days the bid price of our common stock had closed below the minimum \$1.00 per share required for continued listing under Nasdaq Marketplace Rule 4310(c)(4) (the "Rule" ). We were provided an initial period of 180 calendar days, or until March 26, 2007, to regain compliance with the Rule.

On March 27, 2007, we received written notification from Nasdaq that the Nasdaq staff (the "Staff" ) had determined that we did not regain compliance with the Rule and that we were not eligible for an additional 180 day compliance period because we did not meet the Nasdaq Capital Market initial listing criteria set forth in Marketplace Rule 4310(c). Specifically, we did not meet the Nasdaq Capital Market initial listing criteria of (i) having either shareholders' equity of at least \$5 million, a market value of listed securities of at least \$50 million or net income from continuing operations of \$750,000 in the most recently completed fiscal year or in two of the last three most recently completed fiscal years, and (ii) having a market value of listed securities of at least \$5 million. The notice stated that as a result, our common stock would be delisted on April 5, 2007, unless we requested an appeal of the Staff's determination to a Nasdaq Listing Qualifications Panel (the "Panel" ) by April 3, 2007. On April 2, 2007, we requested an appeal of the Staff's determination to delist our common stock to the Panel.

The appeals hearing was held on May 17, 2007, at which time we presented our plan to regain compliance with the Rule.

On May 23, 2007, we received written notice from Nasdaq that our common stock is also subject to delisting from the Nasdaq Capital Market due to noncompliance with Marketplace Rule 4310(c)(2)(B) which requires us to maintain either minimum shareholders' equity of \$2.5 million, \$35.0 million market value of listed securities, or \$500,000 of net income from continuing operations for the most recently completed fiscal year or two of the three most recently completed fiscal years. This noncompliance serves as an additional basis for delisting of our common stock from the Nasdaq Capital Market. Pursuant to Marketplace Rule 4804(c), on May 30, 2007, we submitted our plan to regain compliance with Marketplace Rule 4310(c)(2)(B) to the Panel.

On July 5, 2007, the Panel granted the Company's request for continued listing, subject to the following exceptions:

1. On or before August 15, 2007, the Company shall inform the Panel that its shareholders have approved a reverse stock split.
2. On or before August 16, 2007, the Company shall disclose, on Form 8-K, pro forma financial statements evidencing shareholders' equity of at least \$2.5 million. The disclosure should include a discussion of the accounting treatment of the preferred stock, and whether shareholders approved a conversion feature for the preferred stock.
3. On or before August 29, 2007, the Company shall have evidenced a closing bid price of at least \$1.00 for the ten previous consecutive trading days.

In order to fully comply with the terms of this exception, the Company must be able to demonstrate compliance with all requirements for continued listing on The Nasdaq Stock Market. In the event that the Company is unable to do so, its securities may be suspended from The Nasdaq Stock Market.

Our Board of Directors believes that listing on the Nasdaq Capital Market is the preferred listing market for our common stock. If the reverse stock split is approved by our shareholders and implemented by our Board of Directors, we expect to satisfy the \$1.00 per share minimum bid price requirement for continued listing under the Rule. However, despite the approval of the reverse stock split by our shareholders and the implemented by our Board of Directors, our common stock may nonetheless be delisted from the Nasdaq Capital Market due to our failure to comply with one or more of the Nasdaq Marketplace rules. Management and our Board of Directors believe that the implementation of the reverse stock split may be in the best interests of our Company.

Enhanced Marketability

Our Board of Directors believes that the reverse stock split should also enhance the acceptability and marketability of our common stock to the financial community and the investing public and may mitigate any reluctance on the part of brokers and investors to trade in our common stock. Many institutional investors have policies prohibiting them from holding lower-priced stocks in their own portfolios, which reduces the number of potential buyers of our common stock. In addition, analysts at many leading brokerage firms are reluctant to recommend lower-priced stocks to their clients or monitor the activity of lower-priced stock. A variety of brokerage house policies and practices also tend to discourage individual brokers within those firms from dealing in lower-priced stocks. Some of those policies and practices pertain to the payment of brokers commissions and to time-consuming procedures that function to make the handling of lower-priced stocks unattractive to brokers from an economic standpoint. Additionally, because brokers' commissions on lower-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current share price of our common stock can result in an individual stockholder paying transaction costs that represent a higher percentage of total share value than would be the case if our share price were substantially higher. This factor may also limit the willingness of institutions to purchase our stock.

Our common stock has been trading below \$1.00 per share since August 2006. With the shares trading in such a range, small moves in absolute terms in the price-per-share of our common stock translate into disproportionately large swings in the price on a percentage basis, and these swings tend to bear little relationship to our financial condition and results of operations.

In our Board of Directors' view, these factors have contributed to an unjustified, relatively low level of interest in our Company on the part of investment analysts, brokers and professionals and individual investors, which tends to depress the market for our common stock. Our Board of Directors has thus proposed having the discretion to effect a reverse stock split as a means of increasing the per share market price of our common stock.

Factors Influencing the Board of Directors' Discretion in Implementing the Reverse Stock Split

The Board of Directors intends to implement a reverse stock split if it believes that this action is in the best interests of our Company. Such determination shall be based upon certain factors, including but not limited to: existing and expected marketability and liquidity of our common stock, The Nasdaq Stock Market's listing requirements, prevailing market conditions, and the likely effect on the market price of our common stock.

In determining the reverse stock split ratio, the Board of Directors will consider numerous factors, including the historical and projected performance of our common stock, our projected performance, prevailing market and industry conditions and general economic trends, and will place emphasis on the expected closing price of our common stock over the short and longer period following the effectiveness of the reverse stock split with a view to enabling us to meet, for the foreseeable future, the Nasdaq Capital Market's minimum bid price requirement for continued listing.

No further action on the part of our shareholders would be required to either effect or abandon the reverse stock split. Notwithstanding approval of the reverse stock split proposal by the shareholders, our Board of Directors may, in its sole discretion, determine to delay the effectiveness of the reverse stock split up until the 2008 annual meeting of our shareholders.

**Potential Effects of the Proposed Reverse Stock Split**

The immediate effect of a reverse stock split would be to reduce the number of shares of our outstanding common stock and to increase the trading price of our common stock. However, we cannot predict the effect of any reverse stock split upon the market price of our common stock, and the history of reverse stock splits for companies in similar circumstances sometimes improves stock performance and sometimes does not. We cannot assure you that the trading price of our common stock after the reverse stock split will rise in proportion to the reduction in the number of shares of our common stock outstanding as a result of the reverse stock split. Also, we cannot assure you that a reverse stock split would lead to a sustained increase in the trading price of our common stock, that the trading price would remain above the thresholds required by the Nasdaq Capital Market or that we will be able to continue to meet the other continued listing requirements of the Nasdaq Capital Market. The trading price of our common stock may change due to a variety of other factors, including our operating results and other factors related to our business and general market conditions.

As a summary and for illustrative purposes only, the following table reflects the approximate number of shares of our common stock that would be outstanding as a result of the potential reverse stock split ratios within the range based on 12,403,164 shares of our common stock outstanding as of the record date, without accounting for fractional shares, which will be rounded up to the nearest whole share:

<b>Proposed reverse stock split</b>	<b>Percentage reduction</b>	<b>Shares to be outstanding</b>
1-for-5	80	2,450,633
1-for-6	83	2,067,194
1-for-7	86	1,771,881
1-for-8	88	1,550,396
1-for-9	89	1,378,130
1-for-10	90	1,240,317

The resulting decrease in the number of shares of our common stock outstanding could potentially impact the liquidity of our common stock on the Nasdaq Capital Market, especially in the case of larger block trades.

**Effects on Ownership by Individual Shareholders**

Shareholders should recognize that if a reverse stock split is effected, they will own a smaller number of shares than they currently own (approximately equal to the number of shares owned immediately prior to the reverse stock split divided by five, six, seven, eight, nine or ten, depending on which split ratio is implemented and after giving effect to the rounding up of fractional shares to the nearest whole share, as described below). The reverse stock split would not affect any shareholder's percentage ownership interests in the Company or proportionate voting power, except to the extent that interests in fractional shares would be rounded up to the nearest whole share.

**Effect on Preferred Stock, Convertible Notes, Options, Warrants and Other Securities**

In addition, we would adjust all outstanding preferred stock, convertible notes, options, warrants and other securities entitling their holders to purchase or obtain shares of our common stock as a result of the reverse stock split, as required by the terms of these securities. We would also increase the exercise price

of options, warrants and other securities in accordance with the terms of each instrument and based on the exchange ratio of the reverse stock split. Also, we would reduce the number of shares reserved for issuance under our existing stock option and employee stock purchase plans proportionately based on the exchange ratio of the reverse stock split. A reverse stock split would not affect any of the rights currently accruing to holders of our common stock, preferred stock, convertible notes, options, warrants or other securities convertible into our common stock.

Other Effects on Outstanding Shares

If our Board of Directors implements a reverse stock split, then the rights and preferences of the outstanding shares of our common stock would remain the same after the reverse stock split. Each share of our common stock issued pursuant to the reverse stock split would be fully paid and nonassessable.

While we expect that the reverse stock split will result in an increase in the market price of our common stock, the reverse stock split may not increase the market price of our common stock in proportion to the reduction in the number of shares of our common stock outstanding or result in a permanent increase in the market price (which depends on many factors, including our performance, prospects and other factors that may be unrelated to the number of shares outstanding).

If a reverse stock split is effected and the market price of our common stock declines, the percentage decline as an absolute number and as a percentage of our overall market capitalization may be greater than would occur in the absence of a reverse stock split. Furthermore, the liquidity of our common stock could be adversely affected by the reduced number of shares that would be outstanding after the reverse stock split. In addition, the reverse stock split will likely increase the number of our shareholders who own odd-lots (less than 100 shares). Shareholders who hold odd-lots typically will experience an increase in the cost of selling their shares, as well as potentially greater difficulty in effecting such sales. Brokerage commissions and other costs of transactions in odd-lots are generally higher than the costs of transactions in round-lot even multiples of 100 shares.

Our common stock is currently registered under Section 12(b) of the Securities Exchange Act of 1934. As a result, we are subject to the periodic reporting and other requirements of the Securities Exchange Act. The p