

VERTICALNET INC  
Form DEFM14A  
December 14, 2007

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

**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 Pursuant to § 240.14a-12

VERTICALNET, INC.  
(Name of Registrant as Specified in Its Charter)

N/A  
(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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  - 4) Proposed maximum aggregate value of transaction:
  - 5) Total fee paid:
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- (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:
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Table of Contents

**400 CHESTER FIELD PARKWAY  
MALVERN, PENNSYLVANIA 19355**

December 14, 2007

To our Shareholders:

You are cordially invited to attend a special meeting of the shareholders of Verticalnet, Inc., a Pennsylvania corporation, which we refer to as Verticalnet or the Company, to be held at the offices of Morgan, Lewis & Bockius LLP located at 1701 Market Street, Philadelphia, Pennsylvania 19103 on Tuesday, January 15, 2008, beginning at 10:00 a.m. local time. Our Board of Directors has fixed the close of business on December 10, 2007, as the record date for the purpose of determining shareholders entitled to receive notice of and vote at the special meeting or any adjournment or postponement of the special meeting. Notice of the special meeting and the related proxy statement are enclosed.

At the special meeting, you will be asked to consider and vote upon a proposal to adopt the Agreement and Plan of Merger (the Merger Agreement), dated as of October 25, 2007, among the Company, BravoSolution S.p.A., a corporation organized under the laws of Italy (Parent), and BravoSolution U.S.A., Inc., a Pennsylvania corporation and wholly-owned subsidiary of Parent (Merger Sub) and the related Plan of Merger, and to approve the merger contemplated thereby.

The Merger Agreement and the related Plan of Merger provide for, among other things, the merger of Merger Sub with and into the Company, with the Company as the surviving corporation (the Merger). As a result of the Merger, the Company will become a wholly-owned subsidiary of Parent. If the Merger is completed, you will be entitled to receive: (i) \$2.56 in cash, without interest and less any required withholding tax, for each share of our common stock you own; and (ii) \$0.38750 or \$0.26875 in cash, without interest and less any required withholding tax, for each share of our Series B Preferred Stock you own (determined in accordance with the terms of the Merger Agreement and the related Plan of Merger). Merger Sub is the sole owner of our Series C Preferred Stock and, if the Merger is completed, each such share of Series C Preferred Stock shall be cancelled and retired and shall not be entitled to receive any consideration.

If the Merger is completed, Verticalnet will continue its operations as a privately-held company owned by BravoSolution S.p.A. As a result of the Merger, Verticalnet shares will no longer be quoted on NASDAQ.

Our Board of Directors has unanimously approved and adopted the Merger Agreement, the related Plan of Merger, and the transactions contemplated thereby and has determined that the Merger, the Merger Agreement, the related Plan of Merger, and the transactions contemplated by the Merger Agreement are fair to, and in the best interests of, the Company. **Accordingly, our Board of Directors recommends that you vote FOR the adoption of the Merger Agreement and the related Plan of Merger, and the approval of the Merger, and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.**

The proxy statement attached to this letter provides you with information about the proposed merger and the special meeting. We encourage you to read the entire proxy statement carefully because it explains the Merger and related matters, including the conditions to the completion of the Merger. You may also obtain more information about the Company from documents we have filed with the Securities and Exchange Commission.

**Regardless of the number of shares you own, your vote is very important.** The Merger cannot be completed unless the Merger Agreement and the related Plan of Merger are adopted and the Merger is approved by the affirmative vote of a majority of the votes cast by the holders of the outstanding shares of our capital stock that are entitled to vote at the special meeting (assuming a quorum is present), and the affirmative vote of a majority of the votes cast by the holders of outstanding shares of Series B Preferred Stock that are entitled to vote at the special meeting, voting as a separate class (assuming a quorum is present).

**Whether or not you plan to attend the special meeting, it is important that your shares be represented. Accordingly, we urge you to vote, by completing, signing, dating and promptly returning the enclosed proxy card in the envelope provided, which requires no postage if mailed in the United States. Alternatively, you may vote through the Internet or by telephone as directed on the enclosed proxy card. If you receive more than one proxy card because you own shares that are registered differently, please vote all of your shares shown on all of your proxy cards.**

Voting by proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting. If you have any questions or need assistance voting your shares, please call Georgeson, Inc., which is assisting us, toll free at 888-605-7614.

We look forward to seeing you at the special meeting.

Sincerely,

Nathanael V. Lentz  
President and Chief Executive Officer

**Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved of the Merger, passed upon the fairness or merits of the Merger or the Merger Agreement or passed upon the adequacy or accuracy of the information contained in the accompanying proxy statement. Any representation to the contrary is a criminal offense.**

THIS PROXY STATEMENT IS DATED DECEMBER 14, 2007, AND IS BEING FIRST MAILED TO SHAREHOLDERS ON OR ABOUT DECEMBER 14, 2007.

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Table of Contents

**400 CHESTER FIELD PARKWAY  
MALVERN, PENNSYLVANIA 19355**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS  
To Be Held January 15, 2008**

DEAR SHAREHOLDER:

We will hold a special meeting of shareholders of Verticalnet, Inc., a Pennsylvania corporation, which we refer to as Verticalnet or the Company, on Tuesday, January 15, 2008 at 10:00 a.m. at the offices of Morgan, Lewis & Bockius LLP located at 1701 Market Street, Philadelphia, Pennsylvania 19103 for the following purposes:

1. To consider and vote upon a proposal to adopt the Merger Agreement (the Merger Agreement), dated as of October 25, 2007, among the Company, BravoSolution S.p.A., a corporation organized under the laws of Italy (Parent), and BravoSolution U.S.A., Inc., a Pennsylvania corporation and wholly-owned subsidiary of Parent (Merger Sub), and the related Plan of Merger, and to approve the merger of Merger Sub with and into the Company (the Merger). Copies of the Merger Agreement and the related Plan of Merger are attached as **Annex A** and **Annex A-1**, respectively, to the accompanying proxy statement.
2. To approve any motion to adjourn the special meeting to a later date, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the foregoing proposal.
3. To transact such other business as may properly come before the special meeting.

Only holders of record of shares of our common and preferred stock at the close of business on December 10, 2007, the record date for the special meeting, are entitled to notice of and to vote at the special meeting and at any adjournment or postponement of the special meeting. A list of shareholders will be available for inspection at the special meeting. All shareholders of record are cordially invited to attend the special meeting in person.

Our Board of Directors has unanimously approved and adopted the Merger Agreement, the related Plan of Merger, and the transactions contemplated thereby, and has determined that the Merger, the Merger Agreement, the related Plan of Merger, and the transactions contemplated by the Merger Agreement are fair to, and in the best interests of, the Company. **Accordingly, our Board of Directors recommends that you vote FOR the adoption of the Merger Agreement and the related Plan of Merger, and the approval of the Merger, and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.**

**Regardless of the number of shares you own, your vote is very important.** The approval and adoption of the Merger Agreement, the related Plan of Merger, and the Merger require the affirmative vote of a majority of the votes cast by the holders of the outstanding shares of our common stock that are entitled to vote at the special meeting (assuming a quorum is present), and by a majority of the votes cast by the holders of the outstanding shares of our Series B Preferred Stock that are entitled to vote at the special meeting (assuming a quorum is present), voting as a separate class.

We hope you will be able to attend the special meeting, but whether or not you plan to attend, please vote your shares by:

signing and returning the enclosed proxy card as soon as possible,

calling the toll-free number listed on the proxy card, or

accessing the Internet as instructed on the proxy card.

Voting by proxy will not prevent you from voting your shares in person in the manner described in the attached proxy statement if you subsequently choose to attend the special meeting. If you attend the special meeting, you may revoke your proxy and vote in person by ballot if you wish, even if you have previously returned your proxy card. If you hold your shares through a bank, broker or other custodian, you must obtain a legal proxy from such custodian in order to vote in person at the special meeting. Properly executed proxy cards with no instructions indicated on the proxy card will be voted **FOR** the adoption the Merger Agreement and the related Plan of Merger, and the approval of the Merger, and **FOR** the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

**PLEASE DO NOT SEND YOUR STOCK CERTIFICATES AT THIS TIME. IF THE MERGER IS COMPLETED, YOU WILL BE SENT INSTRUCTIONS REGARDING THE SURRENDER OF YOUR STOCK CERTIFICATES.**

By Order of the Board of Directors of the Company

Christopher G. Kuhn  
Vice President and General Counsel

Dated: December 14, 2007

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**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page No.</b>
<u>SUMMARY</u>	1
<u>Parties to the Merger</u>	1
<u>The Merger</u>	2
<u>The Special Meeting</u>	2
<u>Record Date, Voting Power and Quorum</u>	2
<u>Vote Required for Approval</u>	2
<u>Share Ownership of Directors and Executive Officers</u>	3
<u>Voting and Proxies</u>	3
<u>Revocability of Proxy</u>	3
<u>Recommendation of Our Board of Directors</u>	4
<u>Restrictions on Solicitation of Other Offers</u>	4
<u>Completion of the Merger</u>	4
<u>Termination of the Merger Agreement</u>	5
<u>Termination Fee</u>	6
<u>Material U.S. Federal Income Tax Consequences of the Merger to Our Shareholders</u>	6
<u>Interests of Verticalnet's Directors and Officers in the Merger</u>	6
<u>Procedure for Receiving Merger Consideration</u>	6
<u>Market Price of Verticalnet Common Stock</u>	6
<u>Dissenters' Rights of Appraisal</u>	7
<u>Delisting and Deregistration of Common Stock</u>	7
<u>QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER</u>	8
<u>CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION</u>	13
<u>THE PARTIES TO THE MERGER</u>	14
<u>THE SPECIAL MEETING</u>	15
<u>Time, Place and Purpose of the Special Meeting</u>	15
<u>Verticalnet Board Recommendation</u>	15
<u>Record Date, Voting Power and Quorum</u>	15
<u>Vote Required for Approval</u>	16
<u>Voting by Directors and Executive Officers</u>	17
<u>Proxies; Revocation</u>	17
<u>Solicitation of Proxies</u>	18
<u>Attending the Special Meeting</u>	18
<u>Questions and Additional Information</u>	18
<u>THE MERGER</u>	19
<u>Background of the Merger</u>	19
<u>Reasons for the Merger; Recommendation of Our Board of Directors</u>	28
<u>Plans for Verticalnet after the Merger</u>	30
<u>Certain Effects of the Merger</u>	30
<u>Interests of Verticalnet's Directors and Executive Officers in the Merger</u>	31
<u>Material U.S. Federal Income Tax Consequences of the Merger to Our Shareholders</u>	35
<u>Regulatory and Other Governmental Approvals</u>	36





**Table of Contents**

	<b>Page No.</b>
<u>TERMS OF THE MERGER AGREEMENT</u>	37
<u>General: The Merger</u>	37
<u>When the Merger Becomes Effective</u>	37
<u>Merger Consideration</u>	37
<u>Treatment of Our Stock Options, Warrants and Restricted Stock Units</u>	38
<u>Representations and Warranties</u>	38
<u>Conduct of Our Business Pending the Merger</u>	40
<u>Other Covenants</u>	44
<u>Conditions to the Completion of the Merger</u>	45
<u>Employee Benefit Matters</u>	46
<u>Termination of the Merger Agreement</u>	46
<u>Fees and Expenses</u>	47
<u>Amendments: Waivers</u>	48
<u>Exchange and Payment Procedures</u>	48
<u>Lost Certificates</u>	49
<u>Unclaimed Amounts</u>	49
<u>VOTING AGREEMENT</u>	50
<u>PAST CONTACTS, TRANSACTIONS OR NEGOTIATIONS</u>	51
<u>MARKET PRICES OF COMMON STOCK</u>	52
<u>DISSENTERS RIGHTS</u>	53
<u>BENEFICIAL OWNERSHIP OF COMMON STOCK</u>	53
<u>Beneficial Ownership Table</u>	53
<u>ADJOURNMENT OF THE SPECIAL MEETING</u>	54
<u>FUTURE SHAREHOLDER PROPOSALS</u>	54
<u>OTHER MATTERS</u>	55
<u>Other Business at Special Meeting</u>	55
<u>WHERE YOU CAN FIND ADDITIONAL INFORMATION</u>	55
<u>ANNEX A</u>	<u>Agreement and Plan of Merger, dated as of October 25, 2007, by and among Verticalnet, Inc., BravoSolution S.p.A. and BravoSolution U.S.A., Inc.</u>
	A-1
<u>ANNEX A-1</u>	<u>Plan of Merger of BravoSolution U.S.A., Inc. with and into Verticalnet, Inc.</u>
	A-1-1
<u>ANNEX B</u>	<u>Amended and Restated Voting Agreement, dated as of November 20, 2007, by and among BravoSolution S.p.A., Verticalnet, Inc. and the other parties thereto</u>
	B-1
<u>ANNEX C</u>	<u>Employment Agreement, dated October 25, 2007, among Nathanael Lentz, Verticalnet, Inc. and BravoSolution S.p.A.</u>
	C-1
<u>ANNEX D</u>	<u>Release of Claims, dated October 25, 2007, between Nathanael Lentz and Verticalnet, Inc.</u>
	D-1

**Table of Contents****SUMMARY**

*The following summary, together with the Questions and Answers about the Special Meeting and the Merger, highlights selected information from this proxy statement and may not contain all of the information that is important to you. Accordingly, we encourage you to read carefully this entire proxy statement (including its annexes), and the other documents we file with the Securities and Exchange Commission that are available to the public free of charge, before voting. See Where You Can Find Additional Information beginning on page 55. Each item in this summary includes a page reference directing you to a more complete description of that item in this document.*

*Unless we otherwise indicate or unless the context requires otherwise: all references in this document to Company, Verticalnet, we, our, and us refer to Verticalnet, Inc. and its subsidiaries; all references to Parent refer to BravoSolution S.p.A.; all references to Merger Sub refer to BravoSolution, U.S.A., Inc.; all references to Merger Agreement refer to the Agreement and Plan of Merger, dated as of October 25, 2007, among the Company, Parent and Merger Sub, as it may be amended from time to time, a copy of which is attached as Annex A to this document; all references to Plan of Merger refer to the Plan of Merger among the Company, Parent and Merger Sub, as it may be amended from time to time, a copy of which is attached as Annex A-1 to this document; all references to the Merger refer to the merger contemplated by the Merger Agreement; all references to Merger Consideration refer to the per share merger consideration of (i) \$2.56 in cash without interest and less any required withholding tax, to be received by the holders of our common stock in accordance with the terms of the Merger Agreement; and (ii) \$0.38750 or \$0.26875 in cash without interest and less any required withholding tax, to be received by the holders of our Series B Preferred Stock in accordance with the terms of the Merger Agreement.*

**Parties to the Merger (page 14)**

*Verticalnet, Inc.*, is a provider of On-Demand Supply Management solutions to companies ranging in size from mid-market to Global 2000. We provide a full scope of Supply Management software, services, and domain expertise in areas that include: Program Management, Spend Analysis, eSourcing, Contract Management, and Supplier Performance Management. Our solutions help our customers save money on the goods and services they buy. In addition to traditional software installation and application service provider hosting, we offer the majority of our software products in an on-demand delivery model. On-demand delivery enables our customers to pay a single annual fee that includes software license, maintenance, application hosting, customer/community support, and training. We believe that our on-demand delivery model mitigates the software implementation costs for our customers, and reduces the obstacles to a successful supply management initiative. In addition to implementation services, we also provide customers with supply management business process consulting, primarily in the areas of Spend Analysis and Advanced Sourcing, and offer custom software development for customers that desire to build additional supply management capabilities.

*BravoSolution S.p.A.*, or Parent, is a leading international provider of eSourcing solutions. Its mission is to generate value by supporting its clients in the improvement of procurement processes through innovative web-based technologies and services. Founded in Italy in June 2000 by the Italcementi Group, BravoSolution S.p.A combines professional expertise and technological excellence in the area of sourcing in order to deliver valuable results to its numerous customers worldwide. BravoSolution S.p.A has offices in London, Madrid, Milan, Paris, Rome and Shanghai. In the United Kingdom, BravoSolution S.p.A is the sole approved provider of eSourcing Services under the Framework Agreement managed by an Executive Agency of the UK Treasury (OGC). BravoSolution S.p.A has a team of more than 250 professionals and has now managed over 70,000 online negotiations, totaling over \$50 billion of spend.

*BravoSolution U.S.A., Inc.*, which we refer to as Merger Sub, is a Pennsylvania corporation formed for the sole purpose of completing the Merger with the Company. Merger Sub is a wholly-owned subsidiary of Parent. Merger Sub has not conducted any activities to date other than activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the Merger Agreement. Upon consummation of the proposed Merger, Merger Sub will merge with and into Verticalnet and will cease to exist, with the Company continuing as the surviving corporation.

## **Table of Contents**

### **The Merger (page 19)**

On October 25, 2007, the Company entered into the Merger Agreement. Upon the terms and subject to the conditions of the Merger Agreement and the related Plan of Merger, Merger Sub will merge with and into the Company, with the Company as the surviving corporation. We will become a wholly-owned subsidiary of Parent. You will have no equity interest in the Company or Parent after the effective time of the Merger and will not participate in any future earnings or growth of the Company.

At the effective time of the Merger:

each outstanding share of our common stock, par value \$0.01 per share (the Common Stock ), other than those held by the Company, Parent or Merger Sub, will be cancelled and converted automatically into the right to receive \$2.56 in cash, without interest and less any required withholding tax;

each outstanding share of our Series B Preferred Stock, par value \$0.01 per share (the Series B Preferred Stock ) will be cancelled and converted automatically into the right to receive \$0.38750 or \$0.26875 in cash, without interest and less any required withholding tax, in accordance with the Merger Agreement. See The Merger Certain Effects of the Merger beginning on page 30;

each outstanding share of our Series C Preferred Stock, par value \$0.01 per share (the Series C Preferred Stock ) will be cancelled and no payment will be made with respect to the Series C Preferred Stock. As of the date of this proxy statement, all shares of Series C Preferred Stock are owned by Merger Sub; and

each outstanding option, warrant or restricted stock unit to purchase our Common Stock outstanding immediately prior to the effective time of the Merger will be cancelled (other than certain specified securities), and each holder of such option, warrant or restricted stock unit will be entitled to receive, in full settlement of such security, a cash payment equal to the product of the number of shares subject to such option, warrant or restricted stock unit, multiplied by the excess, if any, of (a) \$2.56 per share less (b) the exercise or conversion price of such security, without interest and less any required withholding tax.

### **The Special Meeting (page 15)**

The special meeting will be held on Tuesday, January 15, 2008 starting at 10:00 a.m. local time at the offices of Morgan, Lewis & Bockius LLP located at 1701 Market Street, Philadelphia, Pennsylvania 19103.

### **Record Date, Voting Power and Quorum (page 15)**

You are entitled to vote at the special meeting if you owned shares of the Company's common stock, Series B Preferred Stock or Series C Preferred Stock at the close of business on December 10, 2007, the record date for the special meeting. As of the record date, there were 2,542,309 shares of the Company's capital stock outstanding and entitled to vote, consisting of 1,610,845 shares of Common Stock, 623,875 shares of Series B Preferred Stock entitled to vote subject to a voting cap as set forth in the Series B Statement of Designation, and 307,589 shares of Series C Preferred Stock entitled to vote subject to a voting cap as set forth in the Series C Statement of Designation. The presence at the meeting, in person or by proxy, of the holders of a majority of our outstanding capital stock (including Common Stock, Series B Preferred Stock and Series C Preferred Stock), and a majority of the outstanding shares of Series B Preferred Stock, entitled to vote at the special meeting will constitute a quorum.

### **Vote Required for Approval (page 16)**

The adoption of the Merger Agreement and the related Plan of Merger and the approval of the Merger requires the affirmative vote of a majority of the votes cast by the holders of the outstanding shares of our capital stock, including shares of Series B Preferred Stock and Series C Preferred Stock (together, the Preferred Stock ) and shares of Common Stock, that are entitled to vote at the special meeting (assuming a quorum is present) and by a majority of the votes cast by the holders of the outstanding shares of our Series B Preferred Stock entitled to vote at the special meeting, voting as a separate class (assuming a quorum is present).

Holders of all outstanding shares of Series B Preferred Stock have entered into a Voting Agreement with Parent and the Company, as amended (the Voting Agreement ), pursuant to which holders of our Series B Preferred Stock

## **Table of Contents**

that as of the record date represent 17.27% of the voting power of the outstanding shares of our capital stock entitled to vote at the special meeting have agreed to vote all of their Common Stock and Series B Preferred Stock FOR the adoption of the Merger Agreement and the related Plan of Merger and the approval of the Merger, and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies, and holders of our Series B Preferred Stock that as of the record date represent 7.62% of the voting power of the outstanding shares of our capital stock entitled to vote at the special meeting have agreed to grant an irrevocable proxy to the Company to vote their Common Stock and Series B Preferred Stock, in connection with the Merger and any other extraordinary corporate transaction, in a manner that the Company, acting through our Board of Directors, determines in its sole discretion. The Voting Agreement will terminate on the earliest to occur of (i) the termination of the Merger Agreement in accordance with its terms, (ii) the mutual written consent of Parent, the Company and each of the shareholders party to the Voting Agreement, and (iii) by each such shareholder upon the execution or granting of any amendment, modification, change or waiver with respect to the Merger Agreement or the Plan of Merger that results in a decrease in the merger consideration. The Voting Agreement assures that the separate class vote of our Series B Preferred Stock required for the adoption of the Merger Agreement and the related Plan of Merger and the approval of the Merger, will be obtained at the special meeting. The full text of the Voting Agreement is attached to this proxy statement as **Annex B**. We encourage you to read the full text of the Voting Agreement in its entirety.

Also, as of the date of this proxy statement, all shares of Series C Preferred Stock are owned by Merger Sub and it is anticipated that Merger Sub will vote in favor of the adoption of the Merger Agreement and the approval of the Merger.

If the proposal to adjourn our special meeting for the purpose of soliciting additional proxies is submitted to our shareholders for approval, such approval requires the affirmative vote of the holders of a majority of the shares of our capital stock present or represented by proxy and entitled to vote on the matter.

### **Share Ownership of Directors and Executive Officers (page 53)**

As of the record date, the directors and executive officers of Verticalnet held and were entitled to vote, in the aggregate, shares of our capital stock representing approximately 6.4% of the outstanding shares entitled to vote at the special meeting. As of the record date, Nathanael V. Lentz, Michael J. Hagan and Mark L. Walsh beneficially own shares of Series B Preferred Stock subject to the Voting Agreement which represent 5.56% of the Company's outstanding voting stock. Subject to the Voting Agreement, each of the directors and executive officers either agreed to vote, or has advised us that he plans to vote, all of his shares in favor of the adoption of the Merger Agreement.

### **Voting and Proxies (page 17)**

Any Verticalnet shareholder of record entitled to vote may submit a proxy by telephone, the Internet or returning the enclosed proxy card by mail, or may vote by ballot by appearing at the special meeting. If your shares are held in street name by your broker, you should instruct your broker on how to vote your shares using the instructions provided by your broker. If you do not provide your broker with instructions, your shares will not be voted.

### **Revocability of Proxy (page 17)**

Any Verticalnet shareholder of record who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before it is voted in any one of the following ways:

filing with the Company's corporate secretary, at or before the special meeting, a written notice of revocation that is dated a later date than the proxy;

sending a later-dated proxy relating to the same shares to the Company's corporate secretary, at or before the special meeting;

submitting a later-dated proxy by the Internet or by telephone, at or before the special meeting; or

attending the special meeting and voting in person by ballot.



## **Table of Contents**

Simply attending the special meeting will not constitute revocation of a proxy. *If you have instructed your broker to vote your shares, the above-described options for revoking your proxy do not apply and instead you must follow the directions provided by your broker to change these instructions.*

### **Recommendation of Our Board of Directors (page 28)**

Our Board of Directors has unanimously:

approved, adopted and declared advisable the Merger Agreement, the related Plan of Merger and the Merger,

determined that the Merger Agreement, the related Plan of Merger, the Merger and the transactions contemplated thereby are fair to, and in the best interests of, the Company, and

**recommended that our shareholders vote FOR the adoption of the Merger Agreement and the related Plan of Merger, and the approval of the Merger, and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.**

For a discussion of the material factors considered by the Board of Directors in reaching their conclusions, see The Merger Reasons for the Merger; Recommendation of Our Board of Directors beginning on page 28.

### **Restrictions on Solicitation of Other Offers (page 42)**

The Merger Agreement provides that beginning at 11:59 p.m. (Eastern Time) on November 19, 2007, which we refer to as the No-Shop Period Start Date , we will not, and we will ensure that our representatives do not:

initiate, solicit or knowingly facilitate or encourage any alternate acquisition proposal;

participate in any negotiations regarding, or furnish any material nonpublic information to any person with respect to an acquisition proposal;

engage in discussions with any person with respect to an acquisition proposal;

approve or recommend any acquisition proposal; or

enter into any letter of intent or similar document, or any agreement or commitment providing for any acquisition proposal.

Notwithstanding these restrictions, under circumstances specified in the Merger Agreement, if required in order to comply with its fiduciary duties under applicable law, our Board of Directors may respond to certain unsolicited competing proposals. Also, under certain circumstances specified in the Merger Agreement, our Board of Directors may withdraw its recommendation in favor of the adoption of the Merger Agreement, and the Company may terminate the Merger Agreement and enter into an agreement with respect to a superior acquisition proposal. The Merger Agreement provides that through the No-Shop Period Start Date, the Company was permitted to initiate, solicit and encourage (or go shop ) an alternative acquisition proposal for the Company (including by way of providing information pursuant to a confidentiality agreement), and enter into and maintain discussions or negotiations concerning an alternative acquisition proposal for the Company. During this period, the Company engaged a financial advisor to facilitate the go shop process. This financial advisor and the Company contacted 16 parties, including financial and strategic buyers. However, these actions did not result in the Company receiving a superior proposal, see

The Merger Background of the Merger beginning on page 19.

**Completion of the Merger (page 45)**

We are working to complete the Merger as soon as possible. We anticipate completing the Merger during the first quarter of 2008. However, we cannot predict the exact timing of the Merger or whether the Merger will be completed. In order to complete the Merger, our shareholders must adopt the Merger Agreement and the other closing conditions under the Merger Agreement must be satisfied or waived.

Before we can complete the Merger, a number of conditions must be satisfied. These include:

the receipt of the required Company shareholder approval;

the absence of any order suspending the use of the proxy statement or any proceeding initiated by the SEC for that purpose;

**Table of Contents**

the absence of laws, executive orders, decrees, rulings, injunctions, writs, judgments or orders that prohibit, restrain or enjoin the consummation of the transactions;

the accuracy of each of the parties' representations and warranties, except to the extent the failure of such representations and warranties to be true and correct would not constitute a material adverse effect (in the case of the Company) or materially delay the ability of Parent or Merger Sub to perform their respective obligations under the Merger Agreement; and

the performance and compliance by each of the parties of its covenants and obligations under the Merger Agreement in all material respects.

Other than the conditions pertaining to the Company shareholder approval and the absence of legal prohibitions, either the Company, on the one hand, or Parent and Merger Sub, on the other hand, may elect to waive conditions to their respective performance and complete the Merger.

**Termination of the Merger Agreement (page 46)**

The Company, Parent and Merger Sub may agree in writing to terminate the Merger Agreement at any time without completing the Merger, even after the shareholders of Verticalnet have adopted the Merger Agreement. In addition, the Merger Agreement may also be terminated at any time prior to the effective time of the Merger:

by either the Company or Parent by written notice to the other if:

the Company shareholders do not adopt the Merger Agreement at the special meeting;

a final, non-appealable governmental order prohibits or makes illegal the completion of the Merger; or

the closing has not occurred on or before April 15, 2008, provided that the party seeking to terminate the Merger Agreement shall not have prevented the closing from occurring by that time;

by written notice from the Company to Parent if:

Parent or Merger Sub breaches or fails to perform any of its representations, warranties or covenants in the Merger Agreement such that the conditions to the Company's obligations to close would not be satisfied and such condition is incapable of being satisfied by April 15, 2008 or such breach has not been cured by Parent or Merger Sub within 30 days following the receipt of a written notice from the Company; or

prior to the special meeting, if the Company receives a superior proposal and changes its recommendation to its shareholders, but only after the Company has provided Parent with a five business day period to revise the terms and conditions of the Merger Agreement in such a manner that the superior proposal is no longer determined to constitute a superior proposal, and only if the Company pays the termination fee described below;

by written notice from Parent to the Company if:

the Company breaches or fails to perform any of its representations, warranties or covenants in the Merger Agreement such that the conditions to Parent's and Merger Sub's obligations to close would not be satisfied and such condition is incapable of being satisfied by April 15, 2008 or such breach has not been cured by

Parent or Merger Sub within 30 days following the receipt of a written notice from Parent;

the Company's board of directors, among other things, withdraws, adversely modifies or fails to reconfirm its recommendation or approval of the Merger Agreement or recommends or approves another acquisition proposal; or

if any person or group (other than Parent, Merger Sub or any of their respective affiliates) shall have become the beneficial owner of at least a majority of the outstanding voting securities of the Company.

## **Table of Contents**

### **Termination Fee (page 47)**

If the Merger Agreement is terminated under certain circumstances, the Company may be required to pay a termination fee to Parent in cash equal to the sum of:

5.99% of the Company's Enterprise Value, which we define as the sum of (i) the aggregate merger consideration offered for each outstanding share of common stock and each outstanding share of Series B Preferred Stock, and (ii) \$5,310,396, the principal amount outstanding at maturity of the Radcliffe Note; and

all documented, reasonable out-of-pocket costs and expenses, including the reasonable fees and expenses of lawyers, accountants, financial advisors, consultants and other advisors, incurred by Parent and Merger Sub in connection with the Merger and the transactions contemplated by the Merger Agreement.

We encourage you to read the full text of the Merger Agreement in its entirety.

### **Material U.S. Federal Income Tax Consequences of the Merger to Our Shareholders (page 35)**

Generally, the Merger will be taxable to our shareholders who are U.S. holders for U.S. federal income tax purposes. A U.S. holder of Common Stock and Series B Preferred Stock receiving cash in the Merger generally will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount of cash received and the holder's adjusted tax basis in our Common Stock or Series B Preferred Stock surrendered. You should consult your own tax advisor for a full understanding of how the Merger will affect your particular tax circumstances.

### **Interests of Verticalnet's Directors and Officers in the Merger (page 31)**

In considering the recommendation of our Board of Directors with respect to the Merger, you should be aware that certain of our directors and executive officers may be considered to have interests in the Merger that are different from, or in addition to, your interests as a shareholder and that may present actual or potential conflicts of interest. Our Board of Directors was aware of these interests and considered that the interests may be different from or in addition to the interests of our shareholders generally, among other matters, in approving the Merger Agreement, the related Plan of Merger and the transactions contemplated thereby, including the Merger, and in determining to recommend that our shareholders vote for the adoption of the Merger Agreement and the related Plan of Merger and the approval of the Merger, and for the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

### **Procedure for Receiving Merger Consideration (page 48)**

As soon as reasonably practicable after the effective time of the Merger, the exchange agent will mail a letter of transmittal and instructions to all Company shareholders. The letter of transmittal and instructions will tell you how to surrender your stock certificates or book-entry shares in exchange for the merger consideration. **You should not return any share certificates you hold with the enclosed proxy card, and you should not forward your share certificates to the exchange agent without a letter of transmittal.**

### **Market Price of Verticalnet Common Stock (page 52)**

Our Common Stock is listed on The NASDAQ Capital Market under the trading symbol VERT. The closing sale price of Common Stock on October 25, 2007, which was the last trading day before the announcement of the execution of the Merger Agreement, was \$5.61 per share. On December 10, 2007, the record date, the closing sale price of our Common Stock was \$2.42 per share.



**Table of Contents**

**Dissenters Rights of Appraisal (page 53)**

Under the Pennsylvania Business Corporation Law of 1988, as amended ( PBCL ), holders of Common Stock and Series B Preferred Stock are not entitled to dissenters rights in connection with the proposed Merger. Under the PBCL, holders of shares of Series C Preferred Stock are entitled to dissenters rights in connection with the proposed Merger. As of the date of this proxy statement, all shares of Series C Preferred Stock are owned by Merger Sub and it is anticipated that Merger Sub will vote in favor of the Merger Agreement and the Merger.

**Delisting and Deregistration of Common Stock (page 31)**

If the Merger is completed, our Common Stock will be delisted from NASDAQ and deregistered under the Exchange Act and we will no longer file periodic reports with the SEC on account of our Common Stock.

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER**

*The following questions and answers are intended to briefly address some commonly asked questions regarding the Merger, the Merger Agreement and the special meeting. These questions and answers may not address all questions that may be important to you as a Verticalnet shareholder. Please refer to the Summary and the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the other documents we file with the SEC that are available free of charge, which you should read carefully. See Where You Can Find Additional Information beginning on page 55.*

**Q: What is the proposed transaction?**

A: The proposed transaction is the acquisition of the Company by Parent pursuant to the Merger Agreement and the related Plan of Merger. Once the Merger Agreement has been adopted by the requisite vote of our shareholders and other closing conditions under the Merger Agreement have been satisfied or waived, Merger Sub, a wholly-owned subsidiary of Parent, will merge with and into the Company. The Company will be the surviving corporation and become a wholly-owned subsidiary of Parent and we will no longer be a publicly-held corporation, and our common stock, par value \$0.01 per share ( Common Stock ) will be delisted from NASDAQ.

**Q: What will a Verticalnet holder of Common Stock receive in the Merger?**

A: If the Merger is completed, holders of the Common Stock will receive \$2.56 in cash, without interest and less any required withholding taxes, for each share of our Common Stock that you own in accordance with the Merger Agreement and the related Plan of Merger. We refer to this amount as the common stock merger consideration. You will not own any shares of the surviving corporation.

**Q: What will a Verticalnet holder of Series B Preferred Stock receive in the Merger?**

A: If the Merger is completed, each share of our Series B Preferred Stock will be cancelled and converted automatically into the right to receive \$0.38750 or \$0.26875 in cash, without interest and less any required withholding taxes, in accordance with the Merger Agreement and the related Plan of Merger. We refer to this amount as the Series B merger consideration. We refer to the common stock merger consideration and the Series B merger consideration, collectively as the merger consideration. You will not own any shares of the surviving corporation.

**Q: What will a Verticalnet holder of Series C Preferred Stock receive in the Merger?**

A: As of the date of this proxy statement, Merged Sub is the sole holder of our Series C Preferred Stock. If the Merger is completed, each share of our Series C Preferred Stock will be cancelled and no consideration shall be paid in respect of such shares.

**Q: What effects will the Merger have on Verticalnet?**

A: If the Merger is approved, Verticalnet will cease to be a publicly-traded company and will become a subsidiary of Parent. Common stock of Verticalnet will no longer be listed on any stock exchange or quotation system, including NASDAQ.

**Q: When and where is the special meeting?**



A: The special meeting of the Company's shareholders will be held at 10:00 a.m. local time, on Tuesday, January 15, 2008, at the offices of Morgan, Lewis & Bockius LLP located at 1701 Market Street, Philadelphia, Pennsylvania 19103.

**Q: Who is entitled to vote at the special meeting?**

A: The record date for the special meeting is December 10, 2007. Only the holders of Verticalnet common stock and preferred stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting or any postponement thereof.

**Table of Contents**

**Q: What matters will be voted on at the special meeting?**

A: You will be asked to consider and vote on the following proposals:

to adopt the Merger Agreement and the related Plan of Merger, and to approve the Merger;

to approve any motion to adjourn the special meeting to a later date, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement and the related Plan of Merger, and approve the Merger; and

to transact such other business as may properly come before the special meeting.

**Q: How does the Company's Board of Directors recommend that I vote on the proposals?**

A: Our Board of Directors unanimously recommends that you vote:

FOR the proposal to adopt the Merger Agreement and the related Plan of Merger, and to approve the Merger; and

FOR the adjournment proposal.

You should read The Merger Reasons for the Merger; Recommendation of Our Board of Directors beginning on page 28 for a discussion of the factors that our Board of Directors considered in deciding to recommend the adoption of the Merger Agreement and the related Plan of Merger, and the approval of the Merger. See also The Merger Interests of Verticalnet's Directors and Executive Officers in the Merger beginning on page 31.

**Q: What constitutes a quorum for the special meeting?**

A: The presence, in person or by proxy, of shareholders representing a majority of the shares of our capital stock (including Common Stock, Series B Preferred Stock and Series C Preferred Stock) outstanding and entitled to vote on the record date will constitute a quorum for the special meeting.

The presence, in person or by proxy, of shareholders representing a majority of the shares of Series B Preferred Stock outstanding and entitled to vote on the record date will constitute a quorum for the class vote of the holders of outstanding shares of Series B Preferred Stock. Certain of our directors, officers and shareholders, who beneficially own approximately 70% of our outstanding shares of Series B Preferred Stock entitled to vote at the special meeting, have agreed to vote all of their shares in favor of the approval and adoption of the Merger, the Merger Agreement and the related Plan of Merger, which assures that the quorum for the class vote of the holders of Series B Preferred Stock will be obtained at the special meeting.

**Q: What vote of shareholders is required to approve the Merger Agreement?**

A: The approval and adoption of the Merger Agreement, the related Plan of Merger and the Merger requires, assuming a quorum is present, the affirmative vote of a majority of the votes cast by the holders of the outstanding shares of our capital stock (including Common Stock, Series B Preferred Stock and Series C Preferred Stock) that are entitled to vote at the special meeting, and the affirmative vote of a majority of the votes cast by the holders of outstanding shares of Series B Preferred Stock that are entitled to vote at the special meeting (voting as a separate class).

Certain of our directors, officers and shareholders, who beneficially own 17.27% of the outstanding capital stock and approximately 70% of our outstanding shares of Series B Preferred Stock entitled to vote at the special meeting, have agreed to vote all of their shares in favor of the approval and adoption of the Merger, the Merger Agreement and the related Plan of Merger, which assures that the class vote of the holders of Series B Preferred Stock required for the adoption of the Merger Agreement and the related Plan of Merger, and the approval of the Merger, will be obtained at the special meeting. Furthermore, as of the date of this proxy statement, all shares of Series C Preferred Stock are owned by Merger Sub and it is anticipated that Merger Sub will vote in favor of the adoption of the Merger Agreement and the approval of the Merger.

**Table of Contents**

**Q: How do the directors and executive officers of Verticalnet intend to vote?**

A: We believe our directors and current executive officers intend to vote all of their shares of our capital stock FOR the adoption of the Merger Agreement and the related Plan of Merger, and the approval of the Merger, and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies. As of December 10, 2007, the record date, the directors and executive officers of Verticalnet held and were entitled to vote, in the aggregate, shares of our capital stock representing approximately 6.4% of the outstanding shares entitled to vote at the special meeting.

**Q: What does it mean if I get more than one proxy card?**

A: If you have shares of our Common Stock, Series B Preferred Stock or Series C Preferred Stock that are registered differently and are in more than one account, you will receive more than one proxy card. Please follow the directions for voting on each of the proxy cards you receive to ensure that all of your shares are voted.

**Q: What do I need to do now?**

A: Please vote as soon as possible. We urge you to read this proxy statement carefully, including its annexes, and to consider how the transaction affects you as a shareholder. You also may want to review the other documents we file with the SEC that are available to the public free of charge. See [Where You Can Find Additional Information](#), beginning on page 55.

**Q: How do I vote without attending the special meeting?**

A: If you are a registered shareholder (that is, if you hold shares of our Common Stock, Series B Preferred Stock or Series C Preferred Stock in certificated form), you may submit your proxy and vote your shares by returning the enclosed proxy card, marked, signed and dated, in the postage-paid envelope provided, or by telephone or through the Internet by following the instructions included with the enclosed proxy card.

If you hold your shares through a broker, bank or other nominee, you should follow the separate voting instructions provided by the broker, bank or other nominee with the proxy statement. Please contact your broker, bank or other nominee to determine how to vote.

**Q: How do I vote in person at the special meeting?**

A: If you are a registered shareholder, you may attend the special meeting and vote your shares in person at the meeting by giving us a signed proxy card or ballot before voting is closed. If you want to do that, please bring proof of identification with you. Even if you plan to attend the meeting, we recommend that you vote your shares in advance as described above, so your vote will be counted even if you later decide not to attend.

If you hold your shares through a broker, bank or other nominee, you may vote those shares in person at the meeting only if you obtain and bring with you a signed proxy from the appropriate nominee giving you the right to vote the shares. To do this, you should contact your broker, bank or nominee.

**Q: Can I change my vote?**

A: You may revoke or change your proxy at any time before it is voted, except as otherwise described below.

If you have not voted through your broker, bank or other nominee because you are the registered shareholder, you may revoke or change your proxy before it is voted by:

filing a notice of revocation, which is dated a later date than your proxy, with the Company's Secretary;

submitting a duly executed proxy card bearing a later date;

submitting a new proxy by telephone or through the Internet at a later time, but not later than 11:59 p.m. (Eastern Time) on Monday, January 14, 2008, or the day before the meeting date, if the special meeting is postponed; or

voting by ballot at the special meeting.

Simply attending the special meeting will not constitute revocation of a proxy.

**Table of Contents**

If your shares are held in street name, you should follow the instructions of your broker, bank or other nominee regarding revocation or change of vote. If your broker, bank or other nominee allows you to submit a vote by telephone or through the Internet, you may be able to change your vote by submitting new voting instructions by telephone or through the Internet. You should contact your broker, bank or other nominee to determine how you can change your vote.

**Q: If my shares are held in street name by my broker, bank or other nominee, will my nominee vote my shares for me?**

A: Yes, but only if you provide instructions to your broker, bank or other nominee on how to vote. You should follow the directions provided by your broker, bank or other nominee regarding how to instruct your broker, bank or other nominee to vote your shares. Without those instructions, your shares will not be voted.

**Q: Will I have appraisal rights as a result of the Merger?**

A: Under the PBCL, holders of Common Stock are not entitled to dissenters rights in connection with the proposed Merger because the Common Stock is listed on a national securities exchange. Under the PBCL, because the holders of Series B Preferred Stock are entitled to vote separately as a class to approve the proposed transaction, holders of Series B Preferred Stock are not entitled to dissenters rights in connection with the proposed Merger. Under the PBCL, holders of Series C Preferred Stock are entitled to dissenters rights in connection with the proposed Merger; however, as of the date of this proxy statement all shares of Series C Preferred Stock are owned by Merger Sub and it is anticipated that Merger Sub will vote in favor of the adoption of the Merger Agreement and the related Plan of Merger and the approval of the Merger.

**Q: What happens if I sell my shares before the special meeting?**

A: The record date of the special meeting is earlier than the special meeting and the date that the Merger is expected to be completed. If you transfer your shares of Common Stock after the record date but before the special meeting, you will retain your right to vote at the special meeting, but will have transferred the right to receive the merger consideration to be received by our shareholders in the Merger. In order to receive the merger consideration, you must hold your shares through completion of the Merger.

**Q: Should I send in my stock certificates now?**

A: No. Assuming the Merger is completed, you will receive a letter of transmittal with instructions informing you how to send your share certificates to the exchange agent in order to receive the merger consideration. You should use the letter of transmittal to exchange the Company stock certificates for the merger consideration to which you are entitled as a result of the Merger. **Do not send any stock certificates with your proxy.**

**Q: When do you expect the Merger to be completed?**

A: We are working to complete the Merger as quickly as possible. In addition to obtaining shareholder approval, all of the conditions to the Merger must have been satisfied or waived. We currently expect to complete the Merger promptly after shareholder approval is obtained in the first quarter of 2008.

**Q: Will I owe any U.S. federal income tax as a result of the Merger?**

A: Generally, the consideration received in the Merger will be taxable for U.S. federal income tax purposes. You will recognize taxable gain or loss in the amount of the difference between \$2.56 and your adjusted tax basis for

each share of Verticalnet stock that you own. For further information about the U.S. federal income tax consequences of the Merger, see Special Factors Material U.S. Federal Income Tax Consequences of the Merger to Our Shareholders, beginning on page 35. You should consult your own tax advisor for a full understanding of how the Merger will affect your particular tax circumstances.

**Q: Who will count the votes?**

A: A representative of our transfer agent will count the votes.

**Table of Contents**

**Q: Who will bear the cost of this solicitation?**

A: The expenses of preparing, printing and mailing this proxy statement and the proxies solicited hereby will be borne by Verticalnet. Additional solicitation may be made by telephone, facsimile or other contact by certain directors, officers, employees or agents of Verticalnet, none of whom will receive additional compensation with respect to any such solicitation. We will reimburse them for their reasonable out-of-pocket expenses.

**Q: Will a proxy solicitor be used?**

A: Yes. Verticalnet has retained Georgeson, Inc. to assist in the solicitation of proxies for the special meeting and Verticalnet estimates that it will pay Georgeson, Inc. a fee not to exceed \$7,500, a nominal fee per shareholder contact and reimbursement of reasonable out-of-pocket expenses. Verticalnet has also agreed to indemnify Georgeson, Inc. against certain losses, costs and expenses.

**Q: Who can help answer my other questions?**

A: If you have more questions about the Merger or the special meeting, or require assistance in submitting your proxy or voting your shares or need additional copies of the proxy statement or the enclosed proxy card, please contact the Company's Investor Relations at 610-240-0600. If your broker, bank or other nominee holds your shares, you can also call your broker, bank or other nominee for additional information.



**Table of Contents**

**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION**

This proxy statement, and the documents to which we refer you to in this proxy statement, contain statements that are not historical facts and that are considered *forward-looking* within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We have based these forward-looking statements on our current expectations about future events and financial performance with respect to our operations, the expected completion and timing of the Merger and other information relating to the Merger. Statements that include words such as may, will, project, might, expect, believe, anticipate, intend, would, estimate, continue or pursue, or other words or expressions of similar meaning, may identify forward-looking statements. You should be aware that forward-looking statements involve known and unknown risks and certainties. Although we believe that the expectations underlying these forward looking statements are reasonable, there are a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements speak only as of the date on which the statements were made and we undertake no obligation to update or revise any forward-looking statements made in this proxy statement or elsewhere as a result of new information, future events or otherwise, except as required by law. These forward-looking statements should, therefore, be considered in light of various important factors set forth from time to time in our filings with the Securities and Exchange Commission, which we refer to as the SEC. In addition to other factors and matters contained in this document, these statements are subject to risks, uncertainties and other factors, including, among others:

the financial performance of Verticalnet through the date of completion of the Merger;

the occurrence of any event, change or other circumstances that could give rise to a termination of the Merger Agreement, including a termination under circumstances that could require us to pay a termination fee;

the failure to satisfy any conditions to consummation of the Merger including the approval of our shareholders;

the failure of the Merger to close for any reason;

any significant delay in the expected completion of the Merger;

our remedies against Parent with respect to certain breaches of the Merger Agreement may not be adequate to cover our damages;

the proposed transactions may disrupt current business plans and operations and there may be potential difficulties in attracting and retaining employees as a result of the announced Merger;

due to restrictions imposed in the Merger Agreement, we may be unable to respond effectively to competitive pressures, industry developments and future opportunities;

the effect of the announcement of the Merger on our business relationships, operating results and business generally; and

the costs, fees, expenses and charges we have incurred and may incur related to the Merger, whether or not the Merger is completed.

The foregoing sets forth some, but not all, of the factors that could impact our ability to achieve results described in any forward-looking statements. A more complete description of the risks applicable to us is provided in our filings

with the SEC available free of charge at the SEC's web site at <http://www.sec.gov>, including our most recent filings on Forms 10-Q and 10-K. See "Where You Can Find Additional Information" beginning on page 55. Investors are cautioned not to place undue reliance on these forward-looking statements. Investors also should understand that it is not possible to predict or identify all risk factors and that neither this list nor the factors identified in our SEC filings should be considered a complete statement of all potential risks and uncertainties. We have no obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this proxy statement.

**Table of Contents**

**THE PARTIES TO THE MERGER**

**Verticalnet, Inc.**

*400 Chester Field Parkway  
Malvern, Pennsylvania 19355  
Tel. No. 610-240-0600*

*Verticalnet, Inc.*, is a provider of On-Demand Supply Management solutions to companies ranging in size from mid-market to Global 2000. We provide a full scope of Supply Management software, services, and domain expertise in areas that include: Program Management, Spend Analysis, eSourcing, Contract Management, and Supplier Performance Management. Our solutions help our customers save money on the goods and services they buy. In addition to traditional software installation and application service provider hosting, we offer the majority of our software products in an on-demand delivery model. On-demand delivery enables our customers to pay a single annual fee that includes software license, maintenance, application hosting, customer/community support, and training. We believe that our on-demand delivery model mitigates the software implementation costs for our customers, and reduces the obstacles to a successful supply management initiative. In addition to implementation services, we also provide customers with supply management business process consulting, primarily in the areas of Spend Analysis and Advanced Sourcing, and offer custom software development for customers that desire to build additional supply management capabilities.

Detailed descriptions about the Company's business and financial results are contained in our filings with the SEC. See *Where You Can Find Additional Information* beginning on page 55 of this proxy statement.

**BravoSolution S.p.A and BravoSolution U.S.A., Inc.**

*Via Rombon, 11  
20134 Milano  
Tel. No. 011 35 02 2105-12346*

*BravoSolution S.p.A.*, or Parent, is a leading international provider of eSourcing solutions. Its mission is to generate value by supporting its clients in the improvement of procurement processes through innovative web-based technologies and services. Founded in Italy in June 2000 by the Italcementi Group, BravoSolution S.p.A. effectively combines professional expertise and technological excellence in the area of sourcing in order to deliver valuable results to its numerous customers worldwide. BravoSolution S.p.A. has offices in London, Madrid, Milan, Paris, Rome and Shanghai. In the United Kingdom, BravoSolution S.p.A. is the sole approved provider of eSourcing Services under the Framework Agreement managed by an Executive Agency of the UK Treasury (OGC). BravoSolution S.p.A. has a team of more than 250 professionals and has now managed over 70,000 online negotiations, totaling over \$50 billion of spend.

*BravoSolution U.S.A., Inc.*, which we refer to as Merger Sub, is a Pennsylvania corporation formed for the sole purpose of completing the Merger with the Company. Merger Sub is a wholly-owned subsidiary of Parent. Merger Sub has not conducted any activities to date other than activities incidental to its formation and in connection with the transactions contemplated by the Merger Agreement.

**Table of Contents**

**THE SPECIAL MEETING**

**Time, Place and Purpose of the Special Meeting**

The enclosed proxy is solicited on behalf of our Board of Directors for use at a special meeting of shareholders to be held on Tuesday, January 15, 2008, at 10:00 a.m. local time, or at any adjournments or postponements of the special meeting. The special meeting will be held at the offices of Morgan, Lewis and Bockius LLP located at 1701 Market Street, Philadelphia, PA 19103. The Company intends to mail this proxy statement and the accompanying proxy card on or about December 14, 2007 to all shareholders entitled to vote at the special meeting.

At the special meeting, shareholders will be asked to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of October 25, 2007, among the Company, Parent, and Merger Sub, as they may be amended from time to time, and the related Plan of Merger and to approve the merger of Merger Sub, with and into the Company, with the Company continuing as the surviving corporation (and to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies). Our shareholders must adopt the Merger Agreement and the related Plan of Merger for the Merger to occur. If our shareholders fail to adopt the Merger Agreement, the Merger will not occur.

Verticalnet shareholders also may be asked to transact such other business as may properly come before the special meeting or any postponements of the special meeting. The Company does not expect a vote to be taken on any other matters at the special meeting. If any other matters are properly presented at the special meeting, however, the holders of the proxies, if properly authorized, will have the authority to vote on these matters in their discretion.

**Verticalnet Board Recommendation**

Our Board of Directors has unanimously approved and adopted the Merger Agreement, the related Plan of Merger, and the transactions contemplated by the Merger Agreement, and has determined that the Merger, the Merger Agreement and the related Plan of Merger, and the transactions contemplated by the Merger Agreement are fair to, and in the best interests of, the Company. **Accordingly, our Board of Directors recommends that you vote FOR the adoption of the Merger Agreement and the related Plan of Merger, and the approval of the Merger, and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.**

**Record Date, Voting Power and Quorum**

Shareholders of record at the close of business on December 10, 2007 are entitled to notice of, and to vote at, the special meeting. On December 10, 2007, there were 2,542,309 shares of the Company's capital stock outstanding and entitled to vote, consisting of 1,610,845 shares of Common Stock, 623,875 shares of Series B Preferred Stock entitled to vote subject to the voting cap as set forth in the Series B Statement of Designation, and 307,589 shares of Series C Preferred Stock entitled to vote subject to the voting cap set as forth in the Series C Statement of Designation.

Each share of Common Stock entitles its holder to one vote on all matters properly coming before the special meeting.

Each share of Preferred Stock entitles its holder to vote on all matters properly coming before the special meeting in accordance with the terms of the respective Statements of Designation with Respect to the Shares of Preferred Stock, filed by the Company with the Secretary of State of the Commonwealth of Pennsylvania. The Series B and Series C Statements of Designation provide that each holder of Preferred Stock votes on an as-converted to Common Stock basis, provided, however, that each holder is not entitled to cast a number of votes in excess of the number determined by (i) dividing (A) the per-share purchase price paid with respect to such holder's shares of Preferred Stock at the time

such shares were originally acquired from the Company, by (B) the applicable closing bid price (adjusted for any stock dividends, stock splits or similar transactions after such date) for shares of the Common Stock as reported on the Nasdaq Capital Market on the business day immediately prior to the closing date of the purchase of the Preferred Stock, and (ii) multiplying that quotient by the number of shares of Preferred Stock currently held by such holder. Furthermore, in addition to the voting limitations set forth in the preceding

## Table of Contents

sentence, the Series B Statement of Designation provides that each holder of Series B Preferred Stock is not permitted to vote shares owned by such holder that would result in such holder being deemed to beneficially own a number of shares of Common Stock in excess of 9.99% of the total number of shares of Common Stock then issued and outstanding.

As of December 10, 2007, the record date for the special meeting, holders of shares of Preferred Stock, in accordance with the terms of the respective Statements of Designation with Respect to the Shares of Preferred Stock, represent 36.6% of the voting power of the outstanding shares of capital stock entitled to vote at the special meeting.

A quorum of holders of all our capital stock (including Common Stock, Series B Preferred Stock and Series C Preferred Stock) entitled to vote at the special meeting must be present for the special meeting to be held. The presence at the meeting, in person or by proxy, of the holders of a majority of all our capital stock (including Common Stock, Series B Preferred Stock and Series C Preferred Stock) outstanding and entitled to vote at the special meeting on the record date will constitute a quorum. Any shares of our Common Stock held in treasury by the Company are not considered outstanding for purposes of determining a quorum.

A quorum of holders of the Series B Preferred Stock entitled to vote at the special meeting must be present for the class vote of the holders of outstanding shares of Series B Preferred Stock. The presence, in person or by proxy, of shareholders representing a majority of the shares of Series B Preferred Stock outstanding and entitled to vote at the special meeting on the record date will constitute a quorum for the class vote of the holders of outstanding shares of Series B Preferred Stock. Certain of our directors, officers and shareholders, who beneficially own approximately 70% of our outstanding shares of Series B Preferred Stock entitled to vote at the special meeting, have agreed to vote all of their shares in favor of the approval and adoption of the Merger, the Merger Agreement and the related Plan of Merger, which assures that the quorum for the class vote of the holders of Series B Preferred Stock will be obtained at the special meeting.

## **Vote Required for Approval**

For us to complete the Merger, we need the affirmative vote of a majority of the votes cast by the holders of the outstanding shares of our capital stock that are entitled to vote at the special meeting (assuming a quorum is present) and by a majority of the votes cast by the holders of the outstanding shares of our Series B Preferred Stock that are entitled to vote at the special meeting, voting as a separate class (assuming a quorum is present).

In order for your capital stock to be included in the vote, you need to first determine if you are a registered shareholder (that is, if you hold your shares of capital stock in certificated form) or if you hold your shares through a broker, bank or other nominee. If you are a registered shareholder, you must submit your proxy and vote your shares by returning the enclosed proxy card, marked, signed and dated, in the postage prepaid envelope provided, or by telephone or through the Internet, as indicated on the proxy card, or you may vote in person at the special meeting. If you hold your shares through a broker, bank or other nominee, you should follow the separate voting instructions provided by the broker, bank or other nominee with the proxy statement.

Abstentions and broker non-votes, if any, will be treated as shares that are present and entitled to vote at the special meeting for purposes of determining whether a quorum exists, provided, however, that broker non-votes will only be treated as so present and entitled to vote if the shares covered by the broker non-vote are voted on a procedural matter at the special meeting. A broker non-vote occurs when, as is the case with respect to the vote regarding the adoption of the Merger Agreement and the related Plan of Merger, and the approval of the Merger, brokers are prohibited from exercising discretionary authority in voting for beneficial owners who have not provided voting instructions. **Because adoption of the Merger Agreement and the related Plan of Merger, and the approval of the Merger, requires the affirmative vote of a majority of votes cast by the holders of the capital stock entitled to vote at the special**

**meeting that are outstanding on the record date, and a majority of the votes cast by the holders Series B Preferred Stock entitled to vote at the special meeting that are outstanding on the record date, voting as a separate class, under the PBCL, failures to vote, abstentions and broker non-votes, if any, are not considered votes cast and therefore will have no effect on the vote and will not be considered in determining whether the proposals have received the requisite shareholder vote.**

## **Table of Contents**

Also, as of the date of this proxy statement, all shares of our Series C Preferred Stock (representing, as of the record date, 12.1% of the voting power of the outstanding shares of capital stock entitled to vote at the special meeting) are owned by Merger Sub and it is anticipated that Merger Sub will vote in favor of the adoption of the Merger Agreement and the related Plan of Merger and the approval of the Merger, and in favor of the adjournment proposal.

### **Voting by Directors and Executive Officers**

Holders of all outstanding shares of Series B Preferred Stock have entered into a Voting Agreement with Parent and the Company, as amended (the "Voting Agreement"), pursuant to which holders of our Series B Preferred Stock that as of the record date represent 17.27% of the voting power of the outstanding shares of capital stock entitled to vote at the special meeting have agreed to vote all of their Common Stock and Series B Preferred Stock FOR the adoption of the Merger Agreement and the related Plan of Merger and the approval of the Merger, and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies, and holders of our Series B Preferred Stock that as of the record date represent 7.62% of the voting power of the outstanding shares of capital stock entitled to vote at the special meeting have agreed to grant an irrevocable proxy to the Company to vote their Common Stock and Series B Preferred Stock, in connection with the Merger and any other extraordinary corporate transaction, in a manner that the Company, acting through our Board of Directors, determines in its sole discretion.

The Voting Agreement will terminate on the earliest to occur of (i) the termination of the Merger Agreement in accordance with its terms, (ii) the mutual written consent of Parent, the Company and each of the shareholders party to the Voting Agreement, and (iii) by each such shareholder upon the execution or granting of any amendment, modification, change or waiver with respect to the Merger Agreement or the Plan of Merger that results in a decrease in the merger consideration. The full text of the Voting Agreement is attached to this proxy statement as Annex B. We encourage you to read the full text of the Voting Agreement in its entirety. As a result of the Voting Agreement, the separate class vote involving only shares of our Series B Preferred Stock is assured.

### **Proxies; Revocation**

Any Verticalnet shareholder of record entitled to vote may submit a proxy by mail, or through the Internet or by telephone as indicated on the proxy card, or may vote in person by appearing at the special meeting. If no instructions are indicated on your signed proxy card, your shares will be voted FOR the adoption of the Merger Agreement and the related Plan of Merger, and the approval of the Merger, and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies, and in the discretion of the persons appointed as proxies on any other matters properly brought before the special meeting for a vote.

If you wish to change your vote and your shares are held in street name by your broker, you should follow the instructions of your broker, bank or other nominee regarding revocation or change of votes. If your broker, bank or other nominee allows you to submit a vote by telephone or through the Internet, you may be able to change your vote by submitting new voting instructions by telephone or through the Internet.

Any Verticalnet shareholder of record who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before it is voted in any one of the following ways:

filing with the Company's corporate secretary, at or before the special meeting, a written notice of revocation that is dated a later date than the proxy;

sending a later-dated proxy relating to the same shares to the Company's corporate secretary, at or before the special meeting;



submitting a later-dated proxy by the Internet or by telephone, at or before the special meeting; or

attending the special meeting and voting in person by ballot.

Simply attending the special meeting will not constitute revocation of a proxy. *If you have instructed your broker to vote your shares, the above-described options for revoking your proxy do not apply and instead you must follow the directions provided by your broker to change these instructions.*

## **Table of Contents**

The Company does not expect that any matter other than the proposal to adopt the Merger Agreement and the related Plan of Merger, and to approve the Merger (and to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies) will be brought before the special meeting. If, however, such a matter is properly presented at the special meeting or any postponement of the special meeting, the persons appointed as proxies will have discretionary authority to vote the shares represented by duly executed proxies in accordance with their discretion and judgment.

*Please do NOT send in your share certificates with your proxy card.* If the Merger is completed, shareholders will be mailed a transmittal form following the completion of the Merger with instructions for use in effecting the surrender of certificates in exchange for the merger consideration.

## **Solicitation of Proxies**

The Company is soliciting proxies in connection with the special meeting. The expenses of preparing, printing and mailing this proxy statement and the proxies solicited hereby will be borne by the Company. Additional solicitation may be made by telephone, facsimile, e-mail, in person or other contact by certain of our directors, officers, employees or agents, none of whom will receive additional compensation therefor. We will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses for forwarding material to the beneficial owners of shares held of record by others. We have also engaged Georgeson, Inc. to assist in the solicitation of proxies for the special meeting, and we estimate that we will pay them a fee of approximately \$7,500, a nominal fee per shareholder contact and will reimburse them for reasonable administrative and out-of-pocket expenses incurred in connection with such solicitation.

## **Attending the Special Meeting**

In order to attend the special meeting in person, you must be a shareholder of record on the record date, hold a valid proxy from a record holder or be an invited guest of the Company. You will be asked to provide proper identification at the registration desk on the day of the special meeting or any adjournment or postponement of the special meeting.

## **Questions and Additional Information**

If you have more questions about the Merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, please contact the Company's Investor Relations:

**Verticalnet, Inc.**  
**400 Chester Field Parkway**  
**Malvern, Pennsylvania 19355**  
**Telephone: (610) 240-0600**

**Table of Contents**

**THE MERGER**

**Background of the Merger**

From time to time, we have, with our legal and financial advisors, reviewed and evaluated strategic opportunities and alternatives.

In recent years, as disclosed in the Company's annual reports on Form 10-K and quarterly reports on Form 10-Q, the Company's liquid assets and expected cash flows from operations have not been sufficient to fund operations and financial commitments without raising additional capital. While the Company was historically successful in raising such additional capital through the sale of debt and equity securities in private placement transactions, each of these transactions imposed additional barriers to the Company's growth.

On August 16, 2005, to support its working capital and debt repayment obligations, the Company issued and sold senior secured convertible promissory notes in an aggregate principal amount of \$6.6 million and warrants to purchase common stock to various institutional investors. Pursuant to the terms of the convertible notes, the Company made monthly payments of principal and interest in cash, common stock or a combination of cash and common stock. The issuance of common stock in payment of the obligations under the convertible notes placed downward pressure on the per share price of the Company's common stock.

During the time period in which these convertible notes remained outstanding, the Company considered various capital raising transactions. The restrictive covenants and other limitations in the convertible notes and related agreements constrained the Company's ability to raise future capital.

In light of the Company's liquidity position, during the spring of 2006 at the recommendation of the Company's management our Board of Directors decided to engage a financial advisor to explore various strategic transactions for the Company.

In April 2006, the Company engaged a financial advisor (the First Advisor). Following the engagement, the First Advisor approached various strategic and financial parties to gauge interest in pursuing a transaction with the Company.

During April 2006, the First Advisor and the Company prepared a Confidential Information Memorandum for use in soliciting third party bids to acquire the Company. Beginning in April 2006, at the direction of our Board of Directors and management, the First Advisor contacted approximately 48 parties, including financial and strategic potential buyers. In the following weeks, the Company, in conjunction with the First Advisor, distributed confidentiality agreements to 26 parties. Of these parties, the Company signed confidentiality agreements with, and distributed the Confidential Information Memorandum to, 11 potential buyers. The Company and the First Advisor entered into in-depth discussions with four of the parties that received the Confidential Information Memorandum.

On May 15, 2006, in order to raise working capital, the Company issued and sold a senior subordinated discounted promissory note, in the original principal amount of \$5.3 million, in return for a payment of \$4 million. The senior subordinated discounted promissory note and related agreements contained restrictive covenants and other limitations on the Company.

During the summer of 2006, one of the parties with whom the Company and the First Advisor held in-depth discussions ( Party A ) expressed interest in exploring a transaction in which Party A would acquire all of the Company's outstanding shares of capital stock. Through the remainder of the summer of 2006, the Company, our

Board of Directors, the First Advisor and the Company's legal advisor, Morgan, Lewis and Bockius, LLP ( Morgan Lewis ), discussed the structure of a potential merger transaction with Party A. Party A and its advisors were granted access to certain of the Company's due diligence materials through an online data room. Throughout the summer and early fall of 2006, Party A and its advisors reviewed the Company's due diligence materials.

Party A initially informed the Company that based on its preliminary valuation analysis, it would acquire all of our issued and outstanding shares of Common Stock for a per share price approximately 20% above the then current market price. On September 8, 2006, the Company received a preliminary non-binding indication of interest from Party A to acquire the issued and outstanding capital stock for a price of \$8.00 per share (as adjusted to reflect the

**Table of Contents**

Company's August 2007 1-for-8 reverse stock split). The then current closing market price of our Common Stock on that date was \$7.44 (as adjusted to reflect the Company's August 2007 1-for-8 reverse stock split).

Following Party A's initial indication of interest, the market price for shares of our Common Stock decreased significantly. In September 2006, the Company and Party A, with their legal and financial advisors, began negotiating a definitive merger agreement to provide for the proposed transaction and a voting agreement in which certain of the Company's directors and officers would agree to vote in favor of the transaction. Following substantial completion of its due diligence review, in late September 2006 Party A submitted a revised non-binding proposal to acquire all of our issued and outstanding shares of Common Stock for \$3.20 per share (as adjusted to reflect the Company's August 2007 1-for-8 reverse stock split). The then current market price of our Common Stock on that date was \$5.30 (as adjusted to reflect the Company's August 2007 1-for-8 reverse stock split). In response to Party A's revised offer, our Board of Directors sought to reduce certain of the Company's liabilities that would be incurred in connection with the proposed transaction in an effort to improve Party A's per share offer for our Common Stock.

On October 13, 2006, Party A informed the Company that as a result of changes in Party A's internal business rationale behind the proposed transaction, it was no longer interested in pursuing a transaction with the Company. However, Party A informed the Company that it would facilitate discussions between the Company and several financial buyers that were interested in pursuing transactions involving the Company and Party A. These discussions were ultimately unsuccessful, and on October 31, 2006, the Company concluded negotiations with Party A and the financial buyers.

Following the completion of discussions with Party A, the First Advisor continued to correspond with other interested parties.

During the fall of 2006 and continuing through January 2007, the First Advisor and the Company engaged in discussions with a financial buyer ( Party B ). Following the initial discussions, Party B and the Company entered into a confidentiality agreement. Soon after entering into the confidentiality agreement, Party B and its advisors were granted access to certain of the Company's due diligence materials. Throughout this period, Party B and its advisors reviewed the Company's due diligence materials. Following its initial review of the due diligence materials, Party B submitted a preliminary non-binding proposal in which Party B would pay the holders of outstanding shares of capital stock of the Company between approximately \$0.82 and \$2.46 per share (as adjusted to reflect the Company's August 2007 1-for-8 reverse stock split). Our Board of Directors determined that this valuation range was not acceptable and the Company ceased discussions with Party B. In early 2007, following the conclusion of the Company's discussions with Party B, our Board of Directors terminated the engagement of the First Advisor.

During January 2007, the Company was contacted by a strategic buyer ( Party C ) regarding a transaction in which Party C would acquire all of the Company's outstanding shares of capital stock. Throughout the winter and spring of 2007, representatives from the Company and Party C met to discuss a potential transaction. These discussions were of a preliminary nature and did not result in any agreement regarding terms of a potential transaction or an agreement to work toward a potential transaction. Following the initial discussions, Party C and the Company entered into a confidentiality agreement. Soon after entering into the confidentiality agreement, Party C and its advisors were granted access to certain of the Company's due diligence materials through an online data room. Throughout the winter and spring of 2007, Party C and its advisors reviewed the Company's due diligence materials.

At the time of discussions with Party C, the Company's level of liquid assets necessitated an additional capital raise. Given the uncertainty of discussions with Party C and other potential acquirors, in January 2007, the Company engaged a placement agent (the Second Advisor ) to explore a \$10 and \$15 million equity financing transaction. After exploring interest from potential investors, the Second Advisor informed the Company that the interest among investors was less than originally estimated and it would need additional time to complete the financing transaction.

In March 2007, a financial advisor contacted the Company regarding a potential acquirer ( Party D ). Following the initial discussions, Party D and the Company entered into a confidentiality agreement. Soon after entering into the confidentiality agreement, Party D and its advisors were granted access to certain of the

**Table of Contents**

Company's due diligence materials through an online data room. Throughout the spring of 2007, Party D and its advisors reviewed the Company's due diligence materials.

In March 2007, Party D conveyed a preliminary non-binding proposal to acquire all of the Company's issued and outstanding shares of capital stock for approximately \$0.88 per share (as adjusted to reflect the Company's August 2007 1-for-8 reverse stock split). The Company responded that it was not interested in pursuing a transaction at this per share price.

On May 8, 2007, an in-person regularly scheduled quarterly meeting of our Board of Directors was held. At this meeting, Nathanael V. Lentz (President and Chief Executive Officer) advised our Board of Directors regarding the status of discussions with Party C and Party D and the Company's current liquidity position and the viability of continued operations without raising additional capital. Due to the delay in Party C's formulation of an offer and the Company's working capital requirements, our Board of Directors determined to proceed with the capital raising transaction being coordinated by the Second Advisor.

On May 15, 2007, Party C submitted a preliminary non-binding indication of interest to acquire all of our issued and outstanding shares of capital stock for a per share price in the range of \$3.20 to \$4.00 (as adjusted to reflect the Company's August 2007 1-for-8 reverse stock split). However, Party C informed the Company that it would first need to complete its due diligence review of the Company before it moved forward with the proposed transaction.

On May 15, 2007, the Company issued and sold junior unsecured notes to several investors, including members of our management and Board of Directors for \$600,000. The junior unsecured notes were structured so that they would automatically convert on a dollar-for-dollar basis in the Company's next equity financing transaction.

On June 1, 2007, the Company completed the financing transaction being coordinated by the Second Advisor and issued and sold 8,700,000 shares of Series B Preferred Stock to several individual and institutional investors for a per share purchase price of \$0.25. The aggregate purchase price of \$2.175 million consisted of \$1.575 million in cash and \$600,000 of junior unsecured notes sold by the Company on May 15, 2007 that automatically converted into the Series B Preferred Stock on a dollar-for-dollar basis. The purchasers of the Series B Preferred Stock were also entitled to receive warrants to purchase shares of our Common Stock, in an amount dependent upon the results of a shareholder vote to be held on certain proposals at the Company's next annual meeting of shareholders. Pursuant to the Series B Preferred Stock Purchase Agreement, the Company agreed to seek shareholder approval of certain proposals at its next annual meeting of shareholders, including proposals to enable all the Series B Preferred Stock to be convertible into shares of our Common Stock and to amend the our Amended and Restated Articles of Incorporation to increase the number of authorized shares of our Common Stock by at least 35,000,000 shares. In the event that the Company's shareholders did not approve these proposals, the Company agreed to issue the purchasers warrants to purchase approximately 3,375,000 shares of our Common Stock at an exercise price equal to the closing bid price on the day prior to the shareholders meeting. On August 16, 2007, the Company received shareholder approval of these proposals. Thus, in accordance with the Series B Preferred Stock Purchase Agreement, on August 17, 2007, the Company issued the purchasers warrants to purchase 543,750 shares of our Common Stock with an exercise price per share equal to \$2.64 and warrants to purchase 543,750 shares of our Common Stock with an exercise price per share equal to \$5.60. The warrants were valued by the Company at \$1,736,000 as of the date of the closing of the sale of the Series B Preferred Stock.

On June 1, 2007, a representative from Morgan Lewis contacted the Company regarding an inquiry received from Delzanno & Co. Inc. ( Delzanno ), a financial consultant to BravoSolution S.p.A. ( BravoSolution ). On June 2, 2007, Mr. Lentz contacted a representative from Delzanno. This discussion centered on BravoSolution's business objectives and the Company's recent history and business objectives. Mr. Lentz agreed to participate in a conference call with members of BravoSolution's senior management that would occur following the signing of a confidentiality agreement

between the parties.

On June 7, 2007, BravoSolution and the Company entered into a confidentiality agreement, which, among other things, imposed confidentiality, standstill and non-solicitation obligations on the parties in connection with the evaluation of a possible transaction.



**Table of Contents**

On June 8, 2007, Mr. Lentz participated in a conference call with a representative from Delzanno and members of BravoSolution's senior management, including Federico Vitaletti (President) and Antonino Pisana (Chief Financial Officer). These discussions were of a preliminary nature regarding the nature of the Company's business and did not result in any agreement regarding the terms of a potential transaction. The parties agreed on next steps in consideration of a possible transaction, including BravoSolution's due diligence review of the Company and the need for meetings to be held between Mr. Lentz and other members of BravoSolution's management team.

Beginning on June 11, 2007 and continuing throughout the summer and fall of 2007, BravoSolution and its advisors reviewed the Company's due diligence materials.

On June 20, 2007, a representative from Party C informed Mr. Lentz that Party C was no longer interested in pursuing a transaction with the Company at this time.

On June 25, 2007, Mr. Lentz met with members of BravoSolution's senior management, including Mr. Vitaletti, Mr. Pisana, Nader Sabbaghian (Managing Director BravoSolution UK) and other executives, and a representative from Delzanno, in Milan, Italy. These discussions focused on the Company's business and capital structure, structure of a potential transaction and BravoSolution's business, objectives and strategies.

On June 26, 2007, a telephonic meeting of our Board of Directors was held at which representatives from Morgan Lewis were present. At this meeting, Mr. Lentz updated our Board of Directors on the Company's liquidity position as well as on the status of discussions with Party C, Party D and BravoSolution. Our Board of Directors determined to continue discussions with all parties and to authorize Mr. Lentz to encourage Party D to submit a revised per share offer.

On June 28, 2007, Mr. Lentz contacted the financial advisor for Party D. On June 29, 2007, Party D's financial advisor informed Mr. Lentz that Party D was reconsidering its initial proposal.

Throughout the period of July 1 to July 25, 2007, Mr. Lentz engaged in a number of discussions with Party D and its financial advisor. The parties discussed the structure of a potential transaction although no agreements were reached on the material terms.

On July 17 and 18, 2007, a representative from Delzanno and Mr. Sabbaghian met with certain members of the Company's senior management in Malvern, Pennsylvania. These discussions focused on the Company's business, product development and customer relationships.

On July 25, 2007, Party D submitted a revised preliminary non-binding proposal to acquire all of the Company's issued and outstanding shares of capital stock for \$2.00 per share (as adjusted to reflect the Company's August 2007 1-for-8 reverse stock split). Party D also submitted a draft acquisition agreement for the proposed transaction and requested an exclusivity period to move forward with its proposal. The closing of the transactions contemplated by Party D's draft acquisition agreement was contingent upon, among other things, Party D's receipt of third party financing to fund the payment of the acquisition consideration, members of the Company's management agreeing to a 50% reduction in any severance or change in control benefits which they would otherwise have been entitled to receive in connection with the proposed acquisition, and the Company's reduction of the amount of its accounts payables to less than \$3 million.

On July 26, 2007, Mr. Lentz contacted Party D and its financial advisor to discuss the terms of Party D's proposal, and in particular the financing contingency contained in the draft acquisition agreement.

On July 30, 2007, BravoSolution submitted a preliminary non-binding proposal to acquire all of the Company's issued and outstanding shares of capital stock for a per share price in the range of \$2.40 to \$3.20 (as adjusted to reflect the Company's August 2007 1-for-8 reverse stock split).

On July 31, 2007, a telephonic meeting of our Board of Directors was held at which representatives from Morgan Lewis were present. At this meeting, Mr. Lentz advised our Board of Directors regarding the status of discussions with Party D and BravoSolution. Party D and BravoSolution, independently and unaware of the identity of the other, were permitted to make presentations to our Board of Directors. Party D's Chief Financial Officer and financial advisor made its presentation. Mr. Vitaletti and a representative from Delzanno made a presentation on

**Table of Contents**

behalf of BravoSolution. During the meeting our Board of Directors discussed the structure of each proposal with the applicable party and clarified certain terms and conditions of each proposal.

Following the presentations by Party D and BravoSolution, our Board of Directors convened a separate meeting to discuss the presentations. Our Board of Directors instructed Mr. Lentz to proceed with both parties; however, subject to confirmation of timing, structure and price of the proposed transaction and confirmation that BravoSolution would agree to provide immediate financing to support the Company's short-term working capital needs, the Board of Directors requested that Mr. Lentz should focus the Company's resources primarily on BravoSolution. Our Board of Directors also instructed Mr. Lentz to contact Party D's financial advisor with regard to the Board's objection to the third party financing contingency.

On July 31, 2007, Mr. Lentz contacted Party D's financial advisor to discuss the financing contingency and the per share price contained in Party D's offer. Mr. Lentz informed Party D that the Company would not agree to a buyer financing contingency as a condition to the consummation of the transaction. Mr. Lentz also discussed the Company's financial position and the need for any proposed transaction to include a bridge financing component to address the Company's immediate short-term working capital needs.

Between August 1 and August 3, 2007, Mr. Lentz had numerous conversations with a representative from Delzanno with regard to the structure of the transaction. Mr. Lentz also discussed the Company's financial position and the importance of a bridge financing component in the transaction structure. The representative from Delzanno informed Mr. Lentz that BravoSolution required an exclusivity period in order to move further with its proposal. BravoSolution previously indicated that it was considering structuring the proposed transaction as an asset purchase; however, at the insistence of our Board of Directors, BravoSolution communicated a willingness to consider an equity structure in which it would acquire all of the outstanding shares of the Company's capital stock.

On August 6, 2007, a telephonic meeting of our Board of Directors was held at which representatives from Morgan Lewis were present. At this meeting, Mr. Lentz updated our Board of Directors on the status of discussions with Party D and BravoSolution. Because Party D's proposal included a price per share less than BravoSolution and since Party D had not responded to Mr. Lentz's previous discussion about the removal of the financing contingency from its proposal, our Board of Directors focused its discussion on a potential transaction with BravoSolution. Our Board of Directors discussed BravoSolution's request for exclusivity, and in agreement with the Company's management, determined to agree to this request and proceed further in exclusive negotiations with BravoSolution.

On August 8, 2007, the Company entered into an exclusivity letter agreement with BravoSolution pursuant to which the Company agreed to negotiate exclusively with BravoSolution regarding a potential acquisition transaction until the close of business on September 28, 2007, subject to BravoSolution's completion of due diligence and the parties' agreement on the terms of a non-binding letter of intent. The exclusivity arrangement also provided that the Company would nonetheless be permitted to have discussions with interested parties with regard to a separate capital raising transaction.

On August 9, 2007, Mr. Lentz informed Party D that our Board of Directors had determined to consider other strategic alternatives.

Between August 13 and August 16, 2007, representatives from BravoSolution met with members of the Company's management. These discussions centered on the Company's core business and employees.

On August 13, 2007, BravoSolution and its advisors were granted access to the Company's due diligence materials through an online data room. On or about this date, BravoSolution engaged Greenberg Traurig, LLP, as its primary legal counsel (Greenberg) and Ballard Spahr Andrews & Ingersoll, LLP, as its special Pennsylvania counsel. At this

time, BravoSolution's representatives and financial and legal advisors met with members of the Company's management in Malvern, Pennsylvania for due diligence discussions.

On August 30, 2007, Mr. Vitaletti and Mr. Lentz discussed the results of BravoSolution's due diligence review and the terms of the proposed transaction. Later that day, Greenberg distributed a draft non-binding letter of intent that reflected the parties' discussions to date, including BravoSolution's per share price range of \$2.40 to \$3.20 that it would be willing to pay to acquire all of the Company's issued and outstanding shares of capital stock. On

**Table of Contents**

August 31, 2007, the Company entered into the non-binding letter of intent with BravoSolution that reflected a merger transaction in the proposed per share range.

On September 12 and September 13, 2007, Mr. Lentz met with members of BravoSolution's advisors and senior management, including Mr. Vitaletti, in Milan, Italy. These discussions focused on the Company's business, anticipated future performance and the current employee base.

On September 17, 2007, Greenberg distributed the initial draft of the merger agreement to Morgan Lewis and the Company. The merger agreement proposed that the transaction would be structured as a one-step merger.

On September 17, 2007, the Company received an unsolicited revised proposal from Party D to acquire all of the Company's issued and outstanding shares of capital stock for \$2.50 per share. Party D's revised proposal included terms and conditions from its initial offer, including the requirements that the Company reduce the amount of its accounts payables to less than \$3 million and that members of the Company's senior management agree to a 50% reduction in any severance or change in control benefits which they would otherwise have been entitled to receive in connection with the proposed acquisition. On September 18, 2007, as required under the terms of the Company's exclusivity arrangement with BravoSolution, the Company informed BravoSolution of the receipt of this proposal from Party D, without identifying Party D by name. In accordance with the terms of the exclusivity letter, the Company informed Party D's financial advisor that it could not proceed further with its proposal at this time.

On September 18, 2007, the Company and BravoSolution discussed the overall structure of the proposed transaction, including that the per share price to be received by the holders of the Company's capital stock (including common and Series B Preferred Stock) would be \$2.56 per share.

On September 19, 2007, a telephonic meeting of our Board of Directors was held at which representatives from Morgan Lewis were present. At this meeting, Mr. Lentz updated our Board of Directors on the status of discussions with Party D and BravoSolution. Our Board of Directors agreed that management should continue its discussions with BravoSolution and seek an increase in the per share consideration to be received by shareholders in a potential transaction.

On September 19, 2007, Mr. Lentz contacted a representative from Delzanno with regard to the proposed per share price of \$2.56 per share. Mr. Lentz was advised that the \$2.56 per share (for both common shareholders and Series B Preferred Stock shareholders) was BravoSolution's final offer at that time. After receiving guidance from our Board of Directors, the Company agreed to proceed in discussions with BravoSolution at its per share offer.

During the week of September 21, 2007, the Company engaged in discussions with the Second Advisor with regard to a capital raising transaction, to address the Company's long-term working capital needs to provide for business continuity. While these discussions were of a preliminary nature, the Company discussed that any such transaction would require a significant investment of over \$10.0 million in order to adequately address the Company's balance sheet requirements and ensure business continuity.

On September 25, 2007, Mr. Lentz contacted BravoSolution's advisor to further discuss the Company's need for an infusion of working capital. Mr. Lentz explained that the Company's immediate short-term working capital needs would require funding during the period between signing and closing of the proposed transaction.

On September 25, 2007 a telephonic meeting of our Board of Directors was held. At this meeting, Mr. Lentz advised our Board of Directors regarding the status of discussions with BravoSolution. Our Board of Directors discussed the structure of the proposed transaction as well as BravoSolution's position on the bridge financing.

On September 28, 2007, the board of directors of BravoSolution approved the structure of the transaction and instructed its advisors to proceed further with the transaction. On September 28, 2007, the Company agreed to an extension of the exclusive negotiation period with BravoSolution through October 9, 2007.

During the week of October 1, 2007, the Company's executive officers, representatives from Morgan Lewis and Greenberg, and a representative from Delzanno discussed the terms of a proposed financing transaction to address the Company's immediate short-term working capital needs. The parties agreed that the Company would issue a new series of preferred stock to BravoSolution. These shares of Series C Preferred Stock would be

**Table of Contents**

convertible into common stock and would be entitled to vote on the proposed transaction, subject to the terms and conditions set forth in the Company's Statement of Designation with Respect to the Shares of Series C Preferred Stock.

During this same period, the Company's executive officers, representatives from Morgan Lewis and Greenberg, and a representative from Delzanno discussed the structure of the proposed transaction with respect to the holders of Series B Preferred Stock. Under the terms of the Company's Statement of Designation with Respect to the Shares of Series B Preferred Stock, as disclosed in the Company's Current Report on Form 8-K filed with the SEC on June 6, 2007, while the number of shares of Series B Preferred Stock did not adjust in accordance with the Company's August 2007 1-for-8 reverse stock split, the conversion ratio that determined the number of shares of our Common Stock issuable upon conversion of the Series B Preferred Stock adjusted to account for the effect of the reverse stock split. The Series B Preferred Stock was initially convertible into shares of our Common Stock at a ratio of one-to-one (subject to adjustment in accordance with the Company's August 2007 1-for-8 reverse stock split); however, the holders of Series B Preferred Stock that are not members of our Board of Directors were entitled to receive a reduction in the conversion price, in the event that the Company did not achieve a subsequent financing transaction at or prior to December 31, 2007 in which the Company received gross proceeds of at least \$3.825 million. In that case, the conversion price would be reduced, resulting in the Series B Preferred Stock converting into shares of our Common Stock on a one-for-one and two-thirds basis (subject to adjustment in accordance with the Company's August 2007 1-for-8 reverse stock split). In BravoSolution's previous proposals, the closing of the proposed transaction was structured such that it would close prior to December 31, 2007.

Following further discussions between the Company's executive officers, representatives from Morgan Lewis and Greenberg, and a representative from Delzanno, BravoSolution revised its proposal such that it would agree to pay the holders of Series B Preferred Stock that are not members of our Board of Directors \$0.38750 per share of Series B Preferred Stock, in connection with their agreeing to the terms of a voting agreement. This amount represents \$3.10 per share of Common Stock issuable upon conversion of the Series B Preferred Stock, assuming the conversion of the Series B Preferred Stock prior to December 31, 2007.

The holders of shares of Series B Preferred Stock that are members of our Board of Directors would receive \$0.26875 per share of Series B Preferred Stock, in accordance with the terms of the Company's Statement of Designation with Respect to the Shares of Series B Preferred Stock. Because the Company entered into the Merger Agreement within six months from the closing date of the sale of the Series B Preferred Stock, in connection with the Merger these holders were only entitled to receive this amount, which represents the product of \$0.25 (the purchase price paid with respect to each share), and 1.075.

Under the proposed structure of the voting agreement, certain holders of Series B Preferred Stock would agree to vote in favor of the proposed transaction and waive certain rights including the adjustment to the conversion price and participation rights in connection with the Company's proposed bridge financing transaction with BravoSolution.

During the week of October 7, 2007, Mr. Lentz discussed the terms and conditions of the proposed structure of the transaction with the lead outside holder of Series B Preferred Stock. Following these discussions, certain holders of Series B Preferred Stock agreed in principal to terms of the proposed transaction, subject to agreement on the formal documentation.

On October 10, 2007, the Company agreed to extend the exclusivity period with BravoSolution through October 23, 2007.

On October 16, 2007, Greenberg distributed a revised draft of the merger agreement to Morgan Lewis and the Company. The revised merger agreement reflected the changes resulting from the proposed agreement with the

holders of Series B Preferred Stock and the Series C Preferred Stock financing transaction.

On October 16, 2007, the Company distributed the initial draft of the disclosure schedules to the merger agreement to Greenberg.



**Table of Contents**

On October 17, 2007, Morgan Lewis distributed the initial drafts of the Series C Preferred Stock financing agreements to Greenberg.

On October 18, 2007, Greenberg distributed the initial draft of the proposed voting agreement pursuant to which certain holders of Series B Preferred Stock, including certain members of our Board of Directors, would agree to waive certain rights and vote their shares in favor of the adoption of the merger agreement and the approval of the merger.

During the week of October 19, 2007, numerous discussions were held between Morgan Lewis, the Company's executive officers, Greenberg and a representative from Delzanno related to the merger agreement, the disclosure schedules, the voting agreement and the Series C Preferred Stock financing agreements. With respect to the merger agreement, these discussions included the scope of representations, warranties and covenants contained in the merger agreement, the conditions under which BravoSolution would be obligated to close the merger, our Board of Directors ability to consider alternative transactions and the amount of the termination fee that we would be obligated to pay to BravoSolution in the event that it were to accept an alternative transaction. Drafts of these documents were distributed among the parties.

During the course of these discussions, representatives of Morgan Lewis proposed that any definitive merger agreement should permit the board of directors to continue to actively solicit and consider competing offers for a period of time after the merger agreement was executed (a so-called "go shop" provision). In light of the recent volatility of the trading price of our Common Stock, the Company and our Board of Directors insisted on the inclusion of the "go shop" provision in the definitive merger agreement in order to further explore acquisition transactions following the signing of the definitive merger agreement. The parties agreed the Company would be permitted to solicit alternative acquisition proposals from third parties through November 19, 2007. After this period, the Company would not be permitted to solicit other proposals and may not share information or have discussions regarding alternative proposals, except in certain circumstances. The parties agreed that the Company would be permitted to terminate the merger agreement under certain circumstances, including if our Board of Directors determined in good faith that it had received a superior proposal.

On October 19, 2007, a telephonic meeting of our Board of Directors was held at which representatives from Morgan Lewis were present. At this meeting, Mr. Lentz updated our Board of Directors on the status of discussions with BravoSolution. During the meeting a representative from Morgan Lewis reviewed the directors' fiduciary duties in the context of the potential transaction. Our Board of Directors discussed the overall rationale for the proposed transaction, including the Series C Preferred Stock financing, as well as the history of negotiations with BravoSolution. Our Board of Directors also reviewed the strategic opportunities and alternative transactions considered throughout this process.