

OSCIENT PHARMACEUTICALS CORP
Form DEF 14A
April 27, 2007

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

<input type="checkbox"/>	Preliminary Proxy Statement	<input type="checkbox"/>	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
<input checked="" type="checkbox"/>	Definitive Proxy Statement		
<input type="checkbox"/>	Definitive Additional Materials		
<input type="checkbox"/>	Soliciting Material Pursuant to §240.14a-12		

Oscient Pharmaceuticals Corporation

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

OSCIENT PHARMACEUTICALS CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On June 7, 2007

To the Stockholders of

OSCIENT PHARMACEUTICALS CORPORATION

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Oscient Pharmaceuticals Corporation, (the Company) will be held on Thursday, June 7, 2007 beginning at 9:00 a.m. at Ropes & Gray LLP, One International Place, 36th floor, Boston, Massachusetts, for the following purposes:

- A. To elect ten directors.

- B. To approve an amendment to the Amended and Restated Employee Stock Purchase Plan (the Plan), to (i) increase the number of shares of common stock, par value \$0.10 per share, available for issuance under the plan from 281,250 to 431,250 shares, and (ii) increase the purchase price of common stock purchased by eligible employees under the Plan from 85% of the fair market value of the common stock to 95% of the fair market value of the common stock, at the time of grant or the time at which the option to purchase common stock is deemed exercised, whichever is less.

- C. To ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2007.

- D. To transact such other business as may properly come before the meeting or any adjournment of the meeting.
The Board of Directors has fixed the close of business on April 13, 2007 as the record date for the determination of stockholders entitled to notice of and to vote at this meeting and at any adjourned session(s) thereof.

All stockholders are cordially invited to attend the meeting. However, to assure your representation at the meeting, you are urged to mark, sign, date and return the enclosed form of proxy as promptly as possible. Stockholders attending the meeting may vote in person even if they have returned a proxy.

By Order of the Board of Directors,

PATRICK O BRIEN, Clerk

April 27, 2007

Boston, Massachusetts

OSCIENT PHARMACEUTICALS CORPORATION

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON JUNE 7, 2007

GENERAL INFORMATION ABOUT THE MEETING AND VOTING

Why did you send me this Proxy Statement?

We sent you this Proxy Statement and the accompanying proxy card because the Board of Directors of Oscient Pharmaceuticals Corporation is soliciting your proxy to vote at our Annual Meeting of Stockholders to be held on Thursday, June 7, 2007 beginning at 9:00 a.m. at Ropes & Gray LLP, One International Place, 36th floor, Boston, Massachusetts. This Proxy Statement, along with the accompanying Notice of Annual Meeting of Stockholders, summarizes the purposes of the meeting and the information that you need to know to vote at the meeting.

Our 2006 Annual Report to Stockholders and our 2006 Annual Report on Form 10-K, which includes our audited financial statements, are being mailed with this Proxy Statement, but are not part of this Proxy Statement. You can also find a copy of our 2006 Annual Report on Form 10-K on the Internet through the SEC's electronic data system called EDGAR at www.sec.gov or through the Investor Relations section of our website at www.oscient.com.

Who can vote?

Each share of common stock you own as of the close of business on the record date of April 13, 2007 entitles you to one vote on each matter to be voted upon at the meeting. As of the record date, 13,764,207 shares of common stock were outstanding and entitled to vote. We are mailing this Proxy Statement and the accompanying proxy on or about April 27, 2007 to all stockholders entitled to notice of and to vote at the meeting.

Shares represented by valid proxies, received in time for the meeting and not revoked prior to the meeting, will be voted at the meeting. You can revoke your vote in the manner described in [How can I change my vote?](#)

How do I vote?

If your shares are registered directly in your name through our stock transfer agent, Computershare, or you have stock certificates, you may vote:

By mail. Complete and mail the enclosed proxy card in the enclosed postage prepaid envelope. Your proxy will be voted in accordance with your instructions. If you sign the proxy card but do not specify how you want your shares voted, they will be voted as recommended by our Board of Directors.

In person at the meeting. If you attend the meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

If your shares are held in street name (held in the name of a bank, broker or other nominee), you must provide the bank, broker or other nominee with instructions on how to vote your shares and can do so as follows:

By Internet or by telephone. You will receive instructions from your bank, broker or other nominee if you are permitted to vote over the Internet or by telephone.

By mail. You will receive instructions, typically in the form of a voting instruction form, from your bank, broker or other nominee explaining how to vote your shares.

In person at the meeting. Contact the bank, broker or other nominee who holds your shares to obtain a broker proxy card and bring it with you to the meeting. You will not be able to vote at the meeting unless you have a proxy card from your bank, broker or other nominee.

How can I change my vote?

You may revoke your proxy and change your vote at any time before the meeting. You may do this by:

Signing a new proxy card or voting instruction form and submitting it as instructed above.

If your shares are registered in your name or if you have stock certificates, delivering to our Clerk a signed statement of revocation or a duly executed proxy bearing a later date.

If your shares are held in street name, re-voting as instructed above. Only your latest vote will be counted.

Attending the meeting in person and voting in person. Attending the meeting in person will not in and of itself revoke a previously submitted proxy unless you specifically request it.

Will my shares be voted if I do not vote?

If your shares are registered in your name or if you have stock certificates, they will not be voted unless you vote at the meeting in the manner described under [How do I vote?](#)

If your shares are held in street name and you do not vote in the manner described under [How do I vote?](#), the bank, broker or other nominee has the authority to vote your unvoted shares on [Proposal A Election of Ten Directors](#) and [Proposal C Ratification of the Selection of Ernst & Young as the Company's Independent Registered Public Accounting Firm for the Year Ending December 31, 2007](#). If the bank, broker or other nominee does not vote your unvoted shares on these proposals, the shares become [broker non-votes](#) as to the particular proposals.

If your shares are held in street name and you do not vote on [Proposal B Approval of the Amendment of the Company's Employee Stock Purchase Plan](#), your shares will not be voted and the shares also become [broker non-votes](#) as to the particular proposals.

The effect of broker non-votes on the vote for each proposal is described under [What vote is required to approve each matter and how are votes counted?](#) We encourage you to provide voting instructions. This ensures your shares will be voted at the meeting in the manner you desire.

What if I receive more than one proxy card or voting instruction form?

You may receive more than one proxy card or voting instruction form if you hold shares of our common stock in more than one account, which may be in registered form or held in street name. Please vote in the manner described under [How do I vote?](#) for each account to ensure that all of your shares are voted.

How many shares must be present to hold the meeting?

A majority of our outstanding shares of common stock as of the record date must be present at the meeting to hold the meeting and conduct business. This is called a quorum. Shares voted in the manner described under "How do I vote?" will be counted as present at the meeting. Shares counted as present at the meeting that abstain or do not vote on one or more of the matters to be voted upon, as well as broker non-votes, are counted as present for establishing a quorum.

If a quorum is not present, we expect that the meeting will be adjourned until we obtain a quorum.

What vote is required to approve each matter and how are votes counted?

Election of Directors. The ten nominees for director receiving the highest number of votes FOR election will be elected as directors. This is called a plurality. Abstentions are not counted for purposes of electing directors. You may vote either FOR all of the nominees, WITHHOLD your vote from all of the nominees or WITHHOLD your vote from any one or more of the nominees. Votes that are withheld will not be included in the vote tally for the election of directors. Brokerage firms have the authority to vote customers' unvoted shares held by the firms in street name for the election of directors. If a broker does not exercise this authority, such broker non-votes will have no effect on the results of this vote.

Approval of the Amendment of our Amended and Restated Employee Stock Purchase Plan. The affirmative vote of a majority of shares present or represented and entitled to vote at the meeting is required to approve the amendment of our Amended and Restated Employee Stock Purchase Plan (the "Plan") to (i) increase the number of shares of common stock, par value \$0.10 per share, available for issuance under the plan from 281,250 to 431,250 shares, and (ii) increase the purchase price of common stock purchased by eligible employees under the Plan from 85% of the fair market value of the common stock to 95% of the fair market value of the common stock, at the time of grant or the time at which the option to purchase common stock is deemed exercised, whichever is less. Abstentions and unvoted shares will be treated as votes against this proposal. Broker non-votes will have no effect on the results of this vote. Brokerage firms do not have the authority to vote customers' unvoted shares held by the firms in street name on this proposal.

Ratification of Ernst & Young LLP as our Independent Registered Public Accounting Firm. The affirmative vote of a majority of shares present or represented and entitled to vote at the meeting is required to ratify Ernst & Young LLP as our independent registered public accounting firm for 2007. Abstentions will be treated as votes against this proposal. Brokerage firms have the authority to vote customers' unvoted shares held by the firms in street name on this proposal. If a broker does not exercise this authority, such broker non-votes will have no effect on the results of this vote. We are not required to obtain the approval of our stockholders to select our independent registered public accounting firm. However, if our stockholders do not ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for 2007, the Audit Committee of our Board of Directors will reconsider its selection.

Are there other matters to be voted on at the meeting?

We do not know of any other matters that may come before the meeting. If any other matters are properly presented to the meeting, the persons named in the accompanying proxy intend to vote, or otherwise act, in accordance with their judgment.

Where do I find the voting results of the meeting?

We will announce preliminary voting results at the meeting. We will publish final voting results in our Quarterly Report on Form 10-Q for the second quarter of 2007, which we plan to file with the Securities and Exchange Commission by August 9, 2007. You may request a copy of the Form 10-Q by writing to Investor Relations, Oscient Pharmaceuticals Corporation, 1000 Winter Street, Suite 2200, Waltham, Massachusetts 02451. You will also be able to find a copy on the Internet through the SEC's electronic data system called EDGAR at www.sec.gov or through the Investor Relations section of our website at www.oscient.com.

Who is soliciting the proxy and what are the costs of soliciting the proxies?

Our Board of Directors is soliciting the proxy accompanying this Proxy Statement. Our directors, executive officers and other employees may also solicit proxies by telephone, fax, e-mail, Internet and personal solicitation. They will not receive any additional compensation for such solicitation. We will bear the cost of soliciting proxies, including expenses in connection with preparing and mailing this Proxy Statement. We will also reimburse banks, brokers and other nominees representing stockholders who hold their shares in street name for their expenses in forwarding proxy material to such stockholders. We have engaged the proxy solicitation firm The Altman Group to assist us with the solicitation of proxies, and we expect to pay this firm approximately \$8,000 for its services plus out-of-pocket expenses incurred by The Altman Group.

Security Ownership Of Certain Beneficial Owners And Management

The following table sets forth information regarding the beneficial ownership of our common stock as of April 13, 2007 by:

each person known by us to own beneficially 5% or more of our common stock;

each director and nominee for director of the Company;

each executive officer of the Company; and

all of the directors and executive officers of the Company as a group.

The percentages shown are based on shares of our common stock outstanding as of April 13, 2007. Unless otherwise indicated, the address for each stockholder is c/o Oscient Pharmaceuticals Corporation, 1000 Winter Street, Suite 2200, Waltham, Massachusetts 02451. Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares such power with his or her spouse) with respect to all shares of capital stock listed as owned by such person or entity.

	Amount and Nature of Beneficial Ownership	Percent of Class
5% Stockholders:		
Paul Royalty Fund Holdings II	1,676,908(1)	11.9%
Ashford Capital Management, Inc.	1,509,763(2)	10.9%
Abingworth Management Limited	751,853(3)	5.4%
Directors and Named Executive Officers:		
Walter Flamenbaum	1,677,508(4)	11.9%
Steven M. Rauscher	272,467(5)	1.9%
Dominick Colangelo	67,153(6)	*
Philippe M. Maitre	26,167(7)	*
Norbert G. Riedel	19,240(8)	*
David K. Stone	18,770(9)	*
Gary Patou	16,875(10)	*
Robert J. Hennessey	15,441(11)	*
William S. Reardon	9,642(12)	*
John E. Voris	3,634(13)	*
William R. Mattson	1,100(14)	*
Gregory B. Brown	600(15)	*
All directors and officers as a group (12 persons)	2,128,597(16)	14.8%

* Represents less than 1% of the class.

- (1) Includes 1,388,889 restricted shares directly held by Paul Royalty Fund Holdings II (PRFH) and indirectly held by Paul Royalty Fund II, LP (PRF), Paul Royalty Associates II, LP (PRA), Paul Royalty Management, LLC (PRM) and Paul Capital Advisors, LLC (PCA). PRFH directly owns 1,388,889 shares of common stock. PRF and PRA may be deemed to indirectly own 1,388,889 shares of common stock held by PRFH because PRF and PRA are the general partners of PRFH. PRM may be deemed to indirectly own the shares because PRM is the general partner of PRF and PRA. As manager of PRA, PCA exercises voting and dispositive power over investments held by PRA. Includes warrants exercisable for 288,019 shares of common stock held by PRFH. PRF and PRA may be deemed to own the warrants held by PRFH because PRF and PRA are the general partners of PRFH. PRM may be deemed to own the warrants because PRM is the general partner of PRF and PRA. As manager of PRA, PCA exercises voting and dispositive power over investments held by PRA. The address of this stockholder is 50 California Street, Suite 3000, San Francisco, CA 94111. This information is based on information contained in a joint Schedule 13G filed on August 28, 2006 by PRFH.
- (2) The shares reported by Ashford Capital Management, Inc. (Ashford Capital), a registered investment advisor, are held in separate individual client accounts, two separate limited partnerships and eleven commingled funds. Includes 93,750 shares issuable upon exercise of warrants. The address of this stockholder is P.O. Box 4172, Wilmington, DE 19807. This information is based on the Schedule 13G filed on February 13, 2007 by Ashford Capital.
- (3) Includes 207,292 shares held by Abingworth Bioequities Master Fund LTD, 186,742 shares held by Abingworth Bioventures IV LP, 1,297 shares held by Abingworth Bioventures III Executives LP, 29,677 shares held by Abingworth Bioventures III C LP, 49,661 shares held by Abingworth Bioventures III B LP, 81,283 shares held by Abingworth Bioventures III A LP and 1,602 shares held by Abingworth Bioventures IV Executives LP. Includes 56,671 shares issuable upon exercise of warrants held by Abingworth Bioequities Master Fund LTD, 56,189 shares issuable upon exercise of warrants held by Abingworth

- Bioventures IV LP, 648 shares issuable upon exercise of warrants held by Abingworth Bioventures III Executives LP, 14,838 shares issuable upon exercise of warrants held by Abingworth Bioventures III C LP, 24,830 shares issuable upon exercise of warrants held by Abingworth Bioventures III B LP, 40,641 shares issuable upon exercise of warrants held by Abingworth Bioventures III A LP and 482 shares issuable upon exercise of warrants held by Abingworth Bioventures IV Executives LP. The investment manager of these securities is Abingworth Management Limited, 38 Jermyn Street, London, SW1Y 6DN U.K. This information is based on information contained in a joint Schedule 13G filed on March 8, 2007 by Abingworth Management Limited.
- (4) Includes 1,388,889 restricted shares directly held by Paul Royalty Fund Holdings II (PRFH) and indirectly held by Paul Royalty Fund II, LP (PRF), Paul Royalty Associates II, LP (PRA), Paul Royalty Management, LLC (PRM) and Paul Capital Advisors, LLC (PCA). PRFH directly owns 1,388,889 shares of common stock. PRF and PRA may be deemed to indirectly own 1,388,889 shares of common stock held by PRFH because PRF and PRA are the general partners of PRFH. PRM may be deemed to indirectly own the shares because PRM is the general partner of PRF and PRA. As manager of PRA, PCA exercises voting and dispositive power over investments held by PRA. Includes warrants exercisable for 288,019 shares of common stock held by PRFH. PRF and PRA may be deemed to own the warrants held by PRFH because PRF and PRA are the general partners of PRFH. PRM may be deemed to own the warrants because PRM is the general partner of PRF and PRA. As manager of PRA, PCA exercises voting and dispositive power over investments held by PRA. Dr. Flamenbaum is a member of PCA and he serves on the Board of Managers of PCA. Includes 600 restricted shares.
 - (5) Includes (i) 233,404 shares of common stock, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following April 13, 2007 and (ii) 30,446 restricted shares.
 - (6) Includes (i) 37,356 shares of common stock, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following April 13, 2007 and (ii) 24,562 restricted shares.
 - (7) Includes (i) 7,879 shares of common stock, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following April 13, 2007 and (ii) 14,284 restricted shares.
 - (8) Includes (i) 18,500 shares of common stock, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following April 13, 2007 and (ii) 150 restricted shares.
 - (9) Includes (i) 17,220 shares of common stock, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following April 13, 2007 and (ii) 150 restricted shares.
 - (10) Includes (i) 3,334 shares of common stock, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following April 13, 2007 and (ii) 150 restricted shares.
 - (11) Includes (i) 9,083 shares of common stock, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following April 13, 2007 and (ii) 150 restricted shares.
 - (12) Includes (i) 7,689 shares of common stock, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following April 13, 2007 and (ii) 150 restricted shares.
 - (13) Includes (i) 3,334 shares of common stock, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following April 13, 2007 and (ii) 150 restricted shares.
 - (14) Includes (i) 500 shares of common stock, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following April 13, 2007 and (ii) 300 restricted shares.
 - (15) All shares are restricted shares.
 - (16) Includes (i) 626,318 shares of common stock that are issuable upon the exercise of vested options or options that are to become vested within 60 days following April 13, 2007, (ii) 71,692 restricted shares held by officers and directors, (iii) warrants exercisable for 288,019 shares of common stock held by PRFH and (iv) 1,388,889 restricted shares held by PRFH.

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934 that might incorporate future filings, including this Proxy Statement, in whole or part, the following Report of the Compensation Committee shall not be incorporated by reference into any such filings.

REPORT OF COMPENSATION COMMITTEE

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis (the "CD&A") for the year ended December 31, 2006 with management. Based on these reviews and discussions, the compensation committee recommended to the full board that the CD&A be included in this proxy statement.

By the Compensation Committee of the Board of Directors:

Norbert G. Riedel (Chair)

William R. Mattson, Jr.

John E. Voris

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Role of Compensation Committee

The Compensation Committee of the board of directors for the majority of the last fiscal year consisted of Norbert G. Riedel, Ph.D. Committee Chairperson, Pamela J. Kirby, Ph.D. and John E. Voris. Due to Ms. Kirby's departure from our board in December 2006, William R. Mattson Jr. was appointed to the Compensation Committee, effective as of December 6, 2006.

The Compensation Committee's primary purpose and responsibilities include the following:

Review and approve corporate goals and objectives relating to CEO and other executive officer compensation, evaluate the CEO's and other executive officers' performance in light of those goals and objectives and, either as a committee or together with the other independent directors, determine and approve the CEO's and other executive officers' compensation level (encompassing base pay, management incentive plans, stock, benefits and perquisites);

Make recommendations to the board regarding director compensation;

Make recommendations to the board regarding the adoption of employee incentive compensation plans and equity-based plans;

Oversee administration of our equity-based plans;

Review and approve management proposals for annual employee salary planning; and

Perform periodic review of major employee benefit plans.

Objectives of Compensation Program

Our goal is to attract, retain, motivate, and reward our employees through the use of competitive compensation plans that serve to closely align employee interests with that of the company and the long-term interests of our stockholders. Competitive and labor market dynamics as well as financial position influence our compensation philosophy. We strive to retain and reward the highest caliber management team by offering competitive compensation plans, which are comparable to those offered by our competitors, and promote performance-based compensation. To more closely align the interests of employees with those of the stockholders, we employ equity-based employee awards.

Overview of Compensation and Process

We strive to attract and retain the necessary executive talent, reward annual performance and provide incentives to reward performance that is intended to create long-term stockholder value. The amount of each element of compensation is determined by or under the direction of our compensation committee, which considers the following factors in determining the amount of salary and other benefits to pay each executive:

performance against corporate and individual goals for the previous year;

difficulty of achieving desired results in the coming year;

value of his or her unique skills and capabilities to support long-term performance of the company;

performance of their general management responsibilities; and

contribution as a member of the executive management team.

The compensation of the executive officer team consists of a combination of salary, annual bonus, equity grants, contributions to or accruals under benefit plans and participation in various other plans generally available to all employees, such as our 401(k) plan. Each year we review the compensation paid to all employees, including executive officers, to ensure that the key elements and overall compensation remain competitive with prevailing industry benchmark data of similarly situated companies and remain aligned with stockholder interests.

Our compensation policy strives to provide a balance between long-term and current compensation which serve to attract and retain talent and provide equity awards as incentives to maximize long-term value for our company and our stockholders. We provide cash compensation in the form of base salary to meet competitive salary norms and reward good performance on an annual basis and in the form of bonus compensation to reward superior performance against specific annual corporate goals. We provide non-cash compensation to reward superior performance against specific objectives and long-term strategic goals. Compensation for our executive officers for fiscal 2006 included a mix of cash and non-cash compensation, including benefits and equity-related awards. Equity awards are determined by performance and competitive market practice with respect to equity awards granted to executives as a percentage of common shares outstanding.

Section 162(m) of the U.S. tax code generally disallows a tax deduction to public companies for compensation in excess of \$1 million paid to each of the corporation's chief executive officer and four other most highly paid executive officers. Qualifying performance-based compensation will not be subject to the deduction limitation if certain requirements are met. We periodically review the potential consequences of Section 162(m) and may structure the performance-based portion of our executive compensation to comply with certain exemptions in Section 162(m). However, we reserve the right to use our judgment to authorize compensation

payments that do not comply with the exemptions in Section 162(m) when we believe that such payments are appropriate and in the best interests of the stockholders, after taking into consideration changing business conditions or the officer's performance.

Compensation Components

The components of our compensation program are described in more detail below:

Base Salary

Base salaries for our named executive officers are established based on their responsibilities, experience and expected contribution to the Company. Salary levels also take into account the salary and compensation paid by similar companies with which we compete for executive talent. Each year, we established a budget for merit based salary increases for all employees of the company, including the executive officers. In 2006, based on 2005 performance and the other factors, the budget for merit salary increases was fixed at 3%. The merit budget remained unchanged for 2007.

Base salaries are reviewed annually taking into account the executive officer's effectiveness in achieving the corporate and personal goals set out for the previous year, his or her expected contribution for the coming year and the competitive data. Base salaries are also evaluated relative to other components of our compensation program to ensure the executives total compensation and mix of components is consistent with our compensation objectives and philosophies.

In 2006, each of Steven Rauscher, Dominick Colangelo and Stephen Cohen received a merit increase in base salary equal to 3%. Mr. Colangelo received an additional increase of 8.26% to recognize his promotion to Executive Vice President in 2006.

In 2007, the Compensation Committee determined that the executive officers would not receive a salary increase.

Annual Performance Bonuses

Our named executive officers are eligible to receive as a bonus an amount equal to a percentage of their annual base salary based on attainment of performance goals as determined by the compensation committee. Each year, the Chief Executive Officer recommends overall corporate goals, as well as individual goals for each named executive officer. The compensation committee reviews the proposed goals and then sets and prioritizes the goals for the year. The committee also determines the percentage of base salary which the executive officers are eligible to receive based on achievement of stated goals and overall stewardship of the company. The performance goals are linked to financial, strategic, operational and organizational objectives, although in 2006 considerable weight was prescribed to performance goals relating to the acquisition, integration and sales of ANTARA allowing for executives to achieve beyond their established bonus potential. Within each of these categories there are goals for overall corporate performance and individual performance goals. The bonus for our Chief Executive Officer, Mr. Rauscher, is based on the attainment of the overall corporate goals. Following each year, the Chief Executive Officer provides the compensation committee his assessment of the performance of the executive officers generally and against the performance goals. The compensation committee reviews the performance of the executive officers, determines the extent to which the performance goals are achieved and, either as a committee or together with the other independent directors, determines in its discretion the bonuses payable to the executive officers. Performance bonuses are paid in cash.

In August of 2006, following the completion of the ANTARA acquisition, the performance goals were modified to include goals related to ANTARA. Given the importance of ANTARA to the future of the Company, the compensation committee felt that it was important to provide appropriate incentives to ensure the successful integration and launch of ANTARA. The revised goals included ANTARA specific goals to be measured through February 2007 in order to better gauge the success of the ANTARA launch. In determining 2006 bonus payments, performance was evaluated through August 2006 against the original performance goals highlighted by key achievements in business development transactions and prudent cash management, and for the balance of the year against the revised goals established in August with notable performance attained on ANTARA specific goals.

Based on an assessment of the achievement of performance, goals in particular taking into account the successful integration and launch of ANTARA, Messrs. Rauscher, Colangelo and Maitre were awarded 2006 cash bonuses of \$325,282, \$206,136 and \$71,904 respectively. Based on his performance through his retirement at the end of June 2006, Mr. Cohen received a 2006 bonus of \$35,439.

Long-Term Equity Incentives

We grant equity awards to our named executive officers, in the form of restricted stock grants and stock options, to provide employees, including executive officers, with longer term incentives and as a key tool to encourage employee retention. Because of the direct relationship between the value of an equity award and the market price of our common stock, we believe that granting stock options and other equity awards is an effective method of motivating executive officers to manage our company in a manner that is consistent with the interests of our stockholders. Equity awards are typically granted to employees when they are hired, upon significant promotions and each year in connection with annual performance review. For annual performance grants, the executive team makes a recommendation to the compensation committee in March and the committee determines the grant for each executive officer. Equity awards typically include a mix of options to purchase our common stock and restricted shares of each common stock that vest over a prescribed period. Exercise prices for option grants are wholly determined by the compensation committee and are fixed at the fair market value on the date of compensation committee approval or at a specified date of grant, such as the date of hire in the case of a new employee.

We grant stock awards to our executive officers and eligible employees based upon prior performance, the importance of retaining their services and the potential for their performance to help us attain our long-term goals. In determining annual equity awards the compensation committee also takes into account the extent to which previous equity awards continue to provide appropriate incentives to employees. Company and individual performance and competitive market practices are key considerations in determining size and mix of grants for employees, including executive officers. Equity grants awarded to officers generally are confined to a certain percentage of all shares granted to employees. During fiscal year 2006, a total of 220 employees and non-employee directors received stock option and restricted grants equal to an aggregate of 3.6% of the outstanding shares of our common stock based on the shares outstanding in March 2006 when the 2006 annual equity grants were made. In March 2006, the three named executive officers received stock option and restricted grants of approximately 96,252 shares (adjusted to take into account the 1-for-8 reverse stock split effectuated in November 2006) or approximately 30% of all shares granted in fiscal 2006. Mr. Maitre received a restricted stock and a stock option grant upon his hiring in May 2006. On March 7, 2007, as part of the annual process for determining annual compensation and annual equity awards Messrs. Rauscher, Colangelo and Maitre received restricted stock awards of 24,196 shares, 19,562 shares and 7,722 shares, respectively, all of which vest over two

years and stock options to purchase 60,404 shares, 48,838 shares and 19,278 shares of common stock, respectively, which vest over two years. All options were granted at an exercise price of \$4.94, the closing sale price of a share of the company's common stock on March 7, 2007. These equity awards granted to our executive officers in the aggregate represents 1.3% of common shares outstanding and follow the company's practice of considering officer grants within the confines of performance, market practices, annual approved usage rate and past practice with respect to percentage of outstanding shares awarded to our executive officers.

Other Benefits

Our executives are entitled to few benefits that are not otherwise available to all of our employees. Other benefits for officers are limited to executive life insurance and, in the case of the Chief Executive Officer, a predetermined annual allowance of \$10,000 as prescribed in Mr. Rauscher's employment agreement with the company.

All of our named executive officers participated in our 401(k) plan and received matching employer contributions at the same rate as other employee-participants. Our health and insurance plans are the same for all employees and our healthcare premiums follow a shared cost schedule, under which employees contribute approximately 23% of the healthcare premiums. As a commercial organization, we employ a variety of annual sales contests to reward top sales representatives and sales managers which may include sales trips that are hosted by certain members of the executive team; however, during 2006, none of the executive officers participated in any of these trips.

Termination-based compensation

Under the terms of their employment agreements, our executive officers are, under specified circumstances, entitled to receive severance payments and, in some cases, accelerated vesting of equity awards upon termination of employment. The severance payments, and in particular the change of control severance, are intended to aid in employee retention and maintain productivity in the event of a change of control of the company. In addition, these payments are designed to align executive and stockholder interests by enabling executives to consider corporate transactions that are in the best interests of the stockholders and other constituents of the company without undue concern over whether the transactions may jeopardize the executives' own employment. The specific triggering provisions and severance due each of the executive officers is described below under Employment Agreements and Potential Payments upon Change of Control. We believe that our severance arrangements are in line with severance packages offered to executive officers of companies of similar size to us represented in the compensation data we reviewed.

Post-Employment Compensation

Pension Benefits

We do not provide pension arrangements or post-retirement health coverage for our executives or employees. Our executive officers are eligible to participate in our 401(k) defined contribution plan. In any plan year, we will contribute to each participant a matching contribution equal to 50% of the first 6% of the participant's compensation that has been contributed to the plan, as prescribed in the plan document and within federal tax limits. All of our executive officers participated in our 401(k) plan during fiscal 2006 and received matching contributions.

Nonqualified Deferred Compensation

We do not provide any nonqualified defined contribution or other deferred compensation plans.

Summary Compensation Table for 2006

The following table sets forth the compensation paid by us in respect of our fiscal year ended December 31, 2006 to (i) our Chief Executive Officer, (ii) the two individuals who served as our principal financial officer in 2006 and (iii) our only other executive officer.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(1)	All Other Compensation (\$)	Total (\$)
Steven Rauscher Chief Executive Officer and President	2006	\$ 432,115	\$ 325,282	\$ 89,307	\$ 106,020	\$ 174,240(6)	\$ 1,126,964
Dominick Colangelo Executive Vice President Corporate Development and Operations	2006	338,654	206,136	71,446	85,012	7,050(7)	708,298
Philippe Maitre Sr. Vice President and Chief Financial Officer (2)	2006	155,769	96,904(4)	11,549	14,575	22,022(8)	300,819
Stephen Cohen Former Sr. Vice President and Chief Financial Officer (3)	2006	142,516	135,439(5)	21,716	27,457	29,800(9)	356,928

- (1) Refer to Note 2(s), "Stock-Based Compensation," in the Notes to Consolidated Financial Statements found in our Annual Report on Form 10-K filed with the SEC on March 15, 2007 for the assumptions used to determine the valuation of our equity awards.
- (2) Mr. Maitre's employment with the Company began May 22, 2006 pursuant to an employment agreement dated May 5, 2006 described in more detail in the section entitled "Employment Agreements" below.
- (3) Mr. Cohen retired as Senior Vice President and Chief Financial Officer on May 22, 2006; Mr. Cohen continued with the Company on a full-time basis through June 30, 2006 and provided transitional services on a part time basis through December 31, 2006.
- (4) Mr. Maitre received a one-time signing bonus of \$25,000 upon commencement of his employment in May 2006 and a performance bonus of \$71,904 for fiscal year 2006 performance, to be paid in March 2007. The bonus earned by Mr. Maitre for fiscal 2006 is prorated per the seven-month period of fiscal 2006 during which Mr. Maitre served as an executive officer.
- (5) As a condition of providing part-time transitional services to the company through December 31, 2006, Mr. Cohen received \$100,000 paid in two equal installments on July 7, 2006 and September 23, 2006; Mr. Cohen also received a performance bonus of \$35,439 for fiscal year 2006, paid in 2007 which was prorated per the five-month period of 2006 during which Mr. Cohen was an executive officer and provided services to the Company.
- (6) The 2006 amount represents \$3,758 in contributions to Mr. Rauscher's life insurance premiums, \$6,600 to the Company's 401(k) Retirement Savings Plan, \$14,652 in compensation allowances and \$149,230 related to income realized for payment in full of all principal outstanding under the March 28, 2001 note described

more fully in section entitled "Employment Agreements". In accordance with the terms of the loan, Mr. Rauscher transferred 3,000 shares to the company as payment in full under such loan and paid the company an amount equal to \$41,334 for interest due to the company pursuant to such loan.

- (7) The 2006 amount represents \$450 in contributions to Mr. Colangelo's life insurance premiums, and \$6,600 to the Company's 401(k) Retirement Savings Plan.
- (8) This amount represents \$22,022 in relocation costs.
- (9) This amount represents \$6,600 to the Company's 401(k) Retirement Savings Plan and \$23,200 in relocation costs.

Grants of Plan-Based Awards for 2006

The following table sets forth certain information with respect to the options granted during or for the fiscal year ended December 31, 2006 to each of our named executive officers.

Name and Principal Position	Grant Date	All Other Stock Awards:	All Other Option Awards:	Exercise or Base Price of Option Awards (3)	Grant Date Fair Value of Stock and Option Awards (4)
		Number of Shares of Stock or Units (1)	Number of Securities Underlying Options (2)		
		(#)	(#)	(\$)	(\$)
Steven Rauscher	02/27/06	12,500	31,251	\$ 15.40	\$ 450,632
Chief Executive Officer and President					
Dominick Colangelo	02/27/06	10,000	25,000	15.40	360,500
Executive Vice President - Corporate					
Development and Operations					
Philippe Maitre	05/22/06	8,750(5)	21,875(6)	13.64	211,383
Sr. Vice President and Chief					
Financial Officer					
Stephen Cohen	02/27/06	5,000	12,501	15.40	180,257
Former Sr. Vice President and					
Chief Financial Officer					

- (1) Awards consist of restricted stock awards that, unless otherwise noted below, vest 50% per year for two years from date of grant. Number of shares for stock awards and options have been adjusted to take into account the effect of the 1-for-8 reverse stock split consummated in November of 2006.
- (2) Unless otherwise noted below, all options vest in eight equal quarterly installments beginning 90 days from the grant date.
- (3) The exercise price of the stock option awards is equal to the average of the high and low sales price of the common stock on the day of grant as reported by The NASDAQ Global Market, as adjusted to take into account the effect of the 1-for-8 reverse stock split consummated in November of 2006.
- (4) Refer to Note 2(s), "Stock-Based Compensation", in the Notes to Consolidated Financial Statements found in our Annual Report on Form 10-K filed with the SEC on March 15, 2007 for the assumptions used to determine the valuation of our equity awards.
- (5) Award consists of restricted stock that vest in four equal annual installments on the anniversary of his commencement of employment.
- (6) Options vest in four equal annual installments on the anniversary of his commencement of employment.

Outstanding Equity Awards Value at Fiscal Year-End Table

The following table includes certain information with respect to the value of all unexercised options previously awarded to the named executive officers at the fiscal year end December 31, 2006. The share numbers in the table below have been adjusted to take into account